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From The Desk Of Editor-in-Chief

According to RBI Governor, RBI has taken necessary steps to regulate the economy in recent period.

RBI said the broader financial system must be shielded from the fintech industry's potential to cause instability while acknowledging the sector's role in democratising access to organised finance.

The central bank also continued its deprecation of crypto assets, saying they weaken the management of exchange rates and financial regulations.

RBI Governor Shaktikanta Das was sceptical about crypto currencies and according to him they are a "clear danger" and anything that derives value based on make-believe, without any underlying, is just speculation under a sophisticated name. He added that as the financial system gets increasingly digitalised, cyber risks are growing and need special attention.

"While technology has supported the reach of the financial sector and its benefits must be fully harnessed, its potential to disrupt financial stability has to be guarded against. As the financial system gets increasingly digitalised, cyber risks are growing and need special attention," Das said in the RBI's 'Financial Stability Report, June 2022'.

The report also said the market value for crypto assets grew 10-fold from early 2020 to late 2021 when it peaked at almost USD 3.0 trillion before recording a sharp decline below $1 trillion in June 2022. "Technological advances powered by cryptography and distributed ledger technology (DLT) have led to the rise of new digital assets such as crypto assets and stable coins, which generally have no underlying assets and are primarily used for speculative investments."

Privatisation of bank has affected the Banking service heavily where in Banks are in competition to impose different charges even on small and marginal account holders for every small services provided to account holders which ultimately affect the small depositors and account holders.

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Banking News

Bank credit growth hits 3-year high of 13.1%

Bank credit grew 13.1 per cent year-on-year (YoY) in the fortnight ended June 3, the highest in the past three years, the latest data released by the RBI shows. Growth in bank credit in the previous year was 5.7 per cent.

At an event, RBI Governor Shaktikanta Das said: "We are seeing reasonably satisfactory credit off take happening. It is about 12 per cent YoY, according to the latest data. Last year, around this time, credit growth was 5-6 per cent."

In the fortnight concerned, banks extended incremental credit of Rs 1.02 trillion, taking the outstanding loans to Rs 121.40 trillion. Credit growth was even higher in April 2019, when it grew 14.19 per cent. The uptick comes amid a rise in lending rates.

Forensic Audit: Banks to report non-cooperation

Borrowers who don't cooperate in their forensic audits will now be reported to all banks. The move comes as lenders want to speed up the forensic audit while preventing such borrowers from taking any more loans from other banks.

According to an official, who did not wish to be identified, banks have agreed to update the status of such borrowers in the Central Repository of Information on Large Credits (CRILC) constituted by the sector regulator, Reserve Bank of India.

"Banks can take a decision based on this information and decide not to lend until the borrower gets a clean chit," he said.

Indian Banks' Association chief executive Sunil Mehta confirmed the development and said this will bring more discipline among the borrowers. "Based on various parameters, including early warning signals (EWS), banks do such audits to take proactive action," he said.

A Manimekhalai, the new CEO of Union Bank of India

The government appointed A Manimekhalai as Managing Director and Chief Executive Officer (MD and CEO) of Union Bank of India for a period of three years.

We hereby inform that the Central Government in exercise of the powers conferred by the proviso to clause (a) of sub-section (3) of Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, has appointed A Manimekhalai Executive Director, Canara Bank as Managing Director and Chief Executive Officer (MD & CEO) in Union Bank of India for a period of three years with effect from the date of assumption of office or until further order, whichever is earlier, Union Bank of India said in a regulatory filing to the stock exchanges.

Alok Kumar Choudhary takes charge as MD of SBI

Alok Kumar Choudhary has took charge as the new Managing Director (MD) of State Bank of India (SBI). His appointment comes in the wake of the superannuation of Ashwani Bhatia as Managing Director on May 31, 2022. Choudhary was previously Deputy Managing Director (Finance) at the bank. As the new MD, he will be handling retail business and operations.

Per a notification issued by the Department of Financial Services, the new MD's appointment is with effect from the date of assumption of office and up to the date of his superannuation (June 30, 2024), or until further order, whichever is earlier. Following Choudhary's appointment, SBI now has four MDs. The other MDs are Challa Sreenivasulu

Setty, Swaminathan J and Ashwini Kumar Tewari.

R Subramaniakumar, new MD & CEO of RBL Bank

RBL Bank has appointed R Subramaniakumar as its Managing Director and CEO for a period of three years with effect from June 23. After Subramaniakumar's appointment, the former interim MD and CEO of RBL Bank Rajeev Ahuja will work as the Executive Director of the bank.

Ahuja was appointed as the interim MD and CEO after Reserve Bank of India's (RBI) and shareholders' approval, from December 25, 2021 to June 24, 2022, or till the appointment of a regular MD and CEO, whichever was earlier, as per the exchange filing.

The filing further stated that Vishwavir Ahuja's term as the Managing Director and CEO ended on June 23. It also reads, "The board placed on record its deep appreciation for his stellar contribution to the manifold growth of the RBL Bank during his tenure."

In early June, the central bank had given its approval to RBL to appoint Subramaniakumar as the bank's new MD and CEO.

R Subramaniakumar has over four decades of experience across banking verticals and has held board level positions for around five years including on the Board of Overseas JV Bank. His banking career began in 1980 with public lender Punjab National Bank (PNB) and has worked in positions like front desk, General Manager.

IBA expert panel to vet loan recast proposals

Banks will jointly set up an expert committee to vet loan restructuring proposals involving amounts of 500 crore and above to shield officials from any subsequent scrutiny by investigative agencies, said people with knowledge of the matter.

The committee, which will be set up by the Indian Banks' Association, will comprise financial services experts and persons of eminence from the industry, they said. It will conduct process validation of the restructuring without interfering in the commercial judgment of the lenders.

For loans below 500 crore, individual banks can set up similar committees of their own, said a senior banker who did not want to be identified.

"The idea is to enhance the comfort and confidence of lenders in large value restructuring cases," he said.

PM Modi to banks: Focus on bigger role in global business

Prime Minister Narendra Modi stressed upon the need for Indian banks to focus on playing a bigger role in global trade and supply chain, while seeking better financial and corporate governance.

Inaugurating the finance ministry's iconic week celebrations, where a platform for financial inclusion was unveiled for a dozen credit-linked government schemes, the PM said that it was now time to work on financial solutions for people around the world.

"The world is looking at us not just as a big consumer market but looking at us with hope and confidence as a capable, game-changing, creative, innovative ecosystem," Modi said. The comments on banks playing a bigger role internationally come at a time when the government is seeking to integrate Indian companies with global supply chain through local production of finished pro-ducts as well as suppliers of critical inputs, such as auto parts or semiconductors. The government had adopted a strategy for merger of public sector banks to give them much-needed scale as even operations of SBI, the country's largest lender, does not compare with global giants.

The PM also launched a special series of coins with Azadi ka Amrit Mahotsav design that will be visually impaired-friendly. Modi listed his government's financial inclusion initiatives as a key area of better delivery of benefits and argued that his administration had shifted the focus of policymaking from a government-centric approach to people centric.

PSBs to pay Rs. 8,000 crore dividend to centre

PSU banks have paid substantial dividends to their shareholders, many of them after a gap of nearly six years, as credit growth accelerated and asset quality improved.

The government stands to be the biggest beneficiary of the generous payouts by the banks and is expected to net nearly Rs. 8,000 crore. PSU banks, barring Central Bank of India, which is still under the Reserve Bank of India's (RBI's) restrictive prompt corrective action framework (PCA) for weak banks, reported improved performance in the year ended 31 March.

The payouts by PSU banks come as a minor relief to the government, which is struggling to generate resources amid higher spending on subsidies and tax cuts to cool inflation. The RBI also approved a lower-than-expected Rs. 30,307 crore as dividend to the government for the year ended March 2022, upsetting the government's budget maths.

The highest payout to the government is from the country's largest lender State Bank of India, which will pay a dividend of Rs. 3,600 crore. Union Bank will pay Rs. 1,084 crore, followed by Canara Bank at Rs. 742 crore and over Rs. 600 crore each by Indian Bank and Bank of India.

Excess liquidity in the banking system back to pre-Covid levels

India's banking system liquidity is likely to reach pre-pandemic levels by the end of this financial year as the central bank embarks on an aggressive liquidity withdrawal strategy to tame inflationary pressures, bankers and economists say.

On May 4, the Reserve Bank of India increased the rate at which it lends short-term funds to commercial banks by 40 basis points to 4.4 percent and upped the Cash Reserve Ratio (CRR), the portion of deposits that banks must hold in liquid cash, by 50 basis points to 4.5 percent. One basis point is one-hundredth of a percentage point.

The CRR increase, effective the fortnight of May 21, means that banks will have a relatively low lending capacity in terms of funds and so would raise interest rates on deposits to raise funds. The CRR hike is expected to withdraw liquidity to the tune of around Rs. 87,000 crore.

"The RBI is adopting a simple rationale that in order to normalise rates, liquidity withdrawal is needed, that too in large chunks. It is a clear sign that the RBI is worried about inflation," said Abhishek Upadhyay, senior economist at ICICI Primary Dealership.

Standard Chartered Bank settles SEBI case

Standard Chartered Bank (SCB) paid Rs. 4.97 crore to settle a case with the Securities and Exchange Board of India (Sebi) for alleged violation of regulatory norms involving CG Power and Industrial Solutions Ltd.

SCB had approached Sebi with a proposal to resolve a matter involving alleged Prohibition of Fraudulent and Unfair Trade Practices (PFUTP) violations, without admitting or denying the findings of fact and conclusions of law, through a settlement order.

SEBI's High Powered Advisory Committee agreed to settle the matter upon payment of Rs. 4.97 crore, which the bank did on 12 May. Following the order, Sebi said it will not initiate any enforcement action against the applicant for the defaults.

Sebi had in May 2021 issued a show-cause notice to the bank for alleged violations under PFUTP. SCB was alleged to have helped a private limited business controlled by promoter group firms at the expense of the publicly traded CG Power, thus harming the interests of its minority shareholders.

Credit card spend tops Rs. 1 trillion in March 2022

Spending through the credit card in March 2022 jumped 48 per cent year-on-year to top Rs 1 trillion -- five months after it had hit the same figure for the first time in October 2021, buoyed by festive season expenditure.

The jump has been driven by the pickup in consumption as the pandemic recedes.

Expenditure in March, at Rs 1.07 trillion, was up 24.5 per cent over February, the data put out by the Reserve Bank of India (RBI) showed.

Further, more than 1.9 million credit cards (on a net basis) were added in March -- the highest for a month in FY22, taking the number to 73.6 million at the end of the financial year.

So, in a year, 11.6 million credit cards were added (on a net basis). Month-on-month, credit card additions (on a net basis) increased by 31.7 per cent.

Banks to auction Great Indian Tamasha Co assets

IDBI Bank has put on sale properties of Great Indian Tamasha Company Ltd, which is the corporate guarantor of Great Indian Nautanki Company, to recover defaulted loans, or non-performing assets (NPAs), worth over Rs 148 crore taken from IDBI Bank, HDFC Bank and Bank of Baroda.

The immovable properties, which will be sold through an e-auction next month, are located in Karnataka's Kodagu district, according to a public notice issued by IDBI Bank. Great Indian Nautanki Company owes IDBI Bank Rs 86.48 crore, HDFC Bank Rs 6.26 crore and Bank of Baroda Rs 49.23 crore. "The dues of IDBI Bank outstanding as of May 1, 2022, stand at Rs 92.69 crore plus interest thereon with effect from May 2, 2022," the notice said.

The guarantors and directors of the company were Anumod Sharma, Anu Appaiah, Sanjay Choudhry, Viraf Sarkari, SG Investments, Great Indian Tamasha Company and Wizcraft International Entertainment Pvt Ltd, the notice said. ❑

Reserve Bank News

RBI lifts ban on Mastercard after one year

RBI has lifted the ban imposed on Mastercard and allowed the card network to onboard new customers for debit, credit, or prepaid cards, as it is satisfied with the company's compliance with the storage of payment data norms.

The embargo on the company is being lifted almost a year after it was imposed in July last year. The move will benefit lenders, such as YES Bank and RBL Bank, which were solely issuing Mastercard cards before the ban. Citi also partnered only with Mastercard for its credit cards before the ban.

"In view of the satisfactory compliance demonstrated by Mastercard Asia / Pacific Pte. Ltd. with the RBI circular dated April 6, 2018 on storage of payment system data, the restrictions imposed, vide order dated July 14, 2021, on on-boarding of new domestic customers have been lifted with immediate effect," the RBI said.

Mastercard, said in a statement, welcomed the decision. "As we have in our engagement with the RBI, we reaffirm our commitment to support the digital needs of India, its people and its businesses. We are glad we have met this milestone and will continue to ensure ongoing delivery against the goals and regulatory requirements that have been established" it said.

"India is an important market for us, both in terms of the innovation created here and the value we deliver to our customers and partners," it said.

India better placed to avoid stagflation risk, says RBI report

Even as stagflation risks loom over some of the major global economies, including the US, India is better placed to avoid such a risk, the Reserve Bank of India (RBI) says in its monthly 'State of the Economy' report, released.

"In the midst of this increasingly hostile external environment, India is better placed than many other countries in terms of avoiding the risks of a potential stagflation," the report says.

At least 83 per cent of fund managers surveyed by Bank of America Research this month see the global economy facing the risk of stagflation - the phenomenon of rising inflation and slowing economic growth.

But the RBI report paints an encouraging picture of economic activity gaining strength, with most gross domestic product (GDP) constituents exceeding their pre-pandemic levels. "The recovery remained broadly on track. This demonstrates the resilience of the economy in the face of multiple shocks and the innate strength of macro fundamentals as India strives to regain a sustainable high-growth trajectory," the report says.

RBI body calls for periodic review of regulations

The Regulations Review Authority (RRA 2.0), set up by the Reserve Bank of India, has recommended a periodic review of existing regulations to align them with evolving developments in industry practices and the financial landscape.

In the past, the RRA had recommended the withdrawal of 714 regulatory instructions, which have either become obsolete or redundant and have not been explicitly withdrawn.

Further, the authority has recommended the elimination of paper-based returns and has suggested a periodic review of regulatory and supervisory returns filed by the regulated entities at least once in three years to ascertain their relevance and periodicity.

It has also been recommended to shift from the current prescription of submitting data on a fortnight reporting basis to a system of reporting data on the 15th and last working day of every month.

The RRA submitted its report recently containing a set of recommendations that will supposedly reduce the burden on regulated entities (REs) by streamlining the regulatory instructions and rationalizing reporting requirements. RRA 2.0 was set up by RBI in April last year with an aim to reduce the compliance burden on REs by streamlining the regulatory instructions and rationalizing reporting requirements.

Reserve Bank cancels registrations of 5 NBFCs

The Reserve Bank has cancelled the certificate of registration issued to five Non-Banking Financial Companies (NBFCs) - UMB Securities and Anashri Finvest (both Bengaluru-based), Chadha Finance (New Delhi), Alexcy Tracon (Kolkata) and Jhuria Financial Services (Guwahati) - due to irregular lending practices.

The certificates of the above mentioned NBFCs have been cancelled on account of violation of RBI's guidelines on outsourcing and Fair Practices Code in their digital lending operations undertaken through third party apps; this was considered detrimental to public interest, said the Central bank's statement.

"These companies were also not complying with the extant regulations pertaining to charging of excessive interest and had resorted to undue harassment of customers for loan recovery purposes," RBI said.

As such, the above companies shall not transact the business of a Non-Banking Financial Institution (NBFI), as defined in clause (a) of Section 45-I of the RBI Act, 1934, according to the Central bank.

RBI doubles home loan ceiling for co-op banks

RBI has doubled the limit on home loans issued by urban cooperative banks (UCB). With this, tier-I UCBs can issue individual housing loans of up to Rs. 60 lakh while tier-II UCBs are allowed to offer loans of up to Rs. 1.4 crore, the central bank said in a master circular. The RBI had made the announcement in its June monetary policy. The revision in lending limits for UCBs was last done in 2011.

"Taking into account the increase in housing prices since the limits were last revised and considering the customer needs, it has been decided to increase the existing limits on individual housing loans by cooperative banks," the RBI had said.

The central bank has also revised the prudential lending norms for these banks. According to the circular, the RBI has reduced the exposure limits of UCBs to a group of connected borrowers to 25% of its total tier-I capital from 40% earlier. The exposure limit for a single borrower for UCBs remains at 15% of the tier-I capital. The exposure of UCBs to housing, real estate and commercial real estate loans is limited to 10% of their total assets.

UCBs cannot charge foreclosure charges or pre-payment penalties on home loans extended on a floating interest rate basis. Housing loans issued by UCBs should be repayable within a maximum period of 20 years, the circular said.

RBI asks SFBs to focus on sustainable growth

RBI has asked small finance banks (SFBs) to focus on sustainable growth and accord importance to business model and governance.

RBI Deputy Governors M. K. Jain and M. Rajeshwar Rao held discussions with managing directors (MDs) and chief executive officers (CEOs) of SFBs. Executive directors of supervision and regulation and other senior officials of the RBI also attended the meeting, the central bank said in a statement.

"In the meeting, the emphasis on according due importance to these themes for sustainable growth of SFBs, particularly their business model and governance, was reiterated after taking stock of the developments in the sector," the statement said.

SFBs were advised to continue to evolve in tune with the differentiated banking licence given to them with proportionate growth in their capital base.

Govt clears 4 names for RBI Board

The government has nominated Anand Mahindra, Venu Srinivasan, Pankaj Ramanbhai Patel and Ravindra H Dholakia as part-time non-official Directors on the Central Board of Reserve Bank of India (RBI).

As per an official statement, the Appointments Committee of the Cabinet

(ACC) approved the proposal of appointment for a period of four years from the date of notification of the appointment, or until further orders, whichever is earlier.

Dholakia was the Economics Area faculty at IIM Ahmedabad from September 1985 to April 2018 when he superannuated. He was earlier on the Monetary Policy Committee of the RBI which decides the policy rates.

Venu Srinivasan is the Chairman Emeritus of TVS Motors. He is also on the board of Tata Sons Ltd.

Patel is the Chairman of Zydus Lifesciences Ltd, as well as a former president of FICCI (2016-17).

Mahindra is the chairman of Mahindra group, which has presence across segments such as automobiles to IT, agribusiness and hospitality sectors.

5 states need to take steps to stabilise debt levels: RBI

Bihar, Kerala, Punjab, Rajasthan and West Bengal are the five highly stressed states after taking into account the warning signs flashing from all the indicators, a Reserve Bank of India (RBI) study has said.

"We can identify a core subset of highly stressed states from among the 10 states identified by the necessary condition i.e., the debt/ GSDP ratio. The highly stressed states are Bihar, Kerala, Punjab, Rajasthan and West Bengal," said the RBI study on state finances released recently.

