

## Highlights of Learning Programs

### CAFRAL Virtual Conference of Ombudsmen: Expectations and Challenges: May 12, 2023 Mumbai



Anil Kumar Sharma



Indrani Banerjee



Anupam Sonal



Dr Neena Jain



Dr Sushanta Kumar Kar



Bindu Vasu



Ravi Kumar V R Majumdar



Jyoti Kumar Pandey

CAFRAL had organised a one-day virtual conference (VC) of Ombudsmen on May 12, 2023.

The VC provided insights into the regulatory perspective on the functioning of the Ombudsman Scheme and discussed the expectations & challenges faced by

Ombudsmen. It also provided an interactive forum to the participants to ideate on improving customer service, deliberate upon the issues faced and need for better data analytics for quality disposal within the given regulations. The VC also gave participants the opportunity to interact with the regulator and discuss suggestions for further improvement in the Scheme.

Anil Kumar Sharma, Former Executive Director, Reserve Bank of India delivered the keynote address and Indrani Banerjee, Additional Director, CAFRAL made the opening remarks.

Topics covered in the VC were Issues in Qualitative & Sustainable Customer Service Standards - Expectations of the Regulator and Concerns; Framework for Strengthening Grievance Redressal Mechanism – Significant Steps and Trends; Root Cause Analysis of Maintainable Complaints; Grounds of Resolution/ Rejection of Complaints with Case Studies; Quasi - Judicial Role of Ombudsmen – Challenges; Significance of Financial Education of Customers – Strategy and Business Impact; Enhanced Mechanism for Grievance Redressal.

Other speakers in this VC were Anupam Sonal, Chief General Manager, Consumer Education and Protection Department, Reserve Bank of India; Dr Neena Jain, Banking Ombudsman-I, Reserve Bank of India; Ravi Kumar V R Majumdar, Chief General Manager & CXO, State Bank of India; Dr Sushanta Kumar Kar, Banking Ombudsman-II, Reserve Bank of India; Bindu Vasu, Joint Legal Adviser, Legal Department, Reserve Bank of India.

### Program on Climate Change, Green & Sustainable Finance: Emerging Issues: May 22, 2023 Mumbai





[Smt. Indrani Banerjee, Additional Director, CAFRAL and other speakers with participants at Program on Climate Change, Green & Sustainable Finance: Emerging Issues.](#)

CAFRAL had organised a one-day program on Climate Change, Green & Sustainable Finance: Emerging Issues on May 22, 2023.

The program provided an overview and an enhanced understanding of the regulatory framework and emerging climate change risks. It also contributed substantively towards capacity building among senior executives in RBI, Banks, NBFCs and FIs, on the effective mitigation measures to be considered while financing new growth areas and addressed the various risks associated with climate change and building up of a green portfolio.

Topics covered in this program were Climate Change, Green & Sustainable Finance: Regulatory Expectations; Regulatory Framework for Green & Sustainable Finance; Managing Climate & Sustainable Finance Risks for Banks, NBFCs & FIs; Measuring Climate Risks and Opportunities; Climate Related Risks and Mitigation: Lenders Perspective; Mainstreaming Climate Action within Financial Institutions.

Indrani Banerjee, Additional Director, CAFRAL made opening remarks. Other speakers in this program were Sunil Nair, Chief General Manager, Sustainable Finance Group, Reserve Bank of India; Ashok Sharma, Chief General Manager, PFSBU, State Bank of India; Brij Raj, General Manager, Department of Regulation, Reserve Bank of India; Anjan Ghosh, Advisor to Climate Policy Initiative (CPI) India; G Srinivas, Chief Risk Officer, ICICI Bank; Francois Lesage, Financial Sector Specialist, World Bank Group; Saurabh Kamdar, Associate Partner, ESG and Lead Sustainable Finance, KPMG.

#### **Program on Financial Frauds & Forensic Audit: June 6, 2023 Mumbai**



[Smt. Indrani Banerjee, Additional Director, CAFRAL and other speakers with participants at Program on Financial Frauds & Forensic Audit.](#)

CAFRAL had organised a one-day program on Financial Frauds and Forensic Audit on June 6, 2023.

