January, 2011

# Banking & Finance DIGEST

Issue : 5

# Alternate Investment Market

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# ABOUT FICCI

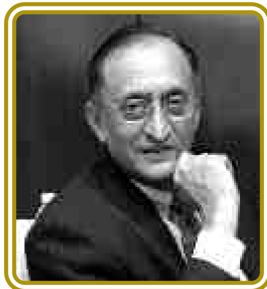
Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 39 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 79 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.

# PREFACE



As we embark on a new calendar year and approach the final quarter of the current fiscal year, it gives me immense pleasure to release the 5th Issue of our widely acclaimed Banking & Finance Digest. I am hopeful that our endeavour through this Digest will go a long way in guiding our stakeholders and facilitating a comprehensive forum for dialogue amongst the Indian Inc. and the Government. FICCI's extensive network of industry members has given an overwhelming response to our previous Issue 'Role of Financial Institutions in financial inclusion'. Eminent people of the Industry expressed their candid opinions on how financial institutions can play a larger role in fostering the process of financial inclusion and how the Government can act as a facilitator of an enabling environment for growth.

This Issue comes to you at a crucial junction wherein the Indian economy has witnessed successive hikes in Interest rates leading to a tighter liquidity situation. Given the hike, the growth prospects of Indian industry could be dampened as industrial production figures have dipped to a low of 2.7 percent and all measures to tame inflation of raw material and fuel cost have failed. As markets are becoming more volatile, investors are continually seeking ways and means to diversify their portfolios. To meet the funding needs of the growing economy, the need of the hour is Alternate Investments. "Alternative Investments" such as private equity, hedge funds, commodities, structured products, foreign currency among others present real diversification strengths through their exposure to risks other than market risks, diversifying the risk across not just asset classes but also geographies. This tends to improve the efficiency and reduce volatility. With the continuation of the country's rapid economic growth and financial market liberalisation and regulatory reforms, a better penetrated and evolved Alternate Investment Market will not only ensure that the wealth generated is better restored  but also give much needed further push to the growth of the Indian economy.

Through the voice of some of India's leading names of financial sector, this issue brings to the forefront the perspectives of experts from Indian Inc. and financial sector intermediaries on 'Alternate Investment Market'.

We thank our partners MCX-SX for extending their support to help achieve our endeavour.

We do look forward to views and suggestion from the readers to help us improvise the content of the Digest and make it more relevant and informative.

Dr Amit Mitra
Secretary-General
FICCI

# Regulatory Clarity Critical for Alternate Investment Market

***Somasekhar Sundaresan***
*Partner, J. Sagar Associates*

One of the fundamental requirements of a robust market for investment products is a sound regulatory framework that affords complete predictability of cause and effect, not only for those who structure such products, but more importantly, for those who invest in such products.

Universally, financial services and financial investment products would never cease to be a regulated activity. Even segments of the market that were once considered to be "big boy" play, not requiring protection from a regulator, are now attracting the attention of regulators worldwide - blue-blooded hedge funds have been able to claim that they were taken for a ride by investment banks; the International Organisation of Securities Commissions is closely looking at the interests of investors in private equity funds; stock exchanges with separate segments for trading in alternate investment products are chary about the perception of laxity in regulation of such segments.

However, as regulation of conventional investment activity increases, newer alternative investment products would emerge. With regulation playing catch-up, newer nuances and alternatives would get structured. So long as the single biggest challenge to the development of market confidence in India remains - the absence of an effective and speedy resolution of civil suits for damages in Indian courts - political pressure on regulators to be more proactive and assertive will increase.

Regulators, armed with generic powers to do good (powers that enable regulators to take such action as may be necessary in the interests of investors) will be called upon to exercise their powers creatively and greater force.

Therefore, whether India would develop a robust market environment that would enable different types of investment avenues to thrive in a predictable manner will depend on whether Indian regulators can deliver clarity, predictability and a transparent cause-and-effect relationship about market conduct. Unfortunately, the current trend, in fact, points in a different direction. Consider this:-

- The term "collective investment scheme" as defined in the Securities and Exchange Board of India Act, 1992 ("SEBI Act") is defined very widely. The interpretation adopted by SEBI to determine whether or not an investment product that constitutes a collective investment scheme is even wider.
- Private trusts formed to invest in art, without inviting money from the public, were threatened by SEBI in the form of a press release stating that such funds would constitute collective investment schemes and would therefore require registration with SEBI. In fact, show cause notices were issued to a few private art funds asking why they should not be penalized. However, till date, no final order, either holding such funds to be illegal or clarifying that they are indeed legitimate, has been issued.
- Even in the conventional investment sector, there has been lack of regulatory clarity. The "unit linked insurance plans" of life insurance companies, which are a hybrid between stock market investments and insurance coverage, with the returns on market investments subsidizing the insurance premium, were regarded by SEBI as being "mutual funds"[1].

These are but symptoms in sectors that are already regulated and organized. Even in such sectors, despite the providers of different classes of investment products being affiliated, and the consumer of such products being the same, the regulatory framework creates a number of hurdles for a seamless legal relationship between the product providers and the consumers. For example, if money is owed from a broker to a client on the National Stock Exchange ("NSE"), and money is owed from the client to the broker on the Bombay Stock Exchange ("BSE"), despite the parties being the same, the dispute resolution machinery provided by the two exchanges, work in silos. The arbitrators on the NSE cannot take note of the amounts due and owing between the very same parties on account of transactions on the BSE.

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[1] *The definition of collective investment schemes explicitly excluded insurance products, but SEBI indeed asserted its jurisdiction and directed that such products should not be sold without being registered with SEBI. The insurance regulator, the Insurance Regulatory Development Authority, issued an order directing that insurance companies should ignore the SEBI directive. The two warring regulators could not be reconciled by the Government of India and the Finance Minister, in fact, recommended that the regulator should approach an appropriate court to settle their differences in a judicial forum. Of course, subsequently, a new law was passed explicitly stating that such insurance products would not be considered as collective investment scheme.*

Likewise the arbitrators on the BSE cannot take note of the accounts position on the NSE.

Alternate investment avenues where there a regulatory framework is not readily available can pose even more complexity. Take the case of investment products based on price movements in commodities markets. Not only is the regulator of market players in the commodities space different from the regulators regulating the financial sector, even the ministries within the Government of India are different. The regulatory objectives, unless well coordinated, can pose untold complications, and pre-empt the evolution of maturity in the market.

Derivative products based on commodity prices, and products structured to track more than one commodity would all pose specific challenges for the policy maker. A product that combines exposure to prices of commodities and say, the price of securities of companies in that commodity industry - for example, a product that combines price exposure to gold and to gold mining companies, can pose regulatory challenges. A mature, concerted and collaborative view would have to be taken by all regulators, failing which such products would not thrive.

Against this backdrop that one would have to examine how best to ensure that the concerns of the regulators and the interests of the investors as well as product suppliers are addressed and safeguarded. A predictable environment is very critical for development and evolution of volumes in the market for such products. In the absence of volumes, a market would remain immature and the absence of a growing number of investors engaging in buying and selling such products would keep the process of price discovery for such products at a sub-optimal.

The appointment of the Financial Sector Legislative Reform Commission may well present an opportunity to think through such issues with a fresh and open mind. It is an opportunity that could mark a new era for alternative investments in India.

***Somasekhar Sundaresan***
*Partner*
***J. Sagar Associates***

Somasekhar Sundaresan is a partner with J. Sagar Associates, a large national law firm in India, and heads the firm's securities law and financial sector regulatory practice. He joined the firm as a partner in 2002, as part of a merger, prior to which he was a partner with Udwadia, Udeshi & Berjis, a Mumbai-based niche law firm, with a focus on financial sector laws.

Somasekhar has extensive experience and expertise in advising clients in the area of foreign investment, banking and financial institutional sector, and mergers and acquisitions, particularly, those involving listed companies. He has advised a number of banks, securities issuers, merchant bankers, stock brokers, mutual funds, fund managers, foreign institutional investors, non-banking financial companies, stock exchanges, securities depositories, and other financial services intermediaries.

Currently, Somasekhar is advising the Insurance Regulatory and Development Authority on development of a regulatory policy for M&A activity in the insurance sector. Over the past fifteen years, he has extensive experience and expertise in the evolution of securities laws in India. He has been involved in some of landmark securities law matters, acting as Counsel before SEBI, the Securities Appellate Tribunal and the Supreme Court of India.

Somasekhar recently served as a Permanent Invitee of the Working Group on Foreign Investment, set up by the Ministry of Finance, Government of India, which submitted its report in July 2010. Somasekhar was an active member of the Takeover Regulations Advisory Committee, constituted by SEBI to comprehensively re-write the Takeover Regulations, and was involved in drafting the newly proposed regulations. He is a permanent invitee to the executive committee of FICCI, and is an active member of its capital markets committee.

Somasekhar has a Bachelor's degree in Commerce from the Mumbai University and qualified as a lawyer in 1996. Somasekhar is a columnist and writes a fortnightly comment column on business law and policy in India titled "Without Contempt" in the Business Standard, and is a guest contributor on the Indian Corporate Law Blog, a leading blog on law and policy affecting business in India

# Alternative Investments Markets

***Anup Bagchi***
*Executive Director, ICICI Securities Limited*

Much has changed in the last decade with respect to the distribution of wealth across the nations. The BRIC economies have moved ahead with tripling their GDPs in these years and in turn creating wealth even for individuals. Specifically for India, the High Networth Worth Individual (HNWI) segment has grown by over 18% every year (except for 2008) in the last five years. Despite the meltdown in 2008, this segment grew by over 50% in the year 2009 and it is expected that India and China will lead this growth globally.