It said Punjab is expected to remain in the worst position as its debt-GSDP ratio is projected to exceed 45 per cent in 2026-27, with further deterioration in its fiscal position. Rajasthan, Kerala and West Bengal are projected to exceed the debt-GSDP ratio of 35 per cent by 2026-27. These states will need to undertake significant corrective steps to stabilise their debt levels.

RBI extends deadline to implement card rules

The Reserve Bank of India (RBI) extended, by three months, the deadline to implement three provisions as part of new regulatory guidelines for issuing credit and debit cards to 1 October.

"Considering various representations received from the industry stakeholders, it has been decided to extend the timeline for implementation of the...provisions of the master direction to 1 October 2022," RBI said in a notification on its website.

The first provision is regarding card issuers being mandated to seek one-time password-based consent from the cardholder for activating a credit card, if not activated by the customer for more than 30 days from the date of issuance. The RBI had said that if no consent is received for activating the card, card-issuers will have to close the credit card account without any cost to the customer within seven working days from date of seeking confirmation from the customer.

The second provision stated that card-issuers will have to ensure that the credit limit as sanctioned and advised to the cardholder is not breached at any point in time without seeking explicit consent from the cardholder. The third set of regulation said that issuers shall not capitalize on unpaid charges for compounding of interest.

"The stipulated timeline for implementation of rest of the provisions of the master direction remains unchanged," RBI said. ❑

Banks' gross NPA drops below 6% in March '22

Gross non-performing assets (NPAs) of the banking sector dropped below 6 per cent as of March 2022 - the lowest since 2016 - and net NPAs fell to 1.7 per cent during the same period, indicating that the sector has remained largely unscathed from the ill-effects of the Covid-19 pandemic so far, M Rajeshwar Rao, deputy governor of the Reserve Bank of India (RBI), said.

At the same time, it would be important to assess if the improvement in the asset quality is broad based or only because of regulatory forbearance, he said. "The preliminary assessment of the health of the banking sector is encouraging," Rao said.

"The asset quality of banks has improved, and the gross NPAs and net NPAs of the banks have improved from the pre-pandemic levels. The fresh slippages have broadly been brought under control. Banks have also enhanced their provisions including provisions for restructured accounts," he added.

Industry News

EV fire due to mad rush for biz: Bajaj

An environment that promotes a "mad rush" to get into the electric vehicles (EV) business is more worrying than such two-wheelers catching fire, said Rajiv Bajaj, managing director of Bajaj Auto.

Buyers will not be put off by fires because they can figure out reliable brands, but the authorities must not dilute quality norms, Bajaj told reporters after the inauguration of a Chetak Technology' facility in Akurdi near Pune.

"What concerns me more is the environment that has promoted this mad gold rush (to get into EVs). When the flower doesn't bloom, you don't fix the flower, you fix the environment. Why is this happening in the EV world? Why are people who have no business to be in the EVs, are in the business?

"This must be fixed and understood. It's partly the incentives and partly because the relevant authorities in the government have diluted the norms," said Bajaj," referring to low-speed (up to 50kmph) vehicles that do not go through testing or validation.

Gadkari proposes setting up of innovation Bank for new ideas

Union Minister for Road Transport and Highways Nitin Gadkari has proposed setting up of Innovation Bank for new ideas, research findings and technologies to focus on 'Quality' in infrastructure development.

Virtually addressing the inaugural function of the 222nd Mid-Term Council Meeting of the Indian Roads Congress (IRC), he said new initiatives are expected from IRC, Innovation should be the focus area for all Engineers.

He said IRC should develop a World-class state-of-art laboratory with the help of IITs and global institutions in the world, according to a release by the Ministry of Road Transport and Highways.

Gadkari said infrastructure development has an important role in fulfilling the vision of Prime Minister Narendra Modi to make India a 5 trillion-dollar economy and road infrastructure is directly linked to the prosperity of that region.

He said road infrastructure connects people, culture and society and brings prosperity through socio-economic development.

FY23 direct tax mop-up rises 45% so far

Reflecting an uptick in economy, net direct tax collections between April and mid-June

jumped 45 per cent to over Rs 3.39 lakh crore, the Income Tax department said. The improved collections are mainly due to a 47% growth in TDS mop-up and a 33 per cent rise in advance tax realisation for April-June quarter.

The net direct tax collection of over Rs. 3.39 lakh crore included Corporation Tax (CIT) of over Rs 1.70 lakh crore and Personal Income Tax (PIT), including Security Transaction Tax (STT), of more than Rs 1.67 lakh crore.

"The figures of direct tax collections for the financial year 2022-23, as on June 16, 2022, show that net collections are at Rs.3,39,225 crore compared to Rs.2,33,651 crore over the corresponding period of the preceding year, representing an increase of 45 per cent over the collections of the preceding year," the Central Board of Direct Taxes (CBDT) said.

EV prices to be on par with petrol vehicles within a year

The prices of all electric vehicles (EVs) will be equal to the cost of petrol vehicles in the country within one year, Road Transport and Highways Minister Nitin Gadkari said.

Gadkari further said the government is promoting ethanol produced from crop residue instead of petrol and diesel.

"I am trying...within one year, the cost of electric vehicles will be equivalent to the cost of petrol vehicles in the country and we will save money spent on fossil fuels," he said while addressing 'TV9 What India Think Today Global Summit'.

The minister said the government is already promoting green fuels in a big way.

Gadkari noted that waterways us a cheaper mode of transportation than road and it is going to come up in a big way.

Amazon seized over 3m fake products in 2021: Report

U.S. retail and tech giant Amazon identified and seized more than three million counterfeit products in 2021, according to the company's second brand protection report, released recently.

Amazon said this included products sent to its fulfilment centres and situations where the company worked with brands and law enforcement to find and shut down counterfeiters' warehouses and facilities.

In its first brand protection report, released in May 2021 Amazon had said it detected more than two million fake products sent to its logistics centres in 2020.

More than 700,000 brands participated in the programme in 2021, compared to more than 500,000 in 2020, Amazon said.

The brands reported around a quarter fewer infringements on average, which Amazon attributed to the success of its proactive measures.

Govt's IT spend to grow 12% to $9.5 billion in 2022: Gartner

The government's spending on information and technology will grow 12.1 per cent to USD 9.5 billion in 2022, an analyst firm estimated.

The growth estimate is less than a 15 per cent jump in the government's IT (Information and Technology) spending in 2021, and higher than the 5 per cent growth estimated at the global level for 2022, a report by research firm Gartner said.

Its principal analyst Apeksha Kaushik said contrary to the global trends, all segments will experience growth in India in 2022.

The firm estimated software vertical to witness the highest growth at 27.9 per cent in 2022 to USD 2.195 billion, while the IT services vertical to grow 13.4 per cent to USD 2.40 billion.

Srei group auditor reports Rs. 3K-crore fraud in FY20, FY21

Srei Equipment Finance said its administrator has received a report from the transaction auditor about certain fraud transactions in FY20 and FY21, bearing a monetary impact of over Rs 3,025 crore on the Srei group.

The Reserve Bank had, in early October last year, superseded the boards of Srei Infrastructure Finance Limited (SIFL) and its wholly-owned subsidiary Srei Equipment Finance Limited (SEFL).

It then appointed a three-member Advisory Committee to assist the administrator of the two crisis-ridden firms. Rajneesh Sharma, ex-chief general manager, Bank of Baroda, was appointed as the administrator to look into the affairs of the Srei group companies.

The Srei group companies, which are undergoing corporate insolvency resolution process, came under duress during the Coronavirus-induced lockdown, as non-payment from its customers led to asset-liability mismatches.

India 7th top FDI recipient in '21

India jumped one position to 7th among the top recipients of foreign direct investment (FDI) in the last calendar year (2021) despite FDI inflows into the country declining, according to the United Nations Conference on Trade and Development (UNCTAD).

In its latest World Investment Report released, UNCTAD said FDI inflows into India declined to $45 billion in 2021 from $64 billion in the preceding year. While the United States ($367 billion) remained the top recipient of FDI, China ($181 billion) and Hong Kong ($141 billion) also retained second and third position respectively. Among the top 10 host economies, only India saw a decline in its inflows. However, outward FDI from India rose 43 per cent to $15.5 billion in 2021.

Nepal starts exporting surplus energy to India

In what would boost cross-border energy partnership, Nepal has started selling electricity to India through its power exchange market.

Following the rainy season, Nepal's hydel power projects produced excess power which prompted the Nepal Electricity Authority to sell surplus energy to the Indian market."We started selling 37.7MW of electricity to Indian buyers starting from 12.15 am," Suresh Bhattarai, spokesperson at the Nepal Electricity Authority (NEA) told.

According to him, electricity produced from the 24MW Trishuli and 15MW Devighat power plants was sold. The average price of electricity has been maintained at Rs 6 per unit, Kathmandu Post reported quoting Lokendra Shahi, another NEA official. The NEA earned around Rs 10 million by selling electricity.

Nepal is selling electricity to India through its exchange market for the second year in a row. NEA sold electricity from the same two projects for nearly one and a half months starting early November last year.

Railways to invest Rs. 50 cr in start-ups each year, innovators to retain their IPR

Indian Railways will invest more than Rs 50 crore annually to fund startups, Union Minister Ashwini Vaishnav said, adding that unlike other such collaborations, the intellectual property rights (IPR) for innovations will remain with the innovator.

Under the Indian Railway Innovation Policy, the railways will invest in startups to get a headstart in procuring innovations directly from them with a promise of up to Rs 1.5 crore of seed money for innovative technological solutions for the national transporter.

"The policy is not just limited to the idea. Indian Railways will follow it through to the product after proof of concept and scaling it up, doubling the grant support and finally adoption of successfully developed product/technology for regular use and even support for two to three years.

Ashwani Bhatia takes charge as Sebi whole-time member

Ashwani Bhatia took charge as a whole time member (WTM) at market regulator Securities and Exchange Board of India (SEBI). Bhatia was previously the Managing Director of State Bank of India (SBI).

"Bhatia will handle the department of debt and hybrid securities (DDHS), alternative investment fund and foreign portfolio investors department (AFD), market intermediaries regulation and supervision department (MIRSD), corporation finance investigation department (CFID) and office of investor assistance & education (OIAE)," Sebi said in a release.

After Bhatia's joining, Sebi now has three WTMs. The government is yet to appoint the fourth member. The market regulator functioned with just two WTMs for the past seven months after Sebi's current chairperson Madhabi Puri Buch's tenure as WTM ended on October 4, 2021 and G. Mahalingam demitted office on November 8, 2021.

Legal experts had said keeping key posts vacant at Sebi had strained the market development and made it challenging for the regulator to carry out key functions such as enforcement.

Tata Group most valuable Indian brand: Top UK firm

The Tata Group remains the most valuable Indian brand and its oldest company - Taj Hotels - has emerged as the strongest brand in India, according to UK-based Brand Finance (BF), which is the world's leading sectoral valuation consultancy.

Infosys is now the second most valuable Indian brand, overtaking LIC and SBI is most valuable bank brand in South Asia. BF list of top 10 most valuable Indian brands in 2022 is - Tata ($24 billion), Infosys ($13 billion), LIC ($11 billion), Reliance Industries Ltd ($8.6 billion), Airtel ($7.7 billion), SBI ($7.5 billion), HDFC Bank ($6.9 billion), Wipro ($6.4 billion) and Mahindra and HCL ($6.1 billion each).

"Tata Group (brand value up 12% to $24 billion) continues to be the most valuable brand in

India... retains top position as it led by example through the Covid-19 crisis," BF said. BF list of top 10 strongest Indian brands is: Taj, HDFC Bank, Jio, Amul, LIC, MRF, Britannia, Tanishq, Airtel and Maruti Suzuki.

Agri-tech startup bags $5 mn funding

Nutrifresh, an agri-tech startup focus-ing on hydroponically grown, residue-free and chemical-free produce, has attracted $5 million as pre-series seed funding.

The company is supplying its products to over 100-plus B2B (business to business) aggregators in the Indian market and to modern trade aggregators and delivery partners like Nature's Basket, Big Basket, Swiggy, Kissan Konnect and Zomato Hyperpure.

The funding is led by Theodore Cleary (Archer Investments), Sandiip Bhammer (managing partner - Green Frontier Capital), Sky Kurtz (CEO & co-founder of Pure Harvest UAE), Mathew Cyriac (Florintree Advisors & ex MD of Blackstone India), Soumitra Dutta (Dean elect - Said Business School, University of Oxford), Shaishav Dharia (regional CEO, Lodha Group), among others, for setting up India's largest soil-less farms.

The funding will be used to scale up farm operations, implement complete traceability and transparency of produce, marketing and creation of an integrated Farm-tech platform. The startup was co-founded by two Agripreneurs - Sanket Mehta and Ganesh Nikam.

Railways mulls 'farmer special' trains with refrigerated vans

The ministry of railways is planning to run 'Kisan Special' train in the state with refrigerated parcel vans for transporting perishable agricultural and farm produces for the benefit of farmers.

Speaking at an event, Union railway minister Ashwini Vaishnaw said: "We are seriously thinking of running refrigerated parcel van in Bengal for the benefit of farmers. For this, we will do a feasibility study before the commissioning of this train."

Some vegetable growers and fishermen while speaking to beneficiaries of various PM welfare schemes urged the minister to run 'Kisan Special' trains so that they can transport perishable produces beyond the border of Bengal without worrying about their shelf life.

"The feasibility study which will be done in two months is to understand whether fish, crabs and prawns can be transported in such parcel vans," the minister added.

Fiscal deficit improves to 6.7% in FY22 on higher tax collection

The fiscal deficit for 2021-22 worked out to be 6.71 per cent of the gross domestic product (GDP), lower than 6.9 per cent projected by the Finance Ministry in the revised Budget Estimates, according to government data released.

Unveiling the revenue-expenditure data of the Union government for 2020-21, the Controller General of Accounts (CGA) said that the fiscal deficit in the absolute terms was Rs 15,86,537 crore (provisional).

The revenue deficit at the end of 2021-22 was 4.37 per cent.

Rs. 2,000 are 'least preferred'; notes in circulation dips

RBI recently released its Annual Report 2021-22. According to the data, Rs 100 notes are the most preferred banknotes among Indians. On the other hand, Rs 2,000 notes have been consistently falling in circulation. For coins, Rs 5 coins are the most prefered coins. Whereas, Rs 1 coins are the least liked.

According to the data in the report, Rs 2,000 notes in circulation have fallen from 17.3 per cent to 13.8 per cent. Notably, the RBI has not printed any new Rs 2,000 notes since 2018-19. These notes now account for only 1.6 per cent of the total currency notes in circulation. The report also stated that Rs 500 notes are being circulated the most in the Indian economy.

'PM cares for children' benefits

Prime Minister Narendra Modi will release benefits under the PM CARES for children scheme.

"At 10:30 AM tomorrow, 30th May would be releasing benefits under the PM CARES for children scheme. Through this effort, we are supporting those who lost their parents to COVID-19," tweeted PM Modi.

Prime Minister will transfer scholarships to school going children. A passbook of PM CARES for Children, and health card under Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana will be handed over to the children during the programme, the Prime Minister's Office said.

PM CARES for Children Scheme was launched by the Prime Minister on May 29, 2021 to support children who have lost both the parents or legal guardian or adoptive parents or surviving parent to COVID-19 pandemic, during the period from March 11, 2020 to February 28, 2022.

The objective of the scheme is to ensure comprehensive care and protection of children in a sustained manner by providing them boarding and lodging, empowering them through education and scholarships, equipping them for self-sufficient existence with financial support of Rs 10 lakh on attaining 23 years of age and ensuring their wellbeing through health insurance.

An online portal by the Government was launched to register the children. The portal is a single window system which facilitates the approval process and all other assistance for children.

US crosses China to be India's biggest trading partner

The US surpassed China to become India's top trading partner in 2021-22, reflecting strengthening economic ties between the two countries.

According to the data of the Commerce Ministry, in 2021-22, the bilateral trade between the US and India stood at $119.42 billion as against $80.51 billion in 2020-21. Exports to the US increased to $76.11 billion in 2021-22 from $51.62 billion in previous fiscal year, while imports rose to $43.31 billion as compared to about $29 billion in 2020-21.

During 2021-22, India's two-way commerce with China aggregated at $115.42 billion as compared to $86.4 billion in 2020-21, the data showed.

IMD predicts well-distributed rains this year; farm sector will get boost

Sticking to its earlier forecast of 'normal' monsoon rainfall this season, the India Meteorological Department (IMD) further refined its prediction towards upper limit of the normal category with greater probability of spatially "well distributed" rains in most parts of the country, including the critical 'core monsoon zone' consisting of the rainfed agricultural regions.

The "well distributed" rainfall will boost the upcoming sowing operations across India and give much needed spurt to farm sector growth and to the overall economy. If the forecast holds out, it will be the fourth consecutive year of normal/above normal monsoon rainfall. The last such four consecutive years of normal/above normal monsoon were recorded during 2010-13 and 2005-08.

For farming operations, fairly well-distributed rainfall across regions during the entire monsoon period (June-September) is more important than quantitatively higher rainfall for a limited period. This time, however, both parameters augur well for the farm sector.

Govt amends norms for appointment of company directors

The government has put in place stricter norms for appointment of individuals from certain countries, including China, as directors on the boards of Indian companies, by making security clearance mandatory for such individuals.

In recent, the corporate affairs ministry has made various amendments to rules in terms of applicability for companies and individuals from countries that share land borders with India.

Putting in place a stricter framework, the ministry has now mandated security clearance for individuals from countries sharing land borders with India to be appointed as directors on the boards of Indian companies.

Amendments have been made in rules pertaining to appointment and qualification of directors under the Companies Act, 2013.

"In case the person seeking appointment is a national of a country which shares a land border with India, necessary security clearance from the Ministry of Home Affairs, Government of India shall also be attached along with the consent," the notification, dated June 1, said.

Besides, for such persons, the application number will not be generated when they apply for the Director Identification Number (DIN) unless the application is submitted along with necessary security clearance from the home ministry, as per the notification.

Bank branches in GIFT-IFSC allowed to act as professional clearing members of bullion bourses

The Reserve Bank of India has allowed branches of Indian banks operating in Gujarat International Finance Tech-City-International Financial Services Centre to act as professional clearing member of India International Bullion Exchange IFSC Ltd.

"The instructions are applicable to domestic scheduled commercial banks (including foreign banks operating through a wholly owned subsidiary incorporated in India), which are authorised to deal in foreign exchange and have a branch in GIFT-IFSC," the central bank said in a release recently.

According to the notification, the bank will ensure adherence to guidelines on capital requirements and management of liquidity risk for their exposures arising from its branch in GIFT-IFSC function as clearing member.

Govt mulls raising ceiling for credit under Agriculture Infrastructure Fund

The Centre is planning to increase the ceiling on credit under Agriculture Infrastructure Fund (AIF) from current Rs. 2 crore after finding that those who are genuinely interested to set up or expand units are not getting sufficient credit at the subsidised interest rates.

