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From The Desk Of Editor-in-Chief

Russia's invasion of Ukrain has created trouble for all countries around the world and India is also not an exception. Russia is a major supplier of Oil and Natural gas and war has affected the supplies due to sanctions of USA and other Nato countries. The war has impacted the Crude Oil prices and it has crossed $130 per Barrel. BSE & NSE have shown big downward trend loosing investors money.

Tea, steel, chemical and pharmaceutical exporters to Russia are seeking intervention by the government and the Reserve Bank of India (RBI) as millions of dollars in payments are stuck because of sanctions imposed by the West that isolated Russian banks from the global financial system, said people with knowledge of the matter.

The Reserve Bank of India has said that India lost over Rs 100 crores per day for the last 7 years to bank fraud and scams. These shocking statistics come at a time when many bank loan frauds or scams have come into the fray in recent times. Turns out, there are many other Nirav Modis and Vijay Mallyas in the country. RBI added that '50% of the money lost is from the financial capital of the country, Mumbai.' This is followed by Delhi, Telangana, Gujarat and Tamil Nadu.

As per Finance Ministry notification for GST ivoicing will be mandatory w.e.f. 1st April 2022, for the Business turnover for 20 Crores.

Adani Enterprises has recently announced for the investment of Rs. 55000 crores in India in different category of enterprises in coming years.

EPFO Management has announced to transfer unclaimed amount in its fund for the elder benefit fund account for their welfare.

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Banking News

Corporate loans cross Rs.29 lakh Crore in 21 months

Bank loans to industries crossed the Rs.29 lakh crore mark for the first time in 21 months and settled at Rs 29.85 lakh crore at the end of December, with an improvement in consumer and business confidence that laid the pitch for sustained economic revival.

Top bankers expect the momentum to continue, with an increase in demand and the government placing its thrust on infrastructure spending and capacity expansion.

Rakesh Sharma reappointed MD, CEO of IDBI Bank

IDBI Bank informed the stock exchanges that its board has approved the reappointment of Rakesh Sharma as the managing director and chief executive officer (MD&CEO) of the bank for a period of three years, effective March 19, 2022.

Sharma's reappointment as the MD&CEO of the bank has received the banking regulator, RBI nod, the exchange notification said. Sharma was initially appointed as the MD&CEO of the bank in October 2018.

The move comes amid the government's effort to privatise the bank by selling a part of its stake. LIC, which is the promoter of the bank, is also expected to sell some part of its stake in the bank in the privatisation process. However, it has expressed its intention of not fully exiting the bank, given the strategic partnership it has with the lender when it comes to the bancassurance business.

Former finance secy Hasmukh Adhia nominated again as BoB non executive chairman

Former Finance Secretary Hasmukh Adhia has been nominated again as the chairman of Bank of Baroda (BoB), according to a government order.

The Appointments Committee of the Cabinet has approved the proposal of the Department of Financial Services for re-nomination of Adhia as non-executive chairman of the BoB, a government order said.

His term has been extended by another two years as chairman with effect from March 1, 2022, it said.

BoB is the third biggest public sector lender after State Bank of India and Punjab National Bank.

Adhia retired as Revenue-cum-Finance Secretary in November 2018.

It was during his tenure as Financial Services Secretary that the decision to split the post of Chairman and Managing Director of public sector banks was taken to foster greater transparency in decision making.

PNB to clear cheques of Rs. 10 lakh & above only after customer confirmation

Punjab National Bank (PNB) said high-value cheques of Rs 10 lakh and above will be cleared after reconfirmation with the issuer under the Positive Pay System (PPS) from April 4.

PNB said to protect the bank customers against large-value cheque frauds, it will make the Positive Pay System (PPS) mandatory from April 4, 2022.

The Delhi-headquartered lender introduced PPS for cheques of Rs 50,000 and above presented in CTS clearing from January 1, 2021, in accordance with the RBI guidelines.

The banking regulator had said that while availing of the facility is at the account holder's discretion, and banks may consider making it mandatory for the cheque value of Rs 5 lakh and above.

PNB in a release said that the PPS will now become mandatory from the next month for the cheques of Rs 10 lakh and above.

As per the Positive Pay System (PPS) developed by the National Payments Corporation of India (NPCI), a customer issuing the high-value cheque has to reconfirm some essential details. The details are then cross-checked while presenting the cheque in clearing before payment.

The lender said its customers will have to share details like account number, cheque number, cheque alpha code, issue date, amount, beneficiary name for clearing the high value cheques under PPS.

These details are to be shared with the bank at least 24 working hours before the cheque is presented for clearing. Customers can share the details through its internet banking, mobile banking, SMS banking or in their home branch in the prescribed format.

"The cheques that are registered in the PPS will only be accepted under the dispute resolution mechanism," it said.

Last year, the Reserve Bank (RBI) had issued guidelines to the banks to implement PPS system to safeguard customers from the fraudulent collection of high-value cheques.

It had instructed banks to enable the facility for all account holders issuing cheques for amounts of Rs 50,000 and above.

Bandhan Bank profit up 35.8%

Net profit of Bandhan Bank increased 35.8 % at Rs 858.9 crore during the third quarter of current fiscal, registering a rise from Rs 632.6 crore in the similar previous period.

MD and CEO of Bandhan Bank, Chandra Sekhar Ghosh told that the quarter ending December has been a good one for the bank and growth has bounced back after the depressing first quarter of current fiscal.

In the second quarter of the current fiscal, the bank reported a loss of Rs 3009 crore due to higher provisioning.

Ghosh said that collection efficiency (CE) numbers have grown on the whole which stood at 93 % at during Q3.

While the CE in West Bengal is 97 %, it is 96 % in Assam, he said.

According to him, the net interest margin (NIM) of the bank stood at 7.8 %, while gross and net NPAs have both fallen.

The capital adequacy ratio at the end of December quarter stood at 20 %, while provisioning coverage ratio was at 74.4 %. During the quarter, the bank had collected Rs 2500 crore from restructured loans.

"Stress in the system is going down which will lead to improved GNPA levels", he said.

The share of microfinance loans to overall portfolio during the period stood at 52 %. Ghosh said that the bank is on track to reduce the share to 50 % by the end of the financial year.Total business of the bank at the end of the quarter stood at Rs 1,72,000 crore.

IDBI Bank's profit jumps 53%

IDBI Bank has reported a 53 % jump in net profit in the October - December quarter of FY22, aided by a robust growth in net interest income (NII). Net profit for the quarter stood at Rs 578 crore compared to Rs 378 crore in the corresponding quarter of previous financial year (FY21).

Its NII, which is the interest earned minus the interest expended, increased by over 30 % year-on-year (YoY) to Rs 2,383 crore and sequentially it was up 29 %. However, non-interest income was down 20 % YoY to Rs 1,148 crore but it posted a sequential growth of 17 %. Net interest margin, a measure of profitability of banks, improved by 101 basis points (bps) to 3.88 % at the end of December quarter.

Provisions of the lender was down 7.62 % on YoY basis to Rs 801.81 crore but it was up 40 % on a sequential basis. Also, the bank has Covid provisions to the tune of Rs 863 crore as of December quarter.

Asset quality has improved both sequentially and on a YoY basis. Gross non-performing assets (NPAs) stood at 20.56 % at the end of December quarter (Q3FY22), compared to 23.52 % in Q3FY21 and 21.85 % in Q2FY22. Net NPAs, on the other hand, stood at 1.7 %. The provision coverage ratio of the lender remained very high at 97.10 %.

SBI MD Ashwani Bhatia appointed Sebi member

The government has appointed veteran banker Ashwani Bhatia as the whole time member of the Sebi.

Bhatia, who is currently the Managing Director of stressed assets and information technology at State Bank of India, has been appointed for a period of three years.

Prior to his elevation as MD of SBI, Bhatia was the chief executive of SBI Mutual Fund. Bhatia, who started his career with SBI in 1985 as a probationary officer, will retire on May 31,2022.

The positions of two whole-time members at Sebi were vacant at Sebi, after the tenures of G Mahalingam and Madhabi Puri Buch ended last year. Buch was appointed as the Sebi chairperson last month. The other two whole-time members on the board of Sebi are SK Mohanty and Ananta Barua.

The government has also nominated two officials to the regulator's board. Ajay Seth, secretary, Department of Economic Affairs (DEA) has been appointed in place of Anand Mohan Bajaj, additional secretary, DEA. The government has nominated Rajesh Verma, secretary, Ministry of Corporate Affairs (MCA) in place of KVR Murthy, joint secretary, MCA.

SBI to revamp banking app YONO, position it as complete digital bank

State Bank of India will revamp its banking application (app) YONO and position it as a complete digital bank (DB) under a new rubric 'Only YONO' for enhancing customer experience and ease of use.

The bank plans to bring in a consultant to help draw up the project plan, keeping in mind business goals for the next five years. With 54 million monthly active users (MAUs), SBI YONO has seen growth of over 35 % in MAUs in 2021.

The gamut of the advisor's work will cover the launch, with focus on continuous innovation, adoption strategy, speed of delivery of new journeys, and positioning it as a DB, said senior SBI executive. The bank has issued an expression of interest to appoint an advisor.

The customer experience has to be taken up on priority to present Only YONO as a competitive product/platform in the market. It will improve the cost-to-income ratio of the bank, said the executive, but did not provide a timeline for making the app a complete DB.

Banking sector health at its best in decades

India Ratings and Research (Ind-Ra) has revised the outlook on the overall banking sector to improving for FY23 from stable, as the banking system's health is at its best in decades. The improving health trend that began in FY20 is likely to continue into FY23, Karan Gupta, Director, Ind-Ra, said in a report.

Furthermore, key financial metrics are likely to continue to show improvement in FY23, backed by strengthened balance sheets and an improving credit demand outlook with an expected commencement of corporate capex cycle.

While the tightening liquidity would push up interest rates, impacting treasury gains, it would at least partially offset in the short term as loans get repriced faster than deposits, as per Ind-Ra's assessment. Almost one-third of the system's loans are linked to external benchmark rates.

Ind-Ra has marginally revised its credit growth estimates to 8.4 % from 8.9 % for FY22 and 10 % for FY23. The growth will be supported by a pick-up in economic activity post Q1 FY22, higher government spending on infrastructure and a revival in retail demand.

The credit agency estimates gross non-performing assets (GNPAs) at 6.3 % and stressed assets at 8.7 % for FY22 and at 6.1 % and 7.6 %, respectively, for FY23. It expects provisioning cost for FY22 at about 1.5 % and 1 % in FY23.

78% bankers see frauds rising in 2 years: Survey

Around 78% of bankers expect fraud to increase over the next two years because of the current business disruption due to the pandemic. The fear of fraud is triggered by the reduction in human contact due to large-scale remote working and an increase in customers using non-banking channels for transactions.

According to the Indian Banking Fraud Survey released by Deloitte, the most common concern for bankers is loan fraud (24%) followed by fraud in internet & mobile banking (14%). Respondents cited limited monitoring of assets after disbursement (38%), the economic slowdown (24%) and insufficient due diligence prior to disbursement (21%) as the top three factors leading to higher problem loans. These suggest that banks may need to overhaul their due diligence and monitoring frameworks.

"The number of fraud incidents encountered by banks over the last two years appears to have increased, compared with the findings of our previous survey. Around 53% of respondents indicated that they have faced more than 100 fraud incidents in retail banking (over the last two years) - a 29% increase since the previous edition," the report said.

According to the report, bankers said they have managed to detect fraud largely during routine audit and reconciliation followed by proactive measures through internal automated data analysis or transaction monitoring software. ❑

Reserve Bank News

RBI cautions public against prepaid payment instruments issued by unauthorised entities

The RBI said Gurugram-registered 'sRide Tech Private Limited' is operating a pre-paid instrument (wallet) through its car-pooling app 'sRide' without obtaining the required permissions, as it cautioned the public against using applications issued by unauthorised entities. As such, any person dealing with sRide Tech Private Limited, will be doing so at their own risk, the central bank said in a statement.

RBI said sRide Tech Private Limited is operating a semi-closed (non-closed) pre-paid instrument (wallet) through its car-pooling app 'sRide' without obtaining the required authorisation from RBI under the provisions of the Payment and Settlement Systems Act, 2007.

The RBI urged people to exercise utmost caution while using such application/s, dealing with and before parting with their money to any such unauthorised entity.

"In their own interest, members of public should verify and satisfy themselves that the application used or the entity they are dealing with is authorised to carry out the activity it performs or assures to perform," it said.

RBI amends payments systems rules

The Reserve Bank of India issued amended Payments and Settlement Systems Regulations that allows companies wanting to run payment businesses to seek licenses from the regulator.

The licensing application should include process flow of the operator, technology platform to be used, security features and inter-operability with other payment system operators.

As per the rules payment system, operators will be required to furnish all information and documents desired from the RBI from time to time.

The system provider also has to submit its annual accounts to the regulator three months after account closing along with a copy of its audited balance sheet.

RBI delays new bad loan rules for non-banks

The RBI has extended the roll-out of new bad loan norms for non-banking finance companies (NBFCs) by six months.

The norms pertain to upgrading NPAs (non-performing assets) to standard by NBFCs. In November, the RBI had said the new norms will be effective March 31, 2022, which has now been postponed to September.

According to an India Ratings report, bad loans for NBFCs are likely to increase by one-third due to the new norms. Earlier, lenders would upgrade accounts when the borrowers get back on track with their instalments. The new rules said that the loan could not be upgraded until all the money due was recovered.

RBI's regulatory body seeks withdrawal of 100 circulars

The Reserve Bank of India's Regulations Review Authority (RRA) has advised to withdraw additional 100 circulars to ease the compliance burden on entities under RBI regulatory ambit.

It had recommended the withdrawal of 150 circulars in the first tranche in November 2021.

The RRA has also recommended the

creation of a separate web page "Regulatory Reporting" on the RBI website to consolidate information relating to regulatory reporting and return submission at a single source.

The RRA has advisedthe elimination of paper-based returns and has identified 65 regulatory returns which would either be discontinued/ merged with other returns or would be converted into online returns. This was based on suggestions of an internal group chaired by its executive director O P Mall.

These steps are expected to ease regulatory compliance for the regulated entities while improving the accuracy, speed, and quality of data submissions, RBI said in a statement.

Regulated entities would be notified of the discontinuation/ merger and online filing of returns, separately. The notification containing the list of specific instructions recommended for withdrawal is also being issued separately, RBI added.

RBI to focus all energies on accelerating recovery

RBI Deputy Governor Michael Patra said the central bank will focus all its energies on reviving the country's economic growth given that inflation's momentum is declining.

"Our sense is that headline inflation has peaked in January and from hereon it will ease down to the target of 4% by the last quarter of 2022," he said at the Asia Economic Dialogue, adding, "This has provided us the space to maintain policy rates low and persevere with an accommodative stance so that we can focus all energies on accelerating and broadening the recovery."

Meanwhile, Patra said the RBI's views about cryptocurrencies might have delayed the government's proposed legislation on crypto assets.

Reserve Bank of India conducts variable repo rate auction of Rs.75,000 crore

RBI offered the banking system Rs.75,000 crore of overnight liquidity through variable rate repo (VRR) auction, while simultaneously announcing dated liquidity mopping operations through variable rate reverse repo auction (VRRR).

The central bank offered Rs.75,000 crore of liquidity to the banking system against which banks bid for up to Rs.1.38 trillion. At the same time, the RBI said it would conduct a 28-day VRRR of Rs.50,000 crore and a Rs.2 trillion VRRR for three days.

The opposite nature of liquidity operations is in line with the revised liquidity framework of the RBI, which suggests that the liquidity adjustment facility (LAF) will move more towards longer-dated instruments, and short-term liquidity operations can be done to smoothen out any liquidity mismatch.

Proposed digital currency by RBI to reduce the cost of cash

The proposed Central Bank Digital Currency (CBDC) to be issued by the Reserve Bank will play a critical role in improving the speed of transactions and reducing the cost of cash, a Deloitte report said.

The Reserve Bank of India is planning to come out with a central bank-backed digital currency, using blockchain technology in 2022-23.

As a financial services innovation, CBDCs are likely to play a pivotal role in shaping the 'future of value transfer', the report said, adding that most central banks worldwide are now in various stages of their evaluation of launching their national digital currencies.

"CBDCs due to its inherent potential of changing the way value transfer happens, provide a more resilient, innovative, and competitive payment system for households, businesses and economies," said Monish Shah, partner, Deloitte India.

Currently, most security clearing and settlement processes have a multi-day lag, he said, adding "with the introduction of Digital Rupee there would be a significant increase in efficiencies and reduction in associated reconciliation costs".

The report said CBDCs are likely to drive efficiencies and effectiveness of a jurisdiction's payments system by ensuring that its users access safe digital money. CBDCs will provide users with a sovereign option as compared to other less safe digital instruments, which may lead to less reliable payments, relatively volatile store of value and potentially erode monetary and financial stability.

Loans can be upgraded from NPA to standard category only after repayment of arrears: RBI

Loan accounts can be upgraded from non-performing asset (NPA) to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all credit facilities in the case of borrowers having more than one credit facility from a lending institution, according to the Reserve Bank of India (RBI).

This is according to the RBI's clarification on its November 2021 circular on 'Prudential Norms on Income Recognition, Asset Classification and Provisioning'.

What this means is that if a borrower has two credit facilities, with one of them (say, a housing loan) being standard and the other (say, business loan) non-performing, the lender's entire exposure to this borrower will be treated as non-performing. This exposure can be upgraded only if the non-performing account is regularised.

Banks wanted the RBI to allow them to treat the two exposures separately due to provisioning implications.

In its November 2021 circular, the RBI observed that some lending institutions upgrade accounts classified as NPAs to 'standard' asset category upon payment of only interest overdues and partial overdues.

In order to avoid any ambiguity in this regard, the central bank had clarified that loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.

With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), the instructions as specified for such cases shall continue to be applicable.

In its clarification, the RBI said the 'previous 90 days period' for determination of 'out of order' status of a Cash Credit /Overdraft account shall be inclusive of the day for which the day-end process is being run.

RBI expected to prioritise growth

The Reserve Bank of India (RBI) is expected to prioritise growth over inflationary fears in its April, 2022 policy meet.

Notably, the consumer price index (CPI) inflation print has remained at elevated level due to higher-than-expected vegetable prices in February.

Moreover, inflation is expected to remain at elevated levels due to higher crude oil price in subsequent months owing to the Russia-Ukraine crisis.

"Nevertheless, we still expect the RBI to prioritise growth in its April 2022 monetary policy meet as we believe growth is still a bigger concern currently rather than inflation," said Motilal Oswal Financial Services.

"We expect inflation in the range of 5.2-5.4 % YoY in FY22."

Earlier this month, CPI inflation came in at an eight-month high of 6.1 % YoY in February 2022.

Besides, food inflation came in at a 15-month high of 5.8 % YoY in February 2022 versus 5.4 % YoY a month ago.

"Within food, vegetables primarily caused the spike in inflation as excluding vegetables, CPI came in at 6.1 % YoY similar to the level seen in January 2022."

