



IBS VIGYAN

VISIONING BANKERS



Evangelistically Speaking

Dear Stakeholders,

Artificial Intelligence has been a pet topic for discussion, Vigyan being no exception. The bias that creeps into the generative algorithms of AI has been echoing uniformly across all sectors, including corporate governance, where the clash between 'not for profit' and 'for profit' was visible with the ejection and reinstatement of Sam Altman in OpenAI. At the ground level, the perceived apprehension is about human resources being rendered redundant. The same fears lingered during the advent of computers, despite the productivity gains that was looming bright as the economic benefit. However, this time, even RBI is seized of the large scale redundancies happening in BFSI sector and the dire need for middle level staff to be appropriately upskilled. In its report, RBI has stated that the officer to clerical ratio which was at 50:50 has progressively shifted to 76:24. It is likely that IIBF would dynamically add more topics on digital technology related areas in the certification courses, taking a cue from the red flags in RBI reports.

Another area of the advent of technology that has misled customers that RBI is seized of is the dark patterns in apps that lure customers to products they do not need. The abuse of technology in the Peer-to-Peer lending sphere has made RBI revise the Master Directions on P2P lending. Among other points, the Directions mandate that the NBFC platforms that offer P2P loan products maintain full transparency and risk distribution among the lenders in as equitable a manner as possible. The Directions prohibit the NBFC

from offering any credit enhancements in its loan products and through that offer any form of assured returns akin to an investment product to its lenders. The amended Directions also mandate that enhanced disclosure is maintained among all contributing lenders about the mapped borrower profiles. It has reinforced the need for two separate escrow accounts for deploying lenders' funds and pooling recoveries from borrowers' repayments. It has categorically stated that there should be no intermingling of the two distinct cash flows. The Directions also state: NBFC-P2Ps which choose to outsource any of their functions shall not outsource core management functions including Internal Audit, Strategic and Compliance functions, pricing of services/ fees to be charged to borrowers/ lenders and decision-making functions such as determining compliance with KYC norms. However, for NBFC-P2Ps in a group/conglomerate, these functions may be outsourced within the group. Further, while internal audit function itself is a management process, the internal auditors can be on contract.

Looking forward to a sustaining engagement with all.

Sincerely yours

Satheesh Kumar. S
Managing Director



Curated Cube

Northern Rock Bank failed the rock test of stability and folded up, not because of asset impairments but inadequate liquidity management. This failure, amidst the global financial crisis, prompted Basel Committee to recommend Liquidity Coverage Ratios in addition to existing minimum capital requirements. The additional measures introduced by RBI in late July 2024 on liquidity standards include:

1. Banks shall assign an additional 5 per cent run-off factor for retail deposits which are enabled with internet and mobile banking facilities (IMB) i.e., stable retail deposits enabled with IMB shall have 10 per cent run-off factor and less stable deposits enabled with IMB shall have 15 per cent run-off factor.
2. Unsecured wholesale funding provided by non-financial small business customers shall be treated in accordance with the treatment of retail deposits as at (1) above.
3. Level 1 HQLA in the form of Government securities shall be valued at an amount not greater than their current market value, adjusted for applicable haircuts in line with the margin requirements under the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).
4. In case a deposit, hitherto excluded from LCR computation (for instance, a non-callable fixed deposit), is contractually pledged as collateral to a bank to secure a credit facility or loan, such deposit shall be treated as callable for LCR purposes.

These measures are effective from 1st April 2025. Many banks have made quick calculations and observed that their LCR could be lowered by around 15%. This measure comes close on RBI Governor's exhortation to banks in the August review of Monetary Policy Committee deliberations to shore up their core deposit base and reduce dependency on purchased funds to fund their assets.

Meanwhile, there is considerable heat generated on whether Government can exclude food component from the headline inflation target of 4% mandated to RBI. This ostrich-like measure would only serve as a compliance benchmark without achieving the objective of reigning in food prices. Food expenditure is close to 50% of Indian households monthly spend, unlike the US where it is around 10% only. Therefore, the measure may at best serve as a façade in lowering the bar. An article in RBI's July bulletin mentions "the accumulation of food price pressures threatens the outlook for inflation in the form of spillovers to wages, rents and expectations. The neutral rate of interest is associated with an economy operating at full capacity without generating inflationary pressures." Neutral rate is measured as repo rate minus inflation projection for one year.