At a stakeholders' meet on AIF, many entrepreneurs had complained that the current credit limit is too low and insufficient to raise warehousing capacity, said Samuel Praveen Kumar, a joint secretary in Union Agriculture Ministry. "We are trying how best it can be enhanced," he said addressing an event on agri-warehousing, organised by NCDEX.

He also said as many as 70 per cent of the applications under AIF scheme is for dry storage, whereas there is equally a need for expanding the capacity under cold storage.

Loyalty points on credit card, wallet money not to attract TDS

Loyalty/rewards points earned on a credit card and online credit which expire may not attract new Tax Deducted at Source (TDS) norms coming into effect from next month. However, it will be applicable if these are earned through business or profession.

According to the Reserve Bank of India, as on April 30, the credit cards issued in India are at 7.51 crore, while that of mobile wallets is over 247 crore.

The Finance Act 2022 inserted a new section 194R in the Income-tax Act, 1961, with effect from July 1. The new section mandates a person responsible for providing any benefit or perquisite to a resident, to deduct a tax at source @10 per cent of the value or aggregate of such benefit or perquisite, before providing such benefit or perquisite.

The benefit or perquisite may not be convertible into money, but should arise either from carrying out business or from exercising a profession, by such resident. However, the new norm will apply only when the value exceeds Rs. 20,000 in a year.

Freebies to doctors, social media influencers liable for TDS

Doctors and social media influencers are among those who will be subject to a new rule which mandates a 10% tax deducted at source (TDS) on freebies they receive from businesses for sales promotion.

A set of guidelines from the Central Board of Direct Taxes (CBDT) explains the circumstances in which the new tax deducted at source (TDS) provision which kicks-in from 1 July will apply. The provision was introduced in the Finance Act of 2022 to widen the tax base and to ensure that those who benefit from such sales promotion expenditure by businesses report it in their tax returns and pay tax on what the benefit is worth.

Social media influencers will liable to pay TDS if the equipment given for them as part of marketing efforts by a company is retained by the person. TDS will not apply if it is returned to the company, CBDT said.

Virtual digital assets: Norms laid out for tax deduction onus

Issuing detailed guidelines on the TDS rule for virtual digital assets (VDAs) such as cryptocurrencies, the Central Board of Direct Taxes (CBDT) laid down the various scenarios on how the tax will be applicable and on whom will the onus to deduct it lie.

With introduction of Section 194S in the Income-tax Act through the Finance Act, 2022, a tax deducted at source (TDS) of 1 per cent will be levied on transfer of VDAs effective July 1 if the value of transactions exceeds Rs 10,000 in a year.

The CBDT has, in the guidelines, defined the responsibilities of deducting the tax in various cases. For example, in case the transfer of VDA takes place on or through an exchange, and the VDA being transferred is not owned by the exchange, tax may be deducted by the exchange making the payment to the seller.

However, in case the payment between the seller and the exchange is being done through a broker, the responsibility to deduct tax shall be on both the exchange and the broker. ❑

Mutual Fund News

Sebi extends deadline for commencing KYC record validation by KRAs

Sebi has extended the deadline by one month to August 1 for commencing the validation of all KYC records by KYC Registration Agencies (KRAs).

Earlier, such agencies were required to independently validate the KYC records of all clients from July 1.

Sebi has received requests from the KRAs to extend the timelines."After consideration, it has been decided that the validation of all KYC records (new and existing) shall commence from August 1, 2022," Sebi said in a circular.

Further, KYC records of all existing clients who have used Aadhaar as an Officially Valid Document (OVD) will be validated within 180 days from August 1. Earlier, the deadline was July 1.

The regulator, in January, notified new norms to make KRAs responsible for carrying out independent validation of the KYC records uploaded onto their system by Registered Intermediaries (RIs).

Under the notified rules, such agencies will have to maintain an audit trail of the upload/modification/download with respect to KYC records of clients.

AMCs prepare to launch new mutual fund schemes from next month as Sebi restriction ending soon

AMC's are gearing up to launch new mutual fund schemes from the next month as capital markets regulator Sebi's three-month ban on the introduction of new fund offerings nears its end.

Moreover, Asset Management Companies (AMCs) have a line-up of passive funds on the fixed income and equity side as well as selective launches in certain categories to fill product gaps.

Sebi had discontinued the launch of NFOs until the new systems concerning pool accounts were determined and the regulator had set July 1 as the deadline for the implementation of the new system.

So far this month, at least six AMCs -- including PGIM India Mutual Fund (MF), Sundaram MF, Baroda BNP Paribas MF, LIC MF and Franklin India MF -- have filed offer documents with Sebi seeking its approval to launch new schemes.

Apart from these, draft papers were submitted with the regulator for 15 schemes during April-May by a dozen fund houses.

"It seems the NFO launch season is going to be back starting next quarter. For two quarters, the bandwidth of AMCs got consumed in making the relevant changes in the movement of customers' money as Sebi directed them to discontinue the use of pool accounts. Further, at the same time, markets also became very volatile," Swapnil Bhaskar, Head of Strategy, Niyo - neo-banking platform for millennials, said.

Going forward, some AMCs will start launching new fund offerings (NFOs) as new processes are in place and they are seeing value in the market due to the correction, he added.

Sacked Axis MF fund manager Viresh Joshi sues asset management company

Viresh Joshi has sued Axis Mutual Fund, seeking Rs 54 crore in damages, for wrongful termination, according to news reports.

Viresh Joshi, the sacked chief trader and fund manager of Axis Mutual Fund, submitted a legal notice to his former employer, claiming that his termination from the business was "wrongful" and "illegal".

On May 18, Joshi and assistant fund

manager Deepak Agrawal were asked to leave the fund house due to allegations of front-running and broker payments.

Joshi, who has almost 20 years of experience in the capital market, had been a part of Axis AMC since 2009. He has held positions at ICICI Securities and BNP Paribas Securities before joining Axis AMC.

Joshi's employment with Axis MFwas terminated following an investigation by a forensic auditor, appointed by the AMC. The probe was conducted to ascertain whether the executives were involved in front-running, got kickbacks and executed trades that were disadvantageous to the schemes.

Mutual funds can again accept money in international schemes

Sebi has allowed mutual funds to accept fresh money in international schemes to the extent of the overall industry limit of $7 billion. In a letter to industry body Association of Mutual Funds of India (AMFI), the capital markets regulator said asset managers may resume subscriptions and make investments in overseas funds or securities 'up to the headroom available without breaching the overseas investment utilization limit'.

Some mutual funds may however not accept investor flows in these products due to lack of clarity over the limits available.

While there is no estimate of the redemptions in international schemes, mutual fund officials and distributors speculate the headroom to accept fresh flows could be low. This is because international schemes did not witness sharp outflows amid the correction.

"We estimate that the total headroom for the industry will be just 2-3% of the $7 billion limit," said the CEO of a domestic fund house. This means the industry will be able to add just 800-1200 crore of international assets.

Mutual funds unlikely to get a raise in overseas investment cap

Indian regulators are unlikely to permit any increase in the limit on mutual fund investments in overseas assets, in part because it could further pressure the rupee which is already at historic lows, said two people familiar with the matter.

There is a cap of $7 billion on total investments by Indian mutual fund schemes in foreign funds which actually hold the assets. There is a separate limit of $1 billion for local funds that invest in foreign exchange-traded funds (ETFs). A collapse in the value of some of those schemes has led to a demand for higher limits to help investors bring down their average investment cost.

"While Sebi has been in favour of an increase in the limit to help mutual funds to garner more funds, the central bank is reluctant to raise the limit," said one of the people.

Fund houses put extra checks in place to curb insider trading

A leading mutual fund has asked top executives to stop using encrypted messaging platforms such as WhatsApp on their work phones. Some brokerages are installing monitoring applications on the terminals and phones of key employees, while another firm wants to track investments by family members of staff. These are some of the actions that various domestic asset management companies and broking firms are taking or considering in the wake of front-running and insider-trading cases surfacing in recent times. Many of these financial services firms are looking to add such conditions to employee contracts, despite grumbling that this would infringe privacy.

The increased surveillance is to monitor who the employees are in touch with during work hours, to track any leaks of price-sensitive information. Such tools would serve as a deterrent against unethical practices, said market participants.

Some finance firms are employing analytical tools to look for patterns in all the data recorded, akin to how the market regulator and stock exchanges keep tabs on insider trading. In the past few months, at least three cases involving insider trading have come under regulatory scrutiny, said people with direct knowledge of the matter. In such instances, the institution itself could be exposed to regulatory action.

Kotak MF files for Nifty Smallcap 50 Index Fund

Kotak MF filed draft documents with the securities market regulator, SEBI for launching a Nifty Smallcap 50 Index Fund.

Going by the draft scheme information document or SID, the scheme has been labelled 'very high risk' on the Riskometer. The scheme will be benchmarked to the Nifty Smallcap 50 Total Return Index and will allocate 95-100% of its assets to the constituents of the Nifty Smallcap 50 Index and up to 5% to debt and money market instruments.

The Nifty Smallcap 50 Index captures the movement of the small cap segment of the market and was launched on April 1, 2016. It represents the top 50 companies selected based on the average daily turnover from the top 100 companies selected based on full market capitalisation in the Nifty Smallcap 250 Index. The index represented about 2% of the free float market capitalization of the stocks listed on the NSE as on March 29, 2019.

As of May 31, 2022, the top five sectors represented in the index were financial services (34% weight), information technology (17%), chemicals 9%), telecommunications (6%) and consumer durables (5%). Going by stock weights, the top holdings were Central Depository Services India (5%), KPIT Technologies (4%), PVR (3.9%), Computer Age Management Services (3.7%) and Multi Commodity Exchange of India (3.4%). The Nifty Smallcap 50 TRI has returned 9.9% since its inception. Over the last one year, the index has returned -8.3%.

MFs resume fresh investments in overseas funds

Many mutual funds have started accepting fresh inflows into their overseas funds, after suspending them for almost five months. In February 2020, asset management companies (AMCs) investing in overseas securities were advised to stop subscriptions to avoid the breach of industry-wide overseas limits of $7 billion.

Market regulator Sebi has now allowed mutual funds (MFs), with a rider, to resume subscriptions for international funds and invest in foreign securities.

The total foreign investment by the fund house shall remain capped at the investment made as of 1 February. It implies that any limit available due to redemptions in the past few months can be used by the AMCs for fresh inflows. (Fund-of-funds investing in overseas ETFs have a separate $1 billion limit which has not yet been breached.)

For example, say, a fund house invested Rs. 100 crore (purchase cost, not the market value) abroad, as of February 2022, and thereafter sold some securities due to redemptions by investors. The new regulation says that the fund house can now accept inflows until it reaches the Rs. 100 crore limit again.

Nippon India Mutual Fund stops inflows in five international funds

A month after resuming inflows into its international funds, Nippon India Mutual Fund has decided to stop fresh investments in the schemes. The fund house has suspended lumpsum subscription, switch-ins and fresh registration of SIP/STP under the five schemes that invest in international stocks. The move is to protect the breach of the available overseas investment limit put by the Securities and Exchange Board of India.

On June 22, Nippon India Mutual Fund had announced opening up of its schemes – Nippon India US Equity Opportunities Fund, Nippon India Japan Equity Fund, Nippon India Taiwan Equity Fund, Nippon India Multi Asset Fund and Nippon India ETF Hang Seng BeES- after SEBI allowed fund houses to invest in overseas stocks to the extent they have sold since February 1, 2022.

"Post the resumption of the subscription in certain NIMF schemes investing in overseas securities, there has been substantial utilization of available overseas investment limit. Therefore, with a view to avoid breach of the overseas investment limit as of EOD of February 1, 2022, we propose to suspend lumpsum subscription, switch-ins and fresh registration of SIP/STP or such other special product under the following NIMF schemes, w.e.f June 29, 2022," the AMC said in a notice.

Analysts expect many fund houses to follow suit because the actual limit of investing in international stocks hasn't been increased by Sebi. There is an overall industry level limit of $7 billion for mutual funds to invest in overseas securities and an individual limit of $1 billion for each scheme. This limit was breached on February 1st, this year.

Later, Sebi had allowed mutual funds to invest in accordance with the outflows from the international funds. However, the new limit has been depleted within a month for Nippon India MF. ❑

Banks stare at huge MTM losses as yields rise

Banks are staring at significant mark-to-market losses in April-June quarter as some of them approached the Reserve Bank of India seeking a one-off relaxation following rises in bond yields.

Banks are seeking to spread the losses over four quarters instead of the June quarter alone. Lenders with IFR provisions are much better placed for the June-quarter earnings. During the three-month period, the benchmark bond yields surged as much as 76 basis points to a high of 7.60% on June 13. When yields rise, prices fall.

Co-Operative Bank News

RBI relaxing Coop bank lending norms to give a boost to Centre's affordable housing plan

Union Cooperation minister Amit Shah said the RBI's decision to relax norms for cooperative banks for home loans will provide a momentum to the government's goal of providing affordable housing for people.

Referring to the RBI decision to allow Rural Cooperative Banks (RCBs) to lend to the commercial real estate and residential housing sector, the minister said: "With this decision, the scope of our rural cooperative banks will increase. Along with this, the resolution of giving affordable houses to people will also get momentum".

Among other key decisions, the RBI has doubled the limit of individual housing loans for urban cooperative banks and more than doubled for rural cooperative banks. The individual housing loan limit for tier-I urban cooperative banks (UCBs) has been increased from 30 lakh to 60 lakh, for tier-2 UCBs from 70 lakh to 1.40 crore and RCBs limit has been increased from 20 lakh and 30 lakh to 50 lakh and 75 lakh, respectively, he said.

The minister said, the RBI has allowed urban cooperative banks to provide doorstep banking facilities to customers. "With this decision, cooperative banks will get a level playing field in the competitive banking sector and they will be able to provide door-to-door banking facilities to customers like other banks," he added.

Co-operative Banks permitted more activities at par with commercial banks

Co-operative banks will be eligible for more services at par with commercial banks. Besides, enhancing limits on housing loans, they will be allowed to lend to commercial real estate. Besides, urban cooperative banks will also be allowed to offer door-step banking services to their customers.

"Taking into account the increase in housing prices, it has been decided to increase the existing limits on individual housing loans by cooperative banks" the Reserve Bank said in its statement on regulatory and developmental policies.

Also, considering the growing need for affordable housing and to realise their potential in providing credit facilities to the housing sector, the RBI has to allow State cooperative banks and district cooperative banks to extend finance to commercial real estate - residential housing within the existing aggregate housing finance limit of 5 percent of their total assets.

Home loan limit doubles for individual borrowers in co-operative banks

RBI has increased the upper limit of home loan amount by at least 100% for the individual borrowers of Primary (Urban) Cooperative Banks (UCBs) and Rural Cooperative Banks (RCBs - State Cooperative Banks and District Central Cooperative Banks).

The revision of these limits has happened after a gap of 11 years as these were last revised for UCBs in 2011 and for RCBs in 2009. According to the announcement made by RBI, for Tier-I UCBs the previous limit was Rs 30 lakh which has now been revised to Rs 60 lakh. Similarly, for Tier-II UCBs the limit has been increased from Rs 70 lakh to Rs 1.4 crore.

"This is a welcome move considering that limits were last revised almost a decade ago and with the increase in housing and real estate prices, increasing the limit was needed. This would give some uplift to the affordable housing segment," says Aarti Khanna, Founder and CEO Askcred.com.

The increase in limits is even higher increase for RCBs. For rural co-operative banks, the limit has been increased from Rs 20 lakh to Rs 50 lakh for RCBs with assessed net worth less than Rs 100 crore; and from Rs 30 lakh to Rs 75 lakh for other RCBs. RBI will issue a detailed circular separately.

"Taking into account the increase in housing prices since the limits were last revised and considering the customer needs, it has been decided to increase the existing limits on individual housing loans by cooperative banks," said the statement from RBI.

Saraswat Bank now has two MDs to manage Business and Operations

Introducing a new kind of organisational structure in the urban co-operative banking sector, Saraswat Co-operative Bank has created two Managing Director (MD) positions following the retirement of Smita Sandhane as MD on March 31, 2022.

India's biggest urban co-operative bank, which reported about 7 per cent year-on-year growth in total business (deposits plus advances) at Rs. 71,573 crore in FY22, now has an MD spearheading Operations (Arti A Patil) and another in charge of Business (Abhijit V Prabhu).

"...In line with the prevailing RBI (Reserve Bank of India) norms, the Bank approached RBI four months prior to the expiry of the (five-year) term of office of the then MD, for appointment of new Managing Director.

"To enable focused attention to aspects of Business and Operations, a need was felt to appoint two Managing Directors for looking after these verticals," Saraswat Bank said in its annual report.

The appointment of Patil and Prabhu as MDs is with effect from April 1, 2022. Patil and Prabhu were Chief General Managers, heading the Bank's Treasury and Retail Banking verticals, respectively, prior to their elevation as MDs.

RBI asks UCBs to make higher provisions for inter-bank exposures

The Reserve Bank issued fresh provisioning norms for urban cooperative banks' inter-bank exposure as well as valuation of their perpetual non-cumulative preference shares and equity warrants, directing them to continue making provisions to the tune of 20% for such exposures.

The banking regulator came up with these rules in the wake of the bankruptcy of the corruption-ridden Punjab & Maharashtra Cooperative Bank (PMC) in September 2019 and the subsequent merger of the cooperative bank with Unity Small Finance Bank, which came into effect from January 25, 2022.

Earlier, similar directions were issued after the board of the largest cooperative bank was superseded by the RBI and the subsequent circulars on these matters issued on April 20, 2020 and on January 25, 2022.

"UCBs shall continue to make provisions on inter-bank exposures arising from outstanding uninsured deposits, as under the April 20, 2020 circular until the actual allotment of PNCPS (Perpetual Non-Cumulative Preference Shares)/equity warrants," the RBI said.

It also said the new norms are applicable for all Urban Cooperative Banks (UCBs) and are in force with immediate effect.

The RBI said the new circular has been warranted by the fact that UCBs have met the conditions already laid out. ❑

Indians' funds in Swiss banks jump 50% to over Rs.30K crore

Funds parked by Indian individuals and firms in Swiss banks, including through India-based branches and other financial institutions, jumped to a 14-year-high of 3.83 billion Swiss francs (over Rs 30,500 crore) in 2021 on a sharp surge in holdings via securities and similar instruments while customer deposits rose as well, annual data from Switzerland's central bank showed. The rise in aggregate funds of Indian clients with Swiss banks, from 2.55 billion Swiss francs (Rs 20,700 crore) at the end of 2020, marks the second consecutive year of increase.