"Other items such as cereals and products, meat and fish, spices, and sugar and confectionary that constitute 17 % weight in CPI index also contributed to higher inflation."

On the contrary, fuel and power inflation came in at a 10-month low of 8.7 % YoY in February 2022.

Furthermore, core inflation stood at 6.2% YoY for the fifth consecutive month in February 2022.

RBI will ensure enough liquidity to support business

RBI will ensure abundant liquidity to support business even as Mint Road's crisis-era measures are coming to an end, Governor Shaktikanta Das said. While the Ukraine war has created new challenges, the central bank will seek to cushion its economic fallout by going even beyond the playbook, where steps often accompany sunset clauses after bitter lessons from the past.

"Going forward, we will ensure that there is abundant liquidity in the market for the credit system to be active, for the credit system to function normally," Das said in his address to the CII National Council in Mumbai.

This was his first in-person interaction with the industry since the start of the Covid-19 pandemic.

Das was answering questions from industry captains such as Uday Kotak, Keki Mistry and Rishad Premji, who attended the meeting as members of the CII council. "There will be abundant liquidity to meet the productive needs of the economy. All our schemes have a sunset clause," Das said. "We will ensure the whole process, the injection of liquidity as well as the withdrawal, is very non-disruptive."

RBI seen holding rates even as retail prices top inflation target

Consumer prices rising above the Reserve Bank of India's inflation target for the second straight month may have raised fears of a policy rate increase, but many economists expect the central bank to maintain its accommodative stance to support economic recovery.

They cited the easing of commodity prices from their peaks and the RBI's high inflation projections for the current quarter to insist that a policy rate hike at this juncture appears remote. ❑

Industry News

RIL MoU with Gujarat to invest Rs. 5.95-lakh cr in renewable energy

Reliance Industries Ltd (RIL) signed MoU on January 13 with the Government of Gujarat for a total investment of Rs 5.955 lakh crore as part of Investment Promotion Activity for Vibrant Gujarat Summit 2022. These projects will create 10 lakh direct / indirect employment opportunities in the State.

To make Gujarat net zero and carbon free, RIL proposes to invest Rs 5 lakh crore in the State over the span of 10 to 15 years to set up 100 GW Renewable Energy Power Plant and Green Hydrogen Eco-System development. RIL will develop an eco-system for assisting Small and Medium Enterprises and encourage entrepreneurs to embrace new technologies and innovations leading to captive use of Renewable Energy and Green Hydrogen.

Product innovation, availability of retail finance to drive farm mechanisation

Product innovation and retail finance support through government push in the small farm machinery segment will drive higher levels of farm mechanisation in India comparable to advanced economies, industry representatives say.

A recent RBI report pointed out that the extent of farm mechanisation in India has increased over the years and the current level of farm mechanisation is estimated at 40-45 per cent. But, it is much lower compared to other advanced economies and the BRICS countries such as the US (95 per cent), Western Europe (95 per cent), Russia (80 per cent), Brazil (75 per cent) and China (48 per cent).

Although the density of tractors has increased substantially over the years, the market for other farm equipment including power tillers, rotavator and transplanters is still limited and much unorganised (15 per cent of the farm equipment market).

Farm mechanisation has the potential to enhance agricultural productivity by 30 per cent and reduce the input cost by 20 per cent.

"What we have so far seen is tractorisation, not farm mechanisation in the country," said Antony Cherukara, CEO, VST Tillers Tractors Ltd, a leading player in the small farm machinery sector.

About 70 per cent of Indian farmers are small and marginal and they cannot access tractors that are priced at Rs. 6-7 lakh. These small farmers need affordable solutions in the area of power tillers, rice transplanters, etc. "Product innovation should happen in this area . We need Indiaspecific, affordable small farm machinery suitable for these small farmers," addedCherukara.

Farm mechanisation has the potential to enhance agricultural productivity by 30% and reduce the input cost by 20%

To increase penetration, the government's support by way of retail finance is described as a major factor. There should be specific targets given to the banks by the Nabard for funding small farm machinery, not tractors, by small and marginal farmers.

Under priority sector lending (PSL), loans are extended to agri mechanisation. Banks wouldn't know the details about the equipment. So, most of the retail loans are availed by the medium and rich farmers for buying tractors. "Hence, the government must fix a target under PSL to sell small farm equipment other than tractors. This will definitely give a big boost to farm mechanisation in the country," he said.

Moody's raises growth forecast to 8.4%

Moody's Investors Service upgraded its financial year 2022-2023 (FY23) growth forecast for the Indian economy to 8.4 % from the earlier estimated 7.9 % as the country moves to normalcy, post the removal Covid-19 restrictions. However, it cautioned that high oil prices and supply distortions could drag the growth down.

Fitch Ratings, on the other hand, maintained its earlier projection of 10.3 % growth in FY23 compared to 8.4 % estimated for FY22. Moody's has estimated the Indian economy to grow at 9.3 % in FY22, official data for which will be released. "Fiscal push for infrastructure spending could help consolidate India's economic recovery. We have raised our 2022 calendar year (CY22) growth forecasts for India to 9.5% from 7%, and maintained our forecast for 5.5% growth in 2023 (CY23). This translates into 8.4% and 6.5% in fiscal years 2022-23 and 2023-24, respectively," Moody's said in its latest Global Macro Outlook.

Moody's said the speed of the recovery from the first lockdown-led contraction in Q2 2020, and subsequently in Q2 2021 during the Delta wave, was stronger than expected, and the economy is estimated to have surpassed the pre-Covid-19 level of gross domestic product (GDP) by more than 5 % in the last quarter of 2021.

"Sales tax collection, retail activity and PMIs suggest solid momentum. As is the case in many other countries, the recovery is lagging in contact-intensive services sectors, but it should pick up as the Omicron wave subsides. With most remaining restrictions now being lifted with the improvement in the Covid-19 situation, including the reopening of schools and colleges for in-person instruction across various states, the country is on its way to normalcy," it added.

45 mn IT returns processed

The income tax department said more than 4.50 crore tax returns have been processed so far, of the total 6.26 crore ITR filed for the financial year 2020-21.

Further, more than 5.41 crore income tax returns (ITRs) filed have been verified and 1.58 crore refunds amounting to Rs 31,857 crore for AY 2021-22 (2020-21 fiscal) have been issued.

In a tweet, the income tax department also said refunds of over Rs 1.71 lakh crore have been issued to over 1.97 crore taxpayers so far this fiscal.

This includes personal income tax refunds of Rs 63,234 crore and corporate tax refunds of Rs 1.08 lakh crore.

In a statement, the Central Board of Direct Taxes (CBDT) said over 29.8 lakh major tax audit reports (TARs) have been filed on the e-filing portal of the income tax department as on February 15, 2022. Over 4.14 lakh major TARs/ forms have been filed itself.

On the last date i.e. the extended due date of February 15, 2022, 14 % of these statutory forms and in the last five days from February 11 to 15, 30 % of these statutory forms were filed.

The I-T department also asked taxpayers who are yet to accept the tax audit report submitted by their CA to complete the process of submission.

"More than 5.41 crore income tax returns (ITRs) filed have been verified out of 6.26 crore ITRs filed for AY 2021-22. Of the verified ITRs, more than 4.50 crore ITRs have been processed and 1.58 crore refunds for AY 2021-22 have been issued," the statement added.

Services exports may reach $325 billion in FY23, says SEPC

The country's services export is expected to reach $325 billion in 2022-23 on account of increasing demand for all kinds of services and gradual resumption of regular international travels, according to the Service Export Promotion Council (SEPC) Chairman Sunil H Talati.

He said by the end of the ongoing fiscal year, services exports would reach about $250 billion.

The estimated value of services export for April-January 2021-22 is $209.83 billion, exhibiting a growth of 25.31 % as compared to the year-ago period's $167.45 billion.

"With the hope of COVID-19 waning away soon, demand for all kinds of services is increasing in the global markets, so we are setting an ambitious target of USD 325 billion in 2022-23," Talati, Chairman of Services Export Promotion Council (SEPC) said.

He said support measures for the sector in the new foreign trade policy would help further boost the outbound shipments. It had earlier proposed an alternative scheme to SEIS (Services Export from India Scheme) - DRESS (Duty Remission on Export of Services Scheme) to boost exports.

"Despite the pandemic, the services sector has managed to retain 90-91 % of its last year's performance in terms of overall exports," he said adding services exports have been growing at a compound annual growth rate (CAGR) of 8-9 % for the last 20 years and the sector is eighth largest in the world and second in Asia Pacific region.

"We need to have a system of incentive for services exports," Talati said.

B2B online co covers 1,000 towns in India

Business-to-business (B2B) eCommerce platform udaan has shipped over 20 lakh tonnes under the essentials (fresh, FMCG, staples, pharma) and 260 million products of nonessentials (electronics, general merchandise and lifestyle) categories catering to around 50 million orders across 1,000 towns and cities across India.

The platform also on-boarded over five lakh new retailers / kirana shop owners in 2021. "During this period, over 625 sellers on our platform achieved sales worth Rs 1 crore each," said Vaibhav Gupta, co-founder and CEO, udaan.

Forex reserves shrink $ 1.4 bn to $ 632 bn

India's forex reserves declined by $1.4 billion to $631.5 billion for the week ended in February 25 due to a dip in currency assets, according to RBI data released. The overall reserves had increased by $2.8 billion to USD 633 billion in the previous reporting week.

Foreign currency assets (FCA) declined by $2.3 billion to $564.8 billion during the reporting week. Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves. The value of the gold reserves continued its northward journey and increased by $958 million to $42.5 billion.

AMFI rolls out internship for distributors

Association of Mutual Funds(AMFI) in India has launched an 'Internship Plan' under a Regulatory Sandbox initiative for grooming mutual fund distributors with an objective to increase the number of individual MFDs and stimulate financial inclusion.

The programme is targeted at fresh graduates, educated but unemployed individuals, especially those who may have lost their jobs and earnings due to the Covid pandemic, retirees, women and housewives and for those desirous of starting their own venture as self-employed entrepreneurs.

Under this scheme will have an exclusive empanelment and tie-up with a specific 'sponsor' AMC for a period of 12 months. During this period, the apprentice MFD will be supported by the sponsoring AMC towards getting the requisite NISM certification, acquiring AMFI Registration Number, operational set-up, training on operational aspects and client acquisition along with a stipulated monthly stipend of up to Rs. 15,000 for one year.

AB Pandey is NFRA chief

The government has appointed former finance secretary Ajay Bhushan Pandey as chairman of the National Financial Reporting Authority (NFRA) for a period of three years. Pandey, a 1984-batch Maharashtra cadre IAS officer, retired as revenue secretary in February last year.

The Appointments Committee of the Cabinet (ACC) has approved the appointment of former revenue secretary ABP Pandey as the chairperson of NFRA for a period of three years from the date of assumption of charge or till the incumbent attains the age of 65 years, sources said.

Prior to becoming revenue secretary, he was chief executive of the Unique Identification Authority of India (UIDAI). Post retirement, Pandey headed a committee to revisit the criteria for determining the economically weaker sections to provide them reservation.

Other members of the panel were member secretary of the Indian Council of Social Science Research (ICSSR) V K Malhotra and principal economic advisor to the government Sanjeev Sanyal.

GST Council may consider proposal to raise lowest slab to 8%

The GST Council in its next meeting may look at raising the lowest tax slab to 8 %, from 5 %, and prune the exemption list in the Goods and Services Tax regime as it looks to increase revenues and do away with states' dependence on Centre for compensation, sources said.

A panel of state finance ministers is likely to submit its report by this month end to the Council suggesting various steps to raise revenue, including hiking the lowest slab and rationalising the slab.

Currently, GST is a four-tier structure attracting a tax rate of 5, 12, 18 and 28 %. Essential items are either exempted or taxed at the lowest slab, while luxury and demerit items attract the highest slab. Luxury and sin goods attract cess on top of the highest 28 % slab. This cess collection is used to compensate states for the revenue loss due to GST rollout.

According to sources, the GoM is likely to propose raising the 5 % slab to 8 %, which may yield an additional Rs 1.50 lakh crore annual revenues. As per calculations, 1 % increase in the lowest slab, which mainly include packaged food items, results in a revenue gain of Rs 50,000 crore annually.

GST collections in Feb stand at Rs. 1.3 lakh crore, a slight dip from Jan

Goods and services tax collections dipped marginally to Rs 1.3 lakh crore during February, compared to Rs 1.4 lakh crore in the previous month, indicating that the Omicroninduced lockdowns had a marginal impact on economic activity.

The latest data released by the finance ministry showed that the mop up was 18% higher than a year ago. Revenue from domestic sources, which makes up for a bulk of the kitty, rose 12%, against the 38% jump witnessed in case of imports, which were largely due to higher oil and gold prices.

"February, being a 28-day month, normally witnesses revenues lower than that in January. This high growth during February 2022 should also be seen in the context of partial lockdowns, weekend and night curfews and various restrictions that were put in place by various states due to the omicron wave, which peaked around 20th January," an official statement said.

5 year Digital Ayushman Plan

The Union Cabinet approved the national roll-out of Ayushman Bharat Digital Mission (ABDM) with a budget of Rs 1,600 crore for five years, the government said in a statement.

Under the ABDM, citizens will be able to create their Ayushman Bharat Health Account numbers, to which their digital health records can be linked, the statement said. This will enable creation of longitudinal health records for individuals and improve clinical decision making by healthcare providers, it stated.

It will improve equitable access to quality healthcare by encouraging use of technologies such as telemedicine and enabling national portability of health services. Digital health solutions across healthcare ecosystem have proven to be of immense benefit over the years, with CoWIN, Arogya Setu and eSanjeevani further demonstrating the role technology can play in enabling access to healthcare.

However, there is a need to integrate such solutions for continuum of care, and effective utilisation of resources, the statement said. Based on the foundations laid down in the form of Jan Dhan, Aadhaar and Mobile (JAM) trinity and other digital initiatives of the government, Ayushman Bharat Digital Mission (ABDM) is creating a seamless online platform through the provision of a wide-range of data, information and infrastructure services, duly leveraging open, interoperable, standards-based digital systems while ensuring the security, confidentiality and privacy of health-related personal information.

EPFO mulls new pension scheme

Retirement fund body EPFO is mulling a new pension product for organised sector workers who are getting basic wages of more than Rs. 15,000 per month and are not mandatorily covered under its Employees' Pension Scheme 1995 (EPS-95).

Retirement fund body EPFO is mulling a new pension product for organised sector workers who are getting basic wages of more than Rs. 15,000 per month and are not mandatorily covered under its Employees' Pension Scheme 1995 (EPS-95).

"There has been demand for higher pension on higher contributions among the members of the Employees' Provident Fund Organisation (EPFO). Thus, it is under active consideration to bring out a new pension product or scheme for those whose monthly basic wages are more than Rs. 15,000," a source privy to the development said.

As per the source, the proposal on this new pension product could come up for discussion in the meeting of EPFO's apex decision making body Central Board of Trustees (CBT) on March 11 and 12 at Guwahati.

Freight costs jump as shipping rates, insurance premium soar

The sudden surge in container rates and insurance costs following the Russian invasion of Ukraine is expected to drive up freight costs across the world, industry executives and trade associations said. Container rates are up tenfold in less than a fortnight, while war insurance premiums have risen 5%.

The shipping industry, which plays a major role in global trade, was already fighting a shortage of vessels and containers when American and European sanctions on Russia and its businesses drove up crude prices, increasing shipping costs. Brent crude oil approached a multi-year high of $120 per barrel and was slightly lower at $113. On 3 March, the Drewry's composite world container index was up 2.1% from last week to $9,279.46 per 40ft container.

Anil Devli, CEO of the Indian National Shipowners' Association (INSA), said daily rates of tankers and vessels have zoomed from $3,000 per day around 10 days ago to $30,000-40,000 now, primarily because there are fewer ships from Russia and Ukraine. He added that war risk premiums for ships have also increased by 3-5%. ❑

Mutual Fund News

Aditya Birla, HDFC Mutual Fund to merge FMPs into debt funds

Aditya Birla Sun Life Mutual Fund and HDFC Mutual Fund will merge their Fixed Maturity Plans (FMPs) - fixed tenure debt products - coming up for maturity in April and May into their existing open-ended fixed income schemes.

The move will be more tax-efficient for investors who do not need the investment proceeds immediately, said investment advisors.

Aditya Birla Sun Life Mutual Fund said it will merge 17 FMPs with total assets under management of 4,000 crore maturing between April 15 and May 23 into Aditya Birla Sun Life Low Duration Fund and Aditya Birla Sun Life Nifty SDL April 2027.

HDFC Mutual Fund plans to merge five FMPs with AUM of about 1,100 crore into HDFC Corporate Bond fund.

"In a rising interest rate scenario, investors looking for an alternative to reinvest their FMP proceeds get a ready solution, with liquidity and efficient taxation," said A Balasubramanian, CEO, Aditya Birla Sun Life Mutual Fund.

ICICI Prudential Mutual Fund launches Housing Opportunities Fund

ICICI Prudential Mutual Fund has launched ICICI Prudential Housing Opportunities Fund, an open-ended equity scheme investing in equity and equity-related instruments of entities expected to benefit from the growth in housing theme.

The scheme will invest in basic eligible industries that form a part of Nifty Housing Index.

Housing as a theme encapsulates various sectors like cement, consumer electronics, housing finance, banks, power, steel, LPG/CNG/PNG/LNG suppliers etc. The fund house believes that housing as a theme seems to be poised for a turnaround as the real estate oversupply of 2008-2012 appears to be digested. This may lead to less pressure on real estate prices thereby aiding housing as a theme to perform better. With the number of Indians living in urban areas expected to reach 525 million by 2025 and 600 million by 2036, Real Estate sector in India is expected to reach USD $1 trillion by 2030.

Speaking on the launch of the product, Chintan Haria, Head - Product Development and Strategy, ICICI Prudential AMC, said, ""Housing as a theme, we believe is at the cusp of a strong cycle. India's favorable demographics, growing middle class population, increased urbanization, better affordability and lower home loan interest rates are creating a conducive environment for housing. The scheme is suitable for investors looking for opportunities to participate in potential growth of Housing themes in the country."

HSBC Mutual Fund launches HSBC CRISIL IBX 50:50 Gilt Plus

HSBC Mutual Fund has launched HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund (HGSF), an open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index - April 2028. The fund house says that the scheme has relatively high interest rate risk and relatively low credit risk.

HGSF with a mix of quality debt papers aims to provide better risk-adjusted performance and liquidity. The fund will be benchmarked against CRISIL IBX 50:50 Gilt Plus SDL Index - April 2028 and managed by Kapil Punjabi, SVP - Fund manager Fixed Income. The fund aims to focus on the six-year target maturity segment and gain from the current volatile outlook on long-term securities.

The fund will invest in government securities forming part of the GSec portion of CRISIL IBX 50:50 Gilt Plus SDL Index - April 2028, State Development Loans securities forming part of the SDL portion CRISIL IBX 50:50 Gilt Plus SDL Index - April 2028. Apart from this, the scheme will also have an allocation to money market instruments including cash and cash equivalents

Sebi clarifies mutual fund transactions via online aggregators

Sebi has given clarification regarding transactions in mutual funds facilitated by online platforms. The regulator said payment aggregators should directly credit the amount collected from the bank account of the investor only into an approved account, as per the instructions from the investor.