Managing wealth of HNWI has its complexities with respect asset allocation to provide growth and protection. The key to managing investments is allocation of assets in different classes. This itself could be governed by the overall objective of growth, income & protection. Traditionally asset allocation has been done in four asset classes...Equity, Debt, Cash or deposits and property. However given that Equity as an asset class has outperformed all others, over a longer period of time, the concentration of HNWI in the past has been Equity and thereby managing the risks in equities. Various investment strategies like portfolio diversification, investments across sectors and allocation across geographies (developed & emerging) have been adopted to control the risk better. But after a certain point, over diversification within equities impacts the return and gives a debt like return. Also with globalized and interconnected markets,

geographical diversification doesn't completely diversify the risk.

HNWI's interest in Alternative Investments can be explained in particular through the fact that these investments actually present real diversification strengths through their exposure to risks other than market risks.

An alternative investment is an investment product other than the traditional investments of stocks, bonds, cash or property. The term is

a relatively loose one and includes tangible assets such as Art, Wine, Antiques, Coins or Stamps and some financial assets such as commodities, private equity, hedge funds, structured products, venture capital and financial derivatives. Amongst the more popular are the Hedge Funds and Alternative Investments are largely linked to them in the developed countries. In India, Hedge Funds are not as popular in this category and larger portion under this asset class comprises investments in gold, gems and jewelry.

Some of the characteristics of alternative investments may include:

1. Low correlation with traditional financial investments such as stocks and shares. This makes them ideal for investments for diversification. AI, specifically the Hedge Funds can adopt various strategies like market neutral , Relative Value, or Convertible Arbitrage which generally have a low level of correlation with the performances of the stock markets. Others with strategies like Short Selling and Market Timing can have market dependence.

   However in the meltdown of 2008, some of these assumptions have been challenged and it is imperative for investors to understand the nature of underlying asset and credit risks that can impact the performance of even a market neutral fund.

2. Alternative investments may be relatively illiquid and this is one of the key limitation of this asset class. This means that an investor needs to seriously align the maturity of these assets with his or her future cash requirements. Offloading these investments before maturity can lead to a fair amount of loss since the transaction costs of these investments are more and markets for transactions limited.

3. Given that Alternative Investments follow different strategies which are themselves evolving, there is very limited information on historical risks and return data for that specific strategy. This means that an investor needs to do a high degree of analysis before investing.

4. It may be difficult to determine the current market value of the asset and hence difficult to track performance on a regular basis.

Culturally and historically, the HNWI in India have been investing in Alternative Investments like gold, gems and jewelry. These investments at times have not been driven by economic consideration but by need and passion to own tangible assets. As per the Capgemini/Merrill Lynch Financial Advisor Surveys 2010, the Alternative Investments comprises 8% of the overall assets of the HNWI in India as against a similar percentage of 8-10% globally. These diversification held them well even during the financial crises in 2008. With more Alternative Investments options being made available to this discerning class of investors, the asset allocation percentage is likely to increase. In India, developing a deeper market for Alternative Investments can play an important role in fostering entrepreneurs through Venture Funding and Private Placement. The asset class can also develop a deeper market for antiques and art, thereby truly bringing value to these objects of value. In the past many countries, like UK, Singapore and UAE have taken specific steps to foster

Alternative Investment Markets within their countries and thereby create regional financial hubs.This development has led to these nations playing larger role in the overall development of financial markets.

There is no doubt that the growth in our economy will throw open a host of opportunities in terms of demand from the HNWI segments for newer investment opportunities specifically in alternative investments. We expect this market to grow by over 20% given the growth in the segment itself. It will be imperative for firms to first develop the Alternative Investment Markets by introducing new products in this segment and by educating the HNWI's about how these can be used to diversify risks. The other aspect is of specialization. With products and investment avenues getting more complex firms will have to involve specialists / advisors in their advisory and product development teams. There is also a need for the Government and the regulators to look at various options to develop markets for such investments not only for the HNWI in India but also across the globe. Deeper and more matured Alternative Investments Markets will also ensure that the wealth created is better protected and that the growth of the assets will further accelerate the growth of the economy.

**Anup Bagchi**
*Executive Director*
***ICICI Securities Limited***

Mr. Anup Bagchi is the Executive Director of ICICI Securities Limited. ICICI Securities Limited (i-SEC) is India's leading investment banking firm and is the first service in India to provide complete end-to-end integration, for seamless electronic trading on the stock exchanges through its brand ICICIdirect.com Apart from being a leader across the spectrum of investment banking, it offers every aspect of business from domestic and international capital markets advisory to M&A advisory, Private Equity syndication, Restructuring and infrastructure advisory.

During his 15 years tenure, with ICICI Bank he has held many key positions in the field of Retail Banking, Corporate Banking and Treasury. He is also the Director in ICICI Securities Limited, ICICI Securities Inc., Comm. Trade Services Limited and Financial Planning Standards Board, India. He has done his B.Tech from IIT Kanpur, followed by a MBA in finance from IIM Bangalore.

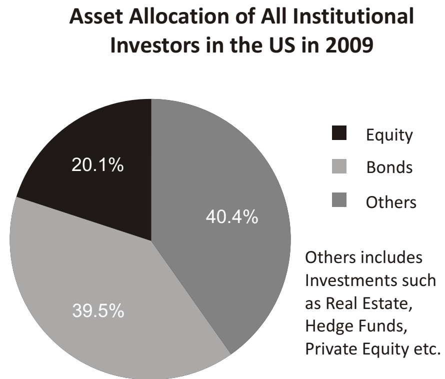
Mr. Bagchi was honoured with The Asian Banker Promising Young Banker Award, He was the only leader to be named for this award from India. Recently Business Today has named Mr.Anup Bagchi as one of India's Hottest Young Executives. His hobby entails reading, on a regular basis.

# The Alternate Investment Market: An Indian Exchange Perspective

*Dr. Ranjan R Chakravarty and Arbind Kumar FRM*
*Research and Product Development, MCX Stock Exchange*

Enhanced portfolio diversification with better risk return payoffs than traditional investments have increasingly been attracting investor attention to other asset classes offering superior return with higher risks. This superior risk-adjusted return comes at the portfolio level with the inclusion of nontraditional assets offering low or negative correlation with existing investments. These are known as "Alternative Investments". "Alternative" assets include real estate, infrastructure, private equity, hedge funds, commodities, art, antiques and other innovative investment instruments.

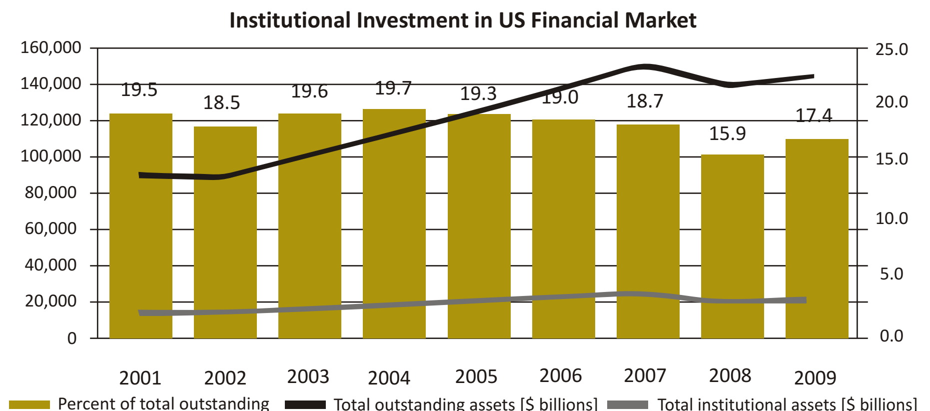
**Asset Allocation of All Institutional Investors in the US in 2009**




*Source: the Conference Board 2010*

Typically, participation in the alternative investment instruments is dominated by the institutional investors. Out of the total asset, generally 20 percent is held by the institutions, out of which they invest nearly 20 percent in alternative assets. Globally the total investment in Alternative Investment Instruments, which includes

**Institutional Investment in US Financial Market**

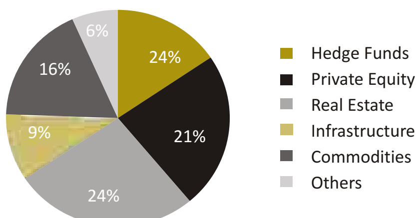



*Source: The Conference Bond 2010*

structured products, hedge funds, derivatives, foreign currency, commodities, private equity and venture capital was 10 percent of total assets in 2006, which came down to 6 percent in 2009 and is expected to grow to 8 percent in 2011 (Source: Capgemini/Merrill Lynch Financial Advisor Surveys).