Besides, the money held in Indian customers' savings or deposit accounts rose to a seven-year high of about Rs 4,800 crore, reversing a two-year declining trend. The total amount of CHF 3,831.91 million, described by the SNB as 'total liabilities' of Swiss banks or 'amounts due to' their Indian clients at the end of 2021, included CHF 602.03 million in customer deposits (up from CHF 504 million at 2020-end), CHF 1,225 million held via other banks (up from CHF 383 million), and CHF 3 million through fiduciaries or trusts (up from CHF 2 million). The highest component of CHF 2,002 million (up from CHF 1,665 million) was 'other amounts due to customers' in form of bonds, securities and various other financial instruments.

Legal News

GST officials can't force recovery during searches

Tax authorities will now face action if a taxpayer makes voluntary payment of tax during a search. In a move aimed at curbing instances of use of force or coercion, the Central Board of Indirect Taxes and Customs (CBIC) has directed its field formations that recovery of tax dues should be made following the due legal process after issuance of adjudication order and not during searches.

The move comes in the backdrop of complaints of use of force and coercion by tax authorities for making 'recovery' during the course of search or inspection.

"In case of any wrongdoing on the part of any tax officers, strict disciplinary action as per law may be taken against the defaulting officers," the CBIC said in an internal department note addressed to principal commissioners/ commissioners of Central GST (all zones), the commissioner, GST Investigation, issued late evening on May 25.

It added that in case, any complaint is received from a taxpayer regarding use of force or coercion by any of their officers for getting the amount deposited during search or inspection or investigation, it has to be enquired at the earliest.

As per the law no recovery can be made unless the amount becomes payable in pursuance of an order passed by the adjudicating authority.

Ruling authority for direct tax cases on cards

The revenue department is considering the setting up of a ruling authority like the Advance Pricing Agreement (APA) or Dispute Resolution Panel (DRP) to ascertain tax liabilities and settle tax disputes. This will allow the Income-Tax Department and taxpayers to sit together and resolve disputes, and agree on the tax to be paid.

The direct tax claims locked in litigation are about Rs 5 trillion. The concept is part of the minutes of the meeting circulated internally last month, when the revenue department discussed measures and the road map in line with its vision 2047.

Which are being prepared following the annual conference attended by officials of the finance ministry and Central Board of Direct Taxes, and senior revenue officers.

At present, APA deals with transfer-pricing cases that determine tax liabilities in advance to avoid any dispute. The DRP is an alternative mechanism that deals mainly with international taxation cases.

Experts say various Authorities for Advance Ruling (AARs) take up issues from a technical standpoint and do not cover wider matters of income tax. Also AAR decisions have not helped in containing litigation because most of the matters go for appeal.

"Such a process of optional and non-binding mediation can be helpful in eliminating tax disputes, particularly those relating to transfer pricing and other matters as well," said Akhilesh Ranjan, advisor on tax policy at PwC and former member of the CBDT. ❑

Dr. Bhagwat Karad, Hon'ble Minister of State for Finance participates in Customer Connect & Outreach Program organised by Bank of Maharashtra

Bank of Maharashtra, a premiere public sector bank in the country, organised a customer connect and outreach program, at New Maharashtra Sadan, New Delhi on 6th June 2022 during the Iconic week celebrations as part of the 'Azadi Ka Amrit Mahotsav'. Dr. Bhagwat Karad, Hon'ble Minister of State for Finance, was the chief guest for the event. Shri Asheesh Pandey, Executive Director, Bank of Maharashtra, presided over the program. Smt. Chitra Datar, General Manager & Zonal Head, Delhi Zone; Shri Rajeev Kumar, Deputy Zonal Manager and other staff members were present in the event.

Dr. Bhagwat Karad, Hon'ble Minister of State for Finance, while addressing the event congratulated Bank of Maharashtra for the efforts taken in facilitating various Govt. schemes to customers. Dr. Karad appreciated Bank's staff members for Bank's Top performance in terms of Business growth among PSBs and also for catering various flagship programs of Govt. of India proactively.

Shri Asheesh Pandey, Executive Director said "We envisage connecting to more and more customers while generating awareness about Govt. of India schemes with perfectly tailored products of Bank for them, which will make them self-reliant." Shri Pandey further opined, we are receiving highly encouraging response from these events and this is also adding fillip to our customer journey and business mobilisation.

Sanction letters of around Rs. 75 crore were distributed at the hands of Dr. Bhagwat Karad, Hon'ble Minister of State for Finance and Shri Asheesh Pandey, Executive Director, Bank of Maharashtra to more than 40 beneficiaries at the event. Moreover, Customer Outreach programs organised at various branches across Delhi Zone, more than 135 loan proposals of Rs. 275 crore were mobilized.

Shri Asheesh Pandey, Executive Director of the Bank conducted customer connect and outreach programs all across the country to connect more and more customers. Some of the recently held programs were at Pune, Bengaluru, Satara, Kolhapur, Ahmedabad, Jaipur, Jabalpur, Navi Mumbai etc.

The welcome address at the event was delivered by Smt. Chitra Datar, General Manager and Zonal Head, Delhi Zone, while the vote of thanks was proposed by Shri Rajeev Kumar, Deputy Zonal Manager, Bank of Maharashtra, Delhi Zone.

The Bank now has 170 Gold Loan Desks in the state

HDFC Bank, India's No 1 Private Sector bank, today announced that it has added 51 Gold Loan desks to its branch network in Uttar Pradesh. With the addition of 51 new Gold Loan desks, 170 bank branches in the state will now be able to offer Gold Loan.

The Bank is working towards making all its branches in the state capable of processing Gold Loans in the ongoing financial year. This facility will allow people to make the most of their idle gold with minimal documentation and transparency in charges. Gold Loans are available with flexible tenure and repayment options – tenures starting from 3 months and going up to 36 months.

Gold Loan applicants include a varied segment ranging from both salaried as well as self-employed categories. People exploring quick loans for a short duration with minimal documentation will benefit from this facility.

ICICI Bank launches 'Campus Power', a digital platform for the student ecosystem

ICICI Bank today announced the launch of a digital platform to address the needs of the students aspiring to pursue higher education in India and abroad. Called 'Campus Power', the one-stop platform caters to varied needs of the entire student ecosystem comprising students, parents and institutes. It offers both banking and value-added solutions at one place, eliminating the need for the student ecosystem to contact with multiple stakeholders. It is available for anyone including customers of other banks.

A first-of-its kind initiative, 'Campus Power' assists users to explore financial products matching their needs ranging from bank accounts including overseas accounts, education loan and its tax benefit, foreign exchange solutions, payment solutions, cards, other loans and investments. Further, the platform provides information regarding a host of value-added services related to higher studies in India and foreign countries including Canada, UK, Germany, USA and Australia. The empanelled partners provide the value-added services on courses/ universities, destinations, admission counselling, test preparation, overseas accommodation and travel assistance.

Speaking on the launch, Mr. Sudipta Roy, Head – Unsecured Asset, ICICI Bank said, "We at ICICI Bank, believe in customer centricity and constantly try to enhance our offerings with the evolving market expectations. We have observed the education lifecycle in depth to understand diverse needs of students in various stages of their life. We have found out from our research that students, their parents and institutions grapple with the challenge of interacting with multiple stakeholders to resolve issues related to their higher studies. This assumes importance with increasing number of students opting for higher studies in India and abroad. Hence, we have decided to launch 'Campus Power' to bring all education related services under one umbrella.

We are launching 'Campus Power' just before the start of the fall season abroad and beginning of the next academic year in India. This initiative caters to the student ecosystem by providing them with digital, personalised and comprehensive solutions. We believe that the benefits of our products and services should be available to all students and their parents, irrespective of whether they are ICICI Bank customers or not. With this launch, we wish to provide a holistic experience to the students and their parents and assist them in fulfilling their dreams."

In order to complement the digital efforts, ICICI Bank is setting up branches dedicated to the student ecosystem. The first branch has been set up at IIT Kanpur and seven more will be added in the campus of top premier institutes across the country. These full-service branches house multi-functional teams with rich expertise to cater to the entire student ecosystem efficiently.

Axis Bank and Indian Oil launch co-branded RuPay Contactless credit card

Axis Bank and Indian Oil Corporation Limited (IOCL) in partnership with National Payments Corporation of India (NPCI), have announced the launch of a co-branded contactless INDIANOIL AXIS BANK RuPay Credit Card. Apart from a surcharge waiver at fuel outlets and cashback on fuel spends, the credit card comes with a host of other benefits on everyday transactions through accelerated reward points, instant discount on movie tickets, and dining delights at partner restaurants.

As an onboarding gift, users of this card will be entitled to 100% cashback up to INR 250 on all fuel spends within the first 30 days of issuing of the card. It will also provide a surcharge waiver of 1% on fuel spends between INR 200 to INR 5000 and reward points worth 4% for every INR 100 spent on fuel at IndianOil fuel outlets.

INDIANOIL AXIS BANK RuPay Credit Card users will also get a 10% instant discount for movie tickets booked via BookMyShow website or app, 20% discount at partner restaurants, reward points worth 1% for every INR 100 spent on online shopping, groceries, utility payments, and 1 reward point for every INR 100 spent on all other expenses. There is also an additional feature of an annual fee waiver if the cardholder spends over INR 50,000 in a year. The card also offers customers loyalty points in the form of 1 EDGE REWARD point on every INR 100 spent with the card.

DEVELOPMENT BANKS: AN OVERVIEW

Development banks are the financial institutions that provide long-term credit for capital-intensive investments spread over a long period and yielding low rates of return, such as infrastructure projects, mining, heavy industry and irrigation systems. Development Banks are the financial institutions that provide funds and financial assistance to new and upcoming business enterprises. Development banks like IDBI, SIDBI, and IFCI etc. were setup to meet long term capital requirements of the industry. They help in accelerating industrial and economic growth.

These are the financial institutions concerned with providing all types of financial assistance (medium as well as long-term) to business units, in the form of loans, underwriting, investment and guarantee operations, and promotional activities, economic development in general, and industrial development, in particular. In short, a development bank is a development-oriented bank.

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In our country development banks were started with the objective of increasing the pace of industrialization. To help all round industrialization development banks were made multipurpose institutions. Besides financing, they were assigned promotional work also. The traditional financial institutions could not take up this challenge because of their limitations.

An outstanding financial development of the post-independence period has been the rapid growth of development banks in the country. These banks are specialized financial institutions which perform the twin functions of providing medium and long-term finance to private entrepreneurs and of performing various promotional roles conducive to economic development. As the name clearly suggests, they are development-oriented banks. As banks, they provide finance. But they are unlike ordinary commercial banks.

The financial assistance to industry is given in the following four main forms:

- Term loans and advances,
- Subscription to shares and debentures,
- Underwriting of new issues, and
- Guarantees for term loans and deferred payments.

At present, at the all-India level, there are five industrial development banks:

- The development banks for the industry are the Industrial Development Bank of India (IDBI),
- the Industrial Finance Corporation of India (IFCI),
- the Industrial Credit and Investment Corporation of India (ICICI),
- and the Industrial Reconstruction Corporation of India (IRCI) for large industries
- and the National Small Industries Development Bank of India (SIDBI) for small-scale industries.

one agricultural development bank

- National Bank for Agriculture and Rural Development (NABARD).

and one export-import bank.

- Export-Import Bank of India (EXIM)

Features of Development Banks

Unlike commercial banks, the development banks do not accept deposits from the public, or they are not just a term-lending institution. They are essentially development-oriented banks. Their primary objective is to promote economic development by promoting investment and entrepreneurial activity in a developing economy. They encourage new and small entrepreneurs and seek balanced regional growth. Development banks provide financial assistance not only to the private sector but also to the public sector undertakings. They do not compete with the normal channels of finance, i.e. the finance already made available by the banks and other financial institutions. Here the major role is of a gap-filler, i.e. to fill up the deficiencies of the existing financial facilities available in the system. The motive is to serve the public interest rather than to make profits. They work in the general interest of the nation. Development bank is a multi-purpose financial institution.

Objectives of Development Banks:

The main objectives of the development banks are:

- To promote industrial growth in the country.
- They promote and develop small-scale industries (SSI) in India.
- To facilitate the development of large-scale industries (LSI) in India.
- To help in the development of the agricultural sector and rural India.
- To finance the development of the housing sector in India.
- To enhance the foreign trade of India.
- To improve the capital market in the country.
- To create more employment opportunities in the society.
- To generate more exports and encourage import substitution.
- To encourage modernization and improvement in technology.
- To promote more self-employment projects.
- To improve the management of large industries by providing training.
- To remove regional disparities or regional imbalance.
- They promote science and technology in new areas by providing risk capital
- They help to revive the sick industrial units.
- To encourage the development of Indian entrepreneurs.
- To promote economic activities in backward regions of the country.

Functions of Development Banks

The functions of development banks depend upon the requirements of the economy and the state of development of the country. They have become well-recognized segments of the financial market. They are playing an important role in the promotion of industries in developing under-developed countries.

Small Scale Industries (SSI):

Development banks play an important role in the promotion and development of the small scale sector. The Government of India (GOI) started the Small Industries Development Bank of India (SIDBI) to provide medium and long-term loans to Small Scale Industries (SSI) units. SIDBI provides direct project finance and equipment finance to SSI units. It also refinances banks and financial institutions that provide seed capital, equipment finance, etc., to SSI units.

Large Scale Industries (LSI):

The development bank promotes and develops large-scale industries (LSI). Development financial institutions like IDBI, IFCI, etc., provide medium and long term finance to the corporate sector. They provide merchant banking services, such as preparing project reports, doing feasibility studies, advising on the location of a project and so on. It promotes and develops housing and financial institutions. It refinances banks and financial institutions that provide credit to the housing sector.

Review of Sick Units:

Development banks help to revive sick-units. The government of India (GOI) started the Industrial Investment Bank of India (IIBI) to help sick units. IIBI is the main credit and reconstruction institution for a revival of sick units. It facilitates modernization, restructuring, and diversification of sick-units by providing credit and other services.

Entrepreneurship Development:

Many development banks facilitate entrepreneurship development. NABARD, State Industrial Development Banks, and State Finance Corporations provide training to entrepreneurs in developing leadership and business management skills. They conduct seminars and workshops for the benefit of entrepreneurs.

Development of Housing Sector:

Development banks provide finance for the development of the housing sector. GOI started the National Housing Bank (NHB) in 1988. NHB promotes the housing sector in the following ways:

- It promotes and develops housing and financial institutions.
- It refinances banks and financial institutions that provide credit to the housing sector.

Agriculture and Rural Development:

Development banks like the National Bank for Agriculture &Rural Development (NABARD) help in the development of agriculture. NABARD started in 1982 to provide refinance to banks, which provides credit to the agriculture sector and also for rural development activities. It coordinates the working of all financial institutions that provide credit to agriculture and rural development. It also provides training to agricultural banks and helps to conduct agricultural research.

Enhance Foreign Trade:

Development banks help to promote foreign trade. The government of India started the Export-Import Bank of India (EXIM Bank) in 1982 to provide medium and long-term loans to exporters and importers from India. It provides Overseas Buyers Credit to buy Indian capital goods. Also, encourages abroad banks to provide finance to the buyers in their country to buy capital goods from India. Development banks help to promote foreign trade by providing medium and long-term loans to exporters and importers from India. Development banks would encourage exports which are must to achieve the target.

Regional Development:

The development bank facilitates rural and regional development. They provide finance for starting companies in backward areas. Also, they help companies in project management in such less-developed areas.

Contribution to Capital Markets:

The development bank contributes to the growth of capital markets. They invest in equity shares and debentures of

various companies listed in India. Also, invest in mutual funds and facilitate the growth of capital markets in India.

Financial Gap Fillers

Development banks not only provide medium-term and long-term loans but they also help industrial enterprises in many other ways. It is not possible for the commercial banks to fulfill all financial needs of all the customers. Issue of Non-performing assets, absence of organized capital market, absence of adequate facilities for financing industries arise the problem of slow development. Such development banks fulfill this credit gap. They provide long-term funds for industries and help in growth.

Undertake Entrepreneurial Role:

Developing countries lack entrepreneurs who can take up the job of setting up new projects. It may be due to a lack of expertise and managerial ability. Development banks were assigned the job of entrepreneurial gap filling. They undertake the task of discovering investment projects, promotion of industrial enterprises, provide technical and managerial assistance, undertaking economic and technical research, conducting surveys, feasibility studies, etc. The promotional role of the development bank is very significant for increasing the pace of industrialization.

Commercial Banking Business:

Development banks normally provide medium and long-term funds to industrial enterprises. The working capital needs of the units are generally met by commercial banks. In developing countries, commercial banks have not been able to take up this job properly. Their traditional approach in dealing with lending proposals and assistance on securities has not helped the industry. Development banks extend financial assistance for meeting working capital needs to their loan if they fail to arrange such funds from other sources.

Joint Finance:

Another feature of the development bank's operations is to take up joint financing along with other financial institutions. There may be constraints of financial resources and legal problems (prescribing maximum limits of lending) which may force banks to associate with other institutions for taking up the financing of some projects jointly. It may also not be possible to meet all the requirements of concern by one institution, so more than one institution may join hands. Not only in large projects but also in medium-sized projects it may be desirable for a concern to have, for instance, the requirements of a foreign loan in a particular currency, met by one institution and under the writing of securities met by another.

Refinance Facility:

Development banks also extend the refinance facility to the lending institutions. In this scheme, there is no direct lending to the enterprise. The lending institutions are provided funds by development banks against loans extended to industrial concerns. In this way, the institutions which provide funds to units are refinanced by development banks. In India, the Industrial Development Bank of India (IDBI) provides reliance against term loans granted to industrial concerns by state financial corporations.

Credit Guarantee:

The small scale sector is not getting proper financial facilities due to the clement of risk since these units do not have sufficient securities to offer for loans, lending institutions are hesitant to extend the loans. To overcome this difficulty many countries including India and Japan have devised the credit guarantee scheme and credit insurance scheme.

Underwriting of Securities:

Development banks acquire securities of industrial units through either direct subscribing or underwriting or both. The securities may also be acquired through promotion work or by converting loans into equity shares or preference shares. So, In India, a credit guarantee scheme was introduced in 1960 with the object of enlarging the supply of institutional credit to small industrial units by granting a degree of protection to lending institutions against possible losses in respect of such advances.

Conclusion

The development banks have a dual objective of contributing to the development as well as earning a financial return on the investment. Hence there is an inherent conflict in the operational objectives of development bank. They have to limit their lending to the financially viable projects, with an acceptable financial rate of return. Also, long term loans represent a higher level of uncertainty and will have higher interest rates than the short term loans. But, these financial institutions are concerned with providing all types of financial assistance, medium as well as long-term. Thus, the role of these institutions in the development trajectories of the developing countries cannot be underestimated. ❑

ARTICLE

PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS-A HYBRID FRAMEWORK TO SAVE VIABLE MSMES

MSME sector in India is second largest employment generator after agriculture, and acts as a breeding ground for entrepreneurs and innovators with considerable support in strengthening business ecosystem. The estimated number of MSMEs in India is 63 million and employs 110 million individuals. Indian MSMEs produce more than 6,000 products for local and global consumption. The announcement of country wide lockdown dragged MSME owners, employers and external stakeholders in unexpected times, where no one had experience to handle this kind of situation. Extended lockdown had negative impact on supply of finished goods, procurement of raw material and availability of employees to work in production and supply processes.

