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From The Desk Of Editor-in-Chief

The Covid 19 impact is not over yet and no relief is expected soon. The process of vaccine approval, manufacturing and reaching to the ultimate beneficiary will also take time. SO practically most part of the next year will be affected too.

Banking and Finance Industry is also severely hit. Banks are looming to risk of huge NPA as business activities had come to a standstill in last few months. Banks must chalkout a middle path and pursue borrowers for money instead of chasing them. This pandemic has really broken the back of small and medium term enterprises and they need time to recoup.

Cutting cost should be an important agenda for bankers and they should adopt technology to the fullest and pursue consumers to use this medium to get better service. Banks in future may decide to have small outlets instead of huge branch networks.

The total number of transactions conducted on the Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), crossed the 2 billion transactions count in a month in October, according to the data released by National Payments Corporation of India. The total value of these transactions stood at Rs 3.8 trillion, up from Rs 3.2 trillion in September, the data showed. This is a very good sign.

The Covid-19 has led to a 60% increase in opening of new Jan Dhan accounts and they are acting as a deterrent to crime in several states, an SBI research report has said. Latest data also showed that the total number of Pradhan Mantri Jan Dhan Yojana accounts stood at over 41 crore with a total balance of Rs 1.31 lakh crore.

Bank credit grew by 5.66 per cent to Rs 103.44 lakh crore, while deposits increased by 10.55 per cent to Rs 143.02 lakh crore in the fortnight ended October 9, according to RBI data. In the fortnight ended October 11, 2019, bank credit had stood at Rs 97.89 lakh crore and deposits at Rs 129.38 lakh crore. The figures will gradually increase as the situation normalises.

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BANKING NEWS

YES Bank may sell Rs. 32,344-cr bad loan

YES Bank is planning to sell its NPAs worth Rs 32,344 crore to asset reconstruction companies (ARCs). It has appointed EY to advise it on the sale. Several ARCs have been sounded off by EY to submit their bids for the book.

YES Bank has already made provisions of Rs 24,476 crore. These represent 76 per cent of its gross NPAs. The sale of the NPA book will help the bank regain its lost place in the banking industry, which was marred by a scandal involving its former promoter Rana Kapoor.

As part of its clean-up, YES Bank had recently sold bonds issued by troubled housing finance company Dewan Housing Finance Corporation (DHFL) for Rs 500 crore in the secondary market. The bank had invested Rs 2,000 crore in DHFL's bonds and managed to make a recovery of 25 per cent.

The bank is also looking at the option of selling its mutual fund business to free up capital by the end of the current financial year. Under a new management, the bank is also in talks with other strategic investors to set up an ARC, which will house all the NPAs.

RBL Bank profit up 165%

RBL Bank posted a 165 per cent rise in net profit to Rs 144 crore in second quarter ended September 2020 (Q2Fy21) on an increase in net interest income (NII) and dip in provisions and contingencies.

It had posted a net profit of Rs 54 crore in July-September 2019 (Q2FY20).

Its NII grew by seven per cent Rs 932 crore. The Net Interest Margin (NIM) was flat YoY at 4.34 per cent. Sequentially NIMs fell from 4.85 per cent in first quarter ended June 2020 (Q1FY20) due to proactive reversal of interest income on Non-Wholesale Advances expected to slip by Q3 FY21. Other income rose by just three per cent to Rs 456 crore.

The provisions and contingencies declined to Rs 525.57 crore in Q2FY21 from Rs 540.58 crore in Q2FY20. It set aside Rs 310 crore as additional provisions for Covid-19, taking the total Covid-19 provisions to Rs 664 crore Since the March quarter.

The advances declined 4% to Rs 56,162 crore in September 2020 from Rs 58,476 crore a year ago. The deposits were up three per cent to Rs 64,506 crore in September 2020 from Rs 62,829 crore in September 2019.

Vishwavir Ahuja, MD & CEO, RBL Bank said "We continue to be cautious. Balance sheet protection, capital preservation and risk mitigation continues to be of paramount importance. We are seeing growth revival especially in retail businesses. Being well positioned on capital and liquidity, we are growing in our chosen segments".

UPI transactions cross 2 billion in October

The total number of transactions conducted on the Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), known more simply as the UPI crossed the 2 billion transactions count in a month in October, according to the data released by National Payments Corporation of India (NPCI). The total value of these transactions stood at Rs 3.8 trillion, up from Rs 3.2 trillion in September, the data showed.

As of October, as many as 189 banks were using the UPI platform developed by the NPCI, compared to 141 in the corresponding month a year ago. The platform has seen tremendous growth over the last eight months as the limited use of cash has forced users and businesses to shift priorities to online payments nearly overnight.

For example, in May, which saw complete lockdown, the number of transactions done through UPI stood at 1,234.5 million transaction, while in June and July, when lockdown measures were relaxed a little, the number of transactions stood at 1,336.9 million and 1,497.3 million, respectively.

Equitas Small Finance Bank IPO subscribed 1.97 times

IPO of Equitas Small Finance Bank was subscribed 1.97 times, the final day of the public offering.

The IPO received bids for 22.57 crore equity shares against an offer size of 11.58 crore shares.

The portion of the share sale reserved for qualified institutional investors was subscribed 3.87 times, and that for non-institutional investors and retail investors was subscribed 23% and 2.12 times, respectively.

The public issue consists of a fresh issue of Rs. 280 crore and an offer for sale of 7.2 crore equity shares by Equitas Holdings to comply with shareholding norms set by the Reserve Bank of India. The shares were sold at a price band of Rs. 32-33 per share.

SBI Card asset quality hit

SBI Cards reported a sharp deterioration in asset quality as thousands of cardholders skipped payments, according to reports.

The company's gross non-performing assets (GNPA) rose to 4.29% in the September quarter from just 1.35% in the preceding three months.

The asset quality could have been worse had not a top court order put a standstill on recognition of bad loans. Lenders cannot label loans as bad, even if a default has occurred.

In the absence of the ordered standstill, the GNPA number would have jumped to 7.46%, SBI Card management said.

SBI Cards reported impairment losses and bad debt expenses at Rs. 862 crore in the quarter against Rs. 329 crore for the same period last year.

"Additionally, management overlay provision created for Rs. 268 crore in Q2 FY21; total management overlay provision is at Rs. 758 crore as of September," the company said.

The rise in provisioning and bad loans led to a 46% drop in profit to Rs. 206 crore. Revenue from operations, however, grew 5% to Rs. 2,413 crore.

While asset quality concerns emerged in the fiscal second-quarter, the credit card company said that retail spending showed resurgence.

Retail spending increased by about 50% in the second quarter from the preceding three months. Retail spending was at 90% of pre-covid (December 2019- February 2020) levels.

"Card-in-force"-total number of cards issued and outstanding-grew 16% to 11 million as of Q2 FY21 as against 9.5 million in the same period last year.

Paytm talks to banks for co-branded cards

Paytm is in talks with banks to launch co-branded cards and plans to issue two million new cards over the next 18 months, as the fintechcompany pushes to deepen its foray into the credit card issuance and management business.

Paytm's digital paymentsapp is set to double up as the digital interface to manage the finances linked to the credit cards of customers who receive the new cards, the company said in a statement.

Bhavesh Gupta, the newly appointed CEO of Paytm's lending business, is set to undertake this project.

"In our country, credit cards are still considered a product for the affluent sections of society and not everyone can avail of its benefits," he said in the statement.

"At Paytm, our aim is to provide credit cards that benefit India's aspiring youth and evolved professionals," Gupta, who was earlier the CEO of Clix Capital, added.

Jan Dhan accounts 60% rise during pandemic

The Covid-19 has led to a 60% increase in opening of new Jan Dhan accounts and they are acting as a deterrent to crime in several states, an SBI research report has said.

Latest data showed that the total number of Pradhan Mantri Jan Dhan Yojana accounts stood at over 41 crore with a total balance of Rs 1.31 lakh crore. Since April 1, around 3 crore accounts were opened, with deposits of Rs 11,060 crore. The average balance of PMJDY accounts increased to Rs 3,400 in April and declined thereafter to Rs 3,168 in September and marginally increased to Rs 3,185 in October, the report said.

"Thus, the initial increase in average balance that was primarily due to the loss of livelihood due to the pandemic and shift of migrant labourers from urban areas to home, resulting in jump of precautionary savings, may have been reversed," said Soumya Kanti Ghosh, group chief economic adviser at SBI.

Using the JAM (Jan Dhan-Aadhaar-Mobile) trinity as it is popularly known, the Centre managed to seamlessly transfer money to these accounts, particularly women account holders, to help the poor tide over the difficult pandemic period. Transfer of money at such a large scale has earned praise from multilateral agencies and experts.

Citing empirical research, the report said PMJDY accounts work as a primary vehicle for labour remittances, apart from increased lending, smoothing consumption, increased spending on healthcare and, most importantly, the usage is more frequent in areas that are more crime prone.

The PMJDY data was juxtaposed with statewise crime data to assess the impact of these accounts on crime in those areas.

Bank credit up 5.6%, deposits rise 10.5%

Bank credit grew by 5.66 per cent to Rs 103.44 lakh crore, while deposits increased by 10.55 per cent to Rs 143.02 lakh crore in the fortnight ended October 9, according to RBI data.

In the fortnight ended October 11, 2019, bank credit had stood at Rs 97.89 lakh crore and deposits at Rs 129.38 lakh crore.

In the previous fortnight ended September 25, 2020, bank credit had grown by 5.15 per cent to Rs 102.72 lakh crore and deposits rose by 10.51 per cent to Rs 142.64 lakh crore.

On a year-on-year basis, non-food bank credit growth decelerated to 6 per cent in August as against 9.8 per cent in the same month last year, central bank data showed.

Growth in loans to agriculture and allied activities rose 4.9 per cent in the reporting month, as compared to a growth of 6.8 per cent in August last year.

Credit growth to the services sector decelerated to 8.6 per cent from 13.3 per cent last year.

Pension regulator enables online onboarding through bank portal

Savings bank customers of banks may soon get another channel for online onboarding to Atal Pension Yojana (APY) - a government-backed pension scheme targeted at the unorganised sector - without having to use internet banking or mobile app.

Pension regulator PFRDA has now allowed APY-Points of Presence (PoPs) to introduce an alternative channel for online on-boarding of their existing savings account customers through the bank's own web portal.

At present, some banks provide online APY account opening through net banking or mobile app. However, a large number of bank customers who are eligible and can be enrolled under APY, do not use the mobile app or netbanking facility. In such cases, these bank customers are not able to open an APY account through online/digital mode.

To solve this issue, PFRDA has enabled the facility of 'Online Paperless Onboarding of Subscribers using the Web Portal', sources said.

This new facility is expected to help PFRDA realise its aim of having an overall APY subscriber base of 30 million by March 2021. It maybe recalled that as many 3 million new APY subscribers were added during the pandemic period so far this fiscal.

Recently, PFRDA Chairman Supratim Bandyopadhyay had said that banks play a crucial role in expanding the APY subscriber base.

Banks to get reimbursed for compound interest

Banks are relieved at the government notification waiving off only compounded interest as it will restrict their losses without burdening the fiscal much. The Reserve Bank of India (RBI) issued a notification directing banks to follow the government order reimbursing small borrowers with loans up Rs 2 crore that have paid compounded interest on their loans between March 1 and August 31.

Bankers said the government's clarity and its notification committing to bear the difference between the rates have lifted a major over hang over banks.

"This issue has now been taken care off. The fact that the government has given a timeline for crediting the losses to banks is very positive because at one time we were not sure of what the court would say and whether we will have to bear the burden," said a bank CEO.

Banks have to credit customer accounts by November 5 and raise a request for reimbursement from the government through the State Bank of India which the government has appointed as the nodal bank. Banks will have to seek reimbursement from the government through the State Bank of India, the nodal bank appointed by the government for this purpose. Banks will be credited the difference by December 15.

Analysts said the government order and the subsequent RBI notification clears a big overhang on banks.

"Already some banks and NBFCs in their results commentary have indicated that they have proactively provided for the interest on interest, which would result in a writeback once government reimburses.

ICICI Bank launches banking stack for millennial customers

ICICI Bank has launched a banking stack for millennial customers which offers an instant savings account, a feature-driven iMobile application that offers investment guidance, curated credit and debit card, instant personal loans and overdrafts, and an experiential branch with social engagement space.

Called ICICI Bank Mine, any millennial-aged up to 35 years can apply digitally for the account from November 6 through the bank's website or the app.

Sudipta Roy, Group Head - Unsecured lending, Cards and Payments Solutions, ICICI Bank said the focus is on the millennial segment and are the wealth generators of tomorrow.

"It is open to any millennial with access to a smartphone. But the initial focus is to attract customers who are in their first jobs or early in their careers, salaried customers or young entrepreneurs," he told.

In a statement, ICICI Bank said the new banking stack also offers investment guidance to customers through an altogether user experience focused iMobile application.

It has also integrated the investment platform of Sqrrl with its mobile application iMobile, to guide customers to invest easily and in a tech-savvy way.

"We intend to continue to integrate relevant fintech offerings in the iMobile app for our millennial customers," it further said.

Anup Bagchi, Executive Director, ICICI Bank said the new banking stack offers a mobile-first, highly personalised and experiential led banking experience to them.

"We have noticed that, while the millennial customers want 'digital first', they don't want a 'digital-only' bank. This has led us to introduce a new format experiential branch suited to the lifestyle of millennials," he said.

IDBI Bank launches banking services on WhatsApp

IDBI Bank has recently introduced banking services on WhatsApp for its customers. "This launch is a part of sustained initiatives the Bank has taken to enable the customers to access banking services remotely at their convenience," the bank said.

WhatsApp Banking service will be offered through a dedicated WhatsApp verified number ensuring end to end encryption, the bank added. The bank customers will be able to avail various essential banking services such as account balance information, last five transactions, request for a cheque book and an email statement, Interest Rates through newly launched WhatsApp banking services. The details of the IDBI Bank branches or ATMs in the vicinity will also be available via WhatsApp.

"IDBI Bank has always focused on taking initiatives that adds to the customer convenience in availing seamless banking experience. Launch of banking services on WhatsApp is yet another initiative in this direction," said Rakesh Sharma, MD & CEO, IDBI Bank during the launch.

"IDBI Bank aims at creating ease of accessibility and convenience for its customers by offering an instant solution to their immediate basic banking needs from the comfort and safety of their homes," he further added.

Last month, IDBI Bank "implemented the new feature of document embedding facility with Letter of Credit/Bank Guarantee messages over SFMS platform of IFTAS through its middleware application i@Connect-SFMS developed by IDBI Intech Limited," the bank said.

"The new feature will ease the current process of manual verification, reconciliation, reduce frauds, and enable documentary evidence for all the parties involved in the transaction," the bank added.

Mahagram Payments launches BharatATM

Mahagram Payments Private Ltd. a mumbai based 'Fintech' startup has launched BharatATM, a rural NEO Bank, offering banking services to rural masses through their unique engagement model with local Kirana and other retail stores across the country. The platform engages the local shop and enables it to offer banking, loans, insurance services to the citizens reside in rural villages.

In rural India, where's there's no bank branches or ATMs available, people can walk into the Kirana or any retail store near to them and avail the benefits of banking services starting from opening a saving account, recurring deposits, transactions like withdrawing cash or depositing, transferring funds or buying a life or general insurance everything at the same place they buy their essentials.

It allows its customer to open bank accounts at the store by just producing their Aadhaar & PAN Card and doing authentication using eKYC. Customers can also use the Aadhaar Card to withdraw or deposit cash to their bank account in the same store. It also offers its customers to transact using the debit / ATM card of any bank to withdraw money in the same store.

No agreement signed for RBI's debt recast scheme for high value loans

Even after two months after RBI issued guidelines for a one-time debt recast scheme for corporate borrowers, following the KV Kamath committee recommendations, not a single intercreditor agreement (ICA) has been signed by any lender for high value loans as few companies came forward for restructuring.

The ICA is signed by a consortium of lenders, by which they agree on the contours of the debt recast.

According to RBI norms, the ICA can be invoked if lenders representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund-based) and 60 per cent by number agree to the plan. Bankers say not a single ICA has been signed so far for debt recast.

The Shapoorji Pallonji Group, which has decided to exit the Tata Group, has requested banks to restructure Rs 10,900 crore of its debt under the scheme, though banks are yet to sign the agreement.

Axis Bank, the third largest private sector lender of the country that announced its quarterly earnings Wednesday, said there was zero or negligible request for debt restructuring as on 30 September. Under the RBI norms issued on 7 September, loans of Rs 1,500 crore will require Kamath panel's approval.

Banks introduce convenience fee for cash deposits in machines

Banks in private sector have started charging a convenience fee for cash deposits by customers in cash recyclers during non-business hours and bank holidays. While Axis Bank had already started levying the charge earlier this year, ICICI Bank, too, plans to levy it from November.

"Effective November 1, 2020, a convenience fee of Rs. 50 per transaction, will be levied on cash deposited in the cash acceptor or recycler machines on bank holidays and between 6:00 pm and 8:00 am on working days," ICICI Bank said in a recent communication.

Further, the convenience fee would be applicable if the cash deposit in the cash acceptor/recycler machines exceeds Rs. 10,000 per month either as a single transaction or multiple transactions.

The fee will not be applicable to senior citizens, basic savings bank account, Jan Dhan accounts, accounts held by incapacitated and visually impaired persons, student accounts or any other accounts identified by ICICI Bank.

Axis Bank also charges a similar convenience fee on cash deposit transaction done at the rate of Rs. 50 per transaction after banking hours (or between 5:00 pm to 9:30 am) and on national and State bank holidays. The fee was effective from August 1.

The move is being seen as an inconvenience to small traders and shopkeepers who often go to a cash deposit machine to deposit their day's earnings after shutting shop late in the evening.

To avoid the convenience fee, the businessmen may either store the money in the shop or carry it home, and deposit it later during business hours.

Bankers said banks often have to deploy additional staff on holidays to collect such cash. Moreover, this fee comes in the backdrop of "less cash and more digital" push by both the government and the central bank.

"Many traders find it easy to deposit cash (in the bank's cash deposit/ recycler machine) at night before going home and then withdraw it early in the morning before opening their shop or business. It is a way of securing their money for them but for the bank it is like floating cash. Banks have to deploy resources for each such transaction," said a bank executive.

Banks turn to AI to contain loan frauds

Punjab National Bank isexploring the options to deploy an artificial intelligence-enabled early warning signal system that crawls the web for information on borrower's activities, including news articles and social media. Punjab National Bank has decided to outsource its early warning signal (EWS) system. So far, the bank has been using an in-house system but wants an external agency to revamp it.

