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Banking Finance

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"It is very important to see how data science, Artificial intelligence and Machine learning can help in creating a strong risk management framework."

- Avneesh Trivedi
Chief Risk Officer
Moneyboxx Finance Limited

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In this issue

- Impact of Covid-19 Pandemic and Amalgamation in Indian Banks
- Public Sector Banks Deserve Respect
- Will India be able to combat Corona Wave?
- IT in Banks & Fraud Risk Management
- Emergency: A bitter alternative to 21 days lockdown

"The sharp decline in incremental credit during FY20 was driven by slowing economic growth as well as heightened risk aversion among lenders."

Karthik Srinivasan,
Group Head- Financial Sector,
ICRA Limited

"Provisioning will also have to be reconsidered because restructuring of loans seems to be the only option as other options like sale to asset reconstruction companies."

CS Setty,
Managing Director, SBI

"In the 221 cases resolved so far via IBC, about Rs 1.84 lakh crore was recovered, against the admitted claims of Rs 4.13 lakh crore, marking a recovery rate of 44%."

Nirmala Sitharaman,
Finance Minister, India


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From The Desk Of
Editor-in-Chief

Banking Sector has suffered a lot due to Covid–19 as well as subsequent lock down since 25th March,2020. Truncated banking services were available all over the country. The banks were running with minimum staff as most of them were unable to commute due to lock down.

The Banks will also have to face rise in loan defaults and increase in NPA as people were unable to pay their loan installments on time. Though RBI announced for the loan moratorium but it was made optional at the end of customer to apply. It again caused much hardship as large number of people could not apply for moratorium online. Some banks and financial institutions however showed no mercy and charged full penalty charges on late payment. This was absolutely inhuman and unethical. We received number of complaints against Bajaj Finance who were charging Rs.3000 each for bounce charges inspite of requests from the customer. This behavior of financial institutions degrades the name of financial institution in the country. RBI should put a cap on levy of penal charges.

RBI as well as Govt. of India Finance Ministry has been working constantly on the issue to ease the hardship due to lock down due to Covid-19.

Indian Trade, Commerce and Industry have been under pressure for the reasons-

- Workers migrated to their home places
- Sales of manufactured goods affected due to the non availability of transport as well as laborers.
- Irregular payments of Bills to MSME etc by the PSU and other Corporate Sector identities.
- Irregular supply of Raw materials
- Banking operations became irregular
- Financial activities came to halt due to Covid-19
- No capacity to pay Rental for the space with the majority of Business segment

However this Covid-19 has given boost to the concept of work from Home and online and which seems to be successful under the new circumstances.

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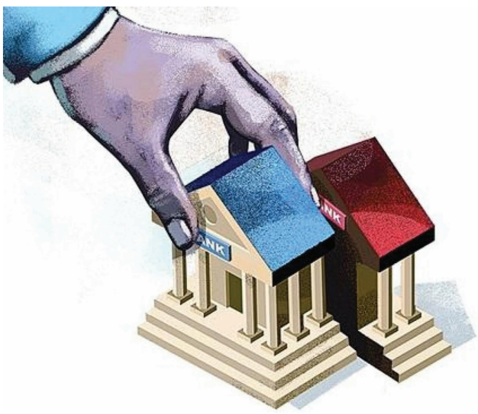


BANKING NEWS

Bank of Baroda completes integration with Vijaya Bank

Bank of Baroda has completed the IT integration of 132 former Vijaya Bank branches. With this move, 152 branches of the erstwhile Vijaya Bank have been integrated, enabling customers to get the banking experience as provided by Bank of Baroda. Post the IT integration, customers visiting these particular branches will be using the banking services of BoB instead of Vijaya Bank. Before the initiation of the migration process, all payment channels such as ATMs, NEFT, RTGS and IMPS, UPI, of Vijaya Bank and Dena Bank were integrated with BoB.

The merger of Vijaya Bank and Dena Bank into Bank of Baroda came into effect in April last year. The merger saw 2,135 branches of Vijaya Bank and 1,777 branches of Dena Bank merge with BoB. "We took an incremental approach for migration. As a test case, we first migrated one branch of Vijaya Bank and then 10 branches. Earlier this month, we migrated another set of 10 branches, and this weekend we migrated 132 branches," Sharad Saxena, BoB's chief technology officer said.

Bad loans in banking sector may rise by Rs 5.5 lakh cr this fiscal

Covid 19 crisis which has brought the economic activity to a standstill may result into total slippages in the banking system upto Rs 5.5 lakh crore in the current fiscal, says a report.

While slippages from the corporate sector may rise by Rs 3.4 lakh crore, for non-corporate segments it may increase by Rs 2.1 lakh crore in FY21, India Ratings and Research said in the report.

The rating agency said most sectors in the county are likely to experience varying degrees of revenue contraction during FY21 due to demand and supply disruptions.

"COVID-19 may drive total slippages of up to Rs 5.5 lakh crore (5.7 percent of the gross bank credit)," it said.

Banks faced elevated provisions resulting from the corporate stress cycle over FY16-FY20 and they had largely provided for the existing corporate stress and were progressing towards a more moderated credit cost cycle, the report said. However, the COVID-19 related situations are likely to result in another cycle of stress.

The rating agency said as per a stress analysis of 30,000 corporates, the total standard-but-stressed corporate pool may increase from 3.8 percent of the total bank credit as of December 2019 to up to 6.6 per cent in this fiscal.

Out of this, the agency estimates corporates exposures of up to 3.2 percent of total bank credit are at a high risk of slippage.

The report further said the growth slowdown due to the COVID-19 outbreak will aggravate the stress and slippages in the non-corporate segments -- retail, agriculture and micro, small and medium enterprises.

"About 40 percent of the incremental slippages could come from the non-corporate segments," it said.

The rating agency said the pre-COVID credit costs estimates for FY21 show an increase of up to 60 percent, which would bring the profitability of most state-run banks under pressure in FY21.

The credit costs for the system could increase up to Rs 2.7 lakh crore in FY21; around 70 percent of which could be attributed to PSBs.

"If the accelerated provisioning regime is reinstated, then there could be additional credit costs of 0.3-0.6 percent. This could require the government to infuse additional capital into PSBs," it said.

The report expects the capital requirement for PSBs in the range of Rs 30,000-55,000 crore in FY21 under a benign provisioning regime.

Standard Chartered Bank appoints Kusal Roy as head of retail banking

Standard Chartered Bank India said it has appointed Kusal Roy as its head of retail banking. Roy has over 25 years of experience in retail banking, payments industry and the non-banking financial company (NBFC) sector.

Prior to joining Standard Chartered Bank, he was the managing director and chief executive at Tata Capital Financial Services Ltd. During his career, Roy has held various senior roles in ICICI Bank, Barclays Bank and Citibank India. Roy will report to the bank's India chief executive Zarin Daruwala, and regional head of retail banking for ASEAN and South Asia Sebastian Arcuri.

"... I am confident that Kusal will build on the momentum, and also contribute to the strategic leadership of the franchise as a key member of the Country Management Team," said Daruwala.

Roy did his bachelor of technology (BTech) from Indian Institute of Technology (IIT), Kharagpur and post-graduation from the Indian Institute of Management (IIM), Ahmedabad.

Banks in dilemma over lowering deposit rates in to continue

Banks in India are evaluating the decision of reducing interest rates as they try to protect margins while passing on the benefit of the Reserve Bank of India's (RBI's) latest repo rate cut to borrowers.

According to the chief executive of a public sector bank, a cut in deposit rates is inevitable and it is not clear any longer as to what the terminal rate or the lowest possible rate could be. At a time when large banks like State Bank of India (SBI) are lowering lending and deposit rates, smaller banks cannot afford to stay put, the banker said on condition of anonymity.

"I will have to survive in the loan market and if I do not lower interest rates on my loans, some other bank will take away the customer. But if I lower my deposit rates, my depositor base will suffer. It is quite a difficult situation," said the banker.

Analysts at brokerage firm Motilal Oswal said that the continued monetary easing will drive further reduction in lending yields and banks have been sharply cutting retail and bulk deposit rates over the last few months.

In April, SBI chairman Rajnish Kumar said that depositors were complaining that their interests were not being protected.

"Ultimately, there is a limit on how much we can hit the depositors. I am getting a lot of feedback from depositors that SBI does not care about depositors," Kumar had said.After repo rate cut, Kumar said SBI will convene a meeting of its asset liability committee, which decides on interest rate changes. India's largest lender pays an interest of 5.5% to depositors below Rs. 2 crore in the one-two year bracket, after a 20 bps reduction on 12 May.

According to Mrutyunjay Mahapatra, officer on special duty at Canara Bank, customer spending has declined in the last couple of months, and people are more inclined to save. This surge in supply of deposits gives banks the freedom to lower deposit rates without the risk of losing out on low-cost funds.

Banks may need capital for provisions

The Reserve Bank of India's extension of moratorium by another three months to August 31 and the likelihood of businesses remaining crippled for months is raising the possibility of thousands of crores worth loans being restructured. However, the absence of relaxation in restructuring norms could see a substantial rise in provisioning and force banks to raise capital in a tough environment.

Bankers say that the RBI may have to tweak rules that demand provisioning if the existing promoters are retained after a loan restructuring. They say the existing promoters have the best chance of keeping the business going instead of going for a new one who would find it difficult to run a medium-sized firm.

The need for restructuring is acute, especially in aviation, hospitality and travel as they are staring at an abyss in terms of cash flows with unprecedented uncertainty on recovery.

"The cash flows in these sectors are down to zero while they still have to pay their fixed costs. All sectors have been hit but these are hit more severely... Restructuring is the only option," said a senior public sector bank executive. ❑

RESERVE BANK NEWS

IBA submits proposal on 'bad bank' to Central Govt, Reserve Bank

The Indian Banks' Association has submitted a proposal to the finance ministry and RBI to set up a 'bad bank' for approximately Rs 75,000 crore worth of non-performing assets (NPAs), sources told. A bad bank is a corporate structure which isolates risky assets held by banks at one place. "We are requesting the government to provide Rs 10,000 crore of initial capital," the source added.

The proposed structure of a bad bank is based on the earlier recommendations of a panel headed by former PNB chairman Sunil Mehta, called 'Sashakt' two years ago.

According to sources, IBA has proposed to set up asset reconstruction company (ARC), asset management company (AMC) and alternate Investment Fund (AIF). ARC will be owned by the government, but the AMC and AIF will have participation from public as well as the private sector, as per the proposal. The Mehta Committee had earlier proposed to set up an AMC and an AIF to resolve NPAs over Rs 500 crore.

State Bank of India (SBI) chairman Rajnish Kumar, who is also the chairman of IBA, has recently said that the lenders were toying with the idea of creating a bad bank to deal with stressed assets. Kumar said the time was right to set up a structure, along the lines of a bad bank, given there are adequate provisions for existing NPAs. Rating agency Crisil in its report had projected gross NPAs of banks to rise by 150-200 basis points (bps) in the financial year 2020-2021.

Banks deposit Rs 8.5 lakh crore with RBI as under reverse repo window

Banks have deposited a staggering Rs 8.5 lakh crore under the RBI reverse repo window. The move comes days after RBI Governor Shaktikanta Das urged bank chiefs to spur lending to both end customers and to non-banking financial companies and microfinance institutions.

The rising amount of liquidity parked under the safe-mode reverse repo rate indicates the reason why bank credit growth has been off the mark. According to rating agency ICRA, the incremental credit flow from bank credit, bonds outstanding and commercial paper declined by 64 per cent to Rs 6 lakh crore during FY20 from Rs 16.79 lakh crore in FY19.

In other words, the lack of demand for credit has compelled banks to park significant amount of liquidity under the reverse repo window despite the central bank making it unattractive by slashing interest rate to 3.75 per cent in March. Karthik Srinivasan, ICRA group head (financial sector ratings), said the sharp decline in incremental credit during FY20 was driven by slowing economic growth as well as heightened risk aversion among lenders.

"Nonetheless, the expectations of increase in incremental credit flow during FY21 is driven by increased credit demand amid weakening cash flows of borrowers because of Covid-19 induced stress, as well as capitalisation of interest for the period of moratorium offered by lenders," Srinivasan said.

Meanwhile, on a weekly basis, the growth in bank credit was largely driven by lending to NBFCs and personal loans. The combined incremental contribution of these two segments formed more than 80 per cent of the overall incremental bank credit in FY20, coming from high base of 48 per cent in FY19 over FY18.

"Overall growth in credit continues to

remain lacklustre dragged by large industries and trade services. The combined share of industries and trade was 37.5 per cent in outstanding credit, but growth contribution to incremental credit just 11 per cent compared to 26.2 per cent last year," Care Ratings said.

It added that retail loans may see a marginal contraction in credit offtake as consumer demand moderates. "The real estate sector may also face severe stress, as individuals would delay home purchases, which may impact housing loans. Housing loans account for more than half of retail loans," it noted.

RBI allows flexibility to public sector banks on statutory branch audit

Considering the lockdown situation prevailing in the country due to the spread of COVID-19, the Reserve Bank of India (RBI) has given public sector banks (PSBs) some flexibility to reduce the number of branches covered under branch audit.

RBI defers loan repayments by 3 more months, eases monetary policy

The Reserve Bank of India announced several monetary easing measures, including extending moratorium on loan repayments by another three months, and an emergency cut in the policy repo rate. Governor Shaktikanta Das said that the Monetary Policy Committee, after an unscheduled meeting, cut policy repo rate by 40 basis points to 4.0%.

The RBI Monetary Policy Committee voted unanimously for reduction in the policy repo rate, while voted 5:1 in favour of the quantum of the cut, Shaktikanta Das said. Consequently, the reverse repo rate now stands reduced to 3.35%, while the MSF rate is down to 4.25%. To ease the financial stress on people and businesses, Shaktikanta Das said that the RBI has also allowed deferment of repayments of loans and working capital by another three months from June 1 to August 31 due to lockdown extension.

Shaktikanta Das, while laying out the economic conditions prevailing in India amid the ongoing coronavirus crisis, also said that food inflation may remain under supply side shock, and that the elevated level of inflation in pulses is 'worrisome'. RBI's announcement follows the mega Rs 21 lakh crore economic package announced by the Narendra Modi government recently. In the wake of the ongoing coronavirus pandemic, RBI has so far announced various liquidity and monetary measures, totalling an economic value worth Rs 8 lakh crore. Meanwhile, FY21 GDP is expected to remain in negative due to the coronavirus pandemic.

RBI may soften restructuring norms after govt's IBC relaxation

The one year suspension for filing new cases under the Insolvency and Bankruptcy Code (IBC) and a default holiday for loans taken to deal with Covid 19 is likely to force RBI to soften its restructuring and provisioning norms to deal with stressed assets.

Bankers said the blanket ban on new IBC entries leaves restructuring of loans as the only plausible route to cure default but stringent RBI norms will have to be amended.

RBI's restructuring norms at present are heavily reliant on the IBC. Banks have 180 days to restructure loans by extending the payment period, number of instalments, reducing interest rates or sanctioning additional credit facilities.

However, in case restructuring is not worked out within 180 days and a case has not been filed under the IBC a steep 20% provision is required to be taken.

Moreover, if the loan is being restructured without a change in promoter then the loan is considered as non-performing and requires an immediate 15% provision.

Bankers say that with the suspension of the IBC for one year the RBI will have to do away both with the provisioning requirements and the 180 day time frame for restructured loans.

"The RBI norms will now have to be aligned to the one year time frame. Provisioning will also have to be reconsidered because restructuring of loans seems to be the only option as other options like sale to asset reconstruction companies and one time settlement seem unviable at present due to want of liquidity and capital. But we will have to await the final notification from the government," said CS Setty, managing director at SBI.

In February 2018, the RBI had done away with different restructuring methods used by banks because of their failure to deal with stressed assets over the years. Its June 2019 circular, gave a stringent 180 day time period for restructuring the failure of which left IBC as the only route.

Bankers said both these now need a rethink. "Restructuring looks like the only route available for fresh defaults in the next one year. One time settlement with promoters is also an option but with cash being scarce I wonder who will take it. ❑

GST NEWS

GST Council May Provide Relief to Trade on issue of late fees

GST Council has agreed to discuss the issue of late fee over delayed filing of returns at its next meeting slated later this month.

Businesses have sought a waiver from payment of late fee on GST returns filed for the earlier period between August 2017 (start of GST) and January 2020. This, they have said, was important considering the current business environment where most of the trade is losing money and do not have enough resources to even pay the taxes.

It may be noted that for helping the small businesses having turnover less than Rs 5 crore in the current situation arising out of Covid-19, Finance Minister Nirmala Sitharaman had already announced extension of GST returns of February, March, April and May 2020 till June 2020. No late fee will be charged for this period.

"While the extension for filing GST returns is welcome, government should also waive late fee for past delays to help the businesses facing acute liquidity problems," said a Delhi based trader asking not to be named.

Sources in the Finance Ministry said that the late fee is imposed to ensure that the taxpayers file returns (GSTR 3B) in time and pay taxes on the amount collected from buyers and due to the government. This is a step to ensure that a certain discipline is maintained regarding compliance. Honest and compliant taxpayers would be discriminated negatively in the absence of such a provision.

GST council may extend compensation cess levy

The Central government is looking at paying GST compensation to states using a portion of its borrowings and repaying it by collecting cess in the sixth or further subsequent years.

Under the GST law, states are guaranteed full compensation for any revenue loss for the first five years after the introduction of the goods and services tax (GST) in July 2017.

The compensation is a gap between actual revenue collected and projected revenue. The projected revenue is revenue growth of 14 per cent for states per year over base year 2015-16.

As per the GST Act, full compensation to the states has to be paid for a period of five years till FY22 only through the compensation fund that gets its funds through a levy of GST compensation cess on few items. However, with funds not getting enough collections since August 2019, the GST compensation to states have been delayed with Centre now looking at getting the GST Council nod for extending the levy of compensation cess at least a couple of years beyond the cut-off fifth year to make good the gap in cess collection actual compensation payment to states.

"This (extending the duration of GST compensation cess) has been discussed in the past to ensure states are paid full compensation for any loss of revenue in first five years of the implementation of the new indirect tax regime while the Centre repays its liabilities through cess collections in subsequent years. The GST Council may explore the option again at its next meeting," government sources privy to the development said.

Govt may not lower GST

The central government may not accept industry demands to substantially reduce the Goods and Services Tax (GST) for six months to boost demand in the aftermath of the coronavirus disease (Covid-19) pandemic. The exemption would block input-tax credit that would have an adverse impact on businesses and may not result in any significant gain to consumers, two finance ministry officials said.

Input tax credit reduces the tax paid on inputs from taxes to be paid on output of finished goods. The proposed GST exemption will make output tax zero, blocking the input-tax credit, which will add to the cost of the finished goods, the officials with direct knowledge of the matter said, requesting anonymity.

