

Highlights of Learning Programs

CAFRAL Live Webinar on COVID Stress - Employee Health, Risk and Productivity: May 11, 2021, Online CISCO WebEx



Indrani Banerjee, Addl.
Director CAFRAL

Prabir Jha, HR Expert

G Mahalingam,
Wholetime Director, SEBI

S Srinivasa Rao, DMD &
CRO, SBI

David Rasquinha,
MD, EXIM Bank

Dr Rachna Khanna Singh

CAFRAL organised a day long Webinar on COVID Stress – Employee Health, Risk and Productivity, 2021. The Webinar was organised against the backdrop of current COVID 19 pandemic which has already lasted longer than a year, disrupting the normal operations in banks and financial institutions, potentially causing systemic stress and stress at individual employee level. This Webinar sought to explore the developments, issues and challenges relating to such disruptions and stresses. The topics that were specifically discussed in the Webinar were: Lessons for HR From COVID Stress; Employee Health During COVID 19 And Operational Risk - SBI Experience; Impact of COVID Stress on Employee Health And Risk - Regulatory Perspective; COVID Stress & Productivity Loss - Through the CEO Lens; COVID Stress and Stressed Employees- Exploring The Vulnerabilities And Managing The Fallout.

127 senior officers from Banks, Financial Institutions and NBFs attended.

The speakers for the program were Prabir Jha, Founder & CEO, Prabir Jha People Advisory; S Srinivasa Rao, DMD & CRO, SBI; G Mahalingam, Whole-time Director, SEBI; David Rasquinha, MD, EXIM Bank; Dr. Rachna Singh, HOD Holistic Medicine and Wellness, Artemis Hospital.

CAFRAL Virtual Learning Program on Retail Lending - Amid and Post Pandemic: May 28-29, 2021, Online CISCO WebEx - Virtual Learning Program



Jaspal Singh Bindra,
Chairman, Centrum
Group

V Vaidyanathan
MD & CEO, IDFC First
Bank

Peshimam Khabeer
Ahmed, Policy Division,
DoR, RBI

S Sampath Kumar, HDFC
Bank

M Sundaresan, HDFC
Bank

Smeeta Basak,
TransUnion CIBIL



Vivek Belgavi
Partner & Leader –
FinTech, PWC India

Dr. Gautham Udupa
Research Director,
CAFRAL

Pramod Kumar Panda,
Senior Program Director
CAFRAL

Abhinav Bansal
MD and Partner, BCG

Pravin Gupta, former
MD, SBI

Dr. Goutam Sanyal, ICICI
Bank

CAFRAL had organised the captioned two-day virtual learning program on May 28 & 29, 2021 through WebEx.

The VLP exposed the participants to the trends which are likely to completely transform the Retail Lending ecosystem post pandemic. Participants also learnt the technicalities surrounding the trends in retail lending through web lectures and analytical discussions.

The program covered topics such as Retail Lending Business - Options and Strategies Post Pandemic; The New Era Retail Banking; Retail Lending Amid and Post Pandemic – Emerging Regulatory Issues; Customer Engagement and Wealth Management; Collection and Recovery in Retail Loan Portfolios; Credit Scoring Methodologies for Retail Lending – Traditional and Alternatives; FinTech and P2P Lending/Market Place Lending - Competition and Collaboration; New Products and Processes in Retail Lending; Retail Lending - Bankruptcy Laws to Handle Future Stress; User Interface (UI) & User Experience (UX) Designs and Digital Retail Lending; and Digital Marketing and Delivery of Retail Credit.

The key speakers in this program were Jaspal Singh Bindra, Chairman, Centrum Group; V Vaidyanathan, MD & CEO, IDFC First Bank; Peshimam Khabeer Ahmed, Policy Division, Department of Regulation, RBI; S Sampath Kumar, Group Head-NRI Domestic & Overseas Business, Tele-Sales & Service Relationship and TPP, HDFC Bank; M Sundaresan, Head - Retail Portfolio Management, HDFC Bank; Smeeta Basak, Head – Data Science and Analytics, TransUnion CIBIL; Vivek Belgavi, Partner & Leader –FinTech, PWC India; Pramod Panda, Senior Program Director, CAFRAL; Dr. Gautham Udupa, Research Director , CAFRAL; Kris Sebastian, SysArc Infomatix Ltd, India; Aditya Jha, SysArc Infomatix; Abhinav Bansal Managing Director and Partner, Boston Consulting Group; Pravin Gupta, former MD, SBI; Dr. Goutam Sanyal, Head-Retail & Operational Risk and Credit Monitoring, ICICI Bank.

There were 42 participants from Banks and RBI.

