

Highlights of Leading in the Digital Age A Joint CAFRAL and Macquarie University Program : Indian Leg January 25, 2018 Mumbai, India & Overseas Leg January 28, 2018 to 3 February 2018,



Shri. Chandan Sinha, Additional Director, CAFRAL and Speakers with Program Participants at program on Leading in the Digital Age A Joint CAFRAL and Macquarie University Program, Sydney, Australia.

CAFRAL and Macquarie University, Sydney, Australia jointly organized a dual-country program on “Leading in the Digital Age” which was held in India (Mumbai) and Australia (Sydney). The program, designed for executives of the Indian financial institutions, focused on managing strategic initiatives in the context of digital transformation and the need to enhance risk governance and risk culture. The program had 16 participants including one from RBI, four participants from SEBI, two from NHB and one from IFCI. A mix of academicians from Mcquarie University and domain experts from the banks, consulting firms, private firms, etc. provided inputs on a variety of topics.

The Indian leg of the program held in Mumbai on 25 January 2018 provided perspectives on some of the recent developments in risk management, risk governance and regulation and cybersecurity. The Sydney was held from 28 January to 3 February 2018. In the opening session on January 28, Dr A M Gondane, High Commissioner of India in Australia highlighted the key focus areas of Indo-Australian relationship and interacted with the participants. Apart from a speaker from Grant Thornton, the CEO and the CRO from SBI, Sydney also participated and provided useful inputs on the Australian financial system. The key areas covered on the subsequent days included: (i) Digital Strategy in a rapidly changing world of Fintech, Artificial Intelligence, Blockchain and Big Data Analytics; (ii) Risk Strategy, governance and culture; and (iii) Hands-on Workshops on financial technology and cyber security issues and risk strategy. International experts, drawing upon their expertise, provided insights into the key topical areas relevant for strategic management of financial institutions in today’s context.

Highlights of CAFRAL – ReBIT Business Leaders’ Forum (BLF) on Cyber Security- February 09, 2018, Mumbai, India



Shri. N S Vishwanathan Deputy Governor, Reserve Bank of India, Shri. Alok Joshi, Chairman, National Technical Research Organisation (NTRO), and former chief of Research and Analysis Wing (RAW), Mr Nandkumar Saravade, CEO, ReBIT and Program Participants

Business Leaders' Forum (BLF), a joint initiative by CAFRAL and Reserve Bank Information Technology (ReBIT), began its journey on February 9, 2018, at the Taj Land's End, Mumbai. It had more than 40 participants – CEOs, Board members, business leaders, and senior management representatives of various banks across the country. It provides a platform for an ongoing dialogue among decision makers on the theme of cyber security. "The board of directors and the top management are responsible for setting the tone from the top on cybersecurity, and building resilience in the system," remarked Mr Chandan Sinha, Addl Director, CAFRAL during his inaugural address. Mr Sinha also remarked that there is a felt need for this forum at the management and board level from the point of view of preparedness, experience-sharing and industry benchmarking.

In an erudite address, Shri N. S. Vishwanathan – Deputy Governor, RBI emphasised that there cannot be a better time for the Forum to focus more closely on cyber security, given that global policy makers and decision makers are doing the same, and appreciated the initiative of formation of BLF. He cited the Financial Stability Board's stock-taking report on cybersecurity, to call out the need for information sharing, and the demand for creating a standard 'cyber security lexicon.' He touched upon the government's commitment to set up Computer Emergency Response Team (CERT) - specifically for financial institutions. Shri Alok Joshi, Chairman, National Technical Research Organisation (NTRO) started his engaging talk with how nature of threats can be classified into three areas, namely cybercrime, cyber espionage and cyber disruption, with bankers overly preoccupied with the first category. He pointed out the acute demand for skilled cybersecurity professionals and asked the HR heads of banks to devise the right policies, benefits to retain and train their employees. Mr Krishna Sastry, Executive Director, PwC, took the audience through real life examples and thought-provoking cases. He expressed concerns over the recent developments in cybercrimes, the novel modus operandi and how 'Crime-as-a-service' has matured in the past few years. He opined that there is lack of effective threat monitoring mechanism and forensic readiness in some banks. Mr N.S. Kannan, Executive Director, ICICI Bank, gave a comprehensive presentation, where he outlined an effective governance and controls framework for cybersecurity in banks – one that covered the people, process and technology triad. His illustrations from his own experience clearly resonated with the audience. Mr Vivek Srivastav, SVP and Head of Research and Innovation, ReBIT, gave an overview of the various industry initiatives run by ReBIT, viz. the Operational Excellence Webinar series, the DMARC anti-phishing campaign, the monthly newsletter 'Cyber Pulse' and the community-led Cybersecurity maturity model for maturity assessment and benchmarking.

