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Govt to push PSBs to tap market for fresh capital in next fiscal

NEW DELHI: The government will push large public sector banks (PSBs) to tap the market for fresh capital in the next fiscal as it is not inclined to give them growth capital soon after having infused large amount of funds this year. It is also seeking details from state-run lenders on action taken in cases of bad loans above Rs 50 crore. "At least 2-3 stronger banks can approach the markets in the first half of next fiscal," said a finance ministry official, adding the government is not keen to infuse anymore capital in PSBs unless for regulatory requirements. In the current fiscal, the government has already infused the Rs 1.6 lakh crore of bank capitalisation plan announced earlier. This helped five banks climb out of the Reserve Bank of India's prompt corrective action (PCA) framework. The government expects the remaining five lenders to come out of PCA by the end of next year. "Some large cases being pursued through bankruptcy route are also expected to finally get settled in the first quarter next fiscal," the above quoted official adding this would further raise the banks' capital. The Insolvency and Bankruptcy Code (IBC) has led to record recovery Rs 98,493 crore by PSBs in first nine months of FY19. According to a recent IBA-BCG report, stress recognition is almost complete in PSBs and standard restructured advances as a percentage of gross advances plunged to 0.5% in December 2018 from 7% in March 2015. BIG LOANS SCRUTINY Last year, the government had asked all state-run banks to examine non-performing (NPA) loans of more than Rs 50 crore for any sign of fraud. "PSB managing directors directed to detect bank frauds & consequential wilful defaults in time & refer cases to CBI. To examine all NPA (non-performing asset) accounts & Rs 50 crore for possible fraud," department of financial services secretary Rajeev Kumar had tweeted. Banks were further directed to seek passport details of borrowers taking loans of Rs 50 crore and more. The government is seeking a status report from the state-run banks. "We need to have an assessment of the current status of such exposure gone bad, are there any recoveries expected and if a fraud has been detected, then, what is the legal action being pursued," said a finance ministry official, adding that bad loans for PSBs are already on a decline and a clear picture will help firm up plans for any emergency capital that may be required by lenders.

CAs across India request Modi govt to rein in tax officials

MUMBAI: Chartered accountants across the country have requested the Prime Minister's office and the Finance Ministry to rein in tax officials who have been directed to take "all possible actions" to recover tax amid a shortfall in revenue collection. On March 26, the Central Board of Direct taxes (CBDT), the apex body, issued instructions to all principal chief income tax commissioners (CITs) across India to take "all possible action" immediately to boost the collection of direct taxes, including recovery of arrears. This kind of instruction causes a great deal of concern in the minds of tax payers as it is bound to create unrealistic pressure on tax officers, particularly days before the end of the financial year, said a press statement jointly issued by the Bombay Chartered Accountants' Society, Chartered Accountants Association Ahmedabad, Chartered Accountants Association Surat, Karnataka State Chartered Accountants' Association and Lucknow Chartered Accountants' Society. "Such a situation would be in sharp contrast to the stated motto of the government of ushering in a tax friendly regime," said the communique which was signed by Sunil Gabhawalla (Mumbai), Chintan M Doshi (Ahmedabad), Rashesh Shah (Surat), Raghavendra Shetty (Karnataka) and R. L. Bajpai (Lucknow). According to the release there are thousands of cases across India where demands may have been raised due to mismatch in the credit of TDS as per form 26AS and as per income tax portal for various valid reasons; the tax demand could also be because of pending disposable of rectification application for giving effect to orders to Commissioner of Income Tax (Appeals) and Income Tax Appellate Tribunal (TAT). Many a time the tax demand is seen pending due to non-intimation of manual rectification carried out by assessing officer. In a large number of cases the demands are disputed in appeal and the concerned tax payers have a high chance of succeeding in the appeals, said the associations who have appealed to the PMO and the MoF to instruct CBDT and ground level officials of the I-T department to refrain from taking actions which are not in the interest of the taxpaying community. The associations have pointed out that "if at all recovery measures are to be adopted; they should be done after following the due process of law." The direct tax collection achieved is only 85.1% or Rs 10,21,251 crore against the budgeted target of Rs 12,00,000 crores, representing a shortfall of Rs. 1,78, 749 crore. As per the letter dated 26th March by CBDT member Neena Kumar to all the principle chief commissioners, direct tax collection indicates worsening trend of negative growth in regular collection at -6.9% as against -5.2% in the last week. The letter further states that this alarming situation requires immediate action. "The Board has discussed strategies through various communications with you and it was expected that by this time your strategies would have succeeded resulting into improved collections. However, the figures of collection give a different account…," said the letter from the CBDT member.

Despite merger with BoB, Vijaya and Dena to retain logos for a while

Old signages will be used for a few more months to avoid confusion, says Dena official

Customers of Dena Bank and Vijaya Bank will continue to see the familiar logos of 'Goddess Lakshmi' (the Goddess of Wealth) and that of 'A man bowing humbly with his hands in his pockets' for some more time, despite the banks getting merged with Bank of Baroda with effect from April 1, 2019. However, the branches will also sport the 'Now - Bank of Baroda' sticker on the branches to reflect the changed status. To avoid confusion among customers, branches of transferor banks (Dena Bank and Vijaya Bank) will continue to have old signages for a few more months, said a senior Dena Bank official, adding the 'Now - Bank of Baroda' line will be incorporated in them. According to the Government's Gazette Notification issued on January 2, upon amalgamation of the transferor bank 1 (Vijaya Bank) and the transferor bank 2 (Dena Bank) with the transferee bank (BoB), the surviving entity being the transferee bank shall be known as Bank of Baroda. Dena Bank and Vijaya Bank will merge with BoB to form India's second-largest public sector bank. The amalgamation will be the first-ever three-way consolidation of banks in India. The Finance Ministry, in a statement in January, said the amalgamated bank will be better equipped in the changing environment to meet the credit needs of a growing economy, absorb shocks, and possess the capacity to raise resources. Economies of scale and wider scope would position the amalgamated bank for improved profitability, wider product offerings, and adoption of technology and best practices across the amalgamating entities for cost-efficiency, improved risk management, and financial inclusion, through wider reach. It would also enable the creation of a bank with scale comparable to global banks and capable of competing effectively in India and globally.

Core strengths

"The strength of individual banks, such as Dena Bank's relatively higher access to low-cost CASA (current account, savings account) deposits, Vijaya Bank's profitability and availability of capital for growth, and the extensive and global network and offerings of BoB, will translate into advantages in terms of market reach, operational efficiencies, and the ability to support a wider offering of products and services," the statement said.

Das-led RBI set to bring back 'exotic currency bets'

After a decade, the Reserve Bank of India is set to lift the ban on 'exotic currency derivatives', the double-edged, fancy products that had left a trail of destruction in 2007-08 amid allegations of mis-selling and court battles when bets by corporates backfired as the euro, Yen and Swiss franc surged. Over the past month, senior RBI officials have held multiple meetings with bankers to discuss ways to allow these products, albeit with certain safeguards. "There is mixed reaction among bankers. Some are excited by the possibility of extra margins from sale of exotic instruments while others who took the hit and were dragged to court are apprehensive… particularly, the compliance guys. But everyone is surprised by RBI's plan to open up the market," a senior banker, who attended one of the meetings, told ET. Hundreds of Indian corporates had entered into such tailor-made, over-the-counter derivative contracts with banks — mostly private and foreign lenders — to extract a better exchange rate on export earnings, prune loan costs and shore up bottom lines. As the rupee surged, exporters were tempted to buy complex currency option packages instead of locking in gains through the conventional way of selling dollar income in the forward market. Treasurers, desperate to showcase their performance, signed synthetic contracts to swap high-cost rupee loans into much cheaper Yen or Swiss franc loans. But all contracts — typical in high-risk, high-return deals — had deep downsides which the corporates failed to grasp, and later cried foul as the bets went awry. In many cases, such as businesses in SME clusters like Tirupur, the firms never had the wherewithal to stomach the losses. What did these exotic derivatives look like? Here's a description: An exporter, rattled by a falling dollar, knows that selling his expected dollar earnings would only fetch a marginally better rate of Rs 40 over the spot rate of Rs 39. So, the company enters into a series of option contracts (maturing monthly or weekly) with a bank which promises Rs 43 for every dollar. The company has an option that gives it the right to sell the dollars that it will receive from foreign buyers to the bank at Rs 43 each. But there's a catch: when a company buys an option, it has to pay a premium to the bank. What's the premium Rs Nothing, as long as some global benchmark rate stays within a particular range. But the moment it goes out of the range, either on the upper or lower side, the company has to fork out big money. A decade back, when these instruments were allowed, many companies — to boost profits — had converted local rupee loans into yen or Swiss franc which carried a significantly lower interest rate. In many cases, corporates entered into option contracts to protect the risk on such swaps. But these call options were conditional risk protection products, better known as 'KIKOs' (knock in, knock out). For instance, one such contract said that as long as the Swiss franc did not appreciate beyond 1.05 against the dollar (i.e. $1 = 1.05 Swiss franc), the corporate could buy Swiss franc at a rate of $1 = 1.20 Swiss franc. But when the exchange rate breached 1.05 (to, say, 1.03, which it did in February-March 2008) the corporate could no longer get Swiss franc at 1.20. It then had to buy from the market, which had turned more expensive. Even as late as September 2007, few had thought the Swiss franc would touch 1.03. In the case of leveraged products — which the RBI would soon define, according to the banker — the pay-ins or pay-outs could be three or four times. Here, the bet was a few multiples of the underlying. “It all began as banks found ways to package currency options to make them more attractive for clients. For instance, an exporter sold a call (or, the obligation to sell dollars) to offset the cost of simultaneously buying a put option (the right to sell dollars). While there is nothing wrong in such zero cost options, companies became greedy and bought more and more in-the-money options which commanded a higher premium and were thus riskier. Here, when the currency moved wildly, the losses were large,” said a market veteran. After the derivative losses — where banks also took a hit when clients refused to honour deals — the RBI banned exotic products, allowing only plain-vanilla currency options. “But now, at least as per the draft plan, the regulator is open to allowing all kinds of exotic products. Significantly, it is also proposed that foreign investors should be allowed to freely cancel and rebook contracts, which could bring some of the offshore demand onshore and may not be a bad thing,” said another banker. “The feeling we got is that the RBI does not want to stifle innovation. And it wants sophisticated players, i.e., companies with net worth of Rs 200 crore or more, to freely choose derivatives,” said the person. A strong lobby is believed to be in favour of scrapping the ban, and the RBI, under governor Shaktikanta Das, is considered to be more receptive to suggestions. If it lets players decide whether or not to trade in exotic products, the RBI would be simply going by one of the court rulings in a derivative dispute, which said, “Though every wager is inherently speculative in nature, every speculation is not necessarily a wager”.

Five PSU lenders get capital infusion of Rs 21,428 crore from government

Five state-owned banks, including PNB, Bank of Baroda and Union Bank, Thursday received shareholders' approval for capital infusion to the tune of Rs 21,428 crore in lieu of preferential allotment of shares to the government. This capital infusion is for the current fiscal ending March 31, 2019. Punjab National Bank (PNB) in a regulatory filing said that an extraordinary general meeting of shareholders was held on March 28 for obtaining shareholders' approval to issue and allot 80,20,63,535 equity shares at a premium of Rs 71.66 per share amounting up to Rs 5,908 crore on preferential basis to the government. Bank of Baroda said the finance ministry informed about its decision to infuse capital of Rs 5,042 crore in the bank. "The capital infusion will be by way of preferential allotment of equity shares (special securities/bonds) of the bank during 2018-19, as government's investment," Bank of Baroda said. Union Bank said: "The Committee of Directors for Raising of Capital Funds (CDRCF) of the bank at its meeting held on Thursday considered and approved the allotment of 52,15,62,658 equity shares at an issue price of Rs 78.84 aggregating to Rs 4,111.99 to government in accordance with the applicable provisions." The board of the Chennai-headquartered Indian Overseas Bank (IOB) in an extraordinary general meeting decided to to allot preferential shares to government to get capital infusion of Rs 3,806 crore. "The Board for Issue of Equity Share Capital at its meeting held today has issued and allotted 269,54,67,422 equity shares at an issue price of Rs 14.12 per equity share (including premium of Rs 4.12 per equity share) to government by way of preferential allotment," IOB said. With this allotment, the government holding has increased from 89.39 per cent to 92.52 per cent in the bank, it added. "This capital infusion will help the bank to shore up its capital adequacy requirements and enable the bank to build a robust loan book," R Subramaniakumar, MD & CEO, Indian Overseas Bank told PTI. He also said that various initiatives have been taken by the bank for turnaround and there was a visible improvement in the bank's performance as seen in the third quarter results. Subramaniakumar hoped that the bank will be able to return to the black in the next fiscal year beginning April 1, 2019. Earlier, the bank raised Rs 261 crore to its share capital in January under Employee Stock Purchase Scheme (ESPS) in which as much as 92 per cent of the employees participated which resulted into over-subscription of bank stock. "With this capital infusion and taking into account the capital raised through ESPS as well as sale of noncore assets, CRAR (capital to risky asset ratio) will improve considerably," he said. Central Bank of India allotted 68, 72, 48,322 equity shares at Rs 37.25 aggregating upto Rs 2,560 crore. With this, shareholding of government has increased from 89.40 percent to 91.20, said Central Bank of India.

Hunt for Jet Airways' buyer takes SBI, Naresh Goyal to TPG Capital and Delta Air Lines

MUMBAI: Jet Airways' top lender State Bank of India and its founder Naresh Goyal have reached out to private equity giant TPG Capital and US carrier Delta Air Lines to explore the possibility of a stake purchase in the beleaguered airline. Two people in the know said that while SBI has begun exploratory talks with TPG, Goyal has reached out to Jet's commercial partner Delta. A senior bank official confirmed that TPG has been sounded out but cautioned that talks are very preliminary in nature and the real picture will emerge only after the bank asks for expressions of interest (EoIs) early next month. "TPG is in touch but they being a PE fund are unlikely to take a majority stake. They may at best take some minority stake. Only airlines may be interested in buying a large stake. There may be other airlines interested which we will know only after the EoIs come in. This is all at a very preliminary stage right now so nothing can be said," this official said. Both had been wooed previously by Goyal without success. TPG Capital last year had shown interest in Jet's loyalty programme Jet Privilege which was also up for sale. A team from Delta visited Jet's Mumbai office thrice this week. A third person in the know said this was to explore synergies in maintenance and engineering with the airline. Jet has deep commercial ties with the Air France-KLM combine and through them with Delta. TPG declined to comment. Delta said it does not comment on market speculation. SBI and Jet didn't reply to emails till the time of going to press. AIRLINE DEFAULTS ON ECB REPAYMENT Meanwhile on Thursday, Jet informed the BSE that it has defaulted on repayments on external commercial borrowings, due on March 28, raised for working capital purposes. It attributed the default to "temporary liquidity constraints" and said it has engaged with the lender for the same. It didn't elaborate. State-run banks took over the board and management of Jet on Monday with 50.1% stake, Goyal's holding was reduced from 50.1% to 25.5%, Etihad Airways' share came down to 12% from 24% and public shareholders were left with 12.5%. Goyal resigned as chairman and board member. Jet's lenders are now looking for a new buyer. The bids will be thrown open on April 9 and the last date for submitting bids is April 30. The lenders hope to find a new buyer for Jet by June-end. Jet CFO Amit Agarwal said the bidding is non restrictive and both Goyal and Etihad can bid. Jet, in the throes of acute financial distress, has defaulted on loan repayments, lease rentals and vendor payments. It has also delayed salaries, grounded planes and laid off staff. But on Thursday, Jet told its travel agents that it is reinstating more than 60 domestic flights between March-end and April 25. One of the people cited above said that while there may be little change in the number of grounded aircraft by then, the airline will redeploy its international capacity, primarily by cancelling some flights to Gulf, on domestic routes. The flights that will be resumed include those between Mumbai and Hyderabad, Ahmedabad, Jaipur, Indore, Aurangabad, Pune, Goa and from Delhi to Jaipur, Lucknow, Indore, Bhopal, Bhuj, among others. "Guests who have been re-protected by you on alternate flights due to cancellation of the above flights can be rebooked on the original flights in the lowest available RBD (reservation booking denominator) in the same cabin without any ADC (additional collection)," Jet said in a letter to agents, indicating that no additional charge should be levied on booking the passengers back. One of the sources added that Jet is currently flying just 35 planes, down from its original fleet of 124 planes in December. Jet's Agarwal told ET that lessors have agreed to give the airline more time and that Jet will have 75% of its fleet flying in a month.

Asian bankers eye follow-on capital raising

Bankers in Asia are betting on newly-listed companies returning to the markets for fresh capital as last year’s flood of initial public offerings (IPOs) slows to a trickle, with 2019 seeing the weakest start in equity sales in three years. Equity sales in the region, including IPOs, convertible bonds, and follow-on sales, fell 41 per cent to $49.1 billion in the first quarter, Refinitiv data show, the slowest since 2016. Fees from equity capital market (ECM) deals have reached $966 million so far, bankers’ worst quarterly haul in six years. The data make for a sobering read after 2018 when Asia’s red-hot markets hosted many multi-billion-dollar IPOs, including SoftBank Corp’s $23.6-billion Tokyo float and Xiaomi’s $5.4-billion one in Hong Kong. But bankers hope some of the gloom will be lifted as many of the companies that went public last year return for additional capital, making 2019 less a year of jumbo IPOs and more of follow-on capital raisings and convertible bonds. “We are already seeing companies that went public last year coming back ... with follow-on offerings,” said Goldman Sach’s David Binnion, co-head of equity capital markets, Asia ex-Japan. “In many situations these follow-on financings are coming sooner after listing than we have historically seen, reflecting the capital-intensive nature of these growth companies.” Many firms that went public last year raised less than they had aimed for as investors pushed back against lofty valuations. That will further drive follow-on activity, bankers said. Chinese electric vehicle maker NIO, video streaming company iQIYI and e-commerce firm Pinduoduo, all 2018 IPOs, have come back to the market to raise funds.NIO raised $750 million in a five-year convertible bond this year, four months after it went public in New York, while iQIYI raised $1.1 billion in six-year convertible bonds this week in its second such issue within a year of its IPO. Asian companies have sold $21.3 billion in convertible bonds so far, a record for this point in any year.