Some of the capabilities sought by the bank are artificial intelligence, web crawling, optical character recognition (OCR) for triggering the early warning signal. The bank has put out a public notice seeking bids from interested parties According to the notice, the bank wants a solution capable of giving early warning signals on a dynamic basis, based on information collected from various internal and external sources. This, the bank said, will aid timely corrective action in such loan accounts.

Indian banks have not been very quick in detection of frauds and instances include the Rs. 11,000-crore Nirav Modi case which went undetected for several years.

Anxious about the rising instances of frauds in banks and the delay in these being reported, the Reserve Bank of India (RBI) in 2015 took steps to address the problem. Based on the recommendations of an internal working group, the central bank introduced the practice of red-flagging a loan account as part of a mechanism of early warning system aimed at helping banks identify suspicious accounts. ❑

RESERVE BANK NEWS

Payment Operators must shift to QR codes by March 2022

RBI has said that the payment operators must shift to interoperable Quick Response (QR) codes by March 2022. "Payment System Operators (PSOs) that use proprietary QR codes shall shift to one or more interoperable QR codes; the process of migration shall be completed by March 31, 2022," the regulator mentioned.

A committee led by Professor Deepak Phatak suggested various measures for moving towards interoperable QR Codes in the next two years. The two interoperable QR codes in existence - UPI QR and Bharat QR - shall continue, the committee advised.

QR codes are two-dimensional machine-readable barcodes, which are increasingly used to facilitate mobile payments at the point-of-sale. QR codes can store a large amount of information. In India, QR Code Payment Systems broadly support three different types of QR code payments -- Bharat QR, UPI QR, and Proprietary QR.

The central bank shall continue a consultative process to standardise and improve interoperable QR codes to enable beneficial features identified by the Phatak Committee, the official statement read.

Payment System Operators must take initiative to increase awareness about interoperable QR codes. The measures suggested by the Phatak Committee are expected to reinforce the acceptance infrastructure, provide better user convenience due to interoperability and enhance system efficiency, the bank said.

RBI also sets the necessary regulatory framework to ensure that different types of payment systems operate in the country. The regulator encouraged the establishment of a Self-Regulatory Organisation (SRO) for Payment Systems Operators.

An SRO is a non-governmental organisation that sets and enforces rules and standards relating to the conduct of member entities in the industry, with the aim of protecting the customer and promoting ethical and professional standards.

"The SRO is expected to resolve disputes among its members internally through mutually accepted processes to ensure that members operate in a disciplined environment and even accept penal actions by the SRO," the bank said.

"Regulations, standards, dispute resolution and enforcement by an SRO get legitimacy not just by mutual agreement of its members, but also by the efficiency with which self-regulation is perceived to be administered. Such regulations supplement, but do not replace, applicable laws or regulations," RBI added.

Indian Economy at doorstep of revival process

RBI governor Shaktikanta Das, has said that the Indian economy, which has been severely affected by the ongoing coronavirus pandemic, is at the doorstep of revival. He added: "We are almost at the doorstep of revival process and it's very important that the financial entities have adequate capital (to support growth)."

Expressing confidence that the policymakers will be able to overcome challenges caused due to Covid, Das said that the government will have to spell out a fiscal roadmap post-Covid. "I think post Covid, once there is containment of pandemic, the government will certainly have to spell out a fiscal roadmap that India should adopt," he noted.

The RBI governor also emphasised on the need to build capital buffers for banks and non-banking financial companies (NBFCs) to deal with stress caused by the pandemic. "Both fiscal and monetary policy were counter-cyclical and accommodative and both were working in close symmetry," he said, while stating that the fiscal measures taken by the government to deal with the pandemic have so far have been well calibrated and prudent. In its monetary policy meet earlier this month, Das had stated that the Indian economy is entering into a decisive phase in fight against coronavirus and contraction in Q1 economic growth is behind us.

RBI to release on-tap TLTRO funds every Monday

RBI has said banks can avail on-tap funds under the targeted long-term repo operations (TLTRO) to invest in papers issued by companies in the agriculture, agri-Infrastructure, secured retail, micro, small and medium enterprises (MSMEs), drugs, pharmaceuticals and in healthcare.

The on-tap TLTRO scheme will remain operational till March 31, and all banks will be eligible to participate. The RBI will be aggregating all requests received from the banks for the funds, and release funds every Monday by initiating a 3-year repo contract with the requesting bank, the central bank said in a release on its website. Multiple requests by a bank in a week will be clubbed into a single repo contract.

"In case the requested amount exceeds the remaining amount under the scheme on the date of operation, the remaining amount will be distributed on a pro-rata basis among all the eligible requests."

The central bank had originally announced the on-tap TLTRO aggregating Rs 1 trillion in the monetary policy on October 9.

RBI says HFCs must lend 60% of loans for housing only

RBI has released the final guidelines for housing finance companies (HFCS). It said all non-banking financial companies (NBFCS) should have at least 60 per cent of their net assets deployed in the business of providing finance for housing, and those who still don't have that ratio, must do so in a phased manner by March 31, 2024. HFCS cannot levy foreclosure charges, or pre-payment penalties on any floating rate term loan sanctioned for housing loans.

Of the total net assets, at least 50 per cent should be loans given to individuals. Loans given for furnishing dwelling units, against mortgage of property for any purpose other than buying or construction of a new dwelling unit or renovation of the existing dwelling unit, will be treated as non-housing loans and will not fall under the definition of housing finance, stated the RBI'S guidelines.

The RBI took over the regulation of HFCS from the National Housing Bank in August 2019, and in June this year, released the draft guidelines.

According to the final guidelines, any HFC not having 60 per cent of its net assets deployed for housing loans must get 50 per cent of its books utilised for such loans by March 31, 2022, 55 per cent by March 31, 2023, and 60 per cent by March 31, 2024. Minimum percentage of individual housing loans in this period should be progressively raised to 40 per cent, 45 per cent, and 50 per cent, respectively.

"Such HFCS shall be required to submit to the RBI, a board-approved plan within three months, including a road map to fulfil the above-mentioned criteria and timeline for transition," said the final guidelines.

HFCS unable to fulfil the above criteria will be treated as NBFC- Investment and Credit Companies.

RBI temporarily postpones circular on current account

RBI has deferred banks' current account maintenance norm till December 15, from November 5, pending a frequently asked question that the central bank would publish on its website.

As part of its monetary policy on August 6, the central bank said no bank can open current account for a customer who has availed cash credit or overdraft facility from others in the banking system, and from now on, all transactions will now have to be routed through the cash credit, or overdraft account.

The RBI said banks should not route withdrawal from term loans through current accounts. Instead, the funds should be remitted directly to the supplier of goods and services. Expenses incurred by the borrower for day to day operations should be routed through cash credit or overdraft account, if the borrower has one, otherwise current account can be opened.

Several banks, mostly private and foreign banks had lobbied against these directives, asking the central bank to reconsider the rule.

RBI extends market hours by 90 mins

RBI has said it will restore trading hours in the bond and currency markets in a graded manner, effective November 9.

The trading hour restrictions were put in place on April 7, in view of the national lockdown owing to the Covid pandemic. The lockdown caused operational dislocations, preventing the normal functioning of the markets.

"With the graded rollback of the lockdown and easing of restrictions on the movement of people and functioning of offices, it has been decided to restore trading hours for the regulated markets in a phased manner," the RBI said in a notification.

Accordingly, market hours for most of the segments will be extended until 3.30 pm, from 2 pm now. The markets will continue to open at 10 am, the central bank said.

NBFCs should convert into banks: Rao

Speaking at an industry event, Rajeshwar Rao, deputy governor in charge of banking regulation and risk monitoring at Reserve Bank of India, called for a calibrated and graded regulatory framework for non-banking finance companies (NBFCs) proportionate to their systemic significance.

Systemically important NBFCs must be identified and subjected to a higher degree of regulation, he said, adding there cannot be a 'one-size-fits-all' prescription in the regulatory approach for NBFCs.

"Such non-bank finance companies should have incentives either to convert into a commercial bank or scale down their network externalities within the financial system. This would make the financial sector sound and resilient while allowing a majority of NBFCs to continue under the regulation-light structure," Rao said.

India has 9,601 shadow banks, of which the top 50 account for 80% of market share by loans. Over the years, the flexibility that accompanied loose regulation has enabled NBFCs to serve last-mile customers. Between 31 March 2009 and 31 March 2019, the total assets of NBFCs grew at a compounded annual growth rate of 18.6%, while bank balance sheets grew at 10.7%.

Linkages have been deepening between banks and shadow lenders. At the end of the last financial year, NBFCs were the largest net borrowers of funds from the financial system, of which, more than half of the funds were from banks.

The collapse of an infrastructure financier in 2018, the government seizure of a mortgage lender in 2019, and the resulting cash crunch in the system revealed flaws intrinsic to NBFCs. Many NBFCs found themselves cash-strapped due to skewed asset-liability management practices with short-term borrowing funding long-term assets, imprudent lending practices, and lack of due diligence coupled with ambitious growth targets.

"It is imperative to strike a balance between regulating the NBFCs more tightly and the need to provide them the required flexibility. This will remain the cornerstone while we imagine the future of regulation for NBFCs," Rao said.

RBI announces co-lending scheme for banks

RBI came out with a Co-Lending Model (CLM) scheme under which banks can provide loans along with NBFCs to priority sector borrowers based on a prior agreement.

The CLM, which is an improvement over the co-origination of loan scheme announced by the RBI in September 2018, seeks to provide greater flexibility to the lending institutions, the Reserve Bank of India (RBI) said in a release.

Under the CLM, banks will be permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement, RBI said, adding that "the co-lending banks will take their share of the individual loans on a back-to-back basis in their books".

"However, NBFCs shall be required to retain a minimum of 20% share of the individual loans on their books."

The primary focus of the scheme, rechristened as "Co-Lending Model" (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs, it added.

As per a notification by RBI, NBFCs will be the single point of interface for the customers and shall enter into a loan agreement with the borrowers. The agreement should clearly contain the features of the arrangement and the roles and responsibilities of NBFCs and banks.

"The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both," RBI said.

All transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM have to be routed through an escrow account maintained with the banks, in order to avoid intermingling of funds.

With regard to grievance redressal, RBI said suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the NBFC within 30 days. ❑

INDUSTRY NEWS

E-invoice can become a medium for bank loans

Finance Secretary Ajay Bhushan Pandey hopes the growth in GST collections will continue, and that e-invoicing will become a medium for availing of bank loans.

He said indirect taxes, particularly GST, have been recovering. "With further improvement in indirect taxes, we hope there will be some positive impact on direct taxes." E-invoice can be basis for lending. Banks can judge the potential of a borrower based on e-invoice, which has information on receivables, he said.

eWay bill generation hits a new record

The Centre said October saw an all-time high in eWay bill generation, at 641 lakh. Also, e-invoice generation reached 495 lakh in the first month of implementation.

An eWay bill shows goods were moved to a place after the requisite tax payment. It is mandatory for the movement of goods worth Rs. 50,000 or more, and its numbers are seen as a high-frequency economic indicator.

E-invoicing is the electronic reporting of details of specified GST documents on a government-notified portal and obtaining a reference number.

The 641 lakh eWay bills generated last month were the highest in a month over the "two-and-a-half-year journey of the eWay bill system", said the National Informatics Centre (NIC) in a statement.

Over 495 lakh e-invoices were generated on the NIC portal by 27,400 taxpayers last month, it added. Every company with a turnover of Rs. 500 crore or more is required to generate e-invoices since October 1.

Public debt to GDP ratio May reach 90%

India's public debt to gross domestic product (GDP) is likely to increase to a record high of 89.3 per cent in 2020, breaking the previous high of 84.2 per cent in 2003.

The ratio was 72.3 per cent in 2019 and 68.8 per cent five years ago in 2015, according to the data from the International Monetary Fund World Economic Outlook (WEO). This makes India the most indebted major economy after Brazil and Argentina among the emerging markets.

In South Asia, India now becomes the most indebted country after Bhutan and Sri Lanka and worse off than Bangladesh, Pakistan, and Nepal.

According to the WEO database, Pakistan's public debt to GDP is likely to be 87.2 per cent in 2020 while the ratio will be around 40 per cent in the case of Bangladesh and Nepal.

In per capita terms, every Indian has a debt of $1,674 against Bangladesh's $748 and around $1,100 in the case of Pakistan.

SEBI sets up market data panel

SEBI has set up a standing committee to recommend a policy on access to non-personal data related to the financial securities markets, the regulator announced. Named the "Market Data Advisory Committee (MADC), it will recommend regulations on data privacy and data access.

SEBI's move comes in the absence of legislation governing non-personal data (NPD) in the country - earlier this year, an expert committee had recommended a framework for the same.

The markets regulator has set up the standing committee as it believes that NPD - which it dubs as "non-private data" - within the Indian securities market is a "public good". SEBI hopes the initiative will help make available data on the Indian securities market to researchers, policy makers and the general public.

Govt seeks financial bids for monetising MTNL assets

The government has kick-started the process of monetising land assets of telecom firm MTNL and has sought bids from global property consultancy firms for managing the sale process. The Department of Investment and Public Asset Management (DIPAM) has invited financial bids by November 9 from the firms for monetising flats, apartments and plots of MTNL which have been divided into 5 clusters.

46% Indians borrowed to run households during the pandemic

Nearly half of Indians have primarily depended upon borrowed money to run their households during the ongoing COVID-19 pandemic, according to a report.

With job losses and pay cuts across industries, the lower middle-income group has been affected severely and the pandemic has led to a shift in perspective towards loans and borrowing preferences, said the report by Home Credit India, a local arm of the international consumer finance provider with operations spanning over Europe and Asia.

The report, based on a survey, showed that 46% respondents borrowed money primarily to run their households.

The survey was conducted among about 1,000 respondents across seven cities to understand the borrowing patterns of people during the coronavirus-induced lockdown, it said.

"The impact of the pay cuts or delays was the next big reason why most borrowers resorted to borrowing, 27% of respondents cited repayment of their monthly instalments from the earlier loan as the second-biggest reason behind borrowing.

Manufacturing PMI rises to decade high

India's manufacturing may be back on track, rebalancing itself from the Covid-19 impact, the purchasing managers' index (PMI) data, released by IHS Markit, shows.

India's manufacturing PMI rose to 58.9 in October, the highest it has achieved in more than a decade.

Driven by robust sales, the pace gathered by manufacturing output--a crucial component of the headline PMI--was the quickest since October 2007, contributing to the PMI's gains, the monthly report by IHS Markit said.

Headline PMI went past 56.8, seen in September, which was an eight-year high.

A PMI value above 50 indicates that activity expanded in a month over the previous one. But it should be noted that the PMI is a month-over-month indicator, showing improvement over the previous month, and not over the previous year.

In addition, manufacturers spent more on buying inputs in October too. The reopening of sectors took overall confidence to a 50-month high.

But on employment, the payroll numbers are still low, and in fact, lower than in the previous month, due to pandemic-related restrictions on companies.

Multi-modal logistics park to generate 20 lakhsjobs

Union Minister of Road Transport and Highways Nitin Gadkarisaid that the upcoming multi-modal logistics park (MMLP) will generate 20 lakh direct and indirect employment once completed.

Designed as a state of art facility, MMLP Jogighopa is envisioned to drive economic growth and trade competitiveness of the country through a truly integrated, seamless, efficient, reliable and cost-effective logistics network. It is aimed to improve the logistics efficiency and facilitate the Domestic and ExportImport trade in the region. The state government has transferred 200acres of land belonging to Ashok Paper Mill for the project.

Gadkari said that the project once completed would generate around 20 lakh direct and indirect employment. He informed that the project, to be implemented with a cost of Rs. 1171 crore in two phases, is proposed to be completed by 2023.

Exchanges should clear listed firms' scheme of arrangements

Now, a no-objection certificate from stock exchanges, the National Stock Exchanges and the BSE, will be required for listed companies for their scheme of arrangement.

Also, independent directors will have to certify that the scheme is not detrimental to the company shareholders and a valuer report will have to be tabled.

These rules are a fresh dictate of SEBI and will ensure that companies do not take shareholders for a ride and somebody is held responsible in case of lapses, experts said.

SEBI has said that trading in companies that have undergone restructuring of business or debt or any other activity under the scheme of arrangement should start in 60 days from the court order.

Companies mainly use the scheme of arrangement for debt restructuring, takeovers and for return of capital. A scheme of arrangement is a court approved agreement between a company and its shareholders or creditors. It can impact company mergers and amalgamations or even alter shareholder or creditor rights. Scheme of arrangement is initiated to bring changes in the business structure or when there are no other options for reorigination.

"A registered valuer shall be a person, registered as a valuer, having such qualifications and experience and being a member of an organization recognised as a valuation agency under the companies act," SEBI said.

Customs duty, cargo support to be used to boost local shipbuilding, repairs industry

The government plans to use a mix of duty restrictions on small vessel imports and the prevailing cargo support policy in a multi-pronged strategy to grow the local shipping, ship building and repairs industry.

The Customs duty paid on the import of vessels will be fully refunded if the vessel is replaced by a new 'Made in India' vessel in four years, according to the Maritime India Vision 2030 document prepared by the Shipping Ministry.

State-owned firms will provide long-term charters of over seven years for vessels made in India from 2021 and provide long-term cargo visibility (6-9months) for all vessels.

Foreign-built and foreign flagged vessels will be suitably disincentivised to provide a level-playing field to Indiabuilt and Indian-flagged ships, it said. Ship repair work valued below Rs. 200 crore will be carried out at local shipyards only under the Atmanirbhar Bharat provisions.

The right of first refusal (ROFR) rules framed in 2016 would be strictly followed in the case of shipbuilding and ship repair works of over Rs. 200 crore. Entities functioning under the Shipping Ministry will ensure that all vessels owned and operated by them are repaired at Indian shipyards only.

GST for ship repair and its inputs will be at 5 per cent while the free trade warehousing zone (FTWZ) requirements for minimumsizeandinvestment outlay would be waived off for ship repair-specific free trade 'depots/ units'.

Vessels availing cargo ROFR through PSUs and government entities shall be mandatorily repaired in Indian shipyards. Besides, vessels (including foreign vessels) taken on long term time-charter contracts by PSUs and government entities, should undertake planned repairs only in Indian shipyards.

These measures are expected to help local yards built 5,00,000 gross tonnage (GT) ships by 2030 from the current 27,000 GT ships.

In the case of shipping, the priority for availing the ROFR granted to Indian flagged ships for carrying government-owned or controlled cargo will be amended to boost the capacity of Indian registered ships and make them more competitive. Accordingly, Indian-built, Indianflagged and Indian-owned ships will get first priority, followed by foreign-built, Indianflagged and owned vessels and Indian-built, foreign-flagged and owned ships.