Mr Nandkumar Saravade, CEO, ReBIT, moderated open house session and the audience responded with questions, comments and insights. He sought their feedback: on the desired frequency of such a forum, topics they would like to deliberate on in the sessions and the commitment to actively participate in the future editions of the BLF. The

attendees agreed that such sessions would be beneficial to the individual banks and the industry at large, and a quarterly congregation was decided as ideal.

Highlights Conference of Chief Risk Officers and Heads of Risk Management Departments of banks February 15, 2018, Mumbai, India

CAFRAL had organised the captioned conference on February 15, 2018. The objective of the conference was to provide a platform for discussing various types and aspects of risk management, role of Chief Risk Officers, supervisory expectations from Risk Based Supervision, resolution of stressed assets and improving the risk management systems in banks. Speakers in the conference included Shri Senthil Kumar, Chief Risk Officer, Citibank Institutional Clients Group, New York; Shri Ananth Narayan, Former Regional Head Wholesale Banking, Standard Chartered Bank; Shri R Ravikumar, Chief General Manager, Department of Banking Supervision, Reserve Bank of India; Shri Abizer Diwanji, Partner & National Leader-Financial Services, EY- India and Shri T Srinivasa Rao, Chief General Manager, Department of Banking Supervision, Reserve Bank of India. Topics like Market risk – Good management & mitigation practices; Operational risk - Cyber Risk, Frauds and IT Risk Management; Credit risk and stressed assets – Looking back and the way forward under IBC; Risk Based Supervision – Critical observations for improving risk management were discussed during the conference. The participants in the conference also presented their views on how to upscale the risk management function in banks.

Highlights of Research Seminars & Brown Bag Talk

The Cost Of Distance: Geography And Governance In Rural India By Mr. Karan Nagpal, PhD Candidate, Oxford University, at Mumbai, February 02, 2018

Paper Abstract

Increasing the effectiveness of the state is a major challenge facing most developing countries today. In this paper, we focus on one important factor that constrains the state's ability to provide public goods to all citizens: citizens' physical remoteness from their administrators. Using rich data on village India, and a spatial regression discontinuity design, we show that greater distance to administration reduces a village's access to public goods and worsens welfare. Villages that are more remote from their administrators have fewer roads, schools, health centers and less irrigation. In turn, their residents have fewer assets, less literacy and are more likely to be employed in agriculture. At least for roads, these effects are not driven by the higher cost of construction in remote villages, but higher cost of monitoring road quality. Our results suggest that reducing the distance between the state and its citizens can help to mitigate the large spatial disparities in living standards observed within many developing countries.

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Acquiring Failed Banks? By Mr. Siddharth Vij, PhD Candidate, NYU Stern School of Business, New York, USA at Mumbai, February 08, 2018

Paper Abstract

Banks create value by issuing deposits and making loans, yet little is known about the relative importance of these two functions. I study this question in the setting of failed bank auctions. This allows me to obtain causal estimates by comparing outcomes for the winning bank to those of the second highest bidder. Consistent with a positive value effect from the acquisition, the winning bank experiences a large positive abnormal return upon announcement of the auction result. I show that this increased value is mainly due to deposits, not loans. After the acquisition, the winning bank sharply cuts lending to the failed bank's borrowers, including those who were not responsible for the bank's failure. However, the winning bank retains almost all of the failed bank's deposits, despite shutting down some of its branches. It does not channel these deposits into lending in other areas, indicating that the value of deposits is separate from their role in financing loans. Rather, it lowers deposit rates throughout its network, reflecting increased deposit market power. Overall, my results show that the deposit franchise is the main source of value in these acquisitions, and hence likely a principal source of bank value more broadly.

