

Highlights of Learning Program

Program on Data Protection, Data Privacy and Data Localization | September 11, 2023 | Mumbai



Shri J K Dash, Executive Director, Reserve Bank of India, Smt. Indrani Banerjee, Additional Director, CAFRAL and other speakers with participants at Program on Data Protection, Data Privacy and Data Localization.

CAFRAL had organised a one-day program on Data Protection, Data Privacy and Data Localisation on September 11, 2023 at Rendezvous, Hotel Taj Mahal Tower, Colaba, Mumbai.

The program aimed at sensitizing participants on the significance of data and analytics as amongst the most significant enablers of business requiring sound and robust data management, data protection and data processing. It also sought to emphasize the need for a strong internal control and governance mechanism besides a robust cyber security framework including the use of technological solutions for ensuring data protection and privacy.

Topics deliberated in the program were Data Protection and Privacy: Relevance in an Increasingly Digitalised World- Policy Issues; Implementation of Data Protection Policy - Regulatory Framework; International Trends in Data Protection and Privacy Security; Data Localisation – Regulatory Outlook and Issues; Bank Data Security & Supervisory Requirements; Technological Challenges and Solutions.

J K Dash, Executive Director, Reserve Bank of India delivered the keynote address. Indrani Banerjee, Additional Director, CAFRAL made the opening remarks and J K Pandey, Senior Program Director, CAFRAL provided the program overview. Other Speakers were Sudhanshu Prasad, Chief General Manager, Department of Payments and Settlement Systems, Reserve Bank of India Chandan Kumar, General Manager, Department of Regulation, Reserve Bank of India; C Maheshwaran, General Manager, Department of Supervision, Reserve Bank of India; Akhil Handa, Chief Digital Officer, Bank of Baroda; S Dinesh, Partner, Risk Consulting, Financial Services, PwC India;

Program on Customer Education & Protection: Evolving Trends, Role and Responsibilities | October 6, 2023 | Mumbai



Smt. Indrani Banerjee, Additional Director, CAFRAL and other speakers with participants at Program on Customer Education & Protection: Evolving Trends, Role and Responsibilities.

CAFRAL had organized a one-day program on Customer Education & Protection: Evolving Trends, Role and Responsibilities on October 6, 2023.

The program focussed on the need to ensure high standards of customer service, besides enabling participants to become well conversant with the institutional and technological framework required for enhanced customer service, customer protection and grievance redressal. The program also provided opportunities to develop a better perspective on addressing the challenges arising from complexities of products & services and technological issues that may often result in deficiency of services to customers.

Topics covered in this program were Regulatory Perspective and Institutional Framework for Customer Service and Consumer Protection, Issues in Customer Service in the Changing Paradigm of Financial Services, Financial Education – Strategy and Approach, Technology Tools for Enhanced Customer Service & Safeguards.

Indrani Banerjee, Additional Director, CAFRAL made the opening remarks while Jyoti Kumar Pandey, Senior Program Director, CAFRAL gave an overview of the program. Other speakers were Anupam Sonal, Chief General Manager, Consumer Education and Protection Department, Reserve Bank of India, Monisha Chakraborty, Chief General Manager, Department of Supervision, Reserve Bank of India; Surinder Dhingra, Internal Ombudsman, HDFC Bank; Deepti Brij Raj, General Manager, Consumer Education and Protection Department, Reserve Bank of India.

Program on Credit Risk Management & Securitization | October 17 - 18, 2023 | Mumbai



Shri. Ashwini Kumar Tewari, Managing Director, State Bank of India, Smt. Indrani Banerjee, Additional Director, CAFRAL and other speakers with participants at Program on Credit Risk Management & Securitization.

CAFRAL had organised a two-day program on Credit Risk Management and Securitization on October 17-18, 2023 at Forum & Capitol, Hotel Taj President, Cuffe Parade, Mumbai.

This two-day program sought to provide an opportunity to the senior officials from Banks/FIs/NBFCs to enhance their understanding of the salient aspects of credit risk management and securitisation. It also provided a platform for peer level discussion and interaction with stakeholders.

Topics deliberated in the program were Macro Environment and Its Impact on the Lenders Credit Portfolio; Regulatory Framework for Securitisation of Assets; Credit Risk & Expected Loss Based Approach for Loan Loss Provisioning; Trade Financing and Non- Fund Based Business of Banks - Understanding and Managing the Risks; Credit Rating Framework used by Rating Agencies: Reasons for Rating Changes; Infrastructure Financing – Issues and Challenges and Mitigation of Risks; Credit Risk Management - Risk Based Pricing & RAROC Portfolio Quality Index; Creative Accounting and Financial Fraud Red Flags; Retail Lending Risk & Management; Early Warning Signals and Monitoring of Credit Portfolio.