Securitisation activity doubles to Rs. 15000 crore

Domestic securitisation volumes, which had seen a sharp drop in the first quarter of the financial year 2020-21 (Q1FY21) at Rs 7,500 crore, more than doubled in Q2 at Rs 15,200 crore. The improvement in volumes was supported by both reduced investor wariness and an increase in disbursements by financial sector firms leading to higher financing needs, according to rating agency ICRA.

Securitisation volumes in H2FY21 are expected to be more than double the volumes seen in H1FY21. "We estimate securitisation volumes to be about Rs 0.8-0.9 trillion for FY21, though still significantly lower than the Rs 2 trillion seen in FY20," ICRA said in a statement.

The increase in the share of gold loans in securitisation, a trend witnessed in FY20, continued in H1FY21 wherein 16 per cent of the value of loans securitised were gold loans.

Commercial vehicle (CV) loans as well as mortgage-backed securities emerged as the leading asset classes, each accounting for one-third of overall volumes in H1FY21. In Q2FY21, the CV sector continued its momentum and its share in quarterly volumes remained at similar level of around 30-35 per cent.

Investors in securitisation papers are drawing confidence from the healthy increase seen in collection efficiency across all asset classes. The proportion of assets under management (AUM) which was under moratorium declined gradually during April to August 2020, as the moratorium provided by the Reserve Bank of India (RBI) under the 'Covid-19 Regulatory Package' came to an end. Overall, about 45 originators undertook securitisation in Q2 as against only 18 originators seen in Q1.

Refined gold delivered for first time in India on BSE platform

BSE has become the first domestic exchange to complete deliveries of gold under BSE-BIS India Good Delivery Standard on its commodity platform.

The BSE has executed gold delivery worth Rs. 1.5 crore in the 'Options in Goods' framework. The gold delivered in the contracts were domestically refined from recylced gold. Incidentally, this is the fifth consecutive month of deliveries at the exchange designated vault in Ahmedabad, Gujarat.

The refined gold delivered on the exchange platform was produced by Augmont Enterprises and Parker Precious Metals LLP. In addition to these refineries, MD Overseas and Sovereign Metals are also empanelled by BSE to deliver serial-numbered gold bars on the exchange platform. Earlier, BSE used to accept only serial-numbered gold bars approved by the London Bullion Market Association for the settlement of gold contracts exchanged on the commodity derivatives segment of the exchange.

The exchange also executed deliveries of silver-based on LBMA standards under the 'Options in Goods' segment, at the exchange designated vault in Ahmedabad, Gujarat.

Sameer Patil, Chief Business Officer, BSE said the deliveries and acceptance of Indian refined gold shows the trust reposed by buyers and sellers on BSE-led initiatives.

This will facilitate increased participation and widen the array of acceptable gold provided by members for delivery of Bullion on commodity derivatives segment of BSE, he said.

The commodity derivatives segment of BSE registered the highest turnover of Rs. 5,010 crore on July 29.

GST collection in October tops Rs. 1 lakh crore

For the first time since February 20, GST collections topped Rs 1 lakh crore in October, indicating that economic activity is headed to pre-Covid-19 levels.

The mop up last month was 10.2% higher at Rs 1,05,155 crore, making it the fastest rise since the 15.6% growth recorded in March 2019, latest data released by the finance ministry showed.

"Collections which are higher by nearly Rs 10,000 crore compared to the same period in 2019 indicate the definitive revival of consumption and festival spends across the economy," said M S Mani, senior director at consulting firm Deloitte India.

"Given the festivities, collections in November could also be robust," said Pratik Jain, who leads the indirect tax practice at consulting firm PwC India. In October 2019, collections had dropped by over 5% to Rs 95,380 crore. This time, domestic sales resulted in an 11% rise in collections, while those due to imports were estimated at 9%.

"Given the surge in number of returns filed and the fact that there is clear uptick in demand due to revival of the economy as well as upcoming festive season, it's not surprising that collections in October exceeded 1 lakh crore.

One of the reasons for the higher number of returns could be the fact that the last date for claiming input credit for 2019-20 was September 30 and a lot of companies would have carried out a yearly reconciliation and asked their vendors to file returns or report missing transactions," said Jain.

Last year, festival sales were bunched up in October due to Dussehra and Diwali. This time, Dussehra sales took place in October, and the numbers will be clearer next month. Diwali sales are expected to be captured in the December numbers.

The government sees the numbers as a pointer towards growth slowly coming back and strong signs of recovery in the months ahead.

Vivax se Viswas scheme: IT dept scraps 15-day rider for tax payment

The government extended for the third time the deadline for making payment under the direct tax dispute settlement scheme 'Vivad se Vishwas' by three months to March 31, 2021.

As per a CBDT notification, declaration under the Vivad se Vishwas Scheme shall be required to be furnished latest by December 31, 2020.

"In order to provide further relief to the taxpayers desirous of settling disputes under Vivad se Vishwas Scheme, the government today further extended the date for making payment without additional amount from December 31, 2020 to March 31, 2021," an official statement said. ❑

MUTUAL FUND NEWS

Mutual funds see record outflow in October 20

Mutual funds continued their selling spree for the fifth straight month in October, pulling out Rs 14,344 crore from the equity markets during the month, as per Sebi data. This is the highest single-month withdrawal since March 2016 when they had pulled out Rs 10,198 crore.

Thus far in the calendar year 2020 (CY20), mutual funds' net inflows stand at Rs 2,671 crore. If the pace of withdrawal continues, they are likely to turn net sellers for the first time in seven years. Earlier, in CY13, mutual funds had sold equities to the tune of Rs 21,082 crore.

In the past five months (since June 2020), mutual funds have sold equities worth Rs 37,388 crore. In April, they had recorded net outflow of Rs 7,996 crore, while in May they had invested a net Rs 6,522 crore in equities. Prior to the withdrawal, mutual funds invested a net Rs 41,533 crore in stock market during January - March 2020, Sebi data show.

Analysts attribute this withdrawal trend to the nervousness ahead of US polls and the fact that the markets raced ahead even as the economic recovery remained fragile back home.

"Mutual funds have played it safe since the past few months. Moreover, most retail investors started investing on their own during the lockdown. Given the uncertain macro-economic environment and the fact that the markets were not in sync with the economic reality also created some confusion in the mind of investors. As a result of these factors, mutual funds too preferred to remain on the sideline," explains G Chokkalingam, founder and chief investment officer at Equinomics Research.

Even though mutual funds have been on a selling spree, foreign portfolio investors (FPIs) have been investing heavily. During October 2020, FPIs put in Rs 19,541 crore, or $2.66 billion, till October 29 - their biggest single-month investment in the past 11 months, NSDL data show. Their investment in CY20 till date stands at Rs 47,887 crore or $6.46 billion. In this backdrop, the S&P BSE Sensex has slipped 1.54 per cent in CY20, however it gained 58 per cent since its 52-week low of 25,639 points touched on March 24, 2020.

The sharp rise in equity markets has now made analysts cautious from a short-term perspective, who believe most of the positives are factored in. That said, they remain bullish on the road ahead for equities from a medium-to-long term perspective, but caution against intermittent corrections.

UTI Mutual Fund launches campaign on Quora

UTI Mutual Fund (UTI MF) is extending its investor education initiative on Quora platform. UTI Swatantra has been trying to simplify investment concepts, demystify myths and increase financial literacy. It's only natural that Swatantra Kumar established its presence on Quora, a platform where customers are seeking answers to their questions on various topics.

Swatantra Kumar is the personification of one of India's largest investor education initiatives - UTI Swatantra.

The primary objective of this initiative is to simplify and resolve complexities for retail investors with regard to their decision making process. This platform aims to reach out to more and more individuals to make them financially aware and confident so that they have better control over their financial choices.

Swatantra Kumar is sharp, intelligent and amiable. He breaks down complex investment topics into small and simple explanations, thereby making the matter easily consumable. He believes that with access to financial knowledge, investors can enhance their financial quotient and gain from informed financial decisions.

Mr Imtaiyazur Rahman, CEO, UTI AMC said, "We at UTI MF are proud of our decade old investor education initiative - 'UTI Swatantra'. Our underlying objective has always been to promote investor awareness and spread financial literacy amongst the people of the country, for bringing in financial inclusion. We are confident that Swatantra Kumar on Quora will help us in fulfilling these fundamental objectives".

UTI Swatantra aims at increasing financial literacy in the country so that people are better equipped to achieve their financial goals and, in turn, capable of living a better life. It curates simple, engaging, youthful and byte-sized content in various formats such as videos, articles, infographics, comic strips, quizzes, etc. The same is made available through different platforms such as print, TV, radio, and digital. With such a wide audience base, the initiative has successfully reached out to about 135.66 million* people spread across more than 74 cities.

SEBI introduces code of conduct for mutual fund managers

Sebi has introduced a code of conduct for fund managers and dealers of AMCs in order to make them more accountable. In addition, asset management companies (AMCs) have been allowed to become self-clearing members to clear and settle trades in the debt segment on behalf of its mutual fund schemes. The move comes after Sebi board approved a proposal in this regard in September. In a notification dated October 29, Sebi said that chief executive officer (CEO) of the AMC will be responsible to ensure that the code of conduct is followed by fund managers and dealers.

It, further, said any breach of the code of conduct will be brought to the attention of the board of directors of the AMC and trustees. Currently, mutual fund norms require AMCs and trustees to follow a code of conduct. Also, the CEO is entrusted with several responsibilities. The fund managers and dealers will abide by the code of conduct and submit a quarterly self-certification to the trustees that they have complied with the code of conduct or list exceptions, if any.

Fund managers will have an appropriate and adequate basis for investment decision and will be responsible for investment in the funds managed by them. Further, fund managers will record in writing, the decision of buying or selling securities together with the detailed justifications for such decisions and not indulge in any act which results in artificial window dressing of the net asset value (NAV).

Sebi said dealers will have to ensure that orders are executed on the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned to achieve the objectives of the scheme and in the best interest of all the unit holders. Fund managers and dealers will have to ensure that investments are made in the interest of the unit holders; and will act fairly and deal with market participants in a consistent and transparent manner.

Also, they will have to identify existing or potential conflicts of interest as per their institutions policies and address the same and disclose all interests in securities as required by statutory requirements. Further, they are not allowed to carry out any transaction on behalf of a fund with any counter party who is an associate of the sponsor/AMC/fund manager/dealer/CEO "unless such transaction is carried out on arm's length basis on terms and at a price consistent with best execution standards and at a commission rate no higher than customary institutional rates."

They are not supposed to "indulge in any unethical business activities or professional misconduct involving dishonesty, fraud or deceit or commit any act that could damage the reputation of the organisation or the mutual fund industry". They cannot offer or accept any inducement in connection with the affairs of managing the funds of unitholders which is likely to conflict with the duties owed to the unitholders and not receive any gift or entertainment which is not in adherence of the policy of the AMC framed in this regard.

With regard to communication and disclosure, Sebi said fund managers and dealers will always have to communicate in unambiguous, transparent and accurate manner and conduct all communication during market hours through recorded modes and channels only. They will have to provide appropriate inputs to the valuation agencies and highlight any material deviation. Further, they will not disclose any material non-public information that could affect the value of an investment to external parties and will not act or cause others to act on such information. In addition, they will need to highlight and bring to the notice any instance of suspected malpractice or market misconduct to the appropriate risk, compliance and regulatory chains of command. Sebi said they cannot favour one scheme over another for the purpose of security allocation, transfer of benefits (profit/loss) or any valuation gain or loss including by way of inter scheme transfers or otherwise among others.

Debt MFs see Rs 1.1 lakh cr inflow in October

Debt-oriented mutual fund schemes witnessed a staggering inflow of Rs 1.1 lakh crore in October, mainly due to investment in liquid funds, money market and short duration categories.

Debt mutual fund schemes had seen net outflow of Rs 51,962 crore in September and Rs 3,907 crore in August, according to the Association of Mutual Funds in India (Amfi).

Hence significant flows have come in ultrashort, low duration, money market and short duration funds, Morningstar India Associate Director - Manager Research Himanshu Srivastava said.

Besides, funds with pristine credit quality, especially from categories such as banking and PSU funds and corporate bonds, continue to gain traction from investors, highlighting their preference for safety in this segment.

Mutual funds (MFs) that invest in fixed-income securities or debt funds saw an inflow of Rs 1.1 lakh crore in October, according to Amfi data.

Within debt schemes, liquid funds category was the biggest beneficiary with an inflow of Rs 19,583 crore followed by money market funds (Rs 15,445 crore) and short duration funds (Rs 15,156 crore).

Corporate bonds, ultra short duration funds, banking & PSU funds saw inflow of over Rs 15,000 crore, Rs 13,654 crore and Rs 5,554 crore, respectively.

Hence, credit risk category continue to witness net outflows, although the pace has slowed down significantly, Srivastava said.

Credit risk funds saw an outflow of Rs 415 crore in October as compared with outflow of Rs 539 crore in September, Rs 554 crore in August, Rs 670 crore in July, Rs 1,494 crore in June, Rs 5,173 crore in May and Rs 19,239 crore in April.

Gilt funds came back under investors' radar in October after witnessing net outflow for two consecutive months.

The category saw fund infusion of Rs 2,521 crore last month following a net outflow of Rs 483 crore in September and Rs 1,121 crore in August.

"The sovereign status of this category, with zero credit risk, has been the biggest draw for investors.

Sundaram Mutual launches SIP in Sundaram Money Fund

Sundaram Mutual has announced the launch of Systematic Investment Plans (SIPs) in Sundaram Money Fund, its open-ended liquid scheme. The fund house had also launched the instant redemption facility in the fund earlier this year. SIPs are available in the growth option for both regular and direct plans of the fund, on transactions made through the Sundaram Mutual website, branches, and RTA.

The facility would be available from November 13. Users can use NACH/ OTM to set up Weekly, Monthly or Quarterly SIPs, said the fund house. Weekly SIPs will be processed on Wednesdays, monthly SIPs on any day of the month and Quarterly SIPs on any day of the quarter beginning January, April, July, and October. The minimum SIP amount is Rs 1,000 and in multiples of Re 1 thereafter.

Commenting on the release of the new feature, Mr. Sunil Subramaniam, Managing Director, Sundaram Mutual, said, "Savings and current accounts are often used to park surplus funds for unplanned expenses, but liquid funds score over them as they can give you potentially higher returns due to 'disintermediation' and 'friendlier capital gains taxation."

"Sundaram Money Fund, already equipped with 24*7, 365 days instant redemption, is now a power-packed tool that allows you to set up SIPs for your surplus, ensuring that your hard-earned money is put to better use regularly.

The need to manually transfer funds for your short-term goals, emergencies, etc. has now been eliminated as you can automate periodic additions to your investments and stay on track to building your corpus. This is one more step in SundaramMutual's endeavour to add value to its core retail franchise," he added. ❑

CO-OPERATIVE BANK NEWS

RBI imposes penalty on 2 co-operative banks in Tamil Nadu and Karnataka

RBI has imposed a monetary penalty of Rs. 15 lakh on two co-operative banks, including Millath Co-operative Bank, Davangere (Karnataka) and The Thiruvaikuntam Co-operative Urban Bank Limited, Thoothukudi (Tamil Nadu).

Issuing a statement, the RBI said, "A penalty of Rs. 10 lakh has been imposed on Millath Co-operative Bank for non-adherence/violation of all inclusive directions and other directions imposed on the bank."

In another statement, the central bank said a monetary penalty of Rs. 5 lakh has been imposed on the Tamil Nadu Co-operative Bank for contravention of the directions issued by the RBI on prohibition of loans and advances to directors.

In both the above cases, the penalty has been imposed based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the banks with their customers, the statement read.

RBI said the inspection report of Millath Co-operative Bank, based on its financial position as on 31 March last year, revealed inter alia, violation/non-compliance with the directions on permitting of withdrawals in excess of the stipulated amount and sanctioning of fresh loans and advances in violation of directions issued under Supervisory Action Framework (SAF).

Meanwhile, the inspection report of The Thiruvaikuntam Co-Operative Urban Bank, based on its financial position as on 31 March, 2019, revealed that the bank had sanctioned loans to its directors in contravention with the directions issued by RBI in this regard.

Notices were issued to both the co-operative banks. The RBI further added, "After considering their replies and oral submissions made during the personal hearing, RBI came to the conclusion that the charges of non-compliance with directions were substantiated and warranted imposition of monetary penalty."

Crypto platform makes banking entry in India with co-op credit society tie-up

Cashaa, a London-based online cryptocurrency platform, has tied up with the United Multistate Credit Co-operative Society to provide savings accounts and loans to its customers and crypto investors in India. The society has 56,000 customers and branches in Rajasthan, Delhi and Gujarat. The joint venture called Unicas will offer interest on crypto deposits and the society will also give out loans against cryptocurrency.

Cashaa provides clearing services and offshore bank accounts to cryptocurrency exchanges in India. "For rupee loans against crypto, since the cryptocurrency has to be deposited in our wallet as collateral, the approval is instantaneous. The deposit acts as lien in case of default. This is much easier than taking loans against real estate where title deeds and other documents have to be verified.

Customers can also maintain crypto savings accounts with Unicas and get interest in the same cryptocurrency as the deposit. For instance a bitcoin deposit will get interest in bitcoin, said Kumar Gaurav, CEO, Cashaa.

"We have 56,000 customers and 16 of branches. 90% of our branches are in Tier 3 cities and mostly in Rajasthan, Delhi and Gujarat. Through this tie up, we will open up a new market and also open up cryptocurrency savings accounts and loans for our customers. We are very excited to take this forward," said Dinesh Kukreja, CEO, The United Multistate Credit Cooperative Society Ltd.

Multistate Credit Cooperative Societies are regulated by the Central Registrar of Cooperative Societies rather than the RBI. No specific permission from the registrar is required for this, said Kukreja.

"We will also be tying up with other co-operative credit societies in the coming months. We will modernise and digitise their operations. Their branches will act as lounges where people will be given information about cryptocurrency. Our strategy will also rescue a struggling cooperative credit sector which has been forced to close branches and lay off staff due to Covid 19," added Gaurav.

Mega boost to Regional Rural Banks: Govt to infuse Rs. 670 crore

TheCentral government has provided Rs. 670 crore to Regional Rural Banks (RRBs) considering their importance in agriculture finance during these difficult times.

Of the 43 RRBs, about one-third especially from north-eastern and eastern regions are in losses and they needed fund to meet regulatory capital requirement of 9 per cent, sources said.

As per the current scheme for recapitalisation of RRBs, the capital support is provided to these banks by the Centre, concerned state governments and the sponsor banks in the ratio of 50:15:35, respectively to enable them to meet the regulatory requirement of capital to risk weighted assets ratio (CRAR) of 9 per cent.