During April to June 2020, sector faced challenges related to debt repayments, wages/salaries, statutory dues, etc. Reports have shown that disruptions caused by the Covid-19 pandemic have impacted MSMEs earnings by more than fifty percent, Micro and Small enterprises faced the maximum heat, mainly due to liquidity crunch. Enterprises working in essential commodity business were better off in terms of interrupted but predictable cash flows. Some enterprises innovated their ways by shifting focus from non-essential commodities towards essential commodities; like production of hand sanitizer and toiletries, PPE kits, reusable masks, etc. and are able to survive in tough times. MSMEs present in remote areas also faced lots of difficulties due to interrupted supply chain systems and intrastate lockdown provisions.

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The government has promulgated an ordinance to introduce a pre-packaged insolvency resolution process for stressed micro, small and medium enterprises (MSMEs). It will allow the stressed debtor- in this case the MSMEs- and its creditors to quickly work out a plan to revive the company outside the bankruptcy process, which would then be sanctioned by the courts. It is considered expedient to provide an efficient alternative insolvency resolution process for corporate persons classified as micro, small and medium enterprises under the

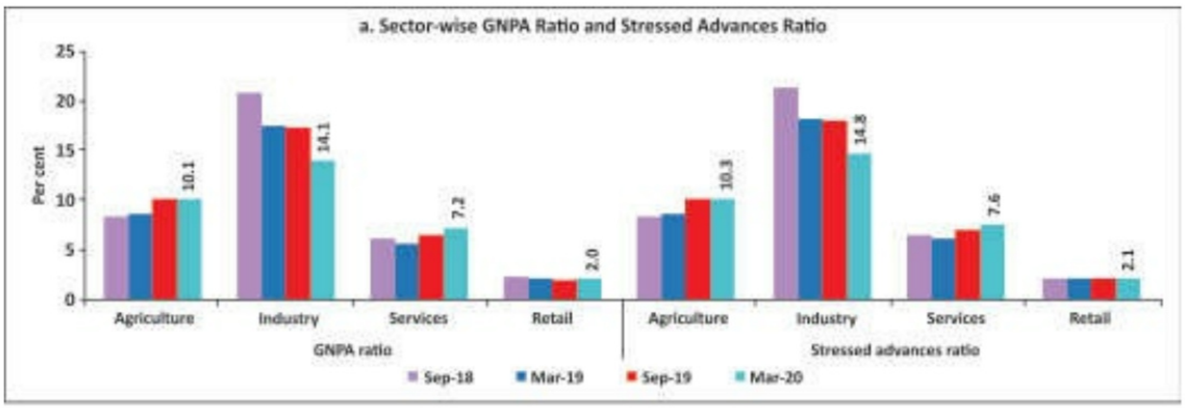
Insolvency and Bankruptcy Code, 2016, ensuring quicker, cost-effective and value-maximizing outcomes for all the stakeholders, in a manner which is least disruptive to the continuity of their businesses. It is considered expedient to introduce a pre-packaged insolvency resolution process for corporate persons classified as micro, small and medium enterprises," the IBC ordinance 2021.

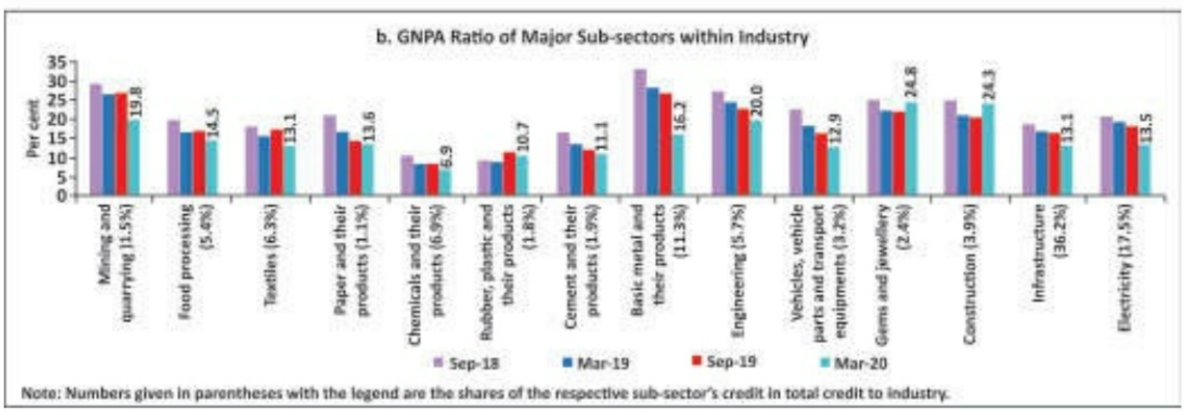
The minimum default threshold of Rs.10.00 lakh, which has been prescribed for initiating the process, would provide much respite to MSMEs by enabling them to have access to an effective resolution process under the pre-pace process. This would not have been otherwise feasible under the Corporate Insolvency Resolution Process owing to enhanced default threshold of Rs.1.00 crore. Prepack Insolvency Resolution Process would work on debtor in possession model and as such would enable the MSMEs to resolve their stress as a going concern.Revised composite criteria is investment in Plant and Machinery/equipment and Annual Turnover as per the revised definition of MSME.

Micro enterprise	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover not more than Rs. 5 crore.
Medium Enterprise	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover not more than Rs. 50 crore
Small enterprise	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover not more than Rs. 250 crore

Sector wise Asset Quality:

Among the broad sectors, asset quality improved noticeably in the case of industry, agriculture and services in September 2020 over March 2020, with a decline in GNPA and stressed advances ratios.





Gross NPA Ratio of Major Sub-Sectors within the industry

Applicability of Pre-Pack Framework:

The pre-pack framework will be applicable for MSMEs with a maximum default value of Rs 1 crore only. It can be filed under a newly inserted Section 54C of the IBC. For defaults of more than Rs 1 crore, IBC or other resolution mechanisms can continue to be used. A pre-packaged insolvency resolution process or PIRP cannot run in parallel to another corporate insolvency resolution process (CIRP), and must have a three-year cooling-off period from the closure of any other pre-pack or CIRP, as per the rules notified.

If a pre-pack application is filed within 14 days of the filing of any application under section 7 or section 9 or section 10 which is pending, then the Adjudicating Authority would have to first dispose of the application under section 54C. If more than 14 days have passed since an IBC plea was filed under Sections 7, 9, or 10, then the court would have to give the existing plea a preference. Sections 7, 9 and 10 deal with the initiation of the corporate insolvency resolution process by financial creditors, operational creditors and the corporate debtor himself respectively.

Initiation/Trigger:

The framework has been modelled on the debtor-in-possession and creditor in control approach. The debtor would have to have a base resolution plan in place before approaching creditors to initiate a PIRP.The financial creditors can initiate the PIRP in case of a default by an MSME if a minimum of 66 percent creditors vote in favour of PIRP, and file an application with the adjudicating authority for the same. Alternatively, if a corporate debtor does not have any financial creditors, the company may approve the application filing through a special resolution with a 75 percent majority, and move the court to initiate PIRP. An insolvency resolution professional, as approved by creditors, is then appointed by the court.

Eligibility Criteria for the Corporate Debtors for filing application for Pre-Pack:

- MSME unit has not undergone pre-packaged insolvency resolution process or completed CIRP during the period of 3 years preceding the initiation date of PIRP
- Order of the liquidation is not passed under section 33 of IBC
- It is eligible to submit resolution plan under section 29A of the IBC
- Financial creditors representing not less than 66% in value of financial debt has proposed the name of the insolvency resolution professional and same is approved the proposal.

Timelines:

The entire Pre-packaged insolvency resolution process would have to be completed within 120 days from the commencement date. The resolution professional is expected to submit the resolution plan, as approved by the committee of creditors, to the Adjudicating Authority within 90 days of the commencement date. If the plan is not approved by the committee of creditors (CoC) within the time period, the PIRP would be terminated.

Control of company during PIRP:

Unlike the IBC, under the pre-pack framework, the management of the affairs of the corporate debtor will continue to vest in the Board of Directors or the partners of the corporate debtor. If the CoC at any time during the process feels the company's affairs are not being run in a transparent manner or there is a fraud, it can vote by 66 percent majority to transfer the management powers to the resolution professional instead.

Resolution Plan:

Section 29A of the IBC, which prohibits defaulting promoters/willful defaulters from participating in the resolution process would also apply in the case of PIRP. A corporate debtor is required to submit a ResolutionPlan to the resolution professional within two days of PIRP commencement, and changes are allowed prior to the approval by the CoC. However, in case the resolution plan is not approved by creditors or does not pay the operational creditors in full, new bids can be invited.

While considering the feasibility and viability of a resolution plan, where the resolution plan submitted by the corporate debtor provides for impairment of any claims owed by the corporate debtor, the committee of creditors may require the promoters of the corporate debtor to dilute their shareholding or voting or control rights in the corporate debtor: Provided that where the resolution plan does not provide for such dilution, the committee of creditors shall, prior to the approval of such resolution plan under sub-section (4) or sub-section (12), as the case may be, record reasons for its approval.

Adopting plan evaluation process akin to Swiss Challenge, it retains competitive tension such that promoters propose plans with least impairment to rights and claims of creditors. The ability of the committee of creditors to require dilution of promoter shareholding/ control, in cases resolution plans submitted by the corporate debtor provides for impairment of any claims owed by such corporate debtor, should also be a significant deterrent against unreasonable terms in resolution plans. The Pre-pack resolution must be approved by financial creditors with a minimum 66 percent voting share by value.

Silent Feature of Pre-Packaged Insolvency Resolution Process vis-à-vis CIRP

Criteria	Pre-Packaged Insolvency Resolution Process (PIRP)	Corporate Insolvency Resolution Process (CIRP)
Eligibility	Only MSMEs	All corporate debtors
Default threshold	Above Rs.10.00 lac to Rs 1 crore	Over Rs 1 crore
Initiation by	Only Corporate Debtor (CD), post approval by shareholders & unrelated Fin Creditors	Financial Creditor/Operational Creditor/ Corporate Debtor
Timeline	90 days to submit resolution plan to adjudicating authority, Max 120 days for entire process. No extension	180+90+60days extendable up to max 330 days
Criteria	Corporate Debtor-in-Possession with Creditor-in-Control mechanism	Creditor in control
Invitation for Resolution plan	First right of offer to promoters, Swiss challenge method	Public Process
Section 29A applicability	Yes	Yes
Consequence of failure	Termination of PIRP	Liquidation
Role of Insolvency professional and Adjudicating authority	Relatively Less	Relatively More
Legal framework	Relatively less in statute and more in regulation	Relatively more in the statute and less in regulation

Challenges with the framework:

Time and parameter for deciding on the resolution plan is major concern, basic motive of PIRP has been introduced is that the debtor shall be in better position to revive the activities as it is running the unit and doing the operation and hence better in control and should be allowed to submit a plan for revival of unit and challenge with the prepack scheme is that the Corporate debtor may not raise additional capital from investors because of the risk involved in recovering the money being provided by their investors and lenders.

Hence a plan based on the restructuring of debt may not help to realize the adequate amount to Financial Creditors and may find it challenging to achieve a turnaround. secondly timeline for PIRP is 120 days and it is very challenging for CoC member to decide on base resolution plan within this short period without any broad parameter on which the Resolution Plan be approved and main

challenge is conversion of part of loan to equity as the stressed assets remain highly leveraged as capital and reserves get adversely impacted with losses. It requires an infusion of fresh equity for payment of part of the debt to address this issue, the corporate debtor may find it challenging to bring new investor and raise fresh equity at a level which can reduce the debt at a sustainable level.

Thus, Financial creditor may consider the conversion of the part of the debt in equity. Under Base Resolution plan submitted by corporate debtor which is approved by CoC and Adjudicating authority under PIRP. Whether the guarantees and collateral security provided to financial creditors against the loan facilities shall also get released or financial creditors can start the process under IBC or any other recovery measure for recovery of dues from them for balance amount.

Conclusion:

Pre- pack provide a framework for resolution under the code.It is having a blend of both formal and informal options. The main objective of Pre-pack insolvency resolution process was to provide an alternative insolvency resolution process to the viable stressed MSMEs.Under the code no two proceeding Prepack Insolvency Resolution Process and Corporate insolvency resolution process shall run parallel. As resolution under Pre-pack Insolvency Process is time bound with maximum period of 120 days and it is important to note that the role of Insolvency Resolution Professional is very much important in success of PIRP and balancing the interest of all stakeholder, promoters and secured creditors. However, with the increase in the trend of out of court settlement. Prepack insolvency could very well be the next alternative solution to regular legal measures

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How D2M can bring videos to you phone, no internet link required

The Department of Telecommunications (DoT) and India's public service broadcaster Prasar Bharati are exploring the feasibility of a technology that allows to broadcast video and other forms of multimedia content directly to mobile phones, without needing an active internet connection.

The technology is based on the convergence of broadband and broadcast, using which mobile phones can receive terrestrial digital TV. It would be similar to how people listen to FM radio on their phones, where a receiver within the phone can tap into radio frequencies. Using D2M, multimedia content can also be beamed to phones directly.

The idea behind the technology is that it can possibly be used to directly broadcast content related to citizen-centric information and can be further used to counter fake news, issue emergency alerts and offer assistance in disaster management, among other things. Apart from that, it can be used to broadcast live news, sports etc. on mobile phones. More so, the content should stream without any buffering whatsoever while not consuming any internet data.

For consumers, a technology like this would mean that they would be able to access multimedia content from Video on Demand (VoD) or Over The Top (OTT) content platforms without having to exhaust their mobile data, and more importantly, at a nominal rate. The technology will also allow people from rural areas, with limited or no internet access, to watch video content.

For businesses, one of the key benefits of the technology is that it can enable telecom service providers to offload video traffic from their mobile network onto the broadcast network, thus helping them to decongest valuable mobile spectrum. This will also improve usage of mobile spectrum and free up bandwidth which will help reduce call drops, increase data speeds etc.

The Department of Telecommunications (DoT) has set up a committee to study the feasibility of a spectrum band for offering broadcast services directly to users' smartphones, DoT Secretary K Rajaraman said on Wednesday. "Band 526-582 MHz is envisaged to work in coordination with both mobile and broadcast services. DoT has set up a committee to study this band," he said. At the moment, this band is used by the Ministry of Information & Broadcasting across the country for TV transmitters.

FINANCIAL SYSTEMS AND MARKETS IN INDIA

Abstract

A system that aims at establishing and providing a regular, smooth, efficient and cost effective linkage between depositors and investors is known as financial system. The functions of financial system are to channelize the funds from the surplus units to the deficit units. Financial system is one of the industries in an economy. It is a particularly important industry that frequently has a far reaching impact on society and the economy. But if its occult trappings are stripped it is like any industry, a group of firms that combine factors of production (land, labour and capital) under the general direction of a management team and produce a product or cluster of products for sale in financial market. The product of the financial industry is not tangible rather it is an intangible service. Financial industry as a whole, produces a wide range of services but all these services are related directly or indirectly to assets and liabilities, that is, claims on people, organization, institutions, companies and government. This is the process of diversion of the productive capacity of the economy to the making of capital goods which increase future productive capacity. Process of capital formation involve three distinct but inter-dependent activities: savings, finance and investment. The financial system in process of capital formation has to decide as to how capital is to be used. Poor choice in deciding which economic projects are to be embarked upon, leads to wastage of resources. The better the quality of judgment exercised in allocation, the more rapid economic progress.

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Financial Concepts

An understanding of the financial system requires an understanding of the following concepts:

- Financial assets
- Financial intermediaries
- Financial markets

- Financial rates of return
- Financial instruments

Financial Assets

In any financial transaction, there should be a creation or transfer of financial assets. Hence, the basic product of any financial system is the financial asset. A financial asset is one which is used for production or consumption or for further creation of assets.

Classification of Financial Assets

Financial assets can be classified differently under different circumstances. One such classification is:

- Marketable assets
- Non-marketable assets

Marketable Assets: Marketable assets are those which can be easily transferred from one person to another without much hindrance. Examples are shares of listed companies, Government securities, bonds of public sector undertakings etc.

Non-Marketable Assets: On the other hand, if the assets cannot be transferred easily,they come under this category. Examples are bank deposits, provident, funds, pension funds, National Savings Certificates, insurance policies etc.

Yet another classification is as follows:

- Money or cash asset
- Debt asset
- Stock asset

Financial Intermediaries

The term financial intermediary includes all kinds of organizations which intermediate and facilitate financial transactions of both individual and corporate customers

- Capital market intermediaries
- Money market intermediaries

Financial Markets

Generally speaking, there is no specific place or location to indicate a financial market. Wherever a financial transaction takes place, it is deemed to have taken place in the financial market.

Classification of Financial Markets

Unorganised Markets

In these markets there are a number of money lenders, indigenous bankers, traders etc., who lend money to the public. Indigenous bankers also collect deposits from the public.

Organised Markets

In the organized markets, there are standardized rules and regulations governing their financial dealings.

These organized markets can be further classified into two. They are :

- Capital market
- Money market

Capital Market : The capital market is a market for financial assets which have a long or indefinite maturity. Generally, it deals with long term securities which have a maturity period of above one year. Capital market may be further divided into three namely :

- Industrial securities market
- Government securities market and
- Long term loans market

Industrial securities market

As the very name implies, it is a market for industrial securities namely: (i) Equity shares or ordinary shares, (ii) Preference shares, and (iii) Debentures or bonds. It is a market where industrial concerns raise their capital or debt by issuing appropriate instruments. It can be further subdivided into two. They are :

- Primary market or New issue market
- Secondary market or Stock exchange

Government Securities Market

It is otherwise called Gilt-Edged securities market. It is a market where Government securities are traded. In India there are many kinds of Government Securities-short term and long term.

Long Term Loans Market

Development banks and commercial banks play a significant role in this market by supplying long term loans to corporate customers. Long term loans market may further be classified into:

- Term loans market
- Mortgages market
- Financial Guarantees market

Importance of Capital Market

Absence of capital market acts as a deferent factor to capital formation and economic growth. Resources would remain idle if finance is not funnelled through capital market.

Money Market

Money market is a market for dealing with financial assets and securities which have a maturity period of up to one year. In other words, it is a market for purely short term funds. The money market may be subdivided into four. They are:

- Call money market
- Commercial bills market
- Treasury bills market
- Short term loan market

Call Money Market: The call money market is a market for extremely short period loans say one day to fourteen days. So, it is highly liquid.

Commercial Bills Market: It is a market for bills of exchange arising out of genuine trade transactions. In the case of credit sale, the seller may draw a bill of exchange on the buyer.