Globally, the distribution among various alternative investments instruments in 2009 comprised of hedge funds (27%), Commodities (16%), foreign currency investments (13%), structured product (20%) and other instruments (24%). A substantial amount of the alternative investments go to the small and medium enterprises, either in form of equity or structured debt. According to the global  survey by J P Morgan for investment opportunities for next 3 to 5 year hedge funds, private equity and real estate appears to be the most preferred alternative vehicle of investments. The growing awareness and subsequently increasing demand for the alternative investment market, has led to the better risk

**Greatest Investment Opportunities Over Next 3 to 5 years**




*Source: Alternative Assets Survey April 2010 by JP morgan*

management practices globally. The imbedded concerns in these investment class, such as varying skewed risk characteristics, higher probability of default, transactional opacity, lack of efficiency, competitive and transparent price discovery infrastructure, illiquid and shallow market, limited participants, high transaction cost etc. which require careful attention and needs to be addressed globally as well as domestically. Internationally, investors, participants as well the careful thinkers of the financial markets are necessitating the requirements of these products and other instruments offering risk protections for these investments to be traded on the organized exchanges in order to reduce associated risks and minimize effective cost of holding. Organized trading on the exchange with default free settlements of trades through the clearing corporations offers high credibility of instruments in a transparent and cost effective manner.

With the events of the last few years, namely, the financial crisis and the subsequent regaining of investors' appetite for risks, wealth managers across the globe have renewed their evaluation of the opportunities of alternative investments. According to a report by the Boston Consulting Group, 'Global Wealth 2010', assets

under management (AUM) across 62 markets is nearly 99 percent of global GDP. In 2009, the AUM increased by 11.5 percent Y-o-Y to US$ 111.5 trillion. North America posted the greatest absolute increase in wealth of US$ 4.6 trillion, but the largest percentage growth was witnessed in Asia-Pacific (ex Japan), where wealth increased by nearly 22 percent or US$ 3.1 Trillion. This trend continued in 2010 as well.

Currently, the Indian hedge fund universe is very modest with around 50-60 funds. Many India-based hedge funds focus on small and mid-cap, Private Investment in Public Equity (Pipe) and pre-IPO investments. Recently, Indian hedge funds have started offering the kind of strategies which can attract giant hedge fund groups operating in the developed markets like the UK and the US. Typically the larger global

| Global Hedge Fund Asset Allocation as on 31 May 2010 | |
|---|---|
| **Fund / Strategy** | **Sector Weights** |
| Convertible Arbitrage | 1.80% |
| Dedicated Short | 0.20% |
| Emerging Markets | 7.50% |
| Equity Market Neutral | 2.10% |
| Event Driven 26.70% | |
| Fixed Income Arbitrage | 3.60% |
| Global Macro | 18.70% |
| Equity Long Short | 21.90% |
| Managed Futures | 3.80% |
| Multi-Strategy | 13.70% |
| Source: Credit Suisse, Hedge Fund Industry Review | |

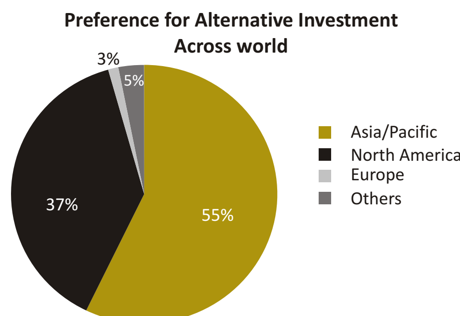
hedge funds allocate 10-15 percent of their fund allocation to emerging markets including India. The exposure is generally achieved either through direct investment into dedicated India-based hedge funds, or via the firm's global emerging markets or pan-Asia funds, which then allocate a variable portion to Indian investment instruments. Typically India focused funds are risk averse and illiquid, which falls short of alphagenerating strategies but helps alleviating volatility in emerging markets. The allocation of global hedge funds to the emerging market is nearly 7.5 percent.

In India, the regulators – Reserve Bank of India (RBI) as well as the Securities & Exchange Board of India (SEBI) are taking calibrated steps to develop the alternative investment markets. While the level of industry adoption will probably vary, there are significant opportunities for leaders to drive further innovation. It would include advice, delivery, existing product positioning, new product innovation, delivery mechanism, tailoring the service delivery model to reach more focused segments, tools for advisors and investment specialists.

> Alternative investment can only be as liquid as the underlying market

Invoking the U.K. experience, it is heartening to note that the AIM platform, which facilitate trading of small and medium enterprises, at the LSE experienced growth even as the broad economy faltered in recent years. The investment in small and medium enterprise offers opportunities very similar to the private equity investments. In effect, what can be noted is that this kind of platform potentially provides an economy-wide funding and investment diversification mechanism which can be of great use in turbulent times. From the MCX-SX perspective, this ties in well to MCX-SX's commitment to innovation for offering quality products and services in a cost effective manner, integrated with the ecosystem and encouraging wide participation.

**Preference for Alternative Investment Across world**




*Source: Alternative Assets Survey April 2010 by JP Morgan*

The survey by J P Morgan also highlights that the Asia-Pacific region is most preferred market for investment across world. India undoubtedly offers unique

Alternative investments are probably the best vehicles through which to maximize the phenomenal growth on offer in India's huge and rapidly growing economy

investment opportunity in the region. There are certain areas of the Indian market which need to improve in order to encourage Indian alternative investment market activity – mainly revolving around ease of access and investment flexibility – since equities will continue to present the best strategy for Indian-based investment in the near future. India is pretty much an equity story but the dire need is to develop and induce liquidity in other asset classes.

Alternative investment can only be as liquid as the underlying market; if the markets are inefficient and drying up, so do the investors. Even the Indian equity market needs to be relooked for its shallowness for local investors as well as foreign investors. Whatever the regulators can do to ease market access for investors, will be positive for the markets as the increase in participation from serious investors would also help deliver and sustain efficient and transparent pricing mechanisms.

The exposure to alternative investments in India has increased in the last couple of years with the increasing clarity of government fiscal and monetary policies, expected reduction of India's fiscal deficit, ongoing regulatory reforms, increasing entrepreneurship, privatization and infrastructure shaping up with overall economic growth coupled with investor friendly environment.

Alternative investments are probably the best vehicles through which to maximize the phenomenal growth on offer in India's huge and rapidly growing economy where more than 40% of India's population is below 20 years old pointing to a very strong and sustainable demographic dividend. The workforce is increasingly well educated and developed, and the ingredients are there for this to become a longer term success story. Alternative Investment Managers would do well to continue engaging seriously with to this market as one that provides among the best risk return profiles in the world into the near and foreseeable future.

## Growth of Alternative Investment Markets: Need, Cause and Impact

Growth of alternative investment market denotes the development of Financial Sector and its participants such that all needs of finance by any economic agent is met at efficient cost. While the need for such funding has been there for long, but

underdeveloped market fulfills this need of such financing at a higher cost and to a lower extent. With development, the cost comes down and quantum of funds available goes up.

Amongst the major factors responsible for development of the alternatiove investment market, some of the important factors are globalization of financial markets, greater competition, creation of exchange for alternative investment, etc. India is moving in the same direction and in the most developed state, an asset will be prices based on its risk profile and demand and supply factors in relevant product market and financial market. The impact of a well developed and competitive financial market is that cost of capital in such market is allocated to any asset class at a most efficient rate in the desired quantum and the flow of funds depend on rate of return vis-à-vis cost of capital. We believe India will achieve its status as a developed market in the region with such efficient and competitive financial market servicing the entire Indian economy pan India and also the region as India opens further.

***Disclaimer: The view expressed hereby is solely of authors, not of the organization***

***Dr. Ranjan R Chakravarty***
*Research and Product Development*
***MCX Stock Exchange***

Dr. Ranjan R. Chakravarty, Head of Research and Products, MCX-Stock Exchange, is responsible for the creation and launch of Equity, Fixed Income, and Derivative products, Indexes and ETFs. Prior to this, Dr. Chakravarty was responsible for developing the India Credit Markets business.

Before coming to India, Dr. Chakravarty gained wide experience in multiple asset classes, in both developed and emerging markets. He has held senior positions in Investment Banking in the U.S. and Asia. From 1999 onwards, as Managing Director and member of the Asia Management Committee at Hypovereinsbank Group, Singapore, he was responsible for all Treasury and Investment Banking products across Asia. At GE Capital, in Stamford, Connecticut, he managed a preferred equity and high yield debt portfolio. At Bank of Boston, he managed Emerging Market structured products. He began his career with Bankers Trust in New York.

Dr. Chakravarty is a Post Doctoral Fellow from the Columbia Business School. He has a Ph.D. in Finance from the University of Texas, and a Master's in Economics from Syracuse University.

***Arbind Kumar FRM***
*Research and Product Development*
***MCX Stock Exchange***

Arbind Kumar FRM is a senior member of the Research and Product Development team at MCX Stock Exchange. Mr. Kumar's extensive experience of nearly two decades in various industries includes several financial products and their derivatives across asset classes as Equity, Indices, Interest Rate, FX, Commodities; Traditional as well Alternative investments, Risk Management and Consulting.