According to sources, matching funds were released by sponsor banks and many of the state governments.

With the infusion, sources said, CRAR of these weak RRBs rose to 9 per cent level as per the regulatory norms prescribed by the Reserve Bank of India (RBI).

This round of infusion would take care of capital needs till March 31, 2021, sources added.

RRBs as a group reported net loss of Rs. 2,206 crore in the fiscal year ended March 31, 2020, as against Rs. 652-crore net loss in FY19, according to data published by the National Bank for Agriculture and Rural Development (Nabard).

Gross non-performing assets as a percentage of gross loans outstanding of RRBs marginally declined to 10.4 per cent as on March 31, 2020, from 10.8 per cent as on March 31, 2019, the data showed.

Deposits and advances of RRBs increased by 10.2 per cent and 9.5 per cent, respectively during FY2019-20. Gross outstanding loans stood at Rs. 2.98 lakh crore as against Rs. 2.80 lakh crore in FY19.

Priority sector loans constituted 90.6 per cent or Rs. 2.70 lakh crore of the gross loans outstanding of RRBs as on March 31, 2020. Share of agriculture and MSME sectors in total loan outstanding stood at 70 per cent and 12 per cent, respectively.

As of end March 2020, 17 out of the 45 RRBs had CRAR of less than 9 per cent, of which six RRBs had negative CRAR. System-wide CRAR of RRBs deteriorated to 10.2 per cent as on March 31, 2020 from 11.5 per cent in the previous year, the data showed.

These banks were formed under the RRB Act, 1976 with an objective to provide credit and other facilities to small farmers, agricultural labourers, and artisans in rural areas.

As per RBI guidelines, the RRBs have to provide 75 per cent of their total credit under priority sector lending. RRBs are primarily catering to the credit and banking requirements of agriculture sector and rural areas with a focus on small and marginal farmers, micro and small enterprises, rural artisans and weaker sections of the society.

In addition, RRBs also provide lending to micro/small enterprises and small entrepreneurs in rural areas. With the recapitalisation support to augment CRAR, RRBs will be able to continue their lending to these categories of borrowers under their PSL target, and thus, continue to support rural livelihoods.

With a view to enable RRBs to minimise their overhead expenses, optimise the use of technology, enhance the capital base and area of operation and increase their exposure, the government has initiated structural consolidation of RRBs in three phase, thereby reducing the number of RRBs from 196 in 2005 to 45 at present.

Goa Bank Employees Co-op to be liquidated

Registrar of Co-operative Societies, Goa has ordered the closure of two co-operative societies for their non-compliance with statutory requirements for a long time.

These two societies are Employees Co-operative Credit Society and the Goa Bank Employees Co-op Credit Society. Both societies will soon be liquidated as part of the winding up process.

Earlier, the registrar had sent a show cause notice to both the co-operative societies. Sources say under the existing circumstances, revival of the bank was impossible. ❑

LEGAL CASES

The insolvency code's confusing clauses call for a review

Under the Insolvency and Bankruptcy Code, 2016 (the Code), where there is a default on the part of corporate debtor in repaying a debt of Rs. 1 crore or above, state of insolvency of the corporate debtor is presumed and a creditor has the option to set in motion the Corporate Insolvency Resolution Process (CIRP) to bring about resolution of insolvency.

If no resolution happens, ipso facto, liquidation of the corporate debtor is ordered. In view of the systemic flaws and inefficiencies, during CIRP as well as during liquidation, the control over the management of the insolvent corporate debtor gets placed in the hands of a resolution professional and the Board of Directors remain suspended during those periods.

In V. Padmakumar v Stressed Assets Stabilisation Fund (SASF) & Anr. decided by the National Company Law Appellate Tribunal (NCLAT) on March 12, 2020, the account had become NPA in 2011 itself and a claim of ?124 crore. Despite the fact that there was a decree passed by the DRT on August 17, 2018, the NCLAT, by a majority decision, had dismissed the application of the financial creditor. The contention that the audited financial statements of the corporate debtor discloses the liability and such disclosure operates as an acknowledgement of debt did not find favour with the NCLAT.

A majority of the bench of NCLAT ruled that if disclosures made in financial statements were to be treated as an acknowledgement of debt limitation would never stop its running. It is worth noting that other than the disclosures in the financial statements, no other document was produced to constitute acknowledgement of the debt within a period of three years before the date of the application under the Code. In a minority decision, a member had, however, expressed his dissent.

Previously, in Ishrat Ali v Cosmos Cooperative Bank Ltd and Others [Company Appeal (AT) (Ins) No.1121 of 2019 also, the NCLAT had formed a similar opinion while setting aside the order of NCLT commencing the CIRP. In that case too, the account of the corporate debtor had become NPA in 2014 itself and the Bank had also taken possession of the movable assets under Section 13(4) of the 'SARFAESI Act, 2002' as back as on 16 January 2017. Yet, the NCLAT ruled that for any action under the Code the limitation of time of three years prescribed Article 137 would apply and, hence, the action under the Code was time-barred.

In both above cases, NCLAT had relied on several decisions of the Supreme Court including Jignesh Shah and another vs. Union of India and another — (2019) 10 SCC 750 and BK Educational Services Private Limited vs. Parag Gupta and Associates — (2018) SCC Online SC 1921.

In fact, recently, in Babulal Vardharji Gurjar Vs. Veer Gurjar Aluminium Industries Pvt. Ltd. & Anr. (2020) SCC Online SC 647, the SC had held that the application made by the Respondent No. 2 under Section 7 of the Code in the month of March 2018, seeking initiation of CIRP in respect of the corporate debtor with the specific assertion of the date of default as July 8, 2011, is clearly barred by limitation for having been filed much later than the period of three years from the date of default as stated in the Application.

So, the question is whether disclosures in audited financial statements would constitute an acknowledgement of the debt, or not. Financial statements show the information derived from the books of accounts in accordance with

Sections 128 and 129 of the Companies Act, 2013 and there should be some sanctity to audited financial statements which includes the directors' report and auditors report.

Ironically, an audited balance sheet duly approved and authenticated in accordance with mandatory provisions of Section 134 of the Companies Act, together with the director's responsibility statement will not serve as acknowledging debts owed by the company though if there had been a simple letter signed by an officer of the company would have been treated as a valid acknowledgement for the purpose of Section 18 of the Limitation Act. A conundrum of sorts, indeed. Practically speaking, if disclosures in financial statements are treated as acknowledgements of debts reviving the limitation, non-disclosures would result in contravention of the law and may lead to prosecution.

The stand taken by NCLAT in Padmakumar and Ishrat Ali's cases appears to be requiring a review and moreover, even the stand taken by the SC in the cases above referred to appears to be contrary to the fundamental objectives of the Code. It appears to be inconsistent with the "debt and default" ingredients. The liability of the corporate debtor has not been obliterated from its books. The liability is real; the default is also real. ❑

SC ruling leads Rs. 26000 crore bad loans not yet classified as NPA

The Supreme Court order that allowed banks to maintain certain loan accounts as standard despite defaults by borrowers has at least for now concealed soured loans worth nearly Rs. 26,000 crore.

The number is likely to be much higher, given that only 10 of the 34 public and private banks have disclosed such bad loans, according to the data. The other banks have not quantified such non-performing assets (NPAs) in their regulatory disclosures.

The Supreme Court on 3 September ordered an interim stay on classifying bad loans if not declared so by 31 August and banks were expected to use this relaxation in the September quarter or till the final order was pronounced.

While private-sector lenders have reported their proforma numbers, state-owned banks, barring a few, have not done so.

Given its size, State Bank of India (SBI) has the highest amount of such bad loans at Rs. 14,388 crore. Had the Supreme Court not ordered a stay on asset classification, its bad loans as a percentage of total loans would have been 5.88%, instead of the reported 5.28%.

Chairman Dinesh Khara said the bank has already reduced the proforma bad loans by Rs. 6,000 crore in October. The bank expects Rs. 20,000 crore of slippages or additional bad loans in the six months to 31 March.

"The Rs. 20,000 crore slippage, which we have estimated for the second half of fiscal 2021, is based on our normal run rate of Rs. 10,000 crore per quarter," said Khara.

Meanwhile, Union Bank of India said in a regulatory filing that its bad loans would have been higher by Rs. 4,263 crore if it had followed regular asset classification norms set by the Reserve Bank of India. However, the bank's management clarified it has set aside funds to cover loan losses and does not expect the loans to entirely turn bad.

Among private-sector lenders, HDFC Bank Ltd said its gross bad loan ratio would have been 1.37% but for the apex court order. For HDFC Bank, the court order masks bad loans worth Rs. 3,036 crore as of 30 September. Rival ICICI Bank also said its gross NPA ratio would have been 5.36%, instead of 5.17% reported in Q2. In absolute terms, it works out to Rs. 1,410 crore of proforma bad loans for ICICI Bank.

Although most lenders have reported a drop in toxic assets in the September quarter, this shows a truer extent of stress in banks' books following six months of moratorium announced as a relief measure against covid. Lenders, though, have made provisions against these accounts and are hoping they will be resolved within the next quarter. However, given that few retail loans are expected to be recast, the stress in banks' books may be here to stay.

Fastest scale-up in insurance distribution: PhonePe sells 5 lakh policies in just 5 months

PhonePe, India's leading digital payments platform, today announced that it has sold over 5 lakh insurance policies on its platform during the period April - August 2020. This makes PhonePe the fastest-growing insure-tech distributor in India within just 9 months of the Insurance category going live on the PhonePe app.

PhonePe forayed into the insurance segment in January this year and was the first digital payment platform to launch international travel insurance for business & leisure travellers. Since April, it has launched 5 more insurance products which include COVID-19 Insurance, Domestic Travel Insurance, Hospital Daily Cash, Dengue & Malaria Insurance, Personal Accident Cover in addition to International Travel Insurance.

The short span of time within which these products were launched is significant considering the industry usually takes a few months to develop and launch similar products. What is also noteworthy is that PhonePe has timed its products based on market needs and has also partnered with leading insurers to offer customized products for its vast registered user base exceeding 23 crores. PhonePe launched a few cost-effective insurance products for COVID-19 in April & May when the pandemic was seeing a rapid spread across the country. With the lockdown ending and domestic travel gradually starting across the country in June, the company launched a comprehensive, industry-first domestic multi-trip insurance cover at just INR 499 for all domestic trips for a year. PhonePe soon launched sachet-based insurance products in July beginning with Hospital Daily Cash to enable customers to get an assured amount if they are hospitalized due to injury or illnesses including COVID-19. Keeping the upcoming rainy season in mind which sees a huge number of cases of mosquito-borne diseases across the country, it launched Dengue & Malaria Insurance in July.

The PhonePe app has seen insurance purchases from over 15,000 pin codes covering tier-1, 2, 3 and beyond reflecting the deep penetration of its platform and tremendous customer response to its offerings. Over 70% of PhonePe's users come from tier- 2 and 3 cities with many users buying insurance for the first time. The leading tier-2 and tier-3 cities for insurance sales on PhonePe are Visakhapatnam, Jaipur, Ahmedabad, Nashik, Vijayawada and Aurangabad.

Commenting on the milestone, Hemant Gala, VP Financial Services & Payments, PhonePe said, "We are delighted to have achieved the 5 lakh insurance policies sold milestone on PhonePe within a short span of 5 months. This is by far the fastest scale-up seen in the insurtech industry. We are thankful to our partners who have worked closely with us to innovate and co-create affordable products for our customers to cater to their specific needs. Customers continue to repose their trust in PhonePe as they find buying insurance on our platform affordable, simple to understand and easy. This is in line with our goal to be a one-stop destination for all insurance needs of our customers. We are in talks with multiple insurers and have many new products in the pipeline which will be launched in the coming months."

HUDCO Makes Dividend Payout to MoRD

The Hon'ble Union Minister of Rural Development, Shri Narendra Singh Tomar, was presented the final dividend cheque of Rs.97.52 crore for the year 2019-20, by Shri M. Nagaraj, Director (Corporate Planning) HUDCO. Present on the occasion were Shri Nagendra Nath Sinha, Secretary MoRD, Shri D. Guhan, Director (Finance) HUDCO and other senior officials. The Ministry of Rural Development with a 20.73% share holding has received a total dividend of Rs. 128.65 crore.

In its Golden Jubilee year, HUDCO has made an all-time high dividend payout of 31% amounting to Rs 620.59 crore for the year 2019-20. HUDCO also paid dividend of Rs. 428.68 crore to Ministry of Housing and Urban Affair (MoHUA), and Rs. 63.26 core to public shareholders.

Mastercard Partners with Signzy for Global Rollout of Video KYC

Mastercard recently announced a partnership with Signzy, a leading RegTech startup based in India, to enable Signzy's video-based KYC (Know Your Customer) solution for its banking customers. With this partnership, Mastercard customers will benefit from a completely paperless, remote and secure onboarding solution for end-users.

Deployment of Video KYC will allow end-users to complete and submit their KYC application from the safety and security of their homes. This would be 99% faster than the traditional paper-based KYC process. Backed by artificial intelligence (AI) and machine learning (ML) technologies, Signzy's Video KYC solution features security protocols to prevent unauthorized system intrusion or attempted fraud. Further, the solution offers industry-leading scalability to deal with high volumes of video KYC transactions.

In India, this launch will further Mastercard's goal to drive inclusive growth via financial inclusion by enabling individuals and small businesses to go online. Earlier this year, the payments technology company partnered with various players and launched low-cost innovations that allow merchants to start accepting digital payments without incurring additional or high infrastructural costs. Video KYC will further the ease and speed of onboarding in minimal time.

Arpit Ratan, Co-founder of Signzy said, "Mastercard has strongly advocated digital transformation in the financial services space and has led by example. It is a matter of great pride to be chosen as their Video KYC partner. Our efforts are geared to offer our partners a mobile-first, customer-centric digital experience for their customers. Signzy's AI-led, on-premise API framework allows easy integration across multiple platforms providing a quicker and completely remote and paperless customer-onboarding, taking care of all security protocols."

Rajeev Kumar, Senior Vice President, Market Development, South Asia, Mastercard, said, "Mastercard's partnership with Signzy will shorten the traditional clunky, time consuming and expensive KYC process for financial institutions. Signzy's AI and ML has well-established links to many KYC databases in India which allows seamless support for e-KYC and Video-KYC. Therefore, the platform also solves the problem of many SME's in India who may not have all the KYC documents. With V-KYC, SME's can now complete their contactless KYC process remotely at their convenience from their homes and shops."

Rajeev also added, "Mastercard and Signzy are assisting merchant acquiring banks to easily on-board SMEs in remote corners of the country for digital payments acceptance, open SME accounts and NBFCs to underwrite and disburse SME loans. During the nationwide lockdown, Signzy's Video KYC come as a big relief for financial institutions and SMEs."

Signzy's clientele has more than 90 Indian financial institutions, ranging from banks, NBFCs, insurance firms, Asset Management Companies and so on. Some of the marquee names in this list include the State Bank of India (SBI) and ICICI Bank, Aditya Birla Sunlife AMC, and BoB Financial Ltd etc. Moreover, Signzy's offices in New York and Dubai and partnership with Mastercard equip the company to serve financial institutions across the globe. Mastercard has collaborated with Signzy to develop onboarding solutions for merchants and has a global partnership with them to scale up the solution across markets worldwide.

Recently, Mastercard also announced a commitment of Rs 250 crores (US$33 million) to help reboot Indian SMEs and enable business recovery amid Covid-19 outbreak. As part of this commitment, Mastercard will roll out multiple initiatives to:

i) bring small businesses into the digital economy by enabling them to go online

ii) provide them with catalytic inputs to operate growth-oriented businesses, including but not limited to access to credit, know-how, and value-added services while supporting them in meeting the new norms of safety and health protection

iii) empower women owned enterprises to unlock their economic potential.

CYBER SECURITY, ITS IMPORTANCE IN BANKING AND PRECAUTIONS

Cyber Security has become a major requirement forall the individuals and organisations that are doing any of the activity related to IT (information technology), as there is a major threat from various sources involved in cyber crime. Cyber Security provides the protection from any damage to software, hardware, network or electronic data from such external sources.

The extensive usage of internet and digitisation in most of the organisations including banks has also increased the Cyber risks to the people engaged or linked to these organisations especially to those using digital platform. That's why most of the organisations are having their own Cyber Security Policies so that it can be a guiding light for the employees working in those organisations because if those measures are not adhered, it may result in loss of data as well as financial loss to customers as well as to the bank which may lead to loss of reputation to such organisations and their integrity may also become doubtful.

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In earlier times, most of us were doing transactions through banking sector by going physically. But with the increase of digitisation and time constraints organisations being technology driven, customers especially those of new generation are doing their transactions on one or another digital platform as per their ease of use and availability. Earlier for doing digital transactions, a person used to go to cyber café. But later on, those who were able to afford were doing the same on their laptops.

But now most of the transactions are being done on mobile. But due to lack of awareness or carelessness, very less persons are taking security in their mobiles. They are not using antivirus for their mobiles so that they can save their mobile and hence the data and personal information stored in it from unauthorized access as well as from downloading of any harmful content.

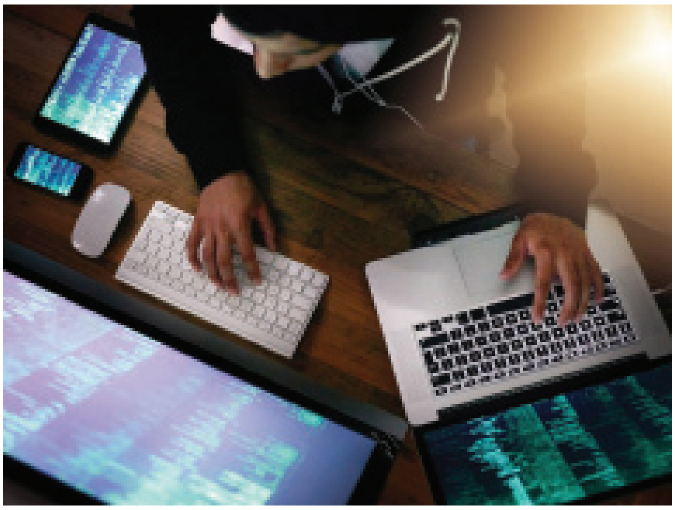
Cyber Security threats include many types of Social Engineering threats. The mostly used threats are described below in brief:

Phishing: It is most common among users who are not well versed in browsing the internet and online resources. It is used to obtain sensitive/confidential information such as login credentials, account details etc. Very often, phishing is done by e-mail.

Spear Phishing: It is similar to phishing, the difference being that spear phishing emails are carefully designed to a specific individual, organisation or a group. Such mails are having a link to some malicious website to get someone unknowingly and unintentionally downloading a piece of malware to release some sensitive information.