The program discussed the importance of enhancing the fraud risk management systems of banks, financial institutions and NBFCs, including the need for an enhanced framework for Early Warning Signals, strengthening fraud governance & response systems and having a dedicated Market Intelligence Unit for frauds. The participants were also sensitized on the need to have in place a sound forensic audit that would help in identifying control failures, uncover trails and trace the funds besides gathering legally tenable evidence to achieve financial resolution and prosecution.

Topics covered in this program were Issues in Fraud Risk Management – Regulatory Perspective, Digital and Cyber Frauds – Tools, Techniques, Prevention, Detection and Investigation; Forensic Audit – Processes, Techniques, Tools and Approaches; Financial Statement Analysis for Fraud Detection and Due Diligence Analysis; Evidence Collection, Maintenance of Record and Legal Resolutions; Developing Actionable Risk Intelligence – Use of Artificial Intelligence in Fraud Prevention and Audit.

Indrani Banerjee, Additional Director, CAFRAL made opening remarks. Other speakers for this program were Rajnish Kumar, Chief General Manager, Department of Supervision, Reserve Bank of India; Induvant Tomar, Director - Risk Consulting, Price Waterhouse & Co LLP; Mehul Thakkar, Founder, Awesome Analytics; P Sharath

Kumar, CA and Senior Partner, M/s. Sarath & Associates; Vicky Gala, Associate Managing Director, Forensic Investigations & Intelligence, Kroll; K V Karthik, Partner, Financial Advisory Services, Deloitte.

### Conference of Chief Compliance Officers: Expectations and Challenges: June 22-23, 2023 Mumbai



Shri. S.C.Murmu, Executive Director, Reserve Bank of India, Smt. Indrani Banerjee, Additional Director, CAFRAL, other speakers and participants at Conference of Chief Compliance Officers: Expectations and Challenges

CAFRAL had organised a Conference of Chief Compliance officers - Expectations and Challenges on June 22-23, 2023.

The Conference provided a perspective on the rapidly increasing dimensions of the compliance function. It also provided a platform for peer level exchange to enhance understanding of compliance related issues and emerging challenges, apart from sensitizing participants on regulatory and supervisory expectations with the objective of building and sustaining a more robust compliance framework in regulated entities.

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

Topics covered in this conference were Effective Compliance in Banks: Regulatory Expectations; Governance, Risk & Compliance Framework; Risk Based Supervision and Assessment of Compliance Risk; Ethics, Code & Conduct: Compliance Culture; Compliance, Accountability & Enforcement; Cyber Security: Governance, Risk & Compliance; Compliance With FEMA And RBI Regulations: Forex, Investment & Trade Transactions; Compliance against Financial Crime; Internal Audit & Compliance: A Banker's Perspective; Internal Audit & Compliance: A Banker's Perspective; Consumer Protection, Handling Customer Complaints and Grievances.

Other speakers in this conference were G Mahalingam, Former Whole-time Director, Securities Exchange Board of India (SEBI); Anupam Sonal, Chief General Manager, Consumer Education and Protection Department, Reserve Bank of India; Amresh Ranjan, Chief General Manager, Department of Supervision, Reserve Bank of India; Sham Lal Garg, Chief General Manager, Internal Audit Department, State Bank of India; Dr. Lakshmi Karthik, General Manager, Enforcement Department, Reserve Bank of India; Prashant Kumar Dayal, General Manager, Foreign Exchange Department, Reserve Bank of India; K V Karthik, Partner, Financial Advisory Services, Deloitte; Subir Saha, Group Chief Compliance Officer, ICICI Bank; Anish Madhavan, Group Chief Internal Auditor & Head Financial Crime Prevention, ICICI Bank; Sameer Ratolikar, Senior Executive Vice President & CISO, HDFC Bank.

