MARCH 2024

INSTITUTE OF BANKING STUDIES

IBS VIGYAN

VISIONING BANKERS

Evangelistically Speaking

Dear Stakeholders,

The election mood has set in. The quashing of validity of electoral bonds preceded the announcement of election schedule. The then Finance Minister Arun Jaitley introduced these bonds, hailing them to meet the need for transparent method for funding political parties. But the whole scheme was designed on non-transparency. A parallel would be the digital revolution being hailed as a democratising force. Yet, present day elections are increasingly fought through doctored media and paid news. Without dwelling on the political aspects, let me articulate on the financial aspects. The Government argued in Supreme Court that these bonds unearthed black money. Court held otherwise.

The list of purchasers of these bonds point the fingers to quid pro quo politics that the Court had mentioned in their judgement. Sovereign defaults have become reality, be it Sri Lanks, Greece, Venezuela. The purchasers of the bonds must have been lured by sovereign omerta that shrouded the transparency. The judiciary has prised the sovereign omerta. It also reflects how government agencies have been engaged to channelise money to these bonds.

The election period will witness more inflationary triggers. Therefore, RBI is most likely to maintain status quo on policy rates in the forthcoming MPC meeting.

Looking forward to a sustaining engagement with all.

Sincerly yours

Satheesh Kumar. S

Managing Director

Reflectively Speaking

As usual a very informative and contemporary edition. With the Paytm fiasco causing flutter in the digital financial world, it was gratifying to see the RBI's watch and react policy against the entity being justified in the editorial. Two inferences from the deferred action indicate that the fall out could not be too damaging to the system and that this is not the appropriate time to give a shock treatment to the digital platform at this juncture. But one hopes the regulator is closely watching the scene. A business failure or critical regulatory failure in disciplining the entity could prove disastrous. Fully agree with the need for appropriate recognition of the IIBF certification in the BFS field, in the absence of a better alternative. But is it not time to assess the reskilling and updation being done and the gap if any, in the certification process? Well done.

S. Balachandran,

Chief General Manager, State Bank (Retired)

I am a regular reader of Vigyan. Every month, it enables me to stay updated with the market in a capsule form. The sessions and offline support are extremely effective. Compliments to the IBS team.

Manoj Kothari,

Canara Bank

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Curated Cube

Water crisis in Bengaluru. SBI launches green deposits. Do these events sound like an oxymoron? Or, has SBI launched this product at the most appropriate time? Well, more things are under way on Climate Change across the financial sector. Basel Committee on Banking Supervision (BCBS) has been extremely vocal on banks' preparedness to meet the fallout of climate change related risks. In July 2022 RBI published the discussion paper on this topic. This week, it has published the Draft Guidelines on disclosures about climate change related financial risks and opportunities for Banks and other regulated entities. Beyond identifying risks, the guidelines also nudge the entities to identify business opportunities in this sphere.

The suggested disclosures fall under the Pillar 3 disclosures mandated under Basel 3 guidelines. The broad categories of the disclosures are under Governance, Strategy, Risk Management and Metrics & Targets. RBI has called upon the individual Boards to set their own standards under these. Banks will have to comply with the disclosures under the first three categories from the Financial Year 2025-26 and under the fourth category by FY 2026-27.

Closely following the enforcement of regulatory rigour on Paytm, RBI has issued cease and desist order against JM Financial Products Ltd for malpractices in funding towards capital market exposures and against IIFL for inadequacies and non-compliance in retail gold loans. As stated in our last month's column, the primary objective of RBI in making such moves is to preclude systemic risks from emerging and leading to any contagion.

In this context, the words of Pablo Hernandez de Cos, Chair of the BCBS and Governor of Bank of Spain in his address at Eurofi High Level Seminar, Ghent on 23rd February 2024 are noteworthy. He has reiterated two truths.

1.Banking crises have profound impact. Hence, RBI's vigil in thwarting any crystalizing of systemic risks is justified.

2.Finance and Banking are always evolving. Hence, the advent of disclosures on Climate Change related risks is also justified.

He has also flagged a myth that "Now" is not the right time to implement reforms. Hence, the introduction of the draft guidelines on disclosures on climate change related risks is also justified.

