FICCI

Financial Foresights

Views, Reflection and Erudition

VOL. NO. 3 | ISSUE NO. 5 | Q4 FY 12-13

Role of NBFC's in promoting inclusive growth

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY
Industry's Voice for Policy Change

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[#]Note: These incentives are subject to minimum volumes and other conditions as specified in the circular.

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About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce. FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Acknowledgments

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Contents

Preface

FICCI's 'Financial Foresights' is FICCI's Financial sector's flagship research based initiative which aims to facilitate a comprehensive forum for dialogue amongst the Indian Inc. and the Government thereby providing necessary directions to policy makers and business processes. Currently in its third year, this Digest has gone a long way in providing invaluable inputs for FICCI's extensive network of industry members and stakeholders on various topics concerning the Financial Sector in India. The current issue of our Digest will focus on the "Role of NBFC's in promoting inclusive growth."

Non-Banking Financial Companies (NBFCs) form an integral part of the Indian financial system. They have been very instrumental in contributing to the Government's agenda of financial inclusion by filling the important gap of supplying credit to retail customers in the relatively under-served and un-banked areas. They play an active complementary role to the banking system by broadening access to financial services, enhancing competition and diversification of the financial sector. However, the story of NBFC sector in India has been a story of under-regulation followed by over regulation, due to the draft guidelines on NBFCs being released by RBI recently. The industry stakeholders are of the opinion that these guidelines, if implemented will prove restrictive of growth and will hamper the efficient functioning of the sector. Furthermore, it may also setback their last mile connectivity to the under banked community and hence their contribution to the overall economic development of the country.

It is in this context that through the voice of some of India's leading names in the financial sector, we will take a closer look at NBFCs within the broad framework of Banking and Financial Institutions to look at the present and future roles of the NBFCs in the Indian financial sector and the measures that could be taken to optimize their contribution thereto with special focus on promoting 'Inclusive Growth'.

We look forward to your views and suggestions to help us improve the content of the digest and make it more relevant and informative.

Dr. A. Didar Singh
Secretary General
FICCI

Industry Insights

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Promoting Inclusive Growth – Role of Non-Banking Finance Companies

Mr. Shachindra Nath, *Group CEO, Religare Enterprises Ltd.*

The focus of promoting inclusive growth is today a top priority for all including the financial regulator. This is stemmed by the fact that financial, economic, political and social stability lies in promoting financial inclusion to ensure that all strata of society get tangible benefit of the underlying economy. Efficient payment mechanisms, access to credit, cost efficient products are some of these benefits.

Non-Banking Financial Companies (NBFC's) have made great progress in the last ten years and are assisting in meeting the diverse financial needs of the economy. In doing so, NBFCs have influenced the direction of savings and investment of the customers and the resultant capital formation has become essential for India's economic growth and development.At present,

NBFCs are playing a vital role in furthering the cause of financial inclusion

there are 12,375 NBFCs in India with an asset base of greater than INR 6,500 billion a growth from INR 347 billion in 1997-98. NBFCs as a whole account for 12.3 % of assets of the total financial system. By focusing on the Small and Medium Enterprises (SME) sector and growing microfinance, NBFCs are playing a vital role in furthering the cause of financial inclusion.

Focus on SME

The small and medium enterprises (SMEs) today constitute a very important segment of the Indian economy andaccount for around 95 per cent of the industrial units. The SME sector accounts for 45 percent of manufacturing output and 40 per cent of exports. As such, growth of this sector is important for the economic and social development of the country. Although SMEs have been growing in size and importance, they often lack access to timely and adequate credit, to meet the working capital needs, incur high cost of credit, are technologically backward and also lack adequate infrastructure and skilled manpower. With alternative sources of financing – such as, primary equity markets, private equity, and venture capital – remaining closed to SMEs due to lack of investor interest, greater access to funds through financiers will drive their growth.

NBFCs have emerged as a strong financial intermediary in making financial services accessible to a wider set of customer segments including SMEs. NBFCs have extended finance to SMEs by having a range of products that suit their needs in their portfolio. Apart of providing loan against property, innovative products introduced for the SME sector include used/ second hand vehicles financing, reconditioned vehicles financing, three-wheeler financing, construction equipment financing and secured/ unsecured working capital financing.

Microfinance

Microfinance is considered as a separate category under NBFCs, with approximately 50 microfinance institutions registered with RBI as NBFC-MFI (Microfinance Institutions). Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro-insurance–all important for instilling the savings and investment philosophy for the poor. Microfinance has attempted to fill the void left between mainstream commercial banks and private money lenders and has emerged as a fast growing enabler for access to financial services for the poor.

While almost 40% of the population of India does not have access to banking services, MFIs have been able to create active borrower accounts of close to 15 million with an outstanding portfolio of INR 14,702 crore. Giving capital to the rural poor generates self-employment, which in turn promotes inclusive growth.

Affordable Housing

Another area where NBFCs are nudging the inclusive growth agenda is Affordable Housing. Large NBFCs are setting up units to extend small-ticket loans to home buyers targeting

NBFCs have emerged as a strong financial intermediary in making financial services accessible to a wider set of customer segments including SMEs. NBFCs have extended finance to SMEs by having a range of products that suit their needs in their portfolio

low-income customers across the country. Firm are offering loans of INR 2-6 lakh to borrowers with monthly income of INR 6,000 - 12,000 who find it difficult to borrow from the commercial banks. Firms offer easier know-your customer (KYC) norms such as relaxation in documentation requirements to facilitate easy access to low-income borrowers.

Innovative Business Models

One of the major challenges under inclusion has been addressing the last

mile connectivity problem. NBFCs have innovated and created business models to extend their services to as many villages as possible. Large players have appointed small franchisees to extend the geographical spread and penetration by providing a share of the profit to the franchisees.

Another model adopted is similar to the business correspondent model. NBFCs appoint business associates, which aides in increase in spread without opening physical branches and such associates have understanding of the local conditions and customers' needs.

Conclusion

Any attempt to expand financial inclusion is essentially a small step in a longer journey and India needs to travel on this journey to become a global player. Inclusive growth will act as asource of empowerment and allow people to participate more effectively in the economic and social process.

Shachindra Nath
Group CEO
Religare Enterprises Ltd.

Mr. Shachindra Nath (Group Chief Executive Officer) Religare Enterprises Ltd. carries the overall responsibility for leading all pivotal operations and businesses of the group. He has been associated with Religare since the year 2000 and has been instrumental in building various businesses under the Religare umbrella from scratch.

His strategic agility coupled with hands on approach has been a key to Religare's growth and success over the years. With a career span of more than 20 years, Shachindra is a highly accomplished professional backed by an exemplary academic record. He is a University rank holder for his Bachelor's degree in Law from the Banaras Hindu University, Varanasi. He also went on to pursue a Post Graduate diploma in Intellectual Property Rights from the Amity Law College, Delhi.

Prior to joining Religare; Shachindra has worked in the manufacturing and Financial services sector in various capacities. A great motivator and leader, when not at work he loves to read, contribute to columns, travel and spend time with his family.

Role of NBFC's in promoting inclusive growth

Mr. Pinaki Ranjan Mitra, *Head-Creadit Operations, Ananya Finance*

NBFCs (non-banking finance companies) are registered companies conducting business activities similar to regular banks in several matters. Their banking operations include making loans and advances available to consumers and businesses, acquisition of marketable securities, leasing of hard assets like automobiles, hire-purchase and insurance businesses. However, in many ways, they differ from commercial banks. For example,

- NBFCs cannot accept demand deposits (deposits that can be withdrawn at immediate notice);
- They cannot issue cheques to customers;
- The deposits with them are not insured by the DICGC;
- Debt recovery tribunals are not available to NBFCs.

NBFCs complement banks in the financial services industry

NBFCs have traditionally complemented the commercial banks and have prevented the concentration of credit risk in banks. They have also catered to a class of borrowers who are often considered unbankable. These set of customers do not usually fall in the high income or middle income brackets. Moreover, these clients may not be able to pass the banks' test of creditworthiness in terms of an adequate credit score.

Commercial banks (even the public sector banking space) have used their

NBFCs have traditionally complemented the commercial banks and have prevented the concentration of credit risk in banks

presence in rural and semi urban areas predominantly for deposit raising and meeting priority sector targets set by the Reserve Bank of India (RBI). However, due to business and viability compulsions, banks did not pursue credit off take in rural and semi-urban areas with equal intensity. Often, banks' senior management has viewed financial inclusion efforts in rural areas as a kind of CSR activity. It is also evident that although the total bank advances in the country has swelled handsomely in the past twenty years, the amount of loan outstanding with lesser ticket size (for instance, less than Rs.25,000) has not increased with the same vigour. Hence, it seems that the most credit-starved segment of the society has remained out of favour with banks in terms of credit delivery.

NBFCs are increasingly filling these gaps left by banks in rural/semi-rural markets and even in some urban centres. NBFCs have also created a major impact in developing small and micro businesses through their local presence and strong customer relationships.

NBFCs have often led financial product innovation, especially in terms of meeting financing needs of the under-served segments of society, small enterprises and rural households. They have taken lead in offering small ticket personal loans, financing of two wheelers/three wheelers, farm equipment financing, and loans for purchasing used commercial vehicles/machinery. The speed of credit delivery of NBFCs is typically much faster than that of the banks. In addition, NBFCs help in expanding the reach of credit delivery to the far corners of the country, especially to the under-served markets.

NBFCs' role in promoting inclusive growth:

Though the NBFCs have been around for a long time, they have recently gained popularity since they facilitate reliable and affordable access to credit for semi-rural and rural India where the reach of traditional banks has not been consistent. One can safely say that NBFCs have proved to be a vital link in the promotion of financial inclusion.

NBFCs constitute almost 76%[1] of the Rs.120 billion microfinance industry in the country. The estimated demand for microfinance is much higher than the present level of microcredit supply. The estimated demand for microcredit in India is nearly a thousand billion rupees[2] (this may be a conservative estimate). According to a World Bank-NCAER survey, about 70% of the rural poor do not have a bank account and about 87% have no access to credit from a formal source[3]. India has the highest number of households in the world (nearly 145 million) that are excluded from the banking system[4]. In view of these figures, the importance of the role of NBFCs can never be underestimated. The NBFCs in the microfinance domain offer services at the clients' doorstep. Loan officers from MFI NBFCs usually collect the KYC documents from the clients' homes, disburse loans at the doorstep of the customers and even collect the weekly or monthly repayment installments at the client's or at her/his neighbour's house. Commercial banks have usually found it unviable to reach out to this set of clients because of the low ticket size of such transactions and the proportionately high transaction-related expenses. However, NBFCs have found a way out by providing such customized services to individual clients in a group setting. For example, a NBFC offering microfinance will typically provide a small loan of Rs. 10,000-Rs.15,000 to a woman client but would consider each of these clients as a part of a larger unit (called a center) comprising 15-30 clients. While these small unsecured loans (essentially to meet clients' working capital needs) help the clients and their households, the group-based model of lending helps the NBFCs to resolve the high

1 http://www.samn.eu/?q=india.Accessed on 15th.March, 2013.

2 Vijay Mahajan: Rebuilding a Stronger Microfinance Sector in India; Published on July 26, 2012; http://knowledge.wharton.upenn.edu/india;Accessed on 15th.March, 2013.

3 http://mezzanine.ifmr.co.in/for-investors/micro finance as an investment opportunity; Accessed on 15th.March, 2013.

4 Performance and Sustainability of Microfinance Institutions in India; http://www.aims-international.org; Accessed on 14th.March 2013.

transaction cost problem and keeps these NBFCs profitable in their operations. Such services are not restricted by usual working hours and the flexible hours of loan disbursement and collections does not disrupt the low-income customer's normal trade or business activity. MFI NBFCs have often implemented innovative practices to offer better client service. For example, MFI NBFCs have found ways to shorten the time spent at group meetings, making them more convenient for their clients. Some of these NBFCs are tailoring their products to their clients' cash flows, and are also offering add-on products such as housing and education loans. MFI NBFCs have substantially increased the availability of credit to the rural and semi-urban population, while maintaining a robust level of recovery performance.

The role of MFI NBFCs in the empowerment of women in rural areas and in urban slums can not be overlooked. These NBFCs have also created a large number of job opportunities for the local youth (MFI NBFCs typically employ young men and women from low-income families with educational background of Secondary or Higher Secondary levels for the Field Officer positions in the branches). These Field officers have an intimate knowledge of their end-customers' requirements and have a strong 'informal' understanding of the credibility of the borrower and are able to structure their credit products appropriately.

Traditionally, NBFCs have played a very important role in sustaining retail-level consumption in several critical industries (two wheelers, tractors, consumer durables,etc.). If NBFCs do not provide credit support for such retail-level consumption, a large majority of purchasers of such products would not be able to afford such purchases or would be at the mercy of high-cost, exploitative, informal and entirely unregulated sources of finance.

Need to recognize NBFCs' role in the financial inclusion agenda

It is rather unfortunate that the policymaking establishment in the country does not fully recognize the critical role played by NBFCs in promoting financial inclusion. The official agenda on financial inclusion largely excludes NBFCs. Although the RBI does recognize the role of NBFCs in some of its policy papers, it apparently considers the commercial banking system as the main vehicle for promoting financial inclusion. For example, RBI guidelines on the BC (Business correspondent) model excludes all NBFCs. There is too much regulatory noise being generated on regulating NBFCs, but very little effort is made to create a more enabling environment for development of NBFCs. Some of the state governments have gone to the extent of treating NBFCs as money lenders under the state Money lenders' Act. For instance, the harsh measures taken by the Andhra Pradesh government in FY 2010-2011 against MFI NBFCs not only posed severe problems for the NBFCs in that state, but also cut off vital supply of affordable and timely credit to the microfinance borrowers in the state and pushed lakhs of women borrowers to revisit the exploitative local moneylenders.

While the Income Tax Act allows deductions to banks and HFCs for non-recognition of income on NPAs-this benefit is not available to NBFCs

NBFCs often live without the access to a lender of last resort. There is an urgent need for a refinance window for NBFCs. There is also a need for liberal bank funding for NBFCs at competitive rates.The securitization guidelines issued by RBI has restricted securitization of receivables and is not originator friendly.

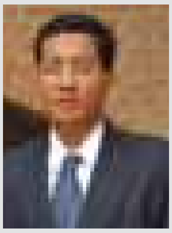
Other issues like taxation also create an uneven playing field for NBFCs. While the Income Tax Act allows deductions to banks and HFCs for non-recognition of income on NPAs-this benefit is not available to NBFCs. Multiple taxation of financial lease and hire purchase transactions(VAT, Service tax, TDS,etc.) does not make life simple for NBFC owners and managers.

There is not much regulatory clarity on recovery mechanisms available to NBFCs. NBFCs are not covered

under SARFAESI Act, nor are the Debt recovery tribunals available to NBFCs.

The way ahead:

The need of the hour is a realistic realignment of the regulatory regime with the long-term interests of NBFCs. A roadmap for the development of NBFCs should be put in place by the government and RBI after due consultations with the representative bodies of NBFCs. Removal of the inequitable restrictions on NBFCs and a proper recognition of NBFCs' role in the country's financial inclusion agenda are immediately required. These measures, when taken, will help the government's agenda of encouraging a more inclusive economy.



Pinaki Ranjan Mitra
Head-Creadit Operations
Ananya Finance

Mr. Pinaki Ranjan Mitra, Heads the Credit Operations of Ananya Finance for inclusive growth (an NBFC in the financial inclusion domain). He is involved in Credit operations, relationship management with partner institutions across India, capacity-building, policy design, strategy formulation and advocacy work. Earlier he has worked for Govt. of India in the pension, insurance, social protection, process reengineering and change management domains. He worked as a Regional Commissioner in Govt. of India's Ministry of Labour & Employment. He has 14 years of public service experience and nearly 4 years of experience in the private sector. He has spoken at different national and international forums on financial inclusion, microfinance and pension. Recently, he authored the India country report on savings & credit cooperatives for the London-based Commonwealth Secretariat.

He studied at IIM (Ahmedabad), University of Texas at Austin (USA) & Jawaharlal Nehru University (New Delhi).

Role of NBFC-MFIs in promoting inclusive growth

Mr. Chandra Shekhar Ghosh
Chairman & Managing Director, Bandhan

Being a true citizen we all feel proud of the fact that, India is the 3rd largest economy (on basis of PPP) in the world. The average annual growth rate of the economy has been 5.9% (1951-2012), which is very impressive for any developing country.But when we look deeper it is revealed India ranks 136th in Human Development Index, out of 187 countries and it ranks 132nd out of 187 countries in Gender Inequality Index (both done by UNDP).

So there lies a gap, a divide which can only be fathomed if the benefits of economic growth are distributed among the population. More so when it is a known fact that top 5% rich households in our country owns 38% and bottom 60% own 5% of the total asset of the country.

As per NSSO survey "Indebtness of farmer households', 2003, 51% of rural household do not have access to credit. In this 87% of the non-indebted households are small and marginal households. According to the study in 2003 out of 5.96 crore non cultivating households, 4.6 crore were financially excluded. By 2015, almost 45 million urban households are expected to be in the less- than-Rs 2 lakh income category, for which financial inclusion will be relevant. If we look at this from point of view of social disparity, 63.69% of schedule cast households are non-indebted. Hence even within exclusiveness there lies exclusivity.

NBFCs have so far played a very significant role in development of the country by taking financial products to under banked and unbanked, rural mass and people having small enterprises

The way in which poverty line is defined in India is also very humbling. Though World Bank decides the line at $ 1.25/day, in India it is Rs.28.35/day in urban area and Rs.22.42/day in rural area.

So the question is if the entire amount is spent on food (if at all it can be squeezed in), how other basic necessities of the poor will be taken care of? In this situation there is absolutely no question of developing enterprise. It may be said, they can borrow. The question is; from where and how?

Banks have critical role in taking financial services to remote corners of India. As the chart shown below depicts that over years (2004-2012), the number of bank branches, taking rural and semi urban area together had 60% share of total number of branches across India. The same chart shows that the number of branches in rural area has shown a steady decline over years, though around 40% of all branches belonged to rural areas. Hence we may conclude that reach is not a problem; which logically questions the efficiency of credit disbursal of rural branches.

Chart 1: Percentage of bank branches, area wise classification (source: RBI data base)

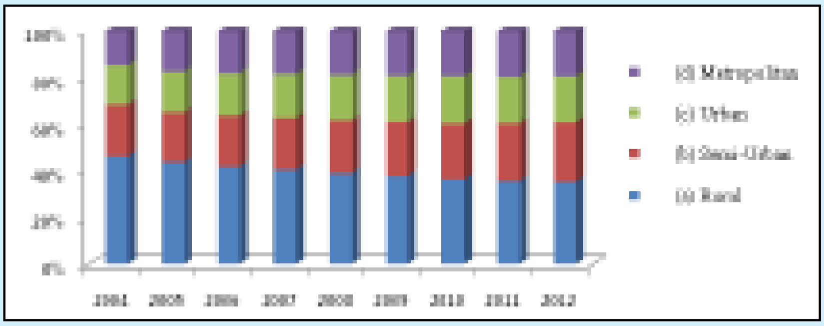
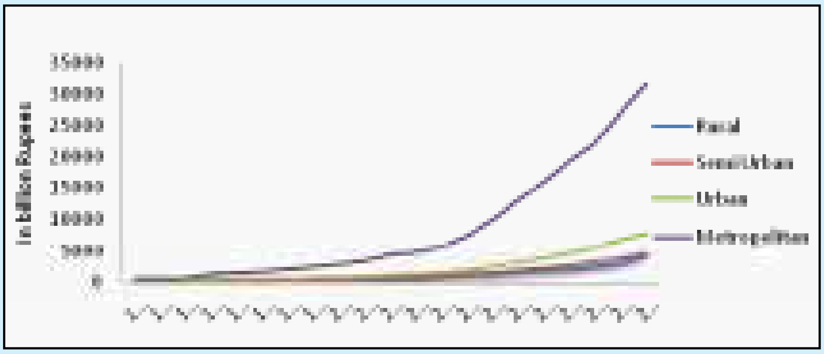


Chart 2: Credit disbursed in billion Rs. across segments (Source: RBI database)



Now if we look at category wise credit extended by banks, rural areas have received the least and not only that, it also registered minimal growth over the years. The number of branches is highest in these areas but credit portfolio is smallest, from which it can be inferred that banks are more focused on deposit taking and less on extending credit in rural and semi urban areas. Moreover lack of product innovation (small ticket size product) and documentation hassles make banks less attractive to this particular segment.

SHG sector once considered to be only way out for poor is now in declining spiral, so as the cooperative sector (as per sector report by Skoch Foundation). Hence NBFC-MFIs are becoming more relevant considering the prevailing condition in the Indian economy.

Microfinance is not a recent phenomenon in India. Growth of the microfinance during the last decade has been around 100%.At present there are around 2.26 crore borrowers, loan portfolio of 18,000 crore and more than 250 microfinance institutions including 12 NBFCs. 80% of the loan portfolio is held by NBFC-MFIs. Role of NBFC-MFIs become even more prominent as SHG-MFIs and Cooperative MFIs are in declining spiral.

NBFCs have so far played a very significant role in development of the country by taking financial products to underbanked and unbanked, rural mass and people having small enterprises, who usually cannot provide collateral. It has not substituted Banking sector, rather it has complemented the same, more so due to priority sector lending guidelines issued by RBI. During the period 2006-2011, the NBFC sector has grown 2.6 times at the rate of 21% CAGP. In financial year 2011 NBFC-MFIs accounted for 13.2% of outstanding advance and 13.78% of assets of banking system. Bank exposure to NBFCs has increased from Rs.62, 308 crore in FY 2006 to Rs.183, 839 crore in FY 2011 (a CAGR of 24%).

There are certain characteristics of NBFC-MFIs which the traditional banking sector lacks. They understand the need of their clients very well and are flexible enough to design products accordingly. They are specialized in the geography as their operations touch lives of beneficiaries, creating a bond between the two. Hence they can judge the creditability of the borrower more accurately, which in turn reduce the risk in the portfolio.

We must remember that meaning of inclusion in not merely providing credit to the poor. It may be defined as facilitating economic opportunities to all without any bias. It is also about reducing disparity across gender, social groups and geographical territories.

Table 1: A brief of the development programme run by Bandhan (data as on February, 2013)

Development Program (in Numbers)		
1	Student under Bandhan Education Program (BEP)	17,858
2	Beneficiaries under Bandhan Health Program (BHP)	400,750
3	Families under Targeting Hard Core Poor Program (THP)	17,249
4	Skill Development Trainees under Employing The Unemployed Program (EUP)	1,624
5	Beneficiaries under Bandhan Livelihood Promotion and Market Linkage Program (BLP & ML)	371
6	Families under Micro Enterprise Development & Financial Education Program (MED & FE)	2,000

NBFC-MFIs have to function as a platform for poor to participate and get benefited from the growth of the country. Objective of this participation being overall wellbeing of people and not just increase in family income. Development of human capital is another area where NBFC-MFIs can play a major role. By developing skill we may inculcate in beneficiaries, sustainable ways of use of the financial products.

Most of the 22.56 million present borrowers of NBFC-MFIs in India are women. Predominantly loans are being disbursed in groups. Group formation, participation in group activity and exposure to managing finance is giving woman much needed confidence to become self-reliant. The access to financial products is helping them proclaim their position, first in their families and then in the society. So it is not uncommon to witness, women coming together to stand against atrocities meted out to any of their group member.

Same is the case for Bandhan, most of the 4 million borrowers being women. Bandhan is presently working across a wide geography having footprint in 18 states and union territories, operating through around 1700 branches. Total outstanding loan presently is around 4000 crore. Bandhan's model of woman empowerment and poverty alleviation is based on a carefully calibrated blending of credit plus with microfinance. This is why Bandhan gravitated towards developmental interventions in 2006. Apart from the provision of micro credit ,these interventions for the poor aim at ushering in an integrated transformation in the community in terms of not just credit availability but also allied areas like health awareness ,propagation of education ,livelihood generation ,skill development etc. and a programme aimed exclusively for the poorest of poor. These activities are carried out by Bandhan Konnagar, the development entity of Bandhan. Following is the score card for Bandhan as on February, 2013-

Bandhan School of Development Management (BSDM) was established in February 2011. Recognizing the need of well trained professional, with high level of standardization of practice at ground level, this institution was started for capacity development. Till date 4341 youth has participated in the programme.

During the journey of Bandhan we realized that many of our borrowers are artisans. Handicraft and handicraft is a decentralized and highly labour intensive. Many a time they are forced to look for some other avenue of livelihood as the demand for the artifacts and handloom products. Sometimes there is also issue with the quality of product. Involvement of middlemen and their clout over the market often leave the artist with meager payment. Hence Bandhan has taken an assignment with high priority to prove skill up gradation, design development, financial support and marketing opportunity to the artisans living in the remote corners.

Taking BLP and ML programme a step ahead, Bandhan Creation, the fashion and lifestyle destination aiming to accomplish market linkage for indigent artisans opened its doors on September 27, 2012.It aims to build a sustainable livelihood option for the artisans as we go on adding stores to this chain.

By sharing activities of Bandhan, I just want to point out that role of NBFC-MFIs not necessarily be restricted to financial activities alone. We can do much more if our approach is holistic.

Currently lot of effort is being put forth to bring some discipline in the sector. It is important as the vulnerability of the target group is high which in turn expose the microfinance organisations to risks.