It also said payment aggregators should not act on instructions of the online platforms to alter the list of approved accounts and in no case, should the amounts be credited to the bank accounts of the online platforms.

Stock exchanges should ensure that payment aggregators must put in place adequate checks and balances so that the approved account is that of a clearing corporation, Sebi said.

The regulator said asset management companies would be liable to the unitholders in case of misuse of funds by payment aggregators or online platforms with respect to mandates covering mutual fund transactions.

Tata Mutual Fund launches Tata Nifty India Digital Exchange Traded Fund

Tata Mutual Fund launched Tata Nifty India Digital Exchange Traded Fund - an open-ended Exchange Traded Fund replicating Nifty India Digital Index. The index will select top 30 companies, based on market cap which align to the pre-defined set of basic industries.

Speaking on the launch, Meeta Shetty, Senior Analyst & Fund Manager, Tata Mutual Fund, said, "Tata Nifty India Digital Exchange Traded Fund is a passive portfolio replicating a pre- defined Digital India Index. Current characteristics of Nifty India Digital Index based on its index construction methodology represents the digital change agent companies and digital enablers. Digital transformation is still in the early stages and we expect more new age companies to achieve scale, raise capital and get listed over the next 3-5 years. "

"As this transformation unfolds and the new age companies become a more prominent part of the economy and equity markets, we see the emergence of new hybrid segments like consumer tech, fintech, edtech, etc. The portfolio, over a period, would have adequate representation to Digital enablers as well i.e. IT Services/ Cloud transformation / SaaS companies. The Indian IT services companies which are ahead in digital and cloud capabilities will also be an important part of this segment along with companies which are in the automation/robotics/IoT space".

RBI should revise the overseas investment limit by MFs

Nilesh Shah, managing director of Kotak Mahindra Asset Management Co. Ltd, believes that the only solution to the current volatility is asset allocation or a Kumbhakarna-kind sleep where you don't worry about market returns. In an interview with Mint, the mutual fund industry veteran talked about the right way to approach the market, limit on overseas investment, and the underperformance in their flagship flexi-cap fund.

Now, we don't know whether, in Ramayana, Kumbhakarna invested in mutual funds (MFs) or not, but if he had invested and he had seen his net asset value (NAV), he probably would have woken up. So, the only solution is asset allocation. There is no mechanism whereby one can protect the downside and get the full upside. The best that investors can do is asset allocation.

Balanced advantage fund is not the only answer. There are asset allocator funds, which divide between gold, debt, equity and offshore assets. Then there are asset allocator funds that divide within these asset classes based on a conservative, medium-risk or aggressive investor. But BAF is probably the first step in creating a solution where investors can divide between debt and equity. People necessarily don't chase returns and they don't like complexity. They want products which are simple to understand, and they want products which they can commonsensically understand.

Axis MF launches Axis NIFTY Midcap 50 Index Fund

Axis Mutual Fund, has announced the launch of Axis NIFTY Midcap 50 Index Fund (an open ended Index Fund tracking the NIFTY Midcap 50 Index). Managed by Jinesh Gopani, Head - Equity, the fund will track the NIFTY Midcap 50 Index TRI.

The NIFTY Midcap 50 Index consists of top 50 companies based on full market capitalization from NIFTY Midcap 150 index with preference given to those stocks on which derivative contracts are available on National Stock Exchange (NSE). The index is rebalanced on a semi-annual basis (March and September) using average data of the last six months. ❑

Co-Operative Bank News

RBI imposes a penalty on 3 cooperative banks

The Reserve Bank of India has imposed a penalty on three cooperative banks, including Nagrik Sahakari Bank Maryadit, Raipur, Chhattisgarh, for deficiencies in regulatory compliances.

A fine of Rs 4.50 lakh has been imposed on Nagrik Sahakari Bank Maryadit for contravention of the directions issued by the RBI to urban cooperative banks on exposure norms and statutory/other restrictions-UCBs and Know Your Customer (KYC), the central bank said.

The Reserve Bank has imposed a penalty of Rs 1 lakh on Jila Sahakari Kendriya Bank Maryadit, Panna for contravention of certain provisions of the Banking Regulation Act, 1949, the Depositor Education and Awareness Fund Scheme, 2014, and KYC.

Also, a penalty of Rs 25,000 was imposed on Jila Sahakari Kendriya Bank Maryadit, Satna for non-compliance with the provisions of the Banking Regulation Act, 1949 and the Depositor Education and Awareness Fund Scheme, 2014.

The RBI, however, added the penalties are 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 respective customers.

RBI cancels license of People's Co-operative Bank in Uttar Pradesh

The Reserve Bank of India has canceled the license of People's Co-operative Bank Limited in Uttar Pradesh.

The bank ceases to carry on banking business, with effect from the close of business on March 21, 2022, the RBI said. The license was canceled as the bank didn't have adequate capital and earning prospects, it added.

"The Commissioner for Cooperation and Registrar of Cooperative Societies, Uttar Pradesh has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank," the RBI said.

Its financial position wouldn't allow the bank to pay the depositors in full and public interest would be affected if it was allowed to carry on, the regulator said.

People's Co-operative Bank was prohibited from conducting the business of "banking", which includes acceptance and repayment of deposits.

On liquidation, every depositor would be entitled to receive deposit insurance claim amount of their deposits up to Rs.5 lakh from the Deposit Insurance and Credit Guarantee Corporation (DICGC), the RBI said.

According to the data submitted by the bank, more than 99 % of the depositors are entitled to receive the full amount of their deposits from DICGC, the regulator added.

RBI exempts UCBs' investment in Umbrella Organisation from non-SLR holding limits

RBI has exempted investments made by Urban Co-operative Banks (UCBs) for subscribing to the capital of the Umbrella Organisation (UO) from the limits imposed on holding of non-Statutory Liquidity Ratio (non-SLR) securities. The move is expected to encourage UCBs to subscribe to the capital of UO and acquire its membership. The UO will be a non-banking finance company (NBFC).

According to the RBI's 2009 circular on 'Investments in Non-SLR securities by Primary (Urban) Co-operative Banks', non-SLR investments will be limited to

10 % of a bank's total deposits as on March 31 of the previous year. Further, investments in unlisted securities shall not exceed 10 % of the total non-SLR investments at any time.

Non-SLR securities include debentures/ bonds, preference shares, equity shares, mutual fund units, commercial paper, and investment in securities issued by a securitisation/reconstruction company.

Some of the functions that the UO could perform include liquidity management for UCBs (those with surplus liquidity can park it with the UO, and those facing deficit could draw funds from it), establishing a common IT infrastructure, including payment gateways and data centres that could be shared by all banks, and facilitating mergers in the sector.

RBI had accorded regulatory approval to the National Federation of Urban Co-operative Banks and Credit Societies Ltd. (NAFCUB) in June 2019 for the formation of a UO for the UCB sector. The approval inter-alia permits UCBs to subscribe to the capital of the UO on a voluntary basis. As at March-end 2021, there were 1,534 UCBs in the country, according to the RBI.

New RBI guidelines on urban cooperative banks

In light of the BR Amendment Act of 2020, the new fundraising norm was proposed and public comments on the draft were invited by RBI last year in 2021. The 2020 amendment substituted Section 12 to provide for the issue and regulation of securities by co-operative banks.

The 2022 notification specifies that UCBs can raise capital through three broad methods, viz:- issuance of equity shares, preference shares, and debt instruments.

First, UCBs can raise funds by issue of equity to enrolled members within the area of operation or through additional equity shares to existing members.

Second, UCBs can augment Tier - I & Tier - II capital by issuing Perpetual Cumulative & Non-Cumulative Preference Shares, and, Redeemable Cumulative & Non-Cumulative Preference Shares.

Third, UCBs can issue Perpetual Debt Instruments (PDIs) for Tier - I Capital and Long Term Subordinated Bonds as Tier - II Capital. It can be issued to institutional investors also, with the consent of the depositors.

It may be pertinent to understand that Tier - I Capital is the primary funding source of the bank. It entails shareholder equity and retained earnings disclosed in their financial statements. On the other hand, Tier - II Capital or supplementary capital includes undisclosed funds, revaluation reserves, hybrid capital instruments, junior debt securities, general loan-loss, uncollected reserves, etc.

The notification specifies that such fundraising capital instruments can be issued by the UCBs with the prior approval of RBI. UCBs must seek permission via application to the regional office of RBI. The application shall be accompanied by an offer document, prospectus, information memorandum, a compliance certificate from a Chartered Accountant, and relevant disclosures. ❑

'Bad Bank' to start off with 15 stressed assets worth Rs.50,000 crore

In a bid to clean up their books, Banks will be transferring 15 stressed assets aggregating about Rs. 50,000 crore by March-end 2022 to the National Asset Reconstruction Company Ltd (NARCL), according to State Bank of India (SBI) Chairman Dinesh Kumar Khara.

The aforementioned assets (above Rs. 500 crore each) are part of the 38 identified stressed assets aggregating Rs. 83,000 crore that Banks will be transferring to NARCL.

Overall, chunky stressed assets aggregating about Rs. 1.50 lakh crore are expected to be transferred to NARCL.

NARCL, which has already been set up by banks, will aggregate and consolidate select stressed assets in the financial system for their subsequent resolution. Public sector banks are holding majority stake in the ARC.

Along with NARCL, a service company/operational entity, India Debt Resolution Company Ltd (IDRCL), has also been floated for resolving these stressed assets. Private sector banks are holding majority stake in the DRC.

Khara said, "The transfer (of stressed assets) will happen in a phased manner. In phase one, about 15 accounts aggregating to about Rs. 50,000 crore are expected to be transferred to NARCL. We are trying to have these accounts transferred within this financial year after completing all the required processes."

Legal News

Why to go for costly foreign arbitration, asks SC

Chief Justice N V Ramana, a protagonist of low cost resolution of litigation through arbitration and mediation, was shocked by the revelation that an arbitration under International Chamber of Commerce Paris required a pre-deposit of more than Rs 5 crore.

The dispute is between Bharat Coking Coal, a PSU and subsidiary of Coal India, and AMRBBB, a Consortium comprising AMR India Limited and Building Business Bridges UK Limited (BBB), AMR-BBB was awarded the contract for development of Kapuria Block and extraction of coal for a minimum guaranteed production of 2 million ton per year on turnkey basis, for the amount of Rs 798.82 crores as capital cost for development phase-I, and Rs 1427.25 crores as Revenue cost for phase-II. Some disputes arose in execution of the contract.

AMR-BBB approached ICC Paris for arbitration under the contract, which purportedly permitted a single arbitrator with the seat of arbitration at New Delhi. As a precursor, the parties were asked to deposit $2,88,000 (Rs 2.15 crore) as arbitration cost.

Bharat Coking Coal, through solicitor general Tushar Mehta said since the subject matter of arbitration was technical in nature, it had requested the ICC for a three-member arbitral panel. ICC had sought a response from AMR-BBB, which had agreed, but later withdrew from the arbitration process. Mehta said Bharat Coking Coal is ready for arbitration but there should be a technical member on the panel.

Appearing for AMR-BBB, senior advocate Mukul Rohatgi said that when ICC wanted a pre-deposit of $288,000 for a single member arbitration, the private company had deposited $78,000 while Bharat Coking Coal deposited only $5,000. When the request of the PSU for a 3-member panel was accepted, the ICC raised the pre-deposit to $688,000 (Rs 5.14 crore).

Advocates can be told to control assets under Sarfaesi Act: SC

Brightening the lawyers' image in society, the Supreme Court has ruled that advocates, as officers of the court, can be asked by district magistrate to take control of defaulting borrowers' assets for handing over to secured creditors under Sarfaesi Act.

Under Section 14 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, 2002, on request of a secured creditor, the district magistrate (DM) or the chief metropolitan magistrate (CMM) would take possession of the secured assets of defaulted borrowers and hand them over to the secured creditor.

The Bombay HC had ruled that appointment of advocates by the DM or CMM for taking control of the secured assets for handing over to secured creditors was illegal as advocates are not subordinate to the court. But, the HCs of Madras, Delhi and Kerala had okayed decisions of DM/CMM to entrust the task to advocates under Sarfaesi Act.

Deciding a bunch of cross-appeals, a SC bench of Justices A M Khanwilkar and C T Ravikmar said the DM or CMM can appoint an advocate for taking possession of secured assets of borrowers for handing over to secured creditors as it would be impractical for the judicial officers to reach location of each and every secured assets in busy financial cities like Mumbai, Chennai, Kolkata or Delhi.

Justice Khanwilkar said it would be impractical, if not impossible, for a DM/CMM to personally take possession of each secured assets given the large volume of such cases in big cities and defeat the purpose of Sarfaesi Act, which mandates expeditious handing over of secured assets to secured creditors.

GST will be applicable on partner's property rented to partnership firm, AAR clarifies

Goods & Services Tax (GST) is required to be paid for the properties rented out by the partner to his partnership firm, Tamil Nadu Authority for Advance Rulings (TNAAR) has said. This will be applicable even if there is NIL rent.

The applicant, Chennai based Shanmuga Durai is the Managing Partner of a partnership firm and also owns certain properties. The firm in which he is partner is carrying out businesses in those properties, free of rent.

In his application, he stated that under the Income Tax Act, it is clear that when the partner uses his property for businesses carried out by the firm, then deemed rent does not arise.

The applicant sought clarity from AAR under GST law for the same.

The applicant raised four queries. First, whether GST liability does arise in respect of property of the partner used by the partnership firm to carry out the business by the firm, free of rent.

Second, if so, what is the relevant section or rule or provision in GST law, under which the partner of the firm is required to pay GST on notional rent?

Third, is it mandatory to execute rental deed between partner and partnership firm, when there is no furtherance of business for that partner? And fourth, what is the applicable valuation rule, when consideration is not fixed and not received by the Partner?

AAR ruled that where the supply is between related persons, the value of such supply will be the open market value of that. In case open market value is not available, the value of supply of goods and or services of like kind and quality will be the taxable value.

Further, it said that in this particular matter, the property being rented, and the supplier and recipient are related. Accordingly, Rule 28 (related with determining value of supply of goods/services or both between distinct or related persons) of GST Act will apply.

"The activity of renting out immovable properties owned by the applicant as an individual person to the partnership firm, another individual person, in which he is a major shareholding partner and Managing Partner, even without consideration, is a taxable supply," AAR said.

This means GST is liable to be paid in respect of properties of the applicant rented out to the partnership firm, to carry out the business of the firm, even it is free of rent, as the "activity is in furtherance of business and amount to supply" as per GST law.

AAR ruling is applicable only on the applicant and the jurisdictional tax officer in that particular matter. However, it can be relied upon in similar matters. Also, Central Board of Indirect Taxes and Custom (CBIC) uses verdicts by AAR and Appellate Authority (AAAR) in making changes in rules for everyone.

What are the tax implications if firms buy back their ESOPs?

In the last two years, a lot of startups such as Razorpay, Udaan, Swiggy and Zerodha bought back the employee stock options (ESOPs) from their employees.

ESOPs are shares, representing ownership in the company , given to its employees at a price lower than its fair value price in the market.

Companies may decide to buy back ESOPs for various reasons including the intention of the promoters to offer liquidity to their employees holding ESOPs, especially in case of unlisted companies which are not available to trade in the secondary market.

Providing liquidity by unlisted companies by periodic buyback of ESOPs is also becoming an important consideration among startups. Controlling the equity dilution in the company could also be another reason why promoters offer buyback of ESOPs.

The buyback of ESOPs is an act similar to buying back of shares by an entity.

Bharath Reddy, partner, Cyril Amarchand Mangaldas, said that the buyback of shares from ESOP shareholders has to comply with the same conditions as buyback from other shareholders.

In case of a buyback, any capital gains on tendering shares to the company is exempt from tax in the hands of investors. Therefore, ESOP holders need not pay any tax on gains made while tendering shares in the buyback.

The exemption is available irrespective of the holding period or whether it is a listed or an unlisted share, as per Neeraj Agarwala, partner, Nangia Andersen LLP.

Note that the employee would have already paid the perquisite tax (difference between the fair market value of share allotted minus amount paid by the employee) on exercising the ESOPs.

The value of shares tendered in the buyback by all shareholders can be higher than the amount set aside by the company for the offer. ❑

SBI Chairman Flags off Mobile Medical Unit Project

State Bank of India's Chairman, Shri Dinesh Khara flagged off "SBI Sanjeevani-Clinic on Wheels", a mobile medical unit project at State Bank Bhavan, Mumbai. A batch of 5 such Mobile Medical Units were flagged off to provide primary healthcare services in the States of Arunachal Pradesh, Bihar, Haryana, Madhya Pradesh & Uttarakhand.

SBI Chairman, Shri Dinesh Kumar Khara handing over the cheque to the CEO, Synergy Sansthan, in presence of SBI and SBI Foundation leadership team, and vehicle funders - SBI General Insurance Co. Ltd.

SBI Sanjeevani provides primary, preventive, diagnostic, and referral health services at the doorstep of the people in the remote areas. The Mobile Medical Unit will be equipped with state-of-the-art diagnostic facilities and accompanied by a dedicated medical team consisting of a doctor, lab technician and pharmacist.

These units will provide services throughout the year, which will help rural communities for availing healthcare facilities at their doorsteps, thus saving their valuable time for daily livelihood activities. Along with the clinical facilities, the unit will also run specialized health and awareness camps in these remote villages. The project also leverages collaborations with local health departments/medical colleges for support. As on date, such facility has been sanctioned for 18 States and 2 Union Territories.

SBI Foundation, the CSR arm of the Bank has partnered with various NGOs for implementation of the initiative that aims to provide primary healthcare facilities in rural areas. SBI General Insurance Company Limited has provided the funding support for purchase of Mobile Medical Units to implement the project, in the above five States.

Speaking at the event, Shri Dinesh Khara shared that, "Healthcare has been one of the key focus areas of SBI's long term CSR strategy and we believe that SBI Sanjeevani initiative through our Mobile Medical Units will help in improving quality of life of communities in the remote areas. The initiative will not only provide primary healthcare services at the doorstep but also create awareness and improve the hygiene practices in these areas, through special drives and camps. SBI envisions to scale up the initiative across all the States in our country."

Axis Bank Bags IFR Asia's Asian Bank of the Year and India Bond House Award

Axis Bank, India's third-largest private sector bank has been awarded IFR Asia's Asian Bank of The Year, for its breadth of coverage and depth of expertise in the Asian investment banking space. The award acknowledges the bank's outstanding performance in equity and debt issuance, across all major products and segments. Axis Bank was the only local house to serve as a global coordinator for the record Rs. 183 Bn Paytm IPO, and was also the global coordinator for Macrotech Developers' Rs. 25 Bn IPO.