Ashwini Kumar Tewari, Managing Director, State Bank of India delivered the keynote address. Indrani Banerjee, Additional Director, CAFRAL made the opening remarks and C. Sankaranaryanan provided the program overview. Other Speakers were Manoranjan Mishra, Chief General Manager, Department of Regulation, Reserve Bank of India; Sampath Kumar, Chief General Manager, State Bank of India; Ajay Sirikonda, Partner and Leader, FS Risk Management, Ernst and Young India LLP; Charan Rawat, Head Compliance, Cooperative Rabobank U.A.; Chaitali Nehulkar, Director, Ratings, CRISIL; Rajesh Agrawal, Partner, Deloitte India; P. Sarath Kumar, CA & Senior Partner, M/s Sarath and Associates; Nimilita Chatterjee, Partner, Ernst and Young India LLP.

CAFRAL Advanced Leadership Program (CALP) | Indian Leg, Mumbai – October 27-28, 2023 | Overseas Leg, McDonough School of Business (MSB), Georgetown University (GU), Washington DC, USA – October 30, 2023 to November 3, 2023



Dr. Sitikantha Pattanaik, Former Executive Director, Reserve Bank of India, Smt. Indrani Banerjee, Additional Director, CAFRAL, other speakers and participants during Indian leg of CAFRAL Advanced Leadership Program

CAFRAL organised the captioned program in the month of October 2023 and November 2023. The program was organized in two legs – first leg in India and the second in USA. The Indian leg was held in Mumbai over two days from October 27-28, 2023 and the overseas leg was organized in collaboration with McDonough School of Business (MSB), Georgetown University (GU), Washington DC, USA from October 30, 2023 - November 3, 2023.



CALP Participants at McDonough School of Business (MSB), Georgetown University (GU), Washington DC, USA during overseas leg.

and with others. The Indian Leg focussed on topics like Global and Domestic Macroeconomic Prospects and Challenges; Risk Management in Banks - Current Scenario & Challenges; Governance and Business Strategy; Leadership, Team Building and Communications: Group Activity; Implications of Advanced Technologies for Financial Intermediation; Climate Change & ESG Imperatives; Cyber Security Challenges for Banks.

The program provided an opportunity to the participants to be amongst academicians and institutions that have been at the forefront of the global crisis that the financial markets have faced in recent years. The program provided a helicopter view of the happenings/developments in the US and Globe and its impact on banks. This gave an opportunity to the participants to start thinking on how they need to prepare themselves for upcoming challenges/exploit the opportunities unfolding.

The program also provided participants an exposure to a different environment and culture, exposure to diversity and an opportunity to interact with policy makers, academicians and other stakeholders. Besides cultural immersion and problem solving challenges in a foreign environment, it also provided opportunities to the participants to interact and develop better lines of communication between themselves



CALP Participants at Federal Deposit Insurance Corporation (FDIC), Washington DC, USA during overseas leg.

The overseas leg of the program focused on topics viz Global Financial Markets; Capital Markets/Market Microstructure; Digitalization of Banking and Finance; Governance and Uncertainty Management; Financial Policy: Emerging Global Policy Issues in Banking and Capital Markets; Business Analytics for Decision Making in Banking; Bank Risk Management: How to evaluate credit risk; Robo - Advising: AI and the Future of Financial Services; New Data to Improve Monetary Policy; Advanced Leadership: CALP (Credit, Markets, and Financial Technologies); Cyber-Security.



CALP Participants at International Finance Corporation (IFC), Washington DC, USA during overseas leg.

Dr. Sitikantha Pattanaik, Former Executive Director, Reserve Bank of India delivered the keynote address. Indrani Banerjee, Additional Director, CAFRAL made the opening remarks while C. Sankaranarayanan, Senior Program Director, CAFRAL gave an overview of the program. Other speakers were Rama Mohan Rao Amara, Deputy Managing Director, State Bank of India; Anindya Banerjee, Group Chief Financial Officer, ICICI Bank; Cyrille Kozyreff, Managing Partner, Humanistic, Potentiallife; Dr. Vijay Singh Shekhawat, Chief General Manager, Department of Supervision, Reserve Bank of India; Anjan Ghosh, Advisor, Climate Policy Initiative (CPI) India; Ashutosh Jain, CISO, IndusInd Bank. The foreign leg of the program featured esteemed academics, including Prof. Reena Aggarwal; Prof. Jim Angel; Prof. Gilles Hilary; Prof. Andres Vinelli; Prof. Rohan Williamson; Prof. Francesco D'Acunto; Prof. John Jacobs.

