

Highlights of Learning Programs

Program on Climate Change, Transition Risk and Sustainable Finance: May 27, 2022, Mumbai



Saurav Sinha, Executive Director, Reserve Bank of India and Indrani Banerjee, Additional Director, CAFRAL, with other speakers and program participants during the Program on Climate Change, Transition Risk and Sustainable Finance, Mumbai

CAFRAL had organised the captioned one day program on Climate Change, Transition Risk and Sustainable Finance on May 27, 2022.

The objective of the program was to bring regulators and financial intermediaries on one platform to undertake a quick review of the evolving climate change risk facing financial intermediaries both from microprudential and macroprudential perspectives.

Indrani Banerjee, Additional Director, CAFRAL made opening remarks and Saurav Sinha, Executive Director, Reserve Bank of India delivered the keynote address.

The program covered topics such as Climate Change Risk and Sustainable Finance: Emerging Issues in Regulation; Green Finance: Opportunities and Risks; Climate Change and Transition to a Green Economy; Green Transition Risks to Indian Banks; Recent Indian Experiences in Sustainable and Green Finance; Strategies for Resilient, Sustainable and Green Asset Portfolios. In the session on strategies, different aspects such as portfolio rebalancing, incremental growth strategy and green washing were discussed.

Speakers in this program were Swaminathan Janakiraman, Managing Director, State Bank of India; P. V. S. Suryakumar, Deputy Managing Director, NABARD; Dr. Richard Damania, Chief Economist, Sustainable Development, World Bank; Roopa Satish, Country Head, Sustainable Banking & CSR and Head Portfolio Management & Decision Science, IndusInd Bank; Dr. Saurabh Ghosh, Director, Strategic Research Unit, DEPR, RBI; Neha Kumar, India Programme Manager, Climate Bonds Initiative; Siddhartha Nath, Assistant Adviser, DEPR, RBI.

The program provided an enhanced understanding of Climate Change, Transition Risk and Sustainable Finance and current scenarios both from global and domestic perspectives. It discussed the possible methods/approaches to quantify/measure climate risk and initiatives by stakeholders to address the risks. The deliberations on regulatory and business options for management of risks, adoption of suitable business models and implementation of processes for sustainable and green finance was appreciated by the participants.

Conference of CROs and Heads of Risk Department “Cyber Risk & Resilience: New Frontiers”: May 30, 2022, Online CISCO WebEx



Indrani Banerjee



Giridharan A G



Dr. Pavan Duggal



Dr. Durga Prasad Dube



Chris Wilson



Nandakumar Saravade



Anand Venkatanaryanan



Pramod Kumar Panda

CAFRAL organised a one day virtual conference of CROs and Heads of Risk Management on May 30, 2022.

This virtual conference aimed at contributing to capacity building at senior and top executive levels. It sought to discuss some of the recent developments in the area of cyber attacks and cyber risk from

the perspectives of strategy, governance and technology. It deliberated on the need to move from cyber risk management to cyber resilience strategy. Topics deliberated in the Conference were Cyber Risk & Resilience – Supervisory Outlook; New Frontiers of Data Protection and Cyber Risk; Review of Recent Cases of Cyber Attacks; Cyber Risk and Financial Stability – Regulatory Approaches and Supervisory Practices; Enterprise Approach to Cyber Risk Management; Cyber Attacks, Cyber Security and Cyber Frauds – Nuances of Laws and Legal Framework. Indrani Banerjee, Additional Director, CAFRAL made the opening remarks. Other speakers were Chris Wilson, Former Senior Financial Expert, International Monetary Fund; Dr. Pavan Duggal, Founder & Chairman, International Commission on Cyber Security Law; President Cyber Laws.Net; Nandakumar Saravade, Former CEO, Data Security Council of India & Former CEO, Reserve Bank Information Technology Pvt Ltd (ReBIT); Dr. Durga Prasad Dube, EVP & Head, Information Risk Management, Reliance Industries; Anand Venkatanarayanan, Strategic Advisor and Cybersecurity Researcher, DeepStrat; Giridharan A G, Deputy General Manager, Department of Supervision, Reserve Bank of India; Mini Kuttykrishnan, Deputy Legal Advisor, Reserve Bank of India.