IPO slowdown

After a blockbuster IPO year for Asia in 2018, led by Hong Kong that hosted deals worth $36.3 billion – its best year in eight – 2019 is expected to be much slower.“Some drivers of last year, such as mega IPOs out of China, will probably be fewer,” said Murli Maiya, co-head of investment banking coverage for Asia Pacific for JPMorgan. “There should be continued investor interest in IPOs, but likely at different price points and in different sectors.” Hong Kong’s largest IPOs this year are likely to be from non-Chinese firms such as UK data centre operator Global Switch, which plans to raise $1 billion, and a spin-off of the Asian interests of the world’s largest brewer, Anheuser-Busch InBev, which could raise over $5 billion, sources say. The largest IPO in Asia this year so far was the $687-million float of Embassy Office Parks REIT in India, the country’s first real estate investment trust IPO. But bankers are optimistic the good performance of smaller IPOs, such as CStone Pharmaceuticals and Chinese broker Futu Holdings, will give investors confidence after the bleak performance of many newly-listed shares in 2018. Despite the headline-grabbing amounts raised in IPOs last year, many companies languished below their offer prices with Sino-US trade tensions keeping investors on tenterhooks. Successful floats will give “investors the confidence that the IPO market is still an important contributor to performance and that's important for the rest of 2019”, said Jason Cox, head of ECM, Asia Pacific for Deutsche Bank.

Raghuram Rajan questions Narendra Modi's minimum govt, maximum governance promise

MUMBAI: Former Reserve Bank governor Raghuram Rajan Wednesday questioned the 'minimum government and maximum governance' promise of the Narendra Modi regime, saying the state has gained more power sans any checks and balances and has created too much inefficiencies in its wake. This has led to a "dependent and pliant" private sector which has no choice but to applaud every decision of the govt, the noted economist said. "The question is, how far have we come on that (minimum government and maximum governance)? I think we continue to rely too much on the bureaucracy to do many things," the academic said at the city launch of his new book 'The Third Pillar' here this evening. "The scope of the government is something we will have to examine sooner, rather than later, because today it does too much too inefficiently," he said. It can be noted that the minimum government and maximum governance promise was one of the central themes of Modi's 2014 election campaign. However, in the past five years of his rule, his bloated administration has been accused of being "statist" by critics for decisions like demonetization and the haphazardly manner in which the uniform tax regime GST was rolled out. Rajan, who went back to the University of Chicago as a professor after his stint at the Reserve Bank between September 2013 and September 2016, said "we must not go back on liberalisation moves", criticising the recent moves like re-introduction of protective tariffs in a slew of sectors like steel and consumer durables like televisions and smartphones, which led some leading foreign companies to shutter their local manufacturing. He was also critical of the policy changes on the e- commerce industry which have hurt entrenched players, saying there is an "angst" in the West because of the move, which came in soon after the largest ever FDI of USD 16 billion into the country was announced by Walmart to takeover domestic e-tailing major Flipkart last August. "There is a lot of angst in the West on how the rules in the e-commerce sector were changed. This is the kind of uncertainty that keeps away FDI from coming into the country," Rajan said. The country has to pitch itself as a haven for investments because of the anxieties surrounding China, he said, adding we need to "stick to the rules" and change them transparently. "We need to convince people that we would respect their ability to do business here," Rajan said. Such posturing by the Modi government is leading to a situation where the state is gaining more and more powers without the necessary checks and balances, said Rajan, who earlier in the day said that he was open to come back to serve the country if called out to do so. "As the state expands its realm whether through regulatory or discretionary powers, it essentially gains more powers without a proper checks and balances," he said, adding the uncertainties of shifting goalposts makes the private sector less potent. "A dependent private sector makes for a pliant private sector and that doesn't ever afford a sufficient check and balance for a government." He also cited the airlines and hospitality sectors as two areas where the government has no role to be in and should be best left to the private sector. Rajan also questioned the data computation on growth, saying how can we continue to have low job creation and lower capacity utilisation if we are having an official growth number of 7 percent or more. Rajan said there is a "disconnect" in the data and it is prompting some "soul-searching". However, it has not yet come to a juncture where people are throwing out the data, he made it clear. Stressing on the 7 percent growth as the "official" growth rate, Rajan said there is a need to grow beyond this new "Hindu rate of growth" as the nation was called during the under-4 percent growth years before the July 1991 liberalisation move. The former governor also said this requires fresh thinking on how to push growth up and that minor tweaking in the policies will not be of help. Rajan said sufficient growth and resources that accrue because of it are necessary for serving the poor, but seemed to be against taxes on the super rich. Rather, what is required is better tax compliance, he underlined.

India postpones accounting rules, sparing banks bad-loan piles by Rahul Satija

India delayed the introduction of tough new accounting rules for the second year running, in a move that will spare the country’s banks from adding another layer to the $190 billion pile of bad loans on their books. The Reserve Bank of India said late Friday that legislative amendments needed to implement the new Indian Accounting Standards are still under consideration by the government. “Accordingly, it has been decided to delay the implementation” of the rules “until further notice,” the RBI added in a statement on its website. The new rules -- based on the IFRS9 standards created in the aftermath of the financial crisis -- were supposed to kick in at the start of the new fiscal year that starts on April 1, after being delayed last year. According to Fitch Ratings’ local unit, India’s state-run lenders would have had to increase provisions by as much as 1.1 trillion rupees ($16 billion) in the fiscal first quarter ending June 30 if the rules had gone ahead. That would have forced public sector lenders to raise “substantial” amounts of extra capital, beyond the estimated 1.9 trillion rupee infusion already committed by the government for the two-year period to the end of this month, Fitch’s India Ratings & Research said in a report last month. Last April, the RBI delayed the implementation of the new standards a few days into the start of the current fiscal year, citing the need for legal changes and more preparatory work by the country’s banks. The new accounting standards would require banks to make provisions when they judge that a loan is likely to sour, rather than waiting for the borrower to start missing payments. The impact on Indian banks as a whole would have been less this year than last, said Parthasarathi Mukherjee, chief executive officer of Lakshmi Vilas Bank Ltd., speaking before news of the RBI’s latest deferral. Indian banks have taken hefty provisions and write-offs in past years, and there are early signs that asset quality is improving, Mukherjee said. “The system has overall mostly seen through its challenges on asset quality,” said Mukherjee.

ICICI Bank launches two instantaneous home loan facilities

The bank is on course of touching a mortgage portfolio of ₹2 lakh cr by March 2020, says a top official.
Private sector lender ICICI Bank on Thursday announced the launch of two instantaneous home loan facilities, one of which would enable instant and paperless home loan approval of up to ₹1 crore. The ‘Instant Home Loan’ service enables pre-approved salaried customers of the bank to avail final sanction letter digitally and instantly for loans up to ₹1 crore for a tenure of up to 30 years (based on the age of the customer) using internet banking facility. The ‘Insta Top Up Loan’ initiative would enable existing home loan customers of the bank to avail the facility of topping up their loan immediately up to ₹20 lakh for a tenure up to 10 years, in a completely digital and paperless manner. “We believe that in addition to digitisation, outreach to Tier-II, III cities and micro-markets and focus on affordable housing, is the key to rapid growth for our mortgage portfolio. In line with this strategy, we have expanded our mortgage business to over 500 Tier II, III, IV markets this fiscal,” said Anup Bagchi, Executive Director, ICICI Bank. The private sector lender also created a new seamless experience for mortgages and has identified 500 high-potential branches for mortgages with a dedicated area for the business. ICICI Bank has the largest mortgage portfolio among private sector banks in the country. “In 2016, we crossed the milestone of cumulatively disbursing mortgage loans of ₹1 lakh cr. We are on course of touching a mortgage portfolio of ₹2 lakh cr by March 2020,” Bagchi said.

After Aadhaar ordinance, banks aiming to rework digital account-opening process

Banks are once again reworking strategies for instant opening of bank accounts using Aadhaar-based authentication and KYC, with some likely to re-launch such facilities in the coming weeks. The move follows the promulgation of Aadhaar and other laws (Amendment) Ordinance 2019 earlier this month, which amended the Aadhaar Act 2016, Prevention of Money Laundering Act 2005, and Indian Telegraph Act 1885, and enabled private banks and telecoms to use Aadhaar for authentication of identity.

To review 811
Private sector lender Kotak Mahindra Bank plans to review its immensely popular digital account opening platform 811 through this method. “Now, with the recent guidelines by the government, we are reworking on offering the consent-based voluntary use of Aadhaar for bank account opening. As we speak, we are in the process of studying the changes. “My take is very soon we will be able to offer, with least amount of friction, a journey closer to, if not exactly the way it was before the Aadhaar verdict,” said Deepak Sharma, Chief Digital Officer, Kotak Mahindra Bank. The bank had

temporarily suspended the 811 account opening facility after the Supreme Court verdict on Aadhaar last year, which had prohibited the compulsory use of the 12-digit biometric identification number-based KYC for bank accounts and mobile connections. Later, the lender had partially restarted the service, although there was a slowdown in customer acquisition.

“Aadhaar, as a service, could be used only for those customers who wanted to use it for DBT purpose and voluntary use of Aadhaar. They could proceed with the journey through OTP and full KYC as we were doing pre-Aadhaar verdict,” said Sharma, adding that the second option was a wallet-based journey to customers. “Such customers came through a wallet route and then we quickly did their KYC and brought them on board,” he told press. Sources said that other lenders, which had suspended such formats for opening bank accounts, are also reviewing the ordinance. However, some are awaiting more clarity from the Unique Identification Authority of India, in terms of fresh guidelines. Many had, however, started digital account opening for direct benefit transfers (DBT)-linked accounts with voluntary Aadhaar. “Fincare SFB is likely to re launch its online digital account opening facility from next week. It will be linked to DBT using consent based Aadhaar verification,” said Prakash Sundaram S, Chief Strategy and Digital Innovation Officer, Fincare Small Finance Bank. The bank also offers a debit card and full suite of banking services immediately on opening the account. The small finance bank offered 101, a digital savings account that can be opened online in five minutes using Aadhaar-based e-KYC, and had acquired close to 12,000 customers through the facility, largely in September and October last year.

Money laundering

Apart from ease of account opening, bankers believe the use of Aadhaar helps in better authentication of customers, and is more effective in preventing activities such as money laundering.

<u>How bad loan mess is hurting lesser-rated borrowers as well as banks</u>

Best of the Breed: That’s the central hiring mandate to HR line managers at bulgebracket investment banks and private equity firms shopping for talent at top business, law and engineering schools. The key assumption behind this elitist practice is that the majority of those coming on board would be high performers, offsetting the cumulative negative impact of the minuscule minority that might fail to measure up to the exacting standards of Wall/Dalal Street. Curiously, this elitism is being extended to India’s commercial banking, as the financial system seeks to extricate about Rs 10 lakh crore stuck in bad loans. Lenders now prefer retail borrowers to companies, and the highest-rated businesses in the land to those that come slightly lower down in the pecking order of credit-worthiness. India’s standing as a large consumption economy explains the tilt towards retail. But how will banks manage to fund only 25% of the credit-rated investment grade and above? Wafer-thin margins This segment is already overbanked as better risk profile, diverse businesses and greater access to funds in India and abroad have helped attract banks toward these behemoths. The shift toward this higher-rated companies is clear from the investor presentation on the website of top private sector financiers such as ICICI Bank and Axis Bank. ICICI’s lending to A- and above companies has increased to 66.3% of its loan book in December 2018 from 51.9% in March 2016 even as the loan book has increased to Rs 5.64 lakh crore from Rs 4.35 lakh crore in March 2016. For Axis Bank, the BB-rated portfolio as a percentage of gross customer assets has come down from a peak of 7.3% in the first quarter of fiscal 2017 to 1.40% in December 2018. As banks have burnt their fingers in lending to lower rated, fast growing and infrastructure companies, this space is set to get more crowded fetching lower margins. Safety first, glory if possible Indeed banks are preparing to sacrifice some profitability in favour of lower credit risk. “It is a trade-off between higher margins and going for higher-rated loans, which means that the pricing will come down. Banks will have to make up for this lost income through avenues like other income,” said Sujit Kumar Varma, deputy managing director, corporate accounts group at State Bank of India. The country's biggest lender is also following its private sector peers in consolidating its wholesale lending toward higher-rated companies. It also means that companies rated lower than BBB will find it difficult to access funds and may have to depend on nonbanking sources. This is because India's local corporate bond market is still unreceptive to issuances from companies below AA. Data from Crisil shows that more than 68% of the issues in the local bond market are companies rated AAA as of December 2018, up from just below 65% in fiscal ended 2015. NBFCs and lower-rated borrowers, Also, with NBFCs facing their own set of issues centred around adequate liquidity, it remains to be seen whether these companies can get funding at all. Bankers acknowledge that the pivot toward better credit profile could leave some companies behind. "There may be companies in the Rs 250 crore to Rs 1,000 crore turnover mark that may find it difficult. But these companies, to an extent, are not bankable and getting money back from them is also difficult. I also have no obligation to lend to these companies," said Rajiv Anand, executive director in charge of wholesale business at Axis Bank. Anand disagreed that the shift toward better credit profiles will in itself impact profitability, instead pointing out that better credit risk could in fact become a driver for better margins in the future. Credit mispricing But bankers also acknowledge that India is among the few countries where credit pricing for top-rated companies has been mispriced. And this shift toward higher-rated securities will further skew the pricing table. "One of the big challenges in India is the country is mispriced at the top end. For India's risk rating, the kind of pricing that you get is wafer thin. So you have got to be very selective about building a business at the top end without being a drag from a return on investment standpoint," said Piyush Gupta, CEO at DBS Bank, which earlier this month opened a domestic banking unit in the country with an aim to target lending to individuals, small and medium enterprises and offer a wider network to large Indian companies, some of whom DBS already banks. DBS also went through its own NPA crisis in 2011-12 mainly due to loans given to midsized, promoter-led businesses, which depended too much on the government for their revenue. Gupta said that in its new avatar, DBS will focus on a mix of high credit and returns to make a profitable business in the country. Jobs on the line Analysts say Indian banking is at a crucial crossroads, which could define wholesale banking in the country. "Don't forget that some CEOs have lost their jobs because of the mistake they made in assessing risks. So bank managements and boards are now sensitive to the risks more than they were before. There is also increased surveillance of end use of funds and credit appraisal. Overall lending has tightened, which is good from the point of view of credit evolution," said Asutosh Mishra, head of research at Ashika Stock Broking. Mishra said banks also burnt their fingers by lending to lower-rated companies because increased competition had pushed them to lend at rates lower than their credit assessment. "Those were the pre MCLR days when banks could also go below their benchmark rates, which is not possible now. Ultimately, the aim is better credit appraisal," Mishra said. Bankers said the last decade has forced banks to strengthen their credit appraisal by looking at different metrics, like cash flows. All these will be used in lending to lower-rated companies. "It is not that we will completely stop lending to these companies. We can still analyse their cash flows and lend to companies with whom we have a relationship even if they are rated lower. Banks will have to ultimately develop their own mechanism in assessing credit risk in the long run, which is already happening," said Varma from SBI. The choices banks make in the next few months are going to change their business for the next decade or so.

<u>SC takes strong note of non-disclosure of banks' inspection reports by RBI</u>

NEW DELHI: The Supreme Court Tuesday took strong note of non-disclosure of the annual inspection report of banks by the RBI under the Right to Information Act. A bench comprising justices L N Rao and M R Shah said it may initiate contempt proceedings against the Reserve Bank Of India (RBI) for not disclosing the annual inspection report of various banks under the transparency law. The bench was hearing as many as three petitions filed by parties, including RTI activist Subhash Chandra

Agrawal, alleging noncompliance of the law by the federal bank. The apex court and the Central Information Commission had earlier held that the RBI cannot refuse to put the inspection reports in the public domain under the transparency law.

British Airways, Philips, others want a say in IL&FS resolution plan

British Airways, Postal Life Insurance and Philips India are among the about 100 entities that have sought to be part of the resolution process of Infrastructure Leasing & Financial Services as financial creditors. The companies said that their provident funds have invested in the bankrupt IL&FS and contend that they stand to suffer grave injury, which would be detrimental to public interest if they were excluded from the process. “Around 100 intervening petitions have been filed in the National Companies Law Appellate Tribunal to allow them to be party in the IL&FS case,” said a person in know of the matter. “These are PF accounts of Philips India, SAS employee provident fund trust, British Airways Cabin Crew Pension Fund, PLC staff fund and superannuation fund.” PF investments are unsecured and these investors want to be part of the resolution process as financial creditors to protect their company’s and their employees’ interests in these companies. Provident funds of companies are estimated to have invested Rs 15,000-20,000 crore in IL&FS group entities. The government superseded the IL&FS board on October 1 and appointed new members after the company, with a debt of Rs 91,000 crore, defaulted on loan payments. IL&FS has since put its group assets on sale, including energy and road projects, to monetise the investments and repay their creditors. City and Industrial Development Corporation of Maharashtra, Ambuja Cements, Indian Oil Corp., Titan, Power Grid and Indian Postal Life Insurance are among those which want to be part of the resolution process as financial creditors. The petitions were filed over the past two months. Postal Life Insurance said in its petition that it had subscribed to the nonconvertible debentures of IL&FS and its group companies. “If the intervener is not impleaded or allowed to intervene in the present proceedings, then the applicant will suffer irreparable harm and grave injury, being detrimental to the public interest at large,” Postal Life said. Philips Employees PF Trust invested in bonds issued by IL&FS and its group entities. “Considering the above, Philips Employees PF Trust has also filed an interlocutory application before the Hon’ble Tribunal against IL&FS and its group entities as an intervener to safeguard its rights and interests,” the spokesperson said. The next hearing is on March 29. An IL&FS spokesperson declined to comment on the matter.

Bank branches dealing with government business to remain open this Sunday: RBI

MUMBAI: The Reserve Bank of India (RBI) Tuesday directed banks to keep open their branches dealing with government business on the last day of the financial year (March 31), which happens to be Sunday. "The Government of India has advised that all Pay and Account Offices will remain open on March 31, 2019 (Sunday) to facilitate government receipt and payment transactions. Accordingly, all Agency Banks are advised to keep all their branches dealing with government business open on March 31, 2019 (Sunday)," RBI said in a circular. In a separate notification, the RBI said the Government of India has desired that all government transactions done by agency banks for financial year 2018-19 must be accounted for within the same financial year and has requested that, as in previous years, certain special arrangements be made for this purpose. "Accordingly, all agency banks should keep the counters of their designated branches conducting government banking open for government transactions up to 8 pm on March 30, 2019 and upto 6 pm on March 31, 2019," it said. All electronic transactions, including RTGS and NEFT, will continue for the extended time on March 30 and March 31, 2019 for which RBI will issue necessary instructions, it said.