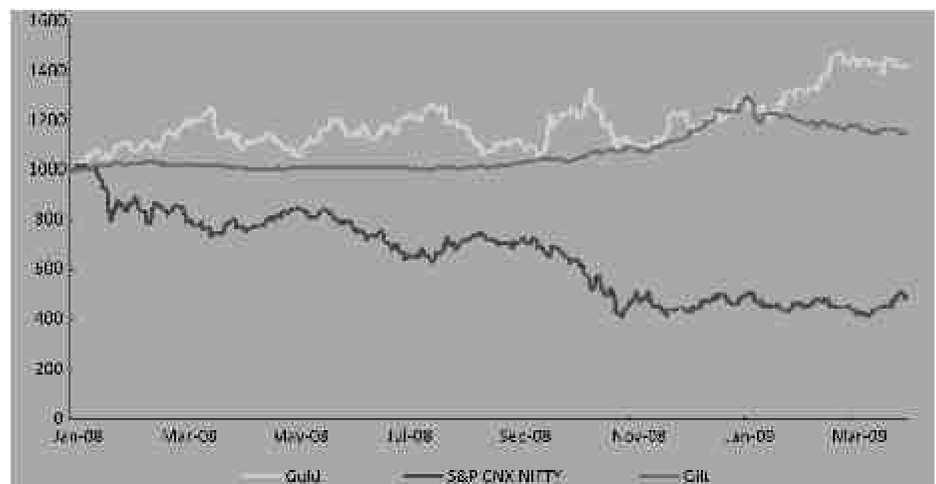
A member of Global Association of Risk Professionals, USA, Mr. Kumar has an MBA (Finance). He coaches Finance professionals in Advanced Derivatives Trading strategies, Risk Management and advanced Portfolio Analysis Models.

# Gold ETFs - A key Imperative for Asset Allocation

***Tarun Bhatia***
*Director, Capital Markets, CRISIL Research*

Asset allocation is the process of determining the optimal investment share between different asset classes such as equity, debt, gold, real estate, other alternate asset classes and cash in a portfolio. Over the years, asset allocation models have moved from allocation between basic asset classes such as equity, debt and cash to the investments in real estate, commodities such as precious metals, crude oil and even art. Asset allocation models have also looked at investments in sub-groups such as large, mid and small-cap equities and long and short-term debt. The most important point to be considered for asset allocation models is that the model should have a mix of low - correlated assets. In CRISIL's opinion, gold is an asset class that should be specifically considered by investors for asset allocation. Gold exchange traded funds (ETFs), which have been in existence for almost 4 years, are the simplest means for investors to take exposures to gold.

**Chart 1: Performance of Gold, S&P CNX Nifty and Gilt during financial crisis of 2008 (Jan 2008 to Mar 2009)**




***Source: NCDEX, NSE, CRISIL Research***

## Gold - an important option for asset allocation

Gold is considered to be one of the safest havens for investments. Typically, during uncertain times, gold acts as an effective hedge. For

example, just after the 9/11 terror attacks in the US, while both stock markets and bond markets crashed across the world, gold held steady and, in fact, rose on that day by 6%. Similarly during the financial crisis in 2008, gold prices increased by 28% while the S&P CNX Nifty (Nifty) declined by 51% during the year.

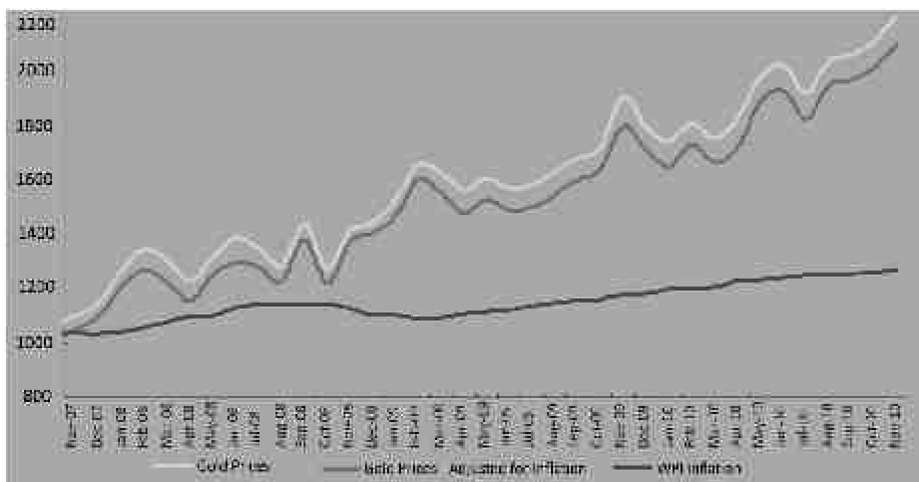
Notwithstanding its status as a crisis commodity, gold has a significantly lower correlation to asset classes like equity, debt and other commodities. This benefit makes gold a suitable asset for diversification and asset allocation.

Gold has a positive correlation with inflation and can be considered as a good hedge against rising prices. Investments in gold, as compared to those in other asset classes, can be expected to yield a higher return than the growth in inflation. Another point that investors need to be aware of is that while almost all asset classes depict cyclical movements, gold is one asset class that has consistently provided healthy returns. Adjusted for inflation, gold has given a positive return over the past 3 years.

## Gold ETFs - a good medium for investing in gold

Investments in gold can be made either by holding physical gold or by investing in gold ETFs. Gold ETFs are passively managed mutual funds that invest money collected from investors into standard gold bullion (99.5 per cent purity). The investment objective of Gold ETFs is to provide pre-expense returns corresponding to the returns provided by investing directly into gold.

**Chart 2: Gold as a hedge against inflation**




***Source: NCDEX & RBI***

## The advantages

Gold ETFs provide various benefits to investors in comparison to holding physical gold.

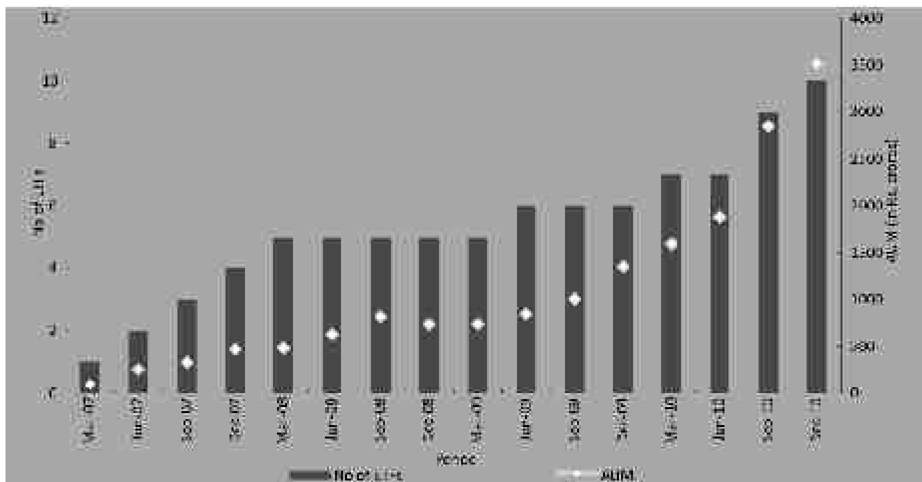
- **Affordability**: Gold ETFs are affordable and are ideal for retail investors as they can buy gold in smaller quantities.
- **Purity of gold**: Gold ETFs guarantee the purity of gold which is not the case with retail physical gold.
- **No risk of theft**: Gold ETFs are issued in a demat form, thereby eliminating the risk of theft.
- **Liquidity**: Gold ETFs have high liquidity as they can be easily bought and sold like any other stock on the exchange.
- **Transparency in prices**: Prices of gold ETFs are quoted on exchanges, thereby making the process transparent.
- **Lower cost of holding gold**: The buying, maintenance and selling costs associated with gold ETFs are lower than that associated with physical gold.
- Tax benefits
  a. Long-term capital gains of 10% are applicable to gold ETFs for investments held beyond a year as against 3 years in case of investments in physical gold.
  b. Wealth tax is not levied on gold ETFs.

c. The securities transactions tax (STT) is not applicable on gold ETFs. Investments would however, attract a dividend distribution tax if the dividend option is chosen.

## Growth in gold ETFs

The first gold ETF in India was launched by Benchmark AMC in March 2007. Today, investors can choose from 10 gold ETFs operating in the market. The assets managed by gold ETFs have steadily increased since their inception and reached Rs 35.16 billion as on December 2010 (See chart 3). This reflects the increasing awareness amongst investors about gold ETFs.

**Chart 3: Gold ETF Industry growth**



*Source: AMFI*

## Performance of Gold

Gold has outperformed equity, debt and gilt mutual funds on a 3 and 5 years basis. Only equity mutual funds have been able to outperform gold on a 10 year time horizon. (Refer table 2).

Table 2: Including gold ETFs in portfolio can hand better returns

The benefits of including gold in an asset allocation plan is best explained by the following illustration-

Illustration: Investment of 20% of the equity component into Gold ETFs can

result into superior returns over the original portfolio for all three risk profiles.