Spoofing: The word 'spoof' means to hoax, trick or deceive. Therefore, in the IT world , spoofing refers tricking or deceiving computer systems or other computer users. It is a type of attack to gain unauthorized access to computers. This is typically done by hiding one's identity or faking the identity of another user on the internet. E-mail spoofing involves sending messages from a bogus e mail address of another user.

Identity Spoofing : A method of deception by using another IP address (that is not your own) to access the network that is usually used as on-line camouflage to mask their activities and/or gain unauthorized entry. In other words, it refers to the action of assuming the identity of some other entity and using that identity to accomplish a goal.



Vishing : Vishing is short name of voice phishing which is used to solicit private, personal or financial information through phone calls.

Smishing: Also known as SMS phishing, this method uses text messages in order to deceive recipients to solicit personal information.

Pharming: It is the fraudulent practice of directing Internet users to a bogus/fraudulent website which appears to be a legitimate one, in order to obtain personal information.

Baiting: It is somewhat similar to a phishing attack . It relies on the greed or curiosity of a victim. However, what distinguishes them from other types of social engineering is the promise of an item or good that hackers use to entice victims.

Pretexting: A Pretext is a false motive. Pretexting is a form of social engineering where attackers lie to obtain privileged data. They focus on creating a good pretext, or a fabricated scenario, that they can use to try and steal their victims' personal information. Such persons pretend to need information in order to confirm the identity of the person they are talking to. After establishing trust with the targeted individual, the pretexter might ask a series of questions designed to gather key individual identifiers such as confirmation of the individual's social security number, mother's maiden name, place or date of birth or account number.

Importance of Cyber Security in Banking

In case of Banking Sector, the importance of cyber security is to protect the customer details whether it is personal or account related information. This is a tech savvy era and more and more persons are going for a less cash transactions; activities and payments are being done through online transactions. There have been many cases in the past where the systems of the banks were hacked and they had to bear financial losses due to which the trust of their customers is lost and hence the customer base.

The major cyber threats which the customers are facing are through more and more use of mobile applications in which they are doing transactions with having a link to their account details. The customers are giving access to all the details even if they are not required for every application. Besides, the customers are not using any security measures for saving their data.

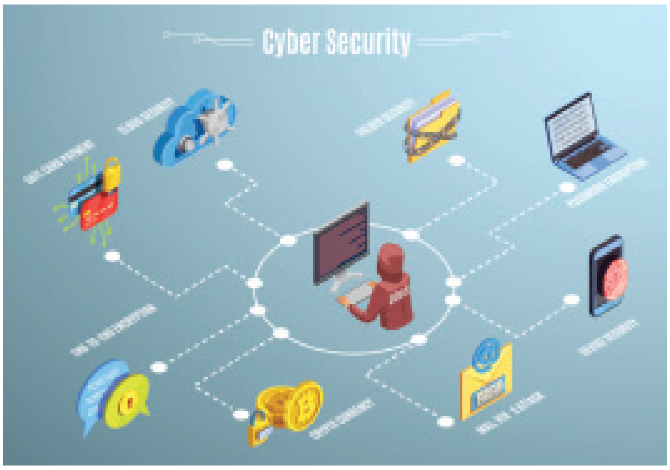
Precautions to be taken for Cyber Security:

We have discussed various types of Cyber Security threats. Now it is necessary to discuss about the basic precautions that can be taken for preventing such type of threats. Some of them are discussed below:

Desktop Security: It is very much necessary to keep our desktop secure. It starts from locking the desktop whenever we are leaving our seat. The locking of the screen can be done by pressing Alt+Ctrl+Del and then selecting the option of locking the computer. But the same can also be done in fraction of a second by simply using the combination of Windows+L. It prevents the data of our desktop being misused or deleted by any of our colleague/customer having any malafide intention and who may use this opportunity of misusing our system if it is found unlocked/open at some point of time. Besides, some more precautions are necessary to be taken for securing our data in our PC.

It includes keeping our desktop screen clear and minimum files should be present on it as desktop is a part of C:\ drive and if due to any reason, the hard disk is formatted, all the files present in C:\ drive are difficult to recover. So, it is advised to keep our important files in any drive other than C:\ . We may have some files which may be of daily use. In such case, we can create a shortcut of the same on the desktop and use it. Also, sharing of folders should be avoided because when we share a folder, all the contents available in the folder become available to all the network users and are prone to risk. So, if it is very necessary to share some content or file on the network , share that particular file instead of full folder.

Password Security: Password security is very much important for every application, whether it is desktop or any mobile application. Often, it is seen that in offices, either the passwords kept by the users for their systems are same or known to their colleagues. It is very risky, as the data



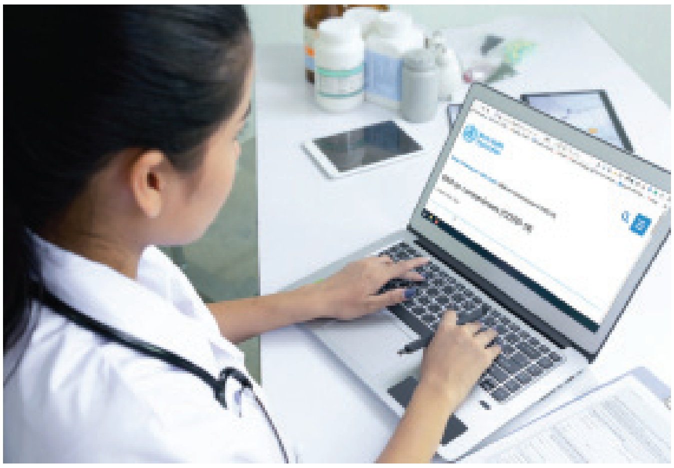
available in the system as well as their personal information/files are available to all. The password for any of the application should not be simple so as to be guessed by anybody and it should not include name, date of birth, anniversary, any other personal information or having 'easy to guess' clues. The password used should be long and a strong one which is difficult to guess and should be a combination of numbers, upper, lower & special characters. A zero can be used for substituting the letter O or @ can be used for the letter A.

The longer and more complex the password is, harder it is to crack. It can be a nonsense phrase or grammatically incorrect phrase. But sequentially words/numbers on a keyboard such as qwerty9876 should be avoided. If a phrase is used as a password, better to capitalize the first letter of each new word, which will be easier to remember. The password should be changed often and especially if we have a doubt that somebody has come to know about our password. Although, it is very difficult to keep different passwords for various applications, but still it is advisable to do the same.

Also, reuse of passwords should be avoided. It is also very important to keep our passwords safe and secure and at a place in our mobile/computer which is not within plain sight of other people (never on sticky notes on our work computer). Even if we are storing a list of passwords or password hint sheet in a document file in computer/mobile, name it randomly so that it is not easy to guess by snoopers and better to have a master password for that file (which at least should not be forgotten.). Besides, it is also to ensure that password should not be shared over the phone. Even if there is an urgency for the same, it should be shared in the form of a code or by splitting it and sending it.

Anti-Virus Security: Our Computers/Mobiles are most vulnerable to threats from virus attacks and being attacked by malware which can be avoided by taking proper measures and installing authentic antivirus softwares. Most of the organizations are using one or another antivirus softwares in their systems and mostly all the systems are monitored centrally by the particular team taking care of it. These softwares are updated regularly and periodically by these teams and such systems which are not taking part or are switched off at the time of such updation are then kept out of network till being updated so that the threat and spread of malware/virus can be avoided.

Besides the official computers, it is very necessary to use the anti-virus on our laptops, PCs as well as on our mobiles. In earlier times, internet banking was mostly done on our Laptops or on our PCs. But now- a- days, the maximum percentage of online transactions whether it is through internet banking or through any of the various mobile applications/UPI/BHIM etc., is done through our mobiles, but still a very less percentage of users are using anti-virus software on their mobiles either due to non-awareness or due to ignorance, although these anti-virus softwares are not too costly and are also available on e-commerce sites. But it is not advisable to use anti-virus softwares which are free of cost as these may be even more dangerous than not using any of the paid ones, because these free ones may steal the data and they also run many applications in the background which may even hang the mobile and hamper its working.



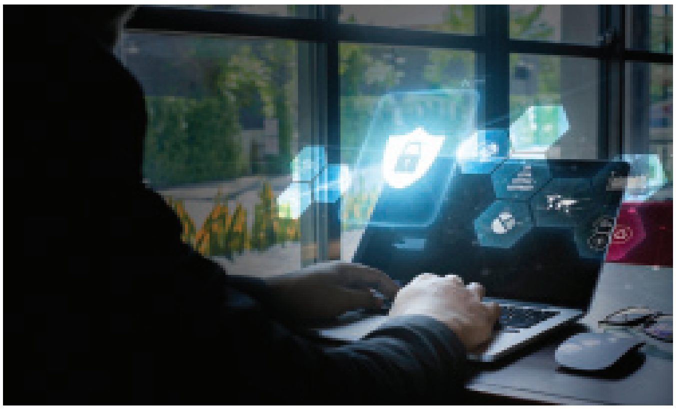
Internet Security: It is very much necessary to be careful regarding internet security. All the applications which are requiring internet are prone to risk. So, it is essential that we have to be very careful while logging into internet sites. Internet security is related not only to internet, but also to browser security, network security and the World Wide Web.

Whenever we are logging into any internet site for doing any transaction, we have to ensure that the network is secured with https. HTTPS is an internet communication protocol that protects the integrity and confidentiality of data between the user's computer and the site. Users expect a secure and private online experience when using such website. HTTPS uses an encryption protocol to encrypt communications.

The secure site can also be recognized with a padlock in the address bar. The "S" in HTTPS stands for "Secure". It's the secure version of the standard "hypertext transfer protocol". So, while browsing any site for doing any transaction, it is to be ensured that we are using a secure site and not on a compromised network that is redirecting to an impostor website.

Although, now cyber cafe are used very less for doing online financial transactions, still if a person is going to cyber café for the same, it is advised to use virtual key board (if available with the application) for using any login details and password, because key loggers might have been used in the keyboards to steal the data you feed through the keyboards while the sequence of virtual key boards change every time. Besides, at many places such as hotels, railway stations , airport etc., free Wi-Fi is available which is often used by the persons using internet in that particular area. But, as free Wi-Fi is available to all those having access to it, it is also more prone to risk.

Hence, it is better to avoid using any such Wi-Fi which is not secured especially for doing financial transactions. Both password-protected and unprotected public Wi-Fi connections can be easily monitored by third parties by employing very simple measures, for example by imitating networks. It is better to use mobile hotspot from our own



smart phone. Hence, it is to be remembered that Wi-Fi connection is extremely unsafe until the standard safety precautions are not followed.

E-mail Security: E mail is the most effective means of communication in our constantly evolving world of technology. It has become more versatile than any other form of communication and is popular for personal information as well as for corporate communication. We rely heavily on e-mail as a trusted channel for communication , but there is an increasing threat of sensitive data loss in today's world due to vulnerability to malicious e-mail attacks.It is very much important to take proper security measures in e-mail for protecting our personal information as for hackers/crackers, e mail is the easiest way to gain access to sensitive personal information.

They use the method of phishing, spear phishing, malware delivery etc. for the same. A way to detect malicious e-mails is through filters. Filters are designed to examine specific patterns and content items in an e-mail to recognize a message as spam or malware,including URLs, attachments, headers or message text. So, it is to be ensured that spam filters should be kept updated for effective e-mail security.

Now-a-days, e-mails are exchanged for the purpose of transactions on e-commerce sites, education, trading etc. Now phishing, spear phishing or spoofing e-mails are the biggest threat for an individual or an organization because these mails may contain some malware or link which may be clicked by a person and personal information may be given which may be misused for gaining unauthorized access to the bank account.

Although .zip files may be the most common ones to carry malware and .pdf files are safest to open, but, in principle, all files may contain malware . This includes .pdf, .jpg, .png, .rar, .exe, etc. Therefore, be extremely cautious with opening any attachment that is suspicious. Hence, it is very necessary that e-mails from unknown sources must not be opened or forwarded and should be deleted and we should be very skeptical of offers or messages where we need to install or open something.

Besides, e-mails in the mail box should be kept to a bare minimum, because storage, whether it is Google Drive or official one has a limited storage space and the mails will not be received after its capacity is full and the coming mails will bounce back and hence we may miss some of our important e-mails due to this reason.

Debit/ Credit Card Security: In this tech savvy era, details of debit or credit card are used in most of the e-commerce transactions . So , it is very necessary to be very careful while using the details of debit/credit card in any of e-commerce sites/POS or while using our debit card in any of the ATM. While using debit card in ATM , it is to be ensured by the users to check that any skimmers are not used in the ATM, through which details of the card can be copied and misused. Similarly for the bankers, care should be taken that the ATMs are checked for skimmers now and then and CCTVs should always be in working mode so that if CCTV footage is required at any point of time for some disputed transaction, it is readily available.

Besides, the user should not give OTP /CVV/PIN to any unknown person. A majority of the transactions are now-a-days done through UPI and the fraudulent persons are often asking OTP and the users often give the OTP when asked for the same for receiving money by the fraudsters due to being unaware of the fact that OTP is not required in case of receiving money but only at the time when account is to be debited for any payment. Also, the CVV written on the back side of the card should be memorised after receiving the card and then a small opaque sticker should be pasted on it or it should be simply erased from the card.

The last, but not the least, if we feel that there is some phishing activity or some malware or virus has attacked our system, it should be informed to the IT team of the organization we are working in through phone or e-mail and their assistance should be taken. ❑

THE 'CERBERUS TROJAN' : WAY TO 'PAATAL LOK'

"Let no such man be trusted"

-- William Shakespeare

On one side the entire world is going through tough time of Coronavirus (COVID-19) and on the other side hackers/ fraudsters are using malicious Trojan virus 'Cerberus' to steal the users' financial data such as credit card details & Banking account details.

With the rise of cyber threats from Cerberus, the CBI has put out an alert on malware that could steal your financial information.

What is Cerberus?

Cerberus, in Greek mythology, a multi-headed monster said to be the watchdog of the underworld. Here, this banking Trojan (a Trojan is a malicious code or software that looks legitimate) was created in 2019 and is a malware for hire for banking forums. It allows remote attackers to take control over infected android devices and can take screenshots, send, delete SMSes, and most importantly, steal your account information.

This malicious software takes advantage of COVID-19 pandemic to impersonate and lure the victim by sending SMS containing COVID-19 related content to download the embedded malicious link and deploys its malicious app, which usually spread via phishing campaigns to trick users into installing it on their smartphones.

This Trojan primarily focuses on stealing financial data such as credit card details, bank accounts information, passwords etc. The stolen data could be used to make unauthorized transactions from the compromised credit card/ Bank accounts.

Understanding a banking Trojan?

A banking Trojan is a malware that disguises itself as a

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credible app or software that users can download and install. Once in the system, it positions itself to access your banking details by disguising itself as an app that requires permission to be used.

It is a type of malicious code or software that looks genuine but with the capability of taking control of one's computer. A Trojan is designed to damage, disrupt, steal, or inflict harmful action on data or network.

How it affects our phone and steals financial data?

The Trojan virus contacts smartphone users via text messages and asks to click on a link saying it will provide COVID-19 updates. Once clicked, the link installs a malicious application on their phones.

Upon reaching the target device, the malware hides and asks the user an accessibility service privilege. Once granted, the malware then automatically gains access to other features without user interaction. It then disables Google's Play Protect to avoid detection in the future and registers the victim device.

Once the device becomes infected with Cerberus trojan, the malware is embedded in the applications without showing the icon. It often takes the form of commonly used applications that we need to switch on often, like the Flash Player Service, to gain accessibility permission. After permission is granted, it will allow the hacker to gain control over the device remotely.

To steal users' credit card numbers, banking credentials and passwords for online accounts, Cerberus launch 'screen overlay attacks.' This means that the hacker will be able to capture the data the user enters into an app that you are entering by casting a transparent overlay. E.g. Cerberus can display an overlay on top of an actual mobile banking app and can trick the users into entering their banking credentials into the fake login screen.

Specific feature of the Cerberus Trojan which makes it dangerous than other Banking Trojan Malware

Although there are no new features in the theft of banking credentials, what has been introduced in Cerberus is a specific injection to steal the device unlock pattern configured by the device user.

The Cerberus malware was discovered last year in June 2019 as an Android banking Trojan. However, its features were recently upgraded with RAT (Remote Access Trojan) abilities, which increase its threat level significantly.

It has been restructured and enhanced with the ability to steal multi-factor authentication (2FA) tokens from the Google Authenticator application. To do this, it simply makes use of the accessibility service, and through it reads the contents of the interface and sends the codes to the control server. Google Authenticator app was launched in 2010 as the more secure alternative for SMS Authentication codes. The app works by providing six to eight-digits unique codes that user must enter in login pages to access accounts.

Apart from being able to tamper the authenticator application, the Cerberus can also steal device screen-lock credentials - PIN codes and swipe patterns alike, allowing the hackers to unlock the device remotely to perform fraud when the victim is not using the device.

What makes Cerberus specifically a dangerous Trojan is that it has specified attacks for 30 unique targets and banking apps, and it can keep making unique targets for its attacks. The list includes 15 banking apps; 7 French, 1 Japanese, and 7 US apps, and 15 non-banking apps including Gmail, Twitter, Snapchat, WhatsApp, Telegram, Instagram, Viber, Yahoo Mail, Microsoft Outlook, and Uber.

Few common features of the Trojan Malware:

- taking screenshots
- recording audio
- recording keylogs
- sending, receiving, and deleting SMSes,
- stealing contact lists
- forwarding calls
- collecting device information
- Tracking device location
- stealing account credentials,
- disabling Play Protect
- downloading additional apps and payloads
- removing apps from the infected device
- pushing notifications
- locking device's screen

Tips to be safe from this dangerous Trojan:

- Never click on email/ SMS attachments or links that come from an unknown sender, i.e. Click with caution. Only click on links from trusted sources. If you receive an email or text message from an unknown sender asking you to click on a suspicious link, stay cautious and avoid interacting with the message altogether
- Update your passwords regularly and make sure they are strong. -Install anti-malware software on your phone
- Be careful what you download. Cerberus malware uses social engineering strategy to make its way onto a victim's device. Therefore, think twice before you download anything or even plug into your device.
- Use comprehensive security. Whether you're using a mobile banking app on your phone or browsing the internet on your desktop, it's important to safeguard all of your devices with an extra layer of security. Use robust security software like McAfee Total Protection etc so you can connect with confidence.
- Back up all the important files and store them independently on a different system
- Disable all third-party applications installed in your phone, which could be vulnerable entry points.
- Report phishing links to cybercrime.gov.in.
- Banking sector are issuing related advisory to their customers against the Cerberus Trojan Malware.
- State Bank of India has also issued an advisory for its customers against the Cerberus Trojan quoting 'Beware of fake SMSs claiming to provide big offers or information on current pandemic via unknown links or downloading apps from unknown sources, as they are meant to cheat you'.