Though regulatory framework is being defined for NBFCs and NBFC –MFIs, there are entities providing microfinance services in form of sector 25 companies, societies, trusts, NGOs and cooperatives are presently not under purview of these regulations. But if the same law is applied across all such organisations it may not be justified for small organisations as their competitiveness will be eroded. This will also restrict new players from entering into the arena, which is highly undesirable.

Currently there is no clarity between jurisdiction of state and Central government. The question is whether the states continue to have their own set of rules and regulations. If there is any dispute between the two who will resolve the problem?

Another issue which I feel need further debate is having a cap on margin and interest rate. For example if a MFI wants to provide service in hilly terrains of Himachal Pradesh only, how their operations will be sustained. At the same time for the larger MFIs, who have economies of scale, it may be restrictive to innovate new products, thus limiting the choice of borrowers.

There is also a need for centralized grievance redressal mechanism for both MFIs and borrowers. In reality it is very difficult to gauge the level of indebtness of a borrower. They do not submit tax returns, hence there is no proof for income. Extending priority sector loan to such borrowers at present completely depend on judgment of operations team.

NBFCs are allowed to raise equity from market but NBFC-MFIs are not. This increases the dependency of the MFIs on institutions like NABARD and SIDBI. As there is not much access to equity market there is high dependency on loan from Banks. Post Andhra Pradesh issue, banks have shown reluctance in lending. I think this is time that the government commissions an exclusive funding body for MFIs, instead of making Small Industries & Development Bank of India solely responsible for it. The funding body can be conceptualised to mobilise funds from banks and agencies like the World Bank. This will lead to lowering of borrowing cost and lending rates.

To conclude no one should expect the sector to grow more than 20%-25% for the next couple of years. The era of fancy growth rates has gone because we are still doing the adjustments with the new operational guidelines. Once the sector becomes stable, we can see high growth rates again. MFIs have reached about 2.26 crore borrowers, but this is less than 5% of the total requirement. So, opportunities are huge and I expect a couple of very significant years lying ahead for the sector during which the sector will shape up and future directions will be set.

I think this is time that the government commissions an exclusive funding body for MFIs, instead of making Small Industries & Development Bank of India solely responsible for it

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Chandra Shekhar Ghosh

Chairman & Managing Director
Bandhan

Senior Ashoka Fellow Mr. Chandra Shekhar Ghosh is the Chairman & Managing Director of Bandhan, the leading MFI in India. Mr. Ghosh also adorns the Governing Board of Sa-Dhan and Association of Microfinance Institutions-West Bengal (AMFI-WB). He has the distinction of being one of the Committee Members of the Core Team that SIDBI formed for its Partner MFIs to advice in the policy making process. Mr. Ghosh is a member of 'State Level Review & Co-ordination Committee on Credit Delivery Innovations' constituted by NABARD, 'Financial Inclusion and Microfinance' and 'Banking and Finance' committees of ASSOCHAM and Social Development & Community Affairs Sub-Committee constituted by Confederation of Indian Industries (CII). He has also joined as a member of Financial Inclusion Committee constituted by FICCI and the Managing Committee of BCCI.

He holds an M.Sc. in Statistics and has attended the HBS-ACCION Program on Strategic Leadership for Microfinance at Harvard Business School.

Role of NBFCS in Promoting Inclusive Growth

Ms. Archana S Bhargava, *Executive Director, Canara Bank*

The canvas of financial system in India portrays a picture of players of different hues and diverse opportunities-Commercial banks both in Public and Private sectors, Foreign Banks, Public Sector Financial Institutions, Regional Rural banks, NBFCs, Co-operatives, NGO/ Trusts purveying micro credit etc. All working within a broad & sturdy framework of the regulators, which has seen the country successfully weathering the financial storm a few years back-the jolts being felt even now across the world.

Non Banking Financial Companies (NBFCs) play a crucial role in broadening access to financial services, enhancing competition and diversification of the financial sector. They are undoubtedly complementary to the banking system, capable of absorbing shocks and spreading risks at times of financial distress. The diverse legal forms and constitutions of NBFCs underline their diverse development role in financial and non-financial segments. For instance, the infrastructure development like road and port, a cornerstone of growth, funded by separate group of NBFCs.

NBFCs have traditionally focused on customer segments which were not served by banks like micro, small and medium enterprises (MSMEs), funding of commercial vehicles including old vehicles, farm

NBFCs play a crucial role in broadening access to financial services, enhancing competition and diversification of the financial sector. They are undoubtedly complementary to the banking system, capable of absorbing shocks and spreading risks at times of financial distress

equipments viz. tracking, harvesters, etc. loan against shares, funding of plant and machinery; etc.

NBFCs typically are specialized vehicles –both in terms of products and the geographies in which they operate. This specialization provides them a unique framework to assess the risk in the undertaken business. A much closer market awareness provides them the ability to rate borrowers, monitor them, price the relative credit suitably and effect recoveries from them.

NBFCs also provide credit for certain sectors which are not served by banks and Financial Institutions because Banks/FIs do not have adequate market relationships and infrastructure for the same. Some of these sectors are:

(a) Used Trucks
(b) Used passenger vehicles
(c) Consumer durable loans
(d) Personal Loans
(e) Funding to the Small & Medium Enterprises (SME Sector) which do not have access to institutionalized funding, etc.

Traditionally, these sectors were financed entirely by the unorganized financiers at exorbitant high interest rates. In the last 10 years, with their retail strength, NBFCs have rendered significant service by extending credit to these sectors. Now banks and financial institutions are availing of the reach and expertise of NBFCs for employing funds in these sectors through NBFCs. This has brought in lot of funds into these sectors, thereby reducing interest rates.

Strong understanding of customer segments and ability to deliver customized products

The ability of NBFCs to produce innovative products in consonance with needs of their clients is well recognized. This, in addition to the proximity to the clients, makes the NBFCs distinct from its banking sector counterparts. In a short period of time, NBFCs have become market leaders in most of the retail finance segments like commercial vehicles, car financing and personal loans. In the last decade or so, the Indian retail finance markets have seen several new products being developed and introduced by NBFCs. The following are some cases in point - Used vehicle financing, Small ticket personal loans (ST-PL), Three-wheeler financing, Loan against shares, Promoter funding, Public issue financing (IPO financing) and Finance for tyres and fuel.

NBFCs have a significant economic role, especially servicing the under-banked and unbanked populace and geographies. Bringing the diverse set of NBFCs under regulation rather than curtailing their operations , would help orderly growth of the sector.

The NBFC encompasses many different types of financial companies, which are all subject to the regulatory requirements. Many microfinance institutions have recently registered as NBFCs to take advantage of access to capital markets. It is understood that Microfinance institutions operating as NBFCs account for the great majority of the microfinance market in India, with about 50 NBFCs responsible for 80 percent of all microfinance loans (by outstanding portfolio).However the focus of this paper will be the micro finance segment & NBFC's role for two reasons-one, it affects greatest segment of our population (financially excluded) and second, it has specific regulations that are seen as important in the aftermath of crisis in micro finance sector a couple of years back.

Financial exclusion of the Marginalized-critical role of Micro Finance

The poor and marginalized continue to be without banking and financial services, although some significant progress has been made by the banks in the last 4-5 years. Micro finance envisages various financial services-thrift/savings/ credit and Insurance all envisaged to provide means towards economic empowerment. In the Indian context, micro finance essentially denotes micro credit that can generate economic activity, smoothen consumption and provide protection against shocks in livelihood occupation.

Over the years Micro finance has played an important role in addressing the gap to financial inclusion. Micro Finance Institutions are uniquely positioned to facilitate financial inclusion and provide financial services to relatively poorer and vulnerable sections, effectively bridging the supply gaps of Commercial Banks. The MFIs have an added advantage of retaining exclusive focus on micro finance unlike the commercial Banks which have diverse functionalities.

Recognition of NBFC-in Micro Finance

The space for micro finance in inclusive growth has got a boost when RBI recognized the role of NBFCs in micro finance sector and as effective Micro Finance Institutions. The RBI recognized Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI)as a separate entity vide regulatory guidelines of Dec'2011 in addition to the other forms of NBFCs namely i. Asset Finance Company (AFC) ii. Investment Company (IC) iii. Loan Company (LC) iv. Infrastructure Finance Company (IFC) v. Core Investment Company (CIC) vi. Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC)

RBI had come out with specific guidelines with regard to such NBFC-MFI , a non-deposit taking NBFC(other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils certain conditions on minimum Net Owned Funds of Rs.5 crore. (with relaxation for NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore) and not less than 85% of its net assets being in the nature of "qualifying assets."

Regulation on financial assets-Micro finance sector

The regulation brought on MFIs post Malegam report focused on strengthening and widening delivery of micro credit to the households with lower income and a measure to kick start an economic venture. The prescription included providing Priority sector status and hence better flow of funds from Banks to MFIs including NBFC-MFIs, include a cap on the borrower's income (Rs. 60,000 in rural areas and Rs. 1,20,000 in other areas); a cap on the loan amount of Rs. 35,000 in the first loan cycle and Rs. 50,000 thereafter; a cap on the total indebtedness of a borrower of Rs50,000; minimum loan tenure of 24 months for loans in excess of Rs15,000; no collateral for loans and finally minimum 75% of the MFI's loans to be for income generation. In addition, banks are required to ensure that MFIs maintain a margin (difference between lending rate and cost of funds) cap of 12% and interest cap of 26% for MFI loans (interest cap excludes 1% processing fee).

It is felt that the regulations should encourage the MFIs to consciously explore ways to reduce costs, for example by greater use of technology, and experimentation with new business models such as fortnightly repayment. This is bound to create a win-win proposition to the MFIs and the people too.

The Regulator has recently given operational flexibility to NBFC-MFIs in terms of pricing that provide the rate of interest on individual loans exceeding 26%,the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent. This measure is set to ensure that in a low cost environment, the ultimate borrower will benefit, while in a rising interest rate environment the lending NBFC-MFIs will have sufficient leeway to operate on viable lines.

The RBI guidelines issued recently in February 2013 on Fair Practice Codes for NBFCs with specifics for NBFC-MFIs also have set the tone for improved functioning environment, a positive measure to build up confidence of marginalized sections in the approach of these Institutions;

In the particular context of MFIs, there is often a view that regulations, particularly with pricing and portfolio size stipulations on NBFCs are dampeners for growth of Micro Finance sector- there is a perception that they are obtrusive rather than being facilitators & enablers.

It is also worth noting that RBI has reassessed the recommendations of the Malegam Committee, redefined/ refined some of the recommendations of the Committee like-

- Proportion of Qualifying Assets for Priority sector classification reduced to 85% from the Committees' recommendation of 90%
- Raising the cap on loan from Rs.25,000/- as otherwise recommended by the Committee to Rs.35,000/- for first time assistance and upto Rs.50,000/- in respect of subsequent cycles of assistance
- Differential Pricing cap of 10% spread over the cost of Funds for large MFIs and 12% for smaller MFIs was recommended by the

Committee-RBI has stipulated a uniform spread of 12% for all MFIs

- Against a cap of 24% recommended by the Committee, RBI has stipulated a cap of 26%.

Thus, it can be seen that RBI has given some leeway for MFIs in terms of spread, interest cap.

A recent report submitted by a committee chaired by Usha Thorat, a former Deputy Governor of the RBI, observes that NBFCs have assets under management of USD 150 billion (Rs.750000 crores). The Committee's draft guidelines offer recommendations on how they should be treated by regulators based on the activities they are engaged in, and the size of their balance sheets.

Salient recommendations include, that may bring operational freedom to smaller NBFCs and also regulate larger NBFCs that may have a systemic risk impact.

Asset Classification & Provisioning norms- The NPA provisioning norms will be made similar to banks in a phased out manner. 120 days norm shall be applied from 1st April, 2014 to 31st March, 2015 and thereafter 90 days. Further, the provisioning for standard assets from 0.25% to 0.40% of the outstanding amount w.e.f. March 31, 2014 for all NBFCs.

Enhancing Tier I capital & Wider disclosure norms

If accepted, this may pave the path to better regulation and growth for an industry segment that has ensured entrepreneurship amongst segments of society that were for decades deprived.

NBFC for inclusive growth

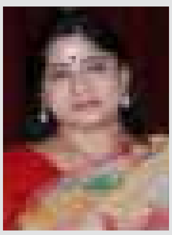
By reaching out to the poorer segments of society NBFCs can be serving the principle of 'financial inclusion' –They have reduced the influence of traditional lenders by offering a fair and legitimate funding channel to individuals and small businesses in addition to increasing access bank funding. Their aptitude to assess and manage risk has also delivered the last mile connectivity in the financing process.

It is disturbing to know that fleet of people are entering for micro-finance to earn the money. It has to be a low cost model & only the people with passion in their heart should venture for this. Here the ticket size is very low & the profits minimal. The operation of the MFI should be done on the regional level with the support of the local people by the use of local language. It won't be out of place to mention that Shree Kshetra Dharamsthala Rural Development Project (SKDRDP), Trust, has been doing a marvelous service to the humanity.

Micro Finance Institutions are uniquely positioned to facilitate financial inclusion and provide financial services to relatively poorer and vulnerable sections

While credit flow to most sectors slowed down in recent years, fund flows to the farm sector remained largely unaffected, can be attributed to supplementary role of NBFCs to that of the Banking system.

It is apparent that NBFCs have played a very vital role in the economy. They have been at the forefront of catering to the financial needs and creating livelihood sources of the so- called un-bankable masses in the rural and semi-urban areas. Through strong linkage at the grassroots level, they have created a medium of reach and communication and are very effectively serving this segment. There is certainly an economic role that the NBFCs are to fulfill.



Archana S Bhargava

Executive Director

Canara Bank

Ms Archana S Bhargava is the Executive Director of Canara Bank since 1/4/2011. A topper in school and college – both for graduation and PG. She was the recipient of National Science Talent Scholarship and UGC Scholarship for 5 years. She has had an illustrious career with PNB which she joined as a Management Trainee and worked in various positions, including credit and an international stint in UK. She was instrumental in drafting the VISION 2013 document. She has won awards and also a recipient of cash incentive under GoI Cash Incentive Scheme for meritorious performance for successive years. She was associated with Shri P L Tandon – Management Guru – in compilation of a book on 'History of Banking' and participated in several global seminars and conferences. She has widely traveled to USA, Europe, South Africa, Middle and Far East. At Canara, her portfolio, amongst others, Large Corporate and International Banking, Priority Credit and Financial Inclusion, Financial Management and Subsidiaries, Risk Management. She has a special passion for social banking

Role of NBFCs in promoting inclusive growth

Mr. Suman Chowdhury, *Director - Financial Sector Ratings*
CRISIL Limited

Introduction

Non-banking financial companies (NBFCs) have an important role to fulfill in the Indian financial sector. The segment is a heterogeneous group of companies catering to individuals, small businesses, and corporate clients. Reserve Bank of India (RBI) classifies NBFCs into multiple categories, including asset finance, micro-finance, loan and investment companies, and infrastructure finance companies. For this article, we focus on retail NBFCs and highlight their role in catering to the unbanked borrower category.

Financial inclusion is the process of ensuring the access of weaker sections of society and low-income groups to appropriate financial products and services at an affordable cost in a fair and transparent manner. Financial inclusion has become one of the most critical aspects in India today in the context of broad-based, inclusive growth, employment generation and social development.

Banks' efforts towards financial inclusion need to be supported by NBFCs

The banking sector in India has been making efforts to enhance financial inclusion with the active guidance of, and support from, Government of India and the RBI. Numerous initiatives of the RBI over the years, such as the nationalisation of banks, priority sector lending requirements, lead bank scheme, establishment of regional rural banks, service area

The penetration of formal financial services is still far lower than the desired level. A significant proportion of the households, especially in rural areas, remain outside the coverage of the formal banking system approach, and the self-help group-bank linkage programme, have increased the access of the poorer segments of society to the banking system. The branch network of banks in India has increased significantly to more than 89,000 as of 2012 from around 8,000 in 1969.

However, the penetration of formal financial services is still far lower than the desired level. A significant proportion of the households, especially in rural areas, remain outside the coverage of the formal banking system. It is estimated that about 40 per cent of Indians lack access even to the simplest formal financial services. The major barriers to serve the weaker sections, apart from socioeconomic factors such as lack of regular income, poverty, and illiteracy, are the lack of reach, higher cost of transactions and time taken to provide services. Products designed by banks are often not tailored to suit the needs of low-income families.

It is in this context that the role of NBFCs in the financial sector needs to be analysed. CRISIL believes that retail NBFCs can play a significant role in supporting and complementing the financial inclusion efforts of the banking sector. NBFCs' customer profile typically includes self-employed individuals and small businesses who contribute towards sustainable and broad-based growth of the Indian economy.

NBFCs continue to sustain healthy growth in retail finance

The NBFC sector has already emerged as a strong financial intermediary in the retail finance space. The sector has witnessed a compound annual growth rate (CAGR) of 28 per cent in assets under management over 2009-10 (refers to financial year, April 1 to March 31) to 2012-13 (E) and is likely to sustain such healthy growth over the medium term.

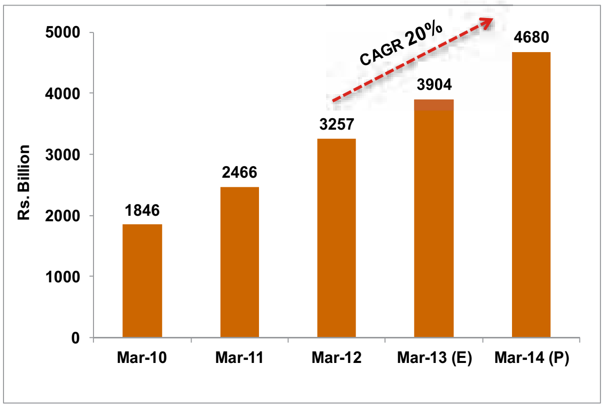
NBFCs have built up a significant presence across retail asset classes and borrower segments. The segment has a market share of over 70 per cent in the commercial vehicle (CV) financing segment (excluding unorganised sources of finance). The continuing structural shift in the CV industry towards lighter and smaller vehicles, coupled along with the steady expansion in the used CV segment, has enabled retail NBFCs to maintain a strong position in this segment. The borrowers in these segments are largely small truck operators with no significant access to banking services.

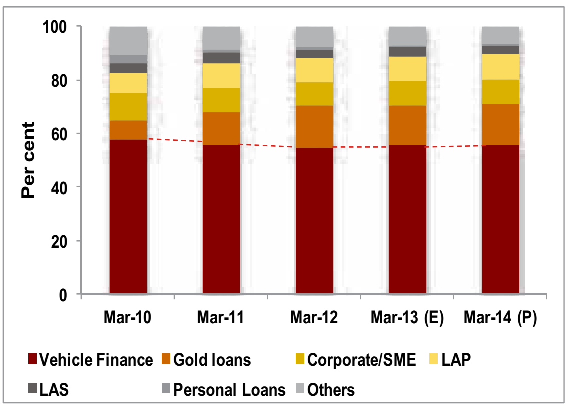
One of the key drivers of growth for retail NBFCs has been the steady expansion in the gold loan and the loan against property (LAP) segment. In the gold loan segment, NBFCs' borrowers are typically those with smaller incomes looking to bridge their short-term cash mismatches. The borrowers in the LAP segment are usually small business owners looking at financing their business by leveraging their existing property. These small businesses generate employment and are, therefore, important for broad-based inclusive growth and economic development of the country.

CRISIL believes that the major retail NBFCs have strengthened their underwriting and collection systems after the delinquency pressures they witnessed over the two years ended 2008-09

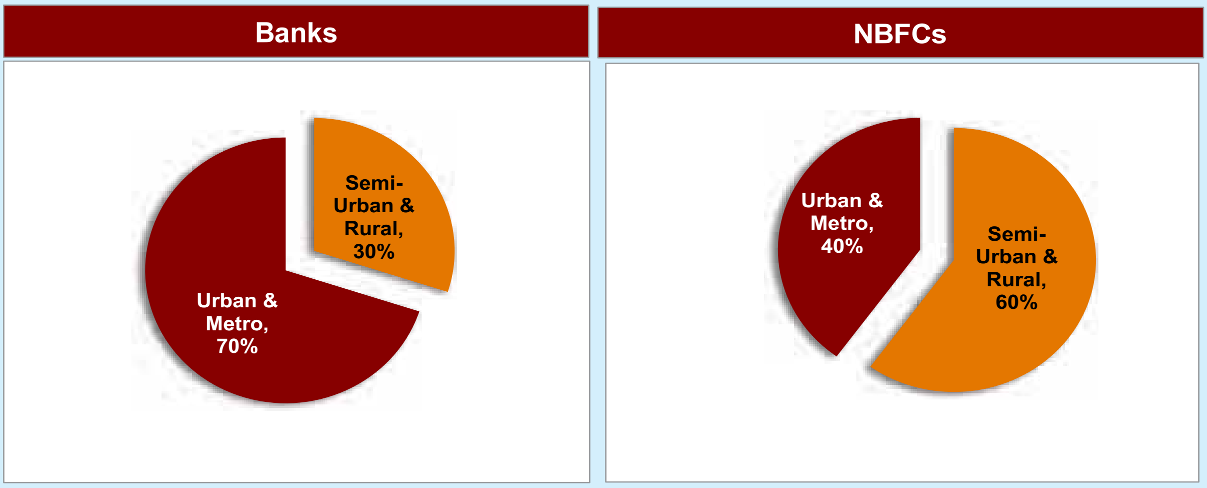
In CRISIL's view, high penetration in semi-urban and rural areas, product and process innovation, and continued focus on core businesses, continue to be the key enablers of steady growth and competitive positioning of NBFCs in retail finance.

In CRISIL's view, the core strengths of NBFCs lie in their sizeable presence in semi-urban and rural areas (Tier III and below locations) and their strong





Retail finance business of NBFCs- Key growth enablers



understanding of regional dynamics, which enables them to build strong customer relationships. This, coupled with product innovation and superior product delivery, has enabled NBFCs to enhance their competitive positioning in those markets. Retail NBFCs have strengthened their presence in the semi-urban and rural areas where retail finance penetration is low; 60 per cent of their business accrues from these areas. While banks, especially public sector banks, have a significant presence in these areas, they have remained largely focussed on mobilising retail liabilities.

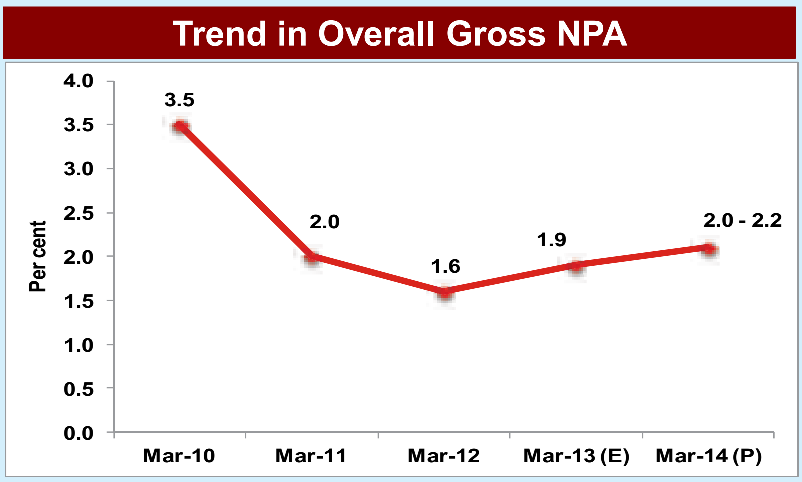
Given their deeper understanding of customer needs, NBFCs continue to focus on product innovation and customising product offerings. This helps NBFCs maintain their niche positioning and gives them an edge over banks. A classic example of product innovation is the building of the organised market in used-vehicle financing, a segment largely untouched by banks. Similarly, NBFCs have built a scalable business model in gold financing, despite banks' longstanding presence in this segment. An example of customisation is the structuring of monthly installments while accounting for seasonality of cash flows, in the case of construction equipment loans. Similarly, in the case of gold loans and LAP, NBFCs provide superior delivery by optimising turnaround time on loan disbursals.

Clearly, a significant factor in the growth seen in NBFCs is a gradual substitution of the credit typically extended by the unorganised sector, thereby contributing to the financial inclusion agenda.

The asset quality of NBFCs has improved steadily after the significant deterioration witnessed between 2007-08 and 2009-10. Losses in retail unsecured loans had led to a spurt in NPAs during this period. Gross NPAs in the sector has steadily declined to 1.6 per cent as on March 31, 2012 from 3.7 per cent as on March 31, 2009. The improvement has been driven by a structural shift in asset composition through transition towards secured asset classes, improved asset quality monitoring mechanisms, and a favourable business environment.

CRISIL believes that the major retail NBFCs have strengthened their underwriting and collection systems after the delinquency pressures they witnessed over the two years ended 2008-09. While a continued weak macro-environment may impact

NBFCs have strengthened their processes and systems to manage intrinsic risks in borrowers' credit profiles



repayment capability in a few asset classes, including CVs, over the medium term, asset quality, unlike in the earlier period, is likely to remain resilient.