NBFCs borrow more from banks on liquidity crunch

KOLKATA: The growth in bank credit has a veritable non-bank link. Non-banking finance companies' (NBFC) dependence on bank credit has grown by a huge 48% year-on-year till January, reflecting a shift in focus from money markets to banks for funds amid tighter liquidity condition. This is the highest growth in any loan segment reported by banks, while credit to manufacturing fell 0.7%, according to the Reserve Bank of India data. Personal loans to buy consumer durables suffered a 75% plunge. Overall bank lending has grown 14.6% year on year. "The recent liquidity issues have increased the cost of raising funds for NBFCs from the market. This has also been cited as one of the reasons for NBFCs shifting from the corporate bond market to banks for their financing needs," Care Ratings stated in a report. At the end of January 18, bank loans to NBFCs stood at ?5,57,600 crore as against ?3,76,000 crore a year ago. On April-to-January basis, the growth was recorded at 12%, compared to a 3.8% fall a year ago. This was despite the fact that lending to NBFCs slowed down in October as several banks had gone into a shell following the IL&FS crisis. Banks had, however, offered support to the shadow-banking entities by purchasing their loan portfolio in securitisation deals to help them tide over in liquidity mismatches after the crisis. Securitisation of loans is not considered as exposure to NBFCs, but to the specific sectors where the original loans belong. Care Ratings said that although the cost of borrowing dipped between October 2018 and February 2019, there has been an increase in borrowing costs across all categories (barring housing finance companies) during February visà-vis January 2019. The 10-year average G-sec yields rose to 7.37% in February from an average of 7.35% in the preceding month. "This could be one of the reasons for the cost of borrowings not coming down for the corporates as the G-sec rates have remained more or less unchanged at best," the rating company said.

Paytm raising up to $2 billion; valuation may soar to $18 billion

MUMBAI | BENGALURU: Online payments services company Paytm is in the midst of raising $1.5-2 billion from existing investors SoftBank Vision Fund and Alibaba's financial affiliate Ant Financial, said people with knowledge of the development. The latest financing round at One97 Communications, the parent of Paytm, is likely to peg the company's valuation at $16-18 billion, these people said, adding that new investors may join the current round. Paytm is likely to see a significant spike in the $10 billion valuation ascribed to it when Warren Buffett-led Berkshire Hathaway invested $300 million last year. The company was valued at $16 billion in a secondary round a few months ago, said people aware of the matter. A secondary sale is when an existing investor sells shares to a new one and the money does not come into the company's coffers. Increasing Competition "While SoftBank and Ant Financial's capital is already in, the company is engaging with other investors and may look to take the round to as much as $2 billion. But it is most likely to be an internal round," said one of the persons cited above. SoftBank, which first invested in the company in 2017, holds a 19% stake. The Alibaba group, through Ant Financial and Alibaba directly, owns 38% of One97 Communications. A SoftBank spokesperson said the company would not comment on speculation. Paytm founder Vijay Shekhar Sharma declined to comment. Paytm needs capital to fend off competition from the payment units of global giants Google and Amazon besides local rivals such as Flipkart-owned PhonePe in a fast-growing digital payments market, which got a boost after demonetisation in late 2016. Paytm clocked more than 221 million transactions on the Unified Payments Interface (UPI) last month. PhonePe and Google Pay are snapping at its heels, with transactions estimated at 180-190 million each. PhonePe is set to raise $1 billion after being hived off from Flipkart, ET reported on March 26, which will add to the competitive frenzy in a market that's driven by freebies and cash backs. "The payments battle in India is a global one with deep-pocketed players in the fray and Paytm investors understand that if they don't double down now they may lag behind. Currently Paytm has shown market leadership but the lead needs to be maintained, which is why the capital raise is important," said an investor in the company requesting anonymity. According to this investor, Ant Financial, which runs Alipay, will value

Paytm at least 20% higher than at the last funding round. Ant Financial' soft discussed plans to go public are said to have been deferred for now but it needs to show growth in emerging markets, especially India, said the person cited above. Cash backs and subsidies have helped drive online payment transactions on the consumer side along with incentives to encourage adoption by merchants. Paytm is looking to go beyond the payments business with a focus on new products such as Paytm Post paid, its pay-later offering. It's also floated Paytm Money, a platform for selling mutual funds, along with making a push in the travel and hotel booking space. The latest fundraising effort comes as its struggling e-commerce business has been downsized substantially. Paytm Mall, a subsidiary of One97 Communications, is said to be in talks with eBay to get a fresh capital infusion at a lower valuation than in previous rounds.

Supreme Court refuses to stay merger of Vijaya, Dena banks with BOB

NEW DELHI: Clearing decks for the scheduled merger of three public sector lenders -- Vijaya Bank, Dena Bank and Bank of Baroda -- the Supreme Court on Thursday refused to stay the amalgamation. The top court dismissed the applications filed by several bank officers' associations for staying the merger, effective April 1. The proposed amalgamation will make Bank of Baroda, which will merge the other two lenders with itself, the second largest public sector bank after State Bank of India in place of Punjab National Bank. A bench of Justices R F Nariman and Vineet Sharan said, "All interlocutory applications seeking stay are dismissed". At the outset, senior advocate Shyam Divan, appearing for bank officers associations, said that there were several flaws in the decision taken for merger of three banks as there was no effective consultation or concurrence with the Reserve Bank of India on the issue. He said that even the board of directors of the banks were not adequately constituted to take a decision of merger like this. "The Board of Directors should have been informed and given time to contemplate on the proposed merger of the banks but every thing happened on January 2," Divan said. He said that the board of directors passed a resolution on January 2, cabinet approved the decision on the same date and even the gazette notification was issued on the same day. The bench asked Divan as how is he affected by the decision of merger of the banks. He said that employees will suffer due to the merger as there will be an aspect of redundancy. Senior advocate Mukul Rohatgi, appearing for Bank of Baroda, said the merger was done within the statutory framework and all requisite procedure was duly followed. "All the banks in question are public sector banks and as far as employees are concerned, under the scheme their terms and conditions of employment will remain the same. They are not affected at all. It was a policy decision that two weaker banks join one stronger bank," he said. He said that as far as effective consultation with RBI is concerned, the process had started way back in September 17, 2018. Solicitor General Tushar Mehta, appearing for Union of India also opposed the plea of bank officers and said it was a purely an economic policy decision taken by the government for which detailed consultation has taken place. He said three committees were constituted, Parliament was informed and the RBI was consulted after which in principle consent was given. "Everything was done in a purely transparent manner and this is an economic policy decision taken by the government," he said. The bench then said it is rejecting all the applications seeking immediate stay of the decision to merge the three banks.

Govt to infuse Rs 5,042 crore into BoB

NEW DELHI: The government has decided to infuse Rs 5,042 crore into state-owned Bank of Baroda (BoB) ahead of merger of Dena Bank and Vijaya Bank with itself. The merger would be effective April 1. The finance ministry through its notification on Wednesday conveyed its decision to infuse capital of Rs 5,042 crore in BoB, the bank said in a regulatory filing. "The capital infusion will be by way of preferential allotment of equity shares (special securities/bonds) of the bank during 2018-19, as government's investment," it said. According to the Scheme of Amalgamation, shareholders of Vijaya Bank will get 402 shares of BoB for every 1,000 shares held. In the case of Dena Bank, its shareholders will get 110 shares for every 1,000 of BoB. The government in September last year had announced merger of Vijaya Bank and Dena Bank with Bank of Baroda, aiming to create the third-largest lender after SBI and ICICI Bank.

Direct tax collection falls short, CBDT raises alarm

The CBDT has rung alarm bells and has asked the Income Tax Department to go for a major assault as the direct tax collection target remains short of about 15 per cent, with the financial year closing less than a week away. On March 26, CBDT Member (Revenue) Neena Kumar shot off a letter to all the regional chiefs of the department stating that the tax collection figures have "been reviewed and it is seen that as against the budget collection target of Rs. 12,00,000 crore, only 85.1 per cent of the target at Rs 10,21,251 crore has been collected as on March 23." The officer, who is responsible to supervise I-T department's tax collection work across the country, underlined the areas that are sluggish vis-a-vis direct tax collections obtained from personal, corporate and advance tax categories. "The minor head-wise analysis indicates worsening trend of negative growth in regular collections at -6.9 per cent as against -5.2 per cent in the last week. This is an alarming situation which needs immediate attention," Kumar wrote in the letter. The officer expressed CBDT's disappointment at this situation and has asked the supervisory tax officials to pull up their socks and ensure no stone remains unturned to achieve the target. The Central Board of Direct Taxes (CBDT) frames policy for the I-T department and is also its controlling authority that functions from the North Block in the Finance Ministry. "You are aware that regular assessment tax is bench-mark of performance as it is based upon quality of demand raised which can further be converted into actual collections," Kumar wrote in the letter. "Board (the CBDT) has discussed strategies through various communications with you (senior officials) and it was expected that by this time your strategies would have succeeded resulting into improved collections. However, the figures of collection give a different account," she added. She asked the department to take "all possible actions urgently, especially with respect to recovery of arrear and current demand, so as to achieve the targets for collection." The CBDT has been worried over the direct tax collection work for quite some time and Board Chairman P C Mody had recently held a video-conference with the top brass of the department across the country and discussed strategies to boost the collection figures to be achieved by the end of the 2018-19 fiscal on March 31. Both Mody and Kumar are undertaking daily updates on the issue. They are monitoring advance tax and arrear collections, enforcement action to check tax evasion and subsequent surrender of undisclosed income, a senior official said.

Ex-PNB CEO aproaches NCLAT in Nirav Modi fraud case

NEW DELHI: Former MD and CEO of Punjab National Bank (PNB) Usha Ananthasubramanian has challenged the January 31 order of the National Company Law Appellate Tribunal's (NCLAT) Mumbai Bench that made her a respondent in the PNB Nirav Modi fraud case. The two-member NCLAT, headed by Justice S. J. Mukhopadhaya, issued a notice to the Ministry of the Corporate Affairs on her plea. The Centre had requested the Mumbai Bench of the National Company Law Tribunal (NCLT) to prosecute Ananthasubramanian in the Rs 13,500-crore scam by diamantaire Nirav Modi and the Tribunal had accepted the request on January 31. The NCLAT has posted the next hearing on April 29. Ananthasubramanian headed PNB between August 2015 and May 2017, before she was moved to the Allahabad Bank. She was also the executive director of PNB between July 2011 and November 2013.

RBI slaps Rs 2 crore penalty on PNB for violating SWIFT norms

NEW DELHI: The RBI has slapped a penalty of Rs 2 crore on Punjab National Bank (PNB) for non-compliance of regulatory directions with regard to SWIFT operations, the state-run lender said Tuesday. SWIFT is a global messaging software used for transactions by financial entities. The massive Rs 14,000-crore fraud perpetrated by billionaire jeweller Nirav Modi and his uncle Mehul Choksi at the PNB was a case of misuse of this messaging software. In a regulatory filing, the PNB said the Reserve Bank in a letter dated March 25 has informed the bank about the penalty. "In the matter of violations of regulatory directions by Punjab National Bank observed during assessment of implementation of SWIFT related operational controls, the Reserve Bank of India, (imposes) an aggregate penalty of Rs 20 million ... on Punjab National Bank," it said. Earlier this year, the Reserve Bank had imposed penalties worth Rs 71 crore on 36 public, private and foreign banks for non-compliance with various directions on time-bound implementation and strengthening of SWIFT operations. However, the list did not include PNB. The major banks which were fined by the regulator included SBI, ICICI Bank, HSBC, Bank of Baroda, Citibank, Canara Bank and Yes Bank

UN Security Council panel finds Cosmos Bank cyber attack motivated by N Korea

MUMBAI: A panel of experts appointed by the UN Security Council has stated that the cyber attacks on Pune-based Cosmos Cooperative Bank, from which hackers allegedly withdrew Rs 94 crore from ATMs in 28 countries, was “motivated” by North Korea. The panel was set up to study various UN sanctions breached by North Korea. Its report comes nearly seven months after the malware attack on the bank. “The panel notes a trend in the Democratic People’s Republic of Korea’s evasion of financial sanctions of using cyber attacks to illegally force the transfer of funds from financial institutions and cryptocurrency exchanges”, the report said. The Pune Police and the Maharashtra Cyber Cell probing the case are yet to trace the mastermind in the case. So far, 12 people have been arrested by a special investigation team of the Pune Police. Sources said the local module busted by the police could be “money mules” — people who serve as intermediaries for criminals and criminal organisations — acting on behalf of operators abroad. “We have learnt about the (UNSC) report but are yet to study it,” deputy commissioner of Pune Police Sambhaji Kadam told ET. “The case involves Rs 14 crore that was transferred to a Hong Kong bank by compromising the SWIFT system (of the bank) and the remaining Rs 80 crore that was withdrawn using ATMs in which malware attack was on the switch through which the payment gateways of Visa and Rupay debit cards operate,” said a senior official from the Maharashtra Police, who spoke on the condition of anonymity. “Those arrested are people who operated the ATMs and include an Indian coordinator. We are now trying to probe the malware attack, how the IPs were hacked into … We have managed to trace the trail and received correspondence from a few countries. We are trying to trace the original server and until that is done we cannot say that this attack was carried by a certain group or a country,” he added. The UNSC report would aid in the probe but most of the information it has quoted is through open sources, he added. In the past, both the Maharashtra Police and cyber experts had expressed their apprehension of the involvement of Lazarus Group, a hacker group comprising unknown people linked to North Korea. In its 378-page report published earlier this month, the committee elaborated on how the Cosmos Bank systems were hacked into. “The attack was a more advanced... and highly coordinated operation that bypassed three main layers of defence contained in International Criminal Police Organization (INTERPOL) banking/ ATM attack mitigation guidance,” the report, seen by ET, reads. “Not only were the actors able to compromise the SWIFT network...to transfer the funds to other accounts, but they simultaneously compromised internal bank processes to bypass transaction verification procedures and order worldwide transfers to almost 30 countries where funds were physically withdrawn by individuals in 10,000+ separate transactions over a weekend,” it added.

Banks report better non-performing loan ratio: Fitch

NEW DELHI: The Indian banking sector's non-performing loan (NPL) ratio for the nine months to December 2018 fell to 10.8 per cent from 11.5 per cent at fiscal yearend 2018, according to Fitch Ratings' estimate. Lower fresh slippages and better recoveries helped reduce absolute non-performing loans across several banks, the global financial research agency said. Fitch Ratings, however, added that the provisioning pressures persisted with 14 out of 21 state-run banks reporting losses. Mid-sized or small state-run banks were the most affected as credit costs, despite some moderation, exceeded their weak income buffers. "Complex legal proceedings have led to delays in the resolution of certain large NPLs among the system's $150 billion in NPLs (FY18), stretching recoveries well beyond the stipulated timeframe of 270 days," the agency said. There has also been increasing pressure from farm loans due to a weak monsoon and loan waivers, and small and medium-sized enterprises (SMEs), it noted. In January 2019, banks were allowed a one-time restructuring of SME loans under Rs 250 million. The government's February 2019 announcement to inject another $7 billion into its banks by FY19 will help banks meet minimum capital norms. But, Fitch said, it is unlikely to materially boost credit growth as banks still have to meet a 0.625 per cent capital conservation buffer in FY20 while negotiating more provisions. "Fitch estimates that Indian banks will require an additional $23 billion by FY20 to sufficiently meet minimum Basel III capital standards, achieve 65 per cent NPL cover and pursue low double-digit loan growth," it added. However, the agency is hopeful of large NPL resolution in 2019. "Higher recoveries are probable in 2019 as pending cases that are well beyond the 180-day timeframe (50 per cent of total) are more likely to see some resolution during the year," the credit rating agency said. The focus is on the Reserve Bank of India's first list of 12 large NPL accounts, which constitutes one-third of the current NPL base. Four accounts were resolved in 2018 with an average 50 per cent recovery rate. Among the potential risks, Fitch said real-estate loans may be a casualty if the current risk aversion towards non-bank financial institutions persists. "The liquidity squeeze -- following the default of a large non-bank in September 2018 -- has eased, but rollover risk for real-estate borrowers persists as they have been heavily funded by non-banks in recent years," Fitch said. Non-banks depend on banks and the debt market for their funding and account for 7 per cent of total banking-sector loans.

Kotak Bank says RBI can't rule on shareholding

NEW DELHI: Kotak Mahindra Bank has questioned the Reserve Bank of India's authority to seek reduction of stake by any investor – promoter or otherwise – in a lender. The Banking Regulation Act does not empower the RBI to require any bank to reduce any person's shareholding or otherwise require any person to lower their stake in a bank, it said in a rejoinder to the central bank's reply in the Bombay High Court, which ET reviewed. Sections 12 and 12-B of the Banking Regulation Act "form a complete code on a matter of shareholding and voting rights in a bank and therefore circumscribe the powers of the RBI in this regard," the bank said. India's second-largest private lender by market capitalisation has contested the RBI's directive to cut the promoters' shareholding to 20% of paid-up capital by December 31, 2018, and 15% by March 31, 2020. Uday Kotak, MD and promoter of the bank, held a 29.72% stake in the lender as of December 31. The RBI had rejected the bank's proposal in August 2018 to issue perpetual non-cumulative preference shares to lower the promoter's stake to 19.7%. The central bank had said the objective of reducing the promoter shareholding was to prevent concentration of power and to make private banks more democratic. The RBI appears to have conflated the concepts of economic ownership and control, Kotak Mahindra Bank said in the rejoinder, adding that this approach ignored provisions in the Act that specifically regulate voting rights of all shareholders under section 12 (2) and deal with the concentration of control.

NPS schemes can now invest more in debt:

Move aimed at improving scheme performance Changing the investment guidelines for some NPS schemes, the PFRDA has increased the limits on investments in debt securities by these schemes. This has been done to allow more flexibility for better scheme performance. "To provide flexibility to the pension funds to improve the scheme performance depending upon the market condition, it has been decided to increase the cap on Government Securities and related investments and short-term debt instruments and related investments by 5 percent each," states a Pension Fund Regulatory and Development Authority (PFRDA) circular dated March 25, 2019. According to the circular, these changes will be effective from April 1, 2019 and will apply only to the NPS - Central Government scheme (CG), State Government scheme (SG), Corporate Central Government (CG) scheme, Lite schemes of NPS, and Atal Pension Yojana. The cap on investment in various asset classes by the above-mentioned schemes has been revised. This change has been done "In order to bring stability in returns over the long run and improve the performance of the scheme, the PFRDA took this initiative" official sources said. Rating criteria for investments under NPS schemes In a previous circular dated May 8, 2018, the PFRDA had revised the rating criteria for investments under NPS. Earlier, as per PFRDA investment guidelines for NPS, the investments under scheme/asset class C were to be made only in such securities which had minimum AA rating or equivalent from at least two credit rating agencies registered with SEBI. As per the circular dated May 8, 2018, the development of the corporate bond market is expected to benefit the investment universe as a whole by improving the liquidity and confidence in the securities market and especially the bond market where a sizable share of NPS contributions are invested. Consequently, the PFRDA had decided to allow the above mentioned NPS schemes to invest in corporate bonds/securities which have a minimum of 'A' rating or equivalent, subject to cap on the investment between A and AA- rated bonds to be not more than 10 percent of the overall corporate bond portfolio (Scheme/Asset class C) of the pension fund. The circular also required the pension funds to submit a quarterly statement on the investment made in the securities which have a minimum rating of 'A' and their performance including the downgrades in this category, if any, to NPS Trust for monitoring of such investments.