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"Views and opinions expressed in the article are of the author and not of the Bank". ❑

Transfer pricing: CBDT notifies tolerance range for AY 2020-21

The Central Board of Direct Taxes (CBDT) notified the tolerance limit of 1% for wholesale traders and 3% for others under transfer pricing for Assessment Year 2020-21. The Central Government hereby notifies that where the variation between the arm's length price determined under section 92C of the Income-tax Act, 1961 and the price at which the international transaction or specified domestic transaction has actually been undertaken does not exceed 1% of the latter in respect of wholesale trading and 3% of the latter in all other cases, the price at which the international transaction or specified domestic transaction has actually been undertaken shall be deemed to be the arm's length price for the assessment year 2020-2021.

The word "wholesale trading" means an international transaction or specified domestic transaction of trading in goods, which fulfills the two conditions. Firstly, the purchase cost of finished goods is eighty percent. or more of the total cost pertaining to such trading activities. Secondly, the average monthly closing inventory of such goods is 10% or less of sales pertaining to such trading activities.

BLOCKCHAIN TECHNOLOGY FOR AGRICULTURE: APPLICATIONS AND RATIONALE

Introduction

The use of data and information becomes increasingly crucial for the agriculture sector to improve productivity and sustainability. Information and Communication Technology (ICT) substantially increases the effectiveness and efficiency of collecting, storing, analyzing and using data in agriculture. It allows agricultural practitioners and farming communities to easily obtain up-to-date information and thus make better decisions in their daily farming.

Definition

Blockchain is a distributed database existing on multiple computers at the same time. It is constantly growing as new sets of recordings, or 'blocks', are added to it. Each block contains a timestamp and a link to the previous block, so they actually form a chain. The database is not managed by any particular body; instead, everyone in the network gets a copy of the whole database.

Old blocks are preserved forever and new blocks are added to the ledger irreversibly, making it impossible to manipulate by faking documents, transactions and other information. All blocks are encrypted in a special way, so everyone can have access to all the information but only a user who owns a special cryptographic key is able to add a new record to a particular chain.

Blockchain is a digitized, decentralized ledger of all transactions. The transactions are replicated across multiple computers and linked to each other to make any tempering with records virtually impossible. This immutable way of managing records eliminate the need for any central entity managing the transactions. Blockchain should not be confused with the bitcoins. Blockchain is the platform while bitcoin is just one of the many applications that uses Blockchain platform just the way internet is to email.

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Technology Fundamentals of Blockchain

A Blockchain comprises of two different components:

1. **Transaction:**
   A transaction represents the action triggered by the participant.

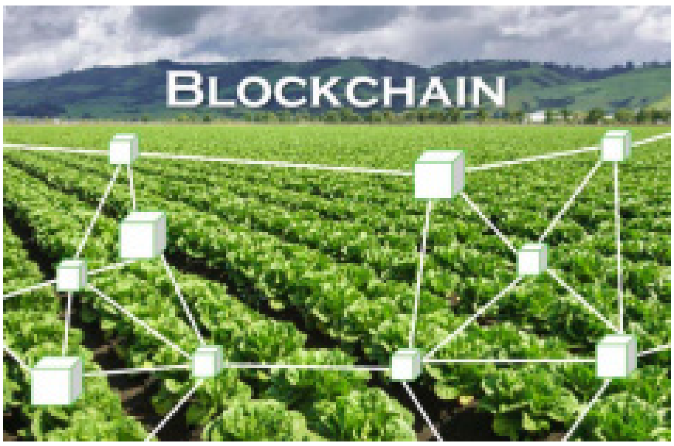
2. **Block:**
   A block is a collection of data recording the transaction and other associated details such as the correct sequence, timestamp of creation, etc.

The Blockchain can either be public or private, depending on the scope of its use. A public Blockchain enables all the users with read and write permissions such as in Bitcoin, access to it. However, there are some public Blockchains that limit the access to only either to read or to write. On the contrary, a private Blockchain limits the access to selected trusted participants only, with the aim to keep the users' details concealed. This is particularly pertinent amongst governmental institutions and allied sister concerns or their subsidies thereof. One of the major benefits of the Blockchain is that it and its implementation technology is public. Each participating entities possesses an updated complete record of the transactions and the associated blocks. Thus the data remains unaltered, as any changes will be publicly verifiable. However, the data in the blocks are encrypted by a private key and hence cannot be interpreted by everyone.

Uses of Blockchain

The successful adoption of Blockchain has been implemented in various field both monetary and non-monetary systems.

In monetary system such as (i) Payment processing and money transfers, (ii) Equity trading, (iii) Expediting energy futures trading and compliance, (iv) Tax regulation and compliance, (v) Real estate, land, and auto title transfers etc. In non-monetary systems such as in (i) Digital voting, (ii) Decentralized messaging, (iii) Distributed cloud storage systems, (iv) Digital IDs, (v) Monitor supply chains, (vi) Retail loyalty rewards programs (vii) Copyright and royalty protection, (viii) Weapons tracking, (ix) Medical record keeping (x) Tracking prescription drugs etc.



Potential Blockchain Technology Benefits for Agriculture

The blockchain technology allows peer-to-peer transactions to take place transparently and without the need for an intermediary. By eliminating the need for a central authority, the technology changes the way that trust is granted - instead of trusting an authority, trust is placed in cryptography and peer-to-peer architecture. It thus helps restore the trust between producers and consumers, which can reduce the transaction costs in the agri-food market.

The blockchain technology offers a reliable approach of tracing transactions between anonymous participants. Fraud and malfunctions can thus be detected quickly. Moreover, problems can be reported in real-time by incorporating smart contracts. This helps address the challenge of tracking products in the wide-reaching supply chain due to the complexity of the agri-food system. The technology thus provides solutions to issues of food quality and safety, which are highly concerned by consumers, government, etc.

Applications

There are various ways blockchain technology applications in agricultural and food sectors:

(a) Crop and food production

In Internet of Things (IoT) -enabled smart farming, a system is built for keeping an eye on the crop field by using various modern data collection and analysis technologies including unmanned aerial vehicles (UAV), sensors (temperature, pH, soil moisture, humidity, light), and machine learning. IoT sensors and devices generate data which can help farmers make well-informed decisions related to the growth of the crops. The blockchain is all set to make farming a sustainable practice by optimizing farming resources including water, labor, and fertilizer using a simplified approach. Machine Learning is applied to the data generated from

the sensors to provide useful insights. Predictive models can drive several high-value use-cases including: Crop Identification, Crop Quality Recommendations, Crop Yield Prediction, Grow Score (Automated crop growth factor), Crop Demand Prediction. Blockchain combined with IoT can facilitate farmers and other stakeholders in taking optimum decisions.

(b) Agricultural Insurance

Weather extremes threaten agricultural production, putting food security at risk. Both, crop and livestock production are affected, and climate change is expected to further exacerbate weather extremes in the future.

In case of the damage during a weather crisis, farmers can quickly apply for the crop insurance claim amount through the blockchain. The transparent and immutable behavior of the blockchain will enable insurance companies and other authorized parties to access the data captured by the smart weather station easily. They can directly query the blockchain to fetch the required information with the help of smart contracts. After the insurance claim request is approved, farmers will automatically get the requested amount in their respective wallets. Therefore, a blockchain-enabled solution can help farmers get the compensation seamlessly and quickly. Here, farmers pay an insurance premium before the cropping cycle begins and receive an insurance payout whenever they experience a loss on their farm.

(c) Increased Efficiency for Farmers

Most farmers use a combination of multiple apps developed by software Development Company, spreadsheets, and notes to record their data and manage their processes. However, this is complicated and requires a lot of effort to send this data to other service providers.

Blockchain technology would allow farmers to store all of their data in one place so that it can easily be accessed by those who need it, simplifying the entire process and saving valuable time and energy. For instance, they'd be able to keep track of things such as:

- Their business goals and how they plan to reach these goals.
- The number of animals, health issues with animals, what they eat, and how often they should be fed.
- How many different crop varieties are there, when they were planted, and how they are performing?
- Their employee schedule, how much each employee needs to be paid, and how many hours each employee has worked.
- Income and expenses.

Keeping track of everything on a single application instead of having a variety of different methods clarifies the process and diminishes the chance of valuable information getting lost.

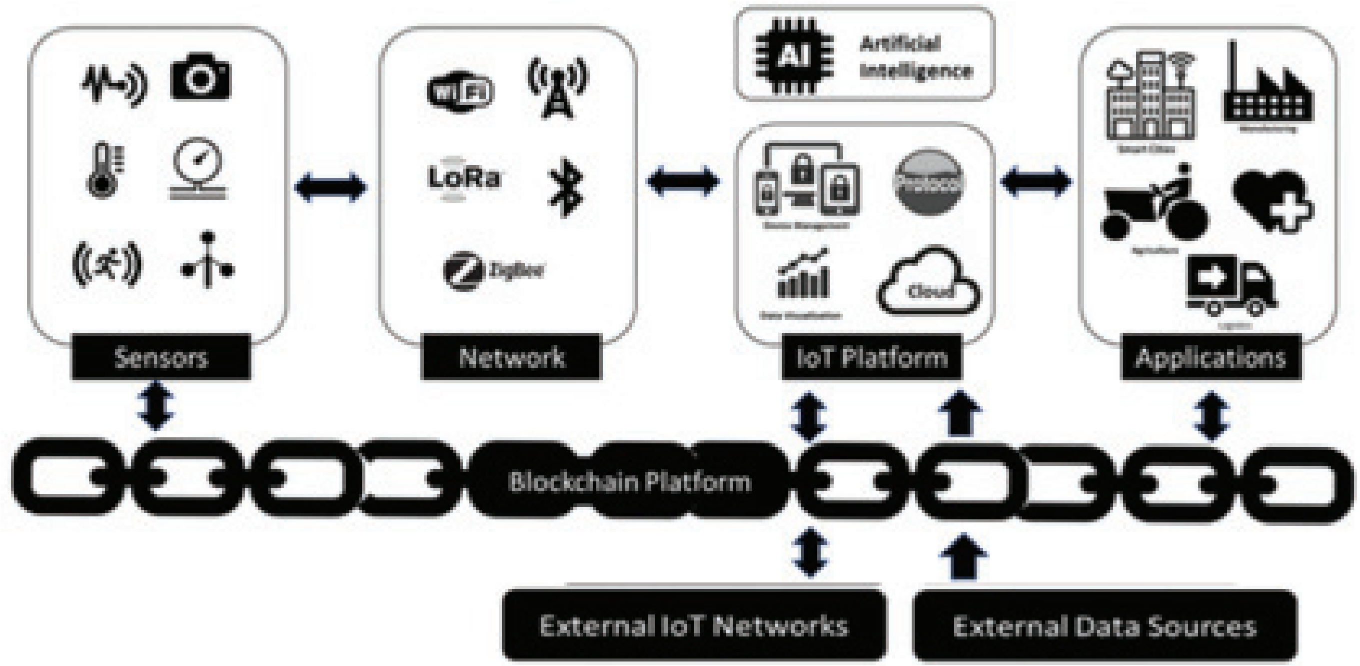
(d) Food supply chain

Blockchain acts as a record keeper for multiple industries; it can keep track of everything so increases transparency in the food supply chain. The blockchain technology enables the traceability of information in the food supply chain and thus helps improve food safety. It provides a secure way of storing and managing data, which facilitates the development and use of data-driven innovations for smart farming and smart index-based agriculture insurance. In addition, it can reduce transaction costs, which will benefit farmers' access to markets and generating new revenue streams. It brings trust and transparency in the food supply chain ecosystem, ensuring food safety for everyone.

(e) Transactions of agricultural products

Blockchain technology may provide proper solutions for many aspects of problems faced by traders and consumers. It can link the data of all aspects of planting and harvesting of agricultural products safely and unchangeably by maintaining information security. It could enable supply chain management more efficiently than traditional monitoring mechanisms. Every link in

IoT, Blockchain and Artificial Intelligence in Action



the supply chain - the producer, the place of origin, the shipping company, the destination, the multimodal transport, the warehouse and finally consumers. In payment methods, it provides a digital payment solution with zero rates. Many agricultural products are produced by households. Due to the low transaction volume and small scale, traditional e-commerce is neither willing nor able to provide services for them, thus excluding these participants from the market. Blockchain technology can greatly reduce transaction costs and incorporate them into the market again.

IoT, Blockchain & AI in action - Putting it all together

Below is the visual representation of how the three technologies work in tandem with each other. The diagram is a little simplistic as the processes with not happen in parallel all the time and there would be overlaps.

Artificial Intelligence gets layered over the IoT platform while the data from external sources flows through the Blockchain platform. Even the data exchange within the IoT network can happen over Blockchain to ensure traceability and recording of all transactions. Multiple IoT networks can exchange data while the power of AI will get exponentially enhanced with more data. The trinity of these technologies will not only help increase efficiency but also help businesses deliver better customer service.

Limitations

Despite enormous potential advantages, key limitations remain for applying the blockchain technology in agriculture and food sectors.

❖ Further research is required on the transacting parties' motivation to provide genuine and precise information to the blockchain ledger. The information generated in the farming process is scattered and owned by individual farmers. Blockchain technologies' benefits for farmers might be dependent on the size of the farm. On the one hand, smaller farms could easily participate in a blockchain-based insurance market. On the other hand, collecting and integrating on-farm data might be more convenient for larger farms. Thus, future research should try to anticipate which farms could benefit and which could lose from the introduction of blockchain-based solutions.

❖ Obtaining the data uploaded to a blockchain can be very costly, which will be a barrier to the adoption of blockchain technology in the sector. The setup of distributed ledger itself may be relatively cheap, whereas collecting data required for making the ledger useful, e.g., DNA of livestock animals could be expensive. Sampling can reduce the cost, but it requires that the population of products for data collection is large. This means the average cost of data collection is lower for larger farms than smaller ones, which raises the concern of increasing the income discrepancy.

- In order to be successfully implemented, the technology needs to be plugged into an existing database and legacy systems such as enterprise resource planning, warehousing management and manufacturing execution systems.

Summary

The blockchain based transactions are being used in many sectors including the financial, manufacturing, energy and government sectors. They are also being used in relation to agriculture supply chains, land registrations and digital IDs. The blockchain technology provides transparency among all involved parties and facilitates the collection of reliable data. Blockchain can record every step in a product's value chain, ranging a product's creation to its death.

The reliable data of the farming process are highly valuable for developing data-driven facilities and insurance solutions for making farming smarter and less vulnerable. The Blockchain technology is still in infancy with a few drawbacks such as lack of or poor infrastructure, failures of interoperability, limited speed of transactions and other technology issues that would take some time to resolve.

SEBI introduces a code of conduct for fund managers

Market regulator Securities and Exchange Board of India (Sebi) has introduced a code of conduct for fund managers and dealers of AMCs in order to make them more accountable.

In addition, asset management companies (AMCs) have been allowed to become self-clearing members to clear and settle trades in the debt segment on behalf of its mutual fund schemes.

The move comes after Sebi board approved a proposal in this regard in September. In a notification dated October 29, Sebi said that chief executive officer (CEO) of the AMC will be responsible to ensure that the code of conduct is followed by fund managers and dealers.

It, further, said any breach of the code of conduct will be brought to the attention of the board of directors of the AMC and trustees.

Currently, mutual fund norms require AMCs and trustees to follow a code of conduct. Also, the CEO is entrusted with several responsibilities.

The fund managers and dealers will abide by the code of conduct and submit a quarterly self-certification to the trustees that they have complied with the code of conduct or list exceptions, if any.

Fund managers will have an appropriate and adequate basis for investment decision and will be responsible for investment in the funds managed by them.

Further, fund managers will record in writing, the decision of buying or selling securities together with the detailed justifications for such decisions and not indulge in any act which results in artificial window dressing of the net asset value (NAV).

Sebi said dealers will have to ensure that orders are executed on the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned to achieve the objectives of the scheme and in the best interest of all the unit holders.

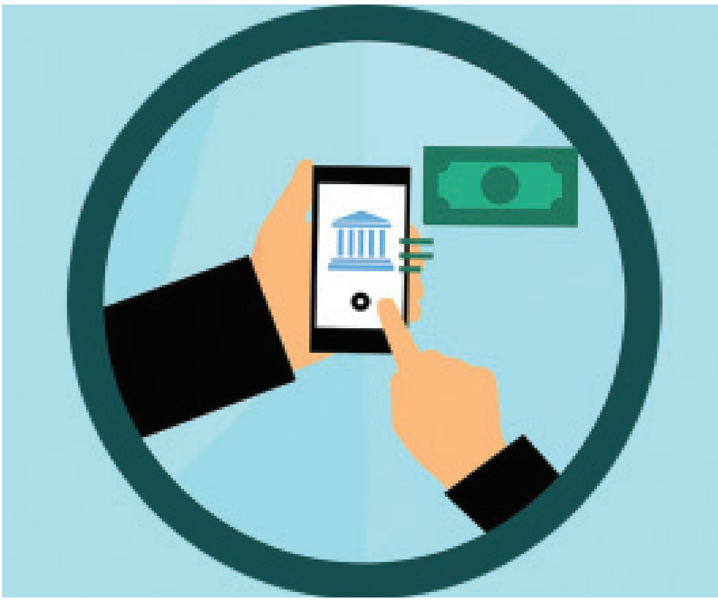
Fund managers and dealers will have to ensure that investments are made in the interest of the unit holders; and will act fairly and deal with market participants in a consistent and transparent manner.

Also, they will have to identify existing or potential conflicts of interest as per their institutions policies and address the same and disclose all interests in securities as required by statutory requirements.

Further, they are not allowed to carry out any transaction on behalf of a fund with any counter party who is an associate of the sponsor/AMC/fund manager/dealer/CEO "unless such transaction is carried out on arm's length basis on terms and at a price consistent with best execution standards and at a commission rate no higher than customary institutional rates."

They are not supposed to "indulge in any unethical business activities or professional misconduct involving dishonesty, fraud or deceit or commit any act that could damage the reputation of the organisation or the mutual fund industry", the regulator added. *(Source: Mint)*

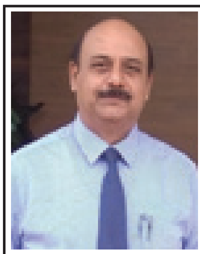
MSME ADVANCES-ROOT CAUSE ANALYSIS OF POOR GROWTH & SUGGESTIONS FOR IMPROVEMENT



Executive Summary

The Micro, Small & Medium Enterprises (MSME) sector is expected to play a major role in the emergence of the Indian economy. The growth of this segment is extremely crucial to meet the national aspiration of financial inclusion and generation of significant levels of employment across urban, semi urban and rural areas across the country. Further, it can rear and support development of new age entrepreneurs who have the potential to create globally competitive businesses from India. Time and again, Government has given importance to develop this sector by giving all types of helps i.e. technical and financial. Technical part is being looked after by various Government department and advance part is being looked after by Banks, mainly Public Sector Bank.