Some of the key steps taken by NBFCs to strengthen the risk management systems and processes are as follows:

Origination and Underwriting:

- Lower reliance on the direct sales associate (DSA) channel for sourcing
- Confirmation of credit history from Credit Information Bureau of India Limited (CIBIL) data, wherever applicable
- Existing customers as guarantors for existing customers
- Credit appraisal process in-house
- Focus on understanding the business and cash flows of the borrower
- Rigorous process for asset valuation and validation

Collection and portfolio monitoring

- Setting up of large field-based collection teams which maintain direct contact with borrowers
- Pro-active monitoring of the delinquency buckets by the management team
- Placing the responsibility of initial collections on the sales team
- Establishing separate collection verticals for separate delinquency buckets

Retail NBFCs primarily cater to borrowers whose credit profiles are intrinsically vulnerable. However, they have been able to mitigate such borrower level risks, as demonstrated by their track record in these asset classes. A better understanding of the borrower segments and their businesses have enabled the NBFCs to align their systems and processes with borrower behaviour and facilitated a sustainable growth in several retail asset classes.

Regulatory framework to ensure stability and continuing origination of priority sector loans by NBFCs

While retail NBFCs continue to have good growth potential, the sector is expected to face certain challenges as it makes the transition to the next growth phase. The regulatory framework for NBFCs is being gradually tightened, so as to align them with those for the banking sector. While NBFCs would need to realign their business model with the evolving regulations, better clarity on the regulatory framework would provide comfort to the stakeholders and strengthen the sector in the long term.

As per CRISIL estimates, 18 per cent of NBFCs' AUM was securitised or assigned as on March 31, 2012, most of which was subscribed by banks. While a substantial portion of the securitised transactions comprised commercial vehicle (CV) pools, newer product segments such as loan against property and SME loans are also being increasingly securitised. This is primarily because assets originated by NBFCs are eligible to be classified under priority sector lending, given their borrower profiles, thereby assisting banks in fulfilling their priority sector commitments as per RBI regulations. The quantum of such securitisation volumes, however, had seen a decline in 2011-12 due to uncertainties regarding the revised securitisation and priority sector guidelines. The finalisation of these revised guidelines in 2012-13 has helped to resume priority sector loan buy-outs by the banks, primarily through the pass through certificate (PTC) route.

Diversity of resource profile a key requirement for sustainable growth in NBFCs

Ensuring availability of adequate debt funding at competitive costs is a key challenge for NBFCs. While bank lending is expected to continue as a major source of funding for the sector, exposure constraints may restrict banks from increasing their exposures to the sector in a sustainable manner. The banks' exposure to the NBFC sector has increased to nearly 5 per cent of advances as of March 2012 from 2.2 per cent as of March 2005. In order to maintain their growth, NBFCs will, therefore, have to look to diversify their resource profile and tap alternate sources in the market such as the debt markets.

Conclusion

CRISIL believes that NBFCs have gradually emerged from the banks' shadow, and established a strong and independent identity in the retail finance space over the past five years. Retail NBFCs will maintain their steady growth trajectory, backed by their ability to innovate, reach out to under-served customers in semi-urban and rural geographies, and resilience to economic cycles. While a tightening regulatory framework will test the ability of NBFCs to realign their business models and resource raising challenges would need to be addressed, CRISIL believes that NBFCs will continue to constitute a critical financial intermediary in the Indian retail finance space with a strong mandate to facilitate inclusive growth.

Suman Chowdhury
Director - Financial Sector Ratings
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Suman Chowdhury joined CRISIL in 2008 and is presently responsible for financial sector ratings. In this role, he leads a team of analysts, that rates large corporates across the financial sector. This includes banks, non-bank finance companies, housing finance companies, financial institutions and capital market entities.

His key responsibilities also include lending future direction on credit quality through research articles and opinions. Suman has overall experience spanning 15 years in credit ratings, risk and research.

Previously, he was Deputy General Manager, Credit Risk group at ICICI Bank, where he handled the corporate credit risk portfolio for clients across sectors such as infrastructure, construction, cement, engineering, capital goods, telecom, media, information technology and chemicals.

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Role of NBFC's in promoting inclusive growth

Mr. Thampy Kurian, *Additional General Manager & All India Head, Agricultural & Financial Inclusion Dept, Federal Bank*

As Mahatma Gandhi said the test of every public policy decision or innovation should be "how is this going to benefit the less privileged people in the country". Role of Banks and NBFC's in promoting inclusive growth should also be viewed against this message. Indian economy has been witnessing high rates of growth in the last few years. Financing requirements have also risen commensurate with the momentum and will continue to increase in order to support and sustain the tremendous economic growth. NBFCs have been playing a complementary role to the other financial institutions including banks in meeting the funding needs of the economy. They help to fill the gaps in the availability of financial services that otherwise occur in bank-dominated financial system. The gaps are in regards to the product as well as customer and geographical segments. NBFCs over the years have been playing a significant role catering to the financial needs and creating livelihood sources to the unbanked masses in the rural and semi-urban areas. Through strong linkage at the grass roots level, they have created their own market segment and continue to grow along with commercial banks. Thus, NBFCs have all the key attributes to enable the government and regulator to achieve

NBFCs have been playing a complementary role to the other financial institutions including banks in meeting the funding needs of the economy the mission of financial inclusion in the given time. NBFCs have scored many in the areas of granular reach and credit delivery to the bottom of customer pyramid. NBFC's constitute almost 66% of the microfinance (MF) sector and covered 50% of rural unbanked areas. The customer base covered by NBFC's are expected to reach 50 million people by 2013 growing at a CAGR of 43% with an expected loan portfolio of 6 bUSD. (Source: Recent report on microfinance by Intellecap, a research firm specializing in microfinance). Role play of NBFC in financial inclusion plans has been more important in the above circumstances.

NBFCs are powered by factors like flexibility, timeliness in meeting credit needs and low operating cost. Over a period of time, these NBFCs evolved into a heterogeneous group of institutions that performed financial intermediation in a variety of ways like accepting deposits, making loans and advances, leasing, hire purchase, etc. They are leaders in financial product innovation. They are also successful in maintaining a favourable risk and reward ratio.

NBFC's play an important role in developing small business in rural India through local presence and strong personalized customer relationships. Usually the loan officers in such NBFC's know the end customer or have a strong 'informal' understanding of the credibility of the borrower and are able to structure their loans appropriately. With the next wave of growth in India expected to come from the semi-rural and rural sector, the unique access of NBFC's to these sector puts them in a great position to benefit from this growth. As evidence of their attractiveness, Goldman Sachs bought a 20% stake in Sriram Credit for 75 mUSD in Q1 2008. Foreign Institutional Investors ('FII') are also setting up their own NBFC's in India to offer corporate banking and private banking operations.

Role of NBFC in Financial Inclusion

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development. The importance of an inclusive financial system is widely recognized in policy circles and has become a policy priority in many countries. Several countries across the globe now look at financial inclusion as the means to more comprehensive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress. NBFCs have been competing with and complementing the services of commercial banks for a long time. Initially intended to cater to the needs of small savers and investors, NBFCs have turned into institutions at par with banks. However, NBFCs are distinct from banks as their regulation and supervision is much lower as compared to banks. For instance, in the matter of CRR/SLR, Deposit insurance coverage and refinance facilities from the RBI. NBFC has taken a sandwich position and stands in between commercial Banks and money lenders. NBFCs charge interest lesser than of money lenders but higher than commercial banks. They normally concentrate on short term loans especially gold loans. They adopt a differential interest regime in which rate of interest will be lesser in the initial month and after that rate of interest charged will be very high. Due to their close relationship with the clients, unofficial attitude, lesser formalities and quick service NBFCs earn good reputation in the rural folks and burden of interest rate is normally neglected by customers. They also undertake fund transfer services and travel assistance, share trading etc. along with normal function.

There is a huge need for credit in the rural sector in India. Agenda of Financial Inclusion has been pushing forward by RBI and Govt. of India aggressively to reach out banking facilities to unbanked areas. Roughly 245 million people do not have a bank account. This includes small and marginal farmers, landless labourers, micro entrepreneurs in the rural and semi-urban areas. In order to curb the menace of diversion of subsidy and to ensure reaching the subsidy to real beneficiaries, govt. has decided to route all subsidy through bank accounts and the process has already been started. In the process of educating the rural masses on basic banking habits, govt. also intended to save them from the clutches of money lenders.

Summing up

Large number of NBFCs carrying on diverse businesses poses regulatory challenge given their growing size. Regulations have to be suited to diverse aspects of various businesses and strengthened to increase the trust and transparency in the sector. There is, however, a strong perception that there may be in the country a large number of unregistered and therefore unregulated NBFCs in urban as well as rural geographies, which is difficult to be estimated. Therefore, the regulatory and supervision mechanism for the NBFC sector need to be widened and strengthened. Regulator should take appropriate steps to include NBFCs to all Financial Inclusion programmes as a statutory norm and create an environment so that Banks and NBFCs can co-exist stabilised economy.

Thampy Kurian
Additional General Manager & All India Head
Agricultural & Financial Inclusion Dept
Federal Bank

Joined Federal Bank in 1976. After having basic branch experience, took role play in HR Dept looking after transfer, promotion and recruitment for about 10 years. Then, had 12 years of experience in the field as Branch Head. After this, headed Kolhapur Region, just after taking over of Ganesh Bank of Kurundwad by Federal Bank. Next assignment was at Large Corporate Advance Dept at Mumbai.

Presently heading Agrcultural & Financial Inclusion Dept.

Role of NBFCs in promoting inclusive growth

Mr. Bindu Ananth, *President, IFMR*

Policy thrust has been strongly dis-incentivising banks from partnering with NBFCs, and instead, has been continuing to nudge banks to open their own branches and originate assets through their own staff and agents

India has a checkered history when it comes to access to financial services. While major strides have been accomplished in expanding the size of the financial sector, we have not covered credible ground in terms of access to financial services for individuals, households and enterprises. All efforts in the past have relied almost entirely on banks, namely commercial banks, cooperative banks and regional rural banks as the torch-bearers for creating access, and have overwhelmingly interpreted access to mean access to a bank account in order to save, as well as access to a cheap source of credit in order to avoid usury in the hands of the local money lender. While bank-led credit intermediation was channelled under the aegis of priority sector lending schemes where a mandatory lending target of 40% of net bank credit has been in place for over three decades, this has achievedonly mixed results, with grave concerns regarding the quality of assets. Only 51%[1] of the Indian population has bank accounts, and the limited uptake of investment, pension and insurance products leaves much to be desired.

It is in this backdrop that the late

[1] Basic Statistical Returns of Scheduled Commercial Banks in India-Volume 40 and Census Data 2011

1990s and 2000s witnessed the growth of specialised non-bank financial companies (NBFC). These NBFCs can be broadly divided into three categories based on the functions they performed: (a) large and medium-sized NBFCs such as IDFC focused on serving the needs of theinfrastructure sector; (b) medium and small-sized NBFCs focussedon specialised assets such as two-wheelers and jewel loans in urbanareas and tractors in rural areas; and (c) a relatively new category of NBFCs, typically microfinance institutions (NBFC-MFI), focused on servinglow-income households. Most of these institutions have relied on the banking channel for wholesale funding, which they then on-lent to their specific consumer segments. Besides banks, a few NBFCs have also successfully tapped capital markets for their funding needs; the emergence ofasset backed securitisation (ABS) transactions has allowed specialised NBFCs to receive funding based on the underlying asset qualityand credit ratings. ABS has been instrumental in supplying assets to the banking system, and has established itself as a credible solution for both banks in search of such assets, and NBFCs in search of much-needed funds. It is noteworthy that the growth rates and asset quality ofthese NBFCs have typically been robust - this is largely due to proximity to thecustomer and specialised origination practices.

However, policy thrust has been strongly dis-incentivising banks from partnering with NBFCs, and instead, has been continuing to nudge banks to open their own branches and originate assets through their own staff and agents (despite well-known operating challenges and serious issues with asset quality). A case in point is the restrictions in place that prevent NBFCs from becoming Business Correspondents to banks. Also pertinent in this regard is the rule that prevents NBFCs from offering gold loans at loan-to-value more than 60%, while allowing banks to do the same. We believe that banks and NBFCs must be seen as carrying out complementary roles, rather than be considered as entities in conflict with each other:

1. **Role in financial inclusion:** To begin with, NBFCs reach out to customers that have traditionally been outside the formal banking system. NBFCs that have developed extensive reach to unbanked consumers, but provide their services through staff sourced and trained from local talent. While ensuring that this brings in local intelligence and insight, it also provides a tremendous cost advantage - local talent from the village or semi-urban area will be available at pay scales lower than comparable human resources in larger, big city banks, as well as non-local human resources that are staffed to manage rural branches of large banks. Their local presence close to customers enables NBFCs to deliver financial services that respond to felt customer needs and also better monitor their portfolios. In view of these distinct features, NBFCs can be a powerful channel to drive financial inclusion in India.
2. **Benefits of a bank–NBFC origination model:** Non-deposit taking NBFCs are almost entirely reliant on the bank market for wholesale funds and therefore are effectively natural extensions of commercial banks, even for credit. The role of large commercial banks, given their size and capitalisation, can be seen as "aggregators" responsible for managing large credit portfolios that are in turn originated by several specialised NBFC originators who are de-facto, closer to the customer. Once approached from this viewpoint, the complementarity between the bank and the NBFC-MFI is strong. If NBFCs can be seen as natural intermediaries between banks and unbanked populations, then the bank can decide which NBFCs it wants to engage with through an internal process of due diligence, as well as through first loss default guarantees provided by the NBFCs.
3. **Containing systemic risk in NBFCs:** A common concern raised against the recognition of NBFCs' role as an important intermediary for financial inclusion is a fear that NBFCs lack many 'safety' features that are in place for banks such as CRR, SLR or deposit insurance. However, it must be pointed out that these are non-deposit taking NBFCs and therefore are not permitted to access public deposits - this is a very important

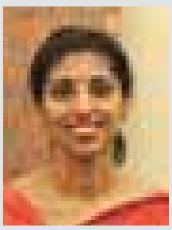
Transaction cost for a loan ofRs. 10,000		
Model	**Minimum CRAR**	**Transaction Cost[2]**
Public Sector Bank - Central Bank of India[3]	9%	32.37%
Private Sector Bank - ICICI Bank	9%	21.56%
NBFC-MFI	15%	8.74%

design feature from a systemic stability viewpoint because these institutions are inherently riskier with local concentration features. In the absence of public deposits, NBFCs depend on banks and the capital markets for their wholesale funding, and these institutions now have the right incentives to regulate NBFCs – i.e. to ensure that the NBFCs are well run in order to lend to them. In addition, there are prudential norms for capital and governance laid out by the RBI (such as the CRAR requirement of 15% for non-deposit taking NBFCs), which provide useful benchmarks for further quality assessment of NBFCs by investors.NBFCs canthus be the innovators and risk takers that cushion banks from credit losses and costs arising from newer businesses, through their additional capital and their lower-cost delivery structure.

While micro-prudential regulations can be used to strengthen the role that NBFCs can play, there is a need for a uniform consumer protection regulation for all financial services provision, irrespective of whether it is undertaken by banks, NBFCs or any other institutional forms. Such a universal consumer protection law will ensure that consumer welfare is given utmost regard to irrespective of the nature of financial intermediation.

2 Transaction Cost as a % of loan size

3 Rangarajan Committee studied five branches of The Central Bank of India and estimated that the transaction cost total as per cent of loans up to Rs.25000 for the five branches range from 12.26% to 14.21% and the average transaction cost works out to 12.95%. The transaction cost for advances up to Rs.10000 was not available. In order to make comparison between the different models, we have approximated this figure for Central Bank of India, using figures available on ICICI for Rs 25000 as well as Rs.10000 Loans. The report estimates that for a loan size of Rs.25000, the transaction cost comes to 8.62% for ICICI Bank, whereas for loan of Rs.10000, it is higher at 21.56% (2.5 times the figure for the Rs.25000 loan). Using the same ratio for Central Bank on India, we have arrived at the figure of 32.37% (2.5 times 12.95%) as the transaction cost for advances up to Rs.10000 for Central Bank of India.



Bindu Ananth
President, IFMR

Bindu Ananth is currently the President of IFMR Trust and has held that position since January 2008. In this capacity, she also chairs the Boards of all investee companies of IFMR Trust. Prior to this, Bindu worked in ICICI Bank's microfinance team between 2001 and 2005 and was head of the new product development team within the Rural Banking Group in 2007.

She has an under-graduate degree in Economics from Madras University and Masters Degrees from the Institute of Rural Management (IRMA) and Harvard University's John. F. Kennedy School of Government. She is a Fellow of the Global Economic Society.

Bindu has published in the Economic and Political Weekly, OECD Trade Paper Series and the Small Enterprise Development Journal. She is also a member of the FICCI taskforce on financial inclusion.

Missing Links in India's Microfinance Debates

Mr. V.P. Nandakumar, *MD & CEO, Manappuram Finance Ltd. & Promoter Director, Equitas Microfinance India Pvt. Ltd.*

India's Micro Finance Institutions (MFIs) continue to reel under the body blows inflicted in Andhra Pradesh during 2011. With the imposition of a cap on their lending rates, and a political establishment largely indifferent to their plight, their future is bleak. It is true that a lot has been said and written about it lately, nevertheless, powerful arguments in support of the microfinance model have been left unsaid.

Financial inclusion at zero cost

For social and economic policies to work, they need to be rooted in prevailing realities. A vision of an ideal world, howsoever compelling, is not an adequate foundation. Today, large sections of the people, particularly in rural areas, are excluded from the organised financial sector and continue to be dependent on local moneylenders. When MFIs expand their business, the people

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who typically come into their fold are those who either have no access to credit, or those who were dependent on local moneylenders at a high cost.

By extending the reach of the organised financial sector to the hitherto "unbankable" sections of society, MFIs perform a vital service to the economy. What is more, they do it at little or no cost to the exchequer. Before the industry was laid low by the troubles, it was reported that India's MFIs had provided finance to 20 million poor people long denied access to regular bank funds. A similar effort at financial inclusion driven by the government would necessarily involve a huge subsidy element and would still be unattractive to commercial banks given their high costs and low rates of recovery (as the record with government sponsored schemes shows). Putting it bluntly, what the MFIs promised to save for the country is all the money that will now form part of the next write-off cycle (or perhaps the next loan-waiver announcement).

The multiplier effect

That the microfinance model holds potential to transform the development process is something we have not grasped fully. It arises from the multiplier effect of the higher loan repayment rates. When recovery rates are close to 100 percent, it implies that a given level of a developmental activity can be financed year after year, with only the initial capital outlay, and without need for replenishment.

In contrast, in a model where recovery rates are low, say 50 percent, half the funds are lost in each cycle of disbursement. This lost portion is necessarily to be made good year after year from the taxpayers' funds. And each time it happens, we deny resources to other vital sectors, like infrastructure, education or health. As an exercise in development, it is inherently contradictory because success in improving the lives of its target group is conditional upon resources being continuously drained away from the rest of the productive economy. Over decades, the cumulative, compounded cost to the economy is crippling. The price is paid in the form of depressed growth which then feeds into itself to become a vicious circle. It's no wonder that India is still stuck in the low-income band when, over the last 60 years, we should have graduated to the middle-income group.

Abnormal profits are normal

The economist Schumpeter pointed out that technological innovation often creates temporary monopolies, allowing firms to make abnormal profits for a time. However, with the rise of rivals and imitators, these abnormal profits vanish. Schumpeter was convinced that temporary monopolies were necessary in order to provide the incentives needed to develop new products and processes. Microfinance is actually an example of an outstanding innovation that had pulled up recovery rates in this business unbelievably close to 100 percent. The correct policy response was not to cap their earnings (and tighten the screws on innovation) but to have focused on creating a level-playing field with better regulation and by encouraging competition and new entrants.

Interest rates not "too high"

When compared to the commercial banks, the interest rates charged by MFIs appeared very high. However, as pointed out often enough, to the person on the ground this comparison has little meaning. The apt comparison is not with the commercial banks to which they lack access, but with the local moneylenders on whom

they depend even today. Besides, for small ticket and short tenure loans, what counts is the interest paid in absolute terms, not the annualised percentage thereof.

As the noted columnist Swaminathan A. Aiyer points out [Don't cap Microfinance lending rates, Economic Times, September 22, 2010], "A vegetable vendor borrows Rs 300 to buy vegetables wholesale, selling these for Rs 450. Even if he pays 100% per year interest on his loan of Rs 300, it amounts to just 90 paise/day, a negligible portion of his profits." Here is another perspective to this every day example. A simple calculation shows that the vendor earns a staggering 50 percent return every day, amounting to an annualised return of 1500 percent assuming 300 working days. Surely, when an activity fetches 1500 percent returns, an interest rate of even 100 percent cannot be the crushing burden it's made out to be.

Had the MFIs been allowed to flourish, it's likely that their borrowers too would have gained in stature over the years with loans of increasing ticket sizes, less stringent supervision requirements, and more spaced out repayments. At this point, it would have become worthwhile for the banks to step in. Does it seem far-fetched? Well, few would remember these days that when cell phones came to India, we paid as much as Rs.16 per minute of airtime. Had the government stepped in with an early cap on calling rates, India's telecom revolution would have ended even before it began.

Profits in MFIs are good

The outbreak of prejudice against MFIs had much to do with the successful IPO of SKS Microfinance and the exceptional valuations it commanded. Under the glare of media scrutiny, it was revealed that some of the larger MFIs were making extraordinary profits. Opinion makers were quick to point a finger at high interest rates as the source of these profits. In the context of India's continuing love affair with egalitarianism, it did not take long for the impression to gain currency that poor people were being ruthlessly exploited.

Ironically, the fact that profits were made was actually the best news to come out of this activity. MFIs are not allowed to raise deposits from the public. At the same time, capital requirements are stringent. When profits are made and retained, they can attract further investment which gives them the ability to scale up, expand reach and bring more of the poor into their fold. With low levels of profits, fresh investments would not be forthcoming and growth is stunted.

There is another perspective to this issue of excessive profits. Large MFIs operate with high levels of transparency where transactions are routed through the books. As these MFIs expand their reach, they displace the unorganised sector and effectively push back the frontiers of the parallel economy. This is a vital service to the economy whose major beneficiary is the government. For instance, SKS Microfinance reported a PBT of Rs.267.7 crores in FY 2010, a third of which was transferred to the government as income tax (Rs.92.9 crores). In other words, the government earned close to a hundred crore rupees from some of the poorest people of India. If there are moral qualms about earning profits from the poor, surely the logical starting point would be a mechanism to refund this amount to the borrowers. A back of the envelope calculation shows that effective interest rates would straightaway have come down by between two and three percentage points had the income tax paid by

SKS Microfinance (in FY 2010) been refunded to its borrowers through an interest subvention.

Suicides in perspective

The reported suicides among microfinance borrowers were disturbing indeed. There's no doubt that questionable practices followed by recovery agents had aggravated matters and there was a crying need for a code of conduct enforced by a regulator with teeth. At the same time, suicides may also have to be considered in the context of the average suicide rate for the population segment as a whole. After all, the larger MFIs had a huge membership base. SKS Microfinance, for instance, had about seventy lakh members at one time. Assuming an average rate of suicide of 20 per 100,000 of population, about 1400 borrowers would likely have committed suicide even without any extra distress attributable to the actions of the microfinance lender. Incidentally, the suicide rate in Kerala has occasionally nudged 30 per 100,000 of population.

Unnecessary duplication

MFIs have acquired a core competency in sub-prime lending. Importantly, their loan recovery rates and overall profitability had established that the business model was sustainable. Under these circumstances, it was in the interests of the commercial banks to piggyback on the infrastructure created by the MFIs even if the borrower ends up paying a higher interest rate. The higher cost to the borrower is more than made up by timely availability and ease of access. Moreover, as discussed above, the rate of interest expressed as an annualised percentage is not the overriding consideration it's made out to be.

There is no doubt that the MFIs had profited by laying hands on cheaper funds from the banks under the priority sector lending route. But this was as much a favour to the banks that are otherwise under compulsion to deploy their own resources into micro lending. Without the ability to match the cost structures and recovery rates of MFIs, it is bound to be a loss-making proposition for banks.

The reason why the microfinance model works better in the recovery of loans to the poor is that incentives and disincentives inherent in the model serve to instil a sense of responsibility in the beneficiaries

The struggle ahead

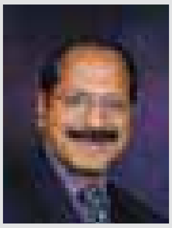
One of India's early failures was that having arrived at misplaced notions about the incompatibility of private economic activity with the public good, we went ahead and imposed artificial curbs on the private sector, even as the public sector was yet to prove adequate to the challenge. Likewise, curbing the MFIs cannot be a good first step when the experience with the commercial banks shows that they are not up to this challenge.

The reason why the microfinance model works better in the recovery of loans to the poor is that incentives and disincentives inherent in the model serve to instil a sense of responsibility in the beneficiaries. Without responsibility, even the best of intentions are undone. It is a human failing that commercial banks are up against when they get into microfinance-or any other concessional credit schemes for the poor-on their own account. Under pressure, the physical targets are met, but the eventual outcome is inferior for everyone concerned.

Today, as things stand, the greater setback is not the cap of 26 percent on maximum lending rates but the additional stipulation capping the margin rate at 10 percent for the larger MFIs. (For MFIs with loan portfolios below Rs. 100 crore, it is capped at 12 percent.) The margin rate is the difference between the rate at which MFIs borrow from the banks and the rate at which they lend. A cap defined in these terms has the perverse impact of denying due competitive advantage to the efficiently run MFIs that succeed in lowering their borrowing cost. Moreover, after accounting for the 6 to 7 percent of non-interest operating expenses, added to which is capital adequacy, bad debts and income tax, the return on assets is meagre and holds no encouragement to potential investors.