"This will not only be injurious to the industry but also to the consumer at large and this is certainly not going to revive demand," one of the officials said. GST is an integrated levy of indirect taxes and the main source of revenue for both the Centre and state governments. It makes up about one-third of total tax receipts. Over 70% of the GST revenue accrues to the states as their own share of the receipts and funds devolved on them by the Centre.

Demand generation looms as a major challenge after the Covid-19 lockdown is lifted and a substantial reduction in GST rates could stimulate demand, some industry associations have argued.

Niranjan Hiranandani, president of the Associated Chambers of Commerce and Industry of India (Assocham), has proposed a cut in GST rates on almost all products by 50% for six months to boost demand.

GST Council may not raise GST rates

The GST Council is unlikely to make major changes in the indirect tax structure at its next meeting slated mid June. A top government source said that the Centre is not in favour of increasing tax rates on any goods or service as it could further impact consumption and demand that is already suppressed due the Covid-19 pandemic and lockdown.

It was widely expected that the GST Council could consider raising tax rates and cess on certain non-essential items to boost revenue for states and the Centre. Several states have reportedly taken an over 80-90 per cent hit in GST collections in April, the official data for which has not yet been released by the Centre.

"The need of the hour is to boost consumption and improve demand. By categorising items into essential and non-essential and then raising taxes on non-essential is not what Centre favours. But, the issue on rates and relief will be decided by the GST Council that is meeting next month," the finance ministry official source quoted above said.

The GST Council is chaired by the Union finance minister and thus the views of the Centre play out strongly in the council meetings.

However, the Council will also have to balance the expectations of the states whose revenues have nosedived after the coronavirus outbreak and wide scale disruption to businesses while they have still not been paid GST compensation since the December-January period.

Tamil Nadu extends dates for GST compliances

The state government has promulgated the Tamil Nadu Goods and Services Tax (Amendment) Ordinance, 2020 to amend the Tamil Nadu Goods and Services Tax Act, 2017 (Tamil Nadu Act 19 of 2017) to extend due dates for various compliances due to Coronavirus pandemic.

The ordinance, promulgated by Governor Banwarilal Purohit, has extended filing statements of outward supplies, filing refund claims, filing appeals, etc. specified, prescribed, or notified under Tamil Nadu Act 19 of 2017 which cannot be completed or complied with due to force majeure, according to a release from Commercial and Registration department.

The governor has also promulgated the Tamil Nadu Taxation Laws (Relaxation of Certain Provisions) Ordinance, 2020 to relax the time limit specified in, or prescribed or notified under the erstwhile Acts, such as the Tamil Nadu Value Added Tax Act, 2006, Tamil Nadu Betting Tax Act, 1935, the Tamil Nadu Entertainments Tax Act, 1939, the Tamil Nadu Tax on Luxuries Act, 1981, et al that was administered by the Commercial Taxes Department till June 30, 2017, and those Acts being administered with effect from July 1, 2017, for completion or compliance of the statutory provisions mandated under the said Acts.

Assam's GST collection improves in May

After collection of Goods and Service Tax (GST) had last month nosedived in Assam due to the Novel Coronavirus-induced nationwide lockdown, the collection in the month of May has recovered to some extent.

Assam Finance Minister Himanta Biswa Sarma informed that GST collection in May has been Rs 360 crore, against Rs 147 crore in April.

However, the collection for May was less by 40 per cent as compared to the same period in 2019. It was lesser by 20 per cent in April as compared to corresponding month of the previous year. With the phase-wise unlock commencing from June 1, the economy is likely to recover, the minister said.

He added, "By June-July, we are hopeful that the lost momentum in the economy will recover." ❑

INDUSTRY

NEWS

All Customers not opting for loan moratorium

The Reserve Bank of India has allowed companies to opt for a three-month moratorium on loan repayments to combat lockdown, data with individual banks suggests that not many firms have chosen to defer routine interest payments for now.

The Private Banks have revealed that not many companies or salaried retail customers have opted for the three-month moratorium permitted by the RBI on March 27.

As per rating agency ICRA, about 328 companies - including The Tata Power Company, JSW Steel and Kalyan Jewellers, Air India Express and ONGC Petro Additions - have opted for the moratorium benefits.

Axis Bank said only about 25-28 per cent of the customers, in value terms, and 10-11 per cent, in absolute numbers, sought the moratorium.

A large number of small and medium enterprises, many of which have limited working capital, seem to be availing themselves of the moratorium benefit.

For wholesale and SME loans, the bank had offered the facility on an opt-in basis. It spoke to wholesale and retail customers and, only when convinced, offered the moratorium.

"The bank has given moratorium to all its retail loans while it followed an 'opt-in' model on the corporate side, where the need for moratorium was quite negligible," Kotak Institutional Equities noted.

Bankers, however, said the option to avail of the moratorium was still available to borrowers and they could request for the same, depending on their cash flows.

NBFCs more vulnerable to covid-19 - Moody's

Covid-19 pandemic will lead to further deterioration in asset quality of non-bank financiers, a segment that is more exposed to the downturn than banks, said a report by Moody's Investors Service.

"Asset quality at non-banking financial companies (NBFCs) will significantly deteriorate as economic disruptions from the coronavirus outbreak deepen an economic slowdown that has been underway in the past few years," the report said. Asset quality at these lenders has weakened in recent years amid worsening economic conditions, and the shock from the coronavirus outbreak will exacerbate this trend, it added.

Given how significant exposure banks have to the non-bank financiers, Moody's expects that the weakening solvency will, in turn, pose risks to the stability of the broader financial system.

"We expect a significant weakening in asset quality at NFBCs, that will worsen the liquidity stress triggered by the three-month moratorium on customer loan repayments," said Srikanth Vadlamani, vice-president and senior credit officer, Moody's.

Indian banks have lent Rs. 8.07 trillion to non-bank financiers as on 27 March, up 26% from the same period last year, showed data from the Reserve Bank of India (RBI).

According to the rating agency, NBFCs are more exposed than banks to the coronavirus-led downturn, given their focus on riskier segments, and in particular corporates and the real estate sector which were facing liquidity constraints even before the outbreak.

Funding costs are higher for NBFCs than banks because they lack access to low-cost retail deposits and therefore need to earn higher asset yields by focusing more on riskier borrowers. Moody's pointed out that in both home loans and loans against property, NBFCs have a higher share of loans to borrowers working in the informal sector and self-employed employees than banks.

"To alleviate borrower stress, the Reserve Bank of India (RBI) is allowing financial institutions to provide three-month moratoriums on loan repayments. These measures represent a significant drain on near-term liquidity at NBFCs, as most primarily manage liquidity by matching cash inflows from loan repayments with cash outflows to repay their own liabilities," the report said.

The extent of liquidity stress, Moody's said, will depend on the number of customers seeking moratoriums and the degree of the economic shock. The longer restrictions on economic activity remain, the longer it will take for loan repayments to return to normal levels even after moratorium periods end, it said.

The rating agency added that while the government's measures to directly subscribe to Rs. 30,000 crore of NBFC debt, will provide some near-term relief, this will not sufficiently address their structural funding issues.

COVID-debt clause may worsen NPA mess

Central government has said that insolvency proceedings against fresh defaulters would remain suspended for up to one year and Covid-19-related debt would be excluded from the definition of default. This step however, will potentially hit financial and operational creditors hard and bleed their balance sheet, apart from temporarily depriving them of a credible mode of bad debt resolution. Lenders may be forced to seek regulatory forbearance on provisioning and capital requirements.

Initially, proceedings under the Insolvency and Bankruptcy Code (IBC) can't be invoked for six months, which can then be extended by another six months, depending on the pandemic situation. There will be a special insolvency framework under section 240-A of the IBC. Already, in a bid to insulate small businesses from being dragged to the NCLT, the default threshold for triggering insolvency has recently been raised to Rs 1 crore from just Rs 1 lakh earlier.

Finance minister Nirmala Sitharaman said an ordinance will be promulgated soon to implement the proposed changes. However, proceedings in the cases already admitted will remain unaffected by the latest move. Data available with the IBBI show, proceedings in 1,961 cases were going on as of December 2019.

Despite risks of a sharp deterioration in credit quality of banks and cash flows of operational creditors due to the suspension of IBC initiation, many experts believe that given the unprecedented crisis, the existence of companies must take precedence over the resolution of stressed assets.

The suspension on fresh initiation of insolvency proceedings for one year is likely to increase provisioning for banks.

"The advantage we were getting to refer a case to the National Company Law Tribunal (NCLT) was reversal of additional provisioning, now that option will not be there," an MD & CEO of a bank who did not wish to be named told.

According to the June 7, 2019, circular of the Reserve Bank of India (RBI), banks can reverse 20% provisioning for unresolved cases, after referring a case to the NCLT.

"NCLT was anyway the last option for us, so now will try to resolve cases outside court through inter-creditor agreement (ICA) as much as possible," another senior official told.

Casting the IBC as a landmark law, the government asserted that just the threat of the legislation has ensured recovery of as much as Rs 5 lakh crore up to February 29 since its inception in 2016.

The figure was arrived at by aggregating the default involved in as many as 13,556 cases where insolvency applications were withdrawn from the NCLT before they were admitted, as defaulting promoters rushed to settle dues for fears of losing their companies once the proceedings started.

In the 221 cases resolved so far via IBC, about Rs 1.84 lakh crore was recovered, against the admitted claims of Rs 4.13 lakh crore, marking a recovery rate of 44%, Sitharaman said. ❑

HOUSING

NEWS

Real estate sector may take few quarters to revive

2020 has become a challenging year for all sectors. COVID-19 has brought the entire economy to a halt. It is estimated that it will take three quarters for the real estate sector to revive.

The emergence of mutual funds and SIPs opened newer and powerful avenues for people to invest in, which resulted in low return on investment from residential apartments. People preferred to rent an apartment and invest a major part of their savings in the market to ensure huge returns.

Adding to this was the rising price of apartments in the cities and overall maintenance cost of the purchase. This led to an increased number of unsold apartments across categories in the country. Looking at the sector's condition the government introduced several measures such as RERA, PMAY, and GST along with tax benefits to infuse demand in the sector.

It is estimated that people have lost approximately 50 percent of their long-term savings which were invested in SIPs and mutual funds. Growing concern about security of the money saved in banks has also resulted in a change of perception amongst the public. Banks today are in debt because of NPA's and defaulters. Considering the current condition and the public perception, it is highly likely that people would now want to invest in something that is secure and less vulnerable to volatile market conditions. This is where the real estate sector may benefit.

In order to bring the sector back on the growth track, repo rate has been cut consistently for the last nine months. This has made home loans cheaper and affordable. Considering the current condition, banks are also willing to lend to homebuyers.

Reverse migration may boost housing demand post Covid-19

Reverse migration can spur housing demand in Tier-II & -III cities after Covid-19, and cities like Lucknow, Indore, Chandigarh, Kochi, Coimbatore, Jaipur and Ahmedabad would be the main beneficiaries of the reverse migration of professionals, who have lost their jobs in the metros, or are likely to lose their jobs, revealed an Anarock report titled "India real estate: A different world post Covid-19".

Reverse migration is already very much visible among migrant labourers, and this trend can further percolate to skilled professionals, who have been or may be off-rostered. Smaller towns and cities would consequently see a spurt in housing demand. Primary demand may be towards rental housing - purchase demand would initially come from local investors, keen to meet the rental demand, the report said. The returnees will benefit from the cost of living and superior infrastructure that many Tier-II and Tier-III cities provide.

Anuj Puri, chairman, Anarock Property Consultants, said "Many NRIs will also return to India amid dwindling job prospects, particularly in the US and the European nations that account for nearly 70% global cases. For them, the top seven cities would be the best options, but many will consider smaller cities where they can be close to their families. Finding suitable employment for reverse-migrating Indians in smaller cities may prove to be challenging."

Anarock's recent consumer survey, conducted during the lockdown period indicated that of the respondents who preferred to invest in Tier-II & -III cities in 2020, 61% are end-users and almost 55% are aged under 35 years. At least 47% of respondents are focused on affordable properties priced within Rs 45 lakh, followed by 34%, who are looking for mid-segment homes priced between Rs 45 and Rs 90 lakh.

The residential segment will see manifold increase in demand for township projects, which offer a controlled environment. In terms of supply, township projects have less than 5% overall share in the top seven cities as on date. Further, market consolidation is expected with the increased preference for branded developers. Financially strong organised players are likely to occupy 75%-80% market share in the coming years, the report said.

In office real estate, social distancing norms may increase the per capita office space allocations even as a segment of employees will work from home. During the last decade, per capita office space allocation reduced from 100-125 sqft to 75-100 sqft, a trend that continued till the pre-Covid-19 period of January 2020. Safety and hygiene will become the top priorities, even as contactless operations and automation will increase. Decentralisation of operations to ensure business continuity will be a trend reversal from prominent consolidations over the past few years.

Rent for student housing facilities may decline

If Covid 19 crisis continues for long, the rent for student housing facilities may decline by 20 to 25 percent in the next few months. The sector may also consolidate with some smaller operators exiting, resulting in stronger players with a sustainable financial and operational model, a new report has said. The current situation of COVID-19 has resulted in major changes affecting all four stakeholders of this segment- the colleges/educational institutions, students, asset owners and the student housing providers/managers.

In case the spread of COVID-19 continues for a longer time frame, the real estate prices, or rent for facilities, may undergo decline by 20-25 percent in the next few months and operators with a longer-term view can look to lock in these rentals, the report by EY has said.

"The B2C model, where most students pay monthly, has seen a larger impact. Students who have left are less likely to pay their monthly rentals for the remaining two months. But most operators have two months of refundable security deposit which may help them avoid revenue shortfall, though students may use force majeure as a reason to claim refunds," said Gaurav Karnik, Partner and National Leader - Real Estate, EY India.

A few universities have reached out to operators asking them to collect fees on a monthly basis rather than collecting a full year in advance to reduce the cash flow impact on parents. Some operators are hoping for regulatory intervention that supports rental exemptions for tenants in such scenario. However, the regulation may also force the operators to pass on the savings to their students, the report said.

The report noted that many operators may lose out on three to four months of revenue due to the delay in commencement of the academic sessions. Some costs will also increase since there will be greater pressure on sanitation and cleanliness. If students decide to practise social distancing or operators offer it as a differentiator, they may also see lower occupancy.

In terms of bed configuration, on an average, the number of three or more bed categories to other categories is 45 percent. Assuming a 15-20 percent reduction in capacity, the effective loss in revenue for a 200-bed facility would be approximately Rs 15 lakh per annum which results in about 40 percent reduction in margin. A part of this can be recouped through higher fees. ❑

MUTUAL FUND NEWS

Franklin Templeton mutual fund may take over 5 years to return some fund to customers

Franklin Templeton's India investors may have to wait over 5 years to fully recoup their money, the asset manager said in an email to investors.

The timing could wind up being sooner, as any sale of the underlying assets in the frozen funds in the secondary market and prepayments or accelerated payments made by issuers of debt in the funds would quicken the payout, according to the documents.

The development is the latest turn after the company shut six debt schemes last month in the country's biggest-ever fund freeze, which triggered shock waves in local credit markets.

It may take more than five years for the company to return the entire amount invested in four of the funds, according to the documents. Investments in the two remaining funds may be returned within five years, they showed.

The fund manager had previously said it is seeking investor approval to liquidate the six debt schemes.

Net flows in debt mutual funds increase to 94224 crore

The net monthly flows in debt mutual funds rose from ₹43,431 crore in April 2020 to ₹94,224 crore in May 2020, according to Association of Mutual Funds of India (Amfi). The jump of ₹50,793 crore is more than a 100% growth in monthly flows.

However, it is unclear how much of this money has come into the relatively low-risk categories of liquid and overnight funds and how much into categories like credit risk funds that saw huge redemption in the past few months. The total debt fund assets under management (AUM) at the end of April 2020 was ₹7.44 trillion, and May's inflow of ₹94,224 crore has resulted in a 12% jump in assets.

AUM data on categories other than liquid and overnight funds is disclosed on a daily basis and gives a rough idea of flows in individual categories. An increase in AUM happens due to flows and returns but returns are a relatively small component on a monthly basis, especially in debt funds.

According to data compiled by mutual fund analytics and research firm Pulse Labs, as of 27 May, credit risk funds saw a drop in AUM of ₹5,204 crore over the past month and medium-term funds saw a drop of ₹1,464 crore. In case of credit risk funds, this was about 16% of their assets and for medium duration funds, it was about 7% of their assets.

On the other hand, relatively low-risk categories saw increases in AUM. Money market funds saw an AUM increase of ₹7,014 crore, banking and PSU funds saw an AUM increase of ₹9,529 crore and corporate bond funds saw an AUM rise of ₹4,819 crore.

"Inflows have picked up in the relatively low-risk categories and outflows have slowed in high-risk categories. It's possible that some of the flows may be coming from banks given the amount of liquidity in the system," said Kaustubh Belapurkar, director, fund research, Morningstar Investment Advisor India. ❑

CO-OPERATIVE BANK NEWS

How SC ruling on Sarfaesi Act may benefit depositors of co-operative banks

Until recently, there was no clarity on whether co-operative banks could initiate action against borrowers under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Sarfaesi Act). The apex court has ruled that the Act will apply to co-operative banks as it does to commercial banks.

The Sarfaesi Act helps lenders to recover their dues faster. "It is applicable only to secured loans and allows lenders to auction the property that is mortgaged with them to recover dues from borrowers who have turned in non-performing assets (NPA)," said Satyam Kumar, CEO and co-founder of Loantap, an online loan platform, which also has a non-banking financial company (NBFC) license.

Kumar points out that Sarfaesi is applicable to home loans, loan against property and loan against collateral that micro small and medium enterprises (MSME) avail.

Under this Act, a lender can take possession of the property or mortgaged assets after giving the borrower a 60-day notice. Lenders can take over the physical possession or control the mortgaged asset and can sell or transfer them to a buyer without the intervention of any court or a third party. Once the property is auctioned, the lender deducts its dues and pays the rest of the funds, if any, to the property owner.

Before taking the physical possession, some lenders take symbolic possession of the property. It means that a bank or a financial institution does not have the key to the property. The borrower or the defaulter continues to occupy the property.

Earlier there was confusion whether co-operative banks could use it because in some states the high court had ruled that it does not apply to them and in some others, high courts had said that it's applicable. The Supreme Court has now settled the dispute.

Some co-operative banks that were put under the RBI restrictions could not initiate recovery action under the Sarfaesi Act, which they can do now for faster recovery.

In the absence of Sarfaesi Act, lenders had to resort to filing a case in civil courts, which was a lengthy procedure. Lenders also use other means to recover their dues from borrowers. They can approach a debt recovery tribunal (DRT) and get what is called a recovery certificate. It allows lenders to take possession of properties of borrowers anywhere in the country and sell them to recover dues.