Irrespective of an investor having a moderate, aggressive or very aggressive risk profile, a portfolio

**Table 1: AUM of Gold ETFs**

| Gold ETF | Fund House | Inception Date | Average AUM (Rs mn) Dec 2010 |
|---|---|---|---|
| Gold Benchmark Exchange Traded Scheme (Gold BeES) | Benchmark Mutual Fund | 8-Mar-07 | 15,063 |
| UTI Gold Exchange Traded Fund | UTI Mutual Fund | 10-Apr-07 | 4,494 |
| Reliance Gold Exchange Traded Fund | Reliance Mutual Fund | 22-Nov-07 | 3,406 |
| HDFC Gold Exchange Traded Fund | HDFC Mutual Fund | 13-Aug-10 | 3,153 |
| Kotak Gold ETF | Kotak Mahindra Mutual Fund | 27-Jul-07 | 2,433 |
| SBI Gold Exchange Traded Scheme (SBI GETS) - Growth | SBI Mutual Fund | 18-May-09 | 1,555 |
| Axis Gold ETF | Axis Mutual Fund | 10-Nov-10 | 955 |
| ICICI Prudential Gold Exchange Traded Fund | ICICI Prudential Mutual Fund | 24-Aug-10 | 856 |
| Religare Gold Exchange Traded Fund | Religare Mutual Fund | 19-Mar-10 | 382 |
| Quantum Gold Fund | Quantum Mutual Fund | 22-Feb-08 | 256 |

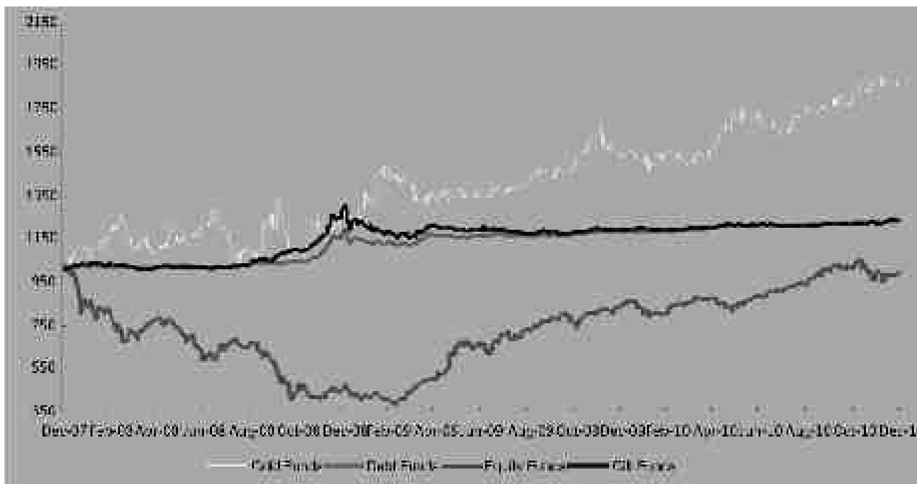
*Source: AMFI*

**Table 2: Gold performance versus mutual fund categories**

| Categories | 3 years CAGR (%) | 5 years CAGR (%) | 10 years CAGR (%) |
|---|---|---|---|
| Gold | 24.34 | 21.9 | 17.84 |
| Equity Funds | -0.23 | 16.33 | 22.78 |
| Gilt Funds | 7.33 | 6.79 | 9.23 |
| Debt Funds | 7.04 | 6.91 | 7.80 |

*Note: Figures as on December 31, 2010*
*Source: CRISIL Research*

**Chart 4: Performance of Gold ETFs vis a vis other mutual fund categories**



***Source: CRISIL Research***

allocating funds towards gold would yield a higher return as compared to a portfolio without any gold allocation.

## Key points to consider before investing in Gold ETFs

Given the growing interest in gold as an investment option and an uncertain global market scenario, more gold ETF schemes are expected to be launched by AMCs going forward. It is therefore, important for investors to be aware of certain key monitorables before investing in gold ETFs.

**Tracking errors:** Gold ETFs aim to provide returns that closely correspond to the returns from investments in physical gold. All gold ETFs are benchmarked to domestic gold prices. However, investors would do well to note that returns of all gold ETFs need not be similar.

Investors should look at tracking errors in a fund while making investment decisions. Tracking error is an estimate of how closely a gold ETF is able to track its benchmark. In technical terms, tracking error is the standard deviation of the difference between the daily returns of gold prices and the daily change in net asset value (NAV) of the respective gold ETF. Lower tracking errors mean that the fund been able to track the performance of gold better and therefore indicates good performance. Investors can source this information from the fund factsheet.

**Impact cost:** The impact cost is a measure of the volumes traded on the exchange for the ETF. Impact cost is also known as bid-ask spread. The higher the volume of a particular

| | Portfolio A (Moderate) | | Portfolio B (Aggressive) | | Portfolio C (Very Aggressive) | |
|---|---|---|---|---|---|---|
| | Scenario 1 | Scenario 2 | Scenario 1 | Scenario 2 | Scenario 1 | Scenario 2 |
| Equity | 40 | 32 | 60 | 48 | 80 | 64 |
| Debt | 60 | 60 | 40 | 40 | 20 | 20 |
| Gold | 0 | 8 | 0 | 12 | 0 | 16 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |
| Growth of Rs.10,000 after 3 years | 11,629 | 12,287 | 11,150 | 12,164 | 10,597 | 11,973 |
| % Return | 5.66% | 7.29% | 4.99% | 7.43% | 4.31% | 7.56% |

***Scenario 1: Pre rebalancing; Scenario 2: Post rebalancing***

fund, the less the difference between the bid and the ask rates. Bid implies the price at which the investor is willing to purchase the units and ask implies the price the seller is ready to sell his units. Investors should invest in funds with the least difference. This information can be obtained from the exchange where the ETF is listed.

## Conclusion

There has been a tremendous rise in retail investor interest in gold ETFs over the past few years. This can be seen from the phenomenal growth in the number of retail folios which stood at 2.35 lakh as of September 2010 as compared to just 0.63 lakh portfolios as of March 2009, a growth of over 270%. This shows that awareness about retail investment products like ETFs is gaining momentum and we can expect further growth in it.

**Table 3: Gold ETFs Tracking errors and performance**

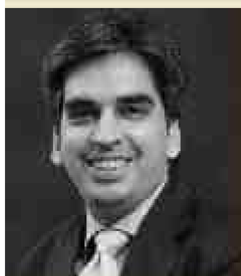
| Gold ETFs | 3 Yr CAGR (%) | Tracking Error | 1 Yr CAGR (%) | Tracking Error |
|---|---|---|---|---|
| Gold Benchmark Exchange Traded Scheme (Gold BeES) | 23.3 | 0.64% | 21.67 | 0.34% |
| Kotak Gold ETF | 23.15 | 0.65% | 21.69 | 0.34% |
| Quantum Gold Fund | NA | NA | 21.64 | 0.34% |
| Reliance Gold Exchange Traded Fund | 22.34 | 0.64% | 21.68 | 0.34% |
| SBI Gold Exchange Traded Scheme (SBI GETS) - Growth | NA | NA | 21.67 | 0.34% |
| UTI Gold Exchange Traded Fund | 23.21 | 0.64% | 21.72 | 0.34% |

**Table 4: Impact cost of Gold ETFs**

| Gold ETFs | Impact cost |
|---|---|
| Gold Benchmark Exchange Traded Scheme (Gold BeES) | 0.04 |
| Kotak Gold ETF | 0.08 |
| UTI Gold Exchange Traded Fund | 0.08 |
| Reliance Gold Exchange Traded Fund | 0.09 |
| SBI Gold Exchange Traded Scheme (SBI GETS) | 0.1 |
| HDFC Gold Exchange Traded Fund | 0.12 |
| Quantum Gold Fund | 0.24 |
| ICICI Prudential Gold Exchange Traded Fund | 0.38 |
| Religare Gold Exchange Traded Fund | 0.45 |
| Axis Gold ETF | 0.51 |

***Source: NSE (Data as on Dec 10)***

Given the uncertainty in global markets over fears of the health of developed markets and the consequent volatility in equity markets, investors should warm up to the idea of including in their asset allocation plan. CRISIL believes that gold ETFs will witness inflows over the coming months and expects more mutual funds to add gold ETFs to their bouquet of products.



***Tarun Bhatia***
*Director*
***Capital Markets***
***CRISIL Research***

Mr. Tarun Bhatia is currently Director – Capital Markets at CRISIL Research and has been associated with CRISIL for almost 9 years. In his current role he oversees the equity, mutual fund and fixed income research businesses of CRISIL. Prior to this, for 4 years, he was heading the financial sector ratings division at CRISIL with the responsibility of rating and review of financial sector entities including banks, non banks, housing finance companies, insurance companies and broker-dealers. His role involved providing opinion on risk which enables investors to make informed credit decisions and channelising ideas and infusing fresh perspective in the market. He also managed the microfinance and mutual fund ratings portfolio at CRISIL and was a member of the working committee of FICCI for reform of NBFC sector in India. In the past, Mr. Bhatia has spearheaded the structured finance off-shoring initiative for CRISIL. Mr. Bhatia has in-depth experience of Indian structured finance market both as an investment banker and as a rating analyst.

Mr. Bhatia has completed his post graduation in management from Jamnalal Bajaj Institute of Management Studies (Batch of 2000).

He has been a guest faculty on the subject of finance at leading institutes such as Jamnalal Bajaj Institute of Management Studies, Narsee Monjee Institute of Management Studies and SP Jain Institute of Management.