Highlights of Research Activities

Seminar Series – Showcasing CAFRAL Research

On October 27, 2023, CAFRAL initiated a bi-monthly seminar series known as "Showcasing CAFRAL Research." The inaugural seminar featured two presentations by Dr. Gautham Udupa and Dr. Yogeshwar Bharat, covering



the topics "Dollar Liquidity, Trade Invoicing, and Real Effects: Evidence from India" and "Credit Constraints, Bank Incentives, and Firm Export: Evidence from India," respectively. This series is designed to make research



accessible to a wider audience beyond academia and policymakers. These seminars will occur every two months, with the next one scheduled for January 2024.

Presentations to industry and academic institutions.

Dr. Gautham Udupa presented the paper **“Dollar Funding, Trade Invoicing and Real Effects: Evidence from India”** at IIM Bangalore on September 20, 2023 and at CAFRAL Research Seminar Series on October 27, 2023.

Abstract:

We provide causal evidence on the linkage between dollar liquidity and dollar invoicing exploiting an unanticipated shock to the dollar financing around the Taper Tantrum. Using the differential funding shock across countries, we test the impact of dollar liquidity on invoicing and imports by Indian firms using transaction-level data. We find that (i) firm-level dollar invoicing drops in response to the dollar funding shock with corresponding rise in Euro and producer currency pricing, (ii) local presence of foreign banks allows Indian firms to smooth out the liquidity shock, and (iii) firms transfer liquidity from one market to another using their internal capital markets to smooth out country-specific funding shocks. We document that firms unable to maintain the level of dollar invoicing are more likely to lose a trade connection.

Dr. Yogeshwar Bharat presented the paper **“Credit Constraints, Bank Incentive and Firm Export: Evidence from India”** at CAFRAL Research Seminar Series on October 27, 2023.

Abstract:

The aim of this paper is to investigate the impact of firms’ financial fragility and banks incentives on firms’ decision to exit the export market. We draw information from the Prowess database on a large sample of Indian businesses between 2002 and 2017 and we obtain bank data from the Reserve Bank of India. Estimation results indicate that more indebted firms are associated with a high probability of exiting the export market. However, when we focus only on bank borrowing, we find that firms with high levels of bank debt (over total assets) are characterized by a lower probability of abandoning the export sector. By interacting our measures of financial fragility with a state-owned bank dummy, we also show that highly indebted firms borrowing from state-owned banks are associated with an even lower probability of exiting the export market. Finally, when we employ the change in the priority sector regulation to test the causality of our results and avoid endogeneity concerns, we provide evidence that firms borrowing from banks that were missing their priority sector targets are characterized by a significantly lower probability of abandoning foreign markets. The study did not find any significant effect of policy change on firms trying to enter the export market. Using an indirect definition of productivity showed that the policy change did not affect the productivity of the leveraged firms.

EXTERNAL ENGAGEMENTS

- Dr. Sankalp Mathur – Key Discussant for the Roundtable on "Post G20 Priorities for Indian Sustainable Finance Roadmap: A Discussion on Instruments, Frameworks and Capacities" organized by Climate Bonds Initiative, ODI, Auctus ESG and IEEFA, in New Delhi on September 22, 2023
- Dr. Nirupama Kulkarni – Jury Member for Aegis Graham Bell Awards (AGBA) for the "Innovation in Banking" track on October 4, 2023

Highlights of CAFRAL Research Seminars

CAFRAL invited speakers from leading academic institutions and other central banks. A sampling of the abstracts of papers presented are given below:

Rethinking the Value and Emission Implications of Green Bonds by Dr. Jitendra Aswani from Harvard University, on September 14, 2023

Abstract: This paper (re)examines investors' green asset preferences and issuer's environmental performance. Using green bonds issued from 2013-2020, we find that shareholders' reactions to green bond issue announcements follow a skewed distribution and are mainly driven by large issuers. Unlike no yield differential in the primary market, green bonds in the secondary market have a lower yield of negative 32 basis points (or negative 8 basis points adjusted to liquidity risk) relative to a propensity score-matched sample. Contrary to the idea that investors are willing to take a lower yield to assist polluters in cleaning up, the secondary market "greenium" is, however, attributable to green bonds issued by the financial sector rather than those of polluting sectors. Surprisingly, issuers' emissions remain the same four years after the issuance of green bonds, suggesting they have modest to no environmental impact. Our work suggests investors might want to be cautious about green bonds' environmental impact and value implications.