Program on Know Your Customer (KYC) and Anti Money Laundering (AML): June 20 - 21, 2022, Mumbai



Shailesh Thakur, Additional Director, Financial Intelligence Unit- India, Indrani Banerjee, Additional Director, CAFRAL with other speakers and program participants during the Program on Know Your Customer (KYC) and Anti Money Laundering (AML), Mumbai

CAFRAL organised the captioned two-day program on Know Your Customer (KYC) and Anti Money Laundering (AML) on June 20-21, 2022.

The objective of the program was to sensitize the senior and middle level officers of Regulated Entities (REs) about the risk and strategic issues surrounding KYC framework and AML measures which they are required to put in place. The program also aimed to provide participants with updates on changes in e KYC and AML regulations after a quick review of some of the basic and original prescriptions on the relevant regulations. The program covered topics such as RBI Guidelines on KYC and AML Measures- Recent Developments; KYC and AML Framework: Risks and Strategies; Supervisory Observations and Expectations on KYC, AML and CFT Compliance; Transaction Monitoring and Beyond; The Central KYC Registry and KYC Compliance by the REs: Developments, Issues and Challenges; Beyond KYC: Need for KYU in Cyber Age; KYC Compliance , AML & CFT Measures and Combating Financial Crime- FIU Perspective; Enterprise-wide KYC & AML Risk Management; Testing, Validation and Optimisation in AML and CFT Compliance: Role of RegTechs; Trade Based Money Laundering (TBML); How to Curb the Misuse of Banking System in Money Laundering and Financial Crime; Transforming Approaches to AML and Financial Crimes. There was an experience sharing session in which the participants discussed their experiences regarding e-KYC, Video based Customer Identification Process (V-CIP), Customer Due Diligence (CDD), Simplified Due Diligence (SDD) and Enhanced Due Diligence (EDD) etc. Speakers in this program were Satyabrata Kumar, Additional Director, Directorate of Enforcement, Mumbai Zonal Office; Shailesh Thakur, Additional Director, Financial Intelligence Unit- India; Sanjay Kumar, General Manager, Department of Supervision, RBI; Pramod R Datar, MD & CEO, CERSAI; Sidharth Prakash, Deputy General Manager, Department of Regulation, Reserve Bank of India ; Alex Oxford, Managing Director, Asia Pacific, AML Analytics Ltd, Hong Kong; Charan Rawat, Head of Compliance, Coöperatieve Rabobank U.A; K V Karthik, Partner, Financial Advisory Services, Deloitte; Dr. Durga Prasad Dube, EVP & Head, Information Risk Management, Reliance Industries; Pramod Khandelwal, Independent Consultant and Trainer; Adrian Murphy, Partner, McKinsey & Company, New York, USA; Scott Werner, Senior Expert - Risk Practice, McKinsey & Company, New York, USA..

CAFRAL Virtual Learning Program on Platform Economy, Technology and Finance: June 28, 2022, Online CISCO WebEx



Indrani Banerjee



Shishir K Jha



R Srinivasan



Vikram Mehta



Oliver Bossert



Pramod Kumar Panda

CAFRAL also organised a half day virtual learning program on Platform Economy, Technology and Finance on June 28, 2022. This program was for emerging leaders in the financial sector to enhance their learning about transformational developments in these areas in a holistic manner. The participants listened to and interacted with thought leaders from the academia, technology space and financial sector. The objective of this program was to equip the participants with the basics as well as the deeper dimensions of these developments, with particular reference to financial intermediation and regulation.

Topics deliberated in the Conference were Evolution of Platform Economy; Platformization of Financial Ecosystem; Platforms in Financial System: Conduct and Governance Issues and Platforms: Solutions, Designs and Architectures.