Delhi court summons 11 top PNB officials for violation of banking regulations

NEW DELHI: A Delhi court has summoned as accused 11 top officials of the Punjab National Bank (PNB), including former and current executive officials and the current managing director, for alleged violation of banking regulations and criminal conspiracy. Metropolitan Magistrate Dharmender Singh asked PNB Managing Director (MD) and CEO Sunil Mehta, Executive Director Sanjiv Sharan, former MD Usha Ananthasubramanian, former executive director R S Sangapure and seven others to appear before it on May 24 on the basis of a complaint filed by the Reserve Bank of India. The court has also summoned as accused serving General Manager I J Arora, Assistant General Managers T R Venkateswaran and I P Singh, Chief Manager S K Srivastava, former general managers Nehal Ahad and Rakesh Kumar and former deputy general manager Sunil Mohan. In its complaint, the RBI has alleged non-compliance of its 2016 order directing commercial banks, including the PNB, to integrate their core banking system with various critical applications to reduce online fraud. The central bank alleged that the accused will fully and deliberately gave false information in their compliance report and the PNB's core banking system was not integrated with the applications and there was no online integration of SWIFT with the RBI's Core Banking Solution (CBS). SWIFT is a messaging system that enables banks and financial institutions to send and receive information about financial transactions through encrypted codes. The RBI has further alleged that the accused willfully and deliberately made false statements in the compliance report despite being aware of the risks and repercussions of failing to integrate SWIFT with the CBS. The RBI, in its circular issued to all commercial banks, including the PNB, had advised the banks to strengthen the controls around the operating environment for fund transfers through SWIFT or similar interfaces and banks were advised to minimise the practice of direct creation of payment messages in the SWIFT environment with routing the same through CBS. The RBI claimed that the case came to light during systems inspection at the PNB's Brady House Branch in Mumbai, where it was found that the information provided by the officials in the last few years were completely false. "The accused have will fully make false statement in utter disregard to their statutory obligation of the Banking Regulation Act, 1949. “Accused have deliberately furnished false and misleading statements to RBI and it was done with common intention and in connivance with each other," it alleged.

While businesses recognise the value of data, protection still a challenge: Research

“With the rapid change in industry dynamics and the advent of newer technologies, it has become imperative for organisations to focus on the practical application of emerging technologies such as AI and IoT, to accelerate their digital transformation journey. The key in this journey is the generation and analysis of data. Interestingly, businesses in India are seeing better potential in the value of data and are monetising it as compared to their global counterparts. And this is a testimony of our progress, highlighting our preparedness for future security outbreaks”, says Ripu Bajwa, Director and General Manager (Data Protection Solutions) at Dell EMC, India. Bajwa’s observation is based on the findings of a research – The Third Global Data Protection Index 2018 — by Dell EMC. The findings revealed that organisations in India witnessed a 130 per cent increase in data and 47 per cent of the businesses were already monetising the data as compared to 36 per cent worldwide. The index specifically uncovered the increase in the average amount of data managed – from 2.79 petabytes (PB) in 2016 to 6.43 PB in 2018 in India, highlighting the high awareness of the value of data. As many as 2,200 IT decision makers from both public and private organisations with 250-plus employees across 18 countries and 11 industries participated in the survey.

Data loss concerns

While the sheer volume of data and its importance to business operations makes data protection a challenge, the respondents had said that the disruption incidents were frequent and the rise in irreversible data loss was a concern. Around 30 per cent of the businesses in India (27 per cent globally) said they were unable to recover data using their existing data protection solutions. The common types of disruptions faced by organisations were unplanned systems downtime, data loss and local disaster that affected access to data for an entire site/ group. Data loss on account of unplanned downtime has been found to be far more expensive. For instance, the monetary loss for businesses in India that encountered 29 hours of downtime on an average in the last 12 months is said to be $9,58,583 (vis-a-vis 20 hours of downtime for global leaders, costing $526,845). Indian respondents had said that they lost more data than global APJ counterparts, averaging 3.31 terabytes with a price tag of $1,287,788 (against 2.13 terabyte loss costing $995,613 globally). A majority of respondents had said that there was lack of data protection solutions for emerging technologies, indicating their inability to keep track and protect all data apart from voicing the complexity of configuring and operating data protection software/ hardware.

Uco Bank gets Rs 14,000 crore windfall from Iran oil payment right

Kolkata: The special payment mechanism to import crude from Iran has provided state-run Uco Bank about Rs 13,000-14,000-crore windfall, helping the stressed lender get a new lease of life. The bank expects this interest-free floating fund to boost its income, but reversing the trend of continuous quarterly losses will also depend on the lender’s ability to contain and recover bad loans. Uco reported losses for the past 13 consecutive quarters. The floating fund bonanza may also be truncated in the future as Uco lost its exclusive right as the designated payment bank for Iran oil imports with the government also offering IDBI Bank a similar status. Till recently, the PSU lender had been the only bank settling payment for the country's oil imports from the middle-east nation, following the tightening of US sanctions on Iran due to its aggressive nuclear programme. Two people familiar with the matter pegged the size of the floating fund at Rs 13,000-14,000 crore. Managing director of Uco Bank AK Goel did not respond to text messages seeking comments on the issue till the time of going to press. Uco's zero exposure to the US and western financial system helped it earn this special status while exposed banks such as State Bank of India that had lost business because of the sanctions. The bank has limited overseas business with branches only in Singapore and Hong Kong. The mechanism is such that Indian oil refiners make the payment to the designated rupee account at Uco for importing oil from Iran. The Kolkata-based lender, in turn, makes payment to Iranian exporters for exporting goods to India. Iranian banks such as Karafarin Bank and Middle East Bank have rupee accounts with Uco to support Indo-Iran bilateral trade. The Kolkata-based lender, which has been under RBI's Prompt Corrective Action mechanism for high bad-loan ratio and negative return on assets, looks to gain from the lower cost of funds as the Rs 13,000-14,000 crore float money it gained on account of Iran oil imports bears no cost. This will boost its operating profit which was seen at Rs 381 crore for the December quarter. The bank reported Rs 1,018 crore net loss in the same period while over 27 per cent of its loan assets turned sticky. While the floating fund is likely to boost the bank's financials in the fourth quarter, it will face challenges from IDBI Bank going forward as the Iran payment pie may get distributed between the two lenders.

Consumer data can't be national asset: US body

BENGALURU: The US-India Strategic Partnership Forum (USISPF) has told the government it should not have different regulatory frameworks for foreign-invested and domestic companies, adding that treating consumer data as a 'national asset held in public trust' is incorrect. USISPF, which represents several major American companies like Amazon, Google and Walmart, submitted their suggestions to the government on the draft e-commerce policy, the deadline for which ended on Friday. TOI has seen a copy of these recommendations submitted to the Department for Promotion of Industry and Internal Trade (DPIIT). The draft e-commerce policy released by the government in February limits the cross border flow of data, gives the Centre more access to it and also calls for creating a "data authority" to share data for the public interest. It treats consumer data as a national asset. This comes even as multiple associations of online businesses, including members of home grown companies, have expressed apprehension over the scope of the draft ecommerce policy when it comes to consumer data. People aware of industry representations said the sheer scope of the draft e-commerce policy looking to set guidelines for any online company that uses data is not ideal. "If data is to be classified as a national asset, obtaining the consent of the individual to access their data will no longer be necessary. The draft policy is, to that extent, advocating non-consensual transfer of data, which is inconsistent with the judicial classification of data as an aspect of informational privacy, which is a fundamental right," the US industry body's series of recommendations highlighted. Over the course of the past few weeks, several startups have told TOI that the government's proposal for instant access to data should also be diluted. It should be facilitated only in case of law and order requirements with relevant approvals. According to a recent poll on Local-Circles, a community-driven engagement platform, more than 50% of startups feel access to a private user's aggregated data should be shared with necessary approvals only. Across industry stakeholders, another common view is also that the draft policy should stick to frame rules for e-commerce companies and not social media platforms, cloud companies.

Will take all steps to protect domestic interests in cross border insolvency regime: Injeti Srinivas, Corporate Affairs Secretary

NEW DELHI: India will provide adequate carve-outs to protect domestic interests in the cross border insolvency regime which is under consideration by the government, a senior government official said. Such provisions may mean that a portion of the debtor's assets may be kept aside to pay domestic creditors, according to the Insolvency and Bankruptcy Code (IBC). "One thing we can be sure is that we will have all carve-outs that are required to safeguard domestic interests. We can't adopt internationalism at the cost of domestic interests," corporate affairs secretary Injeti Srinivas said at a conference, organised by the Confederation of Indian Industry. Srinivas said the law would initially only give jurisdictional access on the basis of reciprocity and that the reform would give foreign investors greater confidence. "We will go step by step and look at reciprocity initially. We need not open it up to every country; we will say every country which will reciprocate, we will only give them this facility," said Srinivas. While large insolvency cases have taken more than 270 days under IBC, the outcomes of such cases have been positive, Srinivas said. "For such very large cases, there would be some amount of litigation and it (the time taken) is not too long, especially if you compare it with the average of four-and-a half years under the previous regime" Srinivas said, adding that the size of the loans that were being resolved and the quantum of the recoveries constituted an "extraordinary result".

IL&FS GROUP ENTITIES

Srinivas said the IL&FS (Infrastructure Leasing and Financial Services) group entities that had been classified as "red" because of their inability to service debt obligations were not necessarily beyond revival. "Today almost 50% of the assets (of the IL&FS group) have been put on the block. I think in the coming 2-3 months we should be able to see 50% of the IL&FS portfolio being resolved," he said. Of the 169 domestic IL&FS group companies, 50 entities have been classified as 'green'. Another 13 have been classified as 'amber' and 80 as 'red'. The National Company Law Appellate Tribunal has directed all 'green' companies to service their debt obligations. However, 'amber' and 'red' companies continue to enjoy a moratorium on all claims against them, granted by the NCLAT in October 2018.

SBI may ask senior retired banker to helm Jet Airways

NEW DELHI: As lenders moved in to take charge of cash-strapped Jet Airways, the State Bank of India (SBI), the lead banker may ask a retired senior banker to head the airline and guide it out of the financial mess. Sources familiar with the ongoing developments said that Jet chairman Naresh Goyal and his wife Anita Goyal along with two other directors are set to resign from the board, as banks move to take charge of the airline. ET had reported last week that SBI has asked Goyal, his wife, Naseem Zaidi and Gaurang Shetty to resign from the board. The sources cited told ET that former SBI chairman Janki Ballabh's name has been proposed by SBI and is likely to be sounded out for the assignment. When ET reached out to Ballabh, he said that no one had reached out to him. The resignation of the promoters was imminent, according to the people cited. Jet Airways, however, denied this and termed the information 'factually incorrect'. It also denied that board meeting had been called to discuss the resignation of the promoters. "No board meeting was held anywhere today," said a spokesperson. As per the plan, approved by the government, the lenders are set to take over the airline and run it for a few months before selling it. According to an earlier Memorandum of Understanding (MoU) too, the airline was to become a become a board-run company with the promoters taking a back seat and limiting their ownership to 22% in perpetuity – a condition put by Etihad. Goyal did not agree to this clause and wanted Etihad to reconsider this proposal. Etihad refused to relent and offered its 24% stake in Jet Airways, as well its 50.1% stake in Jet Privilege (Jet Airways; frequent flier programme) to SBI. SBI, however, has not yet agreed to acquire Etihad's stake but is working on a plan to take over the control of the airline, clean its books and sell it to a prospective buyer. If lenders agree to buy Etihad's stake, they could easily be holding a substantial 70% stake in the airline. The amount of funds that will be infused in the airline is also not clear yet. The airline needs an immediate infusion of Rs 4,000 crore. It has only received Rs 250 crore infusion from Goyal as of now. According to the deal which is now in the works and has the government's approval, banks are likely to get more than a 50% stake in the airline along with an investor that is likely to be National Infrastructure Investment Fund (NIIF), which is 49% owned by the government of India that acts as an anchor in the fund. Promoter Naresh Goyal's stake is likely to fall to 17.1%, while funds are infused into the airline by banks and the investor. Banks will have representatives on the board and will also induct independent directors.

Working class employees left in the lurch at IL&FS resolution

NEW DELHI: The NCLAT has received intervening petitions from nearly 100 creditors, seeking redress in the proposed IL&FS Resolution Plan that was submitted by the government. The petitions are from both secured and unsecured creditors, including a wide array of corporates and their PF Funds, employee funds, MNCs, postal funds, banks, PSUs and some power companies. A large part of the petitions, however, have been filed by employee fund and trusts that are seeking recourse in the resolution framework considering their investment is unsecured, but affects millions of underlying small-time, salaried and gullible investors. In the nearly 100 petitions filed, learns IANS, nearly 50 per cent petitions have been filed by the employee funds, superannuation funds, gratuity funds and Provident Funds. This means these are retirement savings of working class blue and white collar employees. The main prayer by these funds, representing small savings of millions of small investors across a range of employees in corporates, public sector companies, Army Group Insurance Fund, media organisation, postal life services and MNCs, is to seek equal footing and fair share in the IL&FS resolution process. "We need the government to help us in protecting our lifetime earnings, invested in IL&FS, by infusing funds or taking over the company. The present legal structure is biased towards secured creditors. The government needs to now stop lip service and start acting in the interest of small investors. We are not as organised and powerful as the secured creditors, banks and MNCs, who seem to have the muscle to fight for their share. But we do represent the salaried class, and electorate in large numbers, and are reaching out to our representatives to seek intervention", a fund representative told IANS on the conditions of anonymity. On being contacted, IL&FS spokesperson declined to comment on the way forward for such hapless working class investors. The big question is: how will this money be recovered? Moreover, in an election year, these salaried employees are also voters and since no one is forthcoming in giving or providing answers, the sensitive issue has gone into a tailspin. Some funds, learns IANS, would also be reaching out for political support on the matter and it will be difficult for any political party to turn a blind eye to millions of middle class voters affected by the IL&FS crisis. Some of the list of petitioners include: Indian Oil EPF, Infosys EPF, EIL EPF, HUL's Union Provident Fund, Titan PF, IDBI Trusteeship, UTI Retirement Fund, Postal Life Insurance, Army Group Insurance Fund among others. The government, in its decision, on October 1, 2018, had ousted the erstwhile Board of IL&FS and replaced it with the new Board with a view to limit the crisis and help work a resolution. The small creditors, however, feel that the resolution plan is aimed at providing resolutions to secured creditors, leaving the small-time investor and salaried employees in the lurch, and importantly, has not taken them into confidence while arriving at a plan. IANS had earlier reported that many unsecured creditors are grappling with the issue of exclusion in the ongoing resolution process. "The Resolution Framework should balance interest of all stakeholders. The current framework does not provide for payment to unsecured creditors" said one of the creditors in the intervening petition. "The government appointed new Board to protect creditor interest and value. With no participation from small creditors so far, the resolution framework is only serving the high and mighty," said a fund representative to IANS. Some creditors have also sought that the Section 53 of the distribution scheme does not address public and social interest and since IL&FS would be setting a precedent, the section needs to be suitably modified in current circumstances. The next hearing of National Company Law Tribunal (NCLAT) is scheduled for March 29. With the Opposition looking at every opportunity to connect with the masses and be seen as its caretaker and well-wisher, this could blow up as the Indian electorate gear up to vote in the next few weeks.

Karnataka Bank reports Rs 13 cr fraud to RBI

Karnataka Bank on Saturday said it has reported to regulator RBI about a fraud amounting to Rs 13.26 crore in the fund-based working capital facility extended to SRS Finance Ltd. The fraud was on account of "diversion of funds", the lender said in a BSE filing. The bank extended the working capital facility under multiple banking arrangement and necessary accounting treatment has already been given as per the extant RBI guidelines, it added.

NEWS OF THE WEEK

Five Keys to Effective Data Archiving as Regulations Tighten *By* **David Wagner***, President and CEO, Zix*

Compliance isn't just one obligation; it's several. First and foremost, it's a commitment to abide by regulators or face strict penalties. Beyond that, it's a promise to deliver fair and transparent financial services to every client and customer. Most broadly, compliance is a signal that organizations are committed to transparency, integrity and best practices. Understanding the full spectrum of compliance is important because in all ways it's about to become more complex, consequential and costly. Robert Cook, the chief executive officer of the Financial Industry Regulatory Authority (FINRA), recently signaled that tougher requirements for data protection and disclosure are coming down the pipeline. In FINRA's Annual Risk Monitoring and Examination Priorities Letter, which was released in late January, the organization explicitly shines a spotlight on digital platforms and the various ways that firms can use online tools to communicate with customers. Using these platforms is not a viable shortcut around compliance requirements. FINRA also outlined its plan to focus on how firms utilize regulatory-technology (also known as regtech) tools in regard to compliance. Financial firms need to prepare for the archiving of more records and file formats by the conclusion of 2019, and these archives will need to be stronger and more accessible to satisfy compliance regulations. Considering how much of the financial-services industry has become data-driven in recent years, it goes without saying that any rules applied to electronic information expand the regulatory landscape significantly.

The untamed expense of compliance

Compliance has three key components: saving, securing and supplying. Firms first need to capture communications from as many channels as possible—email, social media and otherwise. As that archive accumulates with personal and highly sensitive information, it will need to be protected by gold-standard security. Finally, the archive must be accessible enough to supply regulators with extensive or specific documents on demand. The past decade in financial services is not seen as a particularly aggressive period of regulation. Yet since 2011, compliance costs have risen by 43 percent. The average firm now pays $5 million annually to manage compliance, not counting whatever extra they pay in fees and penalties. When all the attendant costs are included—fines, productivity losses, business disruption, public relations damage and settlement costs—compliance actually drains $14.8 million out of firms annually, a total that is up 45 percent since 2011. To put it simply, noncompliance costs 2.71 times more than compliance. Those jarring financial figures are but one aspect of the compliance puzzle. The logistics of doing good business with customers and clients also warrants consideration. People don't adhere to the notion of business hours anymore when it comes to accessing important information. This is especially true in time-sensitive industries, of which finance may be the most crucial one. Avoiding compliance would, therefore, require firms to extinguish digital communication channels—an impossibility in the digital age. Your company and its customers would certainly scoff at eliminating texts and social-media platforms as communication options. Comprehensive archiving, then, is an absolute necessity—both an obligation and a solution for firms in the financial-services industry. The right kind of archive satisfies regulators, while simultaneously making compliance management easier on everyone involved.