The Dynamics of Leverage and the Belief Distribution of Wealth by Dr. Bikramaditya Datta from IIT Kanpur on September 20, 2023

Abstract: The scale and terms of aggregate borrowing in an economy depend on the manner in which wealth is distributed across potential creditors with heterogeneous beliefs about the future. This distribution evolves over time as uncertainty is resolved, in favour of optimists if loans are repaid in full, and in favour of pessimists if there is widespread default. We model this process in an economy with two assets - risky bonds and risk-free cash. Within periods, given the inherited distribution of wealth across belief types, the scale and terms of borrowing are endogenously determined. Following good states, aggregate borrowing and the face value of debt both rise, and the interest rate falls. In the absence of noise, wealth converges to beliefs that differ systematically from the objective probability governing state realisations, with greater risk-aversion associated with greater optimism. In the presence of noise, the economy exhibits periods of high performance, punctuated by periods of crisis and stagnation.

The Effect of Supply Base Diversification on the Propagation of Shocks by Dr. Girish Bahal from University of Western Australia Business School on October 5, 2023

Abstract: This paper studies the role of supply base diversification on the propagation of shocks through production networks. We identify exogenous shocks with the occurrence of natural disasters in the US between 1978 and 2017. We find that affected suppliers reduce customers' sales growth by $\approx 30\%$, on average. Notably, firms with intermediate input purchases spanning many suppliers, geographies, or producers within an industry attenuate shock to their suppliers by $\approx 60-70\%$. We then show, causally, that diverse firms mitigate shocks by temporarily substituting towards unaffected suppliers producing similar inputs. We interpret our empirical findings using a general equilibrium model of production networks. We first establish that diverse firms exhibit gross substitutability across suppliers relative to non-diverse firms. We use the model to estimate the macroeconomic effect of supply base diversity, and find that aggregate volatility would have been $\approx 33\%$ greater between 1978 and 2017 in the absence of input substitution by diversified firms in response to supply shocks.

If you wish to be included in the mailer list of CAFRAL Research Seminars [please click here](#)

Upcoming Research Conference

CAFRAL Annual Conference: The Financial System and Macroeconomy in Emerging Economies | December 11-12, 2023 | Thiruvananthapuram (Trivandrum), Kerala, India

The CAFRAL annual research conference is scheduled to take place on December 11-12, 2023 in Thiruvananthapuram, Kerala. The keynote speakers at the event are Dr. M. D. Patra (Deputy Governor, Reserve Bank of India), Prof. Amil Dasgupta (London School of Economics), and Dr. Satyajit Chatterjee (Vice President, Federal Reserve Bank of Philadelphia). In addition to the keynote lectures, there will be 9 academic research

paper presentations including one from a CAFRAL researcher. A call for papers for the conference was posted online and circulated among researchers. We received a record number of submissions this year. Of the 100+ submissions, 9 were selected. The final program will be released shortly on the CAFRAL website.

For more details: <https://www.cafral.org.in/AnnualConference.aspx>

Participants' Profile

Academic researchers in economics, finance, and related areas. Economists at policymaking institutions, financial institutions, and regulatory organizations. Bankers and Central Bankers

Upcoming Learning Program

Program on Governance and Assurance for Directors on Board of Banks, FIs and NBFCs | November 17, 2023 | Mumbai

Background:

The Board of Banks, Financial Institutions (FIs) and NBFCs is responsible for their organisation's business strategy, effective governance structure & practices, risk management & compliance obligations, besides being accountable for ensuring its financial soundness and taking key personnel decisions. The Board of Directors (BoD) must meet the fit and proper criteria, maintain a strategic oversight on assurance functions, have an understanding of risk management functions and should have the ability to seek / extract vital information. It should have the capacity to identify emerging risks and address control & process issues that would enhance its function and credibility. Furthermore, the BoD needs to be aware and keep track of emerging trends, have an efficient feedback mechanism and the ability to accommodate divergent views. Taken together, these features would assist in developing a policy based governance system, robust management and a dynamic BoD that would enhance the stature of the organization.

Objective:

The program seeks to enhance the awareness of the BoD of banks, NBFCs and FIs on the regulatory expectations on their roles and responsibilities including their role in various sub-committees of the Board and on the emerging challenges in non-financial risks such as cyber risk & climate change risk. The program aims at providing the practical aspects of Board governance and functioning, and opportunities to interact with regulators and industry experts.