However, The Government of India is at crossroads these days. On one hand, the projects to augment MSME growth are focused around providing clean access to finance. On the other hand, banks are facing rising trend of stress in MSME. Though, time and again relief has been given to accelerate this sector but this is not a permanent solution. Hence, we have to analyse basic root cause to augment suitable measures by plugging the gap for a sustained growth of MSME sector.



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Challenges Faced by MSME Sector Leading to Stress build-up

Credit Gap in MSME Sector - Credit exposure to MSMEs increased by 12% to Rs. 15.7 trillion in June 2019 (from Rs. 14 trillion in June 2018), according to data from TransUnion CIBIL, a credit information company, and Small Industries Development Bank of India (SIDBI). But this still falls significantly short of the total credit requirement in the sector. According to a 2018 study, the MSME sector has a credit gap of around Rs. 26 trillion with 90% of this gap felt by micro and small enterprises. The gap in debt can be largely attributed to underserved micro and small enterprises. In fact, demand from micro and small enterprises, respectively, constitutes 32 percent and 59 percent of the overall addressable credit demand. Yet, almost 75 percent of the addressable credit demand from micro enterprises and 80 percent of the addressable credit demand from small enterprises is currently unmet by formal financial sources. And as a share of total bank credit extended in the economy, credit to MSMEs has dried up. In March 2010, 17.3% of total bank credit was deployed to MSMEs but in March 2019 this had shrunk to 13.6%. To make up for the shortfall, MSMEs resort to informal channels of credit which come with a significantly higher cost of capital.

Differences in Geography of Operation - The states in India are split into three broad regions:

- Low Income States (LIS24) - Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, West Bengal
- North eastern States (NES) - Assam, Arunachal Pradesh, Nagaland, Manipur, Meghalaya, Mizoram, Tripura
- Rest of India - All states other than Low Income States and North eastern States.

There are significant geographical variations in India that have an impact on the distribution of micro, small and medium enterprises. The type of MSME, industries based in the region, and scale of operations also varies based on differences in the availability of natural resources and other

regional characteristics, such as infrastructure, nature of local government incentives, access to markets, and education levels also dictate the type and scale of MSME activity in the region. Consequently the size and nature of finance demand and supply by MSMEs tends to vary with geography.

MSME Landscape in India - Just about 15 percent of the businesses in the sector are registered enterprises, although in order to encourage registration, the Ministry of Micro, Small and Medium Enterprises has simplified the registration process, replacing the earlier two-stage registration process with a one-step filling of memorandum.

Differences in Ownership Structure of MSMEs - The MSME Census data from 2007 indicate five specific types of ownership structures. Most small and medium enterprises that are well established or in knowledge-based service industry sectors are structured as private limited or public limited companies. However, 93.83% of MSME borrowers i.e. the borrowers under proprietorship, lack the skill of formal account maintenance, record maintenance, data management etc. They do not have the financial ability to hire professionals for record maintenance. They lack the ability to present their business reports as per banks requirement. Bankers on the other hand remain- indecisive as they do not get the required papers to take a call regarding the loan request.

Information Asymmetry - The MSME lending landscape is undergoing paradigm shift. Digitalisation, formalisation and Government initiatives are changing the lending pattern in MSME sector. This has created a large gap in the information available on the lending processes and enterprises are overwhelmingly unaware of how to procure a loan. Many times, they also are unable to meet documentation protocols to qualify as loan applicants to financial institutions. Not just that, MSMEs often seem to have discrepancies between their reported financial data and the actual state of financial affairs. Due to transactions, the reported data of micro enterprises in particular is often different from actual sales and profitability figures. In a lot of cases, these differences arise due to the inability to document transactions when there is a large volume of small-ticket transactions in cash. The problem is common for small and medium enterprises too due to the lack of organized and formalized book keeping systems. This effectively results in enterprises qualifying for much smaller than what is needed.

Inadequate collateral - Micro and early- stage small enterprises typically do not have adequate access to immovable collateral that meets the criteria of financial institutions. This increases the credit risk perception of MSMEs. While banks and most NBFCs continue to insist on collateral requirement, MSMEs overwhelmingly prefer a loan option that does not require collateral when given the choice.

Limited equity base - On account of their inadequate equity base, MSMEs often take loans from multiple lenders, overextending themselves financially and making them vulnerable to defaulting. Additionally, these enterprises also access credit from informal sources, which are not reported to credit bureaus. Hence, financial institutions continue to err on the side of caution and are discouraged from providing debt finance to MSMEs.

Competition from multinational companies - In present era of globalization, the MSME`S are facing the great competition from the international manufacturing companies who are providing quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.

Poor infrastructure - Though, MSME`S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.

Unavailability of raw material and other inputs - For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.

Lack of distribution of marketing channels - The MSME`S are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies are. The ineffective advertisement and poor marketing channels leads to a very poor selling.

Rising Stress/NPA Ratios across MSE and Overall Portfolios of SCBs - According to data from TransUnion CIBIL, NPA rates across the MSME sector spiked in the quarter ending June 2019. Among firms with credit exposure of less than a crore, the NPA rate jumped to 8.7% from 8.1% in the previous quarter. The NPA problem, though, increases with the size of the loan disbursed. Firms in the bigger credit exposure segment (exceeding Rs. 25 crore) have NPA rates of around 18%. Though private sector banks and non-banking financial companies (NBFCs) increasingly account for a greater share of the credit to MSMEs, the biggest formal credit source for MSMEs remain public sector banks (PSBs).

As of June 2019, nearly half of all credit disbursed to MSMEs came from PSBs and these are the banks most vulnerable to MSME-related NPAs. In the June 2019 quarter, 16% of all PSB MSME credit was NPAs (up from 14.5% in the same quarter in June 2017) nearly three times the rates in private banks and NBFCs. Within MSMEs, some industries are suffering more. According to the TransUnion CIBIL report, the textile sector and the construction sector have the highest MSMEs NPA rates, while the auto industry is relatively less affected.

Reasons of Stress/NPA in MSME sector: There are several reasons of stress build-up in MSME sector:

Accidents/Natural calamities: A natural disaster is a major adverse event resulting from natural processes of the Earth; examples are floods, hurricanes, tornadoes, volcanic eruptions, earthquakes, tsunamis, storms, and other geologic processes. MSME sector is one of the affected. Southern part of India had witnessed natural calamities being on seashore as flood, tsunami etc.

Change in Govt. & its Policy: India is a Republic country and each Govt. has its own agenda. Eventually Policies and rules have been framed or changed by each government; these changes directly or indirectly impact on the business houses. For example, Ban of particular items for export or import from any country, Increase of Taxes, Demonetization etc. Our interaction and on the above, it reveals that overall business has impacted a lot due to change of government and hence account turns to NPA.

Lack of effective Monitoring: In various audit and Vigilance cases in PSB, it is observed that in most of the NPA/Frauds accounts, post inspection either has not been done or if done then with casual approach. Had the Monitoring done properly, the account could have been saved.

Inappropriate technology: Technology needs to be upgraded. Further, it is observed that a person is availing loans from different banks/branches with same documents. Hence, Technology may be upgraded so that he cannot cheat the bank.

Industrial sickness: Industrial Sickness is one of the most affected root causes for NPA for MSME sector and recently this is nearly increased by 27%.

Reasons for large slippages-

- Poor / ineffective monitoring especially in accounts up to Rs.10.00 lacs.
- Non adherence to sanction terms & conditions.

- Unjustified and continuous excesses / ad-hoc sanctions.
- Non inspection of prime securities at regular intervals.
- Failure to identify early warning signals at the right time and take remedial measures.
- Failure in due diligence (especially new / taken over accounts).
- Business failures and other external reasons.
- Willful default

Challenges to Banks/FIs - The Banks/financial institutions face severe challenges that limit their ability to provide financing solutions to MSMEs:

High transaction cost and lower margins - For banks and NBFCs, financing MSMEs is both an expensive and a high-risk proposition. Constantly monitoring and engaging with MSMEs monitoring and engaging with MSMEs is considered too high a cost of business. The average size of credit extended by formal financial institutions based on assessed repayment capacity is even lower. On account of factors such as smaller ticket size, high cost of due diligence and collections, the profit margin from MSME loans is generally low, especially for traditional financial institutions. These are therefore inherent challenges for these institutions from pursuing MSME accounts actively.

Low-risk appetite - Financial institutions typically perceive MSMEs as a high-risk segment on account of their incomplete understanding of MSME businesses. Given their limited operations and resources, when banks do invest in providing loans to enterprises, they prefer to work with medium enterprises. That is because these businesses have more stable cash flows, formalized operational processes, and adequate collateral, affording a greater margin of safety and less resource-intensive due diligence to understand their business model. Risk aversion is topmost concern in the case of Public Sector banks due to the prospect of officers facing investigation from the Central Vigilance Commission and Central Bureau of Investigation when loans go bad.

Conservative Underwriting Process - The issue of higher risk aversion in the case of MSME loans, especially loans to micro and small enterprises, is further exacerbated by conservative credit evaluation that places too much emphasis on collateral and do not truly paint an effective picture on a borrower's ability to repay a loan. Because many financial institutions do not spend adequate time on the ground with MSMEs, understanding their business models and monitoring their performance, traditional lenders are unable to create loan underwriting systems that are more relevant to MSMEs. In most cases, institutions rely more on evaluation parameters that focus on past performance of the enterprise rather than future opportunities.

Lack of Product Innovation - Traditional lenders continues to lack understanding of the MSME sector, and, therefore, they have not changed their approach to lending. They still rely on loan products that often seem misaligned to the needs and capabilities of MSMEs. Their loan products require specific types of immovable collateral, and are inflexible in terms of their tenure and payment structure, forcing MSMEs to seek finance through other avenues. A grassroots approach to developing novel methods to serve MSMEs with debt finance is necessary for banks and other institutions in order to advance the growth of the sector.

Suggestions for Improvements

Financial literacy - The major constraint of MSMEs is lack of financial knowledge. They do not maintain proper books of accounts. MSMEs can't afford to employ accounting experts. They are dependent on outside Financial Consultants which is again a heavy cost factor to them. The Financial statements are prepared to avoid or save taxes. The real and clear picture of performance of MSMEs is not reflected. It is utmost important to make MSMEs financial literate in order to have easy credit access from Banks. Transparency of balance sheet will improve the willingness amongst Bankers to lend to this sector.

Training and development, awareness programs - There must be conduction of training and development programs by the MSME ministry. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools.

Common application - A common loan application for MSMEs has to be designed and circulated to All Banks. It has to be a simplified and easily understandable to the MSME entrepreneurs. It should be made available at all web sites of all stake holders involved in MSME finance and Development

Transparency - MSMEs have to be allowed to know at what stage their loan application is and what are the factors hampering their rating and worthiness. Disclosure of appraisal system would be helpful for better financial discipline of MSMEs that leads to improved credit access.

Special loan products - There are thousands of clusters in the country. Almost all the MSMEs in the particular cluster have business similarities. i.e. supply chain, Markets, Technological issues, Man power etc. The key constraint to these Enterprises is delayed payments from the big Industries and Government Departments. Designing a loan product for specific clusters (i.e. Pharma cluster in Hyderabad, Auto components cluster in Indore, Readymade Garments, and Bangalore etc.) would address the specific problems of the local Enterprises. The loan product has to be designed based on constrains faced by them taking in to account their temporary liquidity crunches, Quality improvement programs, Energy saving and green initiatives.

Proper research and development - There should beproper research and development in respect of innovative method of production and service rendering. The innovative products will provide the cheaper products and the SMEs will be able to cope up with the situation.

Lending skills - Often it has been seen that Bank officers have fear psychosis to lend to this sector on account of low compliances and defaults. Commercial Banks need to improve the skill of credit officers to assess the MSME proposal. Knowledge and skill will enhance the confidence levels of officers. This will change the attitude of the Bank officers. Bank Authorities also have to create conducive environment for MSME lending.

Credit Counselling Cells - Bank should form credit counselling cells to counsel and advise the MSMEs to be able to submit Bankable proposals. The practice which is in place now is that MSMEs hire the services of Chartered Accountants who act as an Intermediary between Bank and

MSMEs. CAs represents the Entrepreneurs while interacting with the Bank officials and convinces the Bank on the present and future Business plans. The cost of the Financial Consultants is also a burden on the MSMEs.

Constitution of a Panel of Consultants - For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared, who can help the MSMEs within the region for transferring the available technologies effectively. The constitution of panel of these consultants could be nature wise of the activities of the MSME. At the time of constitution of panel of experts, there should be inclusion of the owners of different sectors of MSMEs.

Special Market teams - Banks have to form special teams to source the MSME proposals at specific locations. Formal sector Financing Agencies are still unreachable to the MSMEs which are in unorganized sector. Banks have to come to the field for a merit based successful Bank linkages.

Relaxation in labour laws and red tape - There should be relaxation in complex labour laws to avoid the inconvenience in compliance.

Regulatory - One "all India all-purpose" enactment as MSME regulation to be adopted by all stakeholders in MSME system with one window and one annual return compliance filing coupled with significant direct tax incentives and indirect tax exemptions.

Performance incentives - Direct incentives in form for direct taxes rebates and set offs, weighted deductions and reliefs in indirect taxes combined with low cost funding and credit access for stakeholders in MSME eco system who make investments in desired areas and achievement of desired growth results in developing MSME funding and infrastructure skills, technology, innovation, global market access, indigenization, public procurement and vendor development, traditional and heritage industry developments.

Rationalization of NPA norms - MSMEs face business uncertainties which are general factors in the business of that size. It could be because of delayed receivables or temporary liquidity crunches. Classification of NPA for default of three Months is not genuinely applicable to MSMEs. It should be 6 months or more.

Rehabilitation of viable sick units - There is a lot of scope for sick MSMEs for rehabilitation through further injection of funds in the business by the Banks other than interest concessions. The tendency shows that Banks do not undertake rehabilitation program on account of higher risks. A positive approach of banker will help thousands of sick MSMEs to take a turn around.

Budgetary Support (2020-21) & Initiatives by GOI - The importance of MSMEs is reiterated in all policy documents and the latest budget (2019-2020) is no different:

Delay in Payments - The budget has attempted to fix the problem of delays in payments to MSMEs. The government has spoken of creating a payment platform for MSMEs to facilitate the billing and payments through it. This is in sync with the UK Sinha Committee recommendations on MSME reforms.

Psb 59minuteloan - The extension of the 59-minute loan scheme to new entrepreneurs will fit well with the government's emphasis on start-ups and MSME.

Collateral Free Loan - The limit for collateral-free loans has been raised to Rs. 20 lakh from Rs. 10 lakh.

SIDBI Involvement - Institutional changes in SIDBI should be done so that it can be elevated as a market maker for funding of MSMEs. SIDBI should be involved in getting micro-finance institutions (MFIs) and non-banking finance companies (NBFCs) to finance MSMEs, and venture capital funds would be an integral part of the system that is linked to potential borrowers.

MUDRA - MUDRA should be reinvented so that SIDBI becomes more effective in its operations as it gets into underwriting, risk management and fund-raising on its own.

CGTMSE - To make lending effective, credit guarantee of loans to MSMEs is important. The UK Sinha panel stated that all these schemes should be regulated and brought under the RBI.

Relaxation in Regulatory Norms - The issue of a potential default is relevant for MSMEs as the class of entrepreneurs is different from those in the corporate sector and the size of the loan is much smaller. Hence, using the normal 180-day rule under Insolvency and bankruptcy code should be relaxed in case of MSME.

Infrastructure Development - For demand generation, augmentation of industrial infrastructure and promotion of MSMEs. Industrial corridors should address the lack of infrastructure and logistics.

Public Procurement Policy - The government can play a crucial role in creating domestic manufacturing capabilities by leveraging proposed public procurement and projects. Mega public projects such as Sagarmala, Bharatmala, industrial corridors, and the Pradhan Mantri Awas Yojana (PMAY) can stimulate domestic manufacturing activities provided the projects are suitably structured and demand is aggregated strategically.

Conclusion:

The global economy has entered a recession as a consequence of the coronavirus pandemic. There are lockdowns across the world, hitting economies hard. The International Monetary Fund (IMF) has said this recession will be worse than the one in 2009, caused by the global financial crisis. With its low dependence on exports and the advantage of moving early on social distancing, the Indian economy may do better than some other developing countries but same is not possible unless otherwise MSMEs are given priorities and they exist to take the advantage of global recession.

Moratorium on EMI payment for 3 months is not sufficient, instead Government must waive the interest at least for 6 months as being done in other affected countries.

Government must clear all pending dues including GST refunds to MSMEs at the earliest and all complaints for recovery should be resolved within 30 days from date of said complaint.

Wage support could be made available to workers employed in such units, a Wage Subsidy to MSMEs, especially in the Manufacturing sector, to the extent of 50 per cent for all registered workers for a period of 6 months.

All government concession should be provided only for those organisation or establishment which has 50 percent procurement from MSMEs and all Governments including Government Undertakings should procure their entire requirement from MSMEs only at market price on transparent basis.

Concessional Insurance premium must be charged for all non-life Insurance policies including workmen policies taken by all MSMEs for period of two years.

Concessional power supply facilities should be given to all these MSMEs including waiver Electricity Duty for one year.

With the above mentioned support/relief from the GOI as well as prompt and suitable handholding from Banks & FIs, the MSME Sector can regain its lost ground and bounce back to accelerate their growth and also help in the growth of Indian economy.

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ROLE OF AUDITORS AS A WATCHDOG IN A BUSINESS ENTITY

The great philosopher Desiderius Erasmus has said "Prevention is better than Cure". It is in line with this philosophy that a system of audit has been developed comprising of auditors working directly with the businesses to monitor the ways in which a business entity is doing its business .The business community play a very important part in the growth of the economy of the country. Any adverse effect on a business not only affects the promoters but also their employees, suppliers, customers, and other players in the business cycle. In short, it has a contagion effect on the economy and the severity of which depends, among other factors, on the size of the company and the business segment it is operating in.