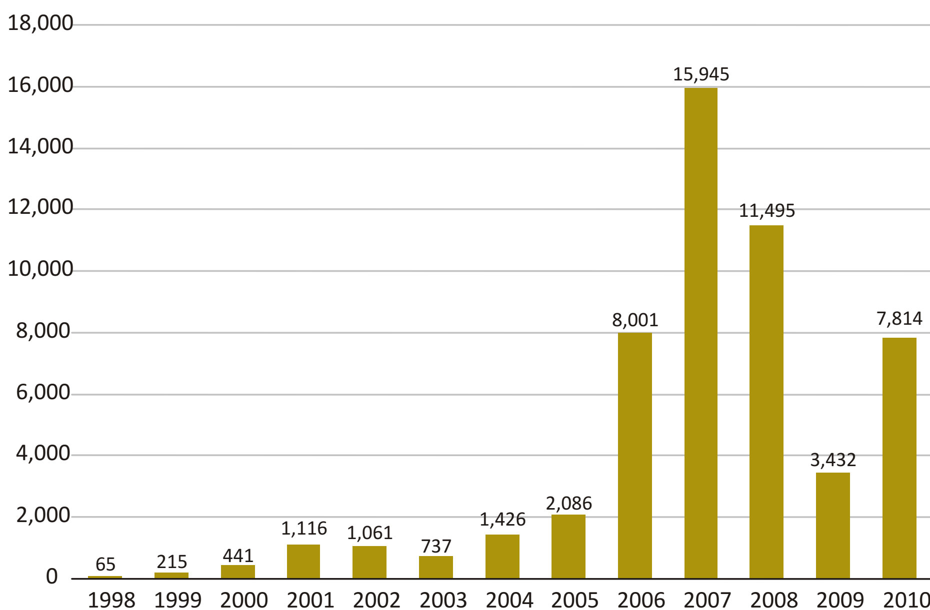
# Private Equity in India

**Bhavesh A. Shah, CFA**
*Executive Director - Investment Banking, JM Financial*

Private Equity is now well entrenched in India. As the fund raising alternatives have evolved, the Indian corporate has diversified, over decades, from term loans, public floats to private equity capital as a serious source of capital to finance growth. The concept of private equity capital in India is becoming well understood and is fast transforming from the notion of being capital with 'bells and whistles' to a 'growth catalyzing' capital.

Most of this transformation has happened in the last five years. Since 2006, as per our estimates, a total of USD 46.7 billion has been invested in over 1,300 deals. This translates to an average of over USD 9 billion of investment per year. This is a pretty staggering number compared to the fact that in the previous 5 years (2001-2005), the average investment was just about USD 1.3 billion per year.

Private Equity Investment Trend India USD MM



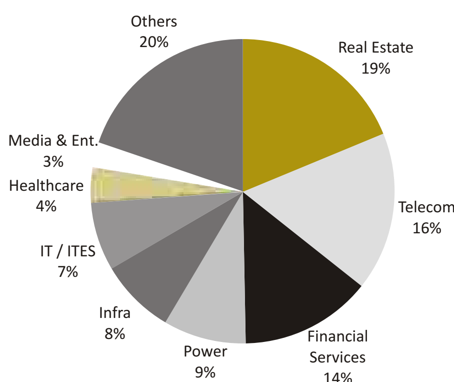

***Source: JM Financial Database***

We believe that one of the major inflexion points in the Indian history of private equity funding has been the exit done by one of the large private equity firms in 2005 in a large telecom services company. This deal exit made the world realize that there are substantial returns to be made in India with unhindered exits.

Ever since, the investors have flocked to India and today 15 of the top 20 global private equity investors are active in India. The total number of funds operating in India is in excess of 200. Supply does create demand, and with active marketing, the funds have been able to occupy the mind space with the Indian corporate world. The results are evident in the quantum of capital invested so far.

The private equity investment and investors have historically been very closely knit with the information technology space with most of the investments being done in related sectors. However in the last five years, it has been the capital hungry businesses that have dominated the fund raising scene with Real Estate topping the charts followed by Telecom, Financial Services, Power and Infrastructure.

PE Investment in India - By Sector 2006 to 2010




***Source: JM Financial Database***

Private equity generally refers to a very broad variety of deals where investment is done on a one to one basis with mutually agreed terms or structures. The style varies from a venture capital to growth capital to buyout of companies. The buyout style has been the mainstay for most of the private equity firms globally. India however has been predominantly a growth capital market, with investors injecting capital for growth and in return taking minority stakes in companies. In fact, many of the large global buyout funds have fine-tuned their strategy to adapt to the growth capital style for investments in India.

There are streaks of buyout deals being witnessed however, with the promoters being comfortable to sell to a financial investor than to 'competition'. A significant control investment can also iron out succession/ partnership issues where one of the promoter ties up with a financial investor to take the other promoters out.

With investments beginning to gather pace in 2006, the private equity investors who have a typical horizon of 4-6 years for their investments have been actively eyeing exiting some of their investments. In 2010, the exit activity began to take shape with total exits of USD 3.3 billion. Again, the deals where exits have happened have been very lucrative for the investors. We believe the momentum of exits will increase in the coming years.

Profitable exits will sow seeds for attracting more capital for India in the coming years. We believe that there is a potential 'dry powder' capital of over USD 30 billion waiting to be invested in India over the next 2-3 years. Part of this capital will also come through home grown entrepreneur funds, which have been started by Indian individuals who have demonstrated their track record in private equity investments.

With a huge quantum of capital waiting to be invested, the increasing openness of Indian corporate towards private equity and India continuing its growth momentum, we believe that the private equity investing is here to stay and is all set for achieving new heights.

***Bhavesh A. Shah, CFA***
*Executive Director*
***Investment Banking***
***JM Financial***

Bhavesh has over 18 years of experience spread over Investment Banking and Equity Research. In Investment Banking, he has spent considerable time on deal origination and has been associated with some of the significant deals in the Indian capital markets and private equity space.

He currently heads the Financial Sponsor (or Private Equity) coverage and is a part of the Investment Banking team at JM Financial, one of the leading Investment Banks in India and ex-partners with Morgan Stanley.

In 2006, he was in Morgan Stanley, Hong Kong, for four months covering the private equity investors on Asia Pacific basis.

Prior to joining the Investment Banking team in JM Morgan Stanley in October 1998, he had a 6-year stint in Equity research with Corporate and Economic Research Centre and JM Share & Stock Brokers Limited.

Bhavesh is a CFA charterholder since 1997 and is a member of the Council of Chartered Financial Analysts. He is also a CFA charterholder from the CFA Institute, USA, since 2001 and is a member of its Mumbai chapter.

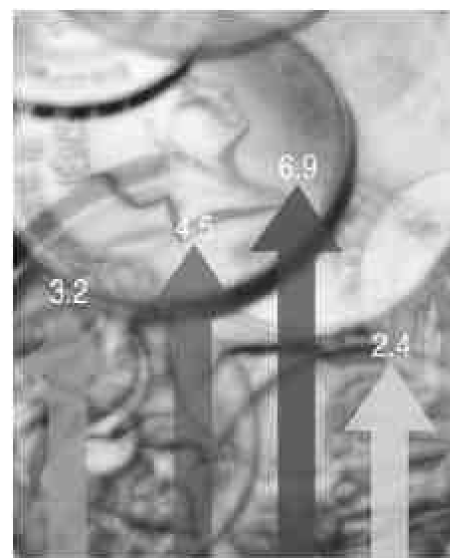
# Alternate Markets for Financing Growth and Innovation for SME

**_Chitra Ramkrishna_**
_Joint Managing Director, National Stock Exchange of India Limited_

In recent times, we have seen a lot of debate in the media and amongst policy makers about creation of alternate markets for financing growth and innovation. The idea has received broad based support, and has been welcomed by market participants as well as policy makers. To achieve success in this area, it is important to understand the needs of start up firms and those who invest in early stage capital. Companies at the early growth stage have needs that are different from those of more mature enterprises. It is worth examining whether we need to do something different to facilitate their access to capital.

It is also important to explore this idea from the perspective of investors. In public equity markets, investors generally focus on companies that have predictability in their business. The earnings of these companies may rise or fall depending upon the business environment and their ability to compete, but it is possible for investors to take a call on their prospects. Also, there are enough shareholders, and enough money at stake, to attract coverage by stock analysts. As a consequence, these companies are well researched, and enough information is available for investment decision making. In contrast, there is less interest in smaller firms and few analysts cover these stocks. At first glance therefore, it would appear that smaller firms are not suited for accessing public equity markets. However, as we will see, it is possible to overcome these problems and create a vibrant market for early stage equity capital.

Stock markets, despite the attention they receive, are only one of the many ways in which companies raise capital. Friends and family play a large role in funding entrepreneurs when they are just starting their business. Small businesses receive funding from their customers in the form of advances, and from the profits that are ploughed back into the business. Outside investors, evocatively called "Angels", have started playing an increasingly important role, especially for funding start ups. Many technology incubators provide support for



developing and proving ideas. Then come the Venture Capital and Private Equity firms that provide capital for the early growth stage. It is only after the company has grown past all these stages does the company think of a public listing. An IPO is thus seen as the culmination of a long journey.

However, venture based and alternate platforms have emerged as an important part of this ecosystem, supplementing and complementing the sources described above. In some countries, notably Canada (Vancouver) and South Korea (Seoul) alternate exchange platforms have given companies a new way of raising early stage capital. Typically, these platforms work closely with the local VC and Angel community, but they also engage with other institutional and retail investors who have an interest in small cap stocks. This includes funds that are focused on small caps, as well as professional retail investors with an interest in such companies.