As per Refinitiv data, Axis Bank ranks first in India in DCM with 17.1% market share, which is twice than that of its nearest challenger. With the most senior team of 80 investment bankers in the counts, Axis Bank was able to climb to the third position in ECM despite strong competition from foreign houses. The bank has also helped open new markets for different issuers, such as HDFC's Rs. 30 Bn three-year floating-rate bond offering.

In a bid to strengthen its ESG commitments, Axis Bank has worked on numerous significant deals such as the Renew Sun Waves' Rs. 10.02 Bn bond offering and, Vector Green Energy's offering, which was the first AAA rated deal from the renewables sector. The bank also sold India's first sustainable AT1 issue, a USD 600 Mn perpetual non-call five issue priced at 4.1%, while acting as a joint global coordinator.

SBI Card Inks Partnership with Nature's Basket to Launch India's Leading International Gourmet Card

SBI Card, India's largest pure-play credit card issuer, has inked partnership with Nature's Basket, India's leading premium grocery store brand, to launch 'Nature's Basket SBI Card'. Thoughtfully crafted to cater to the fast-evolving gourmet taste of premium consumers, the first-of-its-kind 'Nature's Basket SBI Card' will address their unique lifestyle related spend needs, including grocery and gourmet. The card will be introduced in two variants – 'Nature's Basket SBI Card' and 'Nature's Basket SBI Card Elite' to enable cardholders to derive maximum value from their spends at Nature's Basket stores along with other key spend categories such as international travel, dining, and entertainment. Nature's Basket SBI Card will be available to customers by around first fortnight of April 2022.

Nature's Basket SBI Card Elite and Nature's Basket SBI Card

'Nature's Basket SBI Card' variants will allow cardholders to earn up to 20 Reward Points on every Rs. 100 spent at Nature's Basket stores and up to 10 Reward Points on every Rs. 100 spent on dining, movies, and international travel. Importantly, the cardholders will be able to enjoy unparalleled benefits such as complimentary Bookmyshow movie tickets, Taj gift vouchers, Nature's Basket welcome gift vouchers, and access to higher tiers of Nature's Basket loyalty program, among others.

With the changing lifestyle preferences and increasing disposable income, consumers are seeking premium products and experiences. At SBI Card, premium cards portfolio contributes a significant share in overall spends, which is an indication of consumers' increasing affinity towards premium lifestyle.

According to Mr. Rama Mohan Rao Amara, MD & CEO, SBI Card, "India's premium consumer segment continues to offer a strong potential for growth. Over the years, we have built a robust premium products portfolio and Nature's Basket SBI Card, with its exclusive benefits and privileges for consumers, will help to further strengthen it. We are delighted to partner with Nature's Basket which has been instrumental in crafting the gourmet food story in India and has millions of loyal consumers. Through this card, we hope to provide them with an exceptionally premium experience."

Speaking about the initiative, Mr. Devendra Chawla, MD & CEO, Spencer's Retail & Nature's Basket said, "As a leading international gourmet and premium grocery brand in the country, we consistently strive to bring more value & delight to our esteemed customers. Launch of Nature's Basket SBI Card that rewards customers on their varied purchases is a key step in the direction. We are very thrilled to be partnering with SBI Card to launch this co-branded card that will provide numerous benefits to our valued customers and deepen our relationship with them."

Nature's Basket SBI Card Elite will offer complimentary Bookmyshow movie tickets worth Rs. 6,000 every year. Both the variants will come with compelling spends-based milestone benefits. Through Nature's Basket SBI Card Elite, cardholders will be able to avail Taj gift vouchers of worth Rs. 10,000 upon achieving annual spends of Rs. 6 lakh and annual fee reversal at Rs. 10 lakh spends milestone during membership year. On the other hand, Nature's Basket SBI Card users will get gift vouchers of premium brands worth Rs. 3,000 upon achieving Rs. 3 lakh annual spends and will become eligible for annual fee reversal upon reaching annual spends milestone of Rs. 2 lakh.

Aimed at elevating the premium experience of customers, Nature's Basket SBI Card Elite goes a step further and will offer customers exclusive privileges like exclusive check-out counters at Nature's Basket stores and concierge assistance to address customers' requirements around flower delivery, gift delivery and online doctor consultation. The cardholders will also be able to use the card to avail complimentary access to airport lounges while travelling domestically and internationally. Nature's Basket SBI Card Elite will offer 8 complimentary visits per year to domestic lounges and 6 complimentary visits per year to international Priority Pass lounges. Nature's Basket SBI Card customers will be able to avail 4 complimentary visits per year to domestic lounges.

DIGITAL LOAN MONSTERS

Good news is in the air. India is celebrating arrival of immunizations against deadly corona virus. However, there is another bug from India's northern neighbor that may create havoc if not killed by the judicial medicine. Yes, it is digital loan microbe.

Five suicides within a span of seven days in Telangana supposedly connected to persecution by app-based unlawful loan swindlers and bountiful moneylenders have elevated worries about governing breaches being misused by online fraudsters. Instant digital loan app scam got murkier when Telangana police force identified around 1,4000,000 dealings worth Rs. 21,000 crore and detained a Chinese national in correlation with app-based loan deception. According to the police department huge transactions have taken place during the last six months and executed over payment gateways and bank accounts linked to these companies and a large number of international transactions have also occurred through bitcoins.

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The suspected, Zhu Wei alias Lambo was in charge of operations for many instant loan app entities such as Aglow Technologies Private Limited, Liufang Technologies Private Limited, Nabloom Technologies Private Limited and Pinprint Technologies Private Limited. The matter being examined by the Telangana police and they are investigating more than a dozen payday loaning apps such as Loan Gram, Super Cash and Mint Cash. As per police sources, there are more than 72 apps which are offering loans online without appropriate authorizations from Reserve Bank of India and obligatory linkups with banks and registered NBFCs.

Although these problematical digital loan applications are not solely made in China, Telangana Police department has detected a huge number of such apps industrialized by the Chinese. As a result of series of suicides and mistreatment of defaulters who had borrowed at inflated interest rates, numerous States of India have imposed restrictions on such apps. Moreover, the Apex bank of India alerted citizens against imparting their personal information with such apps and against borrowing what appeared to be trouble-free money from unsubstantiated sources.

An entity that advances money to the public must be authorized by the Reserve Bank of India. Nevertheless many organizations in India function as lenders without proper license through apps that can be effortlessly downloaded. Few of them connect with banks or non-banking financial corporations and act as their subcontracting associates for promoting and on-boarding customers. The trouble arises when the apps are not crystal clear and do not reveal the complete information to the users. The customers should be aware that it is not the app which is loaning but the bank or a NBFC. Importantly those who run the apps for the bank or NBFC will also have to be within the ambit of banking customs and norms.

Dirty picture

According to industry onlookers, there are several Chinese apps which are active in the digital lending galaxy allegedly disclosing personal statistics and frequently annoy their borrowers and family members at the first sign of loan evasion. These unauthorized establishments are at par with illegitimate financiers who advance against the security of land or gold ornaments to low and middle class families. Such lenders have been operating in India for ages. In addition, these establishments like conventional moneylenders, involve in forced lending customs to get their money back.

Naming and shaming the borrower is their usual job. These entities offer trouble-free credit through unregulated apps which varies from Rs. 1,000 to Rs. 100,000 at exorbitant rates of interest which may range between 18% to enormous 50%. Besides, the digital or online loan givers grab consumer records when the app is downloaded.

To promote the lending process such lenders employ voluminous methods starting from advertising in market places to sending bulk messages and email communications. They also bypass the methodical documentation, customer background inspection, income verification and Know Your Customer (KYC) procedure. Thus, such illicit loan apps provide trouble-free quick loans and entice of rapid money in a few minutes after downloading the app with no checks or assessments deceives innocent people. The understanding between the borrower and the lender will be that the money will be returned within stipulated time with the interest component. But the story changes when borrower defaults on the loan amount.

When mortgagor fails to repay the amount borrowed, lenders send text communication to every fellow in the borrower's phone book humiliating them. Many times they also call up women members of the borrower's contact book and abuse them. They damage the customers' privacy and no rules are imposed on such acts. These are fly-by-night operators and on the basis of the apps itself it is not transparent as to what is their configuration. Earlier Peer-to-Peer platforms used to lend directly to individuals or business units without an approved financial institute partaking as a mediator. They used to provide loans via online mode that pair lenders with the prospective borrowers. But at present they are regulated and in July 2020 the RBI listed 21 P2P NBFCs.

Big boy makes the entry

On December 23, 2020 considering the public interest the RBI released a report and warned the people not to become victim of the new digital virus and dishonest doings. It also cautioned them not to share copies of KYC documents with anonymous or illegal apps and urged them to examine the backgrounds of the entities providing loans through online mode or mobile apps. Customers also advised to report such Apps or bank account details linked with the Apps to concerned law enforcement agencies or use Sachet portal

(https://sachet.rbi.org.in) to file a grievance in an electronic method. The Apex bank mentioned in the statement that recently there are many complaints against lending units which mainly associate to excessive interest rates, unclear methods of interest calculation, cruel recovery practices and unapproved use of personal records.

To assist the RBI in the process, the Digital Lenders Association of India (DLAI) issued a code of conduct to its members and instructed them to follow it strictly. The Fintech Association for Consumer Empowerment (FACE) also broadcasted the 'Ethical Code of Conduct to encourage finest systems in digital lending and to protect consumer privileges and welfares. The founding member of the FACE also mentioned that code of conduct has been issued to provide the awareness to the consumers about the correct rates of interest and other top customs.

Earlier in June 2020, to make the digital lending process more transparent the RBI issued guidelines and had instructed banks, NBFCs and digital lending boards to honestly reveal complete information on their websites to people and stick to the truthful practices protocol guidelines in letter and spirit regardless of whether they advance via their own digital lending platform or via a delegated lending platform. The RBI issued this mandate after noticing that loan offering platforms manage to describe themselves as lenders without unveiling the name of the bank or NBFC at the backend, as a result of which, customers are not able to retrieve grievance remedial paths available under the governing frame. Yet with swelling reports of harassment and suicides, digital lenders who function within the RBI purview worry that the budding industry could be eternally tarred.

Vigorous vaccine needed

Undoubtedly digital mice are at play although the cat is around. Ruthless approaches followed by the digital loan sharks have triggered extensive melancholy. There is a shortage of regulations to monitor digital lenders and this is the big concern of the banking sector. Presently, lending activities are carried by individuals easily without any rubrics and rulings. The main problem arises when apps supply money from doubtful bases including from money laundering and even proceeds of heinous crimes like drug-running and lend from their books staying out of directive. Latest incidents reveal this scenario and it is a wake-up call for the regulators to draw line instantly. The crisis of unlawful loan lending apps will continue till the supervisory cracks exist.

In spite of the government's big statements on security of personal data, these criminals have easily excavated borrowers' data including their bank account details, deposits and borrowings from other conventional financial institutions. Although banking regulations stipulate hard method for granting permits to lend to general public or to accept the deposits, these digital lenders escape judicial parameter. Earlier former Prime Minister of India, Indira Gandhi had introduced a clampdown on unlicensed money lenders during the Emergency, but the matter has endured into the 21st century.

If the speed with which Indians have cuddled digital financial transactions is a positive development of Covid-19, it has also had an unpleasant outcome in the mushrooming of unconstitutional digital lending apps. Hence without delay, the ministries of home, finance, information technology and law must interact with the Reserve Bank to handle these digital lending apps, just as few of these institutions had got together in 2010 to handle Andhra Pradesh microfinance crisis where several micro lenders operated outside the legal boundaries and followed forcible recovery ways and charged excessive interest rates which led to series of borrowers' suicides. Thus, the government and the watchdog of the banking sector need to do more than issuing and tweeting caveats to the public about illegal digital lending applications. ❑

ROLE OF ARTIFICIAL INTELLIGENCE AND ANALYTICS IN BANKING

AI and Data Analytics have evolved with the surge of the digital revolution, due to which there has been huge growth in the dynamics of how these are used today in banking. Analytics can be used for expanding the client base and for optimizing the costs. Adoption of Artificial Intelligence (AI) and Analytics has transformed every aspect of the banking process. These have helped in making banking procedures faster, transfer transactions safer and back-end functions more efficient. AI and Analytics in banking are ready to transform how organizations manage their revenue, converse with clients, and scale their investments.

Artificial Intelligence in Banking

Strong and speedy process, advent of mobile technology, data accessibility, and spread of open-source software offer AI a huge opportunity in the banking sector. The business value for the world market for AI in the banking industry is predicted to increase by manifold in the coming years. It will increase from $50 Billion in 2018 to $300 billion in 2030 (Source: IHS Markit).

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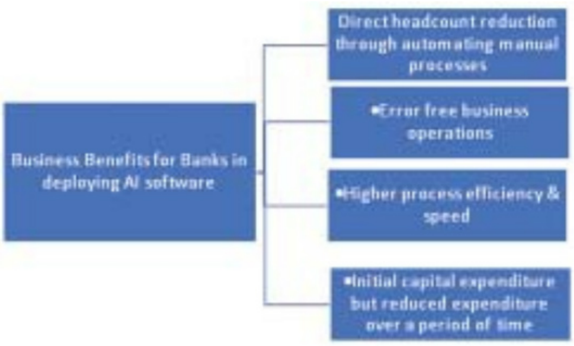
AI technologies can significantly enhance banks' ability to attain the following key outcomes:

1. **Personalization of services -** On account of arrival of new age digital tools such as Customer Data Platforms (CDPs), it has become easy to aggregate data from

various sources in one central location. CDPs help banks in achieving a single customer view, which means that a customer's details such as transactional data, behavioural data, etc. are all made available in one place. Once the bank is able to fully understand a customer, giving what he is looking for, the next course of action is to offer personalised products and services.

2. **Significant profits -** AI will boost staff productivity by empowering them to delegate low value-added tasks to AI and be more productive in their core tasks. This will help in increasing profit of the bank.
3. **Unique omnichannel experiences -** Omnichannel experience is one that connects customers through all methods of communication and interaction, this could be texting, messaging, phone calls, emails, and apps. This can be made possible with the help of AI technologies.
4. **Innovation -** In a time of increasing digitalization, artificial intelligence has become relevant for innovation. AI offers the possibility of simplifying certain innovation tasks, making them more efficient with additional information. Algorithms and ever-increasing amounts of data allow better analysis, more precise forecasting and decision-making with less risk. AI has the potential to significantly improve innovation management or even replace human innovation teams with machines and robots.



Banks are required to make AI central to their core strategy and operations, otherwise will be at risk to be overtaken by competition and abandoned by their customers.

AI Use Cases

Globally, banking industry is the biggest consumers of technology and among the fastest adopters of new technology. Indian banks are no exception. These banks are applying AI for both retail customers needing a common solution as well as corporate customers having specific requirements. AI is being employed across the following divisions:

Branch Operation - Account-setup process involves client data being entered in a number of systems. This can be done by a software robot equipped with Artificial Intelligence.

Lending Decisions - AI-powered credit scoring tools help in speeding up lending decisions, while limiting incremental risk. It also helps in preparing a credit report and drafting legal documents.

ATM Reconciliation - AI tools help in reconciliation where balances are settled between different banks and their ATM networks, when one bank customer uses another bank's ATM.

Treasury - Predicting the possible direction of bond market based on historical data can be possible with the help of AI tools.

Management of Funds - AI tools are being used for more data driven, parameters-set trading for wealth management clients.

Management of Fraud - AI tools are playing pivotal role in preventing identity theft, money laundering using deposits or loan fraud.

Regulatory compliance - To assist bank employees, who may not know the entire set of rules and regulations the RBI has for banks. Automating basic rules for determining client classification type using Artificial Intelligence for regulatory norms such as KYC, FATCA, etc.

As per a report by McKinney, the most commonly used AI technologies in the banking sector are:

Robotic Process Automation (RPA) - (36 percent) for structured operational tasks.

Virtual Assistants - (32 percent) for customer service divisions.

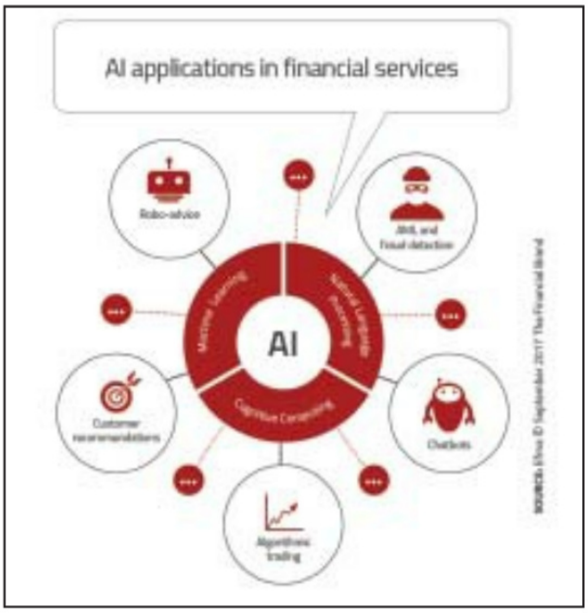
Machine Learning (ML) techniques - (25 percent) to detect fraud and support underwriting and risk management.

AI Application in Financial Services

1. **Machine Learning (ML)-** ML works on computer algorithms that improve automatically through

experience by extracting meaningful insights from raw sets of data.

- **Robo Advisors-** Using ML, Robo-advisors provide automated, algorithm-driven investment services by analysing data shared by the customers.
- **Customer Recommendations-** ML tools can generate simple algorithms, which analyse and filter customers' activity to recommend them the most relevant and precise items.



2. **Natural Language Processing (NLP)-** NLP enables computers to understand human language and respond accordingly. This involves preparing systems to process text and speech and interpret the meaning of words, sentences and paragraphs in context.
   - **Chatbots-** A chatbot is a computer program designed on NLP platform to conduct smart and compelling conversations with users on behalf of the bank. SIA of SBI, EVA of HDFC bank and Erica of Bank of America are some of the examples of chatbots deployed by the financial institutions.
   - **AML and Fraud detection-** Banks are using screening solutions integrating NLP to process and derive meaning from huge volumes of unstructured data which may be relevant to a fraud prevention.
3. **Cognitive Computing -** It broadly refers to technology platforms which take considerable quantities of structured and unstructured data and serve it up to customers and bank employees through simple interfaces.
   - **Algorithmic trading-** Computer cognitive system can speed up information integration, enabling more appropriate trade recommendations based on the latest information and market conditions.

AI Enabled Chatbots

A tech-platform designed to understand and learn like a human and answer queries in real time is commonly termed to as a chatbot. The main purpose of chatbots in banking is to provide better customer experience. However, they also support the staff and prevent stressful situations that arise from direct communication with clients. Artificial intelligence may support customers in several ways. The most common use scenario for chatbots in bank customer service is the automatization of repetitive routine tasks. Other activities handled by chatbots are:

- Welcoming customers
- Registering complaints
- Providing the requested information to customers
- Accepting a payment from customers

Some of the examples of AI enabled chatbots in the banking industry:

- SBI has deployed "SIA" (SBI Intelligent Assistant), artificial intelligence-powered software that has the capability to respond to 850 million queries a day, making it the largest-financial sector AI solution in the world. SIA is a multilingual chatbot which can respond in speech or text.