All this is not to gloss over the abuses that have taken place, or to deny that microfinance in India was anyway due for a course correction. But, it is also evident that the manner in which events in AP were allowed to get out of hand amounts to a spectacular own goal. Recent media reports from the state speak of moneylenders getting back to business with a bang now that the MFIs have been silenced. Had the situation been handled with a little more finesse, the interests of microfinance borrowers could have been protected without having to wreck the industry. Sadly, that was not to be and the baby was thrown out with the bathwater. We are now faced with an uphill struggle ahead.

Mr. V.P. Nandakumar is MD & CEO of Manappuram Finance Ltd. and a promoter director of Equitas Microfinance India Pvt. Ltd., Chennai. The views are personal.



V P Nandakumar
Managing Director and CEO
Manappuram Finance Ltd.

Shri V.P. Nandakumar is the Managing Director and CEO of Manappuram Finance Ltd. based at Valapad (Thrissur District), Kerala.

Manappuram Finance Ltd. is India's first listed and first credit-rated gold loan company. It was also the first corporate entity in India to make an entry into the gold loan business. Manappuram's origins go back to 1949 when it was founded in Valapad by his father V.C. Padmanabhan. Its activity was mainly money lending carried out on a modest scale. Shri Nandakumar took over the reins of this single Branch business in the year 1986 when his father expired.

Since then, it has been a story of unparalleled growth and Shri Nandakumar's leadership has been instrumental in scripting the story. Manappuram Finance Ltd. was incorporated in 1992 and in a short span of time it became the first NBFC from Kerala to get a Certificate of Registration issued by the Reserve Bank of India; one of the very first NBFCs from Kerala to go for a public issue; the first NBFC from Kerala to issue bonus shares in the ratio 1:1 in 2007, the first Kerala based NBFC to receive Foreign Institutional Investment (in 2007), and to obtain the highest short term credit rating of A1+ from ICRA and P1+ from CRISIL.

Today, thanks to his vision and drive, and the team of professionals he has assembled around him, Manappuram Finance Ltd. is a pan-India presence with about 3,200 branches across 26 Indian states and UTs, and more than 21,000 employees on its rolls. The company has Assets under Management (AUM) of about Rs.11,000 crores.

Shri V.P. Nandakumar was born in 1954 and holds a post graduate degree in science with additional qualifications in Banking and Foreign Trade. He is a recipient of many awards and recognitions.

NBFC-MFI: The Beacon of Financial Inclusion

Mr. Alok Prasad, *Chief Executive Officer, Microfinance Institutions Network (MFIN)*

In the history of Inclusive Banking, 2006 was a milestone year. For the first time ever, the Reserve Bank of India (RBI) defined the term 'Financial Inclusion'. This definition described financial inclusion as the process of ensuring access to appropriate financial products and services needed by "all" sections of society in general and vulnerable groups such as "weaker sections and low income groups" in particular at an "affordable cost" in a "fair and transparent manner", by mainstream institutional players.

What may have prompted the RBI to take this 'definitional' step will remain a matter of some speculation. Nonetheless, what is clear is that since the 1950s, a number of public policy initiatives were taken by the RBI and the Government of India (GoI) to take banking to the masses. Starting with the push given to the State Bank of India and its subsidiaries in the late 1950s for opening rural branches; development of the co-operative banking structure; the historic nationalisation of banks in 1969; building up a cadre of Bank Officers devoted to Rural Banking; the Lead Bank Scheme; creation of RRB's; priority sector lending (PSL) norms; service area approach; Self Help Groups, Business Correspondents; all have been measures designed to promote what we now call financial inclusion. Yet, 45 per cent of Indians do not have access to deposit accounts and 81 per cent do not have credit accounts. Moreover, there is only one bank branch per 14,000 people across

India's multi-tier financial architecture includes over ~12,000 NBFCs, an extensive institutional framework, contributing to more than 10% of the assets of the total financial system the proverbial 6 lakh villages where "Bharat Lives". And, rural branches of scheduled commercial banks (SCBs), including RRBs number just over 33,000.

India's multi-tier financial architecture includes over ~12,000 NBFCs, an extensive institutional framework, contributing to more than 10% of the assets of the total financial system. This set of institutions offer a wide spectrum of products and services ranging from productive microcredit loans, financing vehicles, hire purchase solutions, emergency personal loans, working capital loans, consumer loans, mortgages, loans against securities to investment advisory and distribution of financial products, etc. In terms of their scale and outreach, NBFCs have earned a unique position in India's financial system by not only offering healthy competition but complementing the services of Scheduled Commercial Banks (SCBs) as dedicated intermediaries for providing financial products and services.

A section of NBFC's are focussed on providing appropriate, inclusive financial products and services, to "all" sections of the society in general and vulnerable groups such as "weaker sections and low income groups" in particular at an "affordable cost" in a "fair and transparent manner" These NBFC's are named Microfinance Institutions (MFIs). Earlier MFIs were broadly regulated under the general Directions as applicable to all NBFCs. However, in Dec, 2011, the RBI announced the creation of a new category of institutions called NBFC-MFIs. The Directions issued by the RBI on 2nd Dec, 2011, have put in place a regulatory framework which takes into account the special role and characteristics of this class of institutions. The NBFC-MFIs are committed to promoting financial inclusion in alignment with policy agenda of the regulator and the GoI. With a strong focus and capability of reaching out to the 'bottom of the pyramid' (BOP) segments, they increasingly see themselves as integral to the national financial architecture. They also see themselves as critical players for delivery of financial products/services to the un-served and under-served members of society.

MFIs do not focus only on extending loans but also provide livelihood support services. Alongside, financial literacy is woven into the client relationship which allows them to get more empowered

Operating across the country's length and breadth; providing a key financial link to the poorest sections of the population not yet covered by the banking system; the NBFC- MFIs have, over the past decade, created a rural branch network of about 10, 000 branches across 517 of the 653 districts with over 30 million clients - of whom over 90 % are women. As per RBI's Handbook of Statistics, FY 2011, the outstanding loans of SHGs plus MFIs collectively formed 1.47% of bank credit and 4.34% of priority sector loans. And, over 22 % of all small borrower accounts are with MFIs which is higher than the number of such accounts with SCBs or RRBs. Statistically or otherwise, it is impossible to deny that microfinance sector is a significant component of the financial architecture of India. NBFC-MFIs have found a niche and transformed what mainstream financial institutions deem an obligation into a viable and scalable business leveraging the troika of opportunity, innovation, and enterprise.

NBFC-MFIs have ultra-low operations cost, productivity and efficiency as three of their core competitive advantages. MFIN, the industry association for NBFC-MFIs estimates that the average staff cost for MFIs is sub Rs 1 lakh per annum, compared to over Rs 5 lakh per annum for an entry level bank officer. MFIs, at their peak, employed around 100,000 loan officers, none of them with fancy and expensive degrees but "matric pass" village youth trained extensively on the skill set required for delivery of doorstep financial services. MFIs focus on volume and not value. An average MFI loan officer caters to about four hundred woman clients at their doorstep, typically on a weekly basis. It's a little known fact, but MFIs are today a major employment generator in rural India.

MFIs do not deploy expensive legacy information technology systems but use interoperable open source management information systems effectively leveraged by wireless handhelds, including mobiles. Over the past 24 months, MFIN has facilitated the creation of the first ever RBI approved dedicated credit bureau aimed at improving credit risk management and adherence to the qualifying asset criteria laid by the RBI. Over 75 million loan accounts for over 30 million borrowers are now on the databases of two credit bureaus. And, this has been achieved in a space of about 18 months, an achievement unparalleled, globally.

Over 90% clientele of MFIs is women constituting daily wage earners, seasonal earners, and the multi-tasking self–employed housewife. MFIs provide an alternate, affordable, doorstep source of credit at rates prescribed by the RBI. The borrowers use microloans for a variety of income generation activities like animal husbandry, handicrafts, microenterprises, etc.

MFIs do not focus only on extending loans but also provide livelihood support services. Alongside, financial literacy is woven into the client relationship which allows them to get more empowered.

However, many critics have not welcomed the notion of poor paying for credit when loan waivers and subsidies are the norm. On 16th October 2010, with one deadly stroke, the Andhra Pradesh Government attempted to derail India's microfinance sector by the promulgation of the Andhra Pradesh Micro Finance Institutions (Regulation of Money lending) Act, 2010 which in the opinion of several legal luminaries is ultra-vires the Constitution. The RBI position as articulated in the affidavit filed in the Andhra Pradesh High Court is clear and forthright. The following extracts from the RBI affidavit are noteworthy:

- "NBFCs being regulated simultaneously by the RBI and State Government will result in dual regulation thereby adversely affecting the functioning of the NBFC-MFIs and the interest of the public,"
- "In case of NBFCs, the RBI has exclusive power to regulate and supervise them. The provisions of the impugned Act are ultra vires the constitution of India so far as it deals with NBFCs
- "Since the MFIs which are not registered under the impugned Act (AP MFI Act), cannot recover the loans granted by them, it would adversely affect the financial conditions of RBI-regulated NBFC MFIs".

The Andhra Pradesh Micro Finance Institutions (Regulation of Money lending) Act 2010 brought MFI activity to the proverbial screeching halt. Repayments dropped from 98%+ to around 5%. Half a dozen MFIs were admitted into corporate debt restructuring program. Debt and equity flows to the sector reduced to a trickle. Independent surveys by respected research bodies provide interesting revelations. Some of key conclusions have been that clients were happy with MFIs and in absence of MFIs they have had to go back to the money lenders; and over 90% of the clientele is keen to repay if MFIs begin servicing their villages again.......and so on.

MFIs are adapting to the above challenge, endorsing transparency measures, diversifying portfolios across states, embracing technology, leveraging the credit bureau and lowering their cost of operations even further.

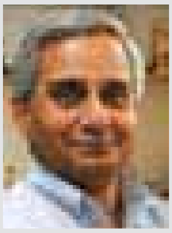
A comprehensive MFIN study done over a three month period for three financial years FY09-12 gives valuable pointers to where the sector is headed. Non AP based MFIs have succeeded in containing the impact of AP crisis and are focused on scaling up. AP MFIs which faced an existential crisis are now showing definite signs on overcoming the same. Non-AP MFIs, without or very limited exposure to AP, grew their portfolio by 25% with improved efficiency and financial performance. Medium and Large non-AP MFIs increased by 34% and 45% respectively with share of non-AP MFIs in the industry's total client base has increased from 31% to 45%. The industry which was precariously concentrated in South India has diversified. Non-AP MFIs now have over 50% share in the portfolio - which was only 27% in FY 09-10. In terms of disbursements, non-AP MFIs contributed to 68% of the total disbursements last year. The Industry now has much larger spread across regions in states of Tamil Nadu, Karnataka, West Bengal, Orissa, Maharashtra, MP, Gujarat, Uttar Pradesh and Bihar. The portfolio quality minus Andhra Pradesh MFI portfolio remains healthy with PAR 30 sub 2%. About 33% of MFIN members conducted off-balance sheet transaction, compared to only 6% in FY 09 – 10. Both equity and debt funding to the sector has resumed and the flow is gradually strengthening.

Microfinance Institutions Network (MFIN) is modelled as a Self-Regulatory Organization for the Microfinance Institutions (NBFC-MFIs) – constitutionally, structurally and functionally with its Bye-Laws stating: "To act as a self-regulatory organization for the microfinance sector and to regulate the business of microfinance as carried on by its members". As the CEO of MFIN, I feel strongly that the industry has weathered the storm well and is now poised for the next phase of growth.

The "Approach to the Twelfth Five Year Plan (2012-17)" mentions the role of MFIs in Financing Private Investment as constituents of the financial system capable of mobilizing household savings and allocating them efficiently to meet the equity and debt needs of the fast expanding private corporate sector. It further mentions (2.20) revitalization of the micro finance and other innovative financial institutions for playing a role in the growth of fixed capital. The Report of Reserve Bank of India (FY 2011) mentions that access to financial products is constrained by several factors which include: lack of awareness about the financial products, unaffordable products, high transaction costs, and products which are inconvenient, inflexible, not customized and of low quality. Microfinance and financial literacy play pivotal roles in addressing these issues.

The Microfinance Institutions (Development & Regulation) Bill 2012 is currently under examination of the Standing Committee on Finance of Parliament. This Bill provides a comprehensive legal framework of regulation for the microfinance industry. It makes the RBI as the overarching regulator for all categories of MFIs – and not just the NBFC-MFIs. It also provides for National, State level and District level Advisory Councils so as to ensure that all stakeholders have a role in the development of the sector. The early enactment of a national Microfinance law will lead to the orderly growth of this critical industry and protect it from unwarranted local level interference.

NBFC-MFIs do not claim to remove poverty. But, they do have a good claim to bringing affordable financial access to the unbanked and under-banked 650 million Indians.



Alok Prasad
CEO- Chief Executive Officer
Micro Finance Institutions Network (MFIN)

Microfinance Institutions Network (MFIN) is the primary representative body and the Self-Regulatory Organization (SRO) for the Reserve Bank of India (RBI) regulated NBFC-Microfinance Institutions NBFC-MFIs. The Association currently has a membership of 47 NBFC MFIs which, on an aggregate basis, constitute over 90% of the microfinance business in India (excluding SHGs). MFIN's primary objective is to work towards the robust development of microfinance sector, by promoting responsible lending, client protection, good governance and a supportive regulatory environment.

Mr. Alok Prasad is a veteran banker with over 30 years of both public and private sector banking and financial services experience. He was formerly the Country Director of Citi Microfinance Group (India) and the Head of Strategy, Business Development for the Global Consumer Group Citibank India. Prior to joining Citibank Mr. Prasad served with distinction in the RBI for over 15 years across various departments of the Bank. He was also a member of the start-up team of the National Housing Bank, a statutory body wholly owned by RBI, where he played a pivotal role in the formulation of policies for the development of the housing finance sector in India. Mr. Prasad, recently, served on the Committee set up by the Ministry of Finance, Government of India, for drafting of the Micro Finance Bill for India.

Role of NBFC in Inclusive Growth

Mr. Ashish Kumar Roy
Chief General Manager, Rural Business, State Bank of India

Inclusiveness, they say brings overall participation and promotes a cohesive turnaround. In simple words, inclusive growth signifies that all segments of population are reaping the rewards of overall growth, which is reflected in improvement in quality of life across all sections of population. While India continues to be among the world's fastest growing economies, it faces a big challenge as how to provide an enabling institutional structure which could take care of the financial needs of small savers, investors and also cater to the credit requirements of excluded population.

The commercial banks have played a key role in our country to promote inclusion within the framework provided by regulators and Government. Undoubtedly, a strong and effective regulation has been a key strength of our banking system, which largely remained unaffected during the sub-prime crisis world over. Over the years, NBFCs have also found a competing space along with the commercial banks. Unlike commercial banks, NBFCs have thrived on account of somewhat lax and multiple regulators thereby providing them more freedom to fix their commercials to charge to their customers.

This apart, a very important factor which has worked in favor of NBFCs is their close contact with the people and simple ways of responding to customers' requirements. The banks are generally known to be over-zealous on KYC norms and they insist on maximum possible documentary evidence to support their papers

NBFCs have thrived on account of somewhat lax and multiple regulators thereby providing them more freedom to fix their commercials to charge to their customers

and loan documentation. However, NBFCs have a flexible system of operating and most excluded people find an easy access to loans from NBFCs. Most of the asset financing NBFCs has captured the market on account of their market intelligence, simple and spot sanction of loans with a minimum of paper work. A large chunk of excluded population, which depends heavily on unorganized and non-institutional sources of finance, becomes a soft target for such NBFCs. The key driver for such segment of population is availability of micro finance irrespective of cost. And, interestingly, neither the provider not the taker of loans is complaining.

NBFCs have also played a major role to boost road transport sector by providing finance for acquisition of trucks, transport vehicles, tractors, etc. mostly in rural and semi-urban centres. These avenues have also provided self-employment to a large number of rural population. The retail managed credit portfolio of NBFCs stood at Rs 2.96 lac crore at the end of March 2012, which was distributed across commercial vehicles (29%), gold loans (17%), mortgage loans (16%), construction equipment (10%), cars (15%), unsecured loans (8%) and tractor loans (3%). And, gross NPAs for the NBFC industry stood at 1.56% at the end of the previous financial year.

In our country, there are huge opportunities for institutions that can promote inclusive growth by providing last mile connectivity. NBFCs though active in various parts of the country, need to learn fast from their past experiences and present a transparent image before the society. Reports of some NBFCs duping innocent investors and indulging in foul play, tend to distort the image of MFI network. Such entities have done more harm and raised concerns about their role, and efficacy of their financial model. This has led to a tightening of regulations to curb malpractices adopted by NBFCs and bring more transparency in the system.

There is still a big question mark over the customers' charging model adopted by NBFCs in particular context to Andhra Pradesh where MFIs were reportedly resorting to unfair, harsh and coercive measures to enforce recovery of their exorbitantly priced loans provided to the poor and unprivileged section of society. The consequences of Andhra Microfinance Act were bound to be tough and many MFIs had to curtail their operations. Post Andhra, a slew of measures were announced and the most important being the new category of NBFC-MFI coming into play. The client base of MFIs as on 31st March 2012 was 26 million and their total portfolio around Rs 21000 crore.

Recently, RBI has vide circular dated Feb 18, 2013 has issued fresh guidelines on the procedure for redressal of grievance against NBFCs which requires all NBFCs to display at all their branches/offices from where they are doing business, the details of the grievance redressal officer belonging to their company. In Dec 12, RBI has come out with proposed regulations on NBFCs which provides for extensive corporate governance controls on NBFCs, particularly for large NBFCs, raises Capital adequacy requirement to 12% Tier 1 capital in case of captive NBFCs and "sensitive asset" NBFCs, higher risk weights for capital market and CRE exposures, and increased provision for standard assets.

The purpose of RBI tightening regulations is to curb the fly-by-night operators. The regulations on NBFC MFIs have brought in better compliance level and self-regulation mechanism. The better the regulation – more transparent will be the functioning of the entities. Therefore, NBFCs need to rise to the expectations of not only the regulator but also the public at large in order to generate a close bonding with the people. These entities have the capacity and capability to handle clientele provided their functional units at the grass root level display fairness and avoid misselling of financial services. The regulated entities are now more sure about their role and the expectation of the regulator, and, therefore, they can work more freely within the ambit of regulatory framework.

In our country, there are NBFCs, which have encompassed a huge client base through community participation initiatives. Their activities involve a mix of charitable and transformation agenda which connects with the people at large and encourages higher participation at all levels. The level of inclusion is very high among the community and it sustains for a long tenure provided sufficient doses of livelihood programs are included. Micro-lending has to move from mere consumption to livelihood and income generation avenues, as otherwise real transformation cannot take place. Undoubtedly, the availability and adequacy of credit is must for improving living standards of unprivileged population but it is not the sole component for growth to happen. The improvement in health, sanitation, child education, nutrition, etc, is a combination of factors which ultimately brings empowerment of people.

The all-inclusive growth horizon has enough space to accommodate all healthy players in the financial arena of the country. Their role and importance becomes all the more vital when one considers the limitations of the Government and the traditional financial sector in delivering on this count. Indeed, there is a strong opinion that because of their contribution to the economy, the NBFCs should enjoy the same enablers that a financial institution at the other end of the spectrum, enjoys.

The all-inclusive growth horizon has enough space to accommodate all healthy players in the financial arena of the country

Ashish K Roy
Chief General Manager
(Rural Business)
State Bank of India

Mr. Roy, currently posted as Chief General Manager Rural Business with State Bank Of India joined the bank as Probationary Officer on 18.10.1976. He is a B. Com Graduate and also has a C.A.I.I.B degree (Certified Associate of the Indian Institute of Bankers). A career banker, having more than 3 decades of banking experience, Shri Roy has held important assignments in the bank. He was also deputed by the bank to the OECD countries for advanced training in agriculture.

He is a member of several committees set up by DFS and RBI, in the areas of Agriculture, Priority Sector lending, and Financial Inclusion. His responsibility includes looking after the Bank's agriculture portfolio serviced through a network of 9,700 rural and semi-urban branches spread over 14 Circles of the Bank and taking forward SBI's Financial Inclusion initiatives through a technology-enabled channel of 34,000 Customer Service Points (CSPs) of the Bank's Business Correspondents across the country.

Under his leadership the bank has won many awards some of which are The Skoch "Financial Inclusion Award 2013 for best Kiosk Banking Model, Financial Express Award for initiative in Financial Inclusion 2013, Agriculture Leadership Award 2012 from Agriculture Today under Development Leadership category., Ministry of Rural Development, GOI, awarded " Certificate of Excellence" for Bank' s proactive role in establishing Rural Self Employment Training Institutes across the country during the year 2011- 12, "Best IT driven Innovation Award in Banking" in the country from NASSCOM, awarded to APGVB, RRB sponsored by SBI and PMEGP Award for outstanding performance at National Level for 2011- 12.

Criticality of NBFCs in India's infrastructure creation

Mr. Hemant Kanoria, *CMD - Srei Infrastructure Finance Ltd.*

At this juncture to restart the growth engine in our country, emphasis must be on stimulating domestic demand and scaling up the productive capacity of the economy. This dual objective can only be achieved by expediting infrastructure creation. Carrying capacity of India's infrastructure has reached a saturation point. This calls for capacity creation and infrastructure investments to the tune of USD 200 billion are envisaged annually over the next 5 years. PPP has emerged as a dominant trend in India's infrastructure creation process and 50% of the investment is expected to come from the private sector.

In India, financing of infrastructure has been predominantly done by commercial banks. But banks' ability to take exposure in infrastructure is limited as the y are constrained by sectoral caps and also there are problems due to asset-liability mismatch as bank deposits are typically short-term while infrastructure needs long term resources. NBFCs, especially the Asset Finance Companies (NBFC-AFCs) and Infrastructure Finance Companies (NBFC-IFCs), play a critical role in supplementing and complementing banks' efforts. India's infrastructure sector has numerous micro, small and medium enterprises (MSMEs) to whom big project developers sub-contract work like construction, transportation, etc. Such MSMEs constitute the backbone of the India Growth Story. Unfortunately,

NBFCs, especially the Asset Finance Companies (NBFC-AFCs) and Infrastructure Finance Companies (NBFC-IFCs), play a critical role in supplementing and complementing banks' efforts a significant section of such MSMEs continues to remain outside the purview of the banking system, mostly due to their small profiles and many of them being scattered in remotest corners of the country where banking service is unavailable. It is the NBFCs who bridge this gap by catering to the finance needs of such MSMEs. Thus, apart from contributing to the process of infrastructure creation, NBFCs are also promoting 'financial inclusion'.

Despite this, NBFCs have to operate within very stringent regulations and are at a clear disadvantage vis-à-vis banks while carrying out their functions. It is imperative to provide these NBFCs a playing field with the banks.

RBI had constituted a special committee under former RBI Deputy Governor Smt. Usha Thorat to look into the operational and regulatory parameters of NBFCs. This committee came out with a report against which industry had provided feedback. After taking into consideration the industry feedback, RBI came out with proposed guidelines for NBFCs in December 2012.

It has been proposed that NBFCs be brought under similar guidelines which govern banks. However, there is need for thorough debate and discussion between government and industry before we proceed towards adopting such guidelines. I feel that the proposed guidelines can severely impede NBFC operations. There has to be some degree on parity between NBFCs and banks before they are all covered under similar guidelines. At least the following issues deserve attention :

(I) Nil TDS

Section 194A of the Income Tax Act provides for TDS at the rate of 10% on payment of interest (excluding interest on securities) to a resident. Sub-section 3 of Sec. 194A provides for non-applicability of Sec. 194A in some cases which includes banking companies to which Banking Regulation Act applies. However, such exemption has not been extended to NBFCs. Resultantly, in contrast to the nil TDS rate enjoyed by banks on their interest receipts, NBFCs' interest receipts are subject to a TDS rate of 10%. Though NBFCs have the option to apply for a lower withholding certificate under Sec. 197 of the I. T. Act, practically it becomes difficult to obtain this certificate given the huge number of customers (in many cases in thousands).

The interest component of loan EMIs receivable to NBFCs is also subject to TDS. In addition, in an ever-dynamic growing business scenario, it is practically impossible to predict the volume and number of new customers and collect details regarding name,

NBFCs have to operate within very stringent regulations and are at a clear disadvantage vis-à-vis banks while carrying out their functions

addresses, exposure, TAN, etc. of the customers. Therefore, extensive paper work and administration coupled with huge collection costs involved in the issue of large number of certificates, filing quarterly returns, etc. make the entire TDS collection quite costly. Also many a times, the TDS estimated for advance tax computations actually turns out to be much lower than what is actually deducted by the customers, resulting in refund claims. Getting refund can often become a time-consuming affair.

It is therefore logical to extend the benefit of 'Nil TDS' to NBFC-AFCs and NBFC-IFCs as well under Sec. 194A.

(II) Coverage under SARFAESI Act

Banks and FIs have been notified under the Act, giving them the ability to move against defaulting borrowers and secure their assets. Subsequently, specified housing finance companies (HFCs) have also been notified under the Act. But NBFCs have not been notified under this Act.