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

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FOURTH PILLAR

CAPITAL TO RISK WEIGHTED ASSETS OF BANKS IN INDIA (CRAR): The CRAR at the end of Sept. 2023 remained at 16.8% including CCB (Regulatory minimum being 11.5%), while the CET1 ratio stood at 11.2% (Regulatory minimum being 5.5%).

REVISION OF SOME CREDIT RISK WEIGHTS BY RBI: Since there has been an unprecedented growth in unsecured Retail loans, which might concern regarding rising systemic risk, the RBI has increased the following risk weights for Banks.

	Existing	Revised
Consumer Credits	100%	125%
Credit Card	125%	150%
Credit to NBFCs	As per Rating	As per Rating + 25%

Consumer Credit exposure excludes Housing, Vehicle, Gold & Education Loan exposures.

SALIENT FEATURES OF INTERNAL OMBUDSMAN: (i) The IO should be either a retired or serving executive in the rank of equivalent to GM of another Bank or Financial Sector Regulatory Body, with an age less than 70 years. (ii) Banks may appoint more than one IO depending on the volume of complaints received. (iii) They will have a tenure of 3 years period. (iv) Banks establish a fully automated Complaint Management Software wherein all complaints that are partly on wholly rejected by the bank's internal grievance redressal system wherein all complaints that are partly or wholly rejected by the bank's internal grievance redressal system mechanism needs to be auto escalated to IO within 20 days of receipt, for final decision. (v) Banks to ensure that the final decision is communicated to the complainant within 30 days from the date of receipt of complaint by the bank.

GREEN RUPEE TERM DEPOSIT: Recently State Bank of India has introduced SBI Green Rupee Term Deposit Scheme, having tenures of 1111, 1777 & 2222 days for resident individuals, resident non-individuals & NRIs customers. As the name suggests these are aimed at mobilising funds to exclusively support environment friendly initiatives and projects.

ELIGIBILITY CRITERIA FOR BANKS DECLARING DIVIDEND TO SHAREHOLDERS: (i) CRAR – 11.5% for Commercial Banks, 15% for Small Finance or Payment Banks, and 9% for Local Area Banks and RRBS. (ii) Net NPA should be less than 6%. (iii) Banks should have complied with Sec 11(2)(b)(ii), 15 and 17(1) of the Banking Regulation Act 1949.

The RBI has proposed increasing the upper ceiling of dividend payout ratio from 40% to 50% if the bank's Net NPA is 0%.

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

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INQUISITIVELY SPEAKING

11. What is the prescribed minimum net-worth for other body corporate which are statutorily permitted to incur debt by issuing Commercial Paper or Non-Convertible Debentures?

a) ₹50 Cr
b) ₹100 Cr
c) ₹150 Cr
d) ₹200 Cr

2. What is the minimum period after which the issuer can buy-back its Commercial Paper from an investor from the date of issuance?

a) 7 days
b) 14 days
c) 30 days   d) 1 year

3. What is the new ceiling of CGTMSE under its Credit Guarantee Scheme for Co-lending (CGSCL) for credit facility secured by primary security?

a) ₹1 Cr   b) ₹2 Cr
c) ₹3 Cr   d) ₹5 Cr

4. What is the per capita income of India during FY 2022-23 as stated by Finance Minister in her recent budget presentation?

a) ₹1.12 Lakh   b) ₹1.72 Lakh
c) ₹1.84 Lakh   d) ₹1.92 Lakh

5. A process where credit risk of an underlying pool of exposure is transferred, in whole or part, using credit derivatives or credit guarantees that serve to hedge the credit risk of the portfolio which remains on the balance sheet of the lender is known as ……… Securitisation?

a) Pass-Through   b) Synthetic
c) Pay-Through   d) Collateralized Debt

6. The Foreign Account Tax Compliance Act (FATCA) is excluded from which of the following type of account?

a) Minor A/c   b) Pension A/c
c) HUF A/c   d) Student A/c

ANSWER KEY

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

Stretch n Speak

FRMS: Fraud Reporting and Monitoring System

MSE SPICE: Micro & Small Enterprise Scheme for Promotion and Investment in Circular Economy.

MSE GIFT: Micro & Small Enterprise Scheme for Green Investment & Financing for Transformation.

ECAI: External Credit Assessment Institution

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