J&K State Cooperative Bank scam accused arrested

In Rs 223 crore land scam of Jammu and Kashmir State Co-operative Bank, the Anti Corruption Bureau has arrested Hilal Mir, Chairman of Jhelum Cooperative House Building Society and recovered an amount of Rs 187 crore, siphoned by him.

After his police remand, the accused was today presented before the court, which sent him to jail. The interrogation of the accused person has led to further leads in the matter and more arrests are likely as the investigation progresses in this case.

A Preliminary Enquiry (PE) was conducted by the ACB Jammu on the allegations that the Chairman of J&K Co-operative Bank Ltd, in connivance with the officials / beneficiary of a non-existent Co-operative House Building Society had sanctioned an amount of Rs 223 crores fraudulently in favour of the said non-existent Co-operative Society under the name and style of a `River Jhelum Co-operative House Colony at Shivpora Srinagar' shown run by accused Hilal Ahmad Mir, son of Kh Sana-ullah Mir of Magarmal Bagh Srinagar.

During PE, it was further revealed that the so called Chairman of the said Society had moved an application to Secretary Cooperatives, Administration Department of Co-operative Societies, where under he sought directions to the J&K Co-operative Bank Ltd for grant of financial assistance to the tune of Rs 300.00 crores for taking over possession of 300 kanals of land located in the outskirts of Srinagar for construction of a Satellite Township.

The application was endorsed to Registrar Cooperative Societies J&K for taking up the matter with Jammu and Kashmir State Cooperative Bank. Accordingly, J&K Co-operative Bank Srinagar sanctioned a loan to the tune of Rs 223 crores without adhering to any codal formalities, i.e obtaining the details of the Society Viz.

Balance Sheet, Profit and loss Account business, activities being done by the Society, PAN number , Income Tax return, details of Construction of the Board Resolutions, etc.

During enquiry it also surfaced that River Jhelum Cooperative House Building Society has not been even registered with Registrar Co-operative Societies J&K. The Chairman of the so called River Jhelum Cooperative House Building Society Ltd. Hilal Ahmad Mir by acting in league with Chairman of J&K Co-operative Bank Srinagar and others had prepared a fake and fictitious Registration Certificate in the name of Society and managed the sanction of loan to the amount of Rs 223 crores.

State co-op banks fined for failing to report NPAs

RBI has imposed fines on four state cooperative banks, including Saraswat Cooperative Bank, the largest cooperative bank in the country. The bank has been fined Rs 30 lakh for failing to report the correct figures of Income Recognition and Asset Classification for Non-Performing Assets (NPAs).

The other banks which have been fined are Thane-based TJSB Sahkari Bank Ltd, Mumbai-based Bharat Cooperative Bank Ltd. and Ahmednagar-based Nagar Cooperative Bank Ltd. They have been fined Rs 45 lakh, Rs 60 lakh and Rs 40 lakh, respectively. However, the cooperative bank sector in the state is crying foul over the RBI's action and says it shows the central bank's step-motherly treatment towards cooperative banks.

The press release issued by the RBI states, "These banks have been fined because of non-compliance with RBI's guidelines regarding NPAs as on March 31, 2018. These banks were subsequently given time to explain their position, both in writing and orally. However, the RBI is not satisfied with their explanation and has decided to impose monetary fine on them." The fine has been imposed for so-called irregularities in the financial year 2017-18.

If the RBI can wait for two years to take action, it could have certainly waited for a few more months until things returned to normalcy Vidyadhar Anaskar President of Maharashtra Urban Cooperative Banks Federation

RBI extends Rupee Co-op Bank licence by 3 months

Rupee Co-op Bank, Pune has been granted an extension for its banking license by the Reserve Bank of India (RB)I for further three months i.e. up to July 31, 2020. In a statement issued by the bank, Sudhir Pandit, chairman, board of administrators, said that the bank has till date recovered Rs 258.11 crore and has registered an aggregate profit of Rs 53.19 crore during the last four years.

The administrator of Rupee Bank said that all efforts were being made to safeguard the interests of its depositors and the depositors are ready to co-operate for any early resolution of the bank. ❑

LEGAL

CASES

Interpol notice against Nirav Modi's brother in PNB fraud case

The Interpol has placed the Red Corner Notice against fugitive diamantaire Nirav Modi's brother Nehal in public view again, after he recently lost an appeal against its issuance by the international police cooperation body last year, on the request of Indian agencies, officials said.

A Belgian citizen, Nehal Deepak Modi is wanted by the Central Bureau of Investigation (CBI) in a case of alleged fraud committed by his elder brother, Nirav, in the Punjab National Bank (PNB), they added.

Nehal Modi's name figured as the accused number 27 in the supplementary charge sheet filed by the CBI, which charged him for destroying evidence in Dubai to cover the tracks of the alleged crime, the officials said.

An RCN is a request to law-enforcement agencies worldwide to locate and provisionally arrest a person pending extradition, surrender or similar legal action.Nehal Modi challenged it before the Commission for Control of Interpol's Files (CCF), an independent body that ensures that all personal data processed through Interpol's channels conforms to the rules of the organisation.

Banks' FY2021 recovery to take a hit as new IBC cases banned for a year

The suspension of fresh insolvency proceedings and coronavirus-related disruptions will impact recovery for lenders in fiscal 2021 as resolution mechanisms outside the Insolvency and Bankruptcy Code (IBC) are scarce, experts said.

Sonam Chandwani, managing partner, KS Legal and Associates, believes that banks, primarily concerned over deteriorating asset quality due to the lockdown, have been crippled by the announcement of a blanket ban on the IBC for a year. The lack of effective recovery outside the IBC is a worrisome issue for banks looking for resolution under a legal framework, said Chandwani.

“The freezing of IBC for a year closes an effective avenue of debt resolution for lenders leading to lower recoveries. The suspension could be a huge setback for banks relying on IBC as an efficacious means of recovery supported by a legal skeleton and a sanctioned tribunal," she said.

Rating agency, Icra, expects the resolution of corporate insolvency resolution proceedings (CIRPs) would be impacted during FY21 due to a fall in the number of cases yielding a resolution plan. It also expects an increase in haircuts for lenders.

Icra said financial creditors could realise about Rs. 60,000-70,000 crore in FY21 through successful resolution plans from the IBC, as compared to about Rs. 1 trillion in FY20. The resolution amount would also be lower as the previous year witnessed large non-performing assets (NPAs) successfully being resolved, it said.

Concerned over deteriorating asset quality post covid-19, banks are now hamstrung with regard to resolution and recovery. While the impact of the lockdown is expected to lead to a pile of bad assets, the lack of effective recovery mechanisms outside the Insolvency and Bankruptcy Code (IBC) is worrisome for lenders. ❑

SIDBI announces liquidity to MSMEs through banks, NBFCs and MFIs

Aimed at helping MSMEs tide over the liquidity crunch faced due to COVID-19 pandemic

Small Industries Development Bank of India (SIDBI), the principal financial institution engaged in the promotion, financing and development of Micro, Small & Medium Enterprises (MSMEs), has launched special liquidity scheme for Micro, Small and Medium Enterprises (MSMEs) through banks including Small Finance Banks (SFBs), Non-Banking Financial Companies including fintech NBFCs and Microfinance Institutions (MFIs). The scheme would provide financial support to banks, NBFCs and MFIs by way of term loans to ensure operational continuity and promote onward lending to MSMEs. The tenor of these loans will be 90 days.

Shri Mohammad Mustafa, IAS, Chairman and Managing Director of SIDBI said, "We are Shri Mohammad Mustafa, IAS, Chairman & Managing Director, SIDBIcontinuously working towards helping MSMEs survive the crisis created due to the COVID-19 pandemic. Keeping the current situation in mind, we were provided a special liquidity window of Rs. 15,000 crore by the Reserve Bank of India (RBI) to enable MSMEs to tide over their liquidity crunch. The funds will be channalised to MSMEs through eligible banks, NBFCs and MFIs. We hope through this, MSMEs liquidity issues shall be addressed, timely and adequately."

To be eligible under this scheme, a bank (public sector bank, private sector bank, foreign bank and SFBs) should have a sizeable outstanding loan portfolio to Micro and Small Enterprises (MSEs)/micro credit and sound financials. As a bank (public sector, private and foreign) they should have been in operation for a minimum period of three years and should have earned profit for a at least two years out of the last three years. As per the last audited balance sheet, the bank should have a net worth of minimum Rs. 100 crore, a Capital Adequacy Ratio (CAR) of not less than 9 percent and net Non-Performing Assets (NPA) ratio not exceeding 10%.

SFBs (including previous entry prior to conversion into SFB) should have earned profit during the last two years out of the three years of operation. The net worth required is a minimum of Rs. 100 crore, the CAR should be at least 15 percent and the net NPA ratio should not be greater than 7 percent.

The eligible NBFCs will be the ones which are registered with RBI as Investment and Credit Company (ICC) and should have been in business for at least 3 years. They should have a minimum net owned funds of Rs. 20 crore and asset size of at least Rs. 50 crore. The credit rating of the NBFCs should be a minimum of 'BBB-' or equivalent as on March 31, 2020. They should also have complied to applicable regulatory requirements and the promoter/equity should not be in any RBI blacklist or defaulters list. Besides that, the CAR should always be above RBI requirements during the last 24 months.

For MFIs to be eligible, they should have been in operation for at least three years and registered as a society, trust, company/ section 8 company, NBFC-MFI or co-operative society. The MFIs should have a credit rating of at least 'BBB-' or equivalent as on March 31, 2020 and the promoter/equity should not be in any RBI blacklist or defaulters list. The CAR requirement should not be below RBI requirements in the past 24 months and should have complied with regulatory RBI guidelines.

HUDCO Contributes Rs.50.28crore to PM CARES Fund

Housing & Urban Development Corporation Ltd. has contributedRs.50 crorefrom CSR funds and Rs.0.28crore from voluntary contribution of one day salary by employees to PM CARES Fund,for promoting healthcare and relief activities in the wake of COVID 19 pandemic.HUDCO has pledged to support Government's efforts in dealing with the challenges emerging from this unprecedented situation.

hudco

Signzy Launches Video Conferencing Tool for Secure Communications Between Banks and Customers

India's leading RegTech startup Signzy today announced the launch of its secure Video Conferencing (VC) tool for secure, private one-to-one communication between banks and other Financial Institutions on one hand, and their customers on the other. The Signzy VC tool uses Artificial Intelligence to enhance security and reliability and thus aims to deliver seamless business continuity for banks, FIs and other organizations during the prevailing national lockdown. It has been designed for enabling front-end processes that necessitate a face-to-face conversation with the customer.

"Generic video conferencing apps and tools are simply not designed for banking-grade security and privacy and are thus unsuitable for use in financial services industry's customer-facing workflows. Signzy's Video Conferencing tool on the other hand delivers industry-leading security and privacy for one-to-one interactions and is therefore best suited for banks, insurance companies and other organizations where security and privacy of communications is a critical requirement," said Ankit Ratan, the co-founder of Signzy. Signzy's Video Conferencing tool is honed with numerous layers of checks and balances including, AI-enabled video forensics and identity document checks that eliminate security gaps by combining human scrutiny with both software and ML and AI-enabled learning.

The tool ensures seamless communication and end-to-end encryption along with securing data leakage. For example, a bank can choose to disable client-side video controls during a call, which would prevent a customer from switching off the video while the call is in progress. Further, the AI technology ensures that all calls can be audited and any breach in the protocol can be readily caught. "Since this has been developed with banks as intended users, no other third-party software currently matches this level of security," Ankit added. In the wake of global COVID-19 pandemic and India's nationwide lockdown, banks have been encouraging their customers to use digital channels for transactions as far as possible. Many banks have adopted video KYC as a 100% digital KYC process for new customer onboarding and customer verification.

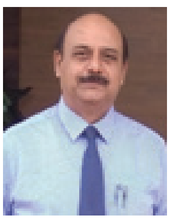
Signzy's VC tool allows banks, insurance companies and other financial services providers to go a few steps further and use secure video conferencing for other processes that otherwise necessitate a face-to-face interaction with the customer, inside the branch or at the customer's premises. For example, client relationship managers can schedule a secure video call with their clients for processing certain types of financial transactions. ❑

IMPACT OF COVID-19 PANDEMIC AND AMALGAMATION IN INDIAN BANKS

Introduction

The corona virus (COVID-19) outbreak is causing widespread concern and economic hardship for consumers, businesses and communities across the globe including banking industry as a whole. The predicament for Rs 166 lakh crore banking sector are far from over. A few months ago when bank non-performing assets (NPAs) declined from its peak of over 10 per cent of the advances and profitability returned, the telecom AGR (adjusted gross revenue) liability and the Yes Bank debacle hit them hard both in terms of sentiment and loss in market valuations.

The Covid-19 pandemic was like a volt from the blue. Over the last seven years, the banks had braved the first of its kind balance sheet clean up with RBI's asset quality review for stressed loans. The demonetization in 2016 disrupted their focus and business in the interim. The GST came as a shocker as many micro, small and medium enterprises (MSMEs) got wiped out and the banks were forced to restructure many of the loans to MSMEs. Another path-breaking change, the Insolvency and bankruptcy code (IBC), created a huge provisioning pressure in their books with realisation still far from satisfaction. We analyse how prepared the banking sector, after amalgamation, is to weather the Covid-19 storm which is playing out in full force globally.



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Challenges:

Public sector banks in consolidation mode

The government move to consolidate 27-odd public sector banks (PSBs) into 10 large banks has taken place when the Covid-19 is creating yet another direct disruption in sectors such as travel, transportation, tourism, hospitality and trade by creating an imbalance in supply chain globally, etc. The anchor banks such as Union Bank of India, Punjab National Bank, Indian Bank and Canara Bank are in the process of branch and people rationalisation, technology integration and stressed loan strategy etc. The two other large PSBs - Bank of Baroda and IDBI Bank Ltd - have challenges of their own. The Bank of Baroda, which merged Dena Bank and Vijaya Bank into itself, has seen the complete exit of leadership, which was hired to create a template for other PSBs to follow. Similarly, the new promoter LIC in IDBI Bank has pumped in capital of over Rs 35,000 crore to revive the bank.

The latest set of mergers will change the pecking order among the country's nationalised banks and give many of them a wider geographical reach and make balance sheets stronger.

For instance, PNB become the second largest state-owned bank with over 11,000 branches, 13,000 plus ATMs and a business mix of over Rs 16 lakh crore. There will be over 1 lakh employees in the merged entity.

Canara Bank became India's fourth largest public sector bank. Post amalgamation of Syndicate Bank, Canara Bank will have a network of 10,391 branches, 12,829 ATMs and a business size of over Rs 16 lakh crore. The staff strength will now go up to 91,685 employees.

Union Bank became the fifth largest nationalized bank, with over 9,600 branches and a business of Rs 14.59 lakh crore. Indian Bank, with a combined branch network of 6,060 branches and 2,870 ATMs, and a business of Rs 8.08 lakh crore became the seventh largest state-owned lender.

Merger of such huge scale is bound to have some impact on the network and employees. The government had already clarified that there won't be any job losses. However, while banks say branches are unlikely to close right away, there will be some overlap and therefore some restructuring will happen in due course. For instance, Indian Bank's MD and CEO Padmaja Chunduru had said that 150-200 branches that had been identified would either be merged or their location shifted.

This mega merger of PSU banks came into effect at a time the country is in a 21-day lockdown to control the spread of COVID-19 outbreak with no ruling out of a further extension and banks are functioning with limited manpower and shorter working hours than normal.

Half a dozen weak banks under RBI's PCA

A dozen banks were under the RBI's prompt corrective action (PCA) but half of them released because of merger of PSBs and the additional capital provided by the government. There hasn't been any material improvement in their profitability or NPAs to send them out of PCA. In fact, half a dozen banks are still very weak to restart the lending business. IDBI Bank, Indian Overseas Bank, UCO Bank, Central Bank of India and Laxmi Vilas Bank are currently under the RBI's monitoring with restricted lending.

Private sector banks not out of the woods

For long it was PSBs that shared all the blame for poor corporate governance and leadership, but now private sector's weak links are also exposed. Chanda Kochhar and Rana Kapoor came under the scanner of investigating agencies for corruption charges or violating the service rules. Similarly, the growing NPAs in their book showed the bad lending practices. Currently, the leadership at large private banks is stabilising with a new strategy in place. The largest private bank, the HDFC Bank, will see a leadership transition by the year-end whereas in IndusInd Bank, Sumant Kathpalia has taken over from Romesh Sobti as the MD & CEO by the month-end. Many private banks are in the process of capital raising. In fact, the equity dilution will be higher now as their valuation has fallen big time over the last one month.

Loss of trust in the banking entities

For the first time in many decades, a private sector bank saw a moratorium being imposed by the RBI. A moratorium by the regulator is the last resort as PCA framework is available to nurse the bank back on health. Yes Bank's balance size of over Rs 3 lakh crore was enough to create panic in the market. The debacle of multi-state cooperative bank Punjab and Maharashtra Cooperative Bank (PMC) Bank and Yes Bank have once again raised the trust issue in the banking industry. The government, on its part, has also raised the deposit insurance limit from Rs 1 lakh to Rs 5 lakh per depositor per bank. In fact, the banks in India are well capitalized with the exception of few but the recent debacle has done the damage by jolting the small depositors' trust in the banking industry.

The resolution of bad loan is stuck

The IBC is a path-breaking law for the banking sector as it is creating a deterrent in the market for defaulters. But the new code is yet to see faster resolution of cases. The banks have made all the NPA provisioning in the books, but the recovery is still far away. While the NCLT courts are flooded with cases, there is lack of interest from buyer's especially global distressed funds because of too many amendments in a short period of time and legal challenges at every stage. The buyers are probably waiting for clearer signals from the economy, which is on a downhill journey.

Fitch Cuts India GDP Growth Forecast To 30-Year Low Of 2% for FY21

Fitch Ratings on Friday said it has slashed India's growth forecast for the current fiscal to a 30-year low of 2 percent, from 5.1 percent projected earlier, as economic recession gripped global economy following the lockdown due to the Covid-19 pandemic. "The initial disruptions to regional manufacturing supply chains from a lockdown in China as the corona virus spread have now broadened to include local discretionary spending and exports even as parts of China return to work. "Fitch now expects a global recession this year and recently cut our gross domestic product growth forecast for India to 2 percent for the fiscal year ending March 2021 after lowering it to 5.1 percent previously, which would make it the slowest growth in India over the past 30 years," it said in a statement.

MSME Sector:

According to a recent GOQii survey, about 26% of businesses surveyed said their sales and purchases have been impacted due to the virus outbreak. MSMEs are grappling with problems like low liquidity or cash flow and lack of workforce as the daily-wagers have gone to their villages.

Businesses that are into manufacturing will also take a hit on export business as the situation remains uncertain. The services sector is also slowing down.

Steps taken by Govt. and Banks:

Banks came into the corona virus pandemic much stronger than they went into the global financial crisis, but will the capital and liquidity buffers they have built be sufficient to see them through the most dramatic economic crash in history?