Participants' Profile

Directors on the Boards of Banks, FIs and NBFCs; Top Management Executives from Banks, FIs and NBFCs

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CAFRAL Virtual Program on Lending to Agro-MSMEs | November 21, 2023 | Online

Background:

Agro-MSMEs, which operate in the intersection of Agriculture and MSME sectors, form many commercially viable and socially impactful value chains, seamlessly linking the rural with the urban sector. Again, Agro-MSMEs make immense contribution in addressing environmental challenges and climate change risk, and also hold promise for the development of the rural economy in a sustainable manner.

Given its contribution to the GDP, exports and employment share, the sector's health is crucial to the economy's vitality and society's well-being. To help actualize the sector's true economic potential, various policy initiatives have been put in place. There is also scope for further innovations in agri-value chains, leveraging the use of technology. In this scenario, financing of Agro-MSMEs becomes a profitable proposition.

Objective:

Considering the importance of the Agro-MSME sector to the economy and the country, it is imperative for senior officials in the financial sector to understand the various enablers in the form of policy and regulations available to this sector, technical aspects of Agro-MSME financing and the significant contribution which the sector can make to the profitability of financial intermediaries. Sensitizing bankers to the importance of this crucial activity will accelerate and enhance penetration of growth to the interior areas.

Participants' Profile

Senior Officials of Banks, FIs & NBFCs working in the areas of strategy, lending policy formulation, Credit Officers focussed on lending to Agro & MSME sector etc. Directors on the boards of Banks/FIs & NBFCs.

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CAFRAL Virtual Program on Know Your Customer (KYC) and Anti Money Laundering (AML) | December 8, 2023 | Online

Background:

Banking channels could be utilised, intentionally or unintentionally, by criminal elements for channelizing funds for unscrupulous activities. In order to prevent banks and other financial institutions from being used as a channel for Money Laundering (ML)/ Terrorist Financing (TF) and to ensure the integrity and stability of the financial system, efforts are continuously being made both internationally and nationally, by way of prescribing various rules and regulations. Regulated Entities (REs) have been mandated by the RBI to carry out 'Money Laundering

and Terrorist Financing Risk Assessment’ exercise periodically, update customer risk profile and assess the ML / TF risks for customers, countries and geographical areas as also for their products / services / transactions / delivery channels enabling them to take appropriate effective measures. It is of paramount importance that the REs have a robust, efficient and sound operating KYC framework strictly in compliance with extant regulatory prescriptions that is comprehensive, takes cognizance of various operational and sector-specific vulnerabilities and aptly addresses the risks arising out of a weaker or an inadequately KYC compliant institution.

Objective:

This virtual program seeks to provide Directors on the Board of the REs, an overview of the KYC framework including measures to address the various risks associated with KYC non-compliance. This program also aims to provide an enhanced understanding and updates on changes in the KYC and AML regulations including the requisite management oversight, systems and controls, segregation of duties, training and other related matters.

Participants’ Profile

Directors on Boards of Banks, NBFCs, Financial Institutions

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Conference of Chief Risk Officers and Heads of Risk Management: Managing Non Financial Risks | December 20, 2023 | Mumbai

Background:

Individual financial institutions face significant risks and have seen failures, despite adoption of sophisticated approaches, increasing regulatory oversight and intensive use of technology. Even recent losses and market events did not emanate from traditional market, credit or operational risks in financial institutions’ portfolios, but from Non-Financial Risks whether related to non-compliance, IT, reputational, cybersecurity or operational challenges. The key challenges relate to the difficulty in quantifying non-financial risks and the complexity of incorporating them into the existing risk management and risk appetite frameworks. Risk management in any institution becomes more effective, when risk is approached at an enterprise level, embedding risk culture and governance in the risk management framework. The digitization and automation of risk management has also eased the identification and tracking of risks. Managing emerging non-financial risks also necessitates an enhanced level of compliance to various legal and regulatory requirements

It is, therefore, important that at leadership level in banks and other financial institutions there is sufficient understanding and knowledge about the full risk profiles of their institutions and on the exposures which need active management.

Objective:

This Conference would provide a forum to the heads of banks’ risk function to meet and discuss the emerging issues and new challenges surrounding risk management against the backdrop of financial sector developments.

Participants’ Profile

Chief Risk Officers, Heads of Risk Management Departments, Head of ERM, Senior Officials in Risk Management Department of Banks, NBFCs & FIs.

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