The elements of an effective archive

Most firms already have an archive, and the new rules are explicitly designed to address the inadequacies with those repositories. Therefore, for companies to become compliant—consistently and with minimal oversight—they need to focus on upgrading their existing archives. Adding these components is key:

1. **Automatic updating:** Think of how many client communications flow through all of the various information channels daily. Now imagine trying to capture each one, analyze the contents for any regulated information and manually put whatever applies into an archive. The effort would be overwhelming and would inevitably lead to an incomplete database. The best approach is to automate the entire effort. Use technology to monitor incoming and outgoing communications, pick up on keywords and phrases, and automatically organize those messages within the archive. Thanks to automated updating, firms can build a comprehensive archive almost effortlessly and not sacrifice a ton of hours along the way.
2. **Sophisticated e-discovery:** Archives should be dynamic repositories instead of moldy, haphazard collections. When firms are required to turn over communications as part of the e-discovery process, they need careful control over what they supply. The goal is to turn over just the required information and nothing more, so firms must be able to explore and extract information with precision. Sophisticated e-discovery tools make it easy to segment, slice and dice archives according to whatever the situation might require. A delicate situation calls for a precise tool, and segmented information is a key characteristic of an appropriate archive.
3. **Data fluency:** The definition of "protected" information is being expanded significantly, from just a handful of categories to now dozens. Firms must be able to archive data broadly, not just data from the most sensitive or widely used communication channels. Regardless of file format or source, a good archive can capture the necessary data and ensure that important information is not accidentally excluded. Widespread, information-agnostic archiving allows firms to stay ahead of ever-evolving regulations. It also empowers firms to leverage data to improve processes and gain a competitive edge, all while staying compliant.
4. **Cloud basis:** Archives, by necessity, must be able to grow and change in unpredictable ways. On-premises archives have significant limitations that cloud-based archives do not. Flexibility and scalability are key features of the cloud, along with the built-in cybersecurity that large, information-rich archives require. In practice, cloud archives eliminate a lot of the maintenance issues that bleed valuable resources and put compliance at risk.
5. **Central governance:** Collecting everything in one place is important, but treating everything equally is just as important. Don't think of archives as mere information dumps. Rather, think of them as savvy tools for standardizing all of the information on which the firm relies.

> Standardization is the crux of compliance. Once all data is subject to central governance, it follows the same rules outlined by financial regulators. Plus, it becomes much easier to explore the data once it's homogeneous.

Firms can look at archiving as an obligation, or they can approach it as an opportunity. For instance, archives offer deep insights into a firm's practices and performance, allowing them to take an objective look at their own strengths and weaknesses. Proactive firms can then leverage these insights to bootstrap their own bottom lines. Disaster recovery is another unexpected advantage of comprehensive archiving. When information technology (IT) departments are scrambling to recover important emails and irreplaceable business communications, all they have to do is pluck them from the archive. Regulatory penalties are painful, but lost data is absolutely disastrous. Archiving helps mitigate both dangers. The writing is on the wall: Financial firms that can't (or won't) store information correctly will face fees, potential lawsuits and public-relation repercussions. Regulators shouldn't need to demand archiving, and it's not hard to make the business case for it, either. If your firm runs on data—and which one doesn't? —why not save as much of it as possible in an optimal environment? It's an asset from which everyone can benefit, and no one regrets.

MUST READ ITEM FOR THIS WEEK

How Banks Can Offer SMEs the Personalisation they Desire *By* **Kyle Ferguson***, CEO, Fraedom*

Innovations in technology have transformed the way we bank in our personal lives. Now, as long as we have a Wi-Fi connection and a mobile phone, tablet or laptop to hand, we are able to check our balances, make payments and transfer money anywhere at any time. No longer do we have to wait for a letter to arrive at the end of each month in order to gain visibility of our accounts. As a result, this has completely changed the way the majority of individuals in the UK bank, with 69% of Brits regularly using online banking in 2018. This evolution of retail banking has fuelled a change in expectation among SMEs who are now demanding a better digital approach. However, banks are currently struggling to meet these demands and deliver the more personalised service and consumer-focused offering the majority of SMEs desire. In fact, the current offering from most commercial banks fail to take the needs and desires of SMEs into account, failing to offer the same visibility and control of accounts and are still more geared to their traditional target – large enterprises. That said, as SMEs have proven themselves to be a lucrative market, they are now set firmly in the sights of banks as their latest target sector. It's little wonder this is the case when you consider that according to the Federation of Small Businesses (FSB), SMEs have a combined annual turnover of £2.0 trillion and account for 52% of all private sector turnover in the UK in 2018. It is, therefore, clear that banks can't afford to ignore the SME market, but aren't yet able to deliver the service and products these businesses require. With over half of SMEs now wanting to move to an online/mobile banking business environment, commercial banks must take these changing expectations and demands into account and learn from the experiences and offerings provided by retail banks. In order to do this, banks must focus on three key areas:

Gaining a better understanding

Currently, banks are far more geared towards big businesses than they are SMEs. While lowering costs and up-weighting rebates might work for large corporates, they don't pack the same punch for SMEs. However, banks are yet to gain the insights and understanding of these customers to be able to give them what they want, as echoed by just 12% of UK SMEs thought banks that their organisation had dealt with over the past year fully understood their needs as a business. Similarly, over half of SMEs in the UK and US find it difficult to attract financing from banks. This could be due to the fact that many banks enforce the same application and underwriting process for all loans, irrespective of size or complexity. Therefore, the transaction cost to process a £2 million loan is the same as a loan of £100,000. These are worrying figures and point to something of a breakdown in the engagement process between banks and SMEs. If the economy in both countries is to thrive in the future it is important that banks are engaging with SMEs and are perceived to be doing so. SMEs should be seeing banks as an enabler of agility rather than a potential stumbling block. It also suggests that banks are still tailored more closely to the needs of larger enterprises and as a result are inadvertently making it more difficult for SMEs to access to funding. Banks must, therefore, work to understand the needs and drivers of SMEs and how these differ from larger enterprises, as well as making applying for funding more accessible. It is vital that this understanding of SMEs also extends to ways in which they want to interact with banks. For instance, the 2018 FIS Performance, Against Customer Expectations (PACE) found that almost half of UK SMEs prefer to contact their bank through digital methods via a tablet or mobile, for example. Banks need to keep this in mind and offer these preferred methods of communication if they are to really tap in to this lucrative market.

Providing digital platforms

SMEs now want the same digital capabilities they get as personal customers with 95% of commercial clients who bank digitally in their personal lives, expecting to do so at work as well. While 40% of all SME financial transactions in 2017 were completed online or via mobile. As such, banks must begin to offer these digital platforms and provide the digital services that SMEs value the most, such as real-time accessibility, access to online and mobile banking, fast turnaround specifically relating to problem rectification, credit applications, account balance and fee enquiries. However, banks are currently failing in these areas, with visibility and control of spend found to be major pain points for SME customers as under half of SMEs claim to have near real-time control over business spend. Almost a third of respondents feel they have very little visibility on a day-to-day basis and nearly a quarter confessing to having to regularly spend significant time and money investigating who spent what. Furthermore, over half of UK respondents said that on average they were personally spending more than two hours a week on expense or financial management tasks. This need to regularly go back and interrogate audit trails can be a further drag on a business' resources, efficiency and productivity. In our personal lives, we now have seamless mobile transactions, highly responsive customer service and fast transaction times. Yet, although personal bank statements typically update in real time and can be viewed on a mobile device, reconciliation of work-based expenditures can take days, if not weeks to process. Procurement generates reams of paper invoices and purchasing orders. In contrast, personal mobile wallets pay, log receipts and reconcile on bank statements in the blink of an eye. It is therefore unsurprising that SMEs are left frustrated by the lack of innovation offered by banks and are demanding banks provide the same tools, level of service and personalised experience we have become so used to in our personal lives.

Offering a personal service

Ultimately, banks need to offer SMEs more than just funding. They must also provide added value by answering the demand of SMEs for a more personal service and for a better digital approach. This will require a better understanding of these customers and a great deal of innovation to bring services in line with what SME customers are used to in their personal lives. Ultimately, the most effective way of doing this will be for banks to work with fintechs. Through fintechs, banks will be better able to understand the consumerisation of business processes and technologies; the eagerness of SMEs to adopt these to achieve enhanced agility; and the frustration they feel if they sense that banks are effectively not speaking their language. With challenger banks looming in the background with more personal and technological offerings that are ripe for SMEs, commercial banks can't afford to stand still and must begin to innovate or risk losing out on this lucrative market. This more personal, tech-enabled service tailored to SMEs, will allow banks to build lasting, more trust-based relationships with SME customers, while SMEs will benefit from greater business agility, streamlined efficiencies and increased visibility of expenditure.

VIEW OF THE WEEK

Need to reinvent Niti Aayog, says former RBI Governor YV Reddy

NEW DELHI: The Niti Aayog suffers from a "wide mandate" and "diffused focus" and there is a need to reinvent the organisation in the context of fiscal federalism, former RBI Governor Y V Reddy said. There is a need to upgrade the Niti Aayog and empower it to perform functions of Centre and state coordination, he said. "Now, there is an institutional vacuum in regard to non-finance commission transfers in terms of expenditure... Each ministry has its own centrally sponsored schemes. So, there are no coordinated discussions between the Centre and the state on the developmental thrust," Y V Reddy told PTI in an interview. In a book titled 'Indian Fiscal Federalism' authored by the former governor and co authored by G R Reddy, the authors noted that the Niti Aayog should ideally be the focal point for all transfers from the Centre and states outside the recommendations of the Finance Commission. "As a continuing body, it could also ensure implementation of the Finance Commission's recommendations. In order to achieve this, it requires significant technical support from experts and at the same time substantial political support," he said. The latter requires an institutional arrangement and this should ideally be in the ambit of the Inter State Council (ISC), he said quoting from the book published by Oxford University Press. The erstwhile Planning Commission played a crucial role in fiscal federalism; he said adding that its replacement by the Niti Aayog in 2015 raises more questions than answers about its contribution. "It is advisable to specify the tasks of Niti Aayog that are most relevant for Centre-State relations: identifying the sectors in state that should be eligible for grants from the Union; indicating criteria for inter-state distribution; helping design schemes with appropriate flexibility accorded to states regarding implementation; and identifying and providing areas specific grants," he said. In brief, he said, wisdom lies in refocussing the scope of the Finance Commission to maintain the trust of all in the institution as the pillar of fiscal federalism. "To fill the existing institutional vacuum for other Central transfers to states and related matters, it is necessary to reinvent Niti Aayog. This organisation should be endowed with appropriate stature and expertise and have the benefit of constitutional legitimacy possibly by linking it to the ISC," he said.

INTERVIEW OF THE WEEK

Why isn't investment picking up with this growth? It's not adding up: Raghuram Rajan

Former Reserve Bank of India governor Raghuram Rajan says the minimum income guarantee scheme promised by the Congress is an extension of the direct benefit transfer programme, a theme that the government is also working on. In an interview with ET NOW's Supriya Shrinate, he also talks about economic growth, election themes and populist nationalism.

Edited excerpts:

The Congress says it had consulted many economists, including you, on minimum income guarantee…

I talk to Congress people, of course. And I talk to people from other parties now. I have talked about this scheme, yes.

Is this a political conversation that you're having?

I'm happy to talk to anybody who wants ideas on economic issues. And this scheme, you know, has economic foundations; after all it's a direct benefit transfer which is a part of the JAM trilogy which the government has been pushing and in that sense, I don't know why it's particularly political.

Do you endorse the minimum income guarantee scheme?

There is a common theme in the last two governments, which has been that we need to figure out a way to make direct benefit transfers so that people have the money, they are more empowered, they can pick and choose how they want to spend it right. The important thing is that it is a poverty-alleviation scheme and I think both major coalitions have agreed to the idea that moving towards direct benefits is the way.

Do you believe it's become political because there was something called as Kisan Samman that was talking about Rs 6,000 a year and this is talking about Rs 72,000?

The real issue is there are two sources of distress in the economy today. One is agricultural distress and the other is the poverty that we have always had.

And the question is how do we alleviate both. Is it a given this can't be done without higher taxes?

Ultimately you will have to create a fiscal space for this, whether it is through higher taxes or cutting spending on less-effective schemes…

Isn't it an obvious extension of MGNREGA in many ways?

Well, I think again, I mean a lot has to be seen as it plays out. I think the idea that you want to target very poor and give them the ability to build their livelihoods makes sense. But at the same time, whatever you create, you don't want that to hold people back from looking for jobs, from going out to work.

How tough is creating jobs?

I think it is impossible for the government to create all gainful employment in the country. We have to enlist the private sector and enlist the public sector in creating those jobs — right? It can't be government jobs. And so how do you do that? I think we need to have a strategy for enhancing the growth of gainful employment. I would say there are some clear possibilities, for example infrastructure, if we can unleash infrastructure in a big way. Construction itself will create jobs, but also outside of construction you will get a whole lot of jobs being created. Manufacturing (and) as our logistics improve, you will get service jobs … Tourism is where you can create a lot of service intensive jobs. It can absorb many people. So, I think we need to identify four or five areas where you can create more jobs. But for that, we'll also need policy reforms…

The government needs to universalise two things: education and health. Do you think we have enough resources for it?

It depends on the level of support. If you have universal healthcare with no questions asked about any kind of treatment — it is something that even the US cannot afford. On the other hand, if you have very carefully structured processes that people can get medical assistance and the limits to people overusing it. I think those could work quite effectively. Similarly, on education, we have effective public education today... we all can agree there can be improved quality.

What do you believe India's going to vote for — national security or national realities?

I do think India's problem is getting into middle income. We are not quite there (with per capita income) reaching $2,000 or a little more than that. But middle income is more like $5,000-6,000. For that we need all reforms which will increase our pace of growth, create jobs, reduce social tensions. It seems to me that we are at the point where if we can enhance the pace of growth significantly. we can reduce some of these tensions which are affecting our societies.

Is populist nationalism more entrenched, and here to stay?

It's a phenomenon that gains strength in times when either economic growth is not really strong and particular segments or regions are particularly affected. This is the problem in the West — particular areas, especially manufacturing intensive areas, have been hit very hard. This is where Mr Trump gets its poor-constituency people who lost their jobs … Will economic growth help, but also you can directly target the problems in specific community —that is the theme of the book.

We keep saying we have the fastest growing economy and yet we seem to doubt whether we are expanding. Do you doubt the 7% growth or do you believe it's disturbing because it is jobless?

Why with all this growth, investment won't be picking up, why is capacity utilisation still relatively low? Something is not adding up.

INTERESTING TO KNOW THIS WEEK

The Role of Stress-Test Supervision

By **Diane Pierret***, Swiss Finance Institute Professor of Finance at HEC Lausanne, University of Lausanne*

Why are stress tests useful after all? We have seen this innovation in the regulation and supervision of large banks in the aftermath of the 2007-09 financial crisis. Arguably, the stress tests conducted by central banks are the most intrusive (and most expensive) form of regulation and supervision. They are expensive to implement for both the regulator and the regulated institutions; while stress tests constitute a large share of the US Federal Reserve's budget every year, banks also regularly resort to consultants to comply with stress-testing requirements. The banks subject to stress tests hold extra buffers of capital to withstand severe economic scenarios mimicking a financial crisis, are challenged on all aspects of their capital plans, and are subject to sanctions when they are deemed deficient. While banks had their own stress-testing practices before the crisis, central banks started to run those tests imposing the same stress scenarios to all banks in order to compare banks' vulnerability to the same economic shocks. Such stress tests were first introduced as recapitalization tools in the aftermath of financial and sovereign crises—the SCAP (Supervisory Capital Assessment Program) 2009 in the United States and the European Banking Authority (EBA) 2011 recapitalization exercise in Europe. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the annual stress test administered by the Federal Reserve—called the Comprehensive Capital Analysis and Review

(CCAR)—became part of the day-to-day supervision of large US banks. Stress tests became more and more focused on bank capital-planning processes and whether those are appropriate to support bank activities, in particular, given the riskiness of the bank's exposures. It became a device to enforce strict supervision at large banks. Ten years after the financial crisis, the capitalization levels of large banks have improved, but market measures of risk do not seem to reflect a decrease in bank riskiness. The capital structures of large banks have become a function of requirements imposed by stress tests. Because of their intrusive and constraining nature, stress tests are the first target of banking lobbies, politicians and other regulation-sceptics. We've already witnessed a reduction in stress-testing initiatives in the United States since 2017; the smallest institutions subject to the CCAR started being exempted from its most constraining part. The reason invoked being that the CCAR imposes too large costs on the institutions that do not pose such a threat to financial stability. Stress tests are costly, intrusive, complex, and are even suspected of contributing to a contraction in loan supply to the real economy. So the question is: Why did central banks want stress tests in the first place? And can stress-test exemptions be extended to large banks? Or can they be replaced by more stringent capital requirements?

To start answering these questions, we need to go back to the fundamentals of bank capital regulation. When imposing such requirements, the regulator has in mind that banks do not have enough equity capital relative to the riskiness of their assets and do not have the incentives to raise adequate capital buffers on their own. To reduce solvency risks of banks, the regulator can ask the banks to raise capital for the same amount of investment risk or to reduce investment risk for a given level of capital—or both. To increase capital, the regulator can simply impose more stringent capital requirements. To reduce investment risk, the regulator will impose higher penalties ("risk weights") for riskier investments, making it costlier for banks to invest in these particular risky assets in a world in which equity is more expensive than deposits or interbank funding. The problem of regulatory arbitrage arises when some assets are not assigned the correct "risk weights" due to, for example, asymmetric information between the bank and the regulator. The assets with underestimated risk weights will become the most attractive assets for the banks. Of course, in practice, risk weights are accompanied with some error, just like any measure of risk, and the problem of regulatory arbitrage has become central in modern banking regulation.

It is precisely in the presence of regulatory arbitrage that stress tests play a critical role in reducing risk-taking at banks. While stress tests impose higher capital requirements to the banks subject to them, they are also the most intrusive form of supervision that a central bank can have. What became different compared to pre-crisis regulation is that the Federal Reserve started to implement the stress on its own—collecting the most detailed data on banks' exposures. Not only storing the data, but also analyzing the sensitivity of the asset values of banks' portfolios to common stress scenarios. The central banks gained an unprecedented level of expertise in stress-testing methodologies. As I would say to students, "You learn more from doing the assignment on your own than watching someone doing it for you." This is what seemed to have happened with the US stress-testing experience. Of course, there is no such thing as "perfect supervision", but the Federal Reserve started to learn how banks manage to "smooth" the disclosure of bad news or try to avoid high "risk weights" charges. A "qualitative exercise" became central to the CCAR and the part for which banks often fail to meet supervisory demands. There, the Federal Reserve assesses six key areas related to capital planning: governance, risk management, capital policy, internal controls, scenario design and stress-testing methodologies. This is now the most constraining part of the stress test and not surprisingly, the part for which some stress-tested banks started getting exemptions.