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

ADMISSION STARTED FOR CAIB - HINDI BATCH NOV/DEC BATCH 2024
COMMENCEMENT DATE - 26 AUGUST 2024

Online Zoom Classes, Whatsapp/Telegram support, Recorded Videos & Mock Test Series

FOURTH PILLAR

NINE BUDGET PRIORITIES OF VIKSIT

BHARAT: 1. Productivity & Resilience in Agriculture, 2. Employment & Skilling, 3. Inclusive Human Resource Development & Social Justice, 4. Manufacturing & Service, 5. Energy Security, 6. Urban Development, 7. Infrastructure, 8. Innovation, Research & Development, and 9. Next Generation Reforms.

PURVODAYA: Under the priority list of the annual budget head "Inclusive Human Resource Development & Social Justice", Government formulated a plan named Purvodaya, for all round development of the eastern region of the country covering Bihar, Odisha, Jharkhand, West Bengal & Andhra Pradesh.

BUDGET ESTIMATES 2024-25: Total Receipts stands at ₹32.07 Lakh Crore (excluding borrowing); Net Tax Receipt accounts for ₹25.83 Lakh Crore; Total Expenditure stands at ₹48.21 Lakh Crore. At these estimates the revised fiscal deficit target for 2024-25 would be at 4.9% of GDP. The Govt. aims to reduce the fiscal deficit to 4.5% in the next year's budget.

CURRENT ACCOUNT DEFICIT SITUATION:

Current account deficit stands at 0.7% of the GDP during the FY 2023-24, which is an improvement from the deficit of 2% in the previous FY. As per a survey, although the global demand for goods has been weak, demand for export of services was strong which helped balancing the external trade balance for our country.

LRS NORMS FOR INVESTMENT: RBI has currently expanded the scope of remittance to International Financial Services Centres (IFSCs) under the Liberalised Remittance Scheme (LRS), which allows resident Indians to open Fixed Deposits in US Dollars at GIFT IFSC to facilitate various financial services and products as per the International Financial Services Centres Authority Act, 2019.

INCREASE IN THE LIMIT OF BASIC SERVICES DEMAT ACCOUNT:

SEBI has increased the limit from ₹2 Lakh to ₹10 Lakh in the basic services demat accounts to boost participation of small investors in the securities market. A Basic Services Demat account (BSDA) is a basic version of the regular Demat account which was introduced by SEBI to reduce the burden of demat charges on investors of small portfolios.

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

INQUISITIVELY SPEAKING

1. As per the current budget, to be setup under Public-Private-Partnership (PPP) mode for MSMEs and traditional artisans to sell their products in the international markets.

- a) E-Commerce Export Houses
- (b) E-Commercial Export Hubs
- (c) E-Commerce Hubs
- (d) E-Commerce Export Hubs

2. Mudra Loans under "Tarun" category has been enhanced from ₹10 Lakh to ₹ ... Lakh for those who have successfully repaid their previous loans under the scheme.

- a) 12
- b) 15
- c) 20
- d) 25

3. As per the Budget, customs duty on import of Gold and Silver has been reduced to

- a) 6%
- b) 6.2%
- c) 6.4%
- d) 5.9%

4. As per a recent economic survey, India has positioned itself as the world's 3rd largest Fintech economy trailing USA &

- a) Japan
- b) China
- c) U.K
- d) Germany

5. India's Microfinance sector has emerged as the 2nd largest in the world trailing

- a) China
- b) USA
- c) U.K
- d) France

6. A Non-callable deposit is a fixed deposit for a minimum period of ... days and above that cannot be closed prematurely.

- a) 7
- b) 14
- c) 46
- d) 90

7. As per the budget, long-term capital gains on all financial and non-financial assets will attract a tax rate of

- a) 15%
- b) 12.5%
- c) 12%
- d) 11.5%

ANSWER KEY

1.D 2.C 3.A 4.C 5.A 6.C 7.B

Stretch n Speak

CIRP: Corporate Insolvency Resolution Process

GIS: Geographic Information System

CGHS Card: Central Government Health Scheme Card

NHCX: National Health Claims Exchange

GIFT: Gujrat International Finance Tec-City

BCD: Basic Customs Duty