Treasury Bills Market: It is a market for treasury bills which have 'short-term'maturity.

Short-Term Loan Market: It is a market where short-term loans are given to corporate customers for meeting their working capital requirements.

Foreign Exchange Market

The term foreign exchange refers to the process of converting home currencies into foreign currencies and vice versa.

Functions: The most important functions of this market are :

- To make necessary arrangements to transfer purchasing power from one country to another.
- To provide adequate credit facilities for the promotion of foreign trade.
- To cover foreign exchange risks by providing hedging facilities.

Financial Rates of Return

Most households in India still prefer to invest on physical assets like land, buildings, gold, silver etc. But, studies have shown that investment in financial assets like equities in capital market fetches more return than investments on gold. It is imperative that one should have some basic knowledge about the rate of return on financial assets also.The return on Government securities and bonds are comparatively less than on corporate securities due to lower risk involved therein.

Recent Trends: With a view to bringing the interest rates nearer to the free market rates, the Government has taken the following steps:

- The interest rates on company deposits are freed.
- The interest rates on 364 days Treasury Bills are determined by auctions and they are expected to reflect the free market rates.
- The coupon rates on Government loans have been revised upwards so as to be market oriented.
- The interest rates on debentures are allowed to be fixed by companies depending upon the market rates.
- The maximum rates of interest payable on bank deposits (fixed) are freed for deposits of above one year.

Thus, all attempts are being taken to adopt a realistic interest rate policy so as to give positive return in real terms adjusted for inflation. The proper functioning of any financial system requires a good interest rate structure.

Financial Instruments

Financial instruments refer to those documents which represent financial claims on assets.

- Primary or direct securities.
- Secondary or indirect securities.

Primary Securities: These are securities directly issued by the ultimate investors to the ultimate savers, e.g. shares and debentures issued directly to the public.

Secondary Securities: These are securities issued by some intermediaries called financial intermediaries to the ultimate savers, e.g. Unit Trust of India and mutual funds issue securities in the form of units to the public and the money pooled is invested in companies.

Development of Financial System in India

Some serious attention was paid to the development of a sound financial system in India only after the launching of the planning era in the country. At the time of Independence in 1947, there was no strong financial institutional mechanism in the country.

Nationalisation of Financial Institution

As we know that the RBI is the leader of the financial system. But, it was established as a private institution in 1935. It was nationalized in 1948. It was followed by the nationalization of the Imperial Bank of India in 1956 by renaming it as State Bank of India. In the same year, 245 Life Insurance Companies were brought under Government control by merging all of them into a single corporation called Life Insurance Corporation of India.

Starting of Unit Trust of India

Another landmark in the history of development of our financial system is the establishment of new financial institutions to strengthen our system and to supply institutional credit to industries.

Establishment of Development Banks

Many development banks were started not only to extend credit facilities to financial institutions but also to render advisory services.

Institution for Financing Agriculture

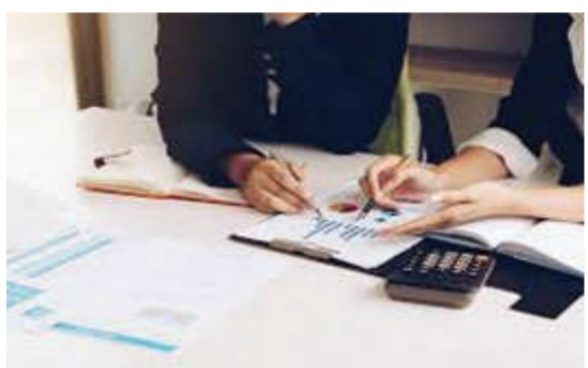
In 1963, the RBI set up the Agricultural Refinance and Development Corporation (ARDC) to provide refinance support to banks to finance major development projects such as minor irrigation, farm mechanization,, land development, horticulture, daily development, etc.

Institution for Foreign Trade

The Export and Import Bank of India (EXIM Bank) was set up on January 1, 1982 to take over the operations of International Finance wing of the IDBI. Its main objective is to provide financial assistance to exporters and importers

Institution for Housing Finance

The National Housing Bank (NHB) has been set up on July 9,



1988 as an apex institution to mobilize resources for the housing sector and to promote housing finance institutions both at regional and local levels

Stock Holding Corporation of India Ltd. (SHCIL)

Recently in 1987 another institution viz., Stock Holding Corporation of India Ltd. was set up to tone up the stock and capital markets in India.

Mutual Funds Industry

Mutual funds refer to the funds raised by financial service companies by pooling the savings of the public and investing them in a diversified portfolio.

Venture Capital Institutions

Venture capital is another method of financing in the form of equity participation. A venture capitalist finances a project based on the potentialities of a new innovative project

Credit Rating Agencies

Of late, many credit rating agencies have been established to help investors to make a decision of their investment in various instruments and to protect them from risky ventures.

Multiplicity of Financial Instruments

The expansion in size and number of financial institutions has consequently led to a considerable increase in the financial instruments also.

Legislative Support

The Indian financial system has been well supported by suitable legislative measures taken by the Government then and there for its proper growth and smooth functioning.

Weaknesses of Indian Financial System

After the introduction of planning, rapid industrialization has taken place. It has in turn led to the growth of the corporate sector and the Government sector.

Lack of Co-ordination between different Financial Institutions

There are a large number of financial intermediaries. Most of the vital financial institutions are owned by the Government.

Monopolistic Market Structures

In India some financial institutions are so large that they

have created a monopolistic market structures in the financial system.

Dominance of Development Banks in Industrial Financing

The development banks constitute the backbone of the Indian financial system occupying an important place in the capital market.

Inactive and Erratic Capital Market

The important function of any capital market is to promote economic development through mobilization of savings and their distribution to productive ventures.

Imprudent Financial Practice

The dominance of development banks has developed imprudent financial practice among corporate customers.

Summary

A system that aim at establishing and providing a regular smooth, efficient and cost effective linkage between depositors and investors is known as financial system. A financial system companies of financial institutions, financial services, financial markets and financial instruments. These constituents are closely related and work in conjunction with each other.

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OF SELF HELP GROUPS AND FINANCIAL INCLUSION IN POVERTY REDUCTION

Financial inclusion, in its narrowest connotation, can be construed as an endeavour that provides people, especially those in the hitherto un-banked region, a bank account. However, that mere possession of a Bank account cannot bring wonders, in addition to the fact that the same is incomplete to define the intended meaning of financial inclusion. What is critical is the facilities endowed to the individuals having a bank account. The Direct Cash Transfers have considerably controlled the leakage of funds meant for targeted beneficiaries- poor.

Also, the poor can have access to insurance products with nominal premiums through their Bank accounts. Not to forget is the saving habits that could also be inculcated, encouraged, and improved. Most importantly, financial inclusion will have its impact when credit facilities to the poor have seen a considerable improvement both in quantity and quality.

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In one of my field visit to a tribal village in Andhra Pradesh, when I was interning with SERP (Society for Elimination of Rural poverty) in 2010, I had spoken to a woman, as part of my survey on the performance of SHGs, whose family came out of poverty. The woman said, "My husband worked in a factory but after his health deteriorated he could not continue his work." She expressed her helplessness to feed her three children with the meagre wage she'd earn. "Then I shared my problems with members of our SHG.

As advised, I'd apply for the loan to our SHG and though there were other members who required the money, my case was considered and we were chosen to receive the loan, the amount of which comprises of the corpus fund of our group and finance by Bank. We bought an autorickshaw for my husband and now we have come out of the poverty line," she added with visible signs of relief in her expression.

"So, it was financial assistance that helped you," I asked to confirm. She agreed and further elaborate that most poor people irrespective of their livelihoods will need it to start their journey of crossing the poverty line.

The success story of the Pudupu Sangams or the Women SHGs in AP has been the role model behind the National Rural Livelihood Mission. Under this mission, nationwide efforts have been undertaken by the Ministry of Rural Development to build, manage and empower women Self Help Groups.

Though the women groups in AP have enough corpus to lend to their members, the SHGs in other states depend on financial institutions like Banks, MFs, and NBFCs to finance their projects. Banks, especially Public Sector Banks have played a pivotal role in financing SHGs thus far. The crux is to financially assist SHG members who would invest the money in income generating assets that would provide them a hand holding support to come out of the poverty line.

Apart from financing SHGs, Banks have played a commendable role in funding the financial requirements of Agriculture and allied activities. Designated as a priority sector for the Banks, there is a stipulated percentage of the Annual Net Bank Credit (ANBC) which is allotted to Agriculture and allied activities. Notwithstanding the inability of farmers to repay the loans during bad seasons and the politics involved with farm loan waiver, there are thousands of success stories of farm loans.

The Pradhan Mantri Jan Dhan yojana, which earned the Government of India (Department of financial services) a Guinness world record for the maximum number of accounts opened in a week, has raised many debates on its effectiveness in poverty reduction.

While some are of the opinion that the mere opening of an account do not have any worthy contribution to the betterment of the poor, others feel that the erstwhile financially illiterate people have become financially literate by not only familiarising themselves with the basic norms of banking but by also practicing it.

Those in favour argued that saving habits have been inculcated and people became aware of financial products like credits/loans for farmers etc. What is arguably one of the best benefits of the poor owning a bank account, apart from availing credit, is its complementary assistance for the Direct Benefits transfer scheme to be successfully implemented and thereby avoiding the leakage of crores of rupees intended for the farmers in earlier instances.

It is no secret that the poor are entrapped by money lenders with exorbitant rates of interest charged on their borrowed sums. For people who depended on the outcome of annual crops and seasonal employments, pressing requirements like medical and food expenses and occasional expenditure requirements for marriages and functions compelled the poor to reach out to the money lenders.

The improvement in financing from Banks has considerably reduced the headache of the poor. There is still scope for improvements to bridge the gap between the poor and Banks as far as availing credits are concerned.

While the concern of the poor people is the cumbersome process involving heavy documentations, the Banks on the other hand have their own concerns- the creditworthiness of the poor. Most of the finances that Banks provide are based on the business assumption that its repayment will be made on time. To ensure that the poor do not default, it is important that the credit availed is used for income-generating assets. Thus, a sincere inspection work on the part of the Bankers could help do away with documentation concerns by making the process of credit delivery to the poor more friendly.

Are we then to conclude that having a Bank account will transform a poor family's fortune overnight? It is often said that poverty eradication is a multi-dimensional approach and that the poor have the ability and the knowledge to come out of poverty. From the many testimonies of the poor, it is evident that financing is one of the most important tools for rural development.

It will of course require many other efforts like ensuring basic necessities - good road, electrified house, drinking water, etc. And while we acknowledge the rights of the poor to decide on how best they could develop, one thing is for sure that financial inclusion in its real sense would be one precious hand-holding support we can at the least offer. ❑

TREASURY : NEW PROFIT CENTRE OF BANKS

Backdrop:

We know that main business of any bank is accepting deposit from its customers and lend it at a higher rate to generate income. But in last 20 years or so banking business has crossed many boundaries and ventured into many different kind of business to make profit. For executing so many different activities, banks have recruited huge manpower and they work in different departments across different offices.

However, amongst the various departments present in banks, treasury is one among the most important department and at the same time the least understood one. In most of the banks, treasury is attached to their corporate offices and people with highly specialized knowledge and skills work in it. In this article, we will provide a brief overview of these treasury operations and also learn how this department has evolved as a profit making machine for most of these banks in our country.

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Bank Treasury in Initial Days:

Traditionally, the role of the Treasury in Indian banks was limited to ensuring the maintenance of the RBI stipulated norms for Cash Reserve Ratio (CRR) which mandates that a minimum proportion of defined demand and time liabilities be kept as deposit with the central bank without any return and Statutory Liquidity Ratio (SLR) which obliges banks to invest a specified percentage of their liabilities in notified securities issued by the Government of India and State Governments with some returns attached to it.

Earlier, treasury's activities in foreign exchange were also confined to meeting merchants' and customers' requirements for imports, exports, remittances and deposits. Furthermore, Indian Money Market was also not structured and easily accessible. Therefore, hardly any banks were dealing is this market. Following the recommendations of the Committee headed by Shri Sukhamoy Chakravarty in 1985 to Review the working of monetary system and later in 1987 by the Working Group headed by Chairman Shri N. Vaghul on Money Market, RBI had initiated various measures to reform the money market and to develop the necessary institutional infrastructure and instruments needed to widen and deepen the money market.

Entering into New Era:

Later the inroads to different kinds of other profit making businesses opened for banks with RBI intervention and liberalization of the Indian economy. Slowly but steadily banks started venturing into new markets and dealing in different instruments like capital market, money market, foreign exchange market, bond market and derivatives market instruments to garner profit.

Further, steps such as increasing the number of instruments by introducing commercial paper and certificate of deposits greatly contributed to the development of money market.

Delivery versus Payment (DVP) system that involves simultaneous transfer of securities and funds in government securities transactions was introduced with effect from July 1995 to alleviate counterparty settlement risk and this also infused confidence into the bank treasuries to trade aggressively.

The central bank then began using tools to monitor and control the liquidity in the economy and monetary flow, such as repos and open market operations (OMOs) to manage liquidity in the financial system and to make the determination of interest rates on government securities more transparent and competitive by holding auctions.

Treasury as Profit Centre:

For banks, investments are now viewed as an alternative to credit; the traditional premier source of profits till sometimes back. Further investments, being easily tradable assets, offer both interest spread as well as capital appreciation. So treasury's income can be divided into two parts, interest income and non-interest income.

Interest Income: Income received half yearly or annually in the form of interest rate (coupon) on long term investments (bond) mainly kept in held to maturity category are treated as interest income.

Non Interest Income: Income generated from appreciation in value of assets held due to change in yield, income from arbitrage and dividend received on shares are treated as non interest income.

In most of the commercial banks in India deposits are maintained at higher level than advances. So after fulfilling the minimum regulatory investment criteria in CRR & SLR, banks deploy the rest of the fund in income generating advances and investments. Let us understand this with one illustrative example.

Suppose a bank is having Rs 100 in deposit portfolio. Now after maintaining Rs 4 (assuming CRR @ 4%) in CRR and Rs 18 (assuming SLR @18%) in SLR (which is also maintained by treasury only), bank is left with Rs 78. Now this Rs 78 may fully be deployed as advances during high growth of economy for consumption purpose or a part of it may only be lent out when the economy is not doing so good. So in the second case there is excess liquidity in the system with less demand of loan like the situation of this Covid-19 pandemic. Let us assume that out of Rs 78, Rs 60 is lent to customers. Now Rs 18 is left idle with the bank which must be deployed in most effective manner as bank has to bear a cost of deposit on total Rs 100 which has to be recovered and profits to be made.

After all banks are profit making organizations. So this amount lands at treasury for making the most of it. Apart from it bank may borrow from market for profitable investments as well. Let us keep that aside to keep it simple. Now treasury has many options like investing this Rs 18 in SLR (excess over minimum requirements), Non-SLR bonds, in Reverse REPO, Capital Market, Forex Market etc. to maximize the return on asset. Now these investments are leveraged to optimum level by treasuries and generate a good amount of profit to strengthen the balance financials of the banks.

We have already discussed earlier that with time various markets, instruments became available for banks. Now we will see how these markets are being used by bank treasuries to generate profit.

Post liberalization and financial market reforms, a vibrant bond market has evolved in our country. This has enhanced the relative importance of investments and the investment portfolio in the balance sheets of the banks.

Just like equity prices and foreign exchange markets, interest rates (yields) on debt instruments are determined through the interplay of various economic, financial and political factors like liquidity, inflation, government's/RBI's policies, growth, forex demand and supply, domestic vis-a-vis global interest rates etc. The recent hit of pandemic took the yields to one of the all time low level and bond prices soared as both these are inversely proportional to each other. Given this, as in the case of equities and forex rates, bond yields can also vary every moment and with that the bond prices also move up and down.

So treasuries make most of it by dealing in every possible way. In a rising market they can buy at lower prices and sell at higher prices by booking profit. In a falling market bank can short-sell at higher prices and then buys later at lower prices, thus books profit once again. But it is never easy to book such profits always as market can change it direction any time depending upon the factors discussed above. So the inherent risk is also being managed by risk management department attached to treasury. Apart from this sometimes banks just prefer to receive the coupon by holding the gilts till maturity.

The volatility in interest rates (yields) is at the heart of the transformation of bank treasuries from mere CRR and SLR keepers to a profit centre.

Similarly, the rupee's exchange rate has become volatile. There is sufficient fluctuation both intraday and inter-day prices enabling one to earn trading profits on buying and selling the currency. Cross-currency (dollar/yen, sterling/ dollar, dollar/Swiss franc) trading opportunities have also come to life in Indian banks after liberalization.

For executing these activities properly treasuries have well equipped and high tech dealing rooms. The Dealing Room, which acts as the bank's interface to international and domestic financial markets, is known as the front office of a treasury. The officers posted in dealing rooms are known as dealers and they are responsible for managing the investment and market risks as per the instructions of the investment committee and asset-liability committee (ALCO) of the bank.

Profit Generating Activities of Treasury:

i) **Proprietary Trading:** In this, the focus is entirely on short- term, as opposed to investment which is long term. The aim is to earn trading profits from movements in security and forex prices during a day or a few days of trading. These are mostly directional trades.

Under this, a dealer may buy (say) 8% Government of India security 2030 at Rs.116.50 at a yield of 6.56% in anticipation of the yield falling to 5.90%, on fundamental or technical grounds. If this happens, the bond appreciates and the bank exits the position with a profit.

Forex trading is also directional, involving, for example, buying dollar/yen in the expectation that the dollar will appreciate, or selling euro/dollar hoping that the euro will decline.

ii) **Investments:** Here banks earns a higher yield than its cost of funds. An example is buying a corporate bond yielding 8% and maturing in three years, financed by deposits which are being received in branches costing only 6%.

iii) **Subscribing to IPO:** Banks treasuries are also allowed to subscribe for initial public offerings as Qualified Institutional Bidders (QIBs) and exit the position after listing at a higher price.

iv) **Spreads:** In his treasuries leverage the spreads between the rates of source of fund and the use of fund. In money market The bank may, for instance, borrow short- term for 5% and deploy in commercial paper with returns of 6%.

v) **Arbitrage:** Arbitrage is an activity where the bank or for that matter any trader or investor exploits anomalies in market prices. It allows the investors to buy at lower prices in one market and sell it in other with high prices without taking any risk. The bank may have an 'AAA' bond, which yields only 6%, compared to another with the same rating and maturity, but of a different issuer, which offers 6.5%. It is worthwhile to sell the first bond and invest in the second and improve the yield by 50 bps without any incremental risk, as both bonds have the same credit quality.