In a joint paper with Swiss Finance Institute Professor Roberto Steri, we brought the question of the effectiveness of stress tests to the data and tried to understand whether stress tests have led to a reduction in risk-taking since the Dodd-Frank Act. Banks react to stress-test constraints in their investment decisions. A crucial element to understanding banks' reactions to stress tests is the interaction between stress tests (supervision) and risk-sensitive capital requirements (regulation) based on the regulatory risk weights. Capital requirements are risk-sensitive because banks that allocate more of their portfolios towards assets with higher risk weights are required to hold more capital. On top of it, banks subject to stress tests are required to hold an extra buffer of capital to absorb the Federal Reserve estimates of the banks' losses in the stress scenario. Such a buffer is, however, still reliant on regulatory risk weights. Hence, the interaction between supervision and regulation. As theory suggests, capital requirements are a non-negligible determinant of bank investment decisions, and because banks subject to stress tests are required to hold an additional capital buffer, they will most likely react to risk-sensitive capital requirements differently.

Our results demonstrate that to gauge the effect of stress-test supervision on bank risk-taking, one has to account for the different risk-taking responses banks subject to stress tests have to increases in their risk-sensitive capital requirements. We find that all banks react less to increases in their capital requirements after the Dodd-Frank Act, since banks hold larger buffers of capital well above the requirements. However, this reduction in the sensitivity of bank risk-taking to capital requirements is less pronounced for stress-tested banks that are subject to the additional innovation in their capital requirements resulting from stress tests. Importantly, after controlling for their different responses to capital requirements, the residual differential risk-taking response between stress-tested and non-stress-tested banks after the Dodd-Frank Act captures the effect of CCAR initiatives that do not affect the levels of the capital requirements of banks. We would attribute this effect to the qualitative exercise of the CCAR, which is also the part of the stress test that has become most constraining. Based on banks' syndicated loan portfolios, we analyze two measures of risk-taking: the average yield on the portfolio of new loans banks make after they learn their new risk-sensitive capital requirements and the average rating of borrowers to whom banks grant new loans. We find that the effect of the qualitative exercise corresponds to a 200-basis-points relative reduction in the promised yield on new loans and a relative improvement of the average borrower rating by 0.7 classes for banks subject to stress tests compared to non-stress-tested banks after the Dodd-Frank Act. The extent to which the capital requirement is determined by the stress-test estimates is also accompanied by a reduction in bank risk-taking. We call banks subject to the annual CCAR the "stressed banks". They appear to be the most constrained in their investment decisions. Because of their higher capital requirements and their complexity, they are also the most suspected of regulatory arbitrage. Finally, to answer the question of why we need stress tests: the paper hints at the fact that stress-test supervision will be effective in reducing bank risk-taking when risk-sensitive capital requirements are not. When incentives for stressed banks to "cheat" on risk-sensitive capital requirements are the highest, such supervision initiatives can become an effective way to reduce asymmetric information between banks and the regulator. When studying optimal capital requirements and the optimal level of supervision, we should not assume that risk weights are correct but allow for the possibility of regulatory arbitrage. In a world with regulatory arbitrage, more stringent capital requirements may not substitute for enhanced stress-test supervision.

INTERNATIONAL NEWS THIS WEEK

Financial Institutions Need to Reach Women on Their Terms

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

By **Caren Robb**, *Vice President & COO, FINCA Impact Finance*

We recently celebrated International Women's Day (IWD), a time to recognize the contributions of women and re-affirm our commitment to empowering female colleagues and clients. IWD is also a time to reflect on the areas in which all of us—financial service providers especially—need to do a better job of promoting gender balance. Despite overall progress in access to finance, the gender gap hasn't changed much since 2014. According to the 2017 Findex Report the average man is still nine percent more likely to have a bank account than the average woman. That amounts to a gap of roughly 200 million people. The disparity has actually widened in some regions. In the Middle East & North Africa, the gender gap in financial inclusion increased from 14 percent in 2011 to 17 percent in 2017. In Sub-Saharan Africa, it grew from five to 17 percent over the same period. In Afghanistan, Jordan, and Pakistan, the combined gap in the rate of male and female account holders increased from 16 percent to 26 percent over the last three years. Working to close the gender gap doesn't mean ignoring men—far from it. Access to finance is a right to which everyone is entitled. However, research demonstrates that both women and men benefit from gender balance. That's why it's so important to empower women to participate in economic life on an equal footing.

Access Alone Can't Close the Gender Gap

Fintech innovations such as mobile and agent banking can be part of the solution, but they must be properly designed and targeted toward empowering women. Research shows that, thus far, fintech has been most effective at narrowing the gender gap in markets where women are already financially included to some degree. Where that isn't the case, and where women face diminished access to technology and digital literacy training, these solutions are less empowering. For starters, many of the products and services being developed depend on mobile technologies and therefore run up against the digital gender gap. Worldwide, about 184 million fewer women own phones compared to their male counterparts. That gap is about 10% in low and middle-income countries. Among those women in developing countries who do own a mobile phone, they are still 18% less likely than men to use mobile internet. This digital gap limits the transformational impact that mobile financial services can have. In many societies, the use case for women to use mobile banking solutions just isn't there. In some developing countries, women already play active roles managing household finances, and the swift uptake of mobile banking by women has reflected that. In others—especially in South Asia—women tend to be excluded from the financial sphere for social and cultural reasons. So even if a woman has a smartphone and a data plan, there might be no use case for mobile banking. My organization, FINCA Impact Finance (FIF), operates on the realization that access alone isn't enough. More intentional action is needed to ensure women are equipped to benefit from the worldwide expansion of financial inclusion. Gender-sensitive financial products, services, and delivery methods can help close the gender gap by adapting to the specific needs of women. Moreover, there is a strong business case for a greater emphasis on serving female clients. Women tend to be responsible borrowers and competent business managers. Simply put, they successfully grow their businesses and repay their loans. In recognition of that, the past two years have brought some of our boldest women-centric initiatives yet. We launched a Diversity & Inclusion strategy to ensure greater balance—both within the organization and in how we serve our clients. The strategy emphasizes gender-equitable hiring and promotion practices intended to identify and support women leaders. It's informed by a body of research demonstrating that firms with more women represented in management tend to be more successful and deliver a better product to clients. Gender balance at the top tends to flow downward. The strategy also requires our subsidiaries to develop women-centric products and services that are empowering women entrepreneurs in the communities and countries we serve. The good news is, several of our gender-sensitive banking initiatives are already starting to bear fruit.

Afghanistan: Banking for Women, by Women

The case of Afghanistan demonstrates both the need for and the benefits of a women-centric approach to finance. According to World Bank data, only seven percent of adult Afghan women have a formal bank account and only 19 percent are employed. The failure to create an inclusive economy is a massive missed opportunity in a country of 17.1 million women. Part of the problem is cultural. Many Afghans don't consider it socially acceptable for women and men to interact in the commercial sphere. There is space, however, for service delivery channels that allow women to interact face-to-face. In April 2018, FIF's subsidiary in Afghanistan opened a women-only branch in Kabul with a staff of all female employees. The branch provides both consumer and business loans, but business loans make up nearly the entire balance sheet. When we provide business loans to women, not only do we empower a female entrepreneur to make her business more profitable, we also make an investment in her local community. As her business grows, she will be able to create opportunities for others, including other women. As of the close of 2018, the branch had more than 1,000 clients and over 32 million Afghanis in outstanding loans. Just as important, it has been able to expand outreach without compromising portfolio quality. Between its official launch and the end of the year, the Portfolio-at-Risk (PAR; the percentage of loans in default for 30 days or more), has declined from 2.7 to 0.64 percent, among the lowest of FINCA Afghanistan branches. The business results are clear: FINCA Afghanistan opened the branch in April and it achieved profitability in December. Turning a profit in less than nine months is a significant achievement. The branch has been able to make a positive impact while demonstrating that investing in women is a smart commercial decision.

Kosovo: Business Loans for Women Entrepreneurs

Kosovo is another emerging market with a persistent gender imbalance. According to the Findex report, only 44 percent of the country's adult women have a bank account compared to 61 percent of men. Even more troubling, the labor force participation rate for women is only 18 percent, well below that of other Western Balkan countries. FINCA Kosovo is dedicated to making a difference. In February 2018, it launched its Loan for Women Entrepreneurs in Business and Agribusiness, a financial product designed to help women build and scale profitable businesses. Targeted toward small- and medium-sized business owners, the loan offers favorable terms to borrowers—e.g., no disbursement fees and a grace period of up to 12 months. Each recipient receives financial literacy and business training in addition to financial capital. For many women entrepreneurs, that means acquiring crucial skills to expand a business. Financial literacy training is included in every loan package, with the training sessions tailored to the particular needs of clients. In addition to the social impact, the financial results speak for themselves. Since launching in February 2018, more than 4,000 Women Entrepreneur Loans (77 percent in business and 23 percent in agribusiness) have been distributed worth a total of $5.7 million. The borrowers number more than 2,000 and have paid back their loans at an exceptionally high rate. The PAR for the Women Entrepreneur Loan is only 1.3 percent, demonstrating that recipients are putting the money to productive use and earning enough revenue to repay their loans.

Pakistan: Putting Finance in Women's Hands

Pakistan remains one of the world's most unequal countries in terms of financial inclusion. Only seven percent of adult women have a bank account, and since 2014 the gender gap in account ownership has increased from 16 to 28 percent. Whereas financial inclusion for men is surging upward, for women the expansion has been much slower. Pakistan is the largest market in which FIF operates, home to more than one-third of our total client base and a place where we have both an opportunity and a responsibility to make an impact. Notably, one of our initiatives with the greatest potential to empower women was not specifically envisioned as a women-centric product. SimSim, a free-to-use e-wallet that allows users to make and receive digital payments and point-of-sale (POS) purchases, launched in 2017 and now has more than 300,000 users, many of whom are women. It is also being used as a corporate payment solution by a number of firms. One of those corporate partners is Ghar Par, a home professional beauty service business. Employing an all-women staff of beauticians in Islamabad and Lahore, Ghar Par has equipped each of its employees with SimSim accounts, allowing them to receive and transmit payments digitally. At the end of each day, rather than return to the Ghar Par head office to hand in their earnings in cash—not only was this inconvenient, for many women it created a safety risk—employees can now transfer the funds digitally using a SimSim account. For women in Pakistan, SimSim provides more than convenience—it offers financial independence. Women users can receive payments and salaries, transfer funds, pay their bills and make payments without depending on male counterparts. These are just some examples of how fintech and financial services can empower women when employed intentionally. We still have a long way to go to achieve gender balance, but the tools to do so are in our hands.

UK government plans third Brexit deal vote on Friday

Britain's government said it intended to hold a third parliamentary vote on Prime Minister Theresa May's Brexit deal on Friday but was awaiting the go-ahead from House of Commons speaker. "We recognise that any motion brought forward tomorrow will need to be compliant with the speaker's ruling and that discussion is ongoing," Andrea Leadsom, who represents the government in parliament, told MPs. "A motion will be tabled just as soon as possible and obviously by later today," Leadsom said Thursday. Commons Speaker John Bercow has previously blocked a third vote on the deal, invoking a 17th-century statute that prevents parliament from voting on the same thing again and again. "The only way we ensure we leave in good time on May 22 is by approving the withdrawal agreement by 11:00 pm on March 29," she said. Leadsom pointed out that EU leaders had granted an extension until May 22 "provided that the withdrawal agreement is approved by the House of Commons this week".

Citi Introduces New Citi Wealth Advisor Digital Financial Planner

Citi has announced a digital financial planning solution called Citi Wealth Advisor with an aim to enable Citigold clients to work with their dedicated relationship team to create a financial plan. Citi also plans to offer commission-free trading for ETFs and new-issue U.S. Treasury purchases for Citigold clients. "Understanding and preparing for these risks to retirement can be very reassuring," said Chuck Cavanaugh, Head of Wealth Planning, Citi Personal Wealth Management. "And for clients who are already on pace to achieve their retirement goals, we can advance into meeting other goals like funding health care, college, travel and charitable giving. Our advisors are supported by a number of specialist teams that can provide investment analysis, risk management and advanced planning strategies." The supplier states that the solution will help their clients select goals to create their financial roadmap, showing them how to achieve their goals. The Citi Wealth Advisor also allows investors to model various "what if" scenarios that highlight different pathways to achieving their goals. "There isn't a one-size-fits-all approach to financial planning," said John Cummings, Head of Citi

U.S. Consumer Wealth Management. “We’re proud to introduce Citi Wealth Advisor, a more personalized, intuitive experience that helps clients create a financial roadmap that’s unique to them, whether that means sending their kids to college, retiring early, or buying a dream vacation home.”

Finance departments are driving innovation, reveals survey

Finance departments have become the third most important sponsors and drivers of innovation in the enterprise, a new survey has revealed. The 2018 TIBCO CXO Innovation Survey, from TIBCO Software, looked into innovation as one of the strategic priorities of C-level executives, aiming to assess its importance and gauge where it was coming from. “Funding and driving innovation within a company is a role played by many across the organization,” said Shawn Rogers, Senior Director Global Enablement, Digital Content, Analytic Strategy at TIBCO Software. “Not surprisingly, executive management and IT management play a key role. The survey data also shows that 63% of innovation projects is occurring outside of these traditional stakeholder job titles and budgets.” Rogers said that finance took third place as a key innovation sponsor in the enterprises it surveyed, after executive management and IT management. He identified digital transformation as one of the most important areas of innovation, pointing to research firm IDC which is predicting that by the end of 2019, digital transformation spending will reach $1.7 trillion worldwide. “Digital transformation allows a company to own its destiny as a digital business, to stay competitive and drive innovation,” he added. “Smart companies are investing heavily in digital transformation so they can leverage interconnected ecosystems and information intelligence to empower IT as well as all lines of their business. Digital transformation capabilities have become the necessary foundation for innovation in today’s highly competitive landscape. At its core, digital transformation is a necessity to make information the DNA of your business, and in doing so, leads you to sophisticated technologies that leverage and optimize your innovation strategy.”

New mobile money propositions have the potential to reduce the world’s unbanked population by more than a third

A new report from Mastercard confirms the power of mobile technology to improve financial inclusion. The research shows that 15 countries account for over 60% of the global unbanked population, where 607 million people have a mobile phone but do not yet have a bank account. Mobile technology could, therefore, provide them with immediate access to the benefits of financial inclusion. In all but one of these 15 countries (India) people with a mobile phone outnumber those with a bank account by several million (rising to 204 million in China). However, Ann Cairns, Vice Chairman of Mastercard emphasises a key finding of the report: “Simply providing access to financial services is not enough. To achieve any real impact, people also need to become active users of financial products.” Globally, 20% of people with a bank or mobile money account have not used it for more than a year, and many more people only ever use their account on an occasional basis.

In the absence of banking services, or if financial products are rarely used, people inevitably turn to informal providers, such as neighbour hood savings clubs, local money lenders, and unlicensed remittance services. Most people on low incomes tend to be experienced users of these informal financial products, and to have intricate and well-ordered financial lives. However, they do not have legal protection, face significant risks, and may pay more for a vastly inferior product. As the report says, “the battle for inclusion is not about creating completely new behaviours or building entirely new markets. Nor is it about providing simple access to the financial mainstream. It is about how bona fide players and regulated providers can do a better job of out-competing the informal sector.” Another important consideration is a deep gender gap, which could be exacerbated if mobile and digital technologies were to become the predominant delivery channel for financial services. In developing countries, for example, there is already an eight-percentage-point gap in account ownership (67% or men have an account compared to 59% of women). This gap extends to double-digits in many countries, such as Morocco and Peru, and reaches 30% some countries, like Pakistan and Bangladesh. Women are much less likely to have made or received a digital payment, more likely to have used informal financial products, and less able to come up with emergency funds in the face of an emergency. The report, Unravelling the Web, was commissioned by Mastercard and launched at the **Financial Inclusion Summit in Oslo on 28 March 2019**, arranged by Fintech Mundi, a global fintech accelerator.

BIAN adds APIs to speed payment processing and KYC

Independent standards association the Banking Industry Architecture Network (BIAN), has announced new additions to its API Exchange. The digital library will now include 22 new API definitions focused on helping banks tackle key business challenges in the areas of payments, cards and fraud. This update takes the number of API definitions hosted on the portal to 89. The newly added APIs will allow banks to introduce more modern payment processing and KYC capabilities, said BIAN, explaining that they will allow more effective on-boarding of new card accounts, faster transferring of funds between accounts, device administration and management, and ease the process involved in transitioning physical cards into virtual wallets. With these new functions in place, it said banks will be able to offer their customers a better user experience and increased security when using their cards, capabilities it described as paramount for banks both now and in the future.

“We’re very pleased to announce the new additions made to our API Exchange,” said Hans Tesselaar, Executive Director of BIAN. “The team has continued working hard after the portal launched last October to develop new definitions designed to address the pressing business challenges banks are facing currently. We remain on target with our goal to create an accessible repository of high-quality APIs and micro services, to help banks modernise quickly and more cost effectively.” Customers, he claimed, are increasingly favouring digital first experiences in banking, with 22% of consumers using mobile apps or online banking more than ten times a month. This is compared to only 2% of consumers who claim they visit the physical branch in the same frequency. The changing needs of the consumer, combined with competition from challenger banks, and the rise of fraud across the industry means the adoption of more modern services to address these changes is becoming increasingly critical, said Tesselaar.

Financial services ahead of other sectors in hybrid cloud adoption

Cloud computing enabler Nutanix has published its Enterprise Cloud Index Report for financial services revealing that the sector outpaces other industries in the adoption of hybrid cloud. Nutanix said the deployment of hybrid cloud in financial services has reached 21% penetration, compared to the global average of 18.5%. Financial services firms, it said, are facing mounting competitive pressure to streamline operations while delivering a differentiated experience to their customers, including leveraging new technologies such as blockchain. This driver, combined with the growing burdens of regulatory compliance, data privacy, and security issues, is pushing CIOs to fundamentally transform the technological underpinnings of their institutions, concluded its report. Nutanix said it is also clear from the survey results that many financial organisations are still struggling with modernising their outdated legacy IT architectures and processes, resulting in inefficient operations and potential vulnerability to data breaches. In fact, the report revealed financial services run more traditional data centers than other industries, with 46% penetration. Despite their progressiveness on the hybrid cloud front, financial organisations have lower usage levels of private clouds than any other industry, at 29% penetration compared to the average of 33%. "Increased competitive pressure combined with higher security risks and new regulations will require all of the industry to look at modernising their IT infrastructure," said Chris Kozup, SVP of Global Marketing at Nutanix. "The current relatively high adoption of hybrid cloud in the financial services industry shows that financial firms recognise the benefits of a hybrid cloud infrastructure for increased agility, security, and performance. However, the reality is that financial services firms still struggle to enable IT transformation, even though it is critical for their future."