❖ AI-powered virtual assistant "iPal" of ICICI Bank can handle queries on GST, government digital initiatives, ATM locations, products & services, branch particulars and IFSC codes. Kotak Mahindra Bank's "Keya" can recognise customer intent and can independently call serviced by the voicebot without any human intervention. HDFC Bank's e-virtual assistant "Eva" like so many other chatbots follows the industry norm in being female, can also handle FAQs. She has been integrated with online travel aggregators and service providers, so she can book bus tickets or chart out trips for customers.

AI is the future

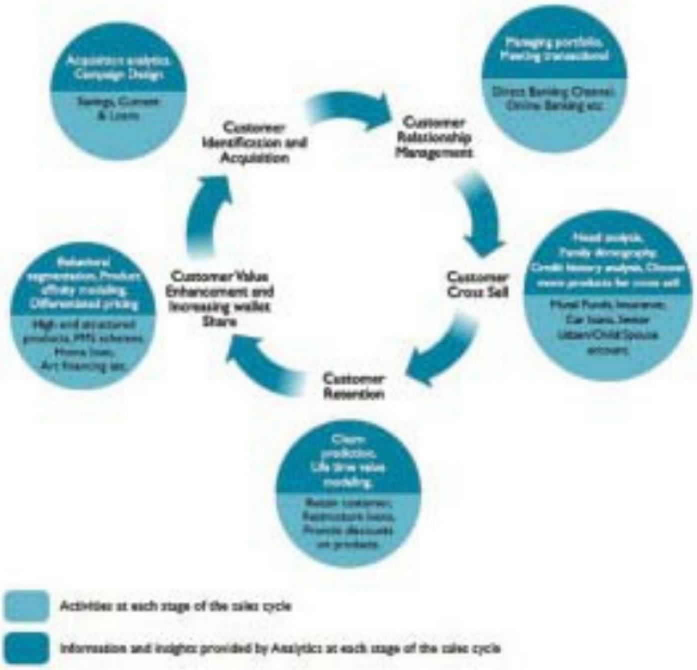
In the AI-powered digital world, banks will endeavour to meet customers' rising expectations and beat competitive threats. Hence, AI-equipped Banks will offer propositions and capabilities which will be:

1. **Smart and intelligent-** Recommending measures, predicting and automating key decisions.
2. **Custom-made-** Pertinent and timely, and based on a comprehensive understanding of customers' past behaviour.
3. **Omnichannel-** Impeccably covering the physical and online contexts across multiple devices and delivering a consistent experience.

The AI-equipped bank of the future will also enjoy the speed and agility that today characterize digital-enabled companies. It will innovate promptly, launching new features in days instead of months. It will collaborate significantly with partners to integrate perfectly across journeys and technology platforms to deliver robust output.

Data Analytics in Banking

Presently, with banking products and services becoming increasingly commoditized, data analytics can help banks distinguish themselves and gain a competitive edge. Data is something that banks have been dealing with for so many years, and its scientific analysis can help them bring about major enhancements in performance. Analytics can also provide the management with valuable inputs at each stage in the customer lifecycle.



(Source: Wipro)

Use Cases of Analytics in Banking

1. **Customer Experience-** Analytics can be used for customer segmentation. Using Big Data, banks can segregate clients based as per their demographic profiles, behaviour, including buying or investment patterns. This will benefit the banks in marketing to target audiences and building better customer relationships. Banks can also analyse the spending patterns of their clients using predictive analysis. This will help to identify when potential customers may need specific financial services.
2. **Risk Management-** Risk assessment is of high priority for banks, as it helps to regulate financial activities and in the pricing of financial investments. Risks come in many forms e.g., bad loans, fraudulent activities, or investments that have flopped. Also, banks have been under great strain due to increased competition from non-banking players, low asset yields and an increase in commercial borrowings. These factors signify risk for the bank and early detection of these risks can help a bank avert a major loss. Thus, Analytics can help in mitigating risks.

3. **Management of Fraud-** By knowing the usual spending patterns of an individual, the bank can raise a red flag if something unusual happens. If there is unexpected increase in the expenses of a customer, this may indicate that the card was stolen and used by fraudsters. Cutting down the risk of fraudulent actions is possible by analysing these types of transactions in real-time.
4. **Management of Assets -** Banks can track the past usage patterns and the daily transactions at their branches and ATM's, hence predicting the future needs of their potential customers. This will help in optimal management of the liquid assets which can result in extra income.
5. **Winning over Customers-** Customer's lifetime value is how long the organizations are able to retain their customers. Predictive analytics helps to know which customers should be focussed for engagements and use that knowledge to understand why customers responded to certain messages and promotions.
6. **Improving through Feedback management-** Predictive analytics allows banks to keep up their relationship with the customers by giving them the right services and products for their needs and matching individual preferences in the most sorted way.

Conclusion

Artificial Intelligence and data analytics constitute significant elements of the Banking sector today, given its reassurance of refined and extended customer satisfaction, operational digitization, minimising cyber risks, and transaction transparency for improved customer-relations. Artificial Intelligence is still in the beginning stage and there is lot of scope for deployment of these software in various Banking jobs in the coming years.

Also, to gain a competitive advantage, banks must acknowledge the crucial importance of data analytics, integrate it in their decision-making process, and develop strategies based on the actionable insights from their client's data.

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World Bank India head to be MIGA's VP Operations

The World Bank's India head, Junaid Kamal Ahmad, has been appointed as one of the vice presidents of the global lending institution. Ahmad -- who as Vice President, Operations would head the Multilateral Investment Guarantee Agency (MIGA) -- is the second Bangladeshi national to be appointed to such a high position in the history of the bank. Ahmad, 61, will assume his new role from April 16, an official release said. He has been the country director for the World Bank in India since September 2016. Fayez Choudhury was the first Bangladeshi national who became the vice president on the administration side.

In his new role, Ahmad will work to advance and enhance MIGA's brand partnering across the World Bank Group and with financial institutions, private investors and development actors; originate and pursue meaningful, iimpact-drivenprojects and lead the Operations team to deliver on MIGA's mandate of mobilising private finance for development projects in Emerging Market Developing Economies, the bank said in a statement.

Small Finance Banks gain 8% incremental market share

Small finance banks are gaining energy with them getting 8% incremental market share whereas their total share remains to be round 1%. In the previous three-and-a-half years, SFBs have delivered a strong 42 % compound annual development charge (CAGR) adopted by private banks at 13 % and overseas banks 8 % whereas mortgage development for public sector banks was at the bottom at 2 % throughout the identical interval.

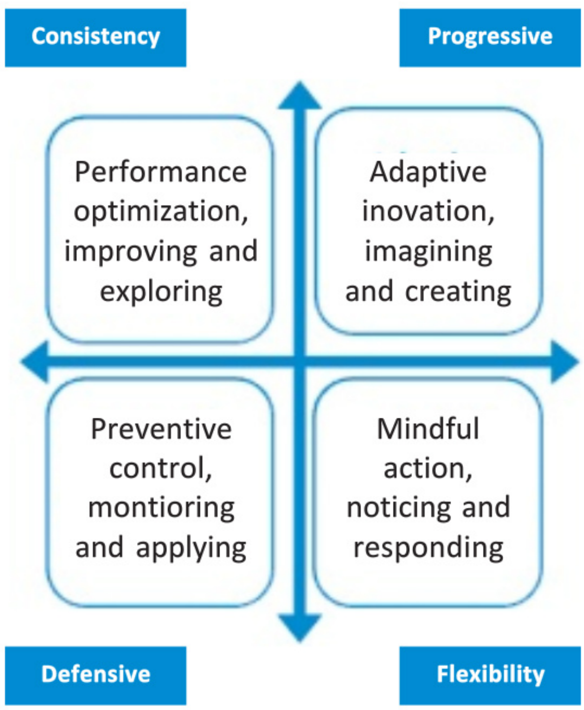
This displays the demand for small ticket loans in rural and semi city pockets - sometimes the main target space for SFBs - and in addition reveals that large lenders are focusing solely on high rated credit score. These banks take pleasure in robust credit score market share at over 2 % in semi-urban areas. SFBs have created a distinct segment place in small-ticket loans (which account for about 40 % of whole SFB loans) and are regularly getting into into new credit score merchandise, ICICI Securities stated in a report.

BEND BUT DON'T BREAK: OPERATIONAL RESILIENCE

The word resilience was coined by Emmy Werner in the 1970s. She studied a cohort of children from Hawaii. The cohort typically comprised of families that were quite poor, among the children who grew up in these detrimental situations only one third didn't exhibit destructive behavior in later stages and hence Werner deemed this group to be "resilient".

Being resilient means "the capacity to recover from difficulties" but unlike the movies we can't wait for miracles to happen. In the real world we anticipate, prevent, recover and/or adapt. These 4 pillars make up the institution that is "operational resilience".

If we break down operational resilience, we can find two core drivers and two core approaches that organization usually adopt:



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The first driver is a defensive agenda which is about stopping bad things from happening as opposed to a progressive agenda which is about making things happen. (taken up on Y axis) In terms of approach some organizations drive for resilience by driving for consistency opposed to having a flexible agenda, which is having people that have variety of different ideas, beliefs, outlooks, and practices which enables them to be much more agile. (taken up on X axis)

Now this creates four core quadrants, in the bottom left we have preventive control which is about defensive agenda by being very consistent, this is about putting defenses in depth and stopping bad things from happening opposed to the bottom right quadrant that is mindful action , this is about having people who notice the problem, raise those concerns. Those concerns are listened to and they are further powered to act from further escalading.

In the progressive agenda which is mostly about making things happen the top left bracket is about performance optimization; this is about the organization doing what it does now but doing it better to drive competitive advantage. Michael Porter gave following three types strategies to gain competitive advantage: Cost leadership, Differentiation and Market segmentation. PepsiCo worked on cutting down its operating costs to offer its products at a price lower as compared to its competitors thus using the Cost leadership strategy to gain competitive advantage. Opposed to the performance optimization quadrant is the top right box which is about being the disruption in the marketplace by being innovative and adapting to the situation. The fintechs disruption has led to a shift from traditional banking methods of cash and credit cards to contactless transactions. Another classic example of disruptive innovation is Netflix which disrupted the existing market of the entertainment industry.

Adaptation is a situation where you rise to the occasion even when your strategy may have failed. It is not easy to adapt, as it has its own traps, one of them being the success trap, where the organization sees the signals but ignores the warnings. It is also termed as "Hubris", where organizations tend to move into a comfort zone after attaining a particular level. The other trap is the failure trap where there is a fear of failure because of incompetency in skill and tools. Due to these reasons the organization may fail or withdraw at a premature stage. It is also known as "active inertia". Many thriving businesses tend to fail in the face of changes not due to inaction but due to an inability to take appropriate action. The best is example of Kodak, which went bankrupt in 2012 in spite of being the innovator of digital camera, and market leader.

To avoid these traps of "Hubris- Inertia" an organization needs to develop an adaptive culture. An adaptive culture is made of a set of attitude and behaviors like learning from past, being resourceful, adhering to best practices, integration within the organization, robustness, and rehearsing resilience. Rehearsing resilience is an everlasting process. It is more than recovery after the crisis it is persistence in the face of threat, changing before it became a necessity.

Financial sector:

Like any other industry the financial sector has its highs and lows. Incidents like the Barings Bank, Lehman brothers (also known as financial crisis) not only impacted the organization but had a contagion impact. The financial crisis of 2008 led to the Basel Committee on Banking Supervision (BCBS) introducing Basel reforms.

The root causes of the crisis were excess liquidity, insufficient good quality capital, increased leverage, and lack of transparency. The financial institutions had to turn to their central banks for liquidity support and some to their government for capital injection.

BIS paper of June 2011 was published with a heading " Basel III: A global framework for more resilient banks and banking systems" The reforms focused on improving quality of regulatory capital , increasing the level of capital , specifying minimum leverage ratio and introducing the concept of liquidity coverage ratio (LCR) and Net stable funding ratio (NSFR). The focus here was on building financial resilience.

The supervisory role was also broadened with the introduction of Supervisory Review and Evaluation Process (SREP). In the changed scenario non-financial risk also became important as the supervisors and regulators focused on assessing the risk culture, governance, and compliances. The supervisory stance is stricter globally and financial institutions have been fined for noncompliance, Not having a good risk management systems and Governance . The latest being the case of Citigroup being fined in October 2020 for deficiencies in Risk Management and internal controls.

Thus, it is important for every organization to take note that, the pace of environmental changes and technological development is faster than development of risk management tools which makes the task of being resilient more pertinent.

Current scenario in Financial sector:

To keep pace with the technological changes, increased consumers demand for easy and instantaneous access to the services, shift to fintech (financial technology) has made it necessary to outsource activities and increased reliance on technology. The topmost Operational risk being IT Disruptions and Data Management.

Some of the major incidents which have had a huge impact not just in financial terms but non-financial:

- **Banking information - technology (IT) failures** like that of TSB Bank when it separated from Lloyds Bank and moved on to a new platform. The customers were unable to carry online transactions and wrong balances were being reflected in their accounts. Thus, organizations undergoing the process of mergers and acquisitions can face such a situation. Even within the organization if a new platform is launched for ease of functioning or to enhance the customer experience it is very important that it is approved by the appropriate committee and put through use test so that the transition is smooth.
- **Ransomware attack:** Such attacks have brought the biggest and the best of organization to a standstill. A ransomware attack can lock a computer, encrypt important files and the attacker seeks ransom for granting access to your system and files.
- **Climate change:** Climate action failure and extreme weather have been identified as the top global risks. It is a growing concern for not only governments but businesses too. The unchecked growth through businesses is one of the reasons for the extreme shift experienced in the climate. The transition has been far too slow than desired. Climate action required bringing down the carbon emission and temperature to 1.5°C whereas globally we are still at 3°C. In the given circumstances if governments and organizations decide to go for sudden transition it may have impact on certain industries but the economic damage would be less as the long-term impacts can be limited. However, the longer it takes to move to green scenario the severity or the impacts of incidents like the hurricane, storms, floods will continue to increase over time leading to economic damages as well.

  Thus, organizations will be faced by either the transition risk or physical risk. The Pacific Gas &Electric case is a first climate change bankruptcy declared in 2019, where the company was held liable for non- adherence to the laid down standards (as the fire was caused due to failure of a transmission line for which standards were not adhered to). Dam collapse in Brumadinho (Brazil), in 2019, is one of the worst industrial accident as tons of toxic mining waste flowed out in the areas nearby (Normally these mining dams are built of mining waste itself). The company is facing charges of murder along with environmental charges as it failed to report warning signs.
- **Current outbreak of the corona virus:** The impact of COVID 19 has led to less in-person interaction which has increased the pace of the shift to digital platforms in all areas and has increased the demand for digital financial products.

In this background it needs to be assessed whether financial firms are prepared and equipped, to deal with these changes they arise. In other words, are they resilient?

Requirement to Build Operational Resilience:

Every incident should be assessed from two angles that is the strength as well as weaknesses. COVID 19 has made it necessary to relook at operational resilience standards and identify critical/important business services, employees that support these important business services, and ensure that they can safely resume their duties. In view of the prevailing circumstances the Basel Committee on Banking Supervision (BCBS) in August 2020 issued a consultative document on Principles for Operational Resilience seeking comments from organizations. The basis of this document is in the Principles of Sound Management of Operational Risk (PSMOR).

These two documents have been designed to work together and they draw upon existing guidance and current practices. The final guidelines are expected to be issued soon and will serve as an integrated framework. BCBS in its document defines Operational Resilience as "the ability to deliver critical operations through disruptions" The document brings about the key features of broad areas:

- Governance
- Operational Risk Management
- Business Continuity Planning and Testing
- Mapping Interconnections and Interdependencies
- Third Party dependency Management
- Incident Management:
- Resilient Information and Communication Technology, including cyber security

PSMOR: BCBS has also proposed to update PSMOR in the areas of Operational Risk. The changes proposed in PSMOR are based on the review done for financial institutions in 2014. One of the highlights of the review was a need for specific principle on Information and communication technology risk management. AS per the draft guidelines the Information and Communication Technology (ICT) principle states: Banks should implement robust ICT governance that is consistent with their risk appetite and tolerance statement for operational risk and ensure that their ICT fully supports and facilitates their operations.

ICT should be subject to proper risk identification, protection, detection, response and recover programs that are regularly tested. This requires incorporating appropriate situational awareness and conveying relevant information to users on a timely basis. The proposed updates in these two consultative documents will enhance the clarity of the document, guidance on change management and align the principles with Operational Risk Framework.

Approach to Build Operational resilience:

Organizations risk depends on the nature, size and scope of its business. There is no off the shelve solution or a blanket approach to build Operational Resilience. Identifying the firm's business risk perspective is very important before starting to develop the approach for building resilience.

- **Identification of critical functions:** Critical functions are services provided to external user and disruption could cause damage to consumer, safety and soundness, integrity of the market or financial stability. For identification of risk it is very important to go to the root cause of the incidents that have come to light. Thus, it is very important that all incidents should be reported and escalated as per the velocity of the incident. The external events that is incidents reported by other organization and failed attempts also need to be considered to get the true picture and trend. Incident reporting takes care of where we went wrong in the past. In addition to this the present controls need to be continuously assessed and if required, monitored through key Indicators. The nature of root cause range from change management, third party failure, software issue, hardware issue, human error, process control failure, capacity management and external factors. To define the criticality the impact needs to be assessed and monitored against the tolerance limits set.
- **Risk Tolerance:** Is setting impact tolerances for each important business service, such as maximum acceptable outage time of a business service. The firm while setting the impact tolerance must assume that the incident has happened, and then set the maximum tolerable level and duration of the disruption. Risk tolerance is different from Risk appetite. Risk appetite is the level of risk the organization is willing to take for example, risk appetite for Return on equity would be set more than cost of equity.
- **Mapping of systems and processes needed to support the important business services:** While mapping of systems and processes it needs to be ensured that the action plan is not complex, substitute resources are available and no overreliance on a single resource is there. The mapping and the plan must be well documented and communicated. The operating people need to be made aware of the sensitivity and importance of process.
- **Testing using plausible scenarios:** Organizations need to build a library of severe scenarios considering the rapid changing environment and external incidents. This would help in identifying low frequency, high severity

vulnerabilities, the organisation is likely to be exposed to. The most important point to consider is that no plausible scenario should be rejected on the ground that it cannot happen to my organization. They need to have an action plan in place for such scenarios. The action plan formulated should also be put to test. While testing it is important to verify that the scenarios are as per the nature, size, scope of its business activities. The action plan should clearly state the people, process systems that need to deliver at the time of crisis. Bottom up approach works better as resilience not only needs to be built in the design / functionality of the system and process, but it is required to be built in the culture of an organization.

Challenges:

Internal challenges: There are certain challenges which the financial organizations face especially budget constraints, obtaining board approvals. For many institutions they might be still using outdated technology systems, while at the same time trying to meet the market needs by innovating new products.