### Highlights of Research Activities

#### Research Paper Publications

Dr. Nirvana Mitra published a paper titled "**Political Constraints and Sovereign Default**" (co-authored with [Marina Azzimonti](#)) in the Journal of International Money and Finance. The article is available online and will appear in the October 2023 issue of the journal.

#### **Abstract:**

We study how political constraints, characterized by the degree of flexibility to choose fiscal policies, affect the probability of sovereign default. To that end, we relax the assumption that policymakers always repay their debt



in the dynamic model of fiscal policy developed by Battaglini and Coate (2008). In our setup, legislators bargain over taxes, general spending, debt repayment, and a local public good that can be targeted to the region they represent. Under tighter political constraints, more legislators have veto power, implying that local public goods need to be provided to a larger number of regions. The resources that are freed after a default have to be shared with a higher number of individuals, which reduces the benefits from defaulting in per-capita terms. This lowers the incentive to default compared to the case with lax political constraints. The model is calibrated to Argentina and the results conform to robust empirical evidence. An event study for the 2001/2002 sovereign debt crisis shows that political constraints had an important role in the buildup that led to the crisis.

The article can be accessed using the following link: [Political Constraints and Sovereign Default](#)

The CAFRAL team comprising of Dr. Nirupama Kulkarni, Dr. Gautham Udupa, and Dr. Kaushalendra Kishore published the policy paper titled "**Understanding sovereign ratings and their implications for emerging economies**" in the June 2023 edition of Economic and Policy Weekly.

**Abstract:**

The rating methodologies of the big three credit rating agencies—S&P, Moody's, and Fitch—are scrutinized and evaluated. The factors driving sovereign ratings are examined using a regression framework and machine learning techniques with a panel of 162 countries covering ratings from 2000 to 2018. Across all models, institutional quality is the most significant factor driving sovereign ratings, suggesting that building more vital institutions can lower a sovereign's borrowing costs by improving sovereign ratings. Additionally, only sustainable GDP growth propelled by strong structural reforms and productive investment increase CRA ratings. The findings suggest that the over-reliance of market participants on CRA ratings to assess sovereign creditworthiness may be unwarranted, particularly during crisis periods.

The article can be accessed using the following link: [Understanding sovereign ratings and their implications for emerging economies](#)

**Presentations to industry and academic institutions.**

Dr. Nirupama Kulkarni, Senior Research Director, CAFRAL was a discussant at the India Expert Network Meeting held on May 30, 2023, and organized by BOFIT for the paper titled "Creditor rights and corporate leverage in India", a research paper authored by Biswajit Banerjee (NBS) and Risto Herrala (BOFIT)

Dr. Kulkarni presented her paper titled "**Anatomy of a Liquidity Shock on Non-banks**" at the BoFIT seminar

**Abstract:**

Using a unique supervisory database of non-banking financial institutions (NBFIs) matched to their borrowers and lenders, this paper investigates the anatomy of an exogenous liquidity shock on non-banks that occurred in September 2018 in India. Due to the shock, there was a withdrawal by short-term creditors of NBFIs, making it difficult for them to roll over their short-term debt. Using a difference-in-differences methodology, we exploit the ex-ante differences in NBFIs' exposure to liquidity mismatches for identification. Results reveal that non-bank companies with high ex-ante exposure to liquidity shock see a significant decline in commercial paper growth, attributable majorly to mutual funds, which faced redemption pressure from investors in response to the shock. NBFIs did not substitute with alternate funding sources such as debentures or bank credit in the short run. High-exposure NBFIs subsequently cut down credit to large borrowers. While banks stepped in to support healthy NBFIs, they cut back credit to weaker ones. This selective bank support is enabled through regulatory guidance and can have beneficial effects during a non-banking shock: ringfencing limits contagion to the traditional banking sector while providing support to healthier NBFIs.

