FEBRUARY 2024

IBS VIGYAN

VISIONING BANKERS

Evangelistically Speaking

Dear Stakeholders,

Who has missed the woods for the trees? May I engage with all stakeholders in Paytm Payment Bank some of my thoughts?
The media is awash with delineations on the Paytm fiasco. Many have conveniently carried a conjecture that the business model has failed. Some have latched on to model failure and gone to the extent of dragging former RBI Governor for the failure. Some have castigated the regulator for strangling the Paytm Payments Bank. Some have put forth views on regulatory oversight.

Have the depositors and the customers using the bank's Payment & Settlement Services missed the woods? Have the investors in the bank's capital missed the woods?

If we analyse the calibrated approach of the regulator in fettering the entity, RBI has agonisingly ensured that the disruption to customer is minimum. The measures have been in a systematic manner so that no systemic risk emerges as a fallout of these curtailments. The extension of time up to 15th March validates this approach. A "cease and desist" order would have been one severe option for RBI in excoriating the malady infested by Paytm Payments Bank. Yet, RBI chose a softer approach that ensured that no abrupt termination evolves, bringing with it more turmoil.

After giving a very long rope to the bank to rectify management and technology related shortcomings, and after finding that the responses have been flippant, RBI has taken these measures. So, the bank management is squarely responsible for facilitating the abuse of KYC norms like linking multitude of accounts to one single PAN, to mention one instance. Post public issue, the promoters have reaped dividends. Therefore, the equity investors have lost out. "Caveat Emptor"! Similar non-disruptive approaches from RBI were visible in several instances, be it the Yes Bank, Lakshmi Vilas Bank or Punjab and Maharashtra Cooperative Bank, to name a recent few.

As the New Education Policy gets rolled out more widely, the significance of Academic Bank of Credits under the National Credit Framework is becoming significantly relevant. The concept of micro-credentials is getting acknowledged as hiring practises prioritise skill over academic qualifications. This is visible in the weightages being given for the certification programs of IIBF, especially in lateral recruitments and in-cadre promotions. Hence my persistent exhortation to all career aspirants in BFSI segment to approach the certification programs with complete seriousness so that the intended skill upgradation materialises, equipping the aspirants to be desk ready.
Looking forward to a sustaining engagement with all.

Sincerly yours

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Curated Cube

RBI Governor Shaktikanta Das announced the first bimonthly monetary policy statement of the calendar year on 8th February. Many would have dismissed it as a non-event. Though he had maintained status quo on policy rates, the markets responded with confidence that interest rates are set to come down in the near future. Bond prices rose. The voting pattern of the monetary policy committee was on expected lines, with one member alone voting for a shift in the stance of the policy from "withdrawal of accommodation" to "neutral" and reduction in policy repo rate. The minutes of the meeting which will be released later will confirm that it was Shri Jayanth Varma.

The Governor has given a pat on his back in stating that RBI's efforts in maintaining a fine balance among price, financial and external sector stability have paid rich dividends. This could be interpreted as the triumvirates of monetary policy planning – inflation, interest rate and exchange rate. To RBI's credit, Indian economy has not witnessed the level of stress many other developed and emerging economies are witnessing, especially triggered by unsustainable levels of public debt. RBI continues to caution through concerns on geo-political factors. The disturbance in the Red Sea channel has kept fuel prices elevated. If this sustains, it could roil inflation expectations.

Thomas Piketty, in his seminal work "Capital in the twenty first century" has articulated that a sustaining war could rejuvenate wealth creation. He has largely relied on empirical data from the two world war eras. The war destroyed the wealth of everyone, irrespective of age. Post war, while the septuagenarians remained penniless, the younger generation could create wealth at a faster pace. This forms the basis of his postulate. He hastens to flag income inequality as a dampener to growth. A recent SBI Research study has indicated that India is bucking the trend and this inequality is reducing. Gini Coefficient is one of the most widely used measures of income inequality. The Gini Coefficient score lies between 0 and 1, where complete equality would result in a Gini Coefficient of zero and complete inequality would result in 1. Using this measure, SBI Research has calculated that Gini Coefficient has declined from 0.472 during Assessment Year 2014-15 to 0.402 for AY 2022-23.

Customary to his style, the Goevrnor ended the statement with a quote from Mahatma Gandhi, ***"I am moving cautiously, watching myself at every step. ..... but there is the fixed determination behind every act of mine…".*** May his determination prevail.