The government has started taking steps to keep the MSME segment afloat. The Reserve Bank of India recently introduced Long Term Repo Operations (LTRO) worth Rs 100,000 crore to help banks increase lending at cheaper interest rates.

In addition, Finance Minister, Nirmala Sithraman, also announced the extension of the last date to file belated Income Tax Return for all businesses for the FY 2018-19 from March 31 to June 30. The deadline for GST returns filing for March, April and May is now June 30.

Banks are also being encouraged to keep loans worth Rs 60,000 crore ready.

1. **Why assemble in India, when we can Make-in-India?**

   Now could be the right time for the Government to roll out sops to MSMEs that manufacture locally. The Government eMarketplace (GeM) could be of great use to suppliers looking for purchasers and vice versa. Investing in online infrastructure while also encouraging small businesses to source locally could help improve manufacturing while also cutting on our import costs.

2. **Delay MSME loan repayments or extend the period:**
As the RBI pumps in more cash into the banking sector, deferring or relieving the MSMEs of loan repayments could come as a welcome move. Most businesses are looking for financial support from the government and doing this can help them cope with cash flow problems. Relaxing bad loan norms could also be a saving move for this sector.

3. **Transparency in Communication:**
It is a key part of effective crisis management. For banks, this takes on heightened importance because trust and reputation are integral to what they offer to clients. Unlike a cyber breach or a reputational scandal, COVID-19 affects all firms, and, for the most part, regulators and clients already understand the basic facts about what's happening.

Frequent and honest communication to clients to update them on banker's approach will help them to understand that their situation is being addressed by Banks and if/when they should revise the way they think about risk.

The way forward:

In a time of global uncertainty, it's easy to lose sight of the big picture. This is particularly true when memories of the last recession are still relatively fresh. But it's worth acknowledging just how different the current situation is from where we were a decade ago, Today's financial system is far more resilient. Many of the structural reforms put in place have led to increased oversight and reserves post amalgamation. These are designed to strengthen Indian banks ability to withstand systemic shocks and, by all accounts, they seem to be working although it may take months together to accelerate the desired growth in Indian economy as a whole.

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PWC United States ❑

Jio files petition against Paytm

Reliance Jio Infocomm has accused Paytm for dragging access providers to court over phishing attacks on its users and alleged that the payments company is trying to shift the blame of its own lapses to evade legal liability of financial frauds occurring through its app.

In a counter-affidavit to a petition filed by Paytm in the Delhi High Court, India’s largest telco said mobile phone companies cannot be held liable for “unlawful activity” occurring over calls and messages as per the telecom regulator’s Telecom Commercial Communication Customer Preference Regulation (TCCCPR), 2018, aimed at checking pesky calls and messages.

“Under Section 79 of the IT Act, intermediaries are exempt from liability under the Act in respect of any third-party information, data, or communication link made available or hosted by them,” Jio added.

Paytm’s parent One97 Communications has moved the High Court against telecom operators Vodafone Idea, Jio, Bharti Airtel, Mahanagar Telephone Nigam (MTNL) and Bharat Sanchar Nigam (BSNL) besides Telecom Regulatory Authority of India (Trai) and the Communications ministry, blaming the telcos for not blocking those who are defrauding its customers by phishing activities over various mobile networks. It has also sought damages of Rs 100 crore for the failure of carriers which has "caused financial and reputational loss" to it.

PUBLIC SECTOR BANKS DESERVE RESPECT

"The resources of the financial system are held by financial institutions in trust and have to be deployed for the maximum benefit of their owners' viz., depositors and investors. The safety of their funds should be the primary concern of banks and regulatory authorities and ensuring solvency, health and efficiency of the institutions should, therefore, be central to effective financial reform." -Report of the committee on Financial Reform, 1991 (Narsimham Committee)

Introduction:

Public Sector Banks (PSB) are banks where the majority share, i.e., 51% or more, is held by the Government. As of now, after merger, there are 12 Public Sector Banks in India. The History of modern banking in India started in 1955 when the Imperial Bank of India was transformed into the State Bank of India. This was the first time that the Central Government entered into the banking business. Seven other state banks became the subsidiaries to State Bank of India, with the passing of State Bank of India Subsidiaries Banks Act in 1959. In 1969, 14 major Banks with deposits of more than Rs.50 crores were nationalised and in 1980 the Government took over six other commercial banks.

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The indigenous banks, prior to nationalisation, were unable to meet the demands of the general public. They were mainly confined to big cities like Mumbai, Chennai, Kolkata, Kanpur, Delhi etc. They were not able to cater to the demands of small farmers and small businessmen. They were only financing large corporate houses. In the 1930s, the Reserve Bank of India (RBI) suggested a few banking reforms and asked banks to follow accounting standards and submit periodical statements of their affairs. RBI also offered them privileges enjoyed by the scheduled banks. The indigenous banks declined the offer. Some other reasons for nationalisation of banks were the 1962 war with China, 1965 war with Pakistan and two successive years of drought that had put pressure on public finances. This was the backdrop for nationalisation of Banks. In the words of the Late Prime Minister Smt. Indira Gandhi during her Lok Sabha speech on 29th July 1969 "Purpose of nationalization is to promote rapid growth in agriculture, small industries and export, to encourage new entrepreneurs and to develop all backward areas".

Branch, Deposit and Credit Expansion:

Earlier, branches were concentrated in urban and metropolitan areas but after nationalisation, banks expanded their branch network at a very rapid pace. There were only 8260 branches in 1969 out of which only 1860, i.e., 22% were rural branches. At the end of June 2018, there were 90821 public sector bank branches, out of which 54598, i.e., 60.11% branches are in rural and semi urban areas. This has helped in integrating the rural and urban areas. Branch expansion helped in organising the money market in India, which was unorganised prior to nationalisation. Branch Expansion of Public Sector Banks also helped in deposit mobilisation.

As per the RBI report dated 30.06.2011, deposit growth of all schedule commercial banks increased 7 times during 1951-1971, 33 times during 1971-1991 and 23 times during 1991-2010. The growth of deposits between 1971-1991, is mainly attributed to the PSBs and their branch expansion.

Not only did the Bank deposit expand in this time, bank credit also expanded at almost the same rate. The banks were now providing credit to the agriculture sector, small industries and trade along with credit to large corporate and export houses.

Priority Sector lending:

A working group on priority sector lending was formed under the chairmanship of Dr. K.S. Krishnaswami. On his recommendations, in 1980, RBI issued directives to Banks regarding priority sector lending. The directives included

- Priority sector lending should be 40 percent of total bank advances.
- Out of priority sector lending 40 percent should go to agriculture.
- 50 percent of direct lending to agriculture should go to weaker section in agriculture and allied activities.
- 12 percent of bank credit should go to exporters.

Public Sector Banks took an active part in Priority Sector lending and were instrumental in achieving majority of the targets set by RBI. The loan portfolio of these sectors has grown exponentially as illustrated in table 1.

(In crores)

S.No	Priority sector	June 1969	June 1971	March 2005	March 2009	March 2018
1	Agriculture	160	340	109917	298211	932100
2	Small scale Industries	260	440	68000	191307	331700
3	Other priority sector	20	130	125114	230565	594600
4	Total priority sector advance	440	910	307046	720083	1858400

(Source: RBI Trends and progress of banking in India, 2007-08, 2017-18, 2018-19)

Social Banking:

At the time of nationalization, the then prime minister pointed out 'An institution such as banking has necessarily to be inspired by a large social purpose and has to sub serve national priorities and objectives'. PSBs were not only doing Priority sector lending, they were also used by the Government for social and poverty alleviation programme. Banks were involved in two types of social banking (i) Non lending social activities and (ii) lending social activities. Non lending banking social activities included mobilization of rural deposit, expansion of branches in rural areas etc. and lending activities included activities financed by Commercial banks. The Government launched many schemes and some of the schemes envisaged by the Government and put in place through PSBs are the following:

- **Differential Interest Rate (DRI):-** Banks were asked to give loans to below poverty line customers at concessional interest rate of 4 percent.
- **Integrated Rural Development Programme (IRDP):** This programme was

introduced in 1978-79 and aimed at alleviating rural poverty by providing income generating assets to the poorest of poor.

- **Pradhan Mantri Gram Awas Yojana:** This scheme was started in 1985 with the idea of housing for all. Under the scheme loans were given to rural people at subsidized rates.
- **Swarnajayanti Gram Swarozgar Yojana (SGSY), now National Rural Livelihood Mission (NRLM):** It is poverty alleviation programme implemented by Ministry of Rural Development. This focuses on promoting self employment and organization of rural poor.

Apart from these schemes, Prime Ministers Rozgar Yojana (PMRY), Pradhan mantri Gram Sadak Yojana (PMGSY), Sampoorn Gramin Rozgar Yojana (SGRY) ,National Rural Employment generation scheme (NREGS) etc. were rolled out through PSBs. Public Sector Banks are continuously supporting the Government in achieving their social objectives.

Economic Reforms:

Economic reforms of 1991 gave way to new age private sector banks like ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank etc. and foreign banks like CITI Bank, Standard Chartered Bank, HSBC Bank etc. These banks came with:-

- Sounder technology like ATM, PoS, Internet Banking, Mobile Banking etc.
- Personalised banking and financial services to high net worth individuals.
- Dedicated Relationship Manager assigned to the customer.
- Door step delivery of loans.
- Customisation of products according to the needs of the customer.

On one hand PSBs were directed to achieve Priority sector lending targets, social scheme targets and on the other hand they had to focus on competing with these Private and foreign players who were better equipped, technologically and professionally. Public Sector Banks started losing their market share. Considering this the Public sector banks started evolving rapidly by improving their technology. Most of the Banks have migrated to core banking platform within a short span of time. They started opening ATMs, delivering PoS machines, started offering Net banking and introduced advanced digital products.

Public Sector Banks and subprime crisis:

After the collapse of Lehman brothers due to subprime crisis, it was forecasted that it will hamper Indian economy and Indian banks. But, Indian banks especially Public Sector Banks successfully weathered the crisis. During 2007-08 and 2008-09 PSBs in India were having Return on Asset (ROA) at 1%, which is considered good as ROA had been negative all over the world. When capital was eroding all over the world and Banks required fresh capital infusion, Capital adequacy improved in FY'2008-09 in India. It was also forecasted that Non Performing Assets (NPA) will increase in India after the crisis, which actually did not happen. Public sector Banks with their time-tested approach for lending saved the country from crisis.

Financial Inclusion:

Thrust of financial inclusion came when Reserve Bank of India in its annual policy statement of 2005 asked banks to reach towards the masses and provide the banking facilities at a place of their convenience. Biggest change came in, when from the ramparts of Redfort , on 15th August 2014, Prime Minister, Mr. Narendra Modi, announced one of the biggest financial inclusion drives (Jan Dhan Yojana) in the world. The main purpose of the scheme was to transfer subsidies directly into the accounts. Public Sector Banks were instrumental in opening Jan Dhan Accounts. They organized camps from village to village and worked relentlessly to achieve the desired results. It was a Herculean Task as every bank was given only 6 months time to achieve a specified target. Public Sector Banks lived upto the Governments expectations.

As per data available from Department of Financial services, Ministry of Finance, as on 18.09.2019, total number of Jan Dhan Accounts opened are 37.05 crores out of which nearly 29.46 crores were opened by the PSBs This is nearly 79.50 percent of the total jan dhan accounts opened. Regional Rural banks opened only 17 percent and private banks opened only 3.50 percent of total Jandhan accounts. This is despite the fact that Private Sector Banks constitute nearly 25 percent of the total banking business.

(Amount in crores)

Bank Name / Type	Number of Beneficiaries at rural/semiurban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	No Of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	15.77	13.69	15.50	29.46	81684.79	24.33
Regional Rural Banks	5.30	1.03	3.53	6.33	18885.59	3.85
Private Sector Banks	0.70	0.56	0.67	1.26	2960.63	1.16
Grand Total	**21.77**	**15.27**	**19.71**	**37.05**	**103531.01**	**29.34**

(pmjdy.gov.in)

Social Security schemes:

On 9th May 2015, our Prime Minister launched a few social security schemes to cover the account holders. These include Pradhan mantri Suraksha Bima Yojana (PMSBY) for personal accidental insurance cover, Pradhan Mantri Jeevan Jyoti Bima Yojana(PMJJBY) for Insurance cover and Atal Pension Yojana(APY) for guaranteed minimum pension to subscriber. As per data from Department of financial services, total Gross enrolment upto 31.03.2019 is 15.47 crore under PMSBY, 5.91 crore under PMJJBY and 1.49 crore under APY. Public Sector Banks have vast coverage from metro region to remotest place in India. Again PSBs played a major role in taking these schemes to the nook and corner of the country.

Demonetization:

On 8th November 2016, the Government of India decided to demonetize Rs.1000 and Rs 500 notes in order to curb black money and to stop the flow of cash for funding illegal activities and terrorism. The Government also announced issuance of new Rs.500 and Rs.2000 note. There were Rs.15.41 lakh crore worth of bank notes that were to be demonetized in a very short time. It was an insurmountable challenge for the banks. The Government called for the meeting of all Bank chiefs on 8th November 2016 to discuss the task on hand. The Issue of recalibration of the ATMs was also discussed. It is reported that most of the Private Sector Banks expressed their inability to recalibrate their ATMs.

It was at this time that the PSBs, especially India's largest Public Sector Bank State Bank of India (SBI), rose to the occasion and gave assurance for recalibration. The very next day, i.e., 9th of November 2016 all the demonetized notes were to be taken out from the ATMs and the bank counters. There was a huge rush to deposit demonetized notes on 10th November 2016 when Bank opened for public after demonetization. Public Sector banks planned and executed well and as a result they were able to handle the rush well. PSBs were also instrumental in calming the public and handling the resentment. ATMs were opened to public on 11th November 2016 and proving to be the backbone of the Indian Economy, PSBs were able to recalibrate the ATMs in a short span of time. 27000 ATMs were running on the first day of which SBI topped the chart with 17000 machines running.

PSBs also had huge Branch network and Banking correspondents that helped in demonetizing the old currency and distribution of new currency. PSBs worked round the clock to make the demonetization successful and even the Prime Minister could not refrain himself from praising the PSBs for doing the job well. PSB's work was appreciated by the whole country during demonetization as they stood up to the herculean task in spite of criticism in their style of functioning.

Digital Transformation:

After the entry of new age and technology driven private sector banks, PSBs started facing stiff competition and started losing their market share. There was no way out for PSBs, but to transform themselves technologically. First PSBs implemented Core Banking Solutions (CBS) that helped in transforming them from branch banking to any where banking. PSBs started putting ATMs all over the country and their numbers grew rapidly as compared to private sector banks. As on 31.03.2019, total ATMs belonging to Public

Sector banks is 136098. While number of ATMs for private Sector Banks stood at 63340. PSBs accounts for more than 68% share of ATMs. PSBs also focussed on Inter Net Banking (INB) platform to grow rapidly. Now PSBs are providing all sorts of transactions through INB be it account enquiry, money transfer, RTGS/NEFT, Issuance of demand draft, bill payments, creating fixed deposits, TDS enquiry or e-filing. Customers using these INB platforms are happy with the quality of INB provided by PSBs.

Growth of mobile banking is said to be the biggest revolution of the 21st century. After the introduction of smart phones, everything from music, movies, restaurants, to tickets is on mobile phones. PSBs invested in Mobile Banking successfully. Initially PSBs were providing SMS based enquires but with the growth of technology, all the banking activities became handy. Except cash, today all the banking transactions can be completed through mobile phones. Not only transactions but Public Sector Banks are also offering online loans to select customers which can be availed through mobile apps, without any documentation. National Payments Corporation of India (NPCI) developed Unified Payment Interface (UPI) to facilitate Inter Bank Transactions. Each of the Public Sector banks developed their own UPI. This is helpful for the masses. Those who are illiterate, but have an adhaar card, can also perform digital transfers. UPI has certainly revolutionised the digital banking as PSBs are having access to the remotest part of the country.

PSBs are continuing to leverage digital technology to their back office operations also. Digitalization of the credit appraisal process is helping PSBs in making their process standardized and boosting credit off-take significantly. Strengthening of internal systems like Loan management system and performance management system can lead to greater operational efficiency.

Mergers: -

Earlier there were 27 public sector banks but the Government has started merging the Public Sector Banks to improve the operational efficiencies and competitive position. State Bank of India merged its seven associate Banks. Recently the Government announced the merger of Oriental Bank of Commerce and United Bank with Punjab National Bank to form country's second largest Bank. Dena Bank and Vijaya Bank were merged with Bank of Baroda and created the third largest Bank in India. Merging Syndicate Bank with Canara Bank will create fourth largest Bank. Union Bank will become fifth largest bank after merging with Andhra Bank and Corporation Bank. Seventh largest Bank will be the Indian Bank after merging with Allahabad Bank. Government wants to reduce the number of Public Sector Banks to 12. Consolidation of Public Sector banks is a good move as it will help them in fighting the Non Performing Assets (NPAs) and reaching higher scale of operations. These 12 banks will be the new age Public Sector Banks better equipped technologically, well capitalised and healthier.

(Amount in Crores)

S.No	Anchor Bank	Amalgamating Bank	Business Size*	Rank by size
1.	State Bank of India	State Bank of Saurashtra, State bank of Indore, State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Travancore, State Bank of Mysore, State bank of Patiala, Bhartiya Mahila Bank.	Rs.52.05 lakh	1
2	Punjab National bank (PNB)	Oriental Bank of commerce United Bank of India	Rs.17.94 lakh	2
3	Bank of Baroda	Dena Bank Vijaya Bank	Rs. 16.13 lakh	3
4	Canara Bank	Syndicate Bank	Rs.15.20 lakh	4

S.No	Anchor Bank	Amalgamating Bank	Business Size*	Rank by size
5	Union Bank of India	Andhra Bank Corporation Bank	Rs.14.59 lakh	5
6	Bank of India	Nil	Rs.9.03 lakh	6
7	Indian Bank	Allahabad Bank	Rs.8.08 lakh	7
8	Central bank of India	Nil	Rs.4.68 lakh	8
9	Indian Overseas bank	Nil	Rs.3.75 lakh	9
10	UCO Bank	Nil	Rs.3.17 lakh	10
11	Bank of Maharashtra	Nil	Rs. 2.34 lakh	11
12	Punjab & Sind Bank	Nil	Rs. 1.71 lakh	12

* based on March'19 financials (Source: Economic times, August 30 2019)

Conclusion:

Right from their formation to the present times, Public Sector Banks on the one hand are working according to the needs of Government and on the other; they are continuously evolving themselves to face the competition from private Banks. They are also under pressure from the customers to keep pace with their growing expectations. Non Performing Assets (NPA) are also haunting PSBs along with the pressure of privatisation. Despite all these odds, Public Sector Banks are doing well and people have trust in their ability to fight back. It is also commendable that not a single Nationalised Bank has failed or faced liquidation till date. Overall Nationalised banks have helped India emerge as one of the largest developing economies, gain self sufficiency in food grains production and make significant strides in financial inclusion. Therefore

"PSBs certainly do deserve RESPECT ...."