In another form of arbitrage banks may enter into a buy/sell swap agreement in the forex market, where the bank converts its rupee funds into a dollar deposit, earns LIBOR, if LIBOR plus the forward premium on dollar/rupee is more than the domestic interest rate and gets back rupee on deposit maturity. This generates a risk-free profit.

vi) **Customer Services:** Bank treasuries offer their products and services to customers/non-banking customers. The income of banks from these activities comprises fees for and/or margins on trade execution. Profits would be higher on structured (i.e. non-standard) transactions compared to plain vanilla (e.g. a straightforward buy sell USD/INR) deals.

Treasuries are also involved in investment banking where their responsibility covers trade execution on behalf of the bank's clients in the cash or derivatives markets. These may generate good margins, depending on the complexity and skills required to design and put through customized structures in the market.

Other Services of Treasury:

Capital and Reserve Requirements: As already discussed, Treasury in banks is also responsible for setting aside reserves to meet the reserve requirements prescribed by the Central Bank. Also, the capital requirements prescribed by the Basel norms have to be met. Failing to meet these requirements has detrimental consequences since penalties are levied by the Central Bank. Apart from these during infusion of capital by government into public sector banks, transactions take place through treasury only and they also deal with the deployment of such funds.

Asset Liability Management: It is the job of the treasury department in cooperation with Asset Liability Committee (ALCO) to prepare various financial models which help on forecasting the amount of net interest income that the bank plans to achieve. It is also the job of the treasury department to predict exactly how sensitive this non-interest income is to external shocks like changes in the interest rate.

The treasury department collates this critical information and then passes the same on to decision makers who then decide the kind of assets that they want on the banks balance sheet. These decisions are then further translated into loan targets which bank officials have to meet. Also, based on the information received from the treasury, the bank refrains from using certain kinds of deposit liabilities. Hence, treasury department profoundly influences both deposit taking and loan sanctioning functions of the bank.

Risk Management: As treasury deals with high volumes at highly volatile market, it associates itself with very high risk. So managing various risk like counterparty risk (risk of payment default by counterparty), market risk, operational risk automatically becomes an integral part of treasury. This task is being executed by treasury mid-office in close association with Risk Management department of the banks.

Liaison with Regulatory Bodies: The treasury department of banks is highly regulated. Since they are the ones that are supposed to maintain the capital adequacy ratios and reserve ratios, they are also the ones that are supposed to maintain cordial relationship with regulatory agencies like RBI, SEBI and Finance Ministry etc. Executives from the treasury department are usually invited by the government when decisions regarding the banking industry need to be made.

Back Office Functions: Treasury departments also have to perform a lot of normal back-office activities. They are supposed to regularly communicate with their branches regarding the extent of deposits that have been taken and the extent of loans that can be made. Back office also settles all the deals made by the dealers at the end of the day and reconcile the data.

Conclusion:

The treasury department has, therefore, become the heart of the banking industry. It contributes substantially nowadays towards the profits of the banks. Officers working in this department get a bird's eye view of the operations of a bank that are spread out over cities, nations and even continents. These experts understand the concept of cost of funds and oversee its application. In coming days, it is expected that this department will grow much bigger, more people will understand the complexities of its business and trading will emerge as one of the prime activity in banks.

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E-RUPI

(A Prepaid Electronic Gift Voucher for specific purpose)

India's most pride digital initiative e-RUPI, a cashless and contactless instrument for digital payment solution developed by the National Payment Corporation of India (NPCI), Health Ministry, National Health Authority and Department of Financial Services and it was launched by Prime Minister Shri Narendra Modi in August, 2021.

BackGround:

Government of India has taken many initiatives to eradicate corruption and improve the transparency in the Governance. In line with this aim, Government has chosen the way of Digitisation to achieve this without much pain and struggle to anybody. Using financial technologies with less time to revolutionise the life of the every citizen of India.

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Government Digitisation Initiatives :

In this digitisation Journey, Government has launched many products/schemes in recent years like Direct Benefit Transfer using the JAM trid of Jandhan Accounts and linking with Aadahar and mobile numbers, Rupay card(Indigenous Card of India), BHIM, AEPS, ABPS, Fast Tag, GeM, India Stack, e-mandis, PSB loans in 59 minuters, Digital Locker, Digital Document Execution etc., and recently e-RUPI.

Platform Used:

It uses a digital direct benefit transfer (DBT) platform, which aims at making sure that the money transferred by the user, in this case, the government, is used exactly for the same purpose as it is intended to be.

e-RUPI

The Prime Minister termed the e-RUPI as a "big reform", in line with the launch of BHIM-UPI payment system in December 2016. The UPI system has indeed changed the payment landscape in India and has become the preferred mode of payment in many cases.

This Electronic Gift Voucher(e-Rupi) is a one-time payment mechanism which allows users to redeem the voucher without a card or any digital payment app or internet banking. Based on the Unified Payment System, the Reserve Bank of India-approved e-RUPI is an e-voucher issued to the beneficiary through SMS or QR code on his or her mobile number. With the help of this, the service provider gets the payment directly into his account. Any government agency or corporate can generate e-RUPI through their partner banks.

Instead of crediting the DBT amount directly to the beneficiary bank account, through the e-RUPI, an equivalent amount voucher will be sent directly to the beneficiary's mobile phone in the form of an SMS string, or a QR code and can see for utilisation for the same purpose it is intended.

The beneficiary will have to show the SMS or QR code to specific centres where it can be redeemed with a code delivered to the mobile number and towards safeguard the interest of beneficiary from misutilisation of this SMS/QR code, while making payment to service provider OTP will be sent to registered mobile of beneficiary where the SMS or QR code had come. It also ensures that the payment to the service provider is made only after the transaction is completed.

Target of e-RUPI :

It will be targeted for a specific purpose and cannot be used for any other thing. For example, if the e-RUPI has been sent to the beneficiary to avail vaccination, it can be used at the vaccination centre only to get the vaccine. This would ensure that the 'money is utilised for the same purpose it is given for'. Earlier, as the benefit amount used to get directly credited to the account of the beneficiary, it was possible to withdraw and use it for, say, consumption purposes. With the new electronic voucher scheme, that can be plugged.

e-RUPI Assurance :

Being pre-paid in nature, it assures timely payment to the service provider without involvement of any intermediary. It is expected to be a revolutionary initiative in the direction of ensuring a leak-proof delivery of welfare services.

Benefits :

It can also be used for delivering services under schemes meant for providing drugs and nutritional support under Mother and Child welfare schemes, TB eradication programmes, drugs & diagnostics under schemes like Ayushman Bharat Pradhan Mantri Jan Arogya Yojana, fertiliser subsidies, etc. Even the private sector can leverage these digital vouchers as part of their employee welfare and corporate social responsibility programmes.

The voucher system will enable all beneficiaries, including feature phone-users, to benefit through this mechanism.

The e-RUPI system will not only ensure that there are no leakages in the delivery of government services but also offer a much-needed ease and convenience to the people who are the recipient of such services. This can be a revolutionary concept and alter the paradigm of governance.

e-RUPI, is slated to make welfare payments easier and more efficient, and to an extent looks like the precursor of a Central Bank Digital Currency (CBDC). e-RUPI is not a cryptocurrency. However, e-RUPI can be a step towards a CBDC.

Users of e-RUPI :

e-RUPI not only useful for implementing the Government Social Welfare schemes in transparent manner but also used by Corporates for Corporate Social Responsibility(CSR) activities, any individuals for donation or helping others. An example of a corporate sponsoring vaccination of 100 people in a private hospital. In that case, the beneficiary will get the vaccine free from the hospital, but only after showing the e-RUPI SMS or QR code.

India has shown the world that in adopting technology and leverage it for connecting lives, the country is not behind anyone. In digital innovation, service delivery using technology, India is providing global leadership.

Nevertheless to say e-RUPI voucher is an innovative instrument to transform the life of the common man. ❑

UNLOCKING THE LAND MARKETS IN INDIA : A STEP TOWARDS BETTER CREDIT CULTURE AND URBAN INFRASTRUCTURE

Introduction

A constitution as voluminous as ours surprisingly refers to land only fleetingly. Spread over 395 articles in 22 parts and eight schedules, the subject of land comes up in only four parts .One of the important provisions was The Right to Property, a fundamental right under Article 19 and Article 31 of the Indian Constitution. This article guaranteed the citizens right to acquire, hold and dispose of the property. However this fundamental right was changed to a constitutional right by the 44th constitutional amendment act, 1978. Property is an institution governing the control over scarce resources in the hands of the individual. Citizens have the right to own and possess the property and also to put the property into use for credit dispensations. In most countries, lenders prefer land as a collateral for the four characteristics -Easy locatibility, Easy Identification, Easy Valuation and High Liquidity. Land, as per the Seventh schedule of the cosdtitution is pre dominantly a state subject. The Indian land market, is therefore a series of state land markets with varying levels of land administration rules, laws, revenue and usages.

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Land as a collateral in India

Traditionally in finance, land has been considered to be good collateral for three main reasons-it is easily traceable and identifiable and cannot be easily siphoned off as easily as movables, it is easily reusable and unlike movables its value does not erode over time (at least in India). The heterogeneous laws across states and the fragmented nature of land markets in India has significantly increased the cost of collateralization-the cost incurred by borrowers and lenders in the provision and acceptance of a collateral and its subsequent liquidation upon default. Assets provided as collateral have certain desirable characteristics. Banks prefer assets whose title and value are easily determinable, while borrowers prefer assets where there is maximum consideration of value of the assets. Another attribute of land as a collateral is as Binswanger (1986) calls it as appropriability-the ability to liquidate collateral with minimal loss to lenders.

Formal institutional lenders ,such as banks provide a variety of loans against land and building. Agricultural production and investment loans are provided against the security of rural lands. Personal loans against property for various personal purposes-marriage, travel and tourism, health ,education are another example. As per NSSO 70th round figures (All India Debt and Investment survey), as shown in Fig.1, Land and Building together accounted for about 90% of the total value of assets at the national level for indebted households in both rural and urban areas. It can be argued that over time land has emerged as an assured and 'bank' able asset relied equally upon by both borrower and the lender.

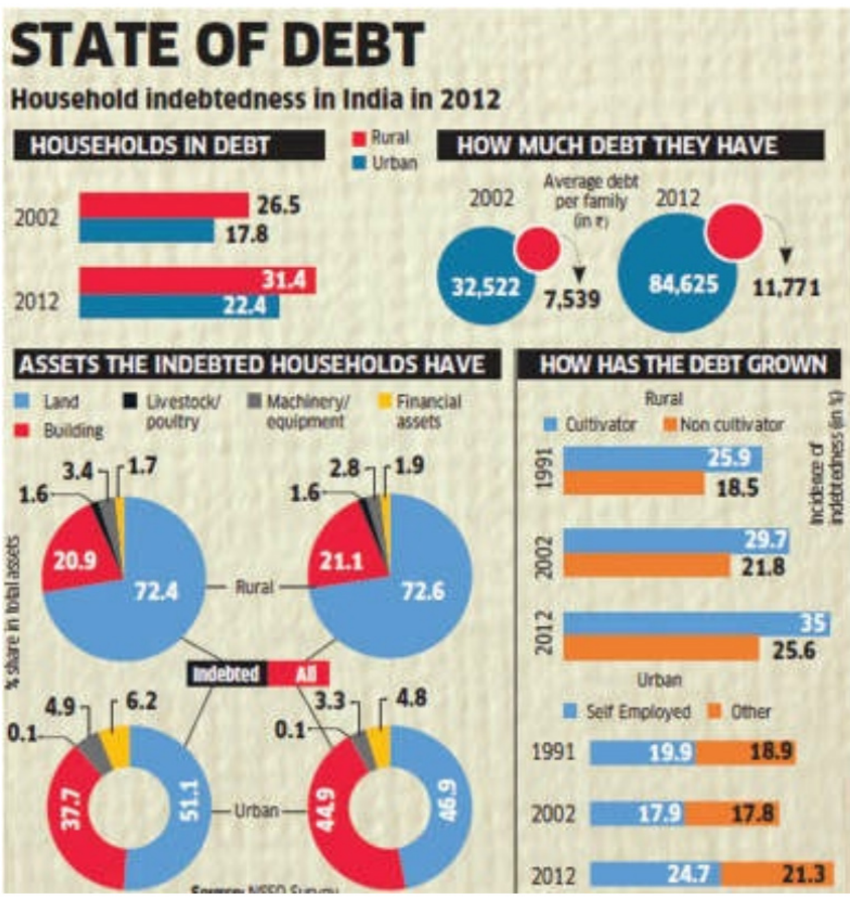

Fig1

As per this survey, 31.2 % of all rural households and 22.4% of all urban households were in debt. As for collateral, surprisingly, the same survey informs, just about 3% of total loans in rural households and 4.7% loans in urban households used landed property as collaterals. In contrast, even in rural areas, assets such as Gold and Jewellary are being increasingly used more often than land for accessing credit.

So what is plaguing Indian land Markets ?

The Indian Land market is currently in a state of distortion due to a variety of factors such as :

1. Socio Economic Barriers : Specially in rural areas, land is seen as an emotional asset for the household whose use is invoked only as a last resort. This increases the likelihood of the farmer falling to various non-institutional players like moneylenders as banks in general insist on keeping some form of collateral.

2. Heterogenity : The Indian land market is a sum-total of smaller sub-markets operating at state and UT levels ,which are highly fragmented and unorganised. The Quality of land records also varies from state to state and from type-to-type of the land .For instance, land records may be different for personal land-holdings, for common land (Government or village lands) and also for lands that have been given away as a result of various land-distribution movements.

3. **Quality of Land Records :** Multifarious government agencies are responsible for the upkeep of records related to land. For Ex-the Revenue deptt, the Survey Deptt., Registration Deptt all keep records related to various aspects of land-location, physical characteristics of land, incidence of tax, et all. Unfortunately most of these

agencies work in isolation and often under archaic laws that have not evolved with the times. Furthermore, the information collected from these various agencies is difficult to collate and capture for a holistic view-taking point of view. Most of the lenders spend precious man hours in deciphering the data and on the basis of that take any credit decision.

4. Unclear Titles : It is not surprising that in such an environment of vagueness of information land titles are frequently contested in our courts, which are brimming with pending cases of disputed property .A study by consultancy firm McKinsey suggests that as much as 90 percent of land parcels in India are prone to disputes over ownership. When the titles are not clear, the lender runs the double risk of customer not being the owner of the collateral as well as the risk that the title may not get easily transferred to the lender in case of borrower's demise.

5. Prohibitory Costs : Cost of collateralization as well as Due-Diligence before and after the process is prohibitive for the lender. The rates of registration and stamp duties vary from state to state and are often considered to be highest in the world. Moreover liquidity of lands with disputed titles may also be questionable.

All these factors either in combination or individually affect the suitability of the land to be accepted or preferred form of collateral

Unlocking India's Land Markets and other innovative solutions to unlock value of land as an asset

1. Titling System :

For many decades now we have been debating about graduating to Torrens land titling system .Some of the key features of Torrens system are:

1. ***The Mirror Principle :*** It indicates that the register of titles MIRRORS the reality.
2. ***The curtain principle:*** It suggests that there is a curtain over the past and a register of titles is full-proof evidence that the title at present is clear and unambiguous and there is no need to raise the curtain meaning the past may not be investigated.
3. ***The Assurance Principle :*** It guarantees indemnification by the state against errors in title register. The Land title certificate issued to the land/property owner under this system shall serve as a certificate of full, indefeasible and valid ownership in the court of law.

Guaranteed titling systems have been developed and are prevalent in countries such as Australia, New Zealand ,Singapore and UK. The system, which guarantees land titles and ensures compensation by the state in case of any disputes is a marked contrast to Indian land titling system which is presumptive and is based on title deeds and property tax receipts to prove land ownership. Often these title documents do not follow the Mirror principle -which states that the land document must reflect the REAL ON GROUND SITUATION. The Union Government has draft land Title Act 2019 which prepared way for conclusive land titles and that in turn paved way for easy access to credit for farmers and also reduce a large number of land related litigations.

2. Unlocking value of vacant public land : The biggest property owner in the country,

Government of India, may not always have exact information about the total land ownership it has. Unfortunately, this scenario often occurs. However the ownership of large tranches of government land can be incentivised by the joint venture between public and private players. This may take the form of any of the following:

a. ***Leasing :*** short-term leases, like parking-space contracts etc. where the lessee always does not have to make any significant capital investment allows retaining of land as public assets and also enables intelligent recycling of land, as is done in China.
b. ***Equity:*** Use of land as government equity could be explored.

3. Smart Planning :

A completely risk-averse model would suggest to follow a conventional lease model which retains the land and also gives steady revenues accruing. Examples include small part of land could be leased out to banks for ATMs etc. or to local Resident Welfare Associations for playgrounds purpose etc.

4. Some Practical Reforms from bankers perspective :

The whole gamut of valuations and other mortgage data existingly available with the banks can be capitalized upon. There can be a creation of a shared technological platform of all banks, Financial Institutions that captures all valuation data-both current and historical. Such data could include standardized geo-spatial information alongwith independent valuations. This is offcourse similar to existing CERSAI information except that it also contains valuation information unlike CERSAI. This can be useful in the following two ways:

a. Consistent information on changes in valuations that lenders can use to MARK TO MARKET their collateral values
b. Provision of benchmark values (on valuations) especially of land located in remote areas where lenders have no existing exposure to.

5. Easy access to governmental data :

Electronic provision of all governmental data is already ongoing in many states with varying stages of completion under various e-governance initiatives. However the cost of digitizing humongous amounts of historical data is both time consuming and cost-prohibitive. One quick solution could be scanning existing governmental records and display them as images

6. Land Ranking :

First a comprehensive database/portal of all available land parcels in the country should be prepared and the existing valuation data available with banks/FIs should be collated with it. The 'clean' land parcels may be ranked such that overtime there is an attribute-based ranks given to parcels of land. It is a fact that borrowers trust lending institutions for clean investigation of title and any deficiency, if existing, to be unearthed by the bank. Over time, mortgaged property and properties that have been evaluated by lenders' credit processes are likely to have a higher ranking. Maintenance of a database of such clean properties enables these properties to undergo a smoother, quicker and more confident process of scrutiny. This improves the overall credit cycle.

7. Governmental Reforms :

India is said to be having highest rates of stamp duty in the world. The rates vary from state to state. During 2006-07 the stamp duty rates was between 12% to 15% while the same in other countries stood between 1-4%. Further the stamp duty is calculated on the cost of property and in the event of it being too high the stamp duty could also be prohibitive. In addition, the registration fees is additional 0.5-2%. This escalates the cost of property transactions leading people to avoid registration. Many such transactions like heirship partitions etc. do not get registered. As a result the record shows outdated data .Under the Jawaharlal Nehru National Urban Renewal Mission (JNURM), one of the targets was to rationalise stamp duty and bring it down to 5% by 2018. Some states have followed suit and reduced their stamp duties for ex -Delhi and Mumbai to 6% and 5% respectively. Similarly, the Financial Sector Reforms Commission (FSRC) had recommended to amend Registration Act, 1908 and Indian Stamp Act, 1899 to not require the payment of stamp duty for registration of certain property transactions. States should reduce the stamp duties present levels of 15% to the level of 3-5%. However, since stamp duty forms a large part of state government's revenue the move must be with adequate planning and in a phased manner.