CAFRAL Virtual Workshop on Emerging Compliance Landscape, June 22, 2021, Online CISCO WebEx - Virtual Workshop



Indrani Banerjee, Addl Director CAFRAL

Lam Chee Kin, MD & Head, Legal, Compliance & Secretariat, DBS Bank

Sanjay Kumar, GM, Policy Division, DoS, RBI

Amarendra Mohan, Financial Sector Specialist

Abadaan Viccaji, Chief Compliance Officer, HSBC India

Ravi Duvvuru, CCO & Chief HR Officer, Jana Small Finance Bank



Subir Saha, Group CCO, ICICI Bank

Sunil Mehta, Chairman, Yes Bank Ltd and Former Chairman, PNB

Pramod Kumar Panda, Senior Program Director CAFRAL

CAFRAL had organised the captioned one-day Virtual Workshop (VW) on June 22, 2021 through WebEx. The VW provided a platform to thought leaders in the financial sector to meet and discuss the need for a new paradigm of compliance against the backdrop of recurrent compliance failures.

The program covered topics such as Global Good

Practices on Compliance Function; Regulatory and Supervisory Expectations on Compliance Function; Culture of Compliance; Reimagining Compliance Function – The Journey Ahead and Beyond Compliance - Ethics, Code & Conduct.

The key speakers/ panelists in this program were Lam Chee Kin, Managing Director & Head, Legal, Compliance & Secretariat, DBS Bank, Singapore.; Sanjay Kumar, General Manager, Department of Supervision, RBI; Amarendra Mohan, Financial Sector Specialist; Abadaan Viccaji, Chief Compliance Officer, HSBC India; Subir Saha, Group Chief Compliance Officer, ICICI Bank; Ravi Duvvuru, Chief Compliance & Human Resources Officer, Jana Small Finance Bank; Indrani Banerjee, Additional Director, CAFRAL; Pramod Panda, Senior Program Director, CAFRAL; Sunil Mehta, Chairman, Yes Bank Ltd and Former Chairman, Punjab National Bank.

There were 148 participants from Banks, FIs, NBFCs and RBI.

Highlights of Research Activities

Presentations to industry and academic institutions.

Dr. Nirupama Kulkarni, Research Director presented her work on zombie lending at the IIM, Calcutta Research Summer School 2021. She shared her insights as a panel member in a session highlighting impact through policy research and intervention at the ISB Impact Forum, 2021

Dr. Kulkarni also presented her paper "The Unholy Trinity: Regulatory Forbearance, Stressed Banks, and Zombie Firms" at the Financial Intermediation Research Society (FIRS) 2021 conference held from June 4-6, 2021.

Her paper, "Consumption Tax Reform and the Real Economy: Evidence from India's Adoption of a Value-Added Tax", was accepted to the Journal of Empirical Legal Studies

Dr. Gautham Udupa, Research Director shared his insights on consumer bankruptcy law in India during a talk titled "Retail Lending - Bankruptcy Laws to Handle Future Stress" at the "CAFRAL Virtual Learning Program on Retail Lending Amid and Post Pandemic" on May 28-29, 2021

Highlights of Research Seminars

A Framework for Detecting Over-indebtedness and Monitoring Indian Credit Markets by Dwijaraj Bhattacharya, Amulya Neelam, and Deepti George from DVARA Research on June 30, 2021

Paper Abstract

Excessive debt negatively affects households and can diminish any developmental gains from such debt. It also dampens a nation's economic growth and threatens its financial stability. India has had a checkered history of having experienced outbreaks of localised or regional borrower distress. Given that signs of borrower distress are raising their head most recently in the eastern and north-eastern states of India, there is a clear and urgent need for systematic course-correction. The regular off-site reporting formats currently deployed by the RBI for both NBFCs and banks are inadequate to shed light on the health of credit markets. Also, these formats are not able to capture the extent of indebtedness in the population. Thus, in this policy brief, we propose a Framework through which the RBI may simultaneously monitor Indian credit markets and detect the prevalence of over-indebtedness

Bank Coordination and Monetary Transmission: Evidence from India by Shiv Dixit from Indian School of Business, India on June 25, 2021

Paper Abstract

We propose a new channel for the transmission of monetary policy shocks, the coordination channel. We develop a New Keynesian model in which bank lending is strategically complementary. Banks do not observe the distribution of loans but infer it using Gaussian signals. Under this paradigm, we find that expectations of tighter credit conditions reduce interest rate pass-through, which dampens transmission to inflation and output. We test these predictions by constructing a dataset that links the evolution of interest rates to firms' bank credit relationships in India. Consistent with our model, we find that the cross-sectional mean and dispersion of lending rates, which capture the expected value and the precision of the signals of credit extended by other banks, are significant predictors of monetary transmission. Our quantitative results suggest that coordination failures amongst banks reduce monetary transmission by about a third.