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Equity Mutual funds give 25% returns during lockdown

According to experts in Mutual funds, Equity-oriented mutual fund schemes generated returns of about 25 per cent during the lockdown period amid a recovery in broader markets and liquidity infusion by RBI coupled with the government's stimulus measures. However, some experts believe this is nothing more than a bear market rally. Although mutual funds gained from the bounce back from March lows, their long-term returns still look bad, said Vidya Bala, co-founder of PrimeInvestor.in. According to data compiled by Morningstar India, all the equity scheme categories -- equity linked saving scheme (ELSS), mid-cap, large and mid-cap, large-cap, small-cap, mid-cap and multi-cap -- have given returns in the range of 23-25 per cent between March 25 and June 3. Individually, large-cap funds have given a return of 25.1 per cent, followed by multi-cap (25 per cent), ELSS as well as large and mid-cap funds (24.9 per cent each), small-cap (24 per cent) and mid-cap (23.2 per cent). Broader markets have recovered 25-30 per cent during the period under review. However, most of the active funds underperformed their respective benchmark indices. The nationwide lockdown to combat the spread of COVID-19 infections started on March 25 and it has been extended by some states till June 30 in the containment zones.

WILL INDIA BE ABLE TO COMBAT CORONA WAVE?

Abstract

All of us are aware by now the havoc that has been caused by COVID 19 all over the world, especially in Europe and USA. "The worst economic crisis since 2008", "The FTSE sees its biggest hit since 1987"- intimidating isn't it? It's because saying "It's a setback" and "We will recover" doesn't gain the media hits that publicising fear does. We recovered from outbreaks ranging from the SARS epidemic to the Spanish flu, the greatest pandemic in modern history. Influenza hit the economy at a time when financial institutions weren't half as robust as they are today, and even weaker due to World War 1 and the economic catastrophe it caused. But we came through, didn't we? Expert speculation relies on empirical evidence to the extent that logic and faith is undermined, and it is why such speculation is not a perfectly reliable measure to predict markets and their movement. Hence, in these uncertain times, Lakewater feels optimism is the only tool at our disposal, and it would be rather wise to use it.

Introduction

Despite, there was late onset of Corona wave in India, the panic continues to be there. However, looking at certain scenarios, which we shall discuss later in this report, India has a better stand. It is certain that COVID-19 is classic example of "black swan"; rare occurrence and massive impact. With the widespread of Corona Virus beyond China, there has been a drastic fall in the Global equity market, since it is proportionate to sentiments. S&P 500 index showed a decline of ~30 % in 22 trading days from 19th Feb. The fall in market is at much higher space than SARS (2002); even 2008 Recession for that matter. Following USA, India too has passed Stimulus packages, in order to lift NIFTY. As on 15 th April, NIFTY stood ~8,800.

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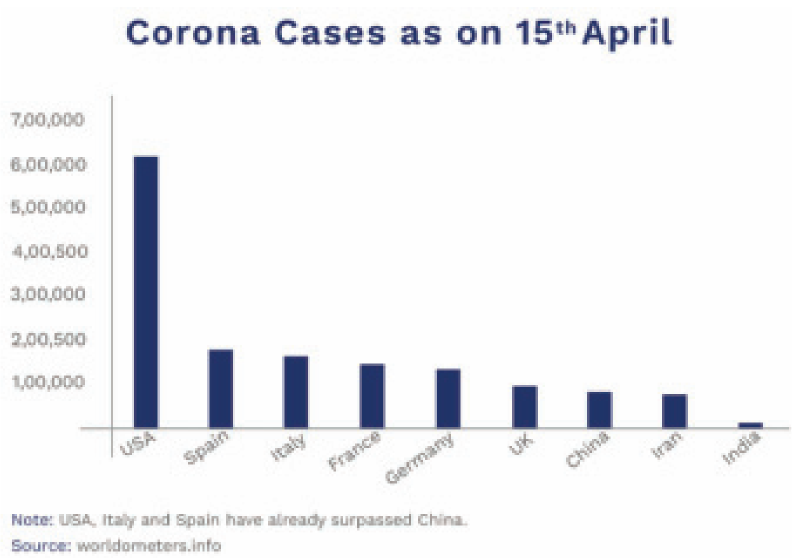
Outbreak of Corona

The novel Corona outbreak took place in China's wet market, Wuhan. By December, the virus had expanded and touched every corner of the globe. Looking at the alarming levels of spread and severity, World Health Organization declared Covid-19 has global risk which required immediate health emergency.

Looking from health perspective, India has done a commendable job by initiating the Lockdown on 25th March to contain the spread. India has learnt from its global peers, and called out for lockdown at an early stage of outbreak. With a population of ~1.38 billion, India has reported 396 deaths (15th April, 2020). India is reporting 0.3 deaths/million as compared to 79 deaths/million in USA.



Corona Impact on Economy

If we speak about our Economy, recently, we have been facing rough times and abrupt advent of Covid19 has further amplified the negative sentiment, such as

- ~$180Bn of annual exports and imports are linked to highly exposed countries – US, Europe, UK, Iran. Off late, Trump and Modi were discussing certain measures, which would have increased the trade between the two, now the same is put to halt.
- 25% of India's workforce, are casual labour; facing the direct impact of lockdown
- Auto, Travel, Consumer Durables, Construction are facing the downside. The discretionary spending on any fashion and luxury goods, shall be getting the hit, as the spending power shall be conservative in near future.

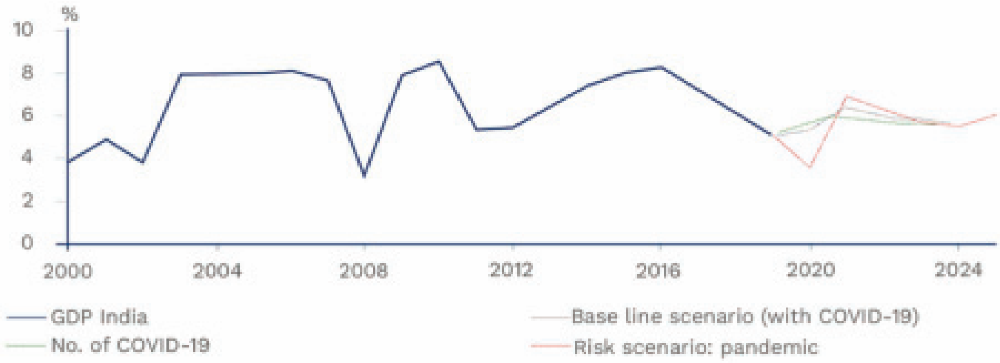
However, every cloud has a silver lining.

Given the ambiguity in current situation, it is difficult to develop opinion and quantifying economic impact. Yet, we have tried to focus on positive key parameters among the sea of negative sentiments. Imposing lockdown at an early stage, has given Indian economy a ray of hope and saved us from a disaster. Let us look at the following factors –

Opportunity Ahead

US-China relationship has become more toxic, between the trade war and Coronavirus. International firms have figured it in a hard way, how vulnerable their globally integrated supply chains are. This has prompt international businesses to think about diversification of their production across numerous nations. This should benefit India in the medium term, as firms would want to bank less on China as their lone manufacturing hub. Hence, we expect a moderate rebound of economic growth in 2021 and beyond.

We expect a rebound after the COVID-19 crisis

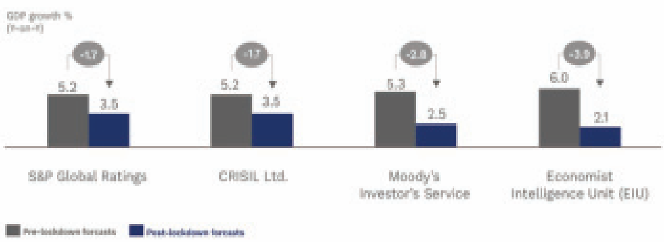


Source: Rabobank, CSO

EIU Projection

India's growth may be slashed to 2.1% but given the projection, looks like India will show the highest rate of GDP growth among G20 countries. Also, as per EIU, India will be among top three countries in G20, along with China and Indonesia that shall avoid recession this year.

India GDP growth forecast for 2020 / FY21



Source: EIU Report

Since, there might be trade disturbance between China and global market. India can take this situation as an export opportunity window to expand its exports. It is difficult to comprehend this opportunity, given India-China trade relations. However, over the last 5 years, there is slight decrease in India's dependency on China.

India only has limited ties with China

Country	Export to China (% GDP)	Intermediate goods (% GDP)	Tourism from China goods (% of GDP)	Average
Vietnam	13.6	7.9	2.9	8.1
Taiwan	15.9	4.7	1.1	7.2
Thailand	5.7	2.5	5.9	4.7
Singapore	13.8	1.3	1.8	5.7
Philippines	2.6	1.7	4.4	2.9
Malaysia	9.6	2.5	1.5	4.5
South Korea	7.9	1.5	0.9	3.5
New Zealand	5.3	0.5	1.8	2.6
Australia	5.2	0.4	1.6	2.4
Japan	2.7	0.4	2.2	1.8
Sri Lanka	0.5	2.0	1.4	1.3
Indonesia	2.6	1.1	0.8	1.5
Pakistan	0.6	1.8	0.4	1.0
Iran	2.2	0.7	0.0	1.0
India	0.6	0.7	0.2	0.5

Note: Ranking is based on z-scores of the numbers shown in the table

Source: WTTC data, trademap.org, Worldbank, Rabobank.

India is now attempting to develop ecosystem in India. This might be the perfect time promote and accelerate "Make in India". Given India has lower labour cost as compared to China, complete ecosystem should be developed to manufacture for global market.

Industries to be Benefitted

Due to Lockdown, there is an upside in the industries of Digital Media, Consumer staples and Telecom. Further, the Consumer sentiments are depicting that there shall be spurt in essentials, savings, health & wellness, at-home entertainment, and education over the period of next 6 months.

The resistance of Indian Economy

Looking at the past crises, Indian economy has shown resilience through V shaped recoveries.

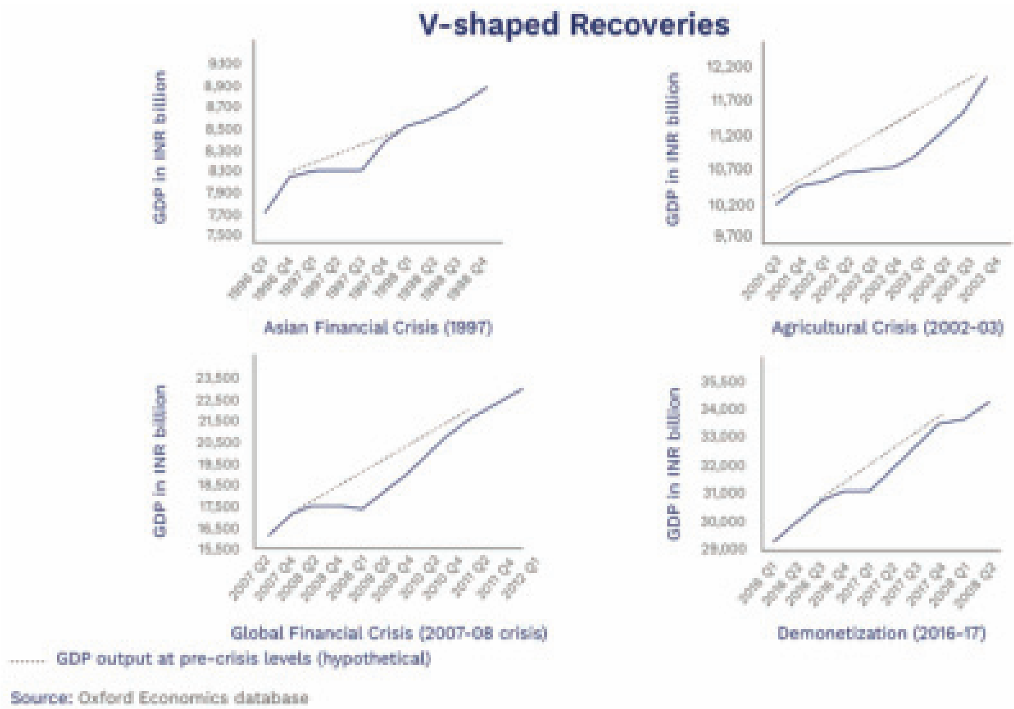
Asian Financial Crises (1997)

Agricultural Crises (2002-03)

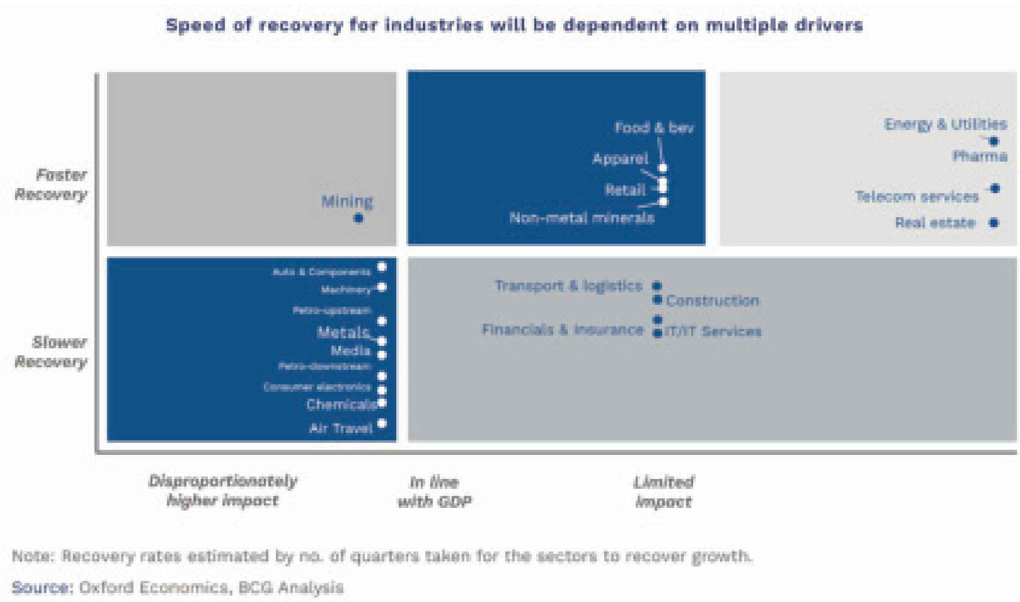
Global Financial Crises (2007-08)

Demonetization (2016-17)

2008 Recession can act as a starting point to recover from this fatal economic blow.



2008 Recession can act as a starting point to recover from this fatal economic blow. However, the speed to recovery is dependent on multiple drivers.



Conclusion

The near-term damage shall be significant.

- There is a downward shift in Digital Payments in March since Feb. This is expected to fall further by ~20% in April.
- Due to the EMI moratorium, credit cost is expected to be elevated in FY21
- Discretionary expenses shall be deferred, which shall impact other fintech offerings.

Lakewater is positive on long term bet in Indian economy. Since, we are comparatively less dependent on exports; our exposure shock in context to world trade shall be less. Low price of crude oil shall also cover us from external shock. Overall, we are expecting that PE investments shall remain strong and shall have V shaped recovery soon post this Corona pandemic.

Nonetheless, we hope, you stay at home and stay healthy.

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IT IN BANKS & FRAUD RISK MANAGEMENT

Abstract

In today's scenario, technological infrastructure has become an inevitable part of the reforms process in the banking system. With the advent of technology, many security concerns have also crept in. These loopholes in security lead to the occurrence of cyber crimes which not only gives financial setback to the bank or its customers but also pose a threat to the reputation of banking system in India. Every bank should have standards to deal with the risk of frauds occurring on account of technological advancements. This article gives a fair understanding of the role of technology in banks, various techniques of committing cyber frauds and suggestions for banks to prevent or manage the risk of frauds due to technology.

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Introduction

Banks are the oldest, biggest and fastest growing financial sector in India. Banks meet the needs of farmers, businessman, entrepreneurs, Government and other segments of the society. In the last few decades, the banking sector has witnessed numerous important transformations. One such transformation is the use of technology in banking sector .Present day, the Indian banking system is regarded as a well-developed and well-regulated banking system throughout the world.

The use of technology in banking sector has led to Productivity enhancement, innovative products, speedy transaction and transfer of funds, real time information system and efficient risk management.

Presently, Indian banking industry is going through IT revolution. Information Technology is basically used in two different ways in banking, firstly in Communication and Connectivity and secondly in Business Process Re-engineering. Information technology enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach remote and diversified markets.

Recentrends in IT in banking sector

The Indian banking industry has transformed tremendously. The payment and settlement systems recorded a robust growth during 2018-19, with volume and value growing at 54.3% and 14.2%, respectively. The growth in both the parameters was higher compared to 2017-18, when payment and settlement volumes and value increased 44.6% and 11.9%, respectively. The share of electronic transactions in the total volume of retail payments increased to 95.4% in 2018-19, up from 92.6% in the previous year, the central bank observed. Some of the new trends witnessed by banking sector are as follows:

Electronic Payment Services: In present scenario, with the growing concepts like e-governance, e-mail, e-commerce etc. the Negotiable Instruments Act has already been amended to include; Truncated cheque and E-cheque instruments.

Real Time Gross Settlement (RTGS): The RTGS system is maintained and operated by the RBI. Through RTGS electronics instructions can be given by banks to transfer funds from their account to the account of another bank. Funds transfer between banks takes place on a "Real Time" basis. Under electronic payments, the Real Time Gross Settlement (RTGS) system handled 137 million transactions valued at Rs. 1,357 lakh crore in 2018-19, up from 124 million transactions valued at Rs. 1,167 lakh crore in the previous year. At the end of March 2019, the RTGS facility was available through over 1.43 lakh branches of 216 banks.

National Electronic Funds Transfer/ Electronic Funds Transfer (NEFT/EFT): Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/ authorization with Complete details such as the receiver's name, bank account number, account type, bank name, city, branch name to transfer funds directly from his own account to the bank account of the receiver/beneficiary etc. NEFT system handled 2.3 billion transactions valued at around Rs 228 lakh crore in 2018-19, up from 1.9 billion transactions valued at Rs 172 lakh crore in the previous year, registering a growth of 19.1% in terms of volume and 32.3% in terms of value.

IMPS (Immediate Payment Services): IMPS stands for Immediate Payment Service and is an electronic system for transferring funds in India. Funds can be transferred 24*7. The settlement takes place instantly unlike NEFT.

Electronic Clearing Service (ECS): Electronic Clearing Service is used to make bulk payments/receipts of a similar nature especially where each individual payment/receipt is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments.

Automatic Teller Machine (ATM): ATM enables the customers to withdraw their money 24 hours a day 7 days a week. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.