In order to protect the interest of investors, NBFCs should be brought within the purview of the SARFAESI Act. As per the Act, RBI can do this by way of a notification.

(III) Tax provisions pertaining to NPA deduction

Although NBFCs are also regulated by the RBI just like banks and other

FIs, the Income Tax laws treat NBFCs differently, insofar as provisioning for NPAs, bad and doubtful debts are concerned.

(a) Under section 36(1)(viia) of Income Tax Act, only the banks and FIs enjoy deduction on provisions for bad and doubtful debt. A deduction of 7.5% of gross total income is allowed as expenses for banks, if provision for bad and doubtful debts is made as per RBI directions, and for FIs the figure is 5%. Interestingly, even the foreign banks are allowed the benefits under this section of I. T. Act, but the NBFCs are excluded.

In absence of specific inclusion of NBFCs in Sec. 36(1)(viia) of I. T. Act, "provision for NPA" made in terms of RBI prudential norms does not constitute an expense for purposes of I. T. Act. So entire provisioning as per RBI prudential norms is disallowed for purposes of computing taxable income of NBFCs. Thus, NBFCs are subjected to higher taxation compared to banks and other FIs and are at a clear disadvantage.

Such discriminations between NBFCs and banks must be eliminated. This inconsistency may be resolved by including NBFCs also in Sec. 36(1)(viia) of I. T. Act so that the benefits are also extended to NBFC-AFCs and NBFC-IFCs. The same is already in the proposed Direct Tax Code (DTC) 2010.

(b) Banks, PFIs and publicly listed companies are allowed deductions in income tax up to a certain percentage of their reserves. Since entities like NBFC-IFCs and NBFC-AFCs are contributing to the process of infrastructure creation like the banks, they should also be allowed this benefit even if they are unlisted.

(c) Provisions under sections 115JA and 115JB of the I. T. Act were amended with retrospective effect starting from AY 1998-99 and 2001-02 respectively. With the amendments, any diminution in value of an asset should be added to the 'Book Profit' for calculation of MAT.

The impact of this change is particularly severe on NBFCs as provisions made for bad-debts/ non-performing assets (NPAs) are added to the 'Book Profit', that too from the AY 1998-99. Not only does this mean re-opening of assessment of the previous years, but also a possible Income Tax demand on account of the loans which NBFCs might not recover. Simply put, this implies further income tax liabilities on lost assets. This has put the fiscal health of NBFCs under pressure, and may lead to extinction of some NBFCs.

Certainly this would not have been the intent of Finance Ministry as :-

- The budget memorandum intended to impose MAT only on the items 'below the profit line' like deferred tax provisions, dividend distribution tax, etc.
- Further, for the NBFCs, the provision for NPAs is not merely a provision for unascertained liability, but is an administrative expense, which is a charge on the Profit & Loss.

This may be resolved by suitably amending the explanations to sections 115JA and 115JB of the I. T. Act, to exclude "all provisions made on account of NPAs / bad and doubtful debts".

Apart from the above-mentioned points, it has been proposed that non-deposit taking NBFCs will qualify for registration if and when its financial assets aggregate a minimum of Rs. 25 crore and constitute 75% and above of its total assets and financial constitutes 75% or above of its total income. This step actually proposes to take a chunk of the smaller NBFCs outside the regulatory purview of RBI. This is a hugely retrograde step, because without registrations such small NBFCs would virtually become untouchables. It has to be kept in mind that these small NBFCs are catering to the financial needs of those segments of the population who still remain outside the coverage of the banking system. This would go against government's philosophy of 'inclusive growth' and financial inclusion will be heavily compromised. The growth of MSMEs will be scuttled and this, in turn, will adversely impact economic growth. Even worse, this will provide a fillip to the culture of usurious moneylenders which will only increase the agony of the unbanked segments. Ideally, non-deposit taking NBFCs of any size should be allowed to get registered and they should abide by all rules and regulations.

Presently NBFCs need to maintain CRAR of 15% and the Tier I component is 7.5% (for NBFC-AFCs) and 10% for NBFC-IFCs. While the proposed guidelines call for increase in Tier I capital for select cases, I feel at least for NBFC-AFCs and NBFC-IFCs it is important to maintain status quo. As it is, NBFCs' access to funds is limited vis-à-vis banks, thus their ability to leverage should not be curtailed.

As regards source of funds, NBFCs depend to a large extent on external commercial borrowings (ECB). ECBs are long-term funds available at competitive rates and NBFCs on-lend these funds to meet the finance needs of MSMEs. However, the access to ECB is subject to certain restrictive clauses. While recently the ECB window has been eased to some extent, there is still further scope for relaxation. NBFC-AFCs in particular are subject to the following restrictions :

(i) Restriction on usage of ECB funds only for financing imported equipment for use in infrastructure projects by NBFC-AFCs

The infrastructure & construction equipment (ICE) industry in India is growing, so is the number of domestic ICE players. Even several foreign ICE players are also setting up manufacturing bases in India. However, as per present conditions NBFC-AFCs are allowed to utilize ECB funds only on imported ICE. This makes little sense in the current circumstances. There is a strong case for allowing NBFC-AFCs to utilize ECB for financing of domestically manufactured equipment as this would provide a strong fillip to this industry.

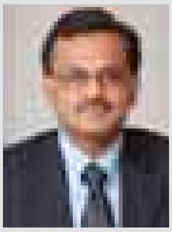
(ii) NBFCs are allowed to access ECB through the approval route

While other corporates are allowed to access ECB under the automatic route, NBFCs are allowed to access ECB only through the approval route. Keeping in mind the high cost of domestic funds and the urgency to create infrastructure assets, NBFCs, especially NBFC-AFCs and NBFC-IFCs, should be allowed to access ECB under the automatic route.

(iii) ECA credit be allowed to NBFC-AFCs without average maturity conditionality

As per existing FEMA guidelines, average maturity for ECB accessed by NBFCs is stipulated at 5 years, whereas in most cases the average maturity of ECA-backed assets like infrastructure equipment works out to be less than 5 years. Therefore, government should encourage NBFC-AFCs to access ECB under the OECD consensus (which determines average maturity period as per the type of asset).

Before I conclude, I would like to touch upon the issue of new bank licenses which generated a lot of buzz. When banking licenses were given by the RBI to private players about 16 years ago, while the majority failed to put up a modest show, there were a few outstanding success stories too. The ones which succeeded, say for example HDFC Bank, were able to do so because they were able to identify what the then existing domestic and foreign banks were not doing well or not doing at all, and accordingly gear up to roll out those services and do those better than the others. Thus, they were able to identify a niche for themselves and create new business segments which eventually became crowded due to their success. India is today at a juncture where scaling up of infrastructure financing and expansion of financial inclusion are two urgent needs. In this backdrop, a bank aspirant which can play a positive role in financing of infrastructure, especially rural infrastructure, may be able to curve out a niche for itself. Now that the bank license guidelines are out, I feel that NBFC-AFCs and NBFC-IFCs, which meet the eligibility criteria, are perhaps ideal candidates for new bank license.



Hemant Kanoria

Chairman & Managing Director
Srei Infrastructure Finance Ltd.

Mr. Hemant Kanoria is the Chairman and Managing Director of Srei Infrastructure Finance Ltd. Beginning as an equipment financing company in 1989, Srei has expanded into a holistic infrastructure institution offering a wide spectrum of infrastructure products and services ranging from financing of infrastructure equipment and projects, project advisory, fund management, investment banking and project development & management.

Srei's shares are listed on all major stock exchanges in India and also in London. Srei's equipment financing business is through a joint venture with BNP Paribas, one of the largest global banks. Srei's telecom tower infrastructure business, world's largest independent telecom tower company, is a joint venture with the reputed Tata Group of India. Srei Sahaj, the largest rural IT infrastructure company with over 24,000 centres catering to around 300 million people, provides various B2C and G2C services including e-learning courses. With an employee-strength of about 8,000 in the group today, it has assets under management worth more than USD 6 billion.

Mr. Kanoria has held the position of Chairman of FICCI National Committee on Infrastructure and is presently Council Member of Indo-German Chamber of Commerce. He has been on the Board of Governors of Indian Institute of Management (IIM) - Kolkata, was a Member of Regional Direct Taxes Advisory Committee, Government of India and had served as President of Calcutta Chamber of Commerce.

Role of NBFCs in promoting inclusive growth

Mr. S C Kalia, *Former Executive Director, Union Bank of India*

It is acknowledged by all & sundry that sustainable model of development is feasible only through Inclusive growth. It is in this context that Government Of India has accorded top most priority to the agenda of Inclusive growth & Financial Inclusion. Inclusive growth does not only imply the benefits of growth being distributed equally & evenly; it is participation of all sections & regions of society in the growth story & their reaping the benefits of the growth.

Non-Banking Financial Companies (NBFCs) through its presence in rural & semi urban areas have emerged as important player in promoting the agenda of inclusive growth in the dynamic Indian financial market by reaching out to populace in un-banked/under-banked areas.

- Currently, the RBI classifies NBFCs into 7 categories as following:
- Asset finance company (AFC)
- Investment company (IC)
- Loan company (LC)
- Infrastructure finance companies (IFC)
- Core investment companies (CIC)
- Infrastructure debt fund–Non-banking finance company (IDF-NBFC)
- Non-banking finance company–Micro finance institution (NBFC-MFI)

Inclusive growth does not only imply the benefits of growth being distributed equally & evenly; it is participation of all sections & regions of society in the growth story & their reaping the benefits of the growth

As per Report of the Key Advisory Group on the Non-Banking Finance Companies (2012), NBFCs have grown substantially and are rendering valuable services to the un-banked and under-banked population of the country. Even RBI appointed Thorat Committee has lauded the role of NBFCs in the economic growth of the country. NBFCs have been innovators in financial services, designing products and services customized to the needs of the target customers. In addition they have created a suitable operational structure to make the business models viable. They have helped expand the financial services markets to the interiors of the country and newer products and services.

According to the RBI Working Group (Chairman: KUB Rao), at a time when financial inclusion is a major policy goal, the services rendered by the gold loans NBFCs, which are a part of the organised loan market are contributing in a reasonable measure to cater to the borrowing requirements of a needy section of the society.

Advantages of NBFCs:

In the context of Inclusive growth, NBFCs have distinctive advantages like

- Coverage of far-flung areas
- Easy and convenient mode of delivery, even at the doorstep and at intervals convenient to the borrower which makes it more attractive than the formal sector.
- More convenient collection of loans according to cash-flow of borrower compared to rigid system in commercial banks
- Vast knowledge about customer preferences and priorities in rural and semi-urban areas. As a result, they design customised products which fulfills almost all needs of the target group. Thus operating model of NBFCs is considered as perfect for catering to the needs of select segments.

Brief Background

NBFCs serve that part of the India where the financial services have limited access and banks are far behind in rendering these services due to profitability constraint, high risk associated and inability of poor borrowers to provide physical collateral for raising loans. Therefore, as a facilitator, it has the potential to fill the critical gap left by formal financial institutions in providing financial services to low income groups.

NBFCs also played a very useful role in funding India's economic growth. In many ways, they have been leaders in financial product innovation and have played an effective role in funding economic growth, especially in terms of meeting financing needs of the under-served and un-bankable class, small enterprises and rural segments of society. Product innovation while maintaining asset quality is a special strength of NBFCs, which gives them a competitive edge.

Functioning of NBFCs:

NBFCs have been operating various businesses under sound economics. Many businesses started by the sector have later been taken up by banks and become regular banking services. For instance, car financing, which was started by NBFCs has now become one of the larger revenue streams for banks. The NBFCs themselves have now moved on to financing second-hand cars. Other businesses, namely, infrastructure finance, asset finance, hire purchase and, in the recent past, microfinance have been the major areas of operations for NBFCs. Additionally, NBFCs play a supportive role in the economy and also in financial inclusion and therefore need to be encouraged.

How the NBFCs can contribute in inclusive growth?

Inclusive growth, in today's era, is imperative for sustainable development. In the current scenario, maintaining high growth is only solution for creating gainful employment opportunities and which reduces poverty. In other words, growth should be inclusive. However, for achieving Inclusive growth, one has to attain the Financial Inclusion where each person can access the basic financial services and thus contribute to the overall growth. These two terms are inter-connected. Unfortunately, India ranks low in the Index of Financial Inclusion[1] (India holds 27th rank in the sample size of 54 nations). Therefore, policy focus should be on the attaining higher financial inclusion which will further boost the agenda of Inclusive Growth.

[1] Index of Financial Inclusion- Mandira Sarma (June 2008)

Role of NBFCs in Inclusive Growth

Some of the economic roles played by NBFCs are:

a. Serving unbanked segments: NBFCs have traditionally focused on customer segments which were not served by banks like micro, small and medium enterprises (MSMEs), funding of commercial vehicles including old vehicles, farm equipments viz. tracking, harvesters, etc. loan against shares, funding of plant and machinery; etc.

b. Specialization: NBFCs typically are specialized vehicles –both in terms of products and the geographies in which they operate. This specialization provides them a unique framework to assess the risk in the undertaken business. A much closer market awareness provides them the ability to rate borrowers, monitor them, price the relative credit suitably and effect recoveries from them.

c. Exclusive Service: NBFCs also provide credit for certain sectors which are not served by banks and Financial Institutions because Banks/FIs do not have adequate market relationships and infrastructure for the same. Traditionally, these sectors were financed entirely by the unorganized financiers at exorbitant high interest rates. In the last 10-12 years, with their retail strength, NBFCs have rendered significant service by extending credit to these sectors. Now banks and other financial institutions are availing of the reach and expertise of NBFCs for employing funds in these sectors through NBFCs. Some of these sectors are:

- Used Trucks
- Used passenger vehicles
- Consumer durable loans
- Personal Loans
- Funding to the Small & Medium Enterprises (SME Sector) which do not have access to institutionalized funding, etc.

d. Strong understanding of customer segments and ability to deliver customized products: The ability of NBFCs to generate innovative products in line with needs of their clients is well recognized. This gives the NBFCs distinct advantage in banking sector. In a short period of time, NBFCs have become market leaders in most of the retail finance segments like commercial vehicles, car financing and personal loans, etc. In the last decade or so, the Indian retail finance markets have seen several new products being developed and introduced by NBFCs. The following are some cases in point - Used vehicle financing, small ticket personal loans (ST-PL), Three-wheeler financing, Loan against shares, Promoter funding, Public issue financing (IPO financing) and Finance for tyres and fuel.

e. Employment Creation: The NBFCs also engaged in financing physical assets and resultant creation of a large number of jobs - which supports and strengthens economic activities across sectors, and play a critical role as an effective instruments of credit delivery particularly in the small and retail sectors of the economy.

Drawbacks

- This sector constitutes higher systemic risk due to heavy dependence on public funds which amounts to approximately 58% of all funding to the sector.
- The rate of interest charged by the NBFCs depends upon the cost of funds, cost of delivery and payment, cost of purchasing bad debts and cost of margins. For economic viability and sustainable growth, they need to charge interest rate covering these costs. Various studies conducted on this aspect indicate that NBFCs normally charge higher interest rate for their sustenance.

Conclusion

- Given the important role played by NBFCs as innovators, serving un-banked and under-banked geographies and customer segments and services not provided by banks, and generation of employment, etc., it is imperative that the growth and development of the sector be accorded some degree of priority. With adequate regulatory oversight of systemically important NBFCs, implementation of prudential norms, regular reporting and monitoring, etc., NBFCs may be looked at playing a larger part in the financial services sector. In the long run, such regulatory framework will ensure orderly growth and reduces uncertainty.
- On the asset liability front, lower cost of borrowing and thus

minimal interest rates can be achieved through identification of innovative techniques. The cost of delivery and collection of payment, which forms a major component of cost, can be reduced substantially by using the Common Service Centres, which can be shared by other agencies also. The sector should make all attempts to reduce the rate of interest by means of efficiency enhancing innovations with the aid of technology.

- In short, NBFCs have to continuously reinvent themselves in order to continue to play an important & pivotal role in promoting agenda of Inclusive growth & Financial Inclusion going forward.

NBFCs may be looked at playing a larger part in the financial services sector

S C Kalia
Former, Executive Director
Union Bank of India

Mr. Kalia has been a career Banker for nearly four decades. A Gold medalist Post Graduate in Political Science, Mr. Kalia joined Bank of Baroda in 1973 and worked in several capacities up to the level of General Manager in Bank of Baroda till 2008 when he was appointed as Executive Director of Vijaya Bank by Government of India. Mr. Kalia also served as Executive Director of Union Bank of India till his superannuation in 2011.

Mr. Kalia has been member of various committee constituted by Government of India, Reserve Bank of India & Indian Bank Association. He has rich Corporate Governance experience having served on Boards of various Banks and committee (including that of Domestic & Overseas subsidiaries of Bank of Baroda) & other institutions. Having served in London and Mauritius and having carried out Home office inspections in various overseas jurisdiction in Bank Of Baroda, Mr.Kaila also has rich international experience.

Post retirement. Mr. Kalia has served as member of the committee constituted by Reserve Bank of India on Priority Sector Lending and Advisor & Head Debt Markets Cell constituted by DFS, Ministry of Finance, Government of India under the aegis of IIFCL. He is currently member of Empowered Committees on External Commercial Borrowings constituted by Reserve Bank of India and Member of Banking and Finance Committee of Indian Merchant Chamber, Mumbai besides being on the Board of some companies.

The Policy Pulse

Banking Sector

Important announcements by RBI

RBI releases final guidelines for new bank license

The Reserve Bank of India has issued the much-awaited guidelines for new bank licences, allowing corporates and public sector entities with sound credentials and a minimum track record of 10 years to enter the banking business.

The Reserve Bank, which has laid down an elaborate 'fit and proper' criteria, has not excluded any category like brokerages, real estate companies from entering into the banking space as has been advocated by the Finance Ministry.

The minimum paid-up capital for setting up a bank has been pegged at Rs 500 crore.The cap on the foreign investment, including FDI/FII and NRI, has been set at 49 per cent.

As per norms notified by RBI, on receipt of licence, promoter has to start operations within one year and list the company within three years of commencement of the business.

Also, new banks should open at least 25 per cent of branches in unbanked rural centres.

Those seeking to set up a bank would have to submit applications by July 1, 2013. The RBI will display names of applicants on its Website.

Before granting licences, RBI would seek feedback about applicants from other regulators, enforcement, investigative agencies like I-T Department, CBI, ED, as deemed appropriate.

The rules issued are the culmination of three-year process. RBI will now begin taking applications for bank licenses for the first time in a decade.

At present, there are 26 public sector banks and 22 private sector banks. Only 35 per cent of India's adult population has accounts with banks and other financial institutions as compared to a global average of 50 per cent. It is 41 per cent in case of developing economies.

Following the grant of licence, the promoter group, which could be a public sector entity as well, will be required to set up a wholly-owned Non-Operative Financial Holding Company (NOFHC).

The NOFHC is aimed at protecting the banking operation from extraneous factors like other business of the Group i.e., commercial, industrial and financial activities not regulated by financial sector regulators.

Existing non-banking financial company (NBFC) will be eligible to apply for a bank licence.

If considered eligible, NBFCs may be permitted to promote a new bank or convert themselves into banks, it said.

According to norms, the business plan has to be realistic and viable and should address how the bank proposes to achieve financial inclusion.

The new entity will have to comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks, it said.

Banks promoted by groups having 40 per cent or more income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond Rs 1,000 crore for every block of Rs 500 crore.

The guidelines said the NOFHC will hold the bank as well as all the other financial services entities of the group regulated by RBI or other financial sector regulators.

"The general principle is that no financial services entity held by the NOFHC would be allowed to engage in any activity that a bank is permitted to undertake departmentally," it said.

The holding company will be registered as a non-banking finance company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

"The NOFHC and the bank shall not have any exposure to the promoter group. The bank shall not invest in the equity or debt capital instruments of any financial entities held by the NOFHC," RBI said.

With regard to corporate governance, the new guidelines said at least 50 per cent of directors of the NOFHC should be independent directors.

The corporate structure should not impede effective supervision of the bank and the NOFHC on a consolidated basis by RBI, it said.

As regards procedure for grant of bank licence, RBI said applications will be screened by the central bank itself before being forwarded to the high level advisory committee for further scrutiny.

The Committee, to be constituted shortly by the RBI, will submit its recommendations to the Reserve Bank. The decision to issue an in-principle approval for setting up of a bank will be taken by the central bank.

Monetary Policy

RBI in its mid quarter review of Monetary Policy on 19th March, 2013 reduced the repo rate by 25 basis points from 7.75% to 7.5%. It left all other key rates unchanged.

Other news

Loans to PPP infra projects to be treated as secure loans: RBI

The RBI has announced that subject to certain conditions, loans to Public Private Partnership (PPP) projects in the infrastructure sector would be treated as secured loans. This means that the cost of financing these projects will come down, and going forward, bids would become lower, leading to more investment and more competition.

Basel III norms for Indian banks from April 1: RBI

The Reserve Bank of India (RBI) will soon issue a notification for the implementation of the Basel III capital regulations by Indian banks from April 1, 2013. Though the Basel III norms, as an international accounting standard for banks, were to come into force from Jan 1,2013, the central bank rescheduled them to April 1, 2013 giving Indian banks four months to improve their capital adequacy in conformity with the new norms. "Banks will require high level of capital as credit will become more expensive. In accordance with Basel III norms, Indian banks will have to maintain their capital adequacy ratio at 9% as against the minimum recommended requirement of 8%.

Govt wants PSBs to consider separate credit limit

The government wants the public sector banks (PSBs) to consider a separate exposure limit for credit to renewable energy projects to improve fund flow into this capital-intensive industry.

Loans to the power sector have seen consistent growth, but banks traditionally give preference to conventional power projects rather than renewable energy units. Banks' exposure to the power sector rose to Rs 4.07 lakh crore in January 2013 from Rs 3.28 lakh crore in March 2012, according to the Reserve Bank of India (RBI).

Considering the importance of promoting renewable energy sources, banks could consider carving out a separate sectoral exposure limit. This, according to the finance ministry, could be either through prescribing an independent exposure limit, or having a sub-limit within the exposure limit for the power sector.

Public sector banks to clean books before raising funds to tackle higher NPA issue

Public sector banks will have to clean up their books before they can tap public funds as the finance ministry is toughening its stance on their high non-performing assets.

The ministry fears that high NPAs will result in poor valuation of the PSBs, many of which are gearing to raise equity in the new financial year to meet the higher capital requirements under the Basel III norms that are set to kick in from 2013-14.

State-run banks' gross non-performing assets (NPAs) as a percentage of deposits have risen to 4.18% by December 2012 compared to 3.22% a year ago. Worried over the rise in NPAs, the finance ministry has already called for details of recovery of bad loans and write-offs in the past six years. "We have sought explanation from banks if the write-off amount is more than the recovery made,"

Partner Exchange

RBI extends deadline for issuance of new format cheques

The RBI today asked banks to issue new cheque books only under the new format and gave them time till July-end to withdraw the old format cheques.

All cheques currently with customers in the old format (non-Cheque Truncation System) will continue to be valid for another four months (the earlier deadline was March 31).

The Reserve Bank also said the system of post dated cheques and payment via Equated Monthly Installment (EMI), in either the old or new format, will be banned from now wherever electronic debit facilities are available.

RBI launches study on banks active in selling gold coins

The Reserve Bank is conducting a study on banks that actively sell gold coins or wealth management products, to check possible systemic risks and plug loopholes.

Seeking to check demand of gold, a RBI Working Group had last month proposed a slew of measures like mandatory quoting of PAN numbers for high-value purchases, restriction on gold loans and check on NBFC branches dealing with gold loans.

Besides, it had suggested limits on imports of gold by banks and other government agencies like MMTC and STC, which account for about 56 per cent of the total import of the precious metal.

Gold imports remained a major concern for the regulators and the government as the inbound shipment increased in recent years and were valued at USD 42 billion in the April-January period of the current fiscal.

Gold imports for entire 2011-12 fiscal was USD 56.3 billion.

The rising gold import is putting pressure on the Current Account Deficit (CAD), which had touched a record high of 5.4 per cent in the July-September period.

Core banking must for co-op banks by Dec 31: RBI

The Reserve Bank of India (RBI) has mandated a deadline for Urban Co-operative Banks (UCBs) to implement the core banking solutions (CBS) by December 31, 2013. In case of any non-compliance, UCBs may be stripped of some facilities in terms of regulatory approvals.

Impose limit on global transactions of cards, RBI tells banks

In order to check frauds, the RBI has asked banks to impose monetary limit for international transactions on credit and debit cards and refrain from issuing cards with global access unless specifically sought by the customer.

"All the active magstripe international cards issued by banks should have threshold limit for international usage. The threshold should be determined by the banks based on the risk profile of the customer and accepted by the customer by June 30, 2013.

Till the time of completion of the process a threshold limit not exceeding $500 may be put in place for all debit cards and all credit cards that have not been used for international transactions in the past.

The notification has been issued following cyber attacks, which according to RBI has become "more unpredictable".

"Electronic payment systems are becoming vulnerable to new types of misuse, it is imperative that banks introduce certain minimum checks and balances to minimise the impact of such attacks and to arrest or minimise the damage," it said.

Crop loans: Private Banks get interest subvention booster

Crop loan borrowers, who were hitherto getting credit from nationalised banks, can now turn to private banks too for support.