Indrani Banerjee, Additional Director, CAFRAL made the opening remarks. Other speakers were Shishir K Jha, Professor, Ashank Desai Center for Policy Studies, I.I.T.Bombay; R Srinivasan, Professor, Strategy, Indian Institute of Management Bangalore; Vikram Mehta, Member, Working Group on Digital Lending, RBI; Oliver Bossert, Partner, McKinsey, Frankfurt.

Highlights of Research Activities

Dr. Nirupama Kulkarni, Research Director, CAFRAL presented her paper “The Unholy Trinity: regulatory Forbearance, Government Banks, and Zombie firms” at a conference co-hosted by IMF and Bank of Morocco

titled “Transformational Recovery: Seizing Opportunities from the Crisis” held between June 23-24, 2022 in Rabat, Morocco.

Dr. Nirupama Kulkarni also put out a new CAFRAL working paper “Homeownership Segregation”, co-authored with Dr. Ulrike Malmendier at UC Berkeley

Paper abstract

Homeownership is considered an essential part of the “American Dream” and forms the foundation of upward mobility. We show that the upward mobility of children from low-income families is not predicted by homeownership rates, but by homeownership segregation. Higher residential segregation between homeowners and renters predicts lower upward mobility of children from low-income families, while not affecting high-income families. We hypothesize the 1968 Fair Housing Act preserved homeownership segregation in CZs since the 1970s, and feature more land-use regulation even today. Channels mediating the effect of homeownership on upward mobility include income segregation, racial segregation, school segregation, and commuting times.

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:

“Broadband and Bank Intermediation” by Dr. Enrico Sette, Bank of Italy on May 12, 2022

Paper Abstract

This paper studies the effects of access to broadband internet on bank credit to non-financial firms. We rely on granular micro-data from Italy and an IV empirical strategy to address the endogeneity of broadband diffusion. We find that banks with branches in municipalities reached by fast internet increase loan supply, both at the extensive and the intensive margin, and reduce credit price. We document that the expansion of credit goes through three main channels: banks increase productivity; they expand their geographical scope; and competition in municipalities reached by fast internet intensifies. Broadband internet also leads banks to make internal credit reallocation by moving credit away from smaller municipalities.

What Happens When Ratings Shopping is Visible? Evidence from Unaccepted Ratings Disclosure by Dr. Rajesh Vijayaraghavan, University of British Columbia on May 18, 2022

Paper Abstract

It has been argued that the inherent conflict of interest from the issuer-pay model in the credit rating agencies (CRA) leads to rating shopping behavior, and ratings inflation. But the extent of rating shopping by debt issuers, and the CRAs ability to cater is unobservable and therefore difficult to empirically examine. In this paper, we exploit a unique setting in India that enhanced disclosure regulation requirements for CRAs to disclose rating shopping from issuer. We ask whether these increased disclosures have an effect on ratings shopping, and ratings inflation. We find that the disclosure requirements result in a decline in rating shopping, in a narrow form, where issuers get rated from multiple CRAs, and then strategically decide whether to report it or not. We also find that in the post-regulation period, issuers are more likely to approach a smaller CRA, but this bargaining leads to an unintended increase in rating shopping, in a broad form, where issues can strategically choose the CRAs that will give them a better rating. We document an increase in the incidence of an issuing instrument receiving an investment grade, with the results being stronger to the subsample of larger issuing firms, and smaller CRAs suggesting that the potential for future business induces CRA to issue favorable ratings to larger issuers. These results are consistent with the view that the enhanced disclosure requirements had an unintended effect, and that it did not achieve its objective in reducing shopping and ratings inflation.