Point of Sale Terminal: Point of Sale Terminal is a device that is linked online to the computerized customer information files in a bank and magnetically or EMV chip encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

Mobile Banking: Along with technological advancement, customers can now carry out transaction on mobile banking apps. Most of the banks in India have launched apps for mobile banking. Examples are YONO by SBI, UMobile by Union Bank, M connect plus by Bank Of Baroda etc.

Tele Banking: Tele Banking allows the customer to do entire non-cash related banking on telephone. Under this IVR (interactive voice response) system is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

Lobby Banking: It implies, primarily machine based banking and all the transactions and enquiries are carried out by customers on self-managed machines in a lobby premises. The machines are ATM, CRM (Cash Recycler Machine), Self-passbook printing machine, CDM (Cheque Deposit Machine).

Electronic Data Interchange (EDI): Electronic Data Interchange is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form.

Social Media: Most of the banks in India are now having an active presence on social media. Bank have their Facebook pages , LinkedIn profiles, YouTube channels, twitter and Instagram profile to be in touch with customers and respond to them 24*7 basis. Social media is also a very strong platform for marketing of new products and receive feedback from customers without direct interaction.

Challenges for Banks

With the technological reforms in banking sector, the expectations of customers are rising high which has led to the following challenges before banking sector.

Customer Satisfaction: Today in banking sector customers are more value oriented in their services because they have alternative choices in it. So that each and every bank have to take care about fulfilling the customers satisfaction.

Retail Lending: Recently banks have adopted customer

segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, personal vehicles etc.

Lack of infrastructure & awareness: It is due to lack of awareness regarding technology that customers are not gaining momentum in its used form. There is lack of proper infrastructure for the installation of E-delivery channels. Educating customers and staff about technical changes is a big challenge for banking companies.

Security challenge: The main disadvantage of IT in banking is the security problems that surround it. It is a fact that making transactions online possess a much bigger risk in comparison to making transactions in a brick and mortar branch. Combating security problems like hacking, identity theft is also a big challenge.

Risk Management: Managing risk arising out of technological advancement in banking is a great challenge for banking sector. The attackers are very innovative and they fabricate various methods to commit cyber-crimes on customers to get access to their account numbers/ passwords and they attack banks in order to get access to confidential information.

Opportunities

The doors of new opportunities opened by technology for the development of banking sector are mentioned below:

E banking coverage: It is clear that with the usage of technology, anytime anywhere banking is very common and banks have opportunity to upscale. Such up scaling could include banks launching separate E banking services apart from traditional banking services.

Retail Lending: Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area .The introduction of retail loans (home loan, personal loan) in psbloansin59minutes.com has also enhanced the opportunities for banks to increase their retail lending portfolio.

Rural area customers: Even after the Pradhan Mantri Jandhan Yojna, there are many areas particularly rural which are unbanked. Banks can use the technology to extend banking services to those areas also by the services of bankmitra with POS device. The banks should tap the rural market in the years to come.

Offering various Channels: Banks can offer so many channels to access their banking and other services such as ATM, Local branches, phone banking, mobile banking, etc. to increase the banking business.

Other Opportunities: There are many other opportunities in future in the field of Indian banking sector e.g. to enter new business and new markets, to improve efficiency, to deliver high level of customer services and better risk management.

Future Prospects

Everyone today is convinced that the technology is going to hold the key to future of banking. The achievements in the banking today would not have make possible without IT revolution. The adoption of technology in banks continues at a rapid pace but the concentration is more in the metros and urban areas. More and more programs and software in regional languages could be introduced to cater to the needs of people from the rural segments also.

IT Security & Fraud Risk Management

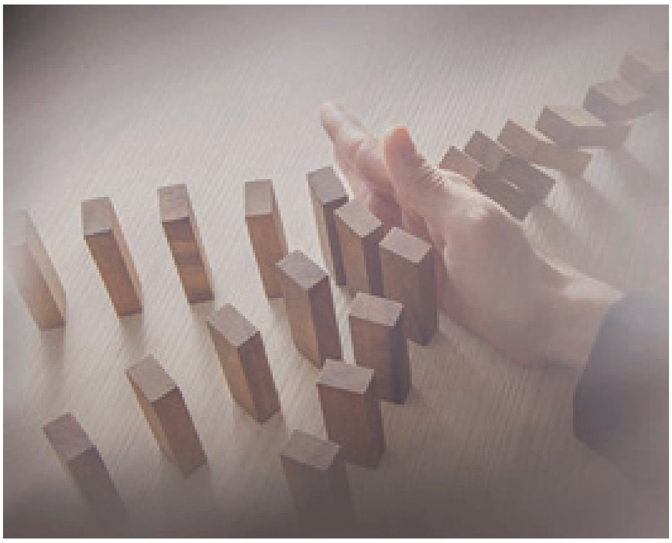
The increasing use of technology in banks has also brought up "security" concerns. In order to avoid any mishap on this account, banks should have in place a well-documented security policy including information security, cyber security, network security and internal security. Most banks in India have migrated to core banking platforms and have moved transactions to payment cards (debit and credit cards) and to electronic channels like ATMs, Internet Banking and Mobile Banking. It leads to the creation of online frauds in the minds of the fraudsters. Fraudsters also follow customers into this space. There is also a lack of homogeneity and transparency amongst banks on the reporting of these instances as frauds.

The definition of banking frauds is as follows

"A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank".

In simple language, Online Banking Fraud is a fraud or theft committed using online technology to illegally remove money from a bank account and/or transfer money to an account in a different bank. It is a form of identity theft and is usually made possible through techniques such as phishing, lottery fraud scam etc. Generally, the user identity is the customer identity number and password is provided to secure transactions.

But due to some ignorance, silly mistakes or greed for money customer can easily fall into the trap of internet scams or frauds done by the fraudsters. India's central bank, the Reserve Bank of India (RBI), has revealed that it discovered



around 50,000 cyber frauds in the country's Scheduled Commercial Banks (SCB) in 2018-19 fiscal. In reply to an RTI (Right to Information) query, the RBI stated that cybercrimes are related to ATM, debit and credit cards, and internet banking. It notified that over 50,547 banking frauds occurred in the SCBs that resulted in a loss worth of Rs. 145.08 crore in the last fiscal. According to the RBI, the total number of banking frauds, including cyber, detected in all the SCBs are 59,826 and the loss incurred is around Rs. 67,432.26 crore. More than 4,269 frauds occurred due to insiders in the banks, involving Rs. 1,014.97 crore loss during the period, RBI added.

Techniques of online banking frauds

The following are some types of fraud are taking places in the recent time; these frauds mostly are performed by internet.

Phishing: A person's personal details are obtained by fraudsters posing as bankers, who launch a site similar to that of the person's bank. They are asked to provide all personal information about themselves and their account to the bank on account of database up gradation. The number and password are then used to carry out transactions on their behalf without their knowledge.

Spam: Spam is an electronic 'junk mail' or unwanted messages sent to your email account or mobile phone. They may try to persuade you to buy a product or service, or visit a website where you can make purchases; or they may attempt to trick you into divulging your bank account or credit card details by clicking on some links provided in the spam mail.

Spyware: Spyware such as Trojan horse is generally considered to be software that is installed on a computer without the knowledge of the user and may take personal information, business information, bandwidth; or processing capacity and secretly gives it to someone else.

Card skimming: Card skimming is the illegal copying and capture of credentials and PIN data on credit and debit cards. Skimming can occur at any bank ATM or via a compromised EFTPOS (Electronic Funds Transfer at Point of Sale) machine. Captured card and PIN details are encoded onto a counterfeit card and used to make fraudulent account withdrawals and transactions.

ATM Skimming: Fraudsters can attach false casings and PIN pad overlay devices onto genuine existing ATMs, or they can attach a camouflaged skimming device onto a card reader entry used in tandem with a concealed camera to capture and record PIN entry details.

EFTPOS Skimming: Electronic Fund Transfer at Point of Sale. A foreign device is implanted into an EFTPOS machine that is capable of copying and capturing card and PIN details processed through the machine. A compromised EFTPOS terminal can only be detected by a physical inspection.

Cracking: Cracking includes gaining illegal entry into a PC system. Nowadays, the Cracking of IP addresses is very universal as it permits the crackers to imagine a fake online character and carry out illegal dealings exclusive of using his factual individuality.

Identity theft: A large number of identity theft crimes occur over the internet. Criminals can get a hold of your personal information through your computer and then set up fake bank accounts or take put loans in your name.

Fraud Risk Management:

There is need for a proper and comprehensive fraud governance standard. The fraud risk management and fraud investigation must be owned by the banks itself.

The following are the some ways of fraud risk management.

❖ Every banking company must maintain strong "Transaction Monitoring Team". The role of transaction monitoring team is to keep view on transaction taking place and to observe whether any suspicious transaction is going out or not as per the banking norms. If any such transaction is found, then necessary action should be taken against that account holder.

- Every banking institute must maintain a strong "Fraud Prevention team". The role of Fraud Prevention team is to keep trace out the fraud activity and preventing that from fraud before it is actually performed.
- Banks need to have dedicated email IDs for customers to inform any fraudulent activity that they may notice. A dedicated team can be created to reply to customer queries and concerns through the above email IDs.
- Phone banking officers and branch staff should also be trained on response to customers' queries and concerns on frauds.
- Banking organization should set up a fraud helpline for customers and employees to enable them to report suspected frauds and seek information on fraud prevention. By doing this, banks can have more than one avenue for early reporting and detection of frauds.
- Creation of fraud awareness among the customers and staff. Awareness on how to prevent and detect frauds is the basis of fraud management. Banks need to adopt various measures to create awareness amongst staff and customers.
- All banks should have a dedicated team to take care of the security of the physical infrastructure. This team should conduct regular security audits of various offices to check for deviations/ lapses. It is the responsibility of this team to ensure that physical assets and data copied on Magnetic/optical media do not go out of the offices of the bank without authorization.
- Creating and employee awareness and training about the various types of fraud and how to detect the frauds and their prevention ways. It is possible through proper mechanism and training program.
- A strong KYC (know your customer) process is the backbone of any fraud prevention activity.
- All banks must have separate Department to manage frauds, their role is monitoring, investigation, reporting and awareness creation.

Conclusion

The banking today is re-defined and re-engineered with the use of Information Technology and it is sure that the future of banking will offer more sophisticated services to the customers with the continuous product and process innovations. As electronic payment volumes grow, and more banking activity extends to the web and mobile devices, the ability to detect and prevent financial crime and reduce fraud risk exposure across the enterprise has become critical. Financial institution faces ever -increasing challenges around fraud. Due to the advancement of technology, the fraudsters also uses technology to execute fraud in new and innovative ways. The Banks institute must develop strong fraud risk management and fraud controlling mechanisms for the development of Banking services and customer trust.

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Mutual funds file drafts for new offerings

Mutual Fund houses have filed draft documents for 10 new schemes across categories since May 21. Industry participants attribute the newfound confidence to the 'recovery' in the market since the last one month. Axis Mutual Fund, the first one to get back to the arena, has filed for four new schemes, which include two international funds, an Exchange Traded Fund (ETF), and Fixed Maturity Plan (FMP). Chandresh Kumar Nigam, Director and CEO, Axis Mutual Fund, says that the fund house is taking this opportunity to build a long-term initiative in global investing. "These newly filed funds are a part of our approach of systematically broadening our global products suite. We already have two funds that have part allocations (up to 30%) in global stocks and the balance allocation in domestic stocks. These funds allow investors a simple first entry into global investing and the funds have seen a good response in the market," says Nigam. Mahindra Mutual Fund filed drafts for two new fund offers. Mahindra MF is in the process of launching a focused equity and an arbitrage fund. "We are already seeing high-quality businesses in the global context, showing recovery.

EMERGENCY: A BITTER ALTERNATIVE TO 21 DAYS LOCKDOWN

India has taken the extreme measure of enforcing a 21-day lockdown, amidst corona outbreak, making it the first time a nation was shut under the provisions of the Disaster Management Act, 2005. Section 6(2)(i) of the Act authorizes the NDMA (National Disaster Management Authority), headed by the prime minister, to take measures for "the prevention of disaster, or the mitigation, or preparedness and capacity building for dealing with the threatening disaster situation or disaster as it may consider necessary". The Act also provisions for a national executive authority, which exercises powers to issue guidelines that, will be in effect during lockdown.

The other alternative could have been imposing emergency, which could have given a unitary structure to country, allowing the country to override state directives.

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A state of emergency in India refers to a period of governance under an altered constitutional setup that can be proclaimed by the President of India, when they perceives grave threats to the nation from internal and external sources or from financial situations of crisis. Under the advice of the cabinet of ministers and using the Constitution of India, the President can overrule many provisions of the constitution, which guarantee fundamental rights to the citizens of India and acts governing devolution of powers to the states which form the federation. In the history of independent India, a state of emergency has been declared thrice.

The first instance was between 26 October 1962 to 10 January 1968 during the India-China war, when "the security of India" was declared as being "threatened by external aggression". The second instance was between 3 December

1971 to 21 March 1977, which was originally proclaimed during the Indo-Pakistan war.

It was later extended along with the third proclamation between 25 June 1975 to 21 March 1977 under controversial circumstances of political instability, when emergency was declared on the basis of "internal disturbance", but this term was too vague and had a wider connotation and hence 44th amendment act 1978 substituted the words "internal disturbance" for "armed rebellion" ". The phrase Emergency period used loosely, when referring to the political history of India, often refers to the third and the most controversial of the three occasions.

The President can declare three types of emergencies -

1. National Emergency (Article 352)
2. State Emergency (Article 356)
3. Financial Emergency (Article 360)

What is Article 352?

(1) If the President is satisfied that a grave emergency exists whereby the security of India (exceptions applicable) or of any part of the territory thereof is threatened, whether by war or external aggression or armed rebellion, he may, by Proclamation, make a declaration to that effect in respect of the whole of India or of such part of the territory thereof as may be specified in the Proclamation which can be explained as - A Proclamation of Emergency declaring that the security of India or any part of the territory thereof is threatened by war or by external aggression or by armed rebellion may be made before the actual occurrence of war or of any such aggression or rebellion, if the President is satisfied that there is imminent danger thereof.

(2) A Proclamation issued under clause (1) may be varied or revoked by a subsequent Proclamation.

(3) The President shall not issue a Proclamation under clause (1) or a Proclamation varying such Proclamation unless the decision of the Union Cabinet (that is to say, the Council consisting of the Prime Minister and other Ministers of Cabinet rank appointed under article 75) that such a Proclamation may be issued has been communicated to him in writing.

(4) Every Proclamation issued under this article shall be laid before each House of Parliament and shall, except where it is a Proclamation revoking a previous Proclamation, cease to operate at the expiration of one month unless before the expiration of that period it has been approved by resolutions of both Houses of Parliament: Provided that if any such Proclamation (not being a Proclamation revoking a previous Proclamation) is issued at a time when the House of the People has been dissolved, or the dissolution of the House of the People takes place during the period of one month referred to in this clause, and if a resolution approving the Proclamation has been passed by the Council of States, but no resolution with respect to such Proclamation has been passed by the House of the People before the expiration of that period, the Proclamation shall cease to operate at the expiration of thirty days from the date on which the House of the People first sits after its reconstitution, unless before the expiration of the said period of thirty days a resolution approving the Proclamation has been also passed by the House of the People.

(5) A Proclamation so approved shall, unless revoked, cease to operate on the expiration of a period of six month from the date of the passing of the second of the resolutions approving the Proclamation under clause Provided that if and so often as a resolution approving the continuance in force of such a Proclamation is passed by both Houses of Parliament the Proclamation shall, unless revoked, continue in force for a further period of six months from the date on which it would otherwise have ceased to operate under this clause: Provided further that if the dissolution of the House of the People takes place during any such period of six months and a resolution approving the continuance in force of such

Proclamation has been passed by the Council of States but no resolution with respect to the continuance in force of such Proclamation has been passed by the House of the People during the said period, the Proclamation shall cease to operate at the expiration of thirty days from the date on which the House of the People first sits after its reconstitution unless before the expiration of the said period of thirty days, a resolution approving the continuance in force of the Proclamation has been also passed by the House of the People.

(6) For the purposes of clauses (4) and (5), a resolution may be passed by either House of Parliament only by a majority of the total membership of that House and by a majority of not less than two-thirds of the Members of that House present and voting.

(7) Notwithstanding anything contained in the foregoing clauses, the President shall revoke a Proclamation issued under clause (1) or a Proclamation varying such Proclamation if the House of the People passes a resolution disapproving, or, as the case may be, disapproving the continuance in force of, such Proclamation.

(8) Where a notice in writing signed by not less than one-tenth of the total number of members of the House of the People has been given, of their intention to move a resolution for disapproving, or, as the case may be, for disapproving the continuance in force of, a Proclamation issued under clause (1) or a Proclamation varying such Proclamation,-

(a) to the Speaker, if the House is in session; or

(b) to the President, if the House is not in session, a special sitting of the House shall be held within 14 days from the date on which such notice is received by the Speaker, or, as the case may be, by the President, for the purpose of considering such resolution.

(9) The power conferred on the president by this article shall issue power to issue different proclamation on different grounds, being war or external aggression or armed rebellion or immitent danger of war or external aggression or armed rebellion, whether or not there is a proclamation already issued by president under clause(1), and such proclamation is in operation.

National Emergency Under Article 352

During a national emergency, many Fundamental Rights of Indian citizens can be suspended. The six freedoms under Right to Freedom are automatically suspended. By contrast, the Right to Life and Personal Liberty cannot be suspended according to the original Constitution.

In January 1977, during the emergency declared controversially by Indira Gandhi, the government decided to suspend even the Right to Life and Personal Liberty by dispensing with Habeas corpus. Justice Hans Raj Khanna defended the Right to Life and asked: "Life is also mentioned in Article 21 and would Government argument extend to it also?". The Attorney General observed: "Even if life was taken away illegally, courts are helpless".

A national emergency modifies the federal system of government to a unitary one by granting Parliament the power to make laws on the 66 subjects of the State List (which contains subjects on which the state governments can make laws). Also, all state money bills are referred to the Parliament for its approval. During an emergency, the term of the Lok Sabha can be successively extended by intervals of up to one year, but not beyond six months after the state of emergency has been revoked.

Few more facts-

1. Article 352(2): A proclamation issued Article 352(1) can be revoked by a subsequent proclamation.
2. 44th Amendment introduced A. 352(3) wherein it

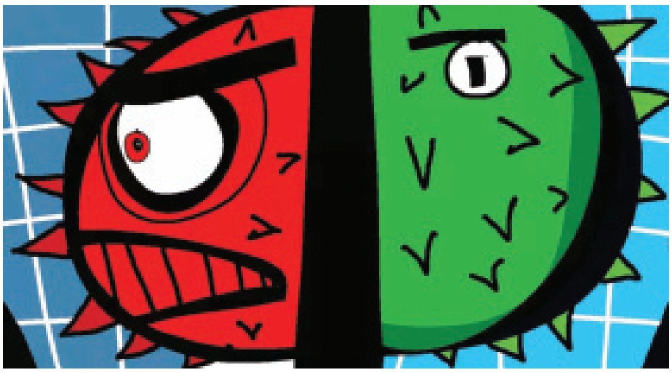
contained that the President shall declare no proclamation unless the same has been communicated to him in writing by the Union Cabinet.