Infosys to acquire 75% of ABN AMRO's mortgage service unit

Infosys and ABN AMRO have entered into a strategic partnership wherein Infosys will acquire 75% of shares(for 127.5 million euros) in Stater N.V., a wholly owned subsidiary of ABN AMRO Bank. The partnership aims to strengthen Infosys' position across the mortgage service chain. Mohit Joshi, President, Infosys, said, "This transaction strengthens our approach to offer clients digital platforms and industry-focused solutions. It brings together our complementary capabilities to enhance the value we offer to our financial services clients. We are excited to welcome Stater's talented team to the Infosys family, thereby enhancing our presence in Europe." The supplier states that the partnership will drive Stater's digital transformation with the help of Infosys' API layers, RPA and analytics. Stater's mortgage knowledge and experience coupled with the global reach, AI and automation capabilities of Infosys is expected to present a set of differentiated solutions for the market. Christian Bornfeld, Member of the Executive Board of ABN AMRO, said, "While mortgages are a key product for ABN AMRO, providing administrative mortgage services is not a core activity. That's why we are very pleased with Infosys as Stater's new majority shareholder. ABN AMRO will keep a strategic interest of 25% and will continue to be an important client to Stater." Erwin Dreuning, Managing Director, Stater, said, "We are eager to welcome Infosys as a new shareholder. As they are already active in mortgage administration services, Infosys offers specific expertise. With the combined forces of ABN AMRO, Infosys and Stater ensures we have a solid basis to pursue our plans to for further development of our service offering. Furthermore, it opens up opportunities for us to grow and service other clients." Recently Infosys' consulting arm acquired 81% stake in Hitachi's subsidiary to set up a new venture in Japan. Stater offers pure-play, end-to-end mortgage administration services in the Netherlands, Belgium and Germany. Headquartered in Amsterdam, ABN AMRO is a Dutch bank for retail, corporate and private banking clients.

RBI THIS WEEK

India's International Investment Position (IIP), December 2018

Today, the Reserve Bank released data relating to India's International Investment Position at end-December 2018.

Key Features of India's IIP in December 2018

- Net claims of non-residents on India increased by US$ 44.3 billion from their level a quarter ago (Table 1).
- The increase in net claims was due to a pick-up in foreign-owned assets in India after three consecutive quarters of contraction, combined with a marginal decline in Indian residents' financial assets abroad.

- The large increase in foreign-owned assets in India emanated from inward foreign direct investment (FDI), followed by portfolio investment and currency and deposits.
- Overseas financial assets of Indian residents declined during the quarter, mainly due to reduction in reserve assets, even as overseas direct investment increased during the period.
- Appreciation of the Indian rupee against the US dollar during the quarter contributed substantially to the increase in net claims of non-residents valued in US dollar terms.
- Despite a decline during the quarter, reserve assets accounted for nearly two-thirds of India's international financial assets (Table 2).
- The share of debt liabilities in total liabilities declined marginally during the quarter (Table 3).
- The ratio of India's international financial assets to international financial liabilities stood at 58.3 per cent in December 2018 (61.1 per cent in September 2018).

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Table 1: Overall International Investment Position of India

(US $ billion)

Period	Dec-17(R)	Mar-18(PR)	June-18(PR)	Sep-18(PR)	Dec-18(P)
Net IIP (A-B)	-421.4	-418.4	-407.5	-387.4	-431.7
A. Assets	613.5	633.7	610.9	608.0	603.8
1. Direct Investment	155.2	157.4	160.8	163.3	166.2
2. Portfolio Investment	2.9	3.6	3.1	2.6	2.7
2.1 Equity Securities	2.0	2.1	1.9	1.8	1.4
2.2 Debt Securities	1.0	1.5	1.1	0.8	1.3
3. Other Investment	46.3	48.2	41.3	41.5	39.3

3.1 Trade Credits	1.6	1.7	1.4	0.9	0.3
3.2 Loans	5.6	8.2	7.0	7.1	6.5
3.3 Currency and Deposits	20.8	20.8	16.3	16.6	17.2
3.4 Other Assets	18.4	17.5	16.7	16.9	15.3
4. Reserve Assets	409.1	424.5	405.7	400.5	395.6
B. Liabilities	1034.9	1052.1	1018.4	995.4	1035.5
1. Direct Investment	377.3	379.0	372.4	362.2	386.4
2. Portfolio Investment	267.4	272.1	254.2	237.9	245.8
2.1 Equity Securities	155.7	155.1	144.4	135.2	138.1
2.2 Debt securities	111.8	117.0	109.8	102.6	107.7
3. Other Investment	390.2	401.0	391.8	395.4	403.4
3.1 Trade Credits	98.4	103.2	99.6	104.3	103.6
3.2 Loans	155.8	159.7	156.4	157.4	160.3
3.3 Currency and Deposits	123.5	126.5	124.5	122.1	126.0
3.4 Other Liabilities	12.4	11.7	11.3	11.5	13.5
Memo item: Assets to Liability Ratio (%)	59.3	60.2	60.0	61.1	58.3

R: Revised PR: Partially revised P: Provisional;
The sum of the constituent items may not add to the total due to rounding off.

Table 2: Composition of International Financial Assets and Liabilities of India

(per cent)

Period	Dec-17(R)	Mar-18(PR)	June-18(PR)	Sep-18(PR)	Dec-18(P)
A. Assets					
1. Direct Investment	25.3	24.8	26.3	26.9	27.5
2. Portfolio Investment	0.5	0.6	0.5	0.4	0.5
3. Other Investment	7.5	7.6	6.8	6.8	6.5
4. Reserve Assets	66.7	67.0	66.4	65.9	65.5
Assets/Liabilities	100.0	100.0	100.0	100.0	100.0
B. Liabilities					
1. Direct Investment	36.5	36.0	36.5	36.4	37.3
2. Portfolio Investment	25.8	25.9	25.0	23.9	23.7
3. Other Investment	37.7	38.1	38.5	39.7	39.0

Table 3: Share of External Debt and Non-Debt Liabilities of India

(per cent)

Period	Dec-17(R)	Mar-18(PR)	June-18(PR)	Sep-18(PR)	Dec-18(P)
Non-Debt Liabilities	50.0	49.3	49.2	48.4	49.0
Debt Liabilities	50.0	50.7	50.8	51.6	51.0
Total	100.0	100.0	100.0	100.0	100.0

[1] India's quarterly IIP is disseminated with one-quarter lag. The IIP for end-September 2018 was placed in the public domain on December 31, 2018.

Opportunities and Challenges of FinTech

(Shri Shaktikanta Das, Governor, Reserve Bank of India - March 25, 2019 - Keynote Address Delivered at the NITI Aayog's FinTech Conclave)

I am extremely happy to participate in NITI Aayog's FinTech Conclave 2019 and share my thoughts on the technological revolution that is shaping the future of finance. I am particularly thankful to Shri Amitabh Kant, CEO of NITI Aayog for having invited me to such an august gathering. As I understand, this Conclave is woven around the theme of Indian FinTech ecosystem as well as steps required to help achieve the potential that the sector offers towards growth, employment and inclusion. Given the wide canvas that FinTech encompasses, I have organised my thoughts on some of the core issues in this area.

2. In general, FinTech stands for financial technology and describes technologically enabled financial innovations. From 'start-ups' to 'big-techs' to established financial institutions, all the key players are harnessing this technological edge along the financial services' value chain to provide agile, efficient and differentiated experiences to the end-user. This movement has the potential to fundamentally transform the financial-landscape where consumers will get to choose from a larger set of options at competitive prices and financial institutions could improve efficiency through lower operational costs. As a country that is determined to achieve universal financial inclusion at affordable costs, this is a defining moment for us, and we should seize the opportunity.

FinTech Experience in India

3. India has been at the forefront of this revolution. A recent global survey ranks India second in terms of FinTech adoption, with an adoption rate of 52 per cent[1]. It is reported that there are as many as 1218 FinTech firms operating in India which have created a large number of jobs. They are also generating a healthy appetite for investment.

4. The Reserve Bank has over the years encouraged greater use of electronic payments so as to achieve a "less-cash" society. The objective has been to provide a payment system that combines the attributes of safety, security, enhanced convenience and accessibility, leveraging technological solutions that enable faster processing. Affordability, interoperability, and customer awareness and protection have also been other focus areas. Banks have been the traditional gateway to payment services. However, with the fast pace of technological changes, this domain is no longer the monopoly of banks. Non-bank entities are cooperating as well as competing with banks, either as technology service providers to banks or by directly providing retail electronic payment services. The regulatory framework has also encouraged this enhanced participation of non-bank entities in the payments domain.

5. In recent years, a focussed effort has been made to develop a state of the art national payments infrastructure and technology platforms, be it Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Bharat Bill Pay System (BBPS), or Aadhaar-enabled Payment System (AePS). This has changed the retail payments scenario of the country. The total volume of retail electronic payments witnessed about nine-fold increase over the last five years.

6. Let me now mention some numbers with regard to digital modes of payment. The NEFT system handled 195 crore transactions valued at around Rs.172 lakh crore in 2017-18 growing by 4.9 times in terms of volume and 5.9 times in terms of value over the previous five years. Similarly, the number of transactions carried out through credit and debit cards in 2017-18 was 141 crore and 334 crore,

respectively. Prepaid payment instruments (PPIs) recorded a volume of about 346 crore transactions, valued at Rs.1.4 lakh crore. Thus, the total card payments, in volume terms, stood at 52 percent of the total retail payments during the year 2017-18.

7. Developments in the spheres of banking technology and trade finance have been commendable as well. Alternative models of lending and capital raising are coming up and have the potential to change the market dynamics of traditional lenders and the role of traditional intermediaries. Crowd-funding, which entails raising external finance from a large group of investors, is at a very nascent stage in India. The peer-to-peer (P2P) lending for which RBI has issued Master Direction in October 2017 has the potential to improve access to finance for small and medium enterprises. Eleven entities have been licensed to operate P2P platform. The Reserve Bank has also granted licenses and permitted seven purely digital loan companies (NBFCs) to commence operations. Although they are purely digital players operating through mobile applications, we have ensured that they have at least one physical presence for customers to reach out to in case of need.

8. Furthermore, seven payment banks have commenced operations. These technology-led banks use FinTech, both while on boarding customers as well as while carrying out operations.

9. Invoice trading is another nascent area of FinTech application in India. It assists MSMEs which often have working capital and cash flow problems due to delayed payments. The Reserve Bank has set up the Trade Receivables Discounting System (TReDs), which is an innovative financing arrangement where technology is leveraged for discounting bills and invoices. Three entities have been authorised for this purpose and the volumes are slowly gaining traction.

10. Another initiative has been laying down a regulatory framework for Account Aggregators (AA). A total of five entities have been given in-principle approval as NBFC-AA and are expected to commence their operations during 2019-20.

11. To further deepen digital payments and enhance financial inclusion through FinTech, the Reserve Bank of India (RBI) has also appointed a five member committee under the chairmanship of Shri Nandan Nilekani.

12. While opening a new world of opportunities, the FinTech revolution has its own share of risks and challenges for the regulators and supervisors. Early recognition of these risks and initiating action to mitigate the related regulatory and supervisory challenges is key to harnessing the full potential of these developments. I would, therefore, like to give a bird's eye view of these opportunities, risks and challenges, especially in the Indian context as also the policy roadmap that we have in mind.

Opportunities, Risks and the Way Forward

Let me first highlight the opportunities in the area of digital on boarding and financial inclusion.

Digital on boarding and financial inclusion

13. There are two broad areas that merit attention in the Indian context: the first is regarding improving the accessibility of financial platforms using FinTech; and the second is about analysing potential risks that may arise out of FinTech adoption. Designing suitable financial products that cater to specific needs of the financially excluded population, digital on boarding and boosting the quantum of investments are vital in achieving the first objective. Effective utilisation of Aadhaar eco-system

may provide incentives for the people to adopt digital platforms as it is happening in the case of direct benefits transfer (DBT). The central KYC registry is a significant step in this regard – about 100 million KYC records have already been uploaded onto this platform. We also need to ensure multi-lingual financial literacy and a robust grievance redressal machinery to effectively handle inter-regional disparities and to offer online dispute resolutions.

RegTech and SupTech

14. As regards potential risks and their mitigation, RegTech[2] and SupTech[3] have an important role. Regulators and supervisors have to undertake accelerated off-site surveillance. This also brings in the need for a transparent, technology and data-driven approach. To serve this need, new fields called RegTech and SupTech are coming up. Both the technologies aim at improving efficiency through the use of automation, introducing new capabilities and streamlining workflows. In the Reserve Bank, we have been using SupTech for data collection and analysis. The examples are Import Data Processing and Monitoring System (IDPMS), Export Data Processing and Monitoring System (EDPMS) and Central Repository of Information on Large Credits (CRILC), to name a few. Also, the risk-based supervision of banks is extensively data-driven and is an example of SupTech. The future of RegTech and SupTech technologies, however, lie in big data analytics, artificial intelligence, machine learning, cloud computing, geographic information system (GIS) mapping, data transfer protocols, biometrics, etc.

15. A strong risk culture - in which risk detection, assessment and mitigation are part of the daily job of bank staff - will be central to the success of managing the emerging risks. Similarly, systemic risks may arise from unsustainable credit growth, increased inter-connectedness, procyclicality, development of new activities beyond the supervisory framework and financial risks manifested by lower profitability. Risks for FinTech products may also arise from cross border legal and regulatory issues. Data confidentiality and customer protection are major areas that also need to be addressed.

16. The Reserve Bank has encouraged banks to explore the possibility of establishing new alliances with FinTech firms as it could be pivotal in accelerating the agenda of financial inclusion through innovation. It is essential that flow of investments to this sector is unimpeded to realise its full potential. It is imperative to create an ecosystem which promotes collaboration while carefully paying attention to the implications that it has for the macro-economy.

17. In order to ensure an orderly development of FinTech, to streamline their influence into the financial system, to protect the customers and to safeguard the interest of all the stakeholders, we need to have appropriate regulatory and supervisory frameworks. Such frameworks should address associated risks while keeping in mind the growth requirements of this sector. The Reserve Bank's working group on FinTech and digital banking (Report of the working group on FinTech and digital banking, November 2017) suggested the introduction of a 'regulatory sandbox/innovation hub' within a well-defined space and duration to experiment with FinTech solutions, where the consequences of failure can be contained and reasons for failure analysed. A 'Regulatory Sandbox' would benefit FinTech companies by way of reduced time to launch innovative products at a lower cost. Going forward, the Reserve Bank will set up a regulatory sandbox, for which guidelines will be issued in the next two months.

Conclusion

18. In conclusion, I would like to say that FinTech has the potential to reshape the financial services and financial inclusion landscape in India in fundamental ways. It can reduce costs and improve access and quality of financial services. We have to strike a subtle balance between effectively utilising FinTech while minimising its systemic impacts. By enabling technologies and managing risks, we can help create a new financial system which is more inclusive, cost-effective and resilient. Thank you.

Reserve Bank of India imposes monetary penalty on Punjab National Bank

Reference is invited to the Press Release No. 2018-2019/2144 dated March 08, 2019 regarding imposition of penalty on 36 banks for non-compliance with various directions issued by the Reserve Bank of India (RBI) on time-bound implementation and strengthening of SWIFT-related operational controls. In continuation thereto, RBI has imposed, by an order dated February 25, 2019, a monetary penalty of ₹ 20 million (Rupees Twenty Million) on Punjab National Bank (the bank) for non-compliance with aforesaid directions issued by RBI. This penalty has been imposed in exercise of powers vested in RBI under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, taking into account failure of the bank to adhere to the aforesaid directions issued by RBI and based on the extent of non-compliance in the bank. This action is based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.

Inclusion of "DBS Bank India Limited" in the Second Schedule of the Reserve Bank of India Act, 1934

We advise that the "DBS Bank India Limited" has been included in the Second Schedule to the Reserve Bank of India Act, 1934 vide Notification DBR.IBD.No.6408/23.13.046/2018-19 dated February 04, 2019 and published in the Gazette of India (Part III - Section 4) dated March 01, 2019.

Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations

Transactions on account of External Commercial Borrowings (ECB) and Trade Credits (TC) are governed by clause (d) of sub-section 3 of section 6 of the Foreign Exchange Management Act, 1999 (FEMA). Various provisions in respect of these two types of borrowings are included in the following Regulations framed under FEMA:

i. Foreign Exchange Management (Borrowing and Lending) Regulations, 2018, notified vide Notification No. FEMA 3R/2018-RB dated December 17, 2018, as amended from time to time; and
ii. Foreign Exchange Management (Guarantees) Regulations, 2000, notified vide Notification No. FEMA 8/2000-RB dated May 03, 2000, as amended from time to time.