External challenges : In addition to the budget constraints there are external challenges like the emerging technologies such as artificial intelligence, Block chain-distributed ledger technology, sophistication of external threats in the cyber security space, demand for crypto-assets, increased scrutiny on value for money from customers, who so easily switch to new providers; system complexity and third party risk. To drive innovation organizations, must balance concentration risk that may provide economies of scale against spreading the risk of supplier failure.

Thus, the key threats that come out of the challenges and need to be focused on are:

- speed of technological changes
- disruption from less established technologies
- Increase in the frequency and severity of cyber attacks
- Physical Risk due to Climate change: Resilience will be put to test under physical risk due to climate change and disruptions caused to mitigate it

Organizations lagging in developing resilience or having operational weaknesses will be targeted by fraudsters. These key threat areas are broadly similar for all organizations, it is the approach adopted by the organization that will differentiate them in the long run. To gain a competitive advantage the organization that adapts and adopts a dynamic risk assessment methodology which is proactive, integrated and based on concept of granularity will increase its chances of survival. Going granular helps in identifying its leading indicators. This not only reduces the complexity but is easy to communicate and implement as the operational level team can relate.

Way Ahead:

Organization level:

The organizations need to develop on the existing governance and risk frameworks and keep pace with innovations. Operational resilience needs to be built into business plans , which would require a clarity of purpose, roles and responsibility (individual as well as collective) and skilling and upskilling at all levels (i.e Board, Senior Management and operating)

The approach adopted needs to be continuously reviewed to tackle disruptions and a routine needs to be developed to address resilience of critical / important business services. Transparency in regulatory reporting and disclosure of threats to the critical / important business services.

Regulator level:

The Regulator has an important role to play by setting standards, indicating best practices, and developing stress scenarios considering the common challenges faced across sectors and geographies. Mapping of sector dependencies is required to reflect on the common challenges, understand the interconnectedness and come up with collective solution. The recovery and resolution may be required to be done across the sector to address issues like complete lockdown. If required, a new framework can be developed to bring the third party within the regulatory ambit.

Conclusion:

Operational Resilience extends beyond business continuity planning as it includes man made threats like cyber-attacks, third party failures, natural disasters, and geopolitical risks. Resilience needs to be recognized as a separate risk and managed accordingly. It requires not only to build on capabilities but embed systems & behaviors so that the organization can carry out its mission and implement its strategies in the face of any disruption. ❑

UNION BUDGET 2022 : IMPROVING ACCESS TO FINANCE

The Finance Minister of India, Ms. Nirmala Sitharaman presented the Union Budget 2022-23 ("Budget") on 1st February 2022. Amid concerns of rising inflation and the uncertainties surrounding COVID-19, the Budget aims to revive the economy, interalia through innovative financing, financial inclusion and adoption of technology in finance.

While various measures were announced in the Budget, the key focus of this article is the banking and finance space.

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Financial Inclusion

In 2022, 100% of 150,000 post offices are proposed to be brought under the core banking system. This is expected to enable financial inclusion and access to accounts through net banking, mobile banking, automated teller machines ('ATMs') and facilitate online transfer of funds between post office accounts and bank accounts. This change is expected to be helpful, especially for farmers and senior citizens in rural areas, enabling inter-operability and financial inclusion.

This will enable access to the financial system of the country to the remotest and most excluded parts of the country. Setting up 75 digital banking units ('DBUs') in 75 districts of the country by scheduled commercial banks has also been proposed. This is intended to encourage further adoption of digital payments. Specific focus has also been promised to promote use of payment platforms that are economical and user friendly.

The Aspirational Districts Programme which was introduced to improve the quality of life of citizens in the most backward districts of the country will be continued in financial year 2022-23 as Aspirational Blocks Programme, inter alia to remove blocks in financial inclusion.

Infrastructure Financing

The Budget lays down specific emphasis on innovative ways of financing towards achieving the goals of the PM Gati Shakti master plan by proposing to provide technical support from the capacity building commission, funds up to INR 200 billion to facilitate infrastructure development and enhancing financial viability of infrastructure projects. The Budget proposes to expand the national highways network by 25,000 kms in the financial year 2022-23.

Innovative means of financing has become the focus of international financial organisations and global investors as it helps fuel the economic growth by routing private sector savings along with public sector funds towards achieving development. The specific focus of the Budget on infrastructure development is expected to accord greater liquidity and flexibility in the fund-raising capacity of the infrastructure sector.

Digital Rupee

The Budget proposes that the Reserve Bank of India ("RBI") shall issue its digital currency in this financial year using blockchain and other technologies. This introduction is expected to boost the digital economy and intends to create an efficient and cheaper currency management system using blockchain and other technologies. The introduction of digital currency by the RBI extends an opportunity to the citizens to partake in the digitalization of currencies across the world within the security of a regulated environment.

There are certain disinclinations attached to the volatility of other digital currencies which has been keeping the majority population away from exposure to the efficiencies of exchanging value in digital form. This is a first and welcome step in validating currency in digital form and can build the trust and confidence of people in adapting such currency systems.

Scheme for taxation of virtual digital assets

To regulate income generated from digital assets, the Budget has proposed to provide for a specific tax regime where any income from transfer of any virtual digital asset shall be taxed at the rate of 30%. However, loss from transfer of virtual digital asset is not permitted to be set-off against any other income. Further, to capture the transaction details, it proposes to provide for tax deducted at source ('TDS') on payments made in relation to transfer of virtual digital asset at the rate of 1% of such consideration which is above a monetary threshold. Gift of virtual digital asset is also proposed to be taxed in the hands of the recipient of such gift.

While the taxation of digital assets in itself may be viewed as high and hence restrictive of investments in digital assets, this ought to be seen as a positive move towards providing recognition to owning digital assets by citizens. This in turn could lead to further engagement by way of investments in digital assets since taxation of the same can be viewed as legitimisation of it as well. It brings the cryptocurrency industry in India away from the grey spectrum of financial regulation.

Cost of funding

Surety bonds are proposed to be accepted as a substitute for bank guarantees in government procurements to decrease indirect costs for suppliers and contractors under the Budget, making it beneficial for the import of gold. The Insurance Regulatory and Development Authority of India has established a framework for insurance firms to offer surety bonds. This amendment can be expected to improve liquidity in the market, reduce the cost of funding and increase access to government project opportunities.

Key Takeaways

There are several proposals in the Budget which are futuristic and have the ability to facilitate financial inclusion across the country. The Budget seeks to enable financial inclusion, both through physical and virtual networks. Inclusion of post offices in the core banking network with focus on infrastructure development and encouragement of digital banking may be expected to include a significant part of the population as beneficiaries and participants in the economic growth of the country.

Separately, the proposal to introduce the digital rupee, regulation of income earned through digital assets and encouragement of innovative means of financing can be expected to ensure that India remains in the forefront of adopting technology in finance. ❑

FINANCIAL ACTION TASK FORCE : ACHIEVEMENTS AND CHALLENGES

Task force FATF is the money laundering and terrorist financing watchdog. As a policy-making body, the FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. It monitors countries to ensure implementation of FATF standards fully and effectively.

Formation of FATF

The FATF was established in 1989 by a group of seven (G- 7) summit in Paris. The G-7 is an organisation made up of the world's seven largest advanced economy i.e. Canada, France, Germany, Italy Japan, the United Kingdom and the United States. FATF's initial aim was only to examine and develop measures to combat money laundering. After the 9/11 terror attacks in the US in 2001, the FATF expanded its mandate to incorporate efforts to combat terrorist financing, in addition to money laundering. In 2012 it added efforts to counter the financing of proliferation of weapons of mass destruction.

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Composition and participation of FATF

FATF members are the jurisdictions and organizations that have agreed to work together in the form of a task force towards a common objective laid out in this mandate. As of January 2021, FATF has 39 members including two regional organizations - the European Commission and the Gulf Cooperation council.

Associate Members of FATF

Associate members are FATF Style Regional Bodies (FSRBs), as designated by the FATF, that participate in the work of the FATF, to achieve global implementation of the FATF recommendations the FATF relies on FSRBs in addition to it's own 39 members. The nine FSRBs have an essential role in promoting the effective implementation of the FATF recommendations in their member jurisdictions. Asia/Pacific group on money Laundering (APG) and Eurasian Group on combating money laundering and financing of terrorism (EAG) are examples of FATF Associate Members.

Focusing on participation of International institutions in the FATF

International Monetary Fund and the World Bank play a special role in the development, promotion and dissemination of measures for combating money laundering and the financing of terrorism and other related threats. The FATF works closely with the United Nations and the Egmont group of Financial Intelligence Units. The Egmont group is a united body of 166 financial intelligence units based in Torrento, Canada.

Observers

The decision as to whether a body may participate as an observer to the FATF is taken by the plenary. Observer have a stated role related to the combating money laundering and the financing of terrorism and proliferation.

Organisational structure of the institution

The Plenary

- The FATF plenary consists of member jurisdiction and organisations.

The plenary is the decision making body of the FATF. It's decisions are taken by consensus. The President convenes at least three plenary meeting every calendar year, normally in February, June and October.

The President and a Vice-President

- The President is appointed by the plenary from amongst it's members for a term of two years non- renewable.
- The Vice-Principal is also appointed for two years, who assists the President in carrying out its responsibilities.

The Steering Group

- The FATF, steering group is an advisory and is chaired by the President.

The Secretariat

- The FATF Secretariat is composed of an Executive Secretary, whom the Plenary appoints at the proposal of the President and the Secretariat staff.
- The Secretariat service is provided by the OECD and the secretariat is located at the OECD headquarters in Paris.

Objectives and functions

- To set standards of legal regulatory and operational measures for combating money laundering terrorist financing and other related threats to the integrity of the international financial system.
- To promote effective implementation of the FATF recommendations globally.
- To monitor countries progress in implementing the FATF recommendations.
- To review money laundering and terrorist financing techniques and counter measures.

FATF : 40 + 9 recommendations

- In 1990, the FATF issued a report containing a set of 40 recommendations.
- To provide a comprehensive plan of action needed to fight against money laundering. In 2001 the FATF issued the eight special recommendations to deal with the issue of tourist financing.
- Three years later a 9th recommendation was added together they are known as the 40 + 9 recommendations. They have been expanded to deal with the new threats such as the financing of proliferation of weapons of mass destruction and to be clear on transparency and tougher on corruption FATF has outlined the criteria for evaluating whether its standards are achieved in participating countries.

Focus on FATF's list, the black list and grey list.

Black List : High risk jurisdictions subject to a call for action have strategic deficiencies in their regimes to counter money laundering, terrorist financing and financing of proliferation.

This list is often externally referred to as the blacklist. The first FATF blacklist was issued in 2000 with an initial list of 15 countries as of January 2021, Democratic People's Republic of Korea or known as North Korea and Iran are the only two countries identified as high risks jurisdictions by FATF.

Consequences for black list countries

Firms, organisations and nations are called upon to apply counter measures to protect the International Financial system from the ongoing money laundering, terror financing and proliferation financing risks emanating from the blacklisted country.

A jurisdiction placed on the FATF black list often found itself under intense financial and diplomatic pressure which has a crippling effect on the economy.

Grey List

A country is placed under the FATF Grey list. It means the country has committed to resolve swiftly the identified strategic deficiencies within agreed time frames and is subject to increased monetary supervision. This inclusion serves as a warning to the country that it may enter the blacklist.

This list is often externally referred to as the grey list. Pakistan has been on the FATF's grey list since June 2018. Consequences for grey listed countries. Problems in getting loans from IMF, World Bank, ADB and other countries. NGOs and businesses in such countries find it difficult to access funds due to strict FATF criteria reduction in international trade and set back to diplomatic prestige.

Now looking at the relationship between India and FATF. India became an observer at FATF in 2006. In 2010, India was taken in as the 34th country member of FATF. Recent reforms and actions undertaken by India in line with the objectives of FATF include

- Anti Black Money Act 2015,
- Fugitive Economic Offenders Act, 2018,
- Amendments brought in the prevention of money Laundering Act, (PMLA) over the years,
- Enactment of the GST (Goods and Services Tax),
- New protocols to better regulate suspect transactions in banks and financial intermediaries
- Demonitisation of 2016,

In India, the Enforcement Directorate (ED) is the nodal agency to undertake investigations under the PMLA and FATF conducts a review of India's anti-money anti money laundering and terrorist financing regime as part of regular review cycle.

Achievements of FATF

- Raised international awareness towards state and institutional funding
- Push for non-profit organization (NPOs) for more financial transparency to make sure that they do not become easier for terrorist organisations to launder money through the organizations.
- Harmonisation of legislation and enforcement efforts through effective checks and coordination against money laundering and terrorism financing.
- Flexibility in response to new threats like use of crypto currencies for money laundering.

Challenges in FATF's functioning:

- Nearly two-thirds of countries assessed are still not taking effective action to investigate and prosecute terrorist financing.
- No real power to punish states that do not comply with their standards.
- Fears of becoming hostage to International political rivalries.
- The present categorisation of lists - grey and black- may be too rigid to effectively address the challenges of terror financing and money laundering.
- The grey list has very low economic or political cost as compared to the blacklist which has lead to a high threshold and barrier in taking effective action capacity constraints of countries and inadequate operational resources and assessment complexities in the implementation of FATF standards.

Following measures are suggested to make FATF more effective.

- There is a need for more gradations between the grey and the blacklist as it may increase policy options and leverage.
- More needs to be done in terms of regulatory enforcement mechanisms than another 'name and shame' list.
- New approach of measuring effectiveness rather than technical compliance to the recommendations needed.
- More international cooperation is needed to strengthen FATF's operational resources and efficiency. ❑

STRESS TESTING : NEED AND IMPORTANCE

Stress Testing is described as the evaluation of a bank's financial position, under a severe but plausible scenario to assist in decision making within the bank. It enables a bank in forward looking assessment of risks, which overcomes the limitations of statistical risk measures or models based on historical data and assumptions. It helps the senior management in understanding the condition of the bank in the stressed time.

Stress testing outputs are used by a bank in decision making process in terms of potential actions like risk mitigation techniques, contingency plans, capital and liquidity management in stressed conditions, etc. It focuses on the impact of credit risk, liquidity risk, market risk etc. in adverse situations both at the bank level and at the systemic level. Stress tests measure the resilience of the individual financial institutions as well as the financial systems as a whole against possible extreme volatilities in the macro economic parameters in any country's financial system.

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Stress testing forms an integral part of the internal capital adequacy assessment process (ICAAP), which requires banks to undertake rigorous, forward looking stress testing that identifies severe events or changes in market conditions that could adversely impact the bank. The main objectives of stress testing includes assistance in risk identification and control, complementing other risk management tools, improving capital and liquidity planning, and thereby facilitating the business decision-making. Stress tests plays an important role in the communication of risk within the bank and external communication with supervisors to provide support for internal and regulatory capital adequacy assessments .Indian Banks perform the stress tests at least at half yearly intervals.

As per RBI guidelines, The responsibility for stress testing programme in a bank rests with the board of directors of the bank and with the Chief Executive Officer in the case of the foreign banks with branch presence in India. To promote risk identification and control, stress testing is included in risk management activities of a bank at various levels . It is used to address existing or potential firm-wide risk exposures and concentrations. In Banks stress testing programme is governed by internal policies and procedures and they document the underlying assumptions and fundamental elements for each stress testing exercise. For this banks have proper MIS in place and ensure maintaining proper infrastructure.

There are broadly two categories of stress tests used in banks namely sensitivity tests and scenario tests. Sensitivity analysis estimates the impact on a bank's financial position due to predefined movements in a single risk factor like interest rate, foreign exchange rate or equity prices, shift in probabilities of defaults. In the sensitivity analysis, the source of the shock on risk factors is not identified and usually, the underlying relationship between different risk factors or correlation is not considered.

Scenario Analysis seeks to assess the potential consequences for a firm of an extreme but possible state of the world. This analysis is based on a historical event or hypothetical event. Scenario analysis is currently the leading stress testing technique. The banks identify relevant risk drivers. And subsequently the banks stress the identified risk drivers using different degree of severity.

There is also a concept of Reverse stress testing which is a technique that involves assuming worst stressed outcome and tracing the extreme event/shocks that bring the maximum impact. Reverse stress testing starts from an outcome of business failure and identifies circumstances where this might occur. It is seen as one of the risk management tools usefully complementing the "usual" stress testing, which examines outcomes of predetermined scenarios. For the classification of banks for stress testing, banks have been classified into 3 groups as below:

Group A - Bank with Total Risk Weighted Assets(RWA) of more than Rs.2000 billion

Group B - Bank with Total Risk Weighted Assets between Rs.500 billion and Rs.2000 billion

Group C - Bank with Total Risk Weighted Assets less than Rs.500 billion

A bank that falls under Group A should carry on stress testing programmes with all the complexities and severities required for programmes to be realistic and meaningful. A bank that falls under Group B, conduct multifactor sensitivity analysis and simple scenario analyses of the portfolios with respect to simultaneous movements in multiple risk factors caused by an event. A bank that falls under Group C conduct simple sensitivity analyses of the specific risk types to which it is most exposed. This will allow such bank to identify, assess and test its resilience to shocks relating to the material risks to which its portfolios are exposed.

When the stress tests are not favourable for financial institutions then following scenarios occurs:

- ❖ No Dividend payment to their shareholders
- ❖ High plough back of profit and thereby shore-up their net worth

In case of failed stress tests for banks/FI following scenarios occur:

- ❖ Rework their business plan
- ❖ Restructure their assets portfolio
- ❖ Do the stress tests in a simulated environment
- ❖ Resubmit the results of the revised stress tests.

RBI has time to time laid stress on Stress Testing as it consider market illiquidity and the interplay of market and credit risk. Due to outbreak of Corona pandemic in the year 2020 and to judge the impact of it on banks/NBFCs RBI in June 2020 , advised all banks and NBFCs to do Covid stress tests and analyse the impact on balance sheet, asset quality, liquidity, profitability and capital adequacy for FY21 and FY22 and based on the outcome of such stress testing, banks and NBFCs have been advised to work out possible mitigating measures including capital planning, capital raising, and contingency liquidity planning.

This year also RBI may asks bank to perform the stress tests to judge the impact of second phase of COVID 19 . In its Financial stability report released on 11 January 2021 , RBI said gross NPAs could rise to 13.5% under the baseline stress scenario by 30 September 2021, the highest in more than 22 years, up from 7.5% as of 30 September 2020. It is predicted to almost double to 14.8% under a severe stress scenario. Hence Regulator is now looking for multiple indicators like credit disbursement, adoption of information technology across banks etc. for the comprehensive stress tests.

Hence we see that stress tests has a great importance . It helps not only in managing funding risk taking into consideration all relevant market rates but also produce information summarizing the bank's exposure to extreme but possible circumstances.

Reference:

1. RBI site
2. Economic news from newspapers, internet etc.

STUDY OF PROJECT - TECHNICAL FEASIBLITY AND ECONOMICAL VIABILITY

Banks are financing every type of advances. It may be retail, agriculture, MSME or corporate advance. The assessment of the finance taken up by the banks is dependent upon some parameters. The finance of the bank is as per need of the customers and guidelines of the bank. Bank will sanction term loan to borrower if the business / project of the borrower is technically feasible & economically viable and bankable. The acquisition of assets for which term loan required should be need based and their estimated cost should be reasonable.