3. 352(4): Every proclamation before being passed is presented before each house of Parliament, namely the Lok Sabha and Rajya Sabha and needs the assent of both the houses. If within the period of 1 month the proclamation is not assented to, then it ceases to operate. The time period was decreased as an effect of the 44th amendment

Effects of national emergency

The declaration of National Emergency effects both on the rights of individuals and the autonomy of the states in the following manner:

1. The most significant effect is that the federal form of the Constitution changes into unitary. The authority of the Centre increases and the Parliament assumes the power to make laws for the entire country or any part thereof, even in respect of subjects mentioned in the State List.
2. The President of India can issue directions to the states as to the manner in which the executive power of the states is to be exercised.
3. During the emergency period, the Lok Sabha can extend tenure by a period of 1 year at a time. But the same cannot be extended beyond 6 months after the proclamation ceases to operate. The tenure of State Assemblies can also be extended in the same manner.
4. During emergency, the President is empowered to modify the provisions regarding distribution of revenues between the Union and the States.



5. The Fundamental Rights under Article 19 are automatically suspended and this suspension continues till the end of the emergency.

But according to the 44th Amendment, Freedoms listed in Article 19 can be suspended only in case of proclamation on the ground of war or external aggression. From the above discussion, it becomes quite clear that emergency not only suspends the autonomy of the States but also converts the federal structure of India into a unitary one. Still it is considered necessary as it equips the Union Government with vast powers to cope up with the abnormal situations.

What is Article 356 (President Rule)?

(1) If the President, on receipt of a report from the Governor of a State or otherwise, is satisfied that a situation has arisen in which the Government of the State cannot be carried on in accordance with the provisions of this Constitution, the President may by Proclamation-

(a) assume to himself all or any of the functions of the Government of the State and all or any of the powers vested in or exercisable by the Governor or any body or authority in the State other than the Legislature of the State;

(b) declare that the powers of the Legislature of the State shall be exercisable by or under the authority of Parliament;

(c) make such incidental and consequential provisions as appear to the President to be necessary or desirable for giving effect to the objects of the Proclamation, including provisions for suspending in whole or in part the operation of any provisions of this Constitution relating to any body or authority in the State: Provided that nothing in this clause shall authorize the President to assume to himself any of the powers vested in or exercisable by a High Court, or to suspending whole or in part the operation of any provision of this Constitution relating to High Courts. Duty of the Union to protect States against external aggression and internal disturbance. Provisions in case of failure of constitutional machinery in States.

(2) Any such Proclamation may be revoked or varied by a subsequent Proclamation.

(3) Every Proclamation under this article shall be laid before each House of Parliament and shall, except where it is a Proclamation revoking a previous Proclamation, cease to operate at the expiration of two months unless before the expiration of that period it has been approved by resolutions of both Houses of Parliament: Provided that if any such Proclamation (not being a Proclamation revoking a previous Proclamation) is issued at a time when the House of the People is dissolved or the dissolution of the House of the People takes place during the period of two months referred to in this clause, and if a resolution approving the Proclamation has been passed by the Council of States, but no resolution with respect to such Proclamation has been passed by the House of the People before the expiration of that period, the Proclamation shall cease to operate at the expiration of thirty days from the date on which the House of the People first sit after its reconstitution unless before the expiration of the said period of thirty days a resolution approving the Proclamation has been also passed by the House of the People.

(4) A Proclamation so approved shall, unless revoked, cease to operate on the expiration of a period of six months from the date of issue of the Proclamation; Provided that if and so often as a resolution approving the continuance in force of such a Proclamation is passed by both Houses of Parliament, the Proclamation shall, unless revoked, continue in force for a further period of six months from the date on which under this clause it would otherwise have ceased to operate, but no such Proclamation shall in any case remain in force for more than three years: Provided further that if the dissolution of the House of the People takes place during any such period of six months and a resolution approving the continuance in force of such Proclamation has been passed by the Council of States, but no resolution with respect to the continuance in force of such Proclamation has been passed by the House of the People during the said period, the Proclamation shall cease to operate at the expiration of thirty days from the date on which the House of the People first sits after its reconstitution unless before the expiration of the said period of thirty days a resolution approving the continuance in force of the Proclamation has been also passed by the House of the People: Provided also that in the case of the Proclamation issued under clause (1) on the 11th day of May, 1987 with respect to the State of Punjab, the reference in the first provision to this clause to "three years" shall be construed as a reference to five years.

(5) Notwithstanding anything contained in clause (4), a resolution with respect to the continuance in force of a Proclamation approved under clause (3) for any period beyond the expiration of one year from the date of issue of such Proclamation shall not be passed by either House of Parliament unless-

(a) a Proclamation of Emergency is in operation, in the whole of India or, as the case may be, in the whole or any part of the State, at the time of the passing of such resolution, &

(b) the Election Commission certifies that the continuance in force of the Proclamation approved under clause (3) during the period specified in such resolution is necessary on account of difficulties in holding general elections to the Legislative Assembly of the State concerned Provided that nothing in this clause shall apply to the Proclamation issued under clause (1) on the 11th day of May, 1987 with respect to the State of Punjab.

A state of emergency can be declared in any state of India under article 356 on the recommendation of the governor of the state. Every state in India except two states, Chhattisgarh and Telangana has been under a state of emergency at some point of time or the other. The state of emergency is commonly known as 'President's Rule'.

If the President is satisfied, based on the report of the Governor of the concerned state or from other sources, that the governance in a state cannot be carried out according to the provisions in the Constitution, he/she may declare an emergency in the state. Such an emergency must be approved by the Parliament within a period of two months.

It is imposed for an initial period of six months and can last for a maximum period of three years with repeated parliamentary approval every six months. The 42nd amendment act of 1976 extended the initial time duration of state emergency from 6 months to 1 year. Subsequently, 44th CAA 1978 restored the 1-year period back to 6 months. Originally, the maximum period of operation of state emergency was 3 years. This 3-year period was divided into 1 year of ordinary period and 2 years of extra ordinary period for which certain conditions are to be fulfilled. Therefore, from now on after every 1 year Parliament needs to approve the same. If the emergency has to be extended for more than three years, it can only be done by a constitutional amendment, as has happened in Punjab and Jammu and Kashmir.

During such an emergency, the President can take over the entire work of the executive, and the Governor administers the state in the name of the President. The Legislative Assembly can be dissolved or may remain in suspended animation. The Parliament makes laws on the 66 subjects of the state list . All money bills have to be referred to the Parliament for approval. In this occasion ministers of state legislature do not perform actions in state.

Effect of State Emergency

The declaration of emergency due to the breakdown of Constitutional machinery in a State has the following effects:

1. The President can assume to himself all or any of the functions of the State Government or he may vest all or any of those functions with the Governor or any other executive authority.
2. The President may dissolve the State Legislative Assembly or put it under suspension. He may authorise the Parliament to make laws on behalf of the State Legislature.
3. The President can make any other incidental or consequential provision necessary to give effect to the object of proclamation.

What is Article 360?

(1) If the President is satisfied that a situation has arisen whereby the financial stability or credit of India or of any part of the territory thereof is threatened, he may by a Proclamation make a declaration to that effect.

(2) A Proclamation issued under clause (1)-

(a) May be revoked or varied by a subsequent Proclamation; Provisions as to financial emergency.

(b) shall be laid before each House of Parliament

(c) shall cease to operate at the expiration of two months, unless before the expiration of that period it has been approved by resolutions of both Houses of Parliament, Provided that if any such Proclamation is issued at a time when the House of the People has been dissolved or the dissolution of the House of the People takes place during the period of two months referred to in sub clause (c), and if a resolution approving the Proclamation has been passed by the Council of States, but no resolution with respect to such Proclamation has been passed by the House of the People before the expiration of that period, the Proclamation shall cease to operate at the expiration of thirty days from the date on which the House of the People first sits after its reconstitution unless before the expiration of the said period of thirty days a resolution approving the Proclamation has been also passed by the House of the People.

(3) During the period any such Proclamation as is mentioned in clause (1) is in operation, the executive authority of the Union shall extend to the giving of directions to any State to observe such canons of financial propriety as may be specified in the directions, and to the giving of such other directions as the President may deem necessary and adequate for the purpose.

(4) Notwithstanding anything in this Constitution-

(a) any such direction may include-

(i) a provision requiring the reduction of salaries and allowances of all or any class of persons serving in connection with the affairs of a State;

(ii) a provision requiring all Money Bills or other

Bills to which the provisions of article 207 apply to be reserved for the consideration of the President after they are passed by the Legislature of the State

(b) it shall be competent for the President during the period any Proclamation issued under this article is in operation to issue directions for the reduction of salaries and allowances of all or any class of persons serving in connection with the affairs of the Union including the Judges of the Supreme Court and the High Courts.

Effects of Financial Emergency

1. The executive authority of the Centre extends
   - to directing any state to observe such canons of financial propriety as are specified by it;
   - to directions as the President may deem necessary and adequate for the purpose.
2. Any such direction may include a provision requiring the reduction of salaries and allowances of all or any class of persons serving in the state and the reservation of all money bills or other financial bills for the consideration of the President after they are passed by the legislature of the President may issue directions for the reduction of salaries and allowances of all or any class of persons serving the Union and the judges of the Supreme Court and the high court. Thus, during the operation of a financial emergency, the Centre acquires full control over the states in financial matters.

Difference between Article 352 and Article 356?

Point of Difference	ARTICLE 352	ARTICLE 356
Application	In situations of war, external aggression or armed rebellion.	In situation of failure of constitutional machinery in State
Effect	No authority to the Centre to suspend the Constitution in a state.	The state legislature ceases to function as it is dissolved.
Effect on Fundamental Rights	affects Fundamental Rights	Does not affect Fundamental Rights
Centre-State Relationship	the relationship of all the states with the Centre changes	the relationship of only one state where the action is taken changes with the Centre
Proclamation	Approved by the Parliament within 1 month and thereafter every 6 months and there is no maximum duration prescribed	Approved by the Parliament within 2 months and thereafter every 6 months, and the maximum period that it remains in force is 3 years.

Implication

As per the articles 352, 356 and 360 in the Constitution of India, President of India have been given extraordinary power to declare an emergency to meet any threat to the country. Those powers to President of India in Constitution are called emergency provisions. This could have been constitutional provision exercised by central government i.e. imposition of emergency which would have given the country a unitary structure, allowing it to override the directions of the states.

However the declaration of an emergency would have been counterproductive, It would have meant that all powers would have vested with the Centre whereas this is a situation where the state government's response is critical, as health and police are being dealt by state and states must be backed by power to deal with this emergency, where urgent and quick decisions are need of the hour. ❑

RMAI Certificate Course on Risk Management

Introduction

RISK MANAGEMENT ASSOCIATION OF INDIA (RMAI) has been pioneering the efforts towards awareness on the subject of Risk, creating academic and research environment to empower the professionals in this highly competitive financial services and allied industry.

Keeping pace with the global challenges and emerging opportunities for Professionals post Covid, RMAI is proud to launch the first-ever ONLINE Certificate Course on Risk Management from India. There never has been a more crucial time to stand-out and be counted as a professional who is able to demonstrate the knowledge and ability to anticipate, respond and adapt to critical issues pertaining to risk.

As Risk Management becomes central to today's business environment across the globe, there is a surge in demand for competent and expert risk management professionals to identify, assess, prioritize and develop a proper risk management framework to minimize the impact on businesses.

Online Certificate Course on Risk Management is designed to expand your knowledge and understanding of managing risks in a technology-enabled modern day dynamic business environment.

Every Professional working in the area of risk management and financial services industry, students pursuing courses in insurance and business management, small business owners interested in insights on Risk Management can be immensely benefitted by this 8 Week 30 hour course.

Realizing the imminent need for industry/organizations to have more employees who possess RISK LITERACY along with few experts, RMAI is committed to providing the right foundation of risk-knowledge and market-insights with global best practices.

This certificate Course is a Joint Certification programme of Risk Management Association of India and Association of Internal Control Practioners (THE AICP), London, UK. (https://theaicp.org)

Course Modules

Module -1- Introduction to Risk Management

Module -2- Understanding Environment and Stakeholders

Module -3- Risk Strategies and Corporate Governance

Module -4- Risk Management Framework

Module -5- Risk Management Process

Module -6- Emerging Risk

Module -7- Types of risks

Module -8- Models for Estimation of Risk

Module -9- Project and Assessment

Course Details

Course Duration/ Time	30 Hours / 8 Week
Course Start Date	1st July 2020
Mode of Delivery	Online. E learning Modules Two Live Query Sessions for Clearing the doubts. Participants can also raise their query through mail/E Learning software
EARN A CERTIFICATE	Post successful completion of the course, Project and Assessment, you shall EARN A CERTIFICATE in RISK MANAGEMENT jointly awarded by Risk Management Association of India and AICP, London. You can use this Certificate across your Professional network and share with current/ prospective employers

Course Fees	INR 15,000 or USD 350 for international participants
Special Offer for first 100 Registrations:	25% Discount on Course Fees - INR 11,250 or USD 230
Special Offer for RMAI Members:	40% Discount on Course Fees for Registration till 30th June 2020 - INR Rs.9000 After 30th June RMAI Members will continue to get 15% discount
Final Exam Fees	INR Rs.750 Examination Fees - Indian Students US $ 20 - International Students (To be paid Later) Final Exam shall be conducted by Remote Invigilation.

Course Methodology

i) Online Course spread over eight week (E Learning Modules)

ii) 8 Modules of three hours each Plus Project

iii) Quiz during each module to check understanding

iv) Query Management Sessions by Experts

v) Individual Project and Guidelines

vi) Course Completion Assessment

vii) Final Exam by Remote Invigilation

More about AICP London

Association of Internal Control Professionals was established in London in 2014 the Institute is a not-for-profit organisation whose registered office is at; 71-75 Shelton Street, Covent Garden, London, WC2H 9JQ.

AICP is Europe's one of leading Institute for professional excellence in Internal Control, Risk Management, Corporate Governance and Compliance, and an innovator in internal control and risk management in Procurement & Supply Chain Management Operations.

The institute's professional membership currently extends to twenty-one countries and provides access to a wealth of skill building, reinforced through consulting, training, assessments, and certificated courses through eLearning. Website: https://theaicp.org/

Value-added Benefits

- Complimentary Student Membership of RMAI for One Year you can continuously update your knowledge on the subject of Risk Management and upgrade your skill-set with various initiatives of RMAI during the year (Valid for First 100 Registrations)
- Complimentary Subscription to Online Insurance or Banking Library from SASHI PUBLICATIONS
- Career Opportunity Section on the Website of RMAI (rmaindia.org) which will have list for all new openings and opportunities in risk management and related fields
- Opportunity for publication of research paper and articles in RMAI Bulletin and other platforms
- Participate in Webinars conducted during the period

Payment Options:

1. You can remit the payment by NEFT in our Bank Account details below
   Bank Details of Association :
   Risk Management Association of India
   Bank of India Account Number: 402110110007820
   Branch: Vivekananda Road Branch
   Type of Account: Savings
   IFSC Code : BKID0004021
   MICR Code: 700013048
2. You can Make Payment by Debit Card/Credit Card/ Wallet/Net Banking/UPI/EMI
   RMAI Non Members Please click here to pay Rs.12000 - Valid For First 100 Registrations
   (Rs.11250 plus Exam Fees Rs.750)
   RMAI Members Please click here to pay Rs.9750 - Valid till 30th June 2020
   (Rs.9000 plus exam fees Rs.750)
   International Students: Pay US $ 262.50 Plus Exam Fees US $ 20 - Valid For First 100 Registrations - Please pay directly in Bank by NEFT.
3. Companies who want to enroll their employees in bulk can request for a invoice at info@rmaindia.org

In case of any Query about the Course you can contact us

EMail: info@rmaindia.org
Phone: 9903040775/8232083010
Post: Risk Management Association of India, 25/1, Baranashi Ghosh Street, Kolkata – 700007. India

Banking Finance Technical Research Paper Competition 2020

We are pleased to inform that Banking Finance Journal has launched a Technical/Research paper writing contest. This will help in Research and Development in the sector and help the Bank/Financial and risk professionals to share their knowledge and experience. The winning entries shall be published in Book Banking Compendium 2020 and Banking Finance Journal Visit for more details

Win Exciting Prizes and FREE Subscription!

Last Date of Submission 31st July 2020

Guidelines for participation in the contest

1. The Technical/Research Paper Writing Contest 2020 is back and open to all in India and Abroad.
2. The paper must be original contribution in the form of essay, research paper, technical paper or case study.
3. Once you decide to participate in the contest please send us en email with the proposed topic and information mentioned in point 14 via email at info@bankingfinance.in. On our confirmation of topic you can proceed to participate in the contest.
4. The contribution must be an exclusive and should not have been published elsewhere in same or modified form. The paper should be original and well researched.
5. Length of the paper: Minimum 3500 words and Maximum 7500 words.
6. Rules for formatting text are as under:
   a) Page size A4
   b) Font: Arial
   c) Line spacing: 1.5 Leading
   d) Font size: Arial 12
   e) Major heading: 14
   f) Subheading Bold: 12
7. All the diagrams, tables and charts cited in the paper must be serially numbered and source should be mentioned clearly wherever required. Proper acknowledgement and bibliography must be given if reference is taken from any source. The data used in the article must be taken from verified source.
8. The paper would be subject to plagiarism check. If it is found that article contains copied matter from site/ published article or any other source the entry would be rejected outright.
9. The award would be decided by our Technical/Research Paper Award Committee and all the decision of the Committee would be final.
10. The topic for the technical/research paper writing contest should be related to
    1. Banking
    2. Financial Industry
    3. Risk Management
    4. Bancassurance
    5. Regulation in Banking Sector
    6. Information Technology/fintech/Artificial Intelligence/Blockchain/Telematics in Banking and Financial Industry
    7. Innovation in product development
    8. Corporate Governance in Banking/Financial Industry
    9. Innovation in Customer Services
11. The paper with thought provoking ideas, indepth analysis of current scenario, challenges, Opportunities based on authenticated data will be given preference.
12. The Article must also contain an abstract not exceeding 500 words.
13. The Technical/Research Paper and abstract must be sent through e-mail on info@bankingfinance.in and should reach us not later than 30th April, 2020.
14. The author(s) must submit the following details along with the covering letter
    Name of the Author (s)
    Residential Address
    Office Name & Address
    Contact No.(Mobile/Landline No.)
    Qualification
    Date of Birth
    Email ID
    Brief Introduction and Experience
    Attach Passport size Photograph

15. The following PRIZES will be awarded

Banking Finance Technical Research Paper Competition - PRIZE

1st Prize	**Rs.11500** Cash Prize of Rs.7,500 FREE 3 Year Subscription of Banking Finance - Hardcopy + Online Edition FREE Sashi Publications Gift Voucher for Rs.1000 Merit Certificate Publication of Article in Banking Finance Journal and Banking Compendium 2020 - Exclusive book on banking/finance industry
2nd Prize	**Rs.8500** Cash Prize of Rs.6,000 FREE 2 Year Subscription of Banking Finance - Hardcopy + Online Edition FREE Sashi Publications Gift Voucher for Rs.750 Merit Certificate Publication of Article in Banking Finance Journal and Banking Compendium 2020 - Exclusive book on banking/finance industry
3rd Prize	**Rs.5500** Cash Prize of Rs.4000 FREE 1 Year Subscription of Banking Finance - Hardcopy + Online Edition FREE Sashi Publications Gift Voucher for Rs.500 Merit Certificate Publication of Article in Banking Finance Journal and Banking Compendium 2020 - Exclusive book on banking/finance industry
Consolation Prize1	**Rs.3500** Cash Prize of Rs.2500 FREE One Year Subscription of Banking Finance - Online Edition FREE Sashi Publications Gift Voucher for Rs.500 Merit Certificate
	Publication of Article in Banking Finance Journal and Banking Compendium 2020 - Exclusive book on banking/finance industry

1. Consolation Prize will be paid to eligible entries which will be recommended by the Committee

The article shall be accompanied by a 'Declaration-cum Undertaking' from the author(s).