2. Within the contours of the Regulations, Reserve Bank of India also issues directions to Authorised Persons under Section 11 of the Foreign Exchange Management Act (FEMA), 1999. These directions lay down the modalities as to how the foreign exchange business has to be conducted by the Authorised Persons with their customers/constituents with a view to implementing the regulations framed. 3. Instructions issued in respect of External Commercial Borrowings and Trade Credits have been compiled in this Master Direction in supersession of earlier directions contained in Master Direction - External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers dated January 1, 2016, as amended from time to time. The said Master Direction can, however, be accessed using the link provided. The

list of underlying notifications/circulars which form the basis of this Master Direction is furnished in the Appendix. Reporting instructions can be found in Master Direction on reporting (Master Direction No. 18 dated January 01, 2016, as amended from time to time). 4. It may be noted that, whenever necessary, Reserve Bank shall issue directions to Authorised Persons through A.P. (DIR Series) Circulars in regard to any change in the Regulations or the manner in which relative transactions are to be conducted by the Authorised Persons with their customers/ constituents and/ or amend the Master Direction issued herewith. This Master Direction has been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

Establishment of Branch Office (BO) / Liaison Office (LO) / Project Office (PO) or any other place of business in India by foreign entities

Attention of the Authorised Dealer (AD - Category I) banks is invited to the Foreign Exchange Management (Establishment in India of a Branch Office or a Liaison Office or a Project Office or any Other Place of Business) Regulations, 2016, notified by the Reserve Bank vide Notification No. FEMA 22(R)/RB-2016 dated March 31, 2016, as amended from time to time and the relevant directions issued there under. 2. The extant Regulations regarding requirement of prior approval of the Reserve Bank of India, for opening of a Branch Office (BO) / Liaison Office (LO) / Project Office (PO) or any other place of business in India, where the principal business of the applicant falls in the Defence, Telecom, Private Security and Information and Broadcasting sector, have since been reviewed in consultation with the Government of India and the amendments have been notified by Government vide Notification No. FEMA 22(R)(2)/2019-RB dated January 21, 2019. 3. Accordingly, it is advised that for opening of a BO/LO/PO or any other place of business in India, where the principal business of the applicant falls in the Defence, Telecom, Private Security and Information and Broadcasting sector, no prior approval of the Reserve Bank of India shall be required, if Government approval or license/permission by the concerned Ministry/ Regulator has already been granted. Further, in the case of proposal for opening a PO relating to defence sector, no separate reference or approval of Government of India shall be required if the said non-resident applicant has been awarded a contract by/entered into an agreement with the Ministry of Defence or Service Headquarters or Defence Public Sector Undertakings. It is clarified that the term “permission” used in the Notification does not include general permission, if any, available under Foreign Direct Investment in the automatic route, in respect of the above four sectors. 4. All other provisions of the BO/LO/PO policy shall remain unchanged. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers. 5. The Master Direction No. 10 dated January 1, 2016 is being updated simultaneously to reflect the changes. 6. 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.

Foreign Exchange Management (Deposit) Regulations, 2016 - Opening of NRO Accounts by Long Term Visa (LTV) holders, changes related to Special Non-Resident Rupee (SNRR) Account and Escrow Account

Attention of Authorised Dealers (ADs) is invited to the Foreign Exchange Management (Deposit) Regulations, 2016 notified vide Notification No. FEMA 5(R)/2016-RB dated April 1, 2016 and A.P.(DIR Series) Circular No.67/2015-16[(1)/5(R)] dated May 5, 2016. The FEM (Deposit) (Amendment) Regulations 2018 i.e FEMA 5(R)(1) have since been notified by the Government of India vide GSR No 1093(E) dated November 9, 2018 necessitating following changes to the extant instructions.

i. Authorized Dealers may allow a Foreign Portfolio Investor (FPI) and a Foreign Venture Capital Investor (FVCI), registered with the Securities and Exchange Board of India (SEBI) to open and maintain a non-interest bearing foreign currency account for the purpose of making investment in accordance with the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017, as amended from time to time.

ii. Authorized Dealers may open only one Non-Resident Ordinary (NRO) Account for a citizen of Bangladesh or Pakistan, belonging to minority communities in those countries, namely Hindus, Sikhs, Buddhists, Jains, Parsis and Christians, residing in India and who has been granted a Long Term Visa (LTV) by the Central Government. The account will be converted to a resident account once such a person becomes a citizen of India within the meaning of the Citizenship Act, 1955. This account can also be opened if such person has applied for LTV which is under consideration of the Central Government, in which case, the account will be opened for a period of six months and may be renewed at six monthly intervals subject to the condition that the individual holds a valid visa and valid residential permit issued by Foreigner Registration Office (FRO)/ Foreigner Regional Registration Office (FRRO) concerned. The opening of such NRO accounts will be subject to reporting of the details of the accounts opened by the concerned Authorised bank, to the Ministry of Home Affairs (MHA) on a quarterly basis. The report shall contain details of (i) name/s of the individual/s; (ii) date of arrival in India; (iii) Passport No. and place/country of issue; (iv) Residential Permit/Long Term Visa reference and date & place of issue; (v) name of the FRO/FRRO concerned; (vi) complete address and contact number of the branch where the bank account is being maintained. The Head Office of the AD bank shall furnish the above details on a quarterly basis to the Under Secretary (Foreigners), Ministry of Home Affairs, NDCC-II Building, Jai Singh Road, New Delhi – 110 001. AD banks are advised to ensure strict compliance to these instructions.

iii. In terms of extant instructions, SNRR accounts cannot be held for more than seven years. It has now been decided that SNRR accounts opened by persons resident outside India may remain operative beyond the stipulated period of seven years with RBI approval. Further, the restriction of seven years will not be applicable to SNRR accounts opened by persons resident outside India who are registered with SEBI and wish to make investment in India in accordance with Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017, as amended from time to time.

iv. The extant Schedule 5 of the Foreign Exchange Management (Deposit Regulations) 2016 pertaining to Escrow Accounts has been replaced to align the same with the provisions of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017, in terms of which, Escrow Accounts can be opened by residents and non-residents for acquisition/transfer of capital instruments/convertible notes and can also be funded by guarantee(s).

2. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned. 3. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

FINMIN THIS WEEK

Review of the Monthly Account of the Government of India up to the month of February 2019 for the Financial Year 2018-19

The Monthly Account of the Union Government of India up to the month of February 2019 for the Financial Year 2018-19 has been consolidated and reports published. The highlights are given below:- The Government of India has received Rs.13,37,340 crore (73.37% of corresponding RE 18-19 of Total Receipts) upto February 2019 comprising Rs. 10,93,923 crore Tax Revenue (Net to Centre), Rs. 1,71,755 crore of Non Tax Revenue and Rs.71,662 crore of Non Debt Capital Receipts. Non Debt Capital Receipts consists of Recovery of Loans (Rs.15, 042 crore) and Disinvestment of PSUs (Rs. 56,620 crore). Rs. 5,96,667 crore has been transferred to the State Governments as Devolution of Share of Taxes by Government of India up to this period which is Rs. 67,043 crore higher than the corresponding period of last year 2017-18. Total Expenditure incurred by Government of India is Rs.21, 88,839 crore (89.08% of corresponding RE 18-19), out of which Rs.19, 15,303 crore is on Revenue Account and Rs.2,73,536 crore is on Capital Account. Out of the Total Revenue Expenditure, Rs.5,01,160 crore is on account of Interest Payments and Rs.2,63,868 crore is on account of Major Subsidies.

CEA asks the Indian Economic Service (IES) Officers to keep themselves updated and skilled with tools and techniques concerning econometrics, data analytics & effective visualization among others; Also emphasizes the need of sharing of experiences and best practices regularly on a common platform amongst the IES Officers

Dr. Krishnamurty Subramanium, Chief Economic Advisor (CEA) to the Government of India and Cadre Head of the Indian Economic Service (IES) asks the IES officers to keep themselves updated and skilled with tools and techniques concerning econometrics, data analytics and effective visualization among others. He also emphasized the need of sharing of experiences and best practices regularly on a common platform amongst IES officers. CEA Dr Subramanium was speaking during his interaction with the IES officers yesterday in the national capital. The interaction was half-a-day long Brain-storming Session on enhancing the effective contribution of IES officers to the Economic Policy making and its implementation in the country. More than 130 IES officers, who are posted at different levels in various Ministries and Departments of the Government of India, participated in the said Session. It was agreed that IES officers can contribute more effectively to the policy space by making all advice to the Government evidence-based, objectively communicating the policies of the Government, and widening the scope of engagement of IES officers to parastatals and the State Government services. To this end, CEA emphasized that IES officers need to be updated and skilled with tools and techniques relating to econometrics, data analytics & effective visualization among others. As the importance of specialization in policymaking is increasing constantly, IES officers need to constantly engage with academia and the private sector to provide sharp economic analysis. The CEA also advocated continuous learning through training programs in India and abroad in the best academic institutions and combining them with effective use of the advantages provided by the online training courses. IES officers expressed their gratitude to the Department of Economic Affairs (DEA), Ministry of Finance - for the growth and reach of IES officers to the Senior Levels in the Government of India.

Signing of Inter-Governmental Agreement for exchange of country by country reports between India and the United States of America

India and the United States of America have today, the 27th March, 2019, signed an Inter-Governmental Agreement for Exchange of Country-by-Country (CbC) Reports. The Agreement was signed by Shri P. C. Mody, Chairman, Central Board of Direct Taxes and Mr. Kenneth I. Juster, Ambassador of the United States of America to India on behalf of the two countries. This Agreement for Exchange of CbC Reports, along with the Bilateral Competent Authority Arrangement between the two Competent Authorities, will enable both the countries to automatically exchange CbC Reports filed by the ultimate parent entities of Multinational Enterprises ("MNEs") in the respective jurisdictions, pertaining to the years commencing on or after 1st January, 2016. It would also obviate the need for Indian subsidiary companies of US MNEs to do local filing of the CbC Reports, thereby reducing the compliance burden. India has already signed the Multilateral Competent Authority Agreement (MCAA) for Exchange of CbC Reports, which has enabled exchange of CbC Reports with 62 jurisdictions. Filing of CbC Reports by the ultimate parent entity of an MNE group to the prescribed Authority in the jurisdiction in which it is a resident and exchange of such CbC Reports by the Competent Authority of the said jurisdiction with the Competent Authorities of other jurisdictions in which the group has one or more of its constituent entities, are the minimum standards required under the Action 13 Report of OECD/G20 BEPS Project in which India is an active participant. A CbC Report has aggregated country-by-country information relating to the global allocation of income, the taxes paid, and certain other indicators of an MNE group. It also contains a list of all the constituent entities of an MNE group operating in a particular jurisdiction and the nature of the main business activity of each such constituent entity. MNE groups having global consolidated revenue of 750 Million Euros or more (or a local currency equivalent) in a year are required to file CbC Reports in their parent entity's jurisdiction. The INR equivalent of 750 Million Euros has been prescribed as INR 5500 Crore in Indian rules. This information will enable an enhanced level of assessment of tax risk by both tax administrations.

WORLD BANK THIS WEEK

Women in Half the World Still Denied Land, Property Rights Despite Laws

Global campaign "Stand For Her Land" aims to bridge gap between law and practice so that women can realize their equal rights to land

WASHINGTON, March 25, 2019 – Women in half of the countries in the world are unable to assert equal land and property rights despite legal protections, warned members of a new global campaign that formally launches today. The campaign, ***Stand For Her Land***, aims to close this persistent gap between law and practice worldwide so that millions of women can realize these rights in their daily lives. *"For men and women alike, land is the foundation for security, shelter, and livelihood, supports women's dignity and creates pathways to empowerment and economic opportunity,"* said **Karol Boudreaux, Chief Program Officer with the land rights group, Landesa**, a founding partner of the ***Stand For Her Land*** campaign. *"For women, land truly is a gateway right – without it, efforts to improve the basic rights and well-being of all women will continue to be hampered."*

Stand For Her Land founding partners Habitat for Humanity, Huairou Commission, Landesa, Global Land Tool Network (GLTN) Partners, and the World Bank are hosting a public launch event, "Presenting Stand For Her Land," at 3 pm, March 25, ahead of the opening session of the World Bank Land and Poverty Conference 2019 at The World Bank, 1818 H Street NW, Washington, D.C.

"Secure land rights are essential for women's economic empowerment and creating incentives for investment, providing an asset that can be leveraged for agriculture or business development, and offering a solid foundation for financial stability," said **Anna Wellenstein, Director, Social, Urban, Rural and Resilience Global Practice, World Bank.** *"Improving women's access to – and control over – economic resources also has a positive effect on a range of development goals, including poverty*

reduction and economic growth. We are committed to working with partners to close the gap and make land rights for women a reality globally."

Persistent discriminatory social norms and practices are among the strongest barriers standing between women and their land and property rights. Weak implementation of policies, insufficient capacity to enforce laws, and a lack of political will further compound the problem. And poor access to legal services and a lack of understanding of laws within communities and households – and by women themselves – build an invisible but near impenetrable wall to women realizing land and property rights in rural and urban areas alike.*"Insecure land rights create obstacles for women engaging in farming and other agricultural activities, in starting and running a home-based enterprise, and, as we've observed, in accessing safe and decent housing,"* said **Jane Katz, Director of International Affairs and Programs, of Habitat for Humanity International**. *"As urbanization continues to increase, land rights are an issue for all those living in cities as well as in rural areas."*

With so much at stake, there is growing recognition – and a growing movement – to strengthen women's land rights around the world. The ***Stand For Her Land*** campaign aims to be a driving force behind this movement by catalyzing a consolidated push across settings and cultures – urban, rural, customary, and indigenous – to narrow the gap between law and practice towards secure women's land. *"Global and regional efforts, including the United Nations Sustainable Development Goals and the New Urban Agenda, the African Union's Campaign for Women's Land Ownership and Agenda 2063, and U.S. Government's new Global Women's Development and Prosperity Initiative, recognize that women's land rights are critical to achieving gender equality and tackling some of the world's most pressing development challenges,"* said **Oumar Sylla, Leader of the Land and Global Land Tool Network Unit, UN-Habitat.** *"The Stand For Her Land Campaign aims to translate these gains at the highest levels into real change for women in villages and communities across the globe."* The main objective of the campaign is to drive real change on the ground – consolidating local and national efforts by civil society groups, grassroots organizations, advocates and allies across sectors. *"This campaign is not a top-down effort but rather an approach to strengthening land rights from the ground up,"* said **Violet Shivutse, grassroots women's leader from Kenya and Chair of the Huairou Commission.** *"Advocates, steeped in local contexts and the specific needs of communities, can apply their own expertise to overcome barriers for women and become the engines of social impact."*

IMF THIS WEEK

Corporate Taxation in the Global Economy By Christine Lagarde

The public perception that some large multinational companies pay little tax has led to political demands for urgent action. It is not difficult to see why. Let me highlight three reasons why a new approach to international corporate taxation is urgent. **First,** the ease with which multinationals seem able to avoid tax, and the three-decade long decline in corporate tax rates, undermines faith in the fairness of the overall tax system. **Second,** the current situation is especially harmful to low-income countries, depriving them of much-needed revenue to help them achieve higher economic growth, reduce poverty, and meet the 2030 Sustainable Development Goals. Advanced economies have long shaped international corporate tax rules, without considering how they would affect low-income countries. IMF analysis shows, for example, that non-OECD countries lose about $200 billion in revenue per year, or about 1.3 percent of GDP, due to companies shifting profits to low-tax locations. These countries need a seat at the table. The Platform for Collaboration on Tax, a joint effort by the IMF, World Bank, OECD and the UN is helping on this front.

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Third, an impetus for rethinking international corporate taxation stems from the rise of highly profitable, technology-driven, digital-heavy business models. These business models rely heavily on intangible assets, such as patents or software that are hard to value. They also demonstrate that assuming a link between income and profits and physical presence has become outdated. This in turn has sparked fairness concerns. Countries with many users or consumers of digital services find themselves with little or no tax revenue from these companies. Why? Because they have no physical presence there. So, we clearly need a fundamental rethink of international taxation. Yet this means countries must work together. Making progress requires coordination among all, and in the right direction. New IMF research analyzes various options in the context of three key criteria: better addressing profit-shifting and tax competition; overcoming the legal and administrative obstacles to reform; and ensuring full recognition of the interests of emerging and developing countries. The current international corporate tax architecture is fundamentally out of date. By rethinking the existing system and addressing the root causes of its weakness, all countries can benefit, including low-income nations.

The IMF Updates the Effective Exchange Rates Indices

On February 26, 2019, the International Monetary Fund (IMF) published revised indices of effective exchange rates (EER). The new nominal and real effective exchange rate indices—released in the *International Financial Statistics*—reflect an update of the underlying trade-based weights and other methodological refinements.[1] The revision benefited from consultations with selected stakeholders, including the Bank for International Settlements and the European Central Bank. The new indices reflect continuous updating of weights and incorporation of a larger set of trading partners. While previously based on fixed-base weights from 2004–06, the new indices are calculated using weights updated every three years starting in January 2004. The more systematic update of weights will allow earlier reflection of changes in trade patterns. New weights have been computed for 2007–09, 2010–12, and 2013–15; and revised weights for 2004–06 have also been calculated to incorporate changes in the source data. The weights are calculated as three-year averages of annual data available from official sources on merchandise trade, tourism, and manufacturing collected from the United Nations, Organisation for Economic Co-operation and Development, World Bank, World Tourism Organization, and United Nations Industrial Development Organization. The set of trading partners has been expanded to broaden the indices. In principle, all trading partners should be included in the EER index calculation. However, only partner countries with trade-based weights above 0.45 percent (compared with the previous 1 percent) are included. This has led to an increase in the pool of countries included in the new index calculation from 19 to 31. The new weights have been applied to the corresponding three-year period (e.g., 2004–06 weights from January 2004 to December 2006; 2007–09 weights from January 2007 to December 2009; etc.). A chained methodology—also used by other international agencies and country authorities—will ensure alignment with best international practice, with the new series recalculated starting from January 2004. Prior to 2004, the old fixed-base indices are spliced to the new chained indices, with December used as the splicing period to link the weights.

BASLE THIS WEEK

What anchors for the natural rate of interest?

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

by Claudio Borio, Piti Disyatat and Phurichai Rungcharoenkitkul

Focus We examine the prevailing view that only saving and investment drivers influence the long-term evolution of real, or inflation-adjusted, interest rates. That view also relies on the notion of a natural, or equilibrium, real interest rate that is independent of monetary policy. By contrast, we argue that monetary factors matter.

Contribution We test the role of saving and investment drivers based on a large set of advanced economies since the 1870s. We also examine the popular hypothesis that a shortage of risk-free, or "safe" assets, has led to an excess of saving over investment and driven down real interest rates. We compare the relevance of these factors with that of monetary ones. To shed light on the findings, we propose a novel model where monetary factors play a key role by interacting with the financial cycle.

Findings Our analysis finds prevailing explanations of low real interest rates wanting. By contrast, it indicates that shifts in monetary policy regimes play a greater role. In our stylised model, monetary policy affects an economy's vulnerability to a financial bust by influencing the boom. It thus helps determine the long-run path of output and real interest rates. Our findings raise questions about the usefulness of the natural interest rate as a policy guide. They also suggest that monetary policy cannot ignore financial booms and busts.

Abstract The paper takes a critical look at the conceptual and empirical underpinnings of prevailing explanations for low real (inflation-adjusted) interest rates over long horizons and finds them incomplete. The role of monetary policy and its interaction with the financial cycle in particular, deserve greater attention. By linking booms and busts, the financial cycle generates important path dependencies that give rise to inter temporal policy trade-offs. Policy today constrains policy tomorrow. Far from being neutral, the policy regime can exert a persistent influence on the economy's evolution, including on the real interest rate. This raises serious conceptual and practical questions about the use of the natural interest rate as a monetary policy guidepost. In developing the analysis, the paper also provides a specific critique of the safe asset shortage hypothesis - a hypothesis that has gained considerable popularity in recent years.

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