For financing term loan for an unit also require to do some assessment. There is various aspect of term loan appraisal which is as under:

1. Qualitative Assessment
2. Quantitative assessment

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The aspects are further divided as follows:

a) Qualitative aspects:

- Management appraisal
- Technical appraisal
- Environmental appraisal
- Commercial appraisal

b) Quantitative aspects:

- Financial Appraisal
- Debt service coverage ratio (DSCR)
- Sensitivity analysis
- Break even point (BEP) analysis

The details of various qualitative appraisals are as under:

1. Management Appraisal:

First and foremost assessment by a Banker is to judge the person who is behind the project and this is very crucial and most important point to be considered in lending to prospective borrowers. The promoters should have necessary technical qualifications & adequate experience in the proposed line of activity so that he will able to set up the unit / business and run it in a profitable manner. If he does not have some knowledge about the manufacturing process and marketing of the product then he has to totally depend upon the some external hired person or technical consultant. But in that scenario he should at least have knowledge required for sale of the product. Sometimes borrower may not have required technical qualifications or experience in the field. For example, a trader in Fast Moving Consumer Goods (FMCG) who is doing business since couple of decades having good reputation and financially sound, may go for business diversification, say propose to set up iron powder manufacturing unit by engaging services of technical consultant. Here the reputation / credentials of consultant needs to be verified by market enquires as the critical aspect in this case for success of unit will depend on the technical consultant.

2. Technical appraisal

Technical appraisal is done to assess the technical feasibility of the proposed unit / business. Feasibility means possibility of setting up the unit / business. The various aspects considered in technical appraisal in case of manufacturing unit are as under:

Site Selection: The location of unit where the borrower wants to set up its manufacturing plant is the first factor for deciding the technical feasibility. The locations selected by the borrower should be such that all the basic amenities are available required for manufacturing the product. Like in case of cement plant, the location may be near to limestone mines to reduce the transportation cost. In case of perishable goods the location should be near to the market. The location is such that in one way or another that it should

reduce the overall cost of product and there is no interruption in manufacturing of the product.

Land: The area of the land should be sufficient for its present requirement. The area should not only be adequate for its manufacturing facilities and for storage etc. but some space is there for its future expansion. One should ensure that the title of the land should be clear and land should be marketable. The proposed land should be non agricultural and approved for industrial use. The cost regarding land development should be added in the land cost.

Building: The building proposed to be constructed should have all the government approvals and approved building plan should be there. The constructed area is enough for the installation of all the machineries and its overall manufacturing but it is to be ensured that no extra construction is proposed because it is going to increase the overall cost of project. As a Banker we have to ensure that in schedule of implementation first main building is constructed then any building is constructed. Sometimes it happens that borrower first constructs its office building and all its margin is used for construction of office premises and the borrower do not have margin for carrying out any other activities.

Water: Some industries require water for manufacturing activities. Then we have to ensure the arrangement for water, bore well available, approval from local authorities, Industrial Development authority etc. and storage arrangements made so that there is no problem for the availability for water.

Power & Fuel: Electricity is required for the manufacturing and other activities. The electrical power requirement and sanction letter for power from Electricity boards to be verified. If there are power cuts in the area, then arrangements for DG Sets to be ensured for smooth production. Some of the unit is proposed to be set up in remote areas in that case the approval for respective electricity company and overall cost is to be included in the project cost.

The units which require high power consumption, the unit should be located at a place where all the time power is available at reasonable cost like mini steel or aluminium plant. In case other fuel like gas etc. is used for manufacturing activities, the location of the unit should be such that there is no problem for its availability.

Labour: Due to the population of our country labour availability is not a problem but when skilled or semi skilled labour is required then one should ensure its availability for setting of the unit. Besides its availability, the prevailing labour wages and labour unrest is to be studied before setting up of any industrial unit.

Raw Material: When the raw material is bulky and costly for its transportation, the unit should be set up near to its source and when the product is such that the quality may deteriorate then unit should be near to the market. The borrower should ensure the sources and availability of raw material at the location in line with overall cost in other areas to make the product more competitive. Sometimes government restriction may be there for the availability of the raw material, so the borrower has to obtain the approval from the respective government department.

We have to study the business model of the borrower for making the raw material availability in sufficient quantity and in competitive rates. Availability of raw material / consumable, lead time for procurement, present prices, and arrangement for raw material storage godowns etc. needs to be verified.

Manufacturing Process/Technology: The method to be used for production / manufacturing technology proposed by the borrower needs to be studied thoroughly. It is easy to use conventional method for manufacturing but at the sametime technological advancement taken up to be studied so that manufacturing cost is reasonable and competitive.

Sometimes the customer has proposed new technology of manufacturing but when he is not sure about success in the market then it is always risky to finance that industry.

We also have to study the knowledge of the promoter or the consultant appointed for setting up of that plant so that at the later stage it may be possible that the plant is not successful at all due to some technical fault. We have studied the agreement of the contract between the company and the consultant and it is to be ensured that the consultant will help till the final product is produced. Like in paper plant when due to some alignment problem in the machineries the product is not produced as per required specifications then setting up whole the plant and machineries will be of no use or it may lead to cost run and time over run.

Plant and Machineries: The product manufacturing is

different by using the alternative raw materials and alternate processes. We have to study the manufacturing process proposed by the borrower along with any other alternative method available for its feasibility. After studying the manufacturing process the proposed plant and machineries are need to be studied in line with the prices of the various machineries, suppliers and manufacturing capacity. There should be balancing of the manufacturing capacity at its manufacturing stage so that during manufacturing no machine remains idle.

The plant & machinery should be need based and all the machinery required to manufacture the product are to be included in the list of plant & machinery. The comparative quotations are to be obtained to verify cost reasonableness. The suppliers of machinery should be reputed and justification to be obtained from the borrower for selection of machinery supplier and to be verified by Bank official from similar units financed and market enquires.

When the borrower has second hand machineries then residual life certificate is to be obtained from the chartered engineer along with the cost certificate of each machine.

Government Approvals and Clearance: For setting up of a unit various government approvals and clearances are required. Like non agriculture land, building plan approval etc. Besides these approvals as per manufacturing method and effluent generated during the manufacturing pollution control board permission is required. Pollution control board first gives permission consent to establish and afterwards looks into the quantity and quality of effluent generated and method for its disposal, the consent to operate is given. Sometimes environmental clearance, forest department, FDA permission of Food and Drugs, explosive use permission & explosive storage permission and boiler inspector permission are required to be obtained. We have to ensure all the approvals and permission are obtained by the borrower for its smooth functioning.

3. Environment Appraisal:

If effluents are generated during the process, the consent to establish / operate is to be obtained from state pollution control board. The arrangements for effluent treatment plant / effluent disposal needs to be verified. In case boiler used in manufacturing process, the permission of Boiler Inspector needs to be obtained to ensure that necessary arrangement for air pollution control are made. In case of infra- structure projects like road and power, the Forest Dept. clearance / environment clearance, mining approval etc. needs to be ensured.

4. Commercial Appraisal:

The product which the borrower is going to manufacture has to be studied from various view points. Sometimes, the product is new in the market then we cannot ensure the acceptability in the market, its durability and its competiveness with the alternative products which are already available in the market. Some products have higher obsolescence like electronic items. Sometimes the product proposed is already outdated from the market like compact disk and type writer etc. So before sanctioning any proposal the study of the product should be done.

The demand & Supply for the products manufactured, major customers, arrangements made for market promotion, selling arrangements like direct selling to customers / selling through dealers / distributors, major competitors, strength of the firm, how competition will be overcome etc. needs to be verified. The threat of cheaper imports / better substitutes is to be studied. The sales projections made by the firm should be reasonable and all the supporting information / business assurance letters etc. needs to be obtained to assess the reasonableness of projected sales.

Financial Appraisal:

A. Cost of the Project & Means of the Finance:

The Cost of project and means of finance are obtained from the borrower. The each head of cost of project is verified with the documents and quotations submitted by the borrower and also ensure its reasonability and acceptance. He has to take some assumptions for manufacturing cost and raw material cost etc. The cost of project is to meet out from Promoters contributor and unsecured long term loans and by bank finance by ensuring DER ratio. The indicative items of cost of the project and means of the finance in case of manufacturing unit are as under.

Cost of the Project		Means of the Finance	
Particulars	**Amount**	**Particulars**	**Amount**
Land		Promoter's contribution	
Building		Unsecured loans- Long term	
Plant & Machinery		Term loan from Bank	
Furniture & Fixture			
Technical know-how fees			
Interest during construction (IDC)			
Preliminary& Pre-operative expenses			
Contingencies			
Margin for working capital			
Total		**Total**	

The contingencies are added in the cost of project to take care the cost escalation for construction of building and cost of plant and machineries etc. i.e. increase in cost of project due cost overrun. When the borrower proposed working capital from the bank, then it is ensured at the initial stage the margin for working capital is with the borrower, so it is included in the cost of project. Further, interest during construction (IDC) is normally expected to be met out of promoter's contribution. The Debt equity ratio, Total outside liabilities / TNW should be within the bench mark as per loan policy of Bank.

B. Assessment of Term loan quantum / limit

The term loan amount is calculated by the bank after deducting promoter contribution for each of the head mentioned in the cost of project. The margin is to be maintained as per bank loan policy

Particulars	Cost	Margin	Term loan amount (after deducting margin)
Land			
Building			
Plant & Machinery			
Furniture & Fixture			
Technical know-how fees			
Interest during construction (IDC)			
Preliminary& Pre-operative expenses			
Contingencies			
Margin for working capital			
		Total Term loan amount	

The margin requirement may differ from bank to bank and as per their schemes. The minimum margin required from borrower is 25 %. The margin for some items may be more as per bank's policy like for building construction and for purchase of second hand machineries.

Sometimes margin for purchase of the land 100% depends upon bank to bank. The intangible assets alike interest during construction, Preliminary and preoperative expenses are fully funded by promoter's own margin.

C. Assessment of Profitability Projections

The borrower has to submit the yearly sales & profitability projections for the entire repayment period. The sales projections, estimated growth in sales in each year should be justifiable and reasonable with supporting information like orders in hand/ expected market promotion activities undertaken, capacity of the unit etc. The various items of expenditure should be reasonable and should not be underestimated. The profitability projection should be compared with similar units, industry average from various data available through internet site and as per subscription taken up by the bank like with CRISIL INDUSTRY RISK and ensure that the projected profitability is reasonable and achievable.

D. Assessment of the repayment capacity (Debt Service Coverage Ratio)

The obligation to meet out the repayment for interest on term loan and installment on term loan is met out by a borrower through the future cash flow generated from the unit i.e. by net profit after tax. The repayment capacity is assessed by calculating Debt Service Coverage Ratio (DSCR) as under for the entire repayment period:

Sr. No.	Particulars	Year I	Year II	Year III	Year IV	Year V	Year VI	Year VII
1	Net Profit After Tax							
2	Depreciation							
3	Term loan Interest							
4	Subtotal (A) = 1+2+3							
5	Term loan installments							
6	Term loan Interest							
7	Subtotal (B) = 5+6							
8	DSCR = (A/B)							
9	Average DSCR	Total of 5 / Total of 7						

The minimum DSCR should be 1.2 in any of the year and average DSCR should be minimum 1.5, then the project is economically viable.

Whenever the DSCR for the initial period is less than the minimum requirement of 1.2 and for remaining period is more than the 1.2 then for initial period the installment amount of the term loan may be reduced and installment for rest of the years may be increased to meet out minimum DSCR of 1.2 and average DSCR of min. 1.5 to make the project as a Bankable project.

Sensitivity Analysis:

Sensitivity analysis is done assuming reduction in say by 5% in selling price or increase in raw material prices by 5 % depending upon the price fluctuations in industry and working out revised profitability and DSCR. In scenario analysis, more than one parameter viz. reduction in selling price and increase in raw material price are assumed simultaneously and DSCR is worked out. The DSCR after sensitivity analysis should be more than 1.00.

Break even Point (BEP) Analysis:

The sales level at which there is no profit or no loss its called break even sales. The Break even quantity is calculated by the following formula.

$$\text{BEP Quantity} = \frac{\text{(Fixed cost per annum)}}{\text{(Selling price per unit-Variable cost per unit)}}$$

The fixed cost is the cost which remains fixed irrespective of quantity produced viz. rent, manager's salary, interest on term loan etc. The variable cost varies directly with quantity of production viz. raw material cost, labour cost, power cost etc. Suppose a unit has capacity to manufacture 2000 units per annum, the selling price is Rs. 200 per unit, variable cost is Rs. 120 per unit and fixed cost is say Rs. 40000 per annum. Then the break even quantity as per above formula is 500 nos. This means break even is at 50 % capacity utilization and BEP sales is Rs. 100000.

Assuming the unit produces uniform quantity in each month throughout the year, then BEP will be reached in 6 months and after that the unit will start generating the profit. Thus BEP can be used to fix the moratorium period. In this case the moratorium period can be minimum 6 months from the commencement of commercial production. The lower the BEP, it is desirable. BEP more than 65 % is considered as risky.

Conclusion:

Credit decision is very vital study. The bank needs to finance the proposal which in long run remains standard and give earning to the bank. The credit decision is dependent upon various factors like selection of the borrower, selection of sector (industry) to be finance. The success of any project is dependent upon the capacity, character and capital contributed by the borrower. We need to study the project starting from studying the borrower, the infrastructure & inputs required to set up the manufacturing unit. After thorough study of qualitative parameters and quantitative parameters, we can analyse the project for its technical feasibility and economical viability. ❑

ICICI Bank to raise up to Rs. 8,000 crore via infra bonds

Private sector lender ICICI Bank is planning to raise upto Rs 8,000 crore through infrastructure bonds to finance projects in sectors like transport and power and affordable housing.

Debt market sources said while the private lender is raising upto Rs 8,000 crore in current round, rating agency Crisil has assigned "AAA/Stable" for Rs 10,000 crore of bonds. Lenders have always an option to raise money in tranches.

The issue size is Rs 500 crore with green shoe of Rs 7,500 crore. It will be a 10-year paper. The interest rate rate scenario is unclear due to volatility in markets. The highly rated long term paper (10-year) from corporate would see a coupon of around 7.25-30 %, bond dealers said.

ICICI Bank did not respond to email queries on fund raising through infrastructure bonds. Its exposure to Road, ports, telecom, urban development and other infrastructure was Rs 48,981 crore at end of March 2021, according to annual report for FY21.

Funds raised through this route are exempt from liquidity norms Cash Reserve Ratio and Statutory Liquidity Ratio (SLR) requirements and are deployed in long term infra and affordable housing credit.

Crisil in its rating review said the bank actively finances projects for capacity creation in environment-friendly sectors like renewable energy and other sustainable sectors.

MENA ISLAMIC BANKING & FINANCE SUMMIT - 2022

The global Islamic finance industry has expanded 10% to 12% in 2021-2022. The expansion of Islamic banking and Islamic financial assets in the Middle East region along with Malaysia and Turkey has been robust. The Islamic finance industry is positioning itself towards a more sustainable growth, on the premise of progress based on a unified legal and regulatory framework supported by higher digitization and FinTech collaboration.

The MENA Islamic Banking & Finance Summit, a strategic conference will engage in ushering the age of Islamic financial inclusion. The summit is organised by Nispana Global, headquartered in Dubai, and this exclusive event will bring together key stakeholders, decision makers, thought leaders and luminaries who are invested in driving Islamic finance and banking growth in the region. Some of the prestigious thought leaders and speakers presenting at the summit are; Ayman Sejiny, CEO, Islamic Corporation for the Development of the Private Sector (ICD); Ibrahim Al Mheiri, CEO & Head of Islamic Banking, Mashreq Al Islami Islamic Finance Company; Farah Jaafar, Managing Director & Chief Communications Officer Fusang; Ali Allawala, Head Islamic Banking - UAE, & Group Islamic Head of Consumer, Private, and Business Banking, Standard Chartered Bank; Matthew Gamser, CEO, SME Finance Forum, Managed by the IFC (International Finance Corporation); Fazal Rahim Abdul Rahim, Senior Vice President - Head of Sharia Control & Issc Secretary Ajman Bank; Chetan Parekh, Partner, Cedar Management Consulting International LLC; Wissam Fattouh, Secretary General, The Union of Arab Banks; Syed Moosa Kaleem Al-Falahi, CEO, Islamic Bank of Afghanistan; Steven WONGWengLeong,Chief Digital & Global Banking Strategist, China Construction Bank.

The Summit is delivered in a hybrid format and will open up deliberations ranging from Islamic capital markets outlook, impact of digitization and FinTech inclusion in the sector, new avenues of growth for sukuk, takaful, private banking etc. and improving the industry's resilience and growth opportunities. The summit will further showcase the influence of women in Islamic finance.

The Summit will represent an important platform to promote discussion across the region and Islamic finance stakeholders. The event is designed to encourage positive dialog to promote and strengthen the current Islamic Banking and Finance principles and the amalgamation of technology for a futuristic growth of the industry.

Join us at the premier MENA Islamic Banking and Finance Summit on March 15 and 16, 2022 being held at The Marriott Hotel, Al Jaddaf, Dubai. Across, 2 days of the summit multiple sessions will showcase Islamic banking benchmarks, digital integration to improve Islamic banking and finance penetration and propagation of sustainable Islamic banking growth. The strategic event is sponsored and supported by Islamic Corporation for the Development of the Private Sector (ICD); Cedar Management Consulting International LLC; Labuan IBFC ; Nintex ; LOTUS Bank; Ovamba Solutions, Inc.; United Security Printing USP; Standard Chartered Bank (Saadiq Islamic); Bank Nizwa; Fusang.

DEALING WITH UNCLAIMED BANK DEPOSITS

Unclaimed deposits are commonly defined as those deposits which are lying in accounts not operated for a period of 10 or more years. Section 26 of the Banking Regulation Act, 1949 requires banks to submit to RBI information about these accounts within 30 days after each calendar year ends. Unclaimed deposits can be claimed by their legal owners after satisfying certain conditions prescribed by RBI.

However, several common citizens, including the financially sophisticated ones, are observed to be ignorant of the provisions and processes involved. This has led to proliferation of inoperative accounts and unclaimed deposits in the banking system.

As per Section 26A of the amended Banking Regulation Act, 1949, money lying in dormant bank accounts is transferred to the Depositor Education and Awareness Fund (DEAF) within a period of three months from the expiry of the above-said 10 years.

The depositor is, however, entitled to claim from the bank her/his deposit or any other unclaimed amount or operate the account after the expiry of 10 years, even after such amount has been transferred to DEAF. The bank is liable to pay the amount to the depositor/claimant and claim refund of such amount from DEAF.

The growth path of the number of unclaimed accounts and amount outstanding at December-end during the decade 2011 to 2020. During this period, both continuously increased, barring a nominal dip in 2014 in respect of the latter.

The growth of amount outstanding (CAGR=29.1 per cent) was steeper than that of accounts (CAGR=24.9 per cent), implying that increasing number of relatively large deposit accounts was becoming unclaimed, which is puzzling and a matter of concern.