Dr. Nirvana Mitra presented his paper titled "**A Unifying Theory of Fiscal Policy Cyclicity and Sovereign Default**" at the Midwest Macroeconomics Meetings hosted by Clemson University, South Carolina USA from May 19-21, 2023

**Abstract:**

We present a comprehensive political-economy theory to explain the cyclical behavior of fiscal policy and sovereign default decisions across countries at different stages of development. Our approach diverges from the conventional public finance literature, which typically presumes a debt repayment commitment mechanism in developed countries and the sovereign default literature which assumes a lack of such commitment in emerging economies. Instead, we highlight the institutional context in which fiscal policies are made and implemented, focusing on the degree of democratic representation and the level of corruption within a government. Using a dynamic political economy bargaining model based on Azzimonti and Mitra (2023), we show that nations with higher levels of corruption and weaker democratic institutions often face frequent default episodes and greater

fiscal and economic volatility. In contrast, countries that manage corruption effectively and maintain a high degree of democratic representation are better prepared to mitigate the effects of economic shocks. Our results are in line with stylized facts drawn from a panel of 58 countries between 1990 and 2022.

### Co-Authors and Visiting Scholars at CAFRAL

Dr. Pavel Chakraborty, Associate Professor at Lancaster University U.K. visited CAFRAL from the 29th of May to the 2nd of June 2023. His second visit is scheduled for July 2023.

Dr. Saroj Bhattarai, Associate Professor at the University of Texas at Austin visited CAFRAL from the 5th to the 8th of June 2023. He will revisit CAFRAL for another week during the CAFRAL research conference in December 2023.

Dr. Arpita Chatterjee, Associate Professor at IIM Bangalore & UNSW visited CAFRAL during the same week of 5th to 8th of June 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:

#### **R&D Tax Credits and Price Competition: Evidence from India** by Dr. Rahul Singh, Assistant Professor at Ahmedabad University on May 2, 2023



**Paper Abstract:** Exploiting the staggered introduction of weighted tax credits for R&D spending across industries in the manufacturing sector in India, we provide novel causal evidence that R&D tax credits increase firm-level R&D spending and induce a large decline in prices in the industries targeted by the reform. The relative increase in R&D spending in treated industries is driven by the eligible firms while there is no significant effect on the ineligible firms, and these effects are stronger for the financially constrained firms. Further, the policy also leads to a significant decline in prices for both eligible and ineligible firms, and is primarily driven by a decline

in markup, conditional on cost, as opposed to the passthrough of cost savings to prices. The policy also results in increased physical efficiency and a lower marginal cost for both the eligible and the ineligible firms. Interestingly, there is no significant effect on the markup of firms as the competitive effect on markup attenuates any increase in markup due to incomplete passthrough of costs to prices. We provide compelling evidence that our results are not biased due to pre-existing linear trends, omitted variables, and staggered treatment of industries.

#### **Credit Market Fluidity** by Dr. Clement Jonathan Mazet-sonilhac, Assistant Professor at Bocconi University, Italy on May 10, 2023

**Paper Abstract:** We coin the term credit market fluidity to describe the intensity of credit reallocation, and study its properties and determinants within the commercial loan market in France over the period 1998 through 2018. Leveraging credit register data, we show that the reallocation of credit relationships exhibits (i) large magnitudes and variations throughout the cycle, (ii) a significant degree of heterogeneity across banks and firms, and (iii) is procyclical. A decomposition into across- and within-bank reallocation components highlights that bank- and firm-level heterogeneity only account for 10% and 40% of credit market fluidity, respectively, suggesting a predominant role for idiosyncratic factors. At the bank level, credit fluidity is associated with lower credit risk and higher borrower productivity, but has a muted effect on loan profitability. We also uncover a positive relationship between fluidity and growth and associate the secular decline of the former throughout the past decade with a credit volume gap amounting to up to EUR 100 billion.

#### **Fiscal-Monetary Coordination and Interest Rates: Evidence from Speeches by Central Banks and Finance Ministries** by Dr. Srinivasan Murali, Assistant Professor at the Indian Institute of Management, Bangalore on June 7, 2023



Market participants possibly react to such speech similarities by trading in active bond markets and incorporating an anticipated increase in interest rates into sovereign bond yields.