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Job Specialization And Labor Market Turnover By Mr. Murali Srinivasan, PhD student, Ohio State University, USA at Mumbai, February 14, 2018

Paper Abstract

The purpose of this paper is to investigate the decline in labor market turnover in the recent decades, in particular the job separation rate. I analyze the role of increase in specialization of jobs in accounting for this decline. First, I use the data from NLSY79 and combine the data on skills from ASVAB and O*NET to provide an estimate of job specialization. I show that the job specialization has increased by 15 percentage points over time. Next, to quantify the impact of this increasing job specialization on labor market turnover, I propose an equilibrium search and matching model with two-sided ex-ante heterogeneity. Firms create jobs with different skill requirements while the workers are endowed with different skills and the specialization of a job determines the substitutability between the worker skills. I show that, as the jobs get more specialized, my model can explain more than 50% of the decrease in the separation rate. The key mechanism is, as the substitutability between worker skills falls, well matched firms and workers hold on to their match for much longer, and the proportion of well-matched workers and jobs increases. This causes the aggregate separation rate to fall.

Ramsey Taxation In The Global Economy By Prof. V. V. Chari, University of Minnesota and Federal Reserve Bank of Minneapolis at Mumbai, February 15, 2018

Paper Abstract

We study cooperative optimal Ramsey equilibria in the open economy addressing classic policy questions: Should restrictions be placed to free trade and capital mobility? Should capital income be taxed? Should goods be taxed based on origin or destination? What are desirable border adjustments? How can a Ramsey allocation be implemented with residence-based taxes on assets? We characterize optimal wedges and analyze alternative policy implementations. Keywords: Capital income tax; free trade; value-added taxes; border adjustment; origin- and destination-based taxation; production efficiency

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Upcoming Programs

Program Description & Nomination links are available on <http://cafral.org.in/Upcoming-Programs>

Program on Final Basel III Regulatory Reform for Banks March 26-27, 2018| Mumbai

Program Objectives

Recently the Basel Committee has finalised its standards for the output floor and for revised approaches to the capital treatment of credit and operational risk. These revised standards will have a major impact on banks' systems and data management, and on the capital ratios of many banks. In addition, higher levels of risk weighted assets will drive other regulatory requirements based on this measure including the new requirements on larger banks to hold additional loss absorbing capacity in the form of unsecured debt.

The CAFRAL program aims to update and sensitise the participants about these revisions and their likely implications for their operations.

Program Coverage

- Overview of the post-crisis regulatory reforms
- Revised Standardised Approach for Credit Risk Regulatory Capital
- Revisions to the IRB framework for Credit Risk
- Revisions to Credit Valuation Adjustment (CVA) framework
- Revised minimum capital requirements for Market Risk
- Revised Standardised Approach for Operational Risk
- Leverage ratio: Changes to exposure definition and its impact
- Impact of Basel III reforms on Banks' Business, Profitability and Capital Management

Participants' Profile

The target participants are senior executives and officials of banks and financial institutions entrusted or connected with capital planning, risk management (credit/market/operational), balance sheet management, asset-liability management and other relevant departments.

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CAFRAL Advanced Management follow up Program April 20-21, 2018| Mumbai

Program Objectives

The objective of the program is to reinforce the learnings of Advanced Management programs as also provide a continuous education to the participants of these programs. There would be discussions /presentations and brainstorming on current issues

and challenges faced by financial lenders like credit risk & stressed assets management, interest rate risk management, governance & business strategy/turnaround strategy, etc.

Participants' Profile

Participants of CAFRAL Advanced Bank Management Programs - 2015 & 2016 and CAFRAL Advanced Credit Management Program- 2017

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Program on Risk, Compliance and Controls May 25-26, 2018| Mumbai

Program Objectives

The objective of the program is to sensitise the senior officers of banks, financial institutions and Reserve Bank of India on issues relating to risks, compliance and controls. The program would also provide the participants a platform to interact and exchange views with the regulators and peers. The program would be useful for risk officers, compliance officers, officers working in inspection/audit functions as also for officers from business units.

Broad program outline

- Understanding Risks – credit, market and operational risks
- Information technology and cyber risk
- Rising trend in credit and forex frauds - red flagging of accounts
- Strengthening the systems and Controls – up-skilling and plugging the loopholes
- Regulatory compliance – divergence in asset classification and provisioning
- KYC & AML compliance
- RAROC, capital allocation and planning

Participants' Profile

Senior officers working in areas of risk/compliance/inspection/audit functions/business units of banks, financial institutions and Reserve Bank of India at the level of Deputy General Manager or equivalent and above.

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