The Finance Minister's announcement extending interest subvention on short-term crop loans to private banks would make crop loan rates from these banks competitive. This will also ensure them a level-playing field along with their public sector counterparts.

Interest subvention is an interest subsidy. The Government has been providing 2 per cent interest subvention on crop loans to public sector banks. This is now being extended to private banks

The old private sector banks had been seeking the banking regulator's help to get the Finance Ministry extend the interest subvention to them for some time now.

The move is expected to help such of those old private banks, which have their branches in close vicinity of public sector bank branches in rural areas.

Regulator wants local branches of foreign banks registered as Indian subsidiaries

The Reserve Bank of India is moving closer to making subsidiarisation of foreign banks' operations in India a reality by making it mandatory for new international banks to commit in writing their willingness to convert into a local unit when Indian regulations change.

The central bank has made this a precondition for at least two international banks-National Australian Bank and Westpac Banking Corp, according to the latest licensing conditions for foreign banks seeking to begin operations in India.

The action, coming more than two years after the RBI first signalled its intention to ask foreign banks to incorporate local units to ring-fence them from global risks, may well be a significant step in the banking regulator's key unfinished task of ensuring financial sector stability.

The government has allowed a one-time exemption from tax if branch offices of foreign banks convert into a local company, removing a major obstacle to conversion.

All international banks in the country, from Standard Chartered to Citigroup, operate as branches of their overseas parents, leaving them exposed to the weaknesses of the parent company.

Bank branches are currently not separate legal entities, and hence do not have a specified capital base or a board of directors. But once they are incorporated as subsidiaries, these units will have their own capital base and give the banking regulator a better handle in

RBI sets up panel to address exporters credit issues

The RBI has set up a technical committee to examine difficulties faced by exporters to get bank credit and suggest steps to rationalise transaction cost and remove procedural bottlenecks.

The committee will be chaired by RBI Executive Director G Padmanabhan.

Exim Bank, ECGC (Export Credit Guarantee Corporation), select banks, Federation of Indian Export Organisation (FIEO), Indian Banks' Association (IBA) and Foreign Exchange Dealers Association of India (FEDAI) will represent the committee.

The committee will "review the existing policies/ procedure relating to bank finance for exports and suggest measures to improve timely, adequate and hassle free flow of credit towards working capital, capital expenditure and other requirements of the sector, and, in particular SME units."

The committee will evaluate and suggest ways to improve financial support to export sector from alternative sources such as factoring, interest subvention, export advance from external sources.

Also, the panel will assess efficacy of export supporting bodies such as Exim Bank, ECGC, rationalise transaction cost i.e. bank charges, payment of other fees to improve transparency.

Among others, it will suggest measures to simplify and rationalise existing procedures of documentation, examine special needs of exporting units located in special economic zones, requirement of merchanting trade, review process of realisation or repatriation of export proceeds.

It will also suggest measures for risk mitigation, hedging, smoothing of accounting issues, invoicing of exporters in Indian rupee, examine capabilities and emerging requirement of the system and bank staff to improve services to exporters.

RBI has asked the committee to submit its recommendations by April 30. It has also invited comments and suggestions from the stakeholders until February 28, 2013.

Super-regulator for financial sector mooted

FSLRC proposed a unified regulator for markets, insurance, commodities and pensions. It proposed to keep banking out of its purview, but only temporarily.

The panel, whose proposals could change the financial landscape of India, also suggested five additional agencies, including an appellate tribunal that would subsume the Securities Appellate Tribunal (SAT).

The suggestions were made by the Financial Sector Legislative Reforms Commission, formed in March 2011 to rewrite and harmonise financial sector laws.

The commission, headed by retired Supreme Court judge B N Srikrishna, said RBI was there for monetary policy and enforcing laws in the banking sector. This system should be retained, it said, but only for now.

When the unified regulator, to be called the Unified Financial Agency (UFA), got some experience, the panel said, RBI should be merged with it. The panel suggested that the Securities and Exchange Board of India (Sebi), the Insurance Regulatory and Development Authority (Irda), the Pension Fund Regulatory and Development Authority (PFRDA) and the Forward Markets Commission (FMC) be subsumed under UFA.

It suggested doing away with a multiple-agency structure for foreign capital inflows. Foreign direct investment (FDI) policy is now framed by the Department of Industrial Policy and Promotion. But the proposals are cleared by the Foreign Investment Promotion Board, after clearances from other agencies.

The final report is also likely to suggest a sunset clause of 10 years for financial sector laws. Though the proposal was not part of the approach paper released in October 2012, the commission had indicated some legislations were obsolete and irrelevant in the current context.

The approach paper had proposed moving from eight financial regulatory agencies to seven, to achieve economies of scope and scale.

Besides UFA, RBI and the appellate tribunal, the four agencies proposed are: The Resolution Corporation to watch financial firms that have made intense promises to households and intervene when the net worth of such firms nears zero; the Financial Redressal Agency to address consumer complaints against financial sector companies; an Independent Debt Management Office, and the Financial Stability and Development Council, both with statutory powers.

The Securities Appellate Tribunal (SAT) might be subsumed under the Financial Sector Appellate Tribunal, to hear appeals against RBI on regulatory functions, the Unified Financial Agency, decisions of the Financial Redressal Agency and some elements of the work of the Resolution Corporation.

The approach paper had also said there was a need for separating the adjudication function from the mainstream activities of a regulator, to achieve greater separation of powers. It had stressed independence of regulators, as the government has the power to issue directions to regulators.

The commission proposed this power be removed. It was in favour of temporary capital controls based on economic conditions, rather than opting for permanent decontrol.

In his Budget speech 2013-14, Chidambaram had said the Centre would act "quickly and decisively" on the recommendations of the commission. He also proposed constituting a standing council of experts to analyse the international competitiveness of the financial sector, periodically examine the transaction costs of doing business in the Indian market, and to provide inputs to government for action.

Capital Markets Sector

Shares gifted to immediate relatives not to trigger open offer

Shares gifted to immediate relatives, including spouse and in-laws, would not trigger open offer obligations on the promoters of a company. SEBI has made its position clear in this regard through an interpretive letter sought by certain promoter entities of media group DB Corp. The letter was issued in August 2012 but SEBI made it public today after the expiry of 90-day secrecy clause sought by the company. Besides blood relations, immediate relatives as defined by the market regulator would also include spouse and brother-in-law, sister-in-law among others. According to norms, any direct or indirect acquisition of shares amounting to 25 per cent or more stake in a listed company, or a control over the target company, triggers a mandatory open offer by the acquirer for public shareholders.

SEBI asks companies to use electronic mode to make payments

SEBI in a circular said that listed companies can utilise electronic payment modes approved by the Reserve Bank for cash payments; such modes include Electronic Clearing Service (ECS), National Electronic Clearance Service (NECS) and National Electronic Fund Transfer (NEFT). The circular would help in ensuring more transparency in market dealings and is aimed at curbing misuse of investor funds. To ensure cash payments are done through the electronic mode, companies are required to keep bank account details of investors. Companies can opt for physical payment instruments for paying cash to the investors if there are problems in electronic mode such as those related to MICR (Magnetic Ink Character Recognition) and IFSC (Indian Financial System Code).

SEBI allows FIIs to use government, corporate bonds as collateral

In a move that would help boost flow of overseas funds into Indian capital markets, SEBI allowed FIIs to offer government securities and corporate bonds as collaterals for their cash and derivative transactions on the stock exchanges. FIIs were so far permitted to offer cash and foreign sovereign securities with top-grade 'AAA' rating in derivative segment, while foreign sovereign securities with AAA rating and government securities were allowed in the cash segment.

SEBI issues product labelling for Mutual Funds

In a move that would help investors assess the risk associated with the schemes, SEBI has issued a framework on 'product labelling' with colour coding for mutual funds (MFs) from July. The guidelines would be effective from July 1, 2013, for all existing and forthcoming schemes. These guidelines were based on a Committee's recommendations that was set up to address the issue of mis-selling and examine the system of product labelling that would provide investors an easy understanding of the kind of product/ scheme they are investing in and its suitability to them.

SEBI tweaks stock exchange arbitration mechanism

SEBI issued a circular, wherein it has tweaked the stock exchange arbitration mechanism to facilitate selection of arbitrators through an automatic process. Arbitration mechanism is a dispute resolution process between market players such as brokers, sub-brokers, clearing members and depositories. Under the new process, the entire list of arbitrators empanelled with stock exchanges shall be pooled and made publicly available. This common pool of arbitrators will be chosen by an automatic process where neither the parties to the arbitration nor the concerned stock exchanges will be directly involved.

SEBI allows debenture trustees to seek credit rating details

SEBI issued a circular wherein it asked the credit rating agencies (CRAs) to share with the debenture trustees all relevant information about the ratings assigned by them for debt securities and about the issuers of such instruments. With this measure, SEBI has enabled a two-way information sharing arrangement between the CRAs and Debenture Trustees (DTs) to help them effectively discharge their respective functions. So far, only DTs were required to share information regarding their clients with the CRAs.

Rajya Sabha passes SEBI Bill for appointing SAT head

Rajya Sabha passed a Bill seeking to broaden the criterion for appointment of Presiding Officer of the Securities Appellate Tribunal (SAT), a statutory body that adjudicates on appeals against orders passed by SEBI. The SEBI (Amendment) Bill, 2013, seeks to include the criterion of appointing a retired High Court judge having held the position for seven years for heading the Tribunal. As per the existing criteria, only a serving or retired Supreme Court judge or Chief Justice of a High Court can head the Tribunal, but the Government is finding it difficult to fill the slot.

SEBI forms panel on insider trading

SEBI has formed a panel to review insider trading rules to curb the rising menace of the illegal practice. Justice N. K. Sodhi, former chief justice of Karnataka High Court and former presiding officer of the Securities Appellate Tribunal (SAT) has been appointed as the panel's chairman. In 1992, insider trading rules were notified to deter company officials and others from making profits or avoiding losses by trading on confidential information. Since then there have been several amendments to the regulations, and the judicial paradigm too has evolved. The attempt this time will be to further curb disparity in information and non-transparency in dealings to protect investors' confidence in stock markets. Besides, the panel will suggest ways to align the rules more with international practices.

SEBI notifies regulations to set up SRO for MF distributors

In a move to regulate mutual fund distribution business, SEBI notified regulations on January 8, 2013 to set up a Self Regulatory Organisation (SRO) to monitor distributors of mutual fund and portfolio management products. The decisions followed concerns about mutual fund distributors in India not being regulated and there having been various complaints against them for mis-selling of products to the investors. Presently, the distributors need to register with Association of Mutual Funds in India (AMFI) and their registration can be cancelled by AMFI for violation of a prescribed Code of Conduct or for any other malafide practice.

SEBI alters consent mechanism norms

SEBI has framed a new set of guidelines for consent order mechanism and warned that any corporate house, however big it may be, caught for serious misconducts will be severely dealt with.

SEBI tweaks Infra-debt rules

SEBI has made relaxations to the Infrastructure Debt Fund (IDF) regulations by widening the definition of strategic investors to include systemically important NBFCs and long-term foreign institutional investors. It also permitted IDFs to invest in any public financial institutions or infrastructure finance companies. Currently, such funds have to be kept in cash or money market funds. Among other things, SEBI also extended the new fund offer period for IDFs to 45 days from 15 days and made relaxations in the limits in below-investment grade investments.

SEBI to regulate all investment advisors

SEBI issued the final regulations for investment advisers in India on January 22, 2013. Under the new norms, all investment advisers will be regulated by SEBI and all entities engaged in advising on financial products will be required to get registered with it. To ensure more transparency, the new regulations require investment advisers — banks, non-banking financial companies (NBFCs) and corporates — would have to segregate their investment advisory services from other activities. Investment advisers also have to disclose the fee received for their advice on a particular financial product. To be an investment adviser, corporate bodies need to have a minimum worth of Rs 25 lakh while the threshold level would be Rs 1 lakh for individuals. SEBI has given a time period of one year for existing investment advisers to comply with necessary capital adequacy requirements.

SEBI may mandate scrutiny of small companies' IPO fund use through monitoring agency

SEBI plans to make it mandatory for companies with an issue of less than 500 crore to appoint a monitoring agency to keep track of the use of funds. The monitoring agency will have to provide up-to-date information of the end use of the money raised till such time the funds have been fully utilized. At present, only companies with an issue size of above 500 crore have to appoint a monitoring agency, usually a banker to the issue. The thinking at SEBI is to now bring issues of a size smaller than or equal to 500 crore in the monitoring agency fold.

SEBI asks market intermediaries to comply with ASBA norms

In a circular issued by SEBI on 23rd January 2013, it directed all market intermediaries to comply with the various guidelines related to Application Supported by Blocked Amount (ASBA) facility. ASBA facility allows the application money to remain blocked in the applicant's bank account till the time the shares are actually allotted in the public offers. It eliminates any delays related to refunds for the unallotted shares. Initially, the facility was offered to retail investors only and was given to other investors in 2009.

This circular shall be applicable for Red Herring Prospectus/ Prospectus/Letter of Offer filed with Registrar of Companies/ Stock Exchanges, as the case may be, on or after March 1, 2013.

FII limit for government, corporate bonds raised

The government increased the FII investment limit in government and corporate bonds by USD 5 billion each and the limits now stand at USD 25 billion and USD 50 billion respectively. In corporate bonds, half of the investment limit is reserved for bonds issued by infrastructure companies. In government securities, FIIs can invest as much as $10 billion in any paper. For the remaining limit, the government expanded the scope of investors and said $15 billion of bonds can be invested by FIIs, sovereign wealth funds, multilateral agencies, foreign central banks and pension, insurance and endowment funds.

SEBI modifies norms for share sale through auction route

On Jan 25, 2013, SEBI issued modified guidelines for Offer for Sale (OFS) mechanism or auction route, preferred by companies to offload shares in order to comply with minimum shareholding norms. To make the OFS process more transparent, SEBI has said that indicative price of the offer should be disclosed throughout the trading session and the same should be calculated on the basis of "all valid bids/orders".

Also, in the upcoming OFS issues, these investors can now bid without making full upfront payments and will also be allowed to place orders without depositing the margin amounts. However, investors who bid without upfront margins will not be allowed to cancel or revise downwards their price or quantity. Also, such trades will be settled on a T+2 basis (transaction date plus two days). Investors who bid with 100 per cent margin amount, however, will be allowed to modify or cancel their orders and their trades settled the next day.

SEBI issues guidelines for separate debt segment on bourses

As part of its efforts to boost the country's corporate debt market, SEBI has come out with guidelines for setting up a separate debt segment on bourses where entities like banks and pension funds can also execute trades. The debt segment would provide separate trading, reporting, membership, clearing and settlement rules.

Sebi issues rules on identification of beneficial ownership

SEBI has issued guidelines wherein it has asked market entities, including stock brokers and mutual funds, to take "reasonable measures" to identify the ultimate beneficiaries of their clients, as part of efforts to ensure more transparency in securities market. It has directed all the market entities to identify the "natural person", who, whether acting alone or together ultimately has a controlling ownership interest. Controlling ownership refers to entities having more than 25 per cent of shares or capital or profits in a company. In the case of a partnership, association or body of individuals, the threshold level to be described as controlling ownership is "more than 15 per cent of the capital".

Sebi has exempted from verifying identities if the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company.

Mergers, demergers need Sebi clearance

SEBI has issued a circular on 'Scheme of Arrangement under the Companies Act, 1956 – Revised requirements for the Stock Exchanges and Listed Companies'. To protect minority shareholders' interests, SEBI has said that henceforth, companies seeking to get listed after merger or demerger will have to obtain its prior approval along

with approval from the stock exchanges (SEs) and the High Court.

SEBI is of the view that granting listing permission or exemption from the requirements based on such applications may not be in the interest of minority shareholders."

Rajiv Gandhi Scheme: SEBI extends new fund offer to 30 days

SEBI has allowed mutual funds to accept investor funds in new offers under the newly introduced Rajiv Gandhi Equity Savings Scheme (RGESS) for 30 days, as against a 15-day subscription period in other schemes. The relaxation has been made only for mutual fund schemes under RGESS, a government initiative aimed at attracting small investors into the capital market. Besides this, the timeframe for RGESS mutual funds allocating the refund money and issuance of statements by mutual fund houses would be 15 days from the closure of the initial subscription.

SEBI's discussion paper on buyback through open market purchase

SEBI has put out a discussion paper on 'Proposed modifications to the existing framework for buy back through open market purchase'. Some of the proposals in the discussion paper are to mandate 50 per cent as minimum quantity for buyback, reduce timeline for completion of buyback from one year to three months, post buyback obligations– limiting companies from raising capital for two years, disincentive for not completing the buy-back programme- companies who are unable to buyback 100 per cent will not be allowed not be allowed to come back with another buyback for one year and limit for open market offer- mandating buyback of 15% or more of (paid up capital + free reserve) to be done only by tender offer.

SEBI's circular on Amendments to ESOP Guidelines and Equity Listing Agreement

SEBI has issued a circular on Amendments to SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and Equity Listing Agreement. Through this circular, listed companies have been prohibited from framing ESOS/ESPS Schemes which involve acquisition of securities from secondary market, with a view to prevent fraudulent and unfair practices of dealing in own securities by companies. It is also indicated that the existing ESOP/ESPS schemes are to be aligned to SEBI guidelines by June 30, 2013.

Insurance Sector

IRDA asks insurers to have anti-fraud policy

The Insurance Regulatory and Development Authority (Irda) has asked insurance companies to put in place procedures for fraud detection and its control and to have a board-approved anti-fraud policy. According to industry estimates, insurers lose 10-15 per cent of their premium income due to frauds.

IRDA comes out with framework for monitoring insurance frauds

IRDA has come out with a framework for monitoring frauds in the insurance sector and asked insurers to carry out due diligence on their staff, including agents.

Stating that such fraud reduces consumer and shareholder confidence and can affect the reputation of individual insurers and the insurance sector as a whole, the IRDA asked insurers to lay down procedures for monitoring and early detection of frauds.

IRDA revises norms for life insurance products

The Insurance Regulatory and Development Authority has revised the norms for traditional life insurance products at its board meeting. The insurance products would now have mandatory minimum death benefit and minimum surrender value. "The life insurance products have also been aligned with the pension products in some aspects of benefits,'' the IRDA chief said adding that the aim was to enhance customer protection keeping in view the long-term nature of life insurance products.

IRDA: Insurers to open 25% new offices in smaller areas

Insurance sector regulator IRDA has proposed to make it mandatory for insurers, who have been in business for 10 years, to open at least 25 per cent of new offices in areas that have a population less than 1,00,000.

IRDA introduces File and Use procedure for life products

To fast-track the approval mechanism, insurance sector regulator IRDA re-introduced the process of automatic clearance to life insurance products. It said in a circular that the process "...requires the insurers to submit a copy of policy document with policy schedule under File and Use application...in respect of all products filed from April 1, 2013 onwards".

IRDA standardises health insurance

In order to remove ambiguity and confusion regarding the claim process, interpretation of health insurance terms and names and procedures related to critical illnesses across insurance companies, the Insurance Regulatory and Development Authority of India has come out with new guidelines.

The guidelines lay down standard definitions of 46 commonly-used health insurance terms such as day-care treatment, co-payment, domiciliary hospitals, etc. They also standardise pre-authorisation and claim forms to "streamline processes at all stages". The guidelines specify 11 diseases and procedures as critical illnesses.

IRDA brings back auto clearance process for life products

To fast-track the approval mechanism, insurance sector regulator Irda re-introduced the process of automatic clearance to life insurance products. The Insurance Regulatory and Development Authority (Irda) said in a circular that the process "...requires the insurers to submit a copy of policy document with policy schedule under File and Use application... in respect of all products filed from April 1, 2013 onwards".

IRDA bans life cover with highest NAV guarantee

Insurance Regulatory and Development Authority (Irda) will ban highest net asset value (NAV) guaranteed life insurance products and put out this notification shortly, said J Hari Narayan, chairman.

Highest NAV-guaranteed products promise to pay the highest value the fund achieves during a certain period of five or seven years. However, to maintain that NAV consistently, insurers have to take risks by investing in stocks aggressively. This could lead to undue risks. The product had become the largest selling unit-linked life insurance policies after new guidelines came in 2010.

IRDA hikes equity exposure limit of insurers to 15 percent

Insurance companies can now hold up to 15 percent stake in any company, up from 10 percent at present, as the sector regulator IRDA permitted raising of the investment limit. The decision comes on the back on Finance Ministry pitching for raising equity investment limit for insurance behemoth LIC to up to 30 percent.

IRDA allows standalone health insurers to use life insurance agents for sales

Standalone health insurance companies can now sell health cover through life insurance agents of other companies as well. Till now standalone health insurers could avail the services of life insurance agents after converting them into composite agents in cumbersome manner as per Insurance Regulatory and Development Authority (IRDA) norms.

Insurers allowed to buy up to 15% stake in companies

The IRDA raised the exposure an insurance company can take in the equity of companies. The regulator said depending upon the size of their controlled fund; insurers can pick up 12 percent and 15 percent stake in a company. The cap was earlier set at 10 percent.

IRDA proposes to lower solvency margin to 145 pc for insurers

Insurance regulator proposed to bring down solvency margin requirement to 145 per cent against the existing norm of 150 per cent from next fiscal subject to adequate provision for risky investments.

IRDA raises third-party motor cover premium

Insurance Regulatory and Development Authority (Irda) raised the premium of the mandatory third party motor insurance cover by over 10 to 20% across categories. The premium rates applicable to motor third party liability insurance business will be effective from April 1.

A maximum increase of 20% in third party premium has been allowed for private cars, cabs and the goods carrying vehicles-public carriers while the increase of the same for two wheelers would be little over 18%. However the insurance regulator has reduced the third party motor premium for goods carrying vehicles-private carriers by 1.3% as compared to the current rates.

IRDA looking at two-year policies to improve cover

To plug the problem of a large number of vehicles running without cover, the Insurance Regulatory Development Authority is pitching to make motor third party insurance policies valid for two years, from the existing one-year term.

Life insurers to have standard form for policyholders: IRDA

To bring about uniformity and transparency in policies sold by life insurers, IRDA has asked all life insurers to adopt a standard form for policyholders seeking insurance cover. "The objective of this regulation is to provide for a standard proposal form for individual policies in life insurance that has an inbuilt flexibility for seeking specialised information that is product specific to a particular product category," IRDA said in a notification.

IRDA to review broker norms

The Insurance Regulatory and Development Authority is set to overhaul norms for insurance brokers soon. It has constituted a committee headed by Suresh Mathur, Senior Joint Director, IRDA, to review the entire insurance brokers regulations, 2002.

Insurers, IRDA to launch awareness campaign

In a bid to create awareness for insurance needs and on insurance products for health, motor, home and travel insurance, the General Insurance Council (GIC) with support from IRDA is set to start its awareness campaign on television, newspaper and other media channels with a total budgeted spend of Rs 16 crore.

For the campaign, the insurance regulator will fund 75 per cent while the remaining 25 per cent will be funded by the general insurance companies.

IRDA halves compulsory ceding by domestic general insurers to GIC Re

The Insurance Regulatory and Development Authority has reduced the requirement of compulsory ceding of domestic general insurers to General Insurance Corp. of India.

The obligatory cession to be placed by general insurers with the national reinsurer has reduced from 10% to 5%. This move has been taken to create more room for private and foreign reinsurers in the country.

IRDA tweaks investment norms for insurance companies

Irda tweaked norms for insurance companies to invest their funds in different market instruments like government securities and corporate debt to channelise long term savings in infrastructure sector.

Life insurance companies can now be invested in central government securities which should not be less than 25 per cent of the total corpus, IRDA said in a notification. However, the total investment in central government securities, state government securities and other approved securities cannot be less than 50 per cent taken together. At the same time, it has allowed life insurers to invest in housing and infrastructure bonds, with ratings of not less than AA by credit rating agencies. The total investment in the category will not be less than 15 per cent.

On pension funds, the guidelines said money generated from them will be invested in the government bonds, up to 40 per cent of the fund value, while not more than 60 per cent would be invested in other approved instruments. As for investments in ULIP funds, the guidelines said that at least 30 per cent of the fund value would be invested in government securities and 5 per cent can be invested in housing and infrastructure bonds. The remaining can be invested in the other approved investment categories.

General insurers can bring out an IPO, post 10 years of operation

Insurance Regulatory and Development Authority (Irda) has finalised the norms for initial public issue (IPO) by general insurers and said that only those who have been in operation for 10 years, will be entitled to bring out an IPO.

Non-linked variable products, Ulips to be treated on a par

The guidelines have called for non-linked variable insurance products (index-linked products) to be treated at par with unit-linked products (Ulips). The insurers have been given time till June 30 2013 and September 30, 2013 to re-file their group and individual products respectively.

The ceiling for first year commissions has been put at 15% for the first year for a 5 year term, 30% for 10 years and 35% for 12 years or more (40% for insurers aged less than 10 years). If the polices are procured by direct marketing, Irda said that no commission will be allowed for direct marketing.

IRDA publishes five key reforms in gazette

The Insurance Regulatory and Development Authority (Irda) has published in the gazette of India five key reforms related to the sector, including new guidelines for insurers and reinsurers. The reforms are: Investment regulations for insurers, Irda (life insurance-reinsurance) regulations; places of business regulations; Irda appointed actuary amendment regulations and regulations for the standard proposal form.