Massive jump

The average amount outstanding per account increased by 35.2 per cent from Rs. 2,215 in 2011 to Rs. 2,995 in 2020 after a peak of Rs. 3,521 in 2013. The savings bank portfolio had the highest incidence of unclaimed deposits — three-fourth of the total unclaimed accounts and two-third of the total amount.

Public Sector Banks (PSBs), obviously, had the highest share both in terms of number of accounts (84 per cent) and amount outstanding (83 per cent).

We tried to compute the extent to which unclaimed deposits are claimed back by the depositors or their legal claimants. This exercise was carried out for the financial year 2020-21 by collecting the relevant data from the balance sheets of 12 PSBs, 12 old private banks and nine new private banks.

Among the PSBs, only 1.26 per cent of the unclaimed deposits outstanding at March-end 2021 was claimed back with a range of 0.35 per cent to 2.25 per cent. For old private banks, it was 1.22 per cent with a range of 0.44 per cent to 1.74 per cent, and for new private banks, it was 0.79 per cent with a range of 0.32 per cent to 3.05 per cent. Thus, a very small proportion of unclaimed deposits is actually claimed back.

The most important reason for a deposit account becoming unclaimed is the death of the depositor without a nomination or without being a joint account with 'either or survivor' option. This arises mostly due to ignorance of the account holder while opening the account, or even if she comes to know afterwards, does not carry out the necessary modifications. In the case of such accounts, banks are required to follow the legal procedures before handing over the money to the legal heirs.

Therefore, the onus lies with the deceased depositor's legal heirs who have to initiate the process with the bank. However, as widely known, legal procedures are cumbersome and consume considerable time.

Financial illiteracy and lack of awareness about the procedures among the people lead to these kinds of situations. Therefore, financial literacy drive is welcome.

Possible solutions

While opening accounts, banks need to see that customers fill in the nomination part in account opening forms appropriately and completely. Customers, in their own interest, must cooperate with banks. It is heartening to note that positive shifts are taking place in this respect, especially after the banks' intensified use of mobiles and Internet.

Unclaimed deposits may constitute a minuscule proportion of total deposits of a bank, but since banks, especially PSBs serve the 'small' depositors, they need to take initiatives for reducing the incidence of unclaimed accounts. Some of the initiatives that could be taken up are:

(i) Organising area-wise special camps for revival or disposal of unclaimed accounts.

(ii) Monitoring the position of unclaimed deposits in customer grievance redressal meetings at various levels.

(iii) Business Correspondents can help establish contact with the holders of inoperative accounts or their legal heirs and reactivate the accounts.

There is always room to progressively simplify the legal procedures for settlement of the unclaimed accounts, especially for those with low amounts.

The RBI has been doing a good job in persuading banks to reduce the incidence of unclaimed deposits. However, a few more things, as mentioned below, may be added:

(i) Asking banks to report the unclaimed deposits data population group-wise (i.e., rural/semi-urban/urban/metro) so that the issue can be tackled more effectively.

(ii) Commenting upon the position of unclaimed deposits while carrying out on-site inspections of banks.

It is only through meaningful cooperation between banks and customers that the incidence of unclaimed deposits can be minimised. *(Source: Business Line)*

Bank of India to launch digital lending platform

Bank of India plans to put in place a mobile-based lending platform to grow its RAM (retail, agriculture and micro, small & medium enterprises) portfolio from about 54% of total domestic loans to 65 % in two years. The bank is developing a tech-stack for enhancing its digital banking presence, according to PR Rajagopal, Executive Director.

Referring to many banks having more than 60 % of total domestic advances in the RAM segment, he observed that digital lending will help re-balance BoI's portfolio composition towards RAM advances. "Our RAM portfolio is hovering around 54 %. So, we need a very strong digital push to grow this portfolio.

"We will launch a super app by the second quarter of FY23. Vendors have been on-boarded to build the app," Rajagopal said. The app will ensure that the public sector bank can digitise loan sourcing, give in-principle sanctions to customers, and cross-sell non-banking financial services products.

BANKERS IN A BIND AFTER NCLAT RULING ON DHFL RESOLUTION

Bankers are now in a quandary after the NCLAT recently ruled that the Committee of Creditors' (CoC) decision to approve the resolution plan of DHFL was "illegal"; the plan containing an "illegal" stipulation on recovery of avoidance transactions was not sustainable.

CoC's core committee, which looked into the recent NCLAT directive, is now caught in a dilemma as its legal advisors are urging it to appeal to the Supreme Court. At the same time, the debenture trustee (representing NCD holders and part of CoC) is opposed to any such move, sources privy to the developments said. The ball is now in CoC's court as it has to take the difficult decision of either adhering to NCLAT's directive or filing an appeal before Supreme Court, they added.

'Avoidance transactions'

Under the Insolvency and Bankruptcy Code (IBC), "avoidance transactions" are recognised as undervalued, fraudulent or extortionate by the previous promoters.

It may be recalled that CoC had, as part of the resolution plan, agreed to Piramal Group (winning resolution applicant) getting all future recoveries of bad loans (amounting to about Rs. 38,000 crore) falling under avoidance transactions and accepted Rs. 1 from Piramals as the value assigned for such a benefit.

Several critics had frowned at the CoC move to accept Piramal Group's Rs. 1 as the value assigned for avoidance transactions and even alleged it was a "sweetheart deal" between the bankers and Piramal Group.

They contended that the banks should have been careful before accepting Piramal Group's Rs. 1 as the value assigned for avoidance transactions amounting to Rs. 38,000 crore (without interest component). Some critics even alleged that the bankers' act of omission is deliberate and not an oversight.

CoC's move to accept and assign a value of Rs. 1 on avoidance transactions had raised eyebrows, and 63 moons (one of the creditors with Rs. 200 crore invested in DHFL NCDs) had challenged this CoC decision.

In its appeal, 63 moons asked whether the Piramal group could appropriate all recoveries from avoidance applications filed under Section 66 of the IBC just because the CoC had agreed to assign a completely arbitrary and unrealistic value of Rs. 1.

It cited a Delhi High Court judgment in Venus Recruiters Private Ltd to back its claims, saying the bankruptcy laws of countries like the US also advocate creditors benefit, directly or indirectly; 63 moons had argued before the adjudicating authorities that the Piramal Group could not appropriate all recovery from the vast amount of DHFL loans listed in 'avoidance applications' under Section 66 of the IBC.

It was submitted that IBC provisions on avoidance transactions provided that recoveries on this count should benefit creditors alone and, that too, in the order of priority coming under the "waterfall mechanism" stipulated in the IBC.

The resolution plan

Last month, the NCLAT had — in the matter of the 63 moons challenge — set aside the term in the resolution plan that permitted Piramal Group (successful resolution applicant) to appropriate recoveries from avoidance transactions.

The Appellate Tribunal had sent the authorised resolution plan back to the CoC to reconsider this aspect of the valuation of avoidable transactions that pertain to the recoverable belongings.

The NCLAT has described this term in the resolution plan (accepting Rs. 1) as "illegal" as it has ruled that all recoveries on avoidance transactions should benefit only the creditors and not the successful resolution applicant.

While some still point out that the Indian bankruptcy law does not allow the commercial wisdom of banks to be questioned, the real issue in the 63 moons appeal is not about commercial wisdom but about overlooking the rights that creditors have under Section 66, company law experts said. *(Source: BL)*

RBI CIRCULAR

Framework for Geo-tagging of Payment System Touch Points

RBI/2021-22/187

March 25, 2022

1. To facilitate nuanced spread of acceptance infrastructure and inclusive access to digital payments, the Monetary Policy Statement 2020-21 on October 08, 2021 had announced that a framework for geo-tagging of physical payment acceptance infrastructure would be prescribed by Reserve Bank. Accordingly, a framework for capturing geo-tagging information of payment system touch points deployed by banks / non-bank PSOs is laid out in the Annex. The date from which the information shall be reported to Reserve Bank shall, however, be advised in due course.
2. This framework is issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

(P Vasudevan)
Chief General Manager

Annual Closing of Government Accounts – Transactions of Central / State Governments – Special Measures for the Current Financial Year (2021-22)

RBI/2021-2022/186

March 24, 2022

1. All government transactions done by agency banks for Financial Year 2021-22 must be accounted for within the same financial year. Accordingly, the following arrangements are put in place to report and account for Government transactions for March 31, 2022.
2. All agency banks should keep their designated branches open for over the counter transactions related to government transactions upto the normal working hours on March 31, 2022.
3. Transactions through National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) System will continue upto 2400 hours as hitherto on March 31, 2022.
4. Special clearing will be conducted for collection of government cheques on March 31, 2022 for which the Department of Payment and Settlement Systems (DPSS), RBI will issue necessary instructions.
5. Regarding reporting of Central and State Government transactions to RBI, including uploading of GST / e-receipts luggage files, the reporting window of March 31, 2022 will be extended and kept open till 1200 hours on April 1, 2022.
6. Agency banks may take note and give adequate publicity to the special arrangements made as above.

(R. Kamalakannan)
Chief General Manager

Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 - Amendment

RBI/2021-22/185

March 23, 2022

1. Please refer to the Master Direction DOR.MRG.42/

21.04.141/2021-22 dated August 25, 2021 – 'Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021' (hereinafter referred as 'Master Direction').

2. The Master Direction outlines the prudential treatment for investment in Venture Capital Funds (VCFs). We have received queries from banks regarding the applicability of these instructions for investment in Alternative Investment Funds (AIFs).
3. Accordingly, on a review, it has been decided that the investment in Category I and Category II AIFs, which includes VCFs, shall receive the same prudential treatment as applicable for investment in VCFs.
4. In addition, based on feedback from banks, clarifications / updates have been provided regarding section 4(a)(vii), 10(c)(ix), 12(ii)(b), 12(ii)(d)(ix), 13(iv)(b), 16(i), 16(ii), 18(ii)(e)(ii) and Annex II of the Master Direction.
5. The relevant sections of the Master Direction have been amended to reflect the aforementioned changes.

Applicability

6. This circular is applicable to all Commercial Banks (excluding Regional Rural Banks).
7. These instructions shall come into force with immediate effect.

(Usha Janakiraman)
Chief General Manager

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of 1 entry (entity)

RBI/2021-2022/183

March 10, 2022

1. Please refer to Section 51 of our Master Direction on Know Your Customer dated February 25, 2016 as amended on May 10, 2021, in terms of which "Regulated Entities (REs) shall ensure that in terms of Section 51A of the Unlawful Activities (Prevention) (UAPA) Act, 1967, they do not have any account in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC)."
2. In this connection, Ministry of External Affairs (MEA) has informed about UNSC press release (SC/14822 dated 07 March 2022) regarding addition of 1 entry (entity) [QDe.168 Name: KHATIBA AL-TAWHID WAL-JIHAD (KTJ) A.k.a.: a) JANNAT OSHIKLARI b) Jama`at al-Tawhid wal-Jihad F.k.a.: JANNAT OSHIKLARI] to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List by the UNSC Committee established pursuant to Resolutions 1267 (1999), 1989 (2011) and 2253 (2015) concerning ISIL (Da'esh), Al-Qaida, and associated individuals, groups, undertakings and entities regarding changes in the List of individuals and entities subject to the assets freeze, travel ban and arms embargo set out in paragraph 1 of UNSC resolution 2368 (2017), and adopted under Chapter VII of the Charter of the United Nations

   The UNSC press release concerning amendments to the list is available at URL: https://www.un.org/securitycouncil/sanctions/1267/press-releases
3. Updated lists of individuals and entities linked to ISIL (Da'esh), Al-Qaida and Taliban are available at:

   www.un.org/securitycouncil/sanctions/1267/aq_sanctions_list

   https://www.un.org/securitycouncil/sanctions/1988/materials
4. The details of the sanction measures and exemptions are available at the following URL: https://www.un.org/securitycouncil/sanctions/1267#further_information
5. As per the instructions from the Ministry of Home Affairs (MHA), any request for delisting received by any Regulated Entity (RE) is to be forwarded electronically to Joint Secretary (CTCR), MHA for consideration. Individuals, groups, undertakings or entities seeking to be removed from the Security Council's ISIL (Da'esh) and Al-Qaida Sanctions List can submit their request for delisting to an independent and impartial Ombudsperson who has been appointed by the United Nations Secretary-General. More details are available at the following URL: https://www.un.org/securitycouncil/ombudsperson/application
6. In view of the above, REs are advised to take note of the aforementioned UNSC communication and ensure meticulous compliance

(Sidharth Prakash)
Deputy General Manager

Deployment of Gross Bank Credit by Major Sectors

(₹ Crore)

Sector	Outstanding as on				Growth (%)	
	Mar.26, 2021	2020	2021		Financial year so far	Y-o-Y
		Dec.18	Nov.19	Dec.31	2021-22	2021
	1	2	3	4	%	%
I. Gross Bank Credit (II+III)	**10949509**	**10702596**	**11162247**	**11683413**	**6.7**	**9.2**
II. Food Credit61254	**92545**	**82415**	**88680**	**44.8**	**-4.2**	
III. Non-food Credit	**10888255**	**10610052**	**11079831**	**11594733**	**6.5**	**9.3**
1. Agriculture & Allied Activities	**1280240**	**1237957**	**1344129**	**1417969**	**10.8**	**14.5**
2. Industry (Micro and Small, Medium and Large)	**2899531**	**2774549**	**2865403**	**2985278**	**3.0**	**7.6**
2.1 Micro and Small[1]	387220	371463	410646	447566	15.6	20.5
2.2 Medium	136108	120242	183668	224255	64.8	86.5
2.3 Large	2376203	2282844	2271089	2313458	-2.6	1.3
3. Services	**2673753**	**2569512**	**2626577**	**2848108**	**6.5**	**10.8**
3.1 Transport Operators	137405	134191	132364	141056	2.7	5.1
3.2 Computer Software	19219	17594	18720	19712	2.6	12.0
3.3 Tourism, Hotels & Restaurants	49085	49614	50282	52760	7.5	6.3
3.4 Shipping	7188	7217	7469	7026	-2.3	-2.6
3.5 Aviation	25643	23436	26771	12229	-52.3	-47.8
3.6 Professional Services	105333	103760	101363	105280	-0.1	1.5
3.7 Trade 599158	561052	588738	644771	7.6	14.9	
3.7.1 Wholesale Trade	310377	269945	303758	329918	6.3	22.2
3.7.2 Retail Trade	288780	291108	284979	314853	9.0	8.2
3.8 Commercial Real Estate	264889	260768	260262	270860	2.3	3.9
3.9 Non-Banking Financial Companies (NBFCs)[2] of which,	940205	883392	920630	1002081	6.6	13.4
3.9.1 Housing Finance Companies (HFCs)	215617	179730	220855	229942	6.6	27.9
3.9.2 Public Financial Institutions (PFIs)	78442	57491	90751	108035	37.7	87.9
3.10 Other Services[3]	525628	528488	519979	592334	12.7	12.1
4. Personal Loans	**2857789**	**2701738**	**2985430**	**3087845**	**8.1**	**14.3**
4.1 Consumer Durables	8812	8435	12313	13115	48.8	55.5
4.2 Housing	1460091	1392259	1490157	1521439	4.2	9.3
4.3 Advances against Fixed Deposits	63676	58829	64797	73011	14.7	24.1
4.4 Advances to Individuals against share & bonds	4419	4705	4714	4820	9.1	2.5
4.5 Credit Card Outstanding	116549	110350	122111	124743	7.0	13.0
4.6 Education	63969	64843	63452	63213	-1.2	-2.5
4.7 Vehicle Loans	269706	258062	275249	279485	3.6	8.3
4.8 Loan against gold jewellery	60849	48859	65630	70871	16.5	45.1
4.9 Other Personal Loans	809718	755397	887007	937148	15.7	24.1

(Continued in next page)

Deployment of Gross Bank Credit by Major Sectors (Contd.)

(₹ Crore)

Sector	Outstanding as on				Growth (%)	
	Mar.26, 2021	2020	2021		Financial year so far	Y-o-Y
		Dec.18	Nov.19	Dec.31	2021-22	2021
	1	2	3	4	%	%
5. Priority Sector (Memo)						
5.1 Agriculture & Allied Activities[4]	1244276	1201642	1283063	1346408	8.2	12.0
5.2 Micro & Small Enterprises[5]	1134976	1148883	1099438	1253505	10.4	9.1
5.3 Medium Enterprises[6]	207870	183825	242069	276485	33.0	50.4
5.4 Housing	470325	468365	444762	468623	-0.4	0.1
5.5 Education Loans	48201	50574	47039	46884	-2.7	-7.3
5.6 Renewable Energy	1171	1481	1244	1764	50.7	19.2
5.7 Social Infrastructure	2448	1909	2331	2333	-4.7	22.2
5.8 Export Credit	19028	15322	16969	31545	65.8	105.9
5.9 Others	10726	9627	17303	19273	79.7	100.2
5.10 Weaker Sections including net PSLC- SF/MF	816816	794582	862276	897351	9.9	12.9

Note 1: Data are provisional. Gross bank credit and non-food credit data are based on Section-42 return, which covers all scheduled commercial banks (SCBs), while sectoral non-food credit data are based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 90 per cent of total non-food credit extended by all SCBs.

Note 2: With effect from January 2021, sectoral credit data are based on revised format due to which values and growth rates of some of the existing components published earlier have undergone some changes.

Note 3: For the serial numbers I, II and III, Y-o-Y growth rates were calculated based on the outstanding credit as on December 31, 2021, over January 1, 2021. However, since the SIBC data is available only for the fortnight of December 18, 2020, the growth rate for the sectoral credit is calculated on December 31, 2021, over December 18, 2020.

[1] Micro & Small includes credit to micro & small industries in the manufacturing sector.

[2] NBFCs include HFCs, PFIs, Microfinance Institutions (MFIs), NBFCs engaged in gold loan and others.

[3] Other Services include Mutual Fund (MFs), Banking and Finance other than NBFCs and MFs and other services which are not indicated elsewhere under services.

[4] Agriculture and Allied Activities also include priority sector lending certificates (PSLCs).

[5] Micro and Small Enterprises include credit to micro and small enterprises in manufacturing and services sector and also include PSLCs.

[6] Medium Enterprises include credit to medium enterprises in the manufacturing and services sector.

Madhabi Puri Buch appointed SEBI chief

Madhabi Puri Buch has been appointed chairperson of the Securities and Exchange Board of India (Sebi), the regulator in charge of overseeing India's $3.3-trillion stock market ecosystem. She replaces Ajay Tyagi, whose tenure as Sebi chairman ended. The Appointments Committee of the Cabinet, headed by the Prime Minister, approved her appointment for an initial period of three years, the government said in a notification. She is likely to take charge March 2, as March 1 is a market holiday. Puri Buch, 56, will be the first woman, and the first person from the private sector, to head the securities market watchdog. However, she has had a more than four-year stint at Sebi as a whole-time member (WTM) -- a post just below the chairman. The IIM-Ahmedabad alumna will also be the youngest Sebi chief.

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