Declaration-cum-Undertaking

Title of the Research/Technical Paper: ________________

I/We (full name of author(s)) ________________

hereby solemnly declare that the work presented in the Research/Technical Paper ________________

________________ submitted by me/us for publication in the RMAI Technical/Research Paper Contest is:

1. It has not been submitted to any other publications/ or website at any point in time for publication in same or modified form.
2. An original and own work of the author
3. There is no fabrication of data or results, which have been compiled/analyzed.
4. No sentence, equation, diagram, table, paragraph or section has been copied verbatim from previous work unless it is placed under quotation marks and duly referenced.
5. No ideas, processes, results or words of other authors have been presented as author's own work.
6. The views expressed in the Research/Technical Paper are solely that of the authors'.
7. I/We undertake to accept full responsibility for any misstatement regarding ownership of this work and also of any adversarial consequences arising upon the publication of the article.

Signature of the Author:

Name of the Author :

Date : ________________ Place : ________________

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RBI CIRCULAR

Submission of regulatory returns - Extension of timelines

RBI/2019-20/228

April 29, 2020

1. In order to mitigate the difficulties in timely submission of various regulatory returns, in view of disruptions on account of COVID-19 pandemic, it has been decided to extend the timelines for their submission.
2. Accordingly, all regulatory returns required to be submitted by the above entities to the Department of Regulation can be submitted with a delay of upto 30 days from the due date. The extension will be applicable to regulatory returns required to be submitted upto June 30, 2020. Further details are furnished in the Annex. Those entities that are in a position to submit the returns earlier may continue to do so.
3. It may be noted that no extension in timeline is permitted for submission of statutory returns i.e. returns prescribed under the Banking Regulation Act, 1949, RBI Act, 1934 or any other Act (for instance, returns related to CRR/SLR).
4. Further, all communication to the Department of Regulation should be through corporate e-mail to the extent possible (i.e., without involving physical movement of papers). This arrangement shall continue till further notice.

(Saurav Sinha)
Chief General Manager-in-Charge

Non-achievement of Priority Sector Lending Targets by Primary (Urban) Co-operative Banks (UCBs) - Contribution to the Rural Infrastructure Development Fund (RIDF) and other funds

RBI/2019-20/226

April 24, 2020

1. Please refer to the circular DCBR.BPD (PCB).Cir.No.07/09.09.002/2017-18 dated May 10, 2018 on Revised Guidelines on Lending to Priority Sector for Primary (Urban) Co-operative Banks (UCBs).
2. On a review of the extant guidelines, it has been decided that, with effect from March 31, 2021, all UCBs (excluding those under all-inclusive directions) will be required to contribute to Rural Infrastructure Development Fund (RIDF) established with NABARD and other Funds with NABARD / NHB / SIDBI / MUDRA Ltd., against their priority sector lending (PSL) shortfall vis-à-vis the prescribed target. The operational details in this regard are as under:
   i) The PSL achievement will be determined at the end of the financial year based on the average of priority sector target / sub-target achievement as at the end of each quarter of the year. UCBs (excluding those under all-inclusive directions) having shortfall in PSL lending targets will be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other relevant

funds, as decided by the Reserve Bank from time to time.

ii) The interest rates on UCBs' contribution to RIDF and other funds, tenure of deposits, etc. will be fixed by Reserve Bank of India from time to time.

iii) The misclassifications reported by the Reserve Bank's Department of Supervision, if any, would be adjusted / reduced from the achievement of that year to which the amount of declassification / misclassification pertains, for allocation to various funds in subsequent years.

3. It has also been decided that, non-achievement of PSL targets will not be included as one of the criteria for classifying a UCB as Financially Sound and Well Managed (FSWM) with effect from March 31, 2021. However, it will continue to be taken into account while granting regulatory clearances/approvals for various purposes.

4. A copy of this circular should be placed before the Board of Directors of your bank in its next meeting and a confirmation thereof should be sent to the concerned Regional Office of Department of Supervision of Reserve Bank of India.

(Neeraj Nigam)
Chief General Manager

Electronic Cards for Overdraft Accounts

RBI/2019-20/225

April 23, 2020

1. Please refer to Para II.2 of 'Master Circular on Credit Card, Debit Card and Rupee Denominated Co-branded Pre-paid Card Operations of Banks and Credit Card issuing NBFCs' dated July 1, 2015 wherein banks have been permitted to issue debit cards to customers having Saving Bank/Current Accounts but not to cash credit/loan account holders. In this connection, it has been decided to permit banks to issue electronic cards to natural persons having Overdraft Accounts that are only in the nature of personal loan without any specific end-use restrictions. The card shall be issued for a period not exceeding the validity of the facility and shall also be subject to the usual rights of the banks as lenders.

2. The electronic card for Overdraft Accounts in the nature of personal loans shall be allowed to be used for domestic transactions only. Further, adequate checks and balances shall be put in place to ensure that the usage of such cards is restricted to facilitate online/ non-cash transactions. The restriction on cash transaction will not apply to overdraft facility provided along with Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts.

3. Prior to launching the product, the banks shall frame a Board approved policy on issuance of electronic cards to above mentioned Overdraft Accounts, encompassing appropriate risk management, periodic review procedures, grievance redressal mechanism, etc., which will be subject to supervisory review.

4. The card shall be issued subject to instructions on terms and conditions, security, grievance redressal, confidentiality of customer information as applicable for debit cards and all other relevant instructions on card operations issued by the Reserve Bank.

(Dr. S. K. Kar)
Chief General Manager

Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans during the years 2018-19 and 2019-20: Extended Period on account of Covid-19

RBI/2019-20/224

April 21, 2020

1. Please refer to our circular FIDD.CO.FSD.BC.No.15/ 05.02.001/2018-19 dated March 7, 2019 regarding Interest Subvention Scheme for Short Term Crop Loans during the years 2018-19 and 2019-20.

2. In the wake of the nationwide lockdown due to outbreak of Covid -19 pandemic and the resultant restrictions imposed on movement of people, many farmers are not able to travel to bank branches for payment of their short term crop loan dues. As per RBI circular dated March 27, 2020 regarding Covid 19-Regulatory Package, moratorium has been granted for three months on payment of installments falling due between March 1, 2020 and May 31, 2020 in respect of all term loans including short term crop loans.

3. Accordingly, to ensure that farmers do not have to pay penal interest and at the same time continue getting the benefits of interest subvention scheme, Government has decided to continue the availability of 2% IS and 3% PRI to farmers for the extended period of repayment upto 31.05.2020 or date of repayment, whichever is earlier, for short term crop loans upto ?3 lakh per farmer which have become due between March 01, 2020 and May 31, 2020.
4. Banks are therefore advised to extend the benefit of IS of 2% and PRI of 3% for short term crop loans upto ?3 lakh to farmers whose accounts have become due or shall become due between March 1, 2020 and May 31, 2020.
5. All other terms and conditions remained unchanged.

(Sonali Sen Gupta)
Chief General Manager

Provisioning on interbank exposure of Primary (Urban) Co-operative Banks (UCBs) under All Inclusive Directions

RBI/2019-20/222

April 20, 2020

1. As you are aware, the imposition of All-inclusive Directions (AID) on an Urban Co-operative Bank (UCB), inter alia, restricts the bank from discharging its liabilities except as permitted by RBI. This impacts the withdrawal of interbank deposits placed by other UCBs with such bank as also timely discharge of interbank exposures such as discounted bills drawn under Letter of Credit (LC) issued by the UCB under AID.
2. In order to ensure that such exposures are objectively recognised in the financial statements of UCBs and also with a view to addressing the systemic impact of provisioning requirements on such exposures, it has been decided as under:
   i) The interbank exposures arising from deposits placed by UCBs with a UCB under AID and their non-performing exposures arising from discounted bills drawn under LCs issued by a UCB under AID shall be fully provided within five years at the rate of 20% annually. Further, the interest receivable on the deposits shall not be recognised as income by the UCBs.
   ii) If the UCBs choose to convert such deposits into long term perpetual debt instruments (e.g. Innovative Perpetual Debt Instrument - IPDI) which may be recognised as capital instrument under a scheme of restructuring/ revival of a UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.
3. The above instructions will come into force with immediate effect.

(Neeraj Nigam)
Chief General Manager

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation

RBI/2019-20/216

April 17, 2020

1. Please refer to paragraph 25 of Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; and paragraph 25 of Master Direction – Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 on 'Norms for restructuring of advances'. The Reserve Bank has issued guidelines to banks on deferment of date of commencement of commercial operations (DCCO) for projects in commercial real estate (CRE) sector vide circular number DOR.No.BP.BC.33/21.04.048/2019-20, dated February 07, 2020.
2. In this connection, it has been decided to extend the above-mentioned guidelines issued to banks, mutatis mutandis, to NBFCs as well.
3. The Master Directions are being modified accordingly.

(Manoranjan Mishra)
Chief General Manager

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION - INSURED DEPOSITS

(Number in Lakh; Amount in ₹ Crore)

Year	Number of fully protected accounts	Total number of accounts	Total amount of insured deposits	Total amount of assessable deposits
1	2	3	4	5
1991	3170	3290	127925	186307
1992	3400	3540	164527	244375
1993	3500	3530	168405	249034
1994	4960	4990	266747	364058
1995	4820	4870	295575	392072
1996	4270	4350	337671	450674
1997	3710	4110	370531	492280
1998	4540	4640	439609	609962
1999	4300	4420	498558	704068
2000	4320	4460	572434	806260
2001	4640	4820	674051	968752
2002	5780	6000	828885	1213163
2003	5190	5440	870940	1318268
2004	6200	6500	991365	1619815
2005	5060	5370	1052988	1790919
2006	6830	7170	1372597	2344351
2007	9620	10390	1805081	2984800
2008	12040	13490	1908951	3398565
2009	12670	14240	1682397	4587967
2010	9770	10520	1735800	4952427
2011	9960	10730	1904300	5767400
2012	13930	14820	2158400	6621100
2013	12670	13700	2379200	7616600
2014	13450	14560	2606800	8475200
2015	15530	16820	2826400	9405300
2016	17380	18850	3050900	10353100
2017	17750	19410	3275300	11202000
2018	20000	21740	3370000	12005100

Notes : As on the last Friday of June 1980 through June 2003; as on the last working day of September 2004 through September 2018.

Also see Notes on Tables.

Source : Deposit Insurance and Credit Guarantee Corporation.

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

LIABILITIES AND ASSETS (General Fund)

(Rs. Crore)

Year	Capital provided by RBI	General reserves	Investment reserves	Other reserves	Current liabilities and provisions	Total liabilities/ assets	Cash in hand and balances	Investment Govern-ment (at cost)	Interest accrued on investment securities	Other assets
1	2	3	4	5	6	7	8	9	10	11
1997-98	50	17	16	0	9	92	0	79	2	11
1998-99	50	17	16	0	9	93	0	77	2	14
1999-00	50	17	16	0	10	93	0	81	2	10
2000-01	50	18	16	0	3	87	0	77	2	8
2001-02	50	20	16	0	5	91	0	88	2	1
2002-03	50	22	16	0	5	93	0	88	2	3
2003-04	50	24	16	0	7	97	0	91	2	4
2004-05	50	26	17	0	8	101	0	93	2	6
2005-06	50	74	19	0	8	151	0	140	3	8
2006-07	50	70	24	0	13	156	0	139	4	13
2007-08	50	164	30	0	14	257	0	214	6	38
2008-09	50	168	25	0	20	263	0	215	5	43
2009-10	50	428	79	0	8	564	0	521	12	31
2010-11	50	438	82	0	15	585	0	531	12	41
2011-12	50	430	94	0	7	581	0	541	11	28
2012-13	50	457	77	0	19	604	0	546	14	44
2013-14	50	466	74	0	27	617	0	556	15	44
2014-15	50	491	54	0	35	630	0	565	12	53
2015-16	50	518	36	0	37	641	0	575	12	53
2016-17	50	527	36	0	21	634	0	582	10	42
2017-18	50	543	36	0	24	654	0	596	10	46
2018-19	50	549	37	0	21	657	1	604	11	41

Note : Data on liabilities and assets of DICGC relate to the financial year (April-March).
Also see Notes on Tables.
Source : Deposit Insurance and Credit Guarantee Corporation.

"It is very important to see how data science, Artificial intelligence and Machine learning can help in creating a strong risk management framework."

- Avneesh Trivedi
Chief Risk Officer
Moneyboxx Finance Limited

What are top Five Risks in your organization

Broadly speaking, top five risks can be classified into Financial Risks and Non Financial Risks. These can further be sub divided into-

Credit Risk- It covers Transaction Risk and Portfolio Risks. Credit Risk is simply the possibility of the adverse condition in which the customer does not pay back the loan. Moreover, Collateral free loan leads to high risk. We need to deal with the customers with limited literacy. Transaction risk is related to the individual customers which can be due to business failure, customer's migration, willful default etc. Portfolio risk is related to factors which can result in loss in specific segment of portfolio. It can be specific trade, specific community, specific locality etc. Credit risk is a function of multiple variables of which Appropriate Customer Profile is only one.

Operational Risk- It covers People Risk, Process Risk, System and technology Risk and Relationship risks. In our model, due to high no of field staff- People Risk assumes great importance. It can be in form of errors, collusions and frauds at field staff level. Another important area is process risk due to lack of clear cut policies on disbursements, repayments, accounting, cash handling etc. System and technology risk is in form of software issues, data transmission/back up issues and inadequate hardware support system. Relationship risks are in form of customer dissatisfaction and dropouts to other players.

Market Risk- It covers liquidity risk and Interest Risk. It covers Asset liability management. Effective Cash planning is also very critical- Current cash in bank/disbursements lined up for next month/total collections/total expenses etc. Timely fund raise planning thru debt or equity is also very important.

Strategic Risk- This is related to strategic decisions, regulatory risk ,business ethics and transparency.

How do You Manage these risks ?

We are managing these risks through -

- ❖ Implementation of Risk management framework
- ❖ Clarity of vision and alignment which gives right direction
- ❖ Segregation of business functions and clear cut roles of all stakeholders across the organization
- ❖ Appropriate Product designing according to customer requirement
- ❖ Strong Internal control systems with proper monitoring and reporting

"Transaction risk is related to the individual customers which can be due to business failure, customer's migration, willful default etc. Portfolio risk is related to factors which can result in loss in specific segment of portfolio."

- Daily reconciliation of accounts, portfolio data and follow up
- Focus on exception reporting framework
- Early warning system framework
- Developing Robust MIS and reporting culture
- Loan End use monitoring and reporting of diversion cases
- Proper overdue management and ageing analysis
- Diversification of portfolio
- Clear Cut Standard operating procedures for robust processes
- Appropriate Internal audit system

What are the key challenges you have faced in implementation of risk management

- Formulating an appropriate risk management framework for a start up
- Alignment of Risk management objectives across the branches
- Focus on selection of 'Right Fit-Customer' for the organization
- Focus on cost effective decision making
- Creating an internal culture of self supervision

What are the top three emerging risks from your industry point of view

Risks faced by organizations in financial inclusion space are unique and are of different magnitude. We have to deal with double bottom line wherein remaining financially sustainable is one challenge and achieving social objective is another challenge

- Over indebtedness of the customers
- Corporate Governance
- Quality of Risk management framework and effectiveness of internal controls

Any lessons or any thought that you would like to share with our readers

Risk managers should be aware of the latest development happening in the industry. It is very important to see how data science, Artificial intelligence and Machine learning can help in creating a strong risk management framework.

About Mr. Trivedi

- *MSME, Fintech and retail lending professional having more than 15 years of exposure in NBFC and banking space.*
- *Experienced in lending and strategizing for credit and risk (unsecured and secured) at national level with wide range of industries across MSME/SME segments.*
- *Varied and rich experience of working in leading organizations like HDFC and standard chartered. Start Up specialist having working in leading HFC's – Aditya Birla Housing Finance, Magma Housing Finance and Tata Capital housing Finance.*
- *In the last role, he was heading Pan India Credit and Risk function for a leading MSME lender Aye finance*
- *In the current role, he is working as Chief Risk officer for Moneyboxx Finance limited (MSME space)*

Banks receive sizeable deposit inflows

Bank deposits increased to a whoping Rs. 2,87,495 crore in between March to May as savers/investors turned cautious in view of the volatility in equity and debt markets and women Jan Dhan account holders and farmers receiving inflows under the direct benefit transfer system. Simultaneously, during the aforementioned period, the credit portfolio of all scheduled banks collectively declined Rs. 1,24,073 crore as credit appetite vanished in economy in the backdrop of global outbreak of the pandemic and the nationwide lockdown.

Besides lack of fresh disbursement, the loan portfolio would also have gone down due to repayments, say experts. In fact, the period under review saw the Reserve Bank of India (RBI) permitting lenders (commercial banks, co-operative banks, all-India financial institutions and non-banking finance companies) to offer a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1. Further, the central bank also allowed a deferment of three months on payment of interest in respect of working capital facilities sanctioned in the form of cash credit/overdraft outstanding as on March 1.

In the absence of demand for loans, banks deployed their investible surplus in Central and State government securities aggregating Rs. 3,48,754 crore during the March 27to May 8. As per the Reserve Bank of India's 'Scheduled Banks' Statement of Position in India', during the reporting fortnight ended May 8, the deposts of banks shot up by Rs. 1,27,626 crore while their credit portfolio declined by Rs. 21,032 crore.

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