An auditor has responsibility towards the shareholders of the auditee unit.The power of appointment and dismissal of the auditor lies with the auditee unit's management and this sometimes also leads to undue influence of the management on the working of the auditor. An auditor is supposed to be a watchdog on behalf of the shareholders and other stakeholders and as such, the integrity of the auditor is very sacrosanct and should not be influenced in any way which is detrimental to the shareholders' interest. An auditor's responsibility is not limited to the shareholders only because an audit report is a public document and is relied upon by various stakeholders in the economy like financial institutions, government bodies and the general public. Hence, it can be said that the auditors play an important role in ensuring good health of the economy of the country as well.

But, in recent times, there have been some disturbing developments in the financial sector that have led to raising of serious questions on the independence and impartiality of auditors while reviewing the financials of companies. These incidents have led to demands for an overhaul of the audit system.

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Post the Infrastructure Leasing & Financial Services (IL&FS) fiasco, the Serious Fraud Investigation Office (SFIO) has alleged that the company auditor overlooked window-dressing of bad loans being done by IL&FS Financial Services Ltd (IFIN) and never cross-checked the 'end use' certificates used by the company to mislead lending banks. It further alleged that the auditors connived with the company officials in falsifying books of accounts. The Ministry of Corporate Affairs (MCA) has also set into motion the process against the auditors and the audit partners under Section 140(5) of the Companies Act, 2013 that deals with debarring an audit firm for 5 years.

In the case of PMC Bank, it was a whistleblower who blew the lid off the financial crisis brewing inside the Bank. This raises a pertinent question as to what the bank's auditors were doing all these years. The suspended MD of the bank has alleged that the auditors were only 'superficially' checking the bank's books. The Mumbai Police's Economic Offences Wing (EOW) even arrested two auditors who had served as Statutory Auditors during the period of the scam and were suspected of playing a key role in covering up the irregularities involving top officials of the bank.

The PMC Bank crisis was sparked by default from Housing Development & Infrastructure Ltd (HDIL) which was lent about 73 percent of the bank's total assets. The default by HDIL led to their auditors' role also coming under the scanner. The auditors at HDIL, in their report for FY18, stated that one of the units of HDIL, Guruashish Construction Pvt. Ltd, was referred to bankruptcy court by its lenders. In view of the above, the auditor made the following noting:

"As a result, the ability of Guruashish Construction Pvt Ltd to continue as a going concern is dependent upon its performance in terms of the resolution plan to be approved by National Company Law Tribunal(NCLT). However, in view of the large amount of debt of Housing Development & Infrastructure Ltd (HDIL), we are unable to express an opinion as to the extent of repayment of the aforesaid debt of the company. The consequential effect of the above, on the consolidated financial results for the period ended 31 March 2018 cannot be determined".

Now, in the wake of the crisis that unfolded at PMC Bank and HDIL, a question that arises is as to whether merely making such noting in the financial statements absolves the auditors of any responsibility in future. This aspect needs to be looked into by MCA and appropriate regulatory provisions should be introduced to ensure that an auditor's responsibility is not extinguished merely by making such noting.

Such incidents leads one to think as to what can be the reasons for such financial disasters.

Companies sometimes inflate earnings to prevent violation of loan agreement covenants to avoid penalty. The auditors are thus paid handsome amounts to do window dressing. There is another motivation for the companies to indulge in misreporting of their financials. Investors invest in companies with the hope of getting handsome returns. In case the company shows poor financial performance, it may tempt the investors to withdraw their investment.

This motivation to indulge in manipulation of financial statements is prevalent to a greater degree in case of listed companies because the better the financials are, the higher is the share price and more are the chances of fresh investments in the company. Companies, sometimes, also vest call options with their executives as part of their compensation plan. Vesting of call options with the company executives also can lead to the risk of executives reporting inflated financials to maximize the profit earned on exercising the option. This moral hazard, however , can be controlled to a large extent by incorporating the 'Claw back' provision in the compensation plan which enables the company to recover the bonuses paid in case the manipulation of financials is detected in future.

A weak system of audit control provides an opportunity to a company to indulge in dilution of financial reporting quality or/and earnings quality.

There can be a number of reasons for the decline in standards of audit control by the auditors of the company while auditing the financial performance of a unit. Some of the reasons that can lead to dilution of audit quality are as detailed below:

a) The auditor relies on fee from the client and this sometimes adversely affects the independence of the auditor.

b) Due to the competition among auditors/auditing firms, they may have a tendency to quote very low prices for their services which in turn leads to fall in quality of audit reports.

c) The appointment of auditors in the current scenario is being done by the management of the auditee unit and naturally, they may have a tendency to hire auditor who suits their interests and listens to them.

d) The auditors provide non-audit related services also to their clients and there is a possibility that they may dilute the quality of audit so that business from these ancillary services keeps flowing to them.

e) In some cases, the auditors prepare the auditee unit's financial statements and then audit those very statements which have been prepared by themselves. This is a kind of 'Self-review' on the part of the auditor and beats the very concept of an independent audit.

f) Sometimes, an auditor is associated with a client for a fairly long time and as a result, develops a sort of personal relationship with the client which involves an emotional quotient as well. In such cases, there are definite chances of the auditor not adopting a neutral stance while auditing the client books and he may be inclined in favor of the client.

g) The auditors may also face pressure from the management of the auditee unit to scale down the extent of audit to reduce audit fee.This type of situation will definitely affect the objectivity of the auditor.

h) Many a times, it is seen that auditors with very less experience are hired by the firms to audit their books of accounts. Such auditors sometimes lack the capability to audit the firm's accounts considering the size of the firm. Such auditors are more prone to be influenced by the management.

There are several regulatory provisions put in place by the Ministry of Corporate Affairs (MCA) to regulate the auditing profession. Some of these provisions are:

1) Section 139 to 148 (Chapter X) of the Companies Act, 2013 deals with the Audit and Auditors.

2) Section 139 relates to appointment of auditors.

3) Section 140 deals with removal and resignation of auditor, giving of special notice.

4) Section 141 provides for eligibility, qualifications and disqualifications of auditors.

5) Section 142 deals with Remuneration of auditors.

6) Section 143 provides for Powers and duties of auditors and auditing standards

7) Section 144 prohibits the auditors to render certain services other than audit.

In order to ensure effective compliance of the above regulations, the Central Government has notified the Companies (Audit & Auditors) Rules, 2014 and made amendments in the same from time to time.

Standards of Auditing (SAs) issued by the ICAI are mandatory to be followed by the auditors in view of Section 143(9) of the Companies Act, 2013. The auditors are expected to ensure compliance with SAs in their audit engagements to ensure quality audits.

A consultation paper was also floated by MCA in February 2020 inviting suggestions for improvement in audit independence and accountability. After receipt of suggestions, a committee has been constituted to suggest possible changes in the regulatory provisions to improve the independence of the auditing profession.

As regards the measures to improve the independence of auditors, following measures can be adopted:

1) The fee for the auditors may be fixed by an appropriate government authority like MCA or CAG.
2) An auditor should be barred from doing non-audit work for the firm whose financials he/she is auditing. To ensure that the auditors do not lose any income due to this provision, auditor of firm A may take up non-audit work of firm B and auditor of firm B may take up non-audit work of firm A.
3) The appointment of auditors should be done by an independent authority and not the management of the company.The Ministry of Corporate Affairs (MCA) may be an appropriate authority in this regard.
4) An auditor/audit firm should be allowed a maximum tenure of 3 years/5 years only in a company instead of the present maximum tenure of 5 years and 10 years for individuals and audit firms respectively. This will reduce to a great extent the possibility of an auditor/audit firm developing any personal relationship with the promoters of the unit.
5) Choices in the application of accounting standards enable the auditors to easily accede to the requests of the management for presentation of financials in a certain way that suits the management. Choices exist both in the way of presentation and way of calculation of financials of the company. The choices so made affect the financial reporting quality and earnings quality respectively of the company. Any dilution in earnings quality is much difficult to detect whereas it is possible to detect dilution in the financial reporting quality. This aspect related to the application of accounting standards needs to be looked into by the MCA as well as the ICAI so that its misuse can be prevented. Safeguards need to be developed for the same.
6) In case of large companies, only those auditors should be mandated to be hired by them who possess certain minimum years of experience. The number of years of experience required may be fixed by the MCA. It will check deliberate hiring of inadequately experienced auditors by the management.

Finally, it can be said that the auditing profession is one of the pillars supporting the economy of the country. The strength of this pillar is of utmost importance in ensuring good health of the economy. There are multiple factors at play which lead to dilution of audit quality in business entities and some such factors have been enumerated above. There is an urgent need for all the stakeholders to ponder over the issue and initiate measures for plugging the loopholes in the auditing profession.

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Corrigendum

In Banking Finance September 2020 issue an article was published Institutional Protection Scheme for Urban C-operative Banks: Lessons from German Co-operative Financial Network authored by Dr Ashish Srivastava, AGM, College of Agricultural Banking, Reserve Bank of India, Pune. In the said article on Page number 35 in first Column, fifth paragraph please read the figures as Rs.48 billion instead of 48 million.

Also as per a recent amendment the deposit insurance in India has now changed from Rs.1 lakh (0.1 Million) to Rs. 5 lakh.

The above errors are regretted.

-Editor

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RBI CIRCULAR

Digital Payment Transactions – Streamlining QR Code infrastructure

RBI/2020-21/59

October 22, 2020

1. As you are aware, Reserve Bank had constituted a Committee (Chairperson : Prof Deepak Phatak) to review the current system of Quick Response (QR) Codes in India and suggest measures for moving towards interoperable QR Codes. The report of the Committee containing various recommendations was placed on the Reserve Bank website for public comments and feedback.
2. After examining the recommendations and the feedback received, the following has been decided:
   i) The two interoperable QR codes in existence – UPI QR and Bharat QR – shall continue as at present.
   ii) Payment System Operators (PSOs) that use proprietary QR codes shall shift to one or more interoperable QR codes; the process of migration shall be completed by March 31, 2022.
   iii) No new proprietary QR codes shall henceforth be launched by any PSO for any payment transaction.
   iv) RBI shall continue a consultative process to standardise and improve interoperable QR codes, to enable beneficial features identified by the Phatak Committee.
   v) PSOs may take initiative to increase awareness about interoperable QR codes.
3. The above measures are expected to reinforce the acceptance infrastructure, provide better user convenience due to interoperability and enhance system efficiency.
4. This directive is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

(P. Vasudevan)
Chief General Manager

Review of regulatory framework for Housing Finance Companies (HFCs)

RBI/2020-21/60

October 22, 2020

1. Please refer to the Bank's Press Release No.2019-20/419 dated August 13, 2019 and draft regulatory framework placed in public domain on June 17, 2020 seeking comments from stakeholders. Based on the examination of the inputs received, it has been decided to issue the revised regulatory framework for HFCs.
2. In exercise of powers conferred under National Housing Bank Act, 1987, and Reserve Bank of India Act, 1934, and in supersession of relevant regulations issued by National Housing Bank (NHB), the instructions as enumerated in the Annex will be applicable to all HFCs. HFCs shall continue to comply with all extant instructions issued by NHB, which are not covered in the Annex.

3. Exemption granted to HFCs from the provisions of Chapter III B of Reserve Bank of India Act, 1934 except for section 45-IA (Requirement of registration & net owned funds) was withdrawn on November 11, 2019. On a review, it has been decided to additionally exempt HFCs from section 45-IB (Maintenance of percentage of assets) and section 45-IC (Reserve fund) of the Reserve Bank of India Act. Necessary Notification in this regard will be issued in due course. It is clarified that the corresponding provisions of section 29B and 29C of the National Housing Bank Act, 1987 will, however, be applicable to HFCs.
4. As mentioned in para 3 of the public document put out for consultation, further harmonisation between the regulations of HFCs and NBFCs will be taken up in a phased manner in the next two years so as to ensure that the transition is achieved with least disruption. Master Direction for HFCs covering all applicable instructions will be issued shortly.

(Manoranjan Mishra)
Chief General Manager

Opening of Current Accounts by Banks - Need for Discipline

RBI/2020-21/62

November 02, 2020

1. Please refer to our circular DOR.No.BP.BC/7/21.04.048/ 2020-21 dated August 6, 2020 on the captioned subject.
2. In this connection, a reference is invited to Para 4 of the circular referred to above, wherein the banks were advised that in respect of existing current and CC/OD accounts, banks shall ensure compliance with the above instructions within a period of three months from the date of issue of the circular i.e. by November 5, 2020. We have since received several references from banks seeking clarifications on operational issues regarding maintenance of current accounts already opened by the banks. These references are being examined by the Reserve Bank and will be clarified separately by means of a FAQ.
3. Pending the issue of FAQ on these operational issues, it has been decided that banks may ensure compliance with the instructions contained in Para 4 of the circular ibid by December 15, 2020.
4. All other instructions contained in our circular dated August 6, 2020, remain unchanged.

(Prakash Baliarsingh)
Chief General Manager

Co-Lending by Banks and NBFCs to Priority Sector

RBI/2020-21/63

November 05, 2020

1. Please refer to the circular FIDD.CO.Plan.BC.08/ 04.09.01/2018-19 dated September 21, 2018 on co-origination of loans by banks and NBFCs for lending to priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.
2. Based on the feedback received from the stakeholders and to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, it has been decided to provide greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc. The primary focus of the revised scheme, rechristened as “Co-Lending Model” (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. Detailed features of the CLM are furnished in the Annex.
3. In terms of the CLM, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books.
4. The banks and NBFCs shall formulate Board approved policies for entering into the CLM and place the approved policies on their websites. Based on their

Board approved policies, a Master Agreement may be entered into between the two partner institutions which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues, as detailed in the Annex.

5. The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions specified in the Annex.

6. The banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

7. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.

8. This circular supersedes the circular FIDD.CO.Plan.BC.08/ 04.09.01/2018-19 dated September 21, 2018. However, outstanding loans in terms of the circular ibid would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

(Gautam Prasad Borah)
Chief General Manager-in-Charge

Exim Bank's Government of India supported Line of Credit (LoC) of USD 20.10 million to the Government of the Republic of Nicaragua

RBI/2020-2021/64

November 05, 2020

1. Export-Import Bank of India (Exim Bank) has entered into an agreement dated June 12, 2020 with the Government of the Republic of Nicaragua, for making available to the latter, Government of India supported Line of Credit (LoC) of USD 20.10 million (USD Twenty million One Hundred thousand only) for the purpose of reconstruction of Aldo Chavarria Hospital in the Republic of Nicaragua. Under the arrangement, financing of export of eligible goods and services from India, as defined under the agreement, would be allowed subject to their being eligible for export under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this agreement. Out of the total credit by Exim Bank under the agreement, goods, works and services of the value of at least 75 per cent of the contract price shall be supplied by the seller from India, and the remaining 25 per cent of goods and services may be procured by the seller for the purpose of the eligible contract from outside India.

2. The Agreement under the LoC is effective from September 15, 2020. Under the LoC, the terminal utilization period is 60 months after the scheduled completion date of the project.

3. Shipments under the LoC shall be declared in Export Declaration Form as per instructions issued by the Reserve Bank from time to time.

4. No agency commission is payable for export under the above LoC. However, if required, the exporter may use his own resources or utilize balances in his Exchange Earners' Foreign Currency Account for payment of commission in free foreign exchange. Authorised Dealer Category- I (AD Category- I) banks may allow such remittance after realization of full eligible value of export subject to compliance with the extant instructions for payment of agency commission.

5. AD Category – I banks may bring the contents of this circular to the notice of their exporter constituents and advise them to obtain complete details of the LoC from the Exim Bank's office at Centre One, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005 or from their website www.eximbankindia.in.

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

(R. S. Amar)
Chief General Manager

AGGREGATE PUBLIC DEPOSITS OF THE NBFCs

(Amount in ₹ Crore)

Year (End-March)	NBFCs		RNBCs		Total Public Deposits (3+5)
	No. of Reporting Companies	Public Deposits	No. of Reporting Companies	Public Deposits	
1	**2**	**3**	**4**	**5**	**6**
1997-98	1420	13572	9	10249	23820
1998-99	1536	9785	11	10644	20429
1999-00	996	8338	9	11004	19342
2000-01	974	6459	7	11625	18085
2001-02	905	5933	5	12889	18822
2002-03	870	5035	5	15065	20100
2003-04	774	4317	3	15327	19644
2004-05	700	3926	3	16600	20526
2005-06	428	2448	3	20175	22623
2006-07	401	2077	3	22622	24699
2007-08	364	2042	2	22358	24400
2008-09	336	1971	2	19595	21566
2009-10	308	2831	2	14521	17352
2010-11	297	4098	2	7902	12000
2011-12	271	5735	2	4265	10000
2012-13	254	7085	2	3817	10902
2013-14	240	10808	2	3582	14390
2014-15	220	28941	2	3183	32124
2015-16	202	27069	1	1558	28627
2016-17	178	30624	1	1552	32176
2017-18	168	30439	1	1550	31989
2018-19 P	81	40058	1	1547	41605

NBFC : Non-Banking Financial Company ***RNBC :*** Residuary Non-Banking Company ***P :*** Provisional

Note : 1. NBFCs here include Deposit taking NBFCs (NBFCs-D), Mutual Benefit Financial Companies (MBFCs)/ Notified Nidhis, Mutual Benefit Companies (MBCs)/ Potential Nidhis etc till 2004-05 and only NBFCs-D thereafter.

2. Number of NBFCs collecting deposits decreased consistently due to the changed norm of acceptance of deposits.

Source : Reserve Bank of India.

TAX-FREE AND TAXABLE BONDS OF PUBLIC SECTOR UNDERTAKINGS

(Rs. Crore)

Year	Tax-free Bonds	Taxable Bonds	Total (2+3)
1	2	3	4
1994-95	1198	1872	3070
1995-96	547	1744	2291
1996-97	67	3327	3394
1997-98	570	2412	2983
1998-99	406	3957	4363
1999-00	400	8297	8697
2000-01	662	15969	16632
2001-02	274	14162	14436
2002-03	286	7243	7529
2003-04	---	5443	5443
2004-05	---	7591	7591
2005-06	---	4846	4846
2006-07	---	10325	10325
2007-08	---	13404	13404
2008-09	---	20546	20546
2009-10	1926	46483	48409
2010-11	1642	58791	60433
2011-12	28082	59983	88065
2012-13	14860	37857	52717
2013-14	34244	16621	50865
2014-15	---	37283	37283
2015-16	43500	9005	52505
2016-17	---	7990	7990
2017-18	---	16946	16946
2018-19	---	750	750

Notes :
1. Data for 2018-19 are provisional.
2. The data for the table include both public issues of bonds and privately placed bonds.
3. The data for the table also contains issues wherein tax benefit is provided under either of section 80CCF or section 10 of Income Tax Act,1961.

Sources :
1. Respective public sector undertakings for years up to 1997-98 and merchant bankers and prospectus thereafter.
2. Securities and Exchange Board of India (SEBI).


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