Capital Quality, Productivity, and Financial Constraints: Evidence from India by Dr. Poorya Kabir, National University of Singapore on June 8, 2022

Paper Abstract

This paper provides novel evidence that reduced financial constraints increase physical capital quality and, consequently, productivity. We use a project-level investment dataset from India, CapEx, with data on project cost, capacity added to the firm, and investment’s product category. We measure physical capital quality using Unit Investment Cost (UIC), defined as the project cost divided by the additional capacity. We find UIC displays significant variation across firms and is substantially associated with productivity and output quality. However, higher-quality physical capital is more expensive, and without sufficient internal funds, firms cannot invest in them. We study a policy, the establishment of Debt Recovery Tribunals (DRT), which has generated staggered variation in access to external debt financing across different Indian states. We find that firms in treated states

borrowed and invested more with all the increased investment coming from an increase in UIC and not from increased additional capacity. Furthermore, treated firms increased productivity and output quality, consistent with the hypothesis that a higher UIC induced by greater access to finance increased firm productivity and output quality. The effect of DRTs establishment is stronger in firms that rely more on external financing and industries with more scope for quality differentiation, a result which further supports this hypothesis. Available evidence suggests that other channels do not completely explain the increased productivity and output quality. Overall, this paper finds physical capital quality is an important determinant of productivity and output quality, and a firm's choice of physical capital quality depends on the availability of financing.

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

Upcoming Learning Program

CAFRAL Conference of Heads of Compliance and CCOs July 19, 2022 | Rendezvous, Taj Mahal Tower, Apollo Bunder, Mumbai

Background:

The smooth continuity of any financial intermediation business is dependent upon a healthy bottom-line and sound compliance risk management. In fact, in large measure, compliance failures and consequent regulatory penalties which have significantly been rising in recent times, have materially impacted the bottom lines of many regulated entities. Significant compliance risks when they materialise, could entail potential opportunity loss caused by reputational fallouts and regulatory restrictions on new businesses or new products, especially when compliance failures are extremely serious. Today, compliant regulated entities enjoy several competitive advantages in the financial system. Such entities maintain high standards of ethics and integrity across the organisation. Ongoing compliance with those standards and principles forge sound compliance culture which, among others, prompts ownership of compliance functions across all lines of activities horizontally, and all levels in the hierarchy vertically up to the Board level. Therefore, building a strong and effective compliance culture and function should be an integral part of the business strategy of any regulated entity. A dynamic compliance function works efficiently if structured well, if it has good human resources capacity, successfully promotes a healthy compliance culture, has a robust compliance management framework and, above all, if it quickly and effectively aligns itself with regulatory changes.

Objective:

This one-day Conference will deliberate on the above aspects against the backdrop of the emerging compliance landscape and in the context of specific regulatory changes which have taken place or likely to take place soon.

Participants' Profile

This program is designed for:

- CCOs and Heads of Compliance and their senior team members
- Other C-suite officers and Board members

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Program on Lending to Agro-MSMEs July 25-26, 2022 | Rendezvous, Taj Mahal Tower, Apollo Bunder, Mumbai

Background:

Agro-MSMEs operating in the intersection of agriculture sector and MSME sector form many commercially viable and socially impactful value chains. These value chains can seamlessly link the rural with the urban sector. Again, those Agro-MSMEs which operate in the green and social impact space could be powerful mitigants of climate change risk. Therefore, Agro-MSME financing has immense value proposition and financial intermediaries financing them with well-designed strategy and innovative products could potentially unlock tremendous amount of wealth for themselves, the MSMEs and the national economy as a whole.

Objective:

The CAFRAL program seeks to discuss and explore the business case for lending profitably to Agro-MSMEs as they hold promise for the development of the rural, semi urban and even urban economies in an integrated, sustainable and impactful manner, while significantly contributing to the bottom lines of financial intermediaries. The program would cover policy & regulatory developments and innovation in the Agro-MSME sector with inputs on the technical aspects of Agro-MSME financing.

Participants' Profile

This program is designed for:

- Top and Senior Level Executives of Banks, Financial Institutions, NBFCs working in the areas of strategy setting, lending policy formulation, priority sector lending, MSME financing, agri-lending, Agro-MSME lending, sustainable finance and green finance etc.
- Independent Directors of Banks, Financial Institutions and NBFCs
- Senior and middle level officers of RBI dealing with policy and regulation relating to agriculture, SME lending and Agro-MSME lending

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