Conclusion

While conclusive titling has been rightly pointed out as the solution to the land distortion problems, several systemic steps need to be taken before this becomes operational in India. These steps include amending laws across centre and states, streamlining administrative changes at state level to enable uniformity in collection and maintenance of land data and ensuring constant updation and accessibility of land data. India has made a limited use of unlocking and channelizing land value to finance urban infrastructure. Some cities and states have made a start. For ex -Mumbai Metropolitan Regional Development Authority project of an alternate business district :the famed Bandra Kurla Complex. Andhra Pradesh is another example of a state which has taken number of steps to tap the gains in value from its infrastructure development projects.

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SIGNIFICANT HURDLES IN MAKING FULL RANGE OF FINANCIAL SERVICES AVAILABLE TO ALL

Despite making rapid strides in digital transactions and expansion of universal banking services to the last mile, there are still significant hurdles in making the full range of financial services available to all sections of the population, especially those in low income groups and senior citizens.

That's according to a report 'Financial Inclusion Challenges' released by IIT Madras Research Park (IITMRP) and IITM Incubation Cell. The report, released on Tuesday, was aimed at highlighting the gaps in financial inclusion despite the transformation in the financial services sector over the last decade.

Significant transformation

The report said over the last decade, financial services in India had undergone significant transformation driven by technology enablers and supported by the government and regulators such as RBI. While Jan-Dhan Yojana has increased the banking penetration with over 44.5 crore new accounts created since 2015, the Unified Payments Interface (UPI) had a meteoric rise in adoption with monthly transaction value jumping from ?0.38 crore in July 2016 to ?8.27-lakh crore in February 2022.

However, the report added that 'financially excluded groups' including low-income groups and elderly, have faced challenges in accessing the full range of products and services from formal financial services.

"Despite our achievements in financial services sector, a large section of the Indian society is still struggling with fundamental financial inequities," Prof Ashok Jhunjhunwala, President, IIT Madras Research Park, IITM Incubation Cell and IITM's Rural Technology and Business Incubator (RTBI).

Some of the key highlights and recommendations of the report include easier cash in cash out (CICO) access by allowing individuals like kirana store owners, tradesmen etc to function as business correspondents (BCs) to reach the end customer. It also suggested reevaluation of banking charges for digital transactions like exceeding the free number of transaction limit, insufficient balance, ECS bounce, SMS updates etc.

The report highlighted that know your customer (KYC) process and need for PAN, OTP or biometric verification have made it cumbersome for low-income groups and called for replacement of in-person KYC and (live-video KYC) to be replaced by non-live (non-human) option with encrypted liveliness checks built in.

The report was launched by Gopal Srinivasan, CMD, TVS Capital Funds; S Mahalingam, Ex-CFO, Tata Consultancy Services; Prof V Kamakoti, Director, IIT Madras, along with Jhunjhunwala.

Speaking after the report launch, Srinivasan said India has the largest pubic digital infrastructure starting with Jan Dhan Yojana, Aadhaar and Mobile number (JAM), UPI, Goods and Services Tax (GST), e-Pass, FASTags and Open Network for Digital Commerce (ONDC).

"But, it is really stunning to note that Rs. 60 is charged for a Rs. 100 deposit, Rs. 150 is charged for the fifth ATM transaction and Rs. 23.60 for an attempted ATM withdrawal etc," Srinivasan said highlighting some of the report findings. In his address, Mahalingam said India is really in a position to take major leadership in infusing technology in the areas of financial inclusion. *(Source: Business Line)*

NOW, CREDIT CARDS CAN BE LINKED TO UPI

The Resirve Bank of India said that credit cards will now be allowed to be linked to Unified Payments Interface accounts as UPI has become the most inclusive mode of payment in India.

"To begin with, the Rupay credit cards will be linked to the UPI platform. This will provide additional convenience to users and enhance the scope of digital payments," said RBI Governor Shantiniketan Das.

Currently, Punjab National Bank (PNB), IDBI Bank (IDBI), Union Bank, State Bank of India (SBI), Bank of Baroda, Federal Bank and Saraswat Co-operative Bank provide the RuPay Credit Card.

RuPay also provides co-brand cards with a few banks like HDFC Bank, SBI, PNB and Union Bank.

Once the implindigenous RuPay credit card is linked, other card networks like Visa and Mastercard will follow suit. Up until now, card users could only link their debit cards to UPI.

At present, UPI facilitates transactions by linking savings/ current accounts through users' debit cards.

According to a norm that came into effect on January 1, 2020, UPI and RuPay attract zeroMDR (merchant discount rate), meaning no charges are applied to these transactions. MDR is a fee charged to merchants for processing of payments made through UPI, digital wallets, debit, and credit card.

Currently, credit cards attract the highest MDR between two and three percent.

"Linking of credit card to UPI will further increase the usage of UPI even for large ticket items as the users can have balanced option to choose how they can pay. Thus, it will widen the digital payments footprint in India, bolster merchant partnerships of card networks starting with home-grown payments system- RuPay and eventually other international players like Visa and Mastercard and elevate customer payments experience. Additionally, it will pave the way for other geographies to adapt UPI much faster and easier. RBI's latest announcement for the extension of linking UPI to credit cards is a great move towards the cashless economy," said Muralidharan Srinivasan, Head of Payments, APMEA Region, FIS.

UPI is becoming the default payment mechanism; the latest benchmark being Rs 10.4 lakh crore transactions processed through UPI in May 2022 and is expected to evolve into many more embedded payments in the near future.

As RBI Governor Shaktikanta Das noted, in May 2022 alone, 594.63 crore transactions amounting to Rs 10.40 lakh crore were processed through UPI.

"UPI has become the most inclusive mode of payment in India with over 26 crore unique users and five crore merchants on the platform. The progress of UPI in recent years has been unparalleled. Many other countries are engaged with us in adopting similar methods in their countries," RBI Governor Das said.

Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application, merging several banking features, seamless fund routing & merchant payments into one hood.

On a month-on-month basis, the value of UPI transactions rose 5.9% in May and more than doubled from Rs 4.9 trillion processed in May last year to Rs 10 trillion worth of transactions in May 2022.

By adding a credit or to UPI apps, you can make payment without having to swipe the cards at POS machine. Just scan a QR code and choose the added credit/debit card as payment method to make the payment. *(Source: BS)*

RBI CIRCULAR

Restriction on Storage of Actual Card Data [i.e. Card-on-File (CoF)]

RBI/2022-23/77

June 24, 2022

1 Reference is invited to Reserve Bank of India (RBI) circulars DPSS.CO.PD.No.1810/02.14.008/ 2019-20 dated March 17, 2020 and CO.DPSS.POLC.No.S33/02-14-008/2020-2021 dated March 31, 2021 on "Guidelines on Regulation of Payment Aggregators and Payment Gateways", and CO.DPSS.POLC.No.S-516/02-14-003/ 2021-22 dated September 07, 2021 on "Tokenisation – Card Transactions: Permitting Card-on-File Tokenisation (CoFT) Services".

2. In terms of these circulars, with effect from January 1, 2022, no entity in the card transaction / payment chain, other than the card issuers and / or card networks, shall store the CoF data, and any such data stored previously shall be purged. Subsequently, to allow more time to the industry stakeholders for devising alternate mechanism(s) to handle any use case or post-transaction activity, this timeline was extended to June 30, 2022, vide circular CO.DPSS.POLC.No.S-1211/02-14-003/2021-22 dated December 23, 2021 on "Restriction on storage of actual card data [i.e. Card-on-File (CoF)]".

3. On a review of the issues involved and after detailed discussions with all stakeholders, it is observed that considerable progress has been made in terms of token creation. Transaction processing based on these tokens has also commenced, though it is yet to gain traction across all categories of merchants. Further, an alternate system in respect of transactions where cardholders decide to enter the card details manually at the time of undertaking the transaction (commonly referred to as "guest checkout transactions") has not been implemented by the industry stakeholders, so far.

4. Given the above, it has been decided to extend the timeline for storing of CoF data by three months, i.e., till September 30, 2022, after which such data shall be purged.

5. This directive 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

Processing of e-mandates for recurring transactions

RBI/2022-23/73

June 16, 2022

1. A reference is invited to our circulars DPSS.CO.PD.No.447/02.14.003/2019-20 dated August 21, 2019, DPSS.CO.PD No.1324/02.23.001/2019-20 dated January 10, 2020, DPSS.CO.PD No.754/02.14.003/ 2020-21 dated December 04, 2020 and CO.DPSS.POLC.No.S34/02-14-003/2020-2021 dated March 31, 2021 (collectively referred to as "e-mandate framework"). The e-mandate framework prescribed an Additional Factor of Authentication (AFA), inter alia, while processing the first transaction in case of e-mandates / standing instructions on cards, prepaid payment instruments and Unified Payments Interface. For subsequent transactions with transaction values up to Rs. 5,000/- (AFA limit), prescription of AFA was waived.

2. On a review of implementation of the e-mandate framework and the protection available to customers, it has been decided to increase the aforesaid AFA limit from Rs. 5,000/- to Rs. 15,000/- per transaction.
3. This circular is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007), and shall come into effect immediately.

(P. Vasudevan)
Chief General Manager

Bank finance to Government owned entities

RBI/2022-23/71

June 14, 2022

1. Please refer to the Master Circulars DBR.No.Dir.BC.10/ 13.03.00/2015-16 dated July 1, 2015 on 'Loans and Advances – Statutory and Other Restrictions' and DOR.CRE.REC.No.06/08.12.001/2022-23 dated April 1, 2022 on 'Housing Finance'.
2. We have come across instances where banks have not been strictly complying with our extant instructions on assessment of commercial viability, ascertainment of revenue streams for debt servicing obligations and monitoring of end use of funds in respect of their financing of infrastructure/ housing projects of government owned entities.
3. Banks/ FIs have also been found to have violated our instructions which inter alia require that in case of projects undertaken by government owned entities, term loans should be sanctioned only for corporate bodies; due diligence should be carried out on viability and bankability of the projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations; and that the repayment/ servicing of debt is not from budgetary resources.
4. Attention of the banks is especially drawn towards the specific instructions contained in the paragraphs referred to in the Annex. It is reiterated that banks are required to follow these instructions in letter and spirit.
5. Banks are advised to carry out a review and place before their Boards, a comprehensive report on the status of compliance with the instructions within three months from the date of this circular.

(Manoranjan Mishra)
Chief General Manager

Discontinuation of Return under Foreign Exchange Management Act, 1999

RBI/2022-23/69

June 9, 2022

1. Attention of Authorised Persons is invited to A.P. (DIR series) circular No 26, dated February 18, 2022, wherein Authorised Persons were advised about proposed discontinuation of the return "Details of guarantee availed and invoked from non-resident entities". It was also advised that the date of discontinuation would be notified in due course.
2. In this regard, reference may be drawn to A.P. (DIR series) circular No 20, dated August 29, 2012, Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations dated March 26, 2019 and the Master Direction - Reporting under Foreign Exchange Management Act, 1999 dated January 01, 2016, as amended from time to time (Refer Part X – 'Statement for reporting of non-resident guarantees issued and invoked in respect of fund and non-fund based facilities between two persons resident in India').
3. It has now been decided to discontinue the above return, with effect from the quarter ending June 2022.
4. The above-mentioned Master Directions are being updated to reflect these changes. AD banks may bring the contents of this circular to the notice of their constituents.
5. The directions contained in this circular have been issued under Section 10(4) and 11(2) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

(Ajay Kumar Misra)
Chief General Manager-in-Charge

INDUSTRY - WISE DEPLOYMENT OF BANK CREDIT

(₹ Crore)

Sr. No.	Industry	Outstanding as on						
		Jun 21, 2019	Jul 19, 2019	Aug 30, 2019	Sep 27, 2019	Oct 25, 2019	Nov 22, 2019	Dec 20, 2019
2.1	Mining & Quarrying (incl. Coal)	41129	40563	40938	41380	41176	41372	42741
2.2	Food Processing	151625	150077	145210	142388	139693	136930	145578
2.2.1	Sugar	29572	28582	27889	27424	25914	24624	24541
2.2.2	Edible Oils & Vanaspati	20100	19475	18929	17923	17681	17430	20071
2.2.3	Tea	5110	5200	5356	5558	5497	5832	5458
2.2.4	Others	96843	96820	93036	91483	90601	89044	95508
2.3	Beverage & Tobacco	14376	14440	13857	14973	14717	14030	15034
2.4	Textiles	193595	191284	186307	186773	187677	186323	189152
2.4.1	Cotton Textiles	91947	90087	84473	84020	83999	83448	85688
2.4.2	Jute Textiles	2122	2110	2117	2168	2209	2181	2215
2.4.3	Man-Made Textiles	25984	25452	25423	25295	25763	25820	26170
2.4.4	Other Textiles	73542	73635	74294	75290	75706	74874	75079
2.5	Leather & Leather Products	11150	11211	11051	11044	11052	10813	10949
2.6	Wood & Wood Products	11691	11701	11881	12082	11992	11968	12067
2.7	Paper & Paper Products	30142	29760	29864	29973	30507	30230	30697
2.8	Petroleum, Coal Products & Nuclear Fuels	55775	53085	51976	53576	52477	52466	53536
2.9	Chemicals & Chemical Products	174540	173212	177006	180523	176120	173231	177427
2.9.1	Fertiliser	33118	34419	35572	36835	34080	34112	34375
2.9.2	Drugs & Pharmaceuticals	49021	48195	48566	49177	48873	48501	49839
2.9.3	Petro Chemicals	39493	37900	39987	39110	39743	37445	39154
2.9.4	Others	52908	52698	52881	55401	53424	53173	54059
2.10	Rubber, Plastic & their Products	45828	45843	46501	47007	46919	47029	49164
2.11	Glass & Glassware	9832	9652	9942	9387	8687	8686	8784
2.12	Cement & Cement Products	56126	57539	59223	60809	60587	59309	58502
2.13	Basic Metal & Metal Product	352015	347995	348467	354021	351144	347906	337587
2.13.1	Iron & Steel	266162	265912	266309	269955	268259	265599	254848
2.13.2	Other Metal & Metal Product	85853	82083	82158	84066	82885	82307	82739
2.14	All Engineering	164574	165038	166488	163374	166861	162680	158648
2.14.1	Electronics	37942	37367	37284	35168	35706	32895	33145
2.14.2	Others	126632	127671	129204	128206	131155	129785	125503
2.15	Vehicles, Vehicle Parts & Transport Equipment	81419	82728	83022	83038	82552	81472	82840
2.16	Gems & Jewellery	66218	66066	66361	65637	62792	61310	60452
2.17	Construction	97160	95384	95990	100074	99394	100091	102579
2.18	Infrastructure	1026481	1034716	1004811	1003786	1019784	1025154	1029417
2.18.1	Power	563743	568247	558892	557170	559953	562711	562025
2.18.2	Telecommunications	106831	112215	109761	115017	127493	130960	134310
2.18.3	Roads	186128	188386	190895	185293	185424	186529	186870
2.18.4	Other Infrastructure	169779	165868	145263	146306	146914	144954	146212
2.19	Other Industries	228356	218066	216319	215038	222620	221247	229218
	Industries	2812032	2798360	2765215	2774883	2786751	2772248	2794372

(Continued

INDUSTRY - WISE DEPLOYMENT OF BANK CREDIT (Concld.)

(₹ Crore)

Sr. No.	Sector	Outstanding as on					
		Jan 31, 2020	Feb 28, 2020	Mar 27, 2020	Apr 24, 2020	May 22, 2020	Jun 19, 2020
2.1	Mining & Quarrying (incl. Coal)	41886	41600	43927	43508	42094	42890
2.2	Food Processing	150279	149851	154146	152326	149382	157937
2.2.1	Sugar	26288	26623	27382	27362	26556	25491
2.2.2	Edible Oils & Vanaspati	20745	19461	19240	18044	17980	17589
2.2.3	Tea	5438	5290	5375	5193	4406	5108
2.2.4	Others	97808	98476	102149	101727	100440	109749
2.3	Beverage & Tobacco	14991	15063	16522	16458	16111	15025
2.4	Textiles	190108	188067	192424	190040	189249	189236
2.4.1	Cotton Textiles	87850	86276	89283	87254	86023	86401
2.4.2	Jute Textiles	2198	2117	2116	1994	1958	2046
2.4.3	Man-Made Textiles	26017	25822	26074	26094	26349	26835
2.4.4	Other Textiles	74043	73852	74951	74698	74919	73954
2.5	Leather & Leather Products	10882	10720	11098	10830	10609	10936
2.6	Wood & Wood Products	12205	12102	12233	12343	12432	12591
2.7	Paper & Paper Products	31085	30607	30965	31276	31570	31675
2.8	Petroleum, Coal Products & Nuclear Fuels	55622	58679	75834	81636	73835	73323
2.9	Chemicals & Chemical Products	183048	184239	202949	193201	182315	180006
2.9.1	Fertiliser	34535	37028	49066	35981	34781	34486
2.9.2	Drugs & Pharmaceuticals	52072	50685	53427	53198	51800	52040
2.9.3	Petro Chemicals	40697	40188	42233	47383	40832	39455
2.9.4	Others	55744	56339	58223	56639	54902	54025
2.10	Rubber, Plastic & their Products	49254	48752	50415	49763	48645	48402
2.11	Glass & Glassware	8678	8494	8777	8412	8165	8132
2.12	Cement & Cement Products	57715	56634	58689	58916	58234	57163
2.13	Basic Metal & Metal Product	335104	333597	350325	354085	354466	350359
2.13.1	Iron & Steel	252173	250942	262396	268125	268756	266465
2.13.2	Other Metal & Metal Product	82931	82655	87929	85960	85710	83894
2.14	All Engineering	157586	155428	157259	154251	155201	147283
2.14.1	Electronics	33594	32900	30159	29968	30438	29742
2.14.2	Others	123992	122528	127100	124283	124763	117541
2.15	Vehicles, Vehicle Parts & Transport Equipment	79793	79111	82606	82565	84499	85374
2.16	Gems & Jewellery	59841	59147	59515	58880	57447	55686
2.17	Construction	105113	103972	104288	98980	100381	102608
2.18	Infrastructure	1036852	1018749	1053913	1055204	1055249	1069160
2.18.1	Power	559305	538993	559774	566556	568131	568950
2.18.2	Telecommunications	136080	141171	143760	139040	138289	146173
2.18.3	Roads	192232	186148	190676	189441	192041	194921
2.18.4	Other Infrastructure	149235	152437	159703	160167	156788	159116
2.19	Other Industries	237483	238000	239266	231698	231723	237424
	Industries	2817525	2792812	2905151	2884372	2861607	2875210

Source : *Reserve Bank of India.*

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Dated 14-12-2017

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