FICCI's Data Centre

Indian Economy-An Update

Key Economic Indicators

GDP	4.5% - Q3, 2012-13 5.3% - Q2, 2012-13
IIP	2.4% (January, 2013) 1.0% (Cumulative growth April-January, 2012-13)
WPI Inflation (%)	All Commodity: 6.84% (February, 2013) All Commodity: 6.62% (January, 2013) All Commodity: 7.31% (December, 2012) All Commodity: 7.24% (November, 2012)
Interest Rates*	CRR: 4.00% p.a Bank Rate: 8.50% p.a. Reverse Repo Rate: 6.50% Repo Rate: 7.50%
Exchange Rate	54.09 (INR/Dollar), 70.49 (INR/Euro) 82.46 (INR/Pound), 57.14 (INR/100 Jap. Yen)

Source: MOSPI, RBI

* *Figures as on March 26, 2013*

Economic Scenario

GDP registered its decade low growth rate of 4.5 per cent in the third quarter of FY 2012-13. It is a significant decline in the economy's growth performance compared with previous two quarters of the current fiscal year. All three sectors in the economy, namely agriculture, manufacturing and services, failed to significantly contribute to the overall GDP growth figure.

Agriculture growth, in Q3 FY 2013-14, further decelerated to 1.1 per cent, from the previous quarter, owing to the continuation of poor monsoon. Although, growth is consistent with the first two quarters of the current fiscal year, it is inadequate when compared to 4.1 per cent growth rate registered in the same quarter last year.

Industrial growth in Q3 FY 2012-13 has been reasonable. All industrial activities, except mining and quarrying, reg-

Industry	Rate of GDP at Market Prices (%) (at 2004-05 prices)	
	2012-13 (Q2)	2012-13 (Q3)
Private Final Consumption Expenditure (PFCE)	60.8	61.7
Government Final Consumption Expenditure (PFCE)	11.1	12.1
Gross Fixed Capital Formation (GFCF)	33.8	32.4
Change in Stocks	3.5	3.1
Valuables	1.9	1.9
Exports	25.2	22.7
Less Imports	37.5	32.2
Discrepancies	1.2	-1.6
GDP at market prices	**100.0**	**100.0**

Source: MOSPI

istered higher growth rates in Q3 FY 2012-13, compared to the previous quarter of the current fiscal. Growth in the manufacturing sector in Q3 stood at 2.5 per cent and electricity, gas and water supply registered 4.5 per cent. Contraction in growth was experienced only in mining & quarrying with (-) 1.4 per cent growth. Similar uptick in the IIP index, compared with the previous two quarters, is also indicative of the satisfactory performance of industry in the third quarter of FY 2012-13.

Growth in all components of the services sector increased at a relatively slow pace in the third quarter of FY 2012-13. Growth registered for Construction (5.8 per cent), Trade, hotels, transport and communication (5.1 per cent), Finance, Insurance, Real Estate & Business Services (7.9 per cent) and Community, Social & Personal Services (5.4 per cent) are lower than the growth for Q2 of current year as well as Q3 of FY 2011-12.

Consumption expenditure, both private and government, has increased in real terms for Q3 FY 2012-13. A decline in government expenditure is likely in the fourth quarter of 2012-13, owing to the government's efforts at reducing the fiscal deficit for the current year.

Share of investment in GDP is at its lowest in the third quarter, compared to the first two quarters in FY 2012-13.

Inflation

Headline inflation or Wholesale Price Index (WPI) inflation has shown further moderation in the last two months of January and February (6.62 and 6.84 per cent respectively), compared with the first three quarters of FY 2012-13. Monthly inflation has ranged between 7.24 per cent and 8.07 per cent during the first three quarters. Factors which supported the stabilization of prices, in Q3 of 2012-13 include revival of south-west monsoon in the latter half, decline in prices of freely priced fuel products and metals in line with some moderation in their global prices and a range-bound exchange rate[1]. WPI has risen in February (FY 2012-13) essentially due a steep rise in LPG prices and a steady increase in prices of petrol and diesel. Rate of inflation in LPG was 26.21 per cent in February, compared with 4.28 per cent in January.

Hon'ble Finance Minister of India announced the government's commitment to ensure fiscal consolidation while presenting the Union Budget 2013-14. Earlier estimate of fiscal deficit for FY 2012-13 was pegged at 5.3 per cent. This has now been reduced to 5.2 per cent. In effect, it created an opportunity for monetary easing by the Central Bank. Central Bank, in its mid-quarter review of monetary policy has responded with a 25 basis points cut in the repo rate to

boost growth. However, only monetary easing will not suffice in pushing growth upwards. Supply bottlenecks (such as project clearances and regulatory bottlenecks) would have to be removed. One may, therefore, not expect any significant rate cut in the coming months of current year 2013.

Fiscal Deficit

The revised estimate for the fiscal deficit for FY 2012-13, at 5.2 per cent, is a welcome announcement by the Hon'ble Finance Minister of India. It has also been acknowledged by the government that the fiscal deficit, even at this level, is not sustainable. Therefore, it is the government's aim to reduce it further to 4.8 per cent in the subsequent fiscal year of 2013-14.

The improved estimate of government's fiscal condition in FY 2012-13 is based, primarily, on the reduction in government expenditure. Moody's, a credit rating agency, in its current report has called the quality of reduction in government expenditure sub-optimal, because government has capped its capital expenditure at 6 per cent against the budgeted target of 29 per cent. Moreover, huge gap in actual (18 per cent) and budget estimates (-13 per cent), of growth in subsidy spending, would make the fiscal condition increasingly worse. Evidences

with regard to containment of subsidies are few: further increase in diesel prices, already done once earlier in the year, is uncertain; Direct Cash Transfer scheme, which could potentially plug the subsidy leakages, would also need time to take effect. On the revenue front, lower economic growth of 4.5 per cent registered in the third quarter of the current fiscal would also add fiscal stress, due to its negative impact on tax revenues.

After taking the above factors in to consideration, which could stifle the balance between government revenue and

1 RBI Third Quarter Review – 2012-13

expenditure in the current fiscal, it would be correct to conclude that fiscal target, set by the government, may not be easy to attain.

Current Account Deficit

Current Account Deficit (CAD) measures the difference between a country's exports and imports of goods, services and transfers. India's CAD has worsened substantially in the current fiscal year. CAD/GDP ratio for the first two quarters recorded 3.9 per cent and 5.4 per cent respectively, which is far beyond the comfort level of any economy. As per "RBI's Monetary Policy Review Q3 2012-13: Expectations", Gold formed about 55.6 per cent and 47 per cent of current account deficit in Q1 and Q2 of FY 2012-13. Keeping in view, the substantial contribution of gold imports in the overall current account deficit, government has recently raised the import duty on gold from 4 per cent to 6 per cent., to curb gold imports.

Hon'ble Finance Minister of India, in his budget speech, also expressed deep concern about India's excessive dependence on imports of oil, coal and gold. As a solution, he offered foreign investment, through Foreign Direct Investment (FDI), Foreign Institutional Investment (FII) and External Commercial Borrowings (ECBs), as the only alternative, in order to contain this burgeoning deficit. In view of the already accumulated deficit of $38.7 billion in the first half of the current fiscal, and an anticipated increase in the second half, the Finance Minister quoted a requirement of, approximately, $75 billion of foreign investment in the current as well as the forthcoming fiscal year.

Data released by Reserve Bank of India (RBI), for the third quarter of the current fiscal, provides testimony to the concerns expressed by the Finance Minister. CAD has notched a record figure of 6.7 per cent of GDP for Q3 FY 2012-13. An addition of US$ 32.6 Billion, in the third quarter, to the already high deficit in current account, has taken the accumulated figure to US$ 71.7 billion during April-December 2012. This accounts for 5.4 per cent of GDP, whereas it was 4.1 per cent in the same period last year, April-December 2011-12. Widening trade deficit, owing to inconsequential growth in merchandise exports and continued growth in oil and gold imports, has contributed significantly in expanding the current account deficit.

Investment Banking Updates

Mergers & Acquisitions

In association with

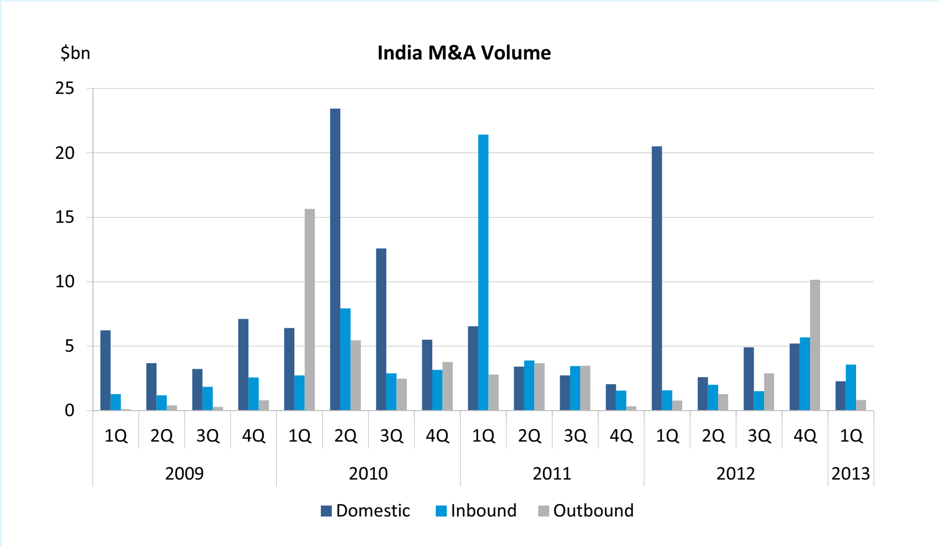
- **India slipped** from the third targeted nation to the sixth in **Asia Pacific region for** 1Q 2013 with $5.9bn, down considerably compared to $22.1bn announced in 1Q 2012
- **India Outbound M&A** volume increased marginally by 7% to $828m in 1Q 2013 from $774m for the first quarter of 2012. However, deal activity for the similar period dropped from 38 deals to 24 deals in 1Q 2013
- **India Inbound M&A** volume more than doubled to $3.6bn in 1Q 2013 from the $1.6bn for the same period in 2012
- Conversely, India Domestic M&A volume dropped considerably by 89% to $2.3bn in 1Q 2013, compared to $20.5bn for 1Q 2012. Deal activity was also on a low of 173 deals compared to 328 deals for 1Q 2012

India Announced M&A Advisory Ranking 1Q 2013

Pos.	Advisor	Value $m	# Deals	% Share
1	Morgan Stanley	1,850	1	31.6
2	Jefferies & Company	1,850	1	31.6
3	BNP Paribas	148	1	2.5
4	Rothschild	108	2	1.8
5	Deutsche Bank	108	1	1.8
6	Kotak Mahindra Bank Ltd	106	2	1.8
7	Axis Bank	71	2	1.2
8	GCA Savvian Advisors LLC	68	1	1.2
9	Avendus Capital Pvt Ltd	41	1	0.7
10	Systematix Corporate Services Ltd	37	2	0.6

SE Asia M&A Ranking by Target Nationality 1Q 2013

Pos.	Advisor	Value $m	# Deals	% Share
1	China	37,823	668	51.9
2	South Korea	10,118	182	13.9
3	Malaysia	7,539	166	10.3
4	India	5,861	222	8.0
5	Hong Kong	2,494	80	3.4
6	Singapore	2,266	81	3.1
7	Indonesia	1,730	64	2.4
8	Macao	1,194	4	1.6
9	Thailand	1,060	41	1.5
10	Taiwan	943	44	1.3

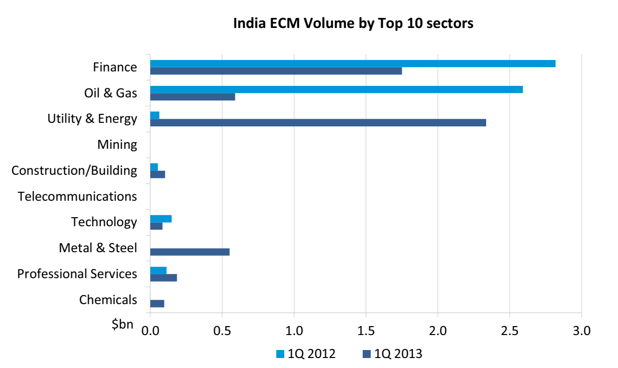


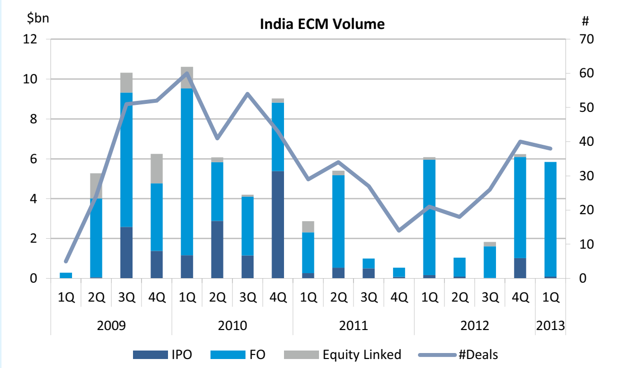
Equity Capital Markets

- **Indian ECM** volume stood at $5.8bn via 38 deals for 1Q 2013, a 4% decrease on the $6.1bn raised in 1Q 2012
- **IPO volume** totaled $87m (via 11 deals) in 1Q 2013, down 48% from the $167m raised for the same period in 2012
    - **Follow-on** volume also dropped marginally by a percent to $5.7bn in 1Q 2013 compared to $5.8bn raised in 2011. However number of deals rose to 27 deals in 2013 compared to 16 deals for the same period in 2012
- **NTPC's** $2.2bn follow-on via bookrunners **Citi, Goldman Sachs, Deutsche Bank, Kotak Mahindra, Morgan Stanley** and **State Bank of India** is the largest ECM transaction for India for the first quarter of 2013

Top 10 ECM Deals in 1Q 2013

Date	Issuer	Sector	Deal Type	Deal Value ($m)	Bookrunners
7-Feb	NTPC Ltd	Utility & Energy	FO	2,160	MS, GS, CITI, DB, KOTAK, SBI
29-Jan	Axis Bank	Finance	FO	1,027	AXIS, CITI, JPM
1-Feb	Oil India Ltd	Oil & Gas	FO	591	CITI, HSBC, KOTAK
20-Feb	Shriram Transport Finance Co Ltd	Finance	FO	305	GS
22-Mar	Steel Authority of India Ltd - SAIL	Metal & Steel	FO	279	AXIS, DB, HSBC, JPM, KOTAK, SBI
11-Mar	WNS Holdings Ltd	Professional Services	FO	185	BoAML, WELLS FARGO
20-Feb	Jaiprakash Power Ventures Ltd	Utility & Energy	FO	175	CS
4-Mar	Bajaj Finance Ltd	Finance	FO	135	JM FINANCIAL
8-Feb	Indiabulls Financial Services Ltd	Finance	FO	128	BoAML, UBS
15-Mar	National Aluminium Co Ltd - Nalco	Metal & Steel	FO	116	AXIS, IDFC, SBI



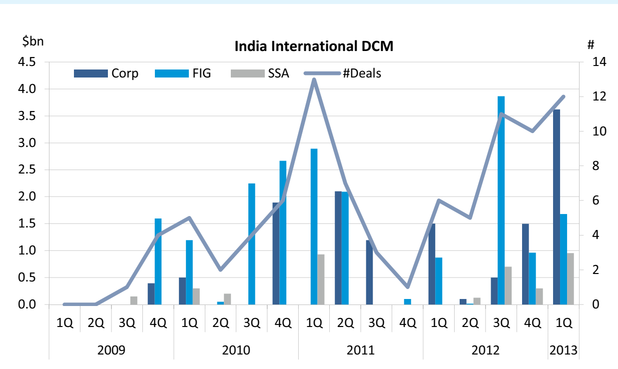


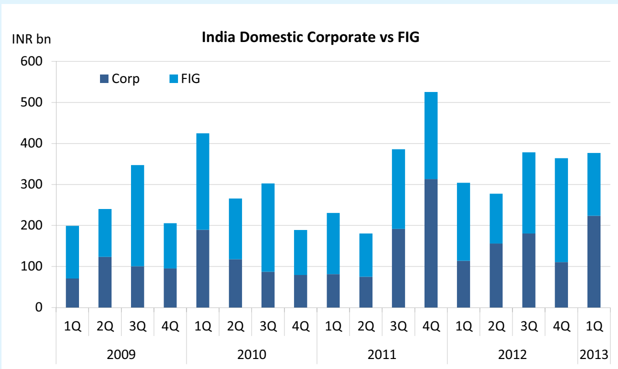
Debt Capital Markets

- **India DCM** issuance for the first quarter of 2013 reached $16.5bn raised via 123 deals, up 27% on the $13.0bn raised in 1Q 2012 also marking the highest quarterly volume on record
- **Corporate IG** and **Agency** bonds accounted for 64% and 25% of the total DCM volume with $10.6bn and $4.1bn, respectively for 1Q 2013
    - **Bharti Enterprises Ltd.** led the offshore issuer table for 1Q 2013 with a 24% share, while **Power Finance Corp** topped the domestic issuer ranking with a 21% share
- **India Domestic DCM** volume reached INR558.3bn in 1Q 2013, up 3% from the INR541.2bn raised in 1Q 2012. Activity was slightly down to 111 deals in 2013 from the 113 recorded for 1Q 2012
- **International** issuance for 1Q 2013 recorded an all-time high quarterly volume of $6.3bn, almost thrice the 1Q 2012 volume of $2.4bn. Deal activity also doubled to 12 deals in comparison to 6 deals for the first quarter of 2012

India DCM - 1Q 2013

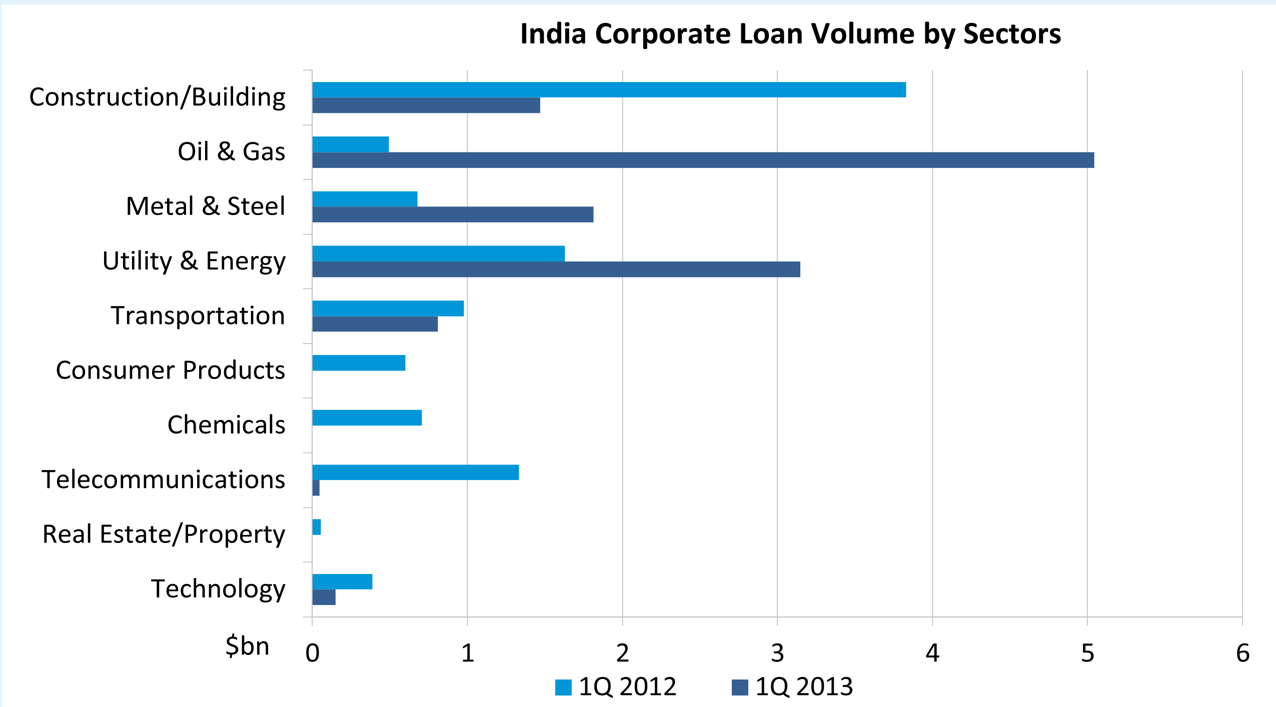
Pos.	Bookrunner Parents	Value ($m)	No.	%share
1	AXIS Bank	2,142	41	13.0
2	Standard Chartered Bank	1,831	23	11.1
3	ICICI Bank	1,214	24	7.4
4	HSBC	1,137	15	6.9
5	Trust Investment Advisors	1,011	50	6.1
6	Darashaw & Co Ltd	974	32	5.9
7	JPMorgan	969	4	5.9
8	Citi	908	6	5.5
9	Barclays	859	12	5.2
10	Deutsche Bank	718	13	4.4

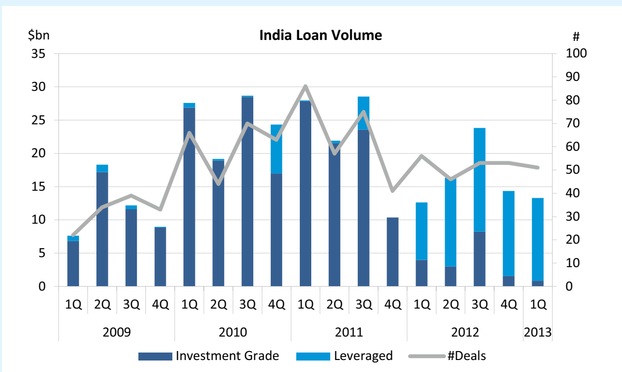


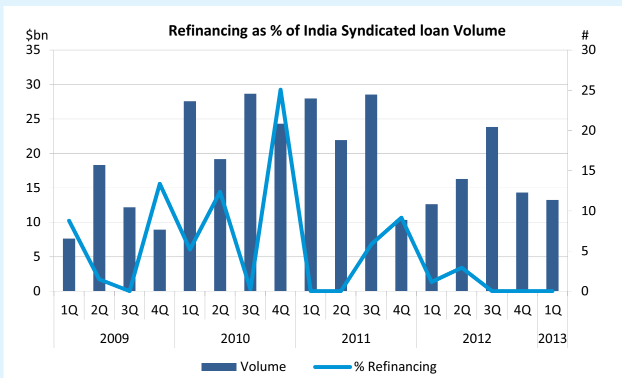


Loan Markets

- **India loan** volume reached $13.3bn in 1Q 2013, up 5% on the $12.6bn for 1Q 2012. However, number of deals for the current quarter reduced to 51compared to 56 deals for 1Q 2012
  - Leveraged loan volume increased 44% to $12.4bn via 45 deals, compared to $8.6bn (39 deals) for the first quarter of 2012
  - In contrast, **Investment grade** loan volume dropped to a quarterly low of $859m since 4Q 2004 ($330m)
- Among the corporate borrowers, **Oil & Gas** sector topped the industry ranking in 1Q 2013 ($5.0bn) with a 40% share
- **ONGC's** $2.8bn leveraged deal in January 2013, is the largest loan transaction for the first quarter of 2013