(Cube gives a third dimension in geometry. Curated Cube endeavors to conflate events in the market over the past month.)

FOURTH PILLAR

BANKS TO STOP COMPOUNDING PENALTY CHARGES From 1st APRIL 2024: The RBI has clarified that penalties imposed on loan accounts due to con-compliance of terms and conditions of a loan contract by the borrower, would be considered as 'penal charges' and not as 'penal interest' added to the interest rate on the loans or advances. It means there would be no capitalization of penal charges i.e., no additional interest would be calculated on such charges from 1st April 2024**.**

UPI TAP & PAY: In addition to the existing modes (Scan & pay, Pay to contact, UPI number etc) of UPI payments, NPCI has recently introduced a new mode 'UPI Tap & Pay' where the transactions amount of ₹500 and less will be processed through 'UPI Lite' if enabled by the user, if not the transaction shall be processed with UPI PIN. Therefore, on Tap the transaction amount of more than ₹500 will need UPI PIN and will be processed online.

ICICI BANK ALLOWS UPI PAYMENTS VIA THEIR RUPAY CREDIT CARDS: ICICI Bank has integrated their Rupay credit cards with UPI w.e.f. 1st Dec 2023, which will enable ICICI Bank Rupay credit cardholders to link their cards to their choice of UPI app like Google Pay or Phone Pay etc. and then can make payments.

LIC NOW IS WORLD'S FOURTH LARGEST INSURER: As per S&P Global, Life Insurance Corporation of India became world's 4th largest insurer after the first three being, Germany's Allianz SE, China's China Life Insurance and Japan's Nippon Life Insurance.

TAXPAYERS TO DISCLOSE CASH RECIEPTS, ALL BANK ACCOUNTS: Central Board of Direct Taxes recently has notified that the taxpayers will have to furnish details about receipt of cash and all their bank accounts in the country for assessment year 2024-25. ITR 1 or SAHAJ, can be filed by a resident individual having income of up to ₹50 lakh and who receives income from salary, one house property, other sources (interest), and agricultural income of up to ₹5000.

REMUNERATION CAP FOR NON-EXECUTIVE DIRECTORS OF BANKS HIKED: Reserve Bank of India (RBI) has decided to revise the remuneration ceiling for non-executive directors of some categories of banks to ₹30 lakh per annum from ₹20 lakh earlier. The revised cap will take effect immediately. In addition to private banks, the norms are also applicable to small finance banks, payment banks, and the wholly owned subsidiary of foreign banks.

(Fourth Pillar strives to position beyond the three pillars of Basel and is culled from the Four Estates)

INQUISITIVELY SPEAKING

1. The share of agriculture in total Gross Value Added (GVA) of Indian economy has declined from 35% in 1990-91 to ....% in 2022-23.

a) 29% b) 24%
c) 18% d) 15%

2. The Provision Coverage Ratio (PCR) of Banks in the current financial year is at ....%

a) 70% b) 74%
c) 76% d) 77%

3. RBI has issued guidelines to all agencies dealing in Government securities under the RBI (Government Securities Lending) Directions, 2023 that transactions shall be undertaken for a minimum period of one day and a maximum period of ____days.

a) 30 b) 45
c) 60 d) 90

4. As per revised guidelines pertaining to Credit Guarantee Scheme for Co-lending, the ceiling of Guarantee cover is ₹__ lakh for credit facility secured by primary security and ₹__ lakh for unsecured facility.

a) 400,100 b) 500,200
c) 600,300 d) 700,400

5. As per modifications in CGTMSE scheme, the lender can invoke the guarantee given by the CGTMSE only after the lock-in period of ___ months or 9 months for guarantee upto ₹10 lakh with tenure upto 36 months; either from the date of last disbursement of credit to the borrower or from the date of the guarantee cover.

a) 12 b) 18
c) 21 d) 24

6. The Financial Stability Board (FSB), in consultation with Basel Committee on Banking Supervision (BCBS) and national authorities, has identified ______ global systemically important banks (G-SIBs) for 2023.

a) 28 b) 29
c) 30 d) 32

ANSWER KEY

1.d 2.b 3.d 4.b 5.b 6.b

Stretch n Speak

ICDDs: Identified Credit Deficient Districts

CGSCL: Credit Guarantee Scheme for Co-Lending

PIDF: Payments Infrastructure Development Fund

TBTF: Too Big To Fail

TReDS: Trade Receivables Discounting System