In India, SEBI has created the framework for setting up similar markets. After discussion with market participants, SEBI released the SME market guidelines last year. These guidelines will enable smaller firms to raise capital from the public markets. SEBI has relaxed the entry norms for companies to list on the proposed platform by amending the Issue of Capital and Disclosure Regulations (ICDR). For companies listing on the SME platform, the offer document will not have to be approved by SEBI. This has been envisaged as a restricted market where only professional investors, in common terms, participate. This will be achieved through a minimum transaction size in the primary and secondary markets.

Alternate markets work best when they are able to balance the needs of investors, issuers and intermediaries. As in every other asset class, investors are interested in increasing returns and reducing risks. Investing in smaller firms is inherently riskier than investing in larger firms because the business is as yet unproven. This risk is well understood and as a result investors expect higher returns when they invest in a startup.

The route that every company takes to get equity financing depends on the cost it faces in raising funds, and the conditions that come with the capital raised. In general, venture funding comes with the framework where governance and monitoring of performance happens through strings attached in the form of a shareholder agreement that allows the VC firm to monitor performance and influence management decision making. In contrast, share holders who invest through public equity markets do not have any special rights. Public equity markets compensate for this by enforcing mandatory disclosures and governance clauses covered in the listing agreement. This extra servicing requirement raises the cost of raising capital from public markets. Historically, this has included advertising and printing costs, the cost of conducting "road shows", and various fees paid. Alternate markets try to bring down these costs in many ways through the use of technology.

Creating secondary market liquidity is a challenge for smaller firms and hence any market framework has to pay particular attention to this issue. India is primarily a retail driven market, and liquidity in large and mid

cap stocks is provided by retail investors. The smaller shareholder base of SME firms means that there are less buyers and sellers in the market at any time. In many of the markets, this problem is solved by creating a system of market makers. Market makers are intermediaries who stand prepared to buy and sell in the market. They help discover the price, and act as counterparty to the trade when other buyers and sellers are not present. An effective market making system is key to the success of this platform.

Like all other markets, success in alternate markets depends upon the creation of a vibrant ecosystem of companies, investors, intermediaries and service providers. Studies conducted in many countries have shown that a significant portion of employment generation in fast growing economies comes from new and innovative firms. In India, the software and IT enabled firms are a prime example of this. From humble beginnings in the nineties, IT and ITES firms have grown to provide employment to millions of young people today. As we move into an era of double digit economic growth, we need to focus on ways to increase employment. A successful SME market will go a long way in achieving this objective. In the past

two decades, Exchanges have been at the forefront of innovations that have led to the deepening of India's financial markets. The proposed SME market is a key initiative in this context, and has the potential to have a significant impact on innovation and growth in coming years.

**Chitra Ramkrishna**
*Joint Managing Director,*
***National Stock Exchange of India Limited***

Ms. Chitra Ramkrishna is currently Joint MD, National Stock Exchange.She has been the part of the core team of NSE, which has helped build the institution. She was formerly with IDBI.

# Search for Alternatives

**_Rashesh Shah_**

_Chairman, FICCI's Capital Market's Committee, and Chairman, Edelweiss Capital Ltd._

Even as I write this piece, Australia is ravaged by the worst floods in the last 50 years. According to most estimates the floods in three states have caused damages worth about $6 billion and could well impact Australian GDP growth by about 40-50 basis points.

Apart from the obvious misery the floods have caused to the Australian people, another set has also been badly hit by the floods. These are investors who may have bought into catastrophe funds betting against the risk of such floods.

Insurance Linked Securities or Catastrophe Funds as they are more commonly called are essentially bets against a catastrophe happening. The key difference is that rather that a re-insurer taking this bet, here the bet is being placed by High Net Worth Individuals interested in diversifying their portfolio. The way this works is that the insurer issues a bond whose returns are tied to the likelihood to a defined set of natural disaster happening over a certain period of time. If the events don't happen, investors earn a yield on the bonds that can be at times as high as 15%. But as in the case of the Australian floods, if disaster does strike the principal can be wiped out.

Cat Funds are of course one of the more exotic alternative investment avenues now being pursued globally, though they have not yet debuted on the Indian market. In fact the Indian alternative investment market is still very nascent. That itself is not surprising as it is only last ten years that we as Indians have started generating serious wealth.

In 1991, when India embarked on its economic reform programme our GDP was $278 billion. By 2001, ten years into reforms-led growth cycle this had touched $473 billion. But as the snowballing effect of sustained growth started taking shape in just six years the GDP doubled and by 2007 India was a trillion dollar economy. In the last four years we have added another $500 billion to our GDP and are likely to be a $1.5 trillion economy by the end of this year.

> "As Indians get wealthier, they would increasingly to seek diversify their portfolios, says Rashesh Shah"

India 2020, a research report Edelweiss released last year has forecast that a sustained GDP growth rate of 9%, a savings rate that is upwards of 30%, strong domestic demand and a young population will see India tripling its GDP to $4.5 trillion by 2020. During this period the report forecasts that Indian would have incremental financial savings of about Rs. 172 Trn, i.e four times the total financial savings over the last 40 years.

This kind of serious wealth generation will seek multiple avenues for investment. Undoubtedly bulk of the investments will go to traditional avenues like bank deposits, Mutual Funds, Insurance, direct investments in the equity markets. But as markets become volatile and investors seek to hedge their risks and diversify their portfolios, a significant proportion of savvy investors will seek alternative avenues.

Till recently, a lack of choice meant that an Indian investors' ability to diversify across asset classes was limited. A preponderance of Indian equity also meant a heavy concentration of risk. But investors today have a basket of products available which can spread the risk across not just asset classes but also geographies. This tends to improve the efficiency and reduce volatility.

The broad segments under which alternative investments avenues available in India are as follows:

## 1. Bullion

Traditionally Indians have been the biggest buyers of gold in the world. Over the last couple of years however a significant development however has been the advent and increasingly popularity of Gold ETFs. Gold has always been considered an excellent hedge against inflation. In recent times the popularity of Gold ETFs has also been fuelled by soaring gold prices. It seems quite likely that this trend will now broad base to other precious metals.

At Edelweiss we believe that investments in bullion, so far restricted to institutional investors through commodity exchanges could spread to retail investors as well, as we will see the launch of Silver ETFs to go with the already popular Gold ETFs.

Another avenue that Indian investors could explore is to buy units of Mutual Funds which invest in precious metal mining stocks globally. Currently there are a few such funds available in India as the demand for diversifying portfolios increases, more are likely to come

## 2. Real Estate

Globally, Real Estate Investment Trusts are a preferred way of investing in the real estate market, besides of course buying your own house. In India regulatory issues mean that this segment is not yet open to retail investors. What we have are Real Estate Mutual Funds where the minimum ticket size is so high that only institutional investors and HNIs can invest. In an effort to protect the retail investors SEBI has also put into place some stringent valuation norms which promoters of REMFs may find difficult to execute. However we believe over a period of time as the demand for alternative assets increases and the real estate market matures, SEBI could amend some of these guidelines leading to formation of a healthy REIT environment in the country.

### 3. Structured Products

Simply put, structured products are investments which seek to protect clients' capital while offering them moderate upside. These are essentially anti-volatility investments which also seek to provide reasonable returns. The way they work is that the fund manager invests certain equity and the remaining is hedged through debt and/or derivative instruments to protect the capital. Structured products are becoming an increasingly important part of wealth management offerings for HNIs.

### 4. Venture/Private Equity Funds

While VC and PE funds have been around for a while and have been involved in some iconic deals, participation of Indian HNIs in these funds is a trend that is only a few years old. We believe that such funds will find increasing favour with investors, though they have often faced a challenge of finding quality investments.

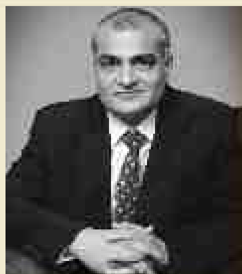
According to industry estimates the Assets under Management in the Alternative space in India are in the region of about $3 billion. At Edelweiss we believe this segment could see a 3x growth over the next decade.

What are the things to watch out for while investing in alternative assets? The basic rules of investing remain the same. The first rule is understanding the nature of the investment. One should be very clear about the risks involved in a certain kind of asset class and the rewards expected and then take a call whether the risk reward ratio is something that appeals to you.

The second rule is liquidity. As you move away from a highly regulated asset class like equity to less regulated asset classes, it is quite possible that liquidity could also suffer. Some of the products could also have heavy expenses built into their structures by the manufacturer. One needs to be careful of these things.

The third rule is to have an investment strategy and then pick products or asset classes that are in synch with this strategy. Ideally one would want a mix of high risk/high reward asset classes like PE Funds as well as an asset class like a structured product that aims at capital preservation.

Of course there is also a much simpler solution. You could forget all of the above and just go buy yourself a bagful of onions. In the current market, no other alternative asset class is likely to give you a better return!



***Rashesh Shah***
*Chairman*
***FICCI's Capital Market's Committee, and Chairman, Edelweiss Capital Ltd***

Mr. Shah, is the Chairman of Edelweiss group of Companies, and has over 20 years of experience in public and private markets in India. Prior to founding Edelweiss he worked with ICICI, India's largest private sector bank followed by Prime Securities where he headed Research and Investments focusing on the Buy side.