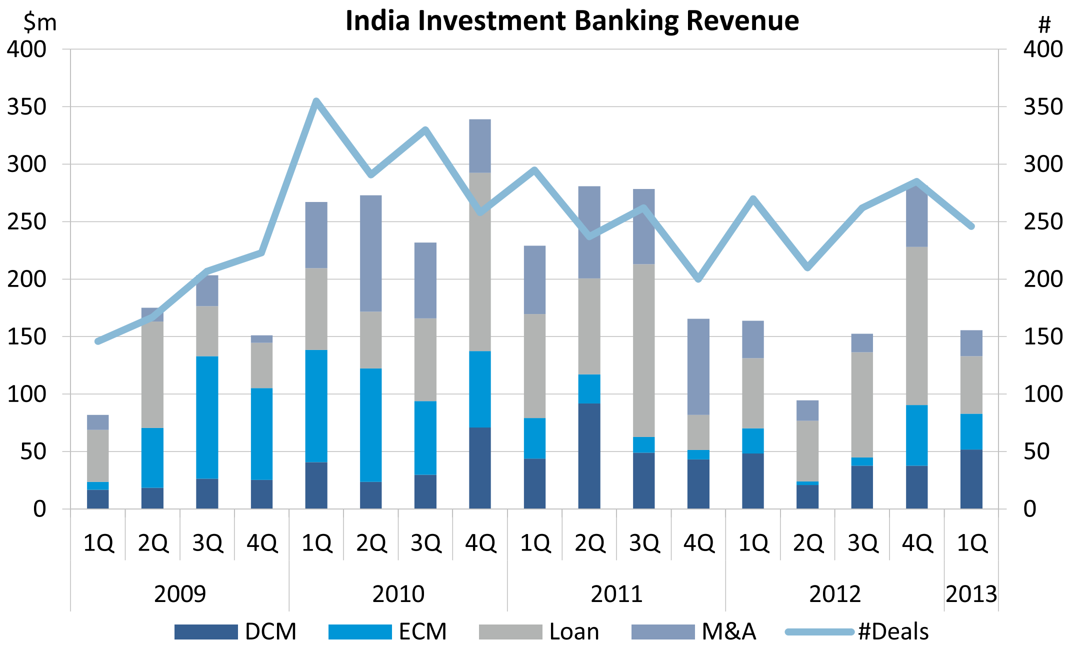


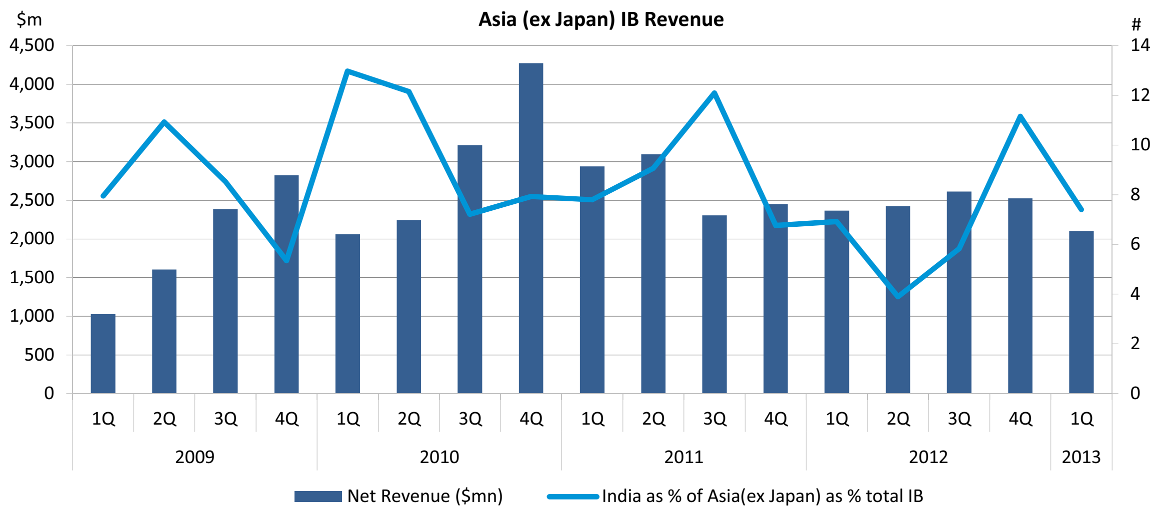




IB Revenue

- **India IB Revenue** reached $156m in 1Q 2013, down 5% on 1Q 2012 $164m) and almost down by 45% compared to 4Q 2012 ($282m)
- **Syndicated Loan revenue** accounted for 32% of total India IB revenue in 1Q 2013 with $50m. Despite the record share in 4Q 2012, loan revenue is down 64% from the $138m earned during 4Q 2012
- **DCM revenue** reached $52m in 1Q 2013, the record high since 2Q 2011 ($92m) and also up by 7% on 1Q 2012 ($48m)
  - **M&A fees** accounted for lowest share of India IB revenue with $23m and a 14% share in 1Q 2013
  - **ECM fees** reached $31m via 35 deals in 1Q 2013, up 43% on 1Q 2012 ($22m via 19 deals)





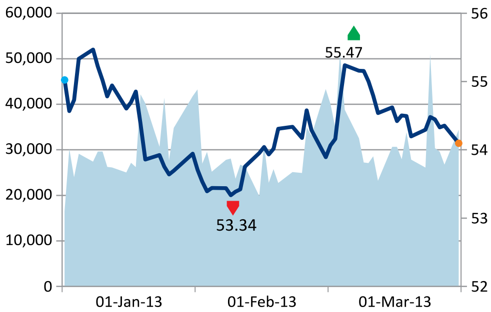
Markets Watch

USD-INR

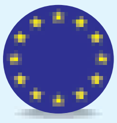
JAN-MAR 13

Turnover* (₹/cr)
17,70,424

Volume* (in lots)
32,57,48,585



Open: 55.05 | High: 55.47 | Low: 53.34 | Close: 54.10 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till March 25, 2013)*

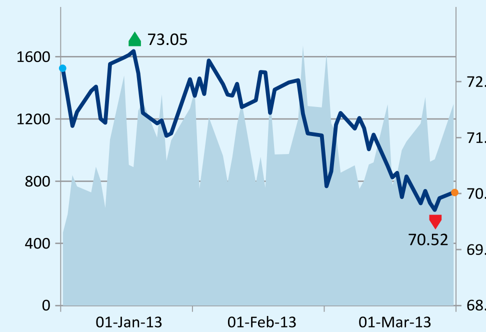


EUR-INR

JAN-MAR 13

Turnover* (₹/cr)
59,774

Volume* (in lots)
83,16,645



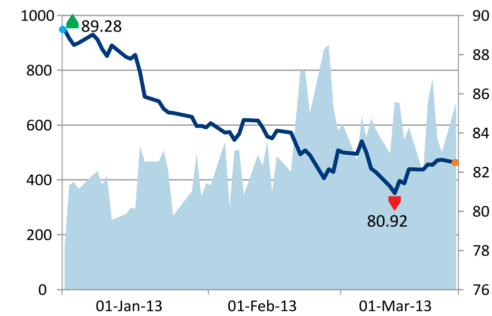
Open: 72.65 | High: 73.05 | Low: 70.21 | Close: 70.52 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till March 25, 2013)*

GBP-INR

JAN-MAR 13

Turnover* (₹/cr)
28,995

Volume* (in lots)
34,47,945



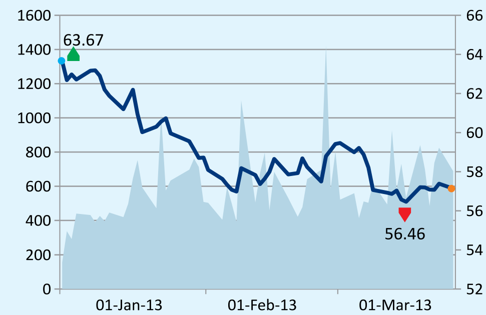
Open: 89.20 | High: 89.28 | Low: 80.92 | Close: 82.48 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till March 25, 2013)*

JPY-INR

JAN-MAR 13

Turnover* (₹/cr)
34,477

Volume* (in lots)
58,53,277



Open: 63.53 | High: 63.67 | Low: 56.46 | Close: 57.14 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till March 25, 2013)*

Market Commentary

During the first quarter, Rupee seesawed in a wide range of 55.40 to 52.80. Since the start of January 2013 till mid February 2013, a series of economic reforms announced by the Government of India helped the rupee to recover to 52.88 till February 6, 2013. Afterwards, falling inflows into domestic share index along with weak global market sentiments led demand for safer currencies and, thus, the Rupee depreciated sharply against the US Dollar. Even the Union Budget failed to provide any support to Rupee as it was a disappointment as far as investors are concerned. However, data from international markets, such as improving signs of US economic health, outcome from the European Union related to debt deal along with signs of political stability in Italy supported the Rupee and were a great relief for the market that led a demand for higher yielding currencies and helped Rupee to stabilise against the US Dollar.

Outlook

Delay in implementation of policy reforms along with ongoing political instability may add downward pressure on the Rupee.

Simultaneously, data from global market will be crucial in deciding Rupee's fate in days to come. Since the start 2013, USDINR has been consolidating in a wide range of 55.40–52.80. Technically, there is an inverse head and shoulder pattern formation in daily charts with a neck line resistance at 55.40. So, unless prices are trading below this level, we won't see any big jump in dollar rupee. However, if the price breaks and sustains above the given level, then it may test 55.88, 56.03 and 56.50, respectively.

On the downside, immediate support is at 53.60 and at 52.80 and the pair needs to break these levels decisively for any uptrend in rupee. So, in the near term, the USDINR pair should trade in the wide range of 53.80 -55.40 and break of either of the direction will confirm the trend.

- Rekha Mishra, Sr. Research Analyst
Bonanza Commodity Brokers Pvt. Ltd.

Synopsis of past events

Meeting with Mr. Rajeev Kumar Agarwal, Whole-Time Member, SEBI

18th February, 2013, Mumbai

L to R: Dr. Arbind Prasad, Director General, FICCI; Mr. Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee; Mr. Rajeev Agarwal, Whole-Time Member, SEBI; Mr. Sunil Sanghai, Chair, FICCI's Capital Markets Committee and Mrs. Naina Lal Kidwai, President, FICCI

FICCI organized an interactive meeting with Mr. Rajeev Kumar Agarwal, Whole-Time Member, Securities and Exchange Board of India on February 18, 2013 in Mumbai. From FICCI's side, the meeting was chaired by President Mrs. Naina Lal Kidwai. Other participants included members of FICCI's Capital Markets Committee and the Co-Chair of Corporate Laws Committee.

Mr. Rajeev Agarwal gave a brief overview of the recent measures taken by SEBI to facilitate issue of capital, expand the capital market in terms of participation and attracting FII inflows and to regain the confidence of the retail investor. The participants deliberated on SEBI's recent circulars, AIF regulations, need to further simplify KYC norms and the FATCA Model inter-governmental agreement proposed to be signed between India and the U.S. Mr. Agarwal invited detailed inputs on these issues from the Committee.

Interactive Meeting with Mr. Anand Sinha, Deputy Governor, RBI- February 18, 2013- Mumbai

FICCI organized an interactive meeting with Mr. Anand Sinha, Deputy Governor, RBI on February 18, 2013 in Mumbai. Mrs. Naina Lal Kidwai, President, FICCI chaired this meeting.

During the interaction, Mr. Anand Sinha shared the RBI's perspective on various financial sector issues in the current macroeconomic scenario and the important role that RBI envisages for the Indian capital markets. The issues discussed include banks' financing of Indian capital markets, corporate bond market development, norms for NBFCs, Basel III implementation, infrastructure financing and acquisition financing.

L to R: Dr. Arbind Prasad, Director General, FICCI; Mr. Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee; Mr. Anand Sinha Deputy Governor, RBI; Mr. Sunil Sanghai, Chair, FICCI's Capital Markets Committee and Mrs. Naina Lal Kidwai, President, FICCI

Banking and Financial Institutions Committee Meeting

4th March, 2013, Mumbai

The first Banking and Financial Institutions Committee meeting was held on 4th March, 2013 at Bank of India, Head Office, Mumbai. The committee is chaired by Mrs. V R Iyer, Chairperson and Managing Director, Bank of India and co-chaired by Mrs Shikha Sharma, Managing Director and CEO, Axis Bank and Mr. Pramit Jhaveri, Chief Executive Officer – India, Citibank. Other members of the committee include representatives from the banking industry, NBFCs, and Corporate Sector.

The aim of the committee is to take up important issues being faced by the banking industry in the present context.

Some of the issues discussed at the meeting include:

- Priority Sector Lending
- Role of NBFCs in Financial Inclusion
- Basel III Implementation
- Gold Imports and Gold Loan Projects
- Last but not least – FIBAC. FIBAC 2013 is the Annual FICCI-IBA Global banking Conference. It will be held on 13th -14th August, 2013 at Hotel Trident, Nariman Point, Mumbai. BCG is the Knowledge Partner to the conference.

Dr. D Subbarao, Governor, RBI has kindly agreed to deliver the Inaugural address at the conference.

Insurance and Pensions Committee Meeting

5th March, 2013, Mumbai

The first meeting of the Sub group on Life Insurance, FICCI Insurance and Pensions committee was held on 5th March 2013 at Mumbai. The committee is Chaired by Mr Amitabh Chaudhry, MD and CEO, HDFC Standard Life Insurance Co. Ltd. The meeting was convened to discuss the work plan for the current year including the Annual Insurance conference. The agenda broadly comprised of the pertinent issues in the life insurance sector and points arising out of the meeting of FICCI sectoral committee chairs/co-chairs with Ms Naina Lal Kidwai, President, FICCI.

Some issues discussed at the meeting were:

1. Mitigating mis-selling
2. Market development for Pension products
3. Benchmarking sales and operations productivity drivers
4. Increasing Customer Awareness and Industry reputation management
5. Skill development for financial sector
6. Governance Issues
7. Increasing financial literacy as part of CSR activity of financial services industry
8. It was also decided to organize regular interactions with Chairman IRDA, PFRDA, Ministry of Finance to take up common issues pertaining to the insurance industry.

Interactive Meetings with NASDAQ Dubai delegation

8th April, 2013, New Delhi and 9th, April, 2013, Mumbai

L to R: Mr Craig Hewett, Senior Vice President & Head of Business Development, NASDAQ Dubai and Ms. Nirupama Soundararajan, Additional Director & Team Lead- Financial Sector, FICCI

FICCI and Alpen Capital India organized interactive sessions with a delegation from NASDAQ Dubai on April 8, 2013 in New Delhi and on April 9, 2013 in Mumbai. The delegation comprised Mr. Craig Hewett, Senior Vice President and Head of Business Development and Mr. Navneet Maheshwari, Business Development Manager of NASDAQ Dubai.

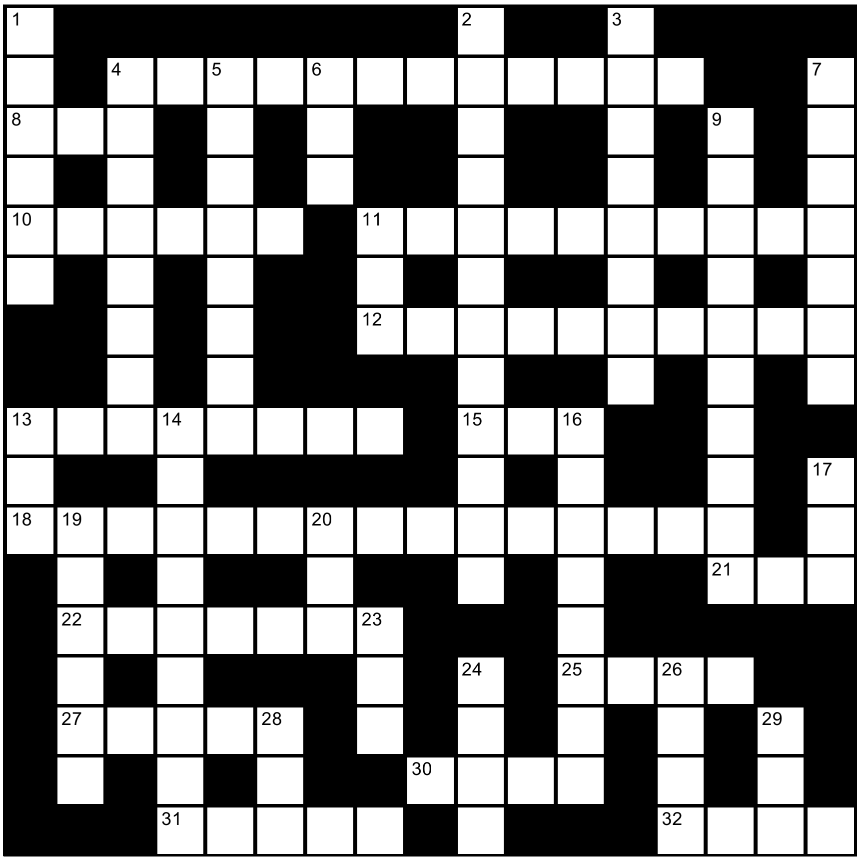
The objective of the interactions was to introduce the exchange to Indian businesses and prospective issuers who may be interested in an international or GDR listing and to provide an update on the key developments in the UAE capital markets. NASDAQ Dubai is a leading international Stock Exchange in the Middle East with listing standards comparable to the global exchanges in New York, London and Hong Kong. It is located in the free trade zone with zero taxation and full repatriation of profits. It has flexible listing requirements with a minimum free float of 25 per cent with no founding shareholder lock-in post listing.

The meetings were attended by senior representatives of various sectors including telecom, real estate, power, steel, oil and gas and financial services. The meeting in Mumbai was chaired by Mr Sunil Sanghai, Chair, FICCI's Capital Markets Committee and M.D., Head of Global Banking-India, HSBC.

Fintainment Section

Crossword

Notes:
Clues ending in "?" imply play on words.
Digits in bracket at the end of the clue indicate number of letters in each word of the answer.
Clues that have an acronym or "abbr." or "in short" imply that answers are abbreviated.



Across

4 Form of wholesale trade (4,3,5)

8 Policy measure which is at its lowest since 1976 (3)

10 Stock classification based on company's market value (6)

11 It has risk factors, usually (10)

12 Visa carrier? (6,4)

13 Superior to 10-A, in a way (8)

15 Org. which seems to endorse "paisa bolta hai" (3)

18 Investment strategy feature (15)

21 Valuation method, abbr. (3)

22 Popular 60s number? (7)

25 Continental note (4)

27 It is derived from a Sanskrit word meaning "silver" (5)

30 Collector's item? (4)

31 50 member club (5)

32 2008 mechanism to support US financial economy, in short (4)

Down

1 Take home (6)

2 Subject that deals with application of mathematics to economics (12)

3 Quality (8)

4 "Other than a friend, only one who sticks with you in adversity.." (8)

5 Strategy that pays off, no matter how the price moves (8)

6 29-D cousin (3)

7 What Indian oil companies share (7)

9 Its products could soon be colour coded (6,4)

11 Co. name feature, in London (3)

13 Was at forefront (3)

14 Fed ex head? (9)

16 Share of concern, perhaps (8)

17 Christine Lagarde's org. (3)

19 Car from afar, for e.g. (6)

20 Maiden listing, abbr. (3)

23 Bad loan, in short (3)

Financial Fundas

Sequestration-A term adopted by US Congress to describe a fiscal policy process that automatically reduces the federal budget across most departments and agencies. Sequestration, or "the sequester," is a procedure by which across-the-board spending cuts go into effect if Congress fails to agree on a deficit-reducing budget before a specified date.

House Money Effect-The house money effect gets its name from the casino phrase "playing with the house's money." It was first described by Richard H. Thaler and Eric J. Johnson of the Johnson Graduate School of Management of Cornell University. The effect forecasts that investors are more prone to buy higher-risk stocks after a profitable trade. Some believe that the house money effect is an example of mental accounting, whereby capital is kept separate from recent profits, leading investors to view said profits as disposable. As a result, they are more inclined to take greater risks with the money.

28/36 Rule-A rule-of-thumb for calculating the amount of debt that can be taken on by an individual or household. The 28/36 Rule states that a household should spend a maximum of 28% of its gross monthly income on total housing expenses and no more than 36% on total debt service, including housing and other debt such as car loans. This rule is used by mortgage lenders and other creditors to assess borrowing capacity, the premise being that debt loads in excess of the 28/36 yardstick would be difficult for an individual or household to service and may eventually lead to default.

Source:Investopedia.com

Quiz

Quick quiz to tickle your interest in the financial world:

Partner Exchange

(1) On February 28 2013, the Finance Minister cited in his budget speech a quote by an eminent Indian personality whose 150th birth anniversary falls this year. Name that personality

a. Subhash Chandra Bose

b. Rabindranath Tagore

c. Swami Vivekananda

d. Thiruvalluvar

(2) What is the neologism which refers to the global elite of wealthy people whose members view them as completely international?

a. Masters of the Universe

b. Davos Man

c. Globe Trotters

d. World Bankers

(3) Cyprus was recently in the news for its financial and economic crisis. Which city is the capital of Cyprus?

a. Nicosia

b. Cyprus City

c. Athens

d. Helsinki

Jumble

Solve the jumbled letters to form financial terms. The circled letters in these terms can be rearranged to form a popular financial buzz word(s) hinted by the clue.

Question. 1

a. REEGMDE □○□○□○□
b. TOKCS ○□□□□
c. NOTIPO ○□□□□○
d. RNHCU □○□○□
e. ENLI □□○□
f. Provision for an underwriter to balance share demand and supply: ____ (9)

Question. 2

a. WPSA □□○□
b. NYMOE □□□○○
c. TOPS □□□○
d. AODRRWF □□○□○○○
e. RNUCEYRC ○□□○□□□□
f. Strategy of using low yield asset to invest in high yield asset : _______ (5, 5)

Question. 3

a. HOTGRW □□□○□○
b. PSSURUL ○□□□□□□
c. RUASTRYE □□□○○□□□
d. NIEGLABT □○□□□□○○
e. Unloading of shares followed by a quick repurchase : ___ (4,4)

Quick look at financial apps

1. **EconNation**
   EconNation categorizes articles from the top ten most popular economics blogs and displays them in a mobile-friendly format. By providing users with multiple perspectives on global financial issues, EconNation provides an unbiased and well-rounded gateway to economics news.
   Topics include World, Money, Politics, Environment, Educatin, Technology, Health and Law
   Available for iPhone, Android, iPad

2. **Central Banks**
   Central Bank presents the latest information from the world's major central banks. Now, from one place, you can keep up with updated news from the developed-world's monetary policy makers.
   The central banks currently included are the US Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan, and the Bank of Canada.
   Any of the feeds can be individually enabled or disabled from the opening screen, and content can be shared from a button on the page.
   Android and iOS (optimized for both iPhone and iPad)

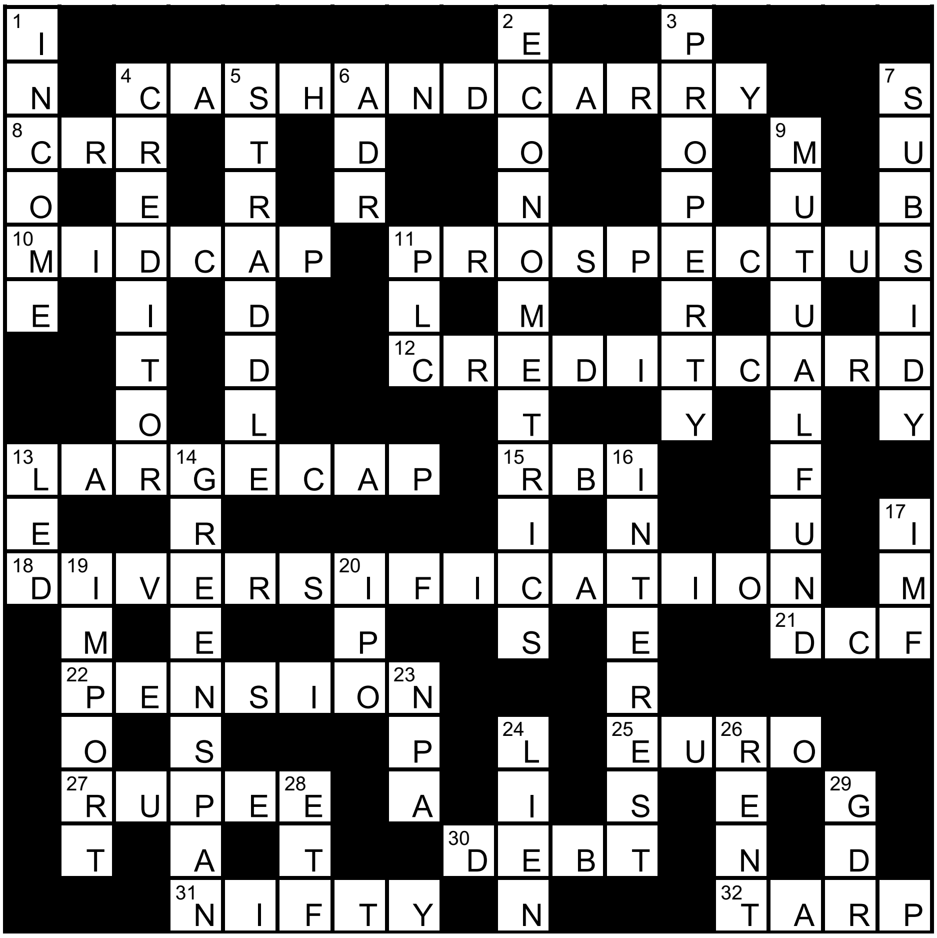
3. **Moneysage Lite**
   Moneysage is a must have portfolio management tool for people who invest heavily in Mutual Funds in India.
   Features include: 1. Comprehensive library of Indian Mutual Funds. 2. Daily NAV update for all funds. 3. Daily NFO updates. 4. Ability to add to portfolio. 5. Position Keeping. 6. Push Notifications for daily profit or loss. 7. Web version also available.
   Works on Android, iPhone platforms

Fintainment Section Credits

Mangesh Ghogre

Mangesh Sakharam Ghogre, an alumnus of VJTI and NMIMS, is a professional investment banker with a passion for equity markets and words alike. He is a cruciverbalist and an international crossword constructor with crosswords published in Wall Street Journal, Los Angeles Times and recent acceptance by The New York Times. He has the unique distinction of being the first and the only constructor from India to be invited by the New York Times to be a judge at the prestigious American Crossword Tournament. He is also a freelance writer and his columns have been published in leading dailies like The Economic Times, The Hindu Business Line, Deccan Herald and The Times of India – including its much-followed Speaking Tree column. His published work is available at www.mangeshghogre.com

Solution of Fintainment Section



Answers of Quiz

Answer: 1 - c

Answer: 2 - b

Answer: 3 - a

Answers of Jumble

Answer 1: **a** - DEMERGE, **b** - STOCK, **c** - OPTION, **d** - CHURN, **e** - LIEN, **f** - GREENSHOE

Answer 2: **a** - SWAP, **b** - MONEY , **c** - SPOT, **d** - FORWARD, **e** - CURRENCY, **f** - CARRY TRADE

Answer 3: **a** - GROWTH, **b** - SURPLUS, **c** - TREASURY, **d** - TANGIBLE, e - WASH SALE

Partner Exchange

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