**“InDIAs”: Innovative Retirement Security Bonds for India** by Dr. Arun Muralidhar from M-Cube Investment Technology, Texas on June 21, 2023



speech similarities and yields is also robust to non-macroeconomic announcements by Central Banks.

**Paper Abstract** Coordination between fiscal and monetary authorities significantly impacts macroeconomic policy outcomes. We use a unique text analysis-based framework to evaluate similarities between speeches of fiscal and monetary authorities and identify a strong positive alignment between speech similarities and sovereign bond yields. We find that both emerging and advanced economies' sovereign yields are impacted by speech similarities, especially those on macroeconomic or financial market-related topics. This positive association between speech similarities and yields is also robust to non-macroeconomic announcements by Central Banks.

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## Upcoming Research Workshop

**A Joint Research Workshop by CAFRAL and Warwick Business School - Economic and Financial Barriers and Opportunities to the Green Transition in Emerging Economies July 24-25, 2023** | Rendezvous, Taj Mahal Tower, Apollo Bunder, Mumbai

### **About Workshop:**

CAFRAL and Warwick Business School, UK, are jointly organizing a workshop on "Economic and Financial Barriers and Opportunities to the Green Transition in Emerging Economies."

This workshop aims to shed light on the challenges and prospects of transitioning to sustainable economies in emerging markets. The event will provide a platform for fruitful discussions among experts, researchers, and practitioners, fostering a deeper understanding of the role of green finance in facilitating this transition.

The workshop program will include a round table session dedicated to exploring the crucial role of green finance and three insightful academic presentations focusing on the green transition within emerging economies. Additionally, the workshop will feature esteemed keynote speakers, Dr. Ralph De Hass from the European Bank for Reconstruction and Development and Dr. Farzana Afridi from ISI Delhi and IZA, who will share their expertise and perspectives. By bringing together experts from academia, financial institutions, and policy-making bodies, this workshop aims to facilitate knowledge exchange, collaboration, and the exploration of innovative solutions to overcome economic and financial barriers while capitalizing on the opportunities offered by the green transition in emerging economies.

### **Participants' Profile**

Researchers, Faculty Members and Doctoral students from India and outside

## Upcoming Learning Program



**Background:**

Asset quality in banks has important implications for the stability of the overall financial system. Management of Stressed Assets has always been a critical component of the credit function in banks, following implementation of Income Recognition and Asset Classification norms. There has been continuous regulatory emphasis on an effective stressed assets management framework in banks with focus on early warning signals and prevention of NPAs, including prompt restructuring in the case of all viable accounts. Despite perceptible improvement in the overall credit culture, with decline in the Gross NPA ratio of Scheduled Commercial Banks to a seven-year low of 5.0 % (as on Sept 2022) and the net NPA (NNPA) ratio to a ten-year low of 1.3%, several unresolved issues continue to plague timely resolution of stressed assets.

Enactment of the Insolvency and Bankruptcy Code (IBC) was a paradigm shift in the efforts for resolution of stressed assets in the financial system, facilitating a collective mechanism for resolution of stressed assets and with a view to preserve the economic value of the assets. At the same time, operationalizing of IBC has generated new challenges which need to be addressed by all stakeholders.

**Objective:**

In this program, the broad framework of stressed assets management and resolution with focus on IBC will be deliberated upon with insights into the lingering issues faced by financial intermediaries. Discussion of the way forward in making the insolvency process a more effective tool for resolution of stressed assets for all stakeholders will enrich the understanding of participants. It will also provide a platform for peer level discussion and interaction with the regulator.

**Participants' Profile**

Following Officials of REs may participate:

- Heads of Stressed Asset Management vertical and senior officials
- Senior officials working in credit, legal cell / law department.