The effect of an income shock on subnational debt: Micro evidence from Mexico by Mariela Dal Borgo from Bank of Mexico on June 23, 2021

Paper Abstract

This paper examines how the borrowing decisions of local governments, often financially constrained, respond to a shock that affects the distribution of revenue from the central government. The shock stems from the discrete updating of population census data that is plausibly uncorrelated with short-term financing needs. For a five-year increase in population of 10%, I find that federal transfers to Mexican municipalities increase by 3% over the first two post-census years. Using supervisory loan-level data, I show that the probability of municipalities being indebted declines by 0.2 percentage points over the same period. This response is driven by governments with relatively more own-source revenue and, hence, less dependent on transfers, which lenders perceive as more creditworthy. The shock has no differential effect when debt is granted by a public lender, not even during electoral years or when the mayor is political aligned with the central government. Most

of the additional revenue goes to finance short-term, current expenditures, especially by the more transfer-dependent governments. These findings reveal a small capacity to smooth shocks in credit markets, restricted to few governments with a diversified revenue base that borrow from private intermediaries.

Inflation's Role in Debt Decomposition: A Security Level Analysis for India by Piyali Das (earlier at IIM Indore) on June 18, 2021

Paper Abstract

We assemble a novel data-set on Indian public debt with consistently defined aggregate annual components from 1951–2018, and Centre-State security level data from 2000–2018. We quantify the contribution of inflation, real GDP growth, nominal interest rates and primary deficit/surplus towards India's debt-dynamics. We find that inflation's role in debt financing diminished after the adoption of flexible inflation targeting in 2014. We also find that nominal returns on the marketable and non-marketable portions of the Centre's debt account for the highest contribution towards changes in public debt. Our paper helps inform the debate on the adoption of inflation targeting in India and other EMEs.

Capital Regulation and Shadow Finance: A Quantitative Analysis" by Radoslaw Paluszynski from University of Houston on June 2, 2021

Paper Abstract

This paper studies the effects of higher bank capital requirements. Using new firm-lender matched credit data from South Korea, we document that Basel III coincided with a 25% decline in credit from regulated banks, and an increase of similar magnitude from nonbank (shadow) lenders. We use our data to estimate the effect of capital requirements on bank credit, and the spillover effect of the reform on non-bank lending. We then build a general equilibrium model with heterogeneous banks and firms that replicates these micro estimates. We find that Basel III can account for most of the observed decrease in regulated bank lending, and about three quarters of the increase in shadow lending. The latter is driven exclusively by general equilibrium effects of the reform. A counterfactual experiment using the model shows that suppressing the rise of shadow lenders would significantly increase the firms' borrowing costs.

Why so negative? The effect of monetary policy on bank credit supply across the euro area by Diana Bonfim from Bank of Portugal on May 18, 2021

Paper Abstract

This paper studies the transmission of monetary-policy rates to banks' credit supply to firms. A simple model of an "augmented" bank capital channel characterizes the transmission in positive as well as in negative territory. The model allows for risk taking and a different pass-through of the policy rate to banks' cost of funding because of a zero lower bound (ZLB) on retail deposit rates but not on wholesale debt. We examine the European Central Bank's negative interest rate policy in 2014, and use the unique combination of two confidential credit registers to exploit variation in the pass-through to deposit rates across the euro area. In the periphery (Portugal) the pass-through is intact because deposit rates are far away from the ZLB, while in the core (Germany) the pass-through is impaired because of the ZLB on deposit rates. We find that in Portugal the negative interest rate policy acts like a standard rate cut, and expands credit supply especially for low-equity banks. In contrast, in Germany the policy leads to risk taking by high-deposit banks. We use the convex combination of our estimates to characterize the transmission of the 2014 rate cuts across the entire euro area.

Upcoming Learning Program

CAFRAL Virtual Program on Women Leadership in Financial Sector Tranche I: Thursday, July 15, 2021 and Tranche II: July 30 & 31, 2021 | Virtual Learning Program

Objectives

This is a unique virtual leadership program for women officers at senior and middle levels in Banks, Financial Institutions and NBFCs. This program has five building blocks. One, it seeks to expose the participants to key theoretical concepts and aspects of leadership. Two, it seeks to provide inputs to the participants on crucial trends and developments in banking and financial services business-, as every leader or potential leader, regardless of gender, ought to know. Three, it aims at sensitizing the participants about certain issues and facts

surrounding gender equality and equity, particularly in the context of financial services business. Four, going beyond discussion, it helps participants explore and identify their typical personality traits and leadership competencies that are potentially more relevant for financial services business. Special focus will be on such traits and leadership competencies which women might typically possess. Building on that, the program would provide practical insights into methods and ways which can be used to perform and lead more efficiently, leveraging on identified personality traits and leadership competencies. Lastly, the program would exclusively focus on 'problem solving through innovation' which is part of the business strategy of most organizations today. Discussion and project work on this will enable the participants to better communicate the need for innovation across their organizations and lead innovations there.

Participants' Profile

Senior and Middle level Women Officers of Banks, NBFCs and Financial Institutions

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