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**Program on Know Your Customer (KYC) and Anti Money Laundering (AML) July 17-18, 2023 | Rendezvous, Hotel Taj**

Mahal Tower, Colaba, Mumbai

**Background:**

A comprehensive KYC-AML framework is a bulwark to prevent the financial system from being used in money laundering and other unlawful activities. Banks face increased regulatory expectations and enforcement of extant regulations. Regulators expect banks to have a consolidated view of customers and their transactions across businesses and jurisdictions, to identify unusual transactions and behaviour, or potential sanctions violations. Regulated Entities (REs) are also required to update the risk profile of each customer and apply enhanced due diligence measures on high risk customers. Further, increasing adoption of online payments and advanced technologies requires REs to fast-track and enhance KYC and transaction monitoring processes.

REs must have a robust, efficient and sound KYC-AML framework as part of their business strategy and governance structure. The Boards of REs should have proper oversight on the KYC-AML framework and ensure that effective KYC-AML policies, procedures, systems and controls are in place, properly aligned with the regulatory guidelines, to ensure strict compliance with KYC-AML requirements.

**Objective:**

This program seeks to sensitize senior officers of REs about the risk & strategic dimensions which need to be factored in the KYC-AML framework and address the challenges in respect of compliance. After a quick review of extant regulations, it will also provide updates on recent changes in the KYC & AML regulations including the requisite management oversight, systems & controls and related matters.

**Participants' Profile**

- Heads, senior/middle-level officers working in the areas of KYC-AML Implementation and Compliance, Financial Fraud Monitoring, Financial Crime Risk Management
- Heads, senior/middle-level officers of Compliance Department/Group, Internal Audit and Inspection, Enterprise Risk Management and Vigilance
- Middle and senior officers of RBI and SEBI dealing with regulation and supervision relating to KYC, AML, financial frauds and financial crimes, etc

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**Background:**

In recent years, most economies have faced increasing uncertainties in the macroeconomic landscape. While policy normalization is far from complete, resolute actions by policy makers have contained financial stability concerns to a great extent. Globally, the pace of monetary tightening has slowed in recent months, but uncertainty remains on its future trajectory as inflation continues to rule above targets. Divergence in economic prospects across countries continues, adding to the complexities. While the Indian economy has been resilient, maintaining financial and external sector stability, challenges arising due to geopolitical turbulence, climate and transition risks, rise of platform economies, global competition, and reviving capex continue to be a concern even though we are poised to witness significant growth.

**Objective:**

This Conference will provide Chief Economists and their team members opportunities to discuss the state of the Indian Economy and review global macroeconomic developments. The economic and business opportunities of extending banking access and the requisite strategies, implications of platform economies, and risks posed by geopolitical developments will be discussed apart from the challenges faced by the financial sector in facilitating a cleaner and a greener growth story.

**Participants' Profile**

Chief Economists and their Senior Team Members of Banks, Financial Institutions and NBFCs

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**CAFRAL Advanced Leadership Program (CALP) - In collaboration with McDonough School of Business, Georgetown University, Washington DC, USA** September 8-9, 2023 [Indian Leg](#) and September 11-15, 2023 [Overseas Leg](#)

**Background:**

The financial sector in India has been rapidly integrating with global processes and systems and is not immune to global challenges. While the Indian financial sector has made great strides such as in payment ecosystem, there is a growing realization on the importance of fostering interaction between academicians, bankers, stakeholders and regulators who have played a critical role in the recent financial crisis. These key players have provided essential policy assistance, adopted non-conventional policies and provided critical support during the period of financial instability. There is, thus, a felt need to interact with these experts that would help understand their approach, leverage on their insight and capitalize on the emerging opportunities that would be beneficial to the Indian economy at large and the financial system in particular.

**Objective:**

The outbound program seeks to provide 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 also aims to provide 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 would also provide opportunities to the participants to interact and develop better lines of communication between themselves and with others. In addition to imbibing soft skills that this exposure would enable, besides banking and financial concepts, it would also provide richness in the inputs to be disseminated by world class academicians, supplemented by first-hand experience by practitioners at one place.

**Participants' Profile**

Senior and top management functionaries at the level of General Manager or equivalent and above including EDs, DMDs, MDs as also Non - Executive/ Independent/ Nominee Directors of banks, financial institutions and regulatory institutions.

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