In 1996, encouraged by the opportunity in the Investment Banking business in India, he founded Edelweiss Capital with another ICICI colleague, Venkat Ramaswamy (who heads the Investment Banking group at Edelweiss).

His focus on innovation and his passion to constantly venture into unchartered territory has been a key differentiator for Edelweiss in its growth trajectory. Under his stewardship, Edelweiss has seamlessly grown into a large diversified financial services conglomerate offering businesses ranging from Investment Banking, Broking Services, Asset Management and Financing. The company's consistent 100%+ growth can be attributed to the culture of ownership & partnership that is nurtured amongst the employees of Edelweiss.

He has served on the Boards of various companies and was also a Member of the Executive Committee of the National Stock Exchange and is currently the Chairman of the Capital Market Committee of FICCI. His academic qualifications include an MBA from Indian Institute of Management, Ahmedabad, and a Diploma in International Trade - IIFT, New Delhi and a B.Sc. from Mumbai University.

# Alternative Investments Market in India: Still a long way to go

**_Ranu Vohra_**
_Managing Director & CEO, Avendus Capital_

The term 'alternative investment' is not a well-defined one. Instead of being defined as what it is, it is usually defined as what it is not. For instance, the CAIA Association (Chartered Alternative Investment Analyst) defines alternative investment as "a position in something other than a long position in equity or debt". The commonly understood meaning of alternative investments include financial assets such as equity derivatives and structured products, Real Estate (RE), commodities, Foreign Exchange, Private Equity (PE), Venture Capital (VC) and hedge funds. However, it also may also refer to tangible non-financial assets such as art and antiques, precious metals, fine wines, rare stamps and coins, and so on.

As the wealth and number of wealthy people increase in India, the market for these alternative investment opportunities is gaining importance. Sample this: In 2009, there were more than 150,000 HNIs in India, i.e. those who have an investable surplus (excluding primary residential property) of more than $1mn. More importantly, of these, more than 60,000 had an investable surplus of more than $5mn! According to a study by McKinsey & Co., this number is expected to grow at 11% p.a. to reach well over 250,000 by 2014. Moreover, the quantum of this investable surplus, which stood at just over $450bn in 2009, is expected to more than double and almost reach $1tn by 2014!

As this wealth rises, so does the need for the investors to look for different asset classes to invest in - either for higher returns than what the equity or bond market can generate, or for diversification into investments not correlated with the stock market. Consequently, the awareness among HNIs for such alternative products has also risen. According to the McKinsey study, among those interviewed, 62% had heard of Gold ETF and 53% of Arbitrage Funds, for instance. It is, therefore, not surprising that HNIs in India allocate around 30% of their investable surplus in alternative investments, a large chunk of which is in real estate assets.

Take 'private equity', for instance. Popularity of this asset class can be gauged by the fact that close to 120 PE or VC funds are currently in the process of raising around $34bn to invest in India. Though this may seem somewhat ambitious, but it must be noted that at its peak in 2007, the PE/VC market in India did manage to raise close to $12bn over 52 funds!

The demand for PE/VC capital is also increasing over the years, as the Indian companies need money to fuel their growth plans. In 2010, PE/VC funds invested $8.62bn across 406 deals in India, almost double the amount invested in 2009. Moreover, the exits worth $5.4bn in 2010 have given some confidence to the investors, who get drawn to this asset class for its high returns. Typically, early stage smaller funds generate 3 to 5x returns, while late-stage larger funds give 2 to 3x returns.

However, the PE/VC market in India is still very small compared the global size of the industry. While the Assets Under Management (AUM) of the PE industry globally is over $2.5tn, the PE firms in India manage only around $30bn.

Hedge Funds in India have a similar story. There are only 50-60 hedge funds in India, managing around $3.5bn. Compare this with $110bn managed by Asia (ex-Japan) hedge funds, and $2.5tn managed by hedge funds globally.

Unlike the products discussed so far, which are accessible only to a few wealthy individuals or institutions, arbitrage funds have been available to the common man for getting returns that are almost risk-free. Arbitrage funds use price disparity for a stock on different exchanges, or in the spot and future markets, to make profit by shorting the stock at higher price and buying it at lower price. However, arbitrage funds thrive in high volatility conditions. The unidirectional bull-run that the Indian markets saw post elections in May 2009 did not provide the appropriate conditions for these funds to perform well, as their returns plummeted to just over 4% in 2009, from close to 9% in 2007 and 2008. As a result, investors who invested in these funds as an alternative to short-term liquid funds, started pulling out their money. However, lately the Indian markets have once again entered a phase of volatility, and one would expect arbitrage funds to find favour with the investors once again.

Real Estate has always been a preferred investment choice for Indians. According to a report by Merrill Lynch, HNIs in India had 22% of their investible assets invested in RE assets in 2009. However, investing directly into RE has its own set of issues. Firstly, the high cost of real estate assets mean that the entry barrier is high - one needs to have a sizeable amount to invest if one hopes to own a property. Then, the investor not only has to prudently identify the property to invest in, but also has to negotiate the deal, register the property, and handle any legal disputes that may arise. Moreover, it is not a very liquid asset, which makes exiting a daunting task too.

Fortunately, investment vehicles such as Real Estate Investment Trusts (REITs) and Real Estate Mutual Funds (REMFs) help remove these obstacles. REITs are companies that own and often manage income-generating (i.e. rent-yielding) commercial RE that fetches them rental income as well as long-term capital appreciation that is eventually passed on to investors after deducting expenses. REITs are fairly common as an investment product in developed countries such as US, where they were introduced as long back as 1960. However, REITs are yet to see the light of the day in developing markets such as India.

In India, SEBI allowed a similar product called REMF in April 2008. REMF, like a usual mutual fund, collects funds from investors at large and invests the funds in RE assets, stocks of RE companies, mortgage-backed securities, etc. Its 'units' are traded on exchanges, with the NAV declared daily, providing liquidity to investors, who can get exposure to RE by investing as little as a few thousand rupees. Moreover, they can

rest assured that the investment decisions are made by professional asset managers.

REMFs are still a new concept for the Indian investors, who are yet to take to it fully. However, if the developed economies are any indication of the future, they will soon be adopted as a must-have product in Indians' investment basket. In Japan, for instance, REITs account for 23% of the entire RE investments of HNIs.

Another such product, that lets small investors take exposure in commodity prices, is Gold ETF (Exchange-Traded Fund). Much like REMFs, Gold ETFs are exchange-traded funds that invest in gold and allow their unit-holders to get exposure to the price of gold without having to actually purchase gold and bother about storing it safely.

Although gold exchange-traded products came up as early as 1961 in Canada, the first Gold ETF was launched in India only in 2007. However, due to Indians' fascination with gold, Gold ETFs are seeing a spectacular growth. According to Bloomberg, India's 10 Gold ETFs were managing $770mn at the end of 2010, up from around $300mn a year back. In just the last 4 months, the total AUM of Gold ETFs in India has grown to 15 tonnes from just 8-9 tonnes! In fact, encouraged by the success of Gold ETFs in India, an asset manager is coming out with a Silver ETF soon.

However, Gold ETFs still have a long way to go in India. Even though India is the world's largest consumer of gold, accounting for 20% of the global demand with imports crossing 800 tonnes in 2010, the Gold ETF AUM in India is a mere 15 tonnes. This is insignificantly small when compared with the numbers globally - 2063 tonnes as of June 2010.

In addition to financial products such as PE/VC funds, hedge funds, arbitrage funds, RE and commodities such as gold and silver, Indian investors have also been introduced to non-traditional investments such as art. Although Indian art makes up only around 1% of the global art market, the last decade saw the mushrooming of a few art funds in India. Art funds, as the name suggests, uses the investors' money to buy pieces of art and sell them at higher prices. However, the investors' experience with the art funds has not been very good so far, as many of them have burnt their fingers badly.

As awareness of these alternative investment avenues rises, India will see more and more people want to take a bite of these products. The asset managers are fully cognizant of the latent demand for these products, and are busy working with the regulators and the wealth managers to provide investors with an ever-increasing menu of options to choose from.

Investors should feel free to explore the various products. However, in the light of the recent private banking fraud unearthed where investors were promised abnormally high returns and duped in the process, I would like to remind all investors to be careful of products and schemes that promise great returns without highlighting the high risks involved. After all, "There Ain't No Such Thing As A Free Lunch".

***RANU VOHRA***
*Managing Director & CEO*
***Avendus Capital***

Ranu heads Avendus and is responsible for its overall growth. He has spent the last fifteen years in the Indian financial services industry, concluding several marquee transactions in Investment Banking and Private Equity. He is based out of Mumbai.

Ranu is a member of the Capital Markets Committee of the Federation of Indian Chambers of Commerce and Industry (FICCI).

Prior to co-founding Avendus, Ranu worked with a Tampa (USA) based technology and media investment bank, Communications Equity Associates (CEA), and Hinduja Finance, a diversified financial services firm.

He holds an MBA from the Faculty of Management Studies (FMS), Delhi and a BTech in Mechanical Engineering from the Indian Institute of Technology (IIT), Delhi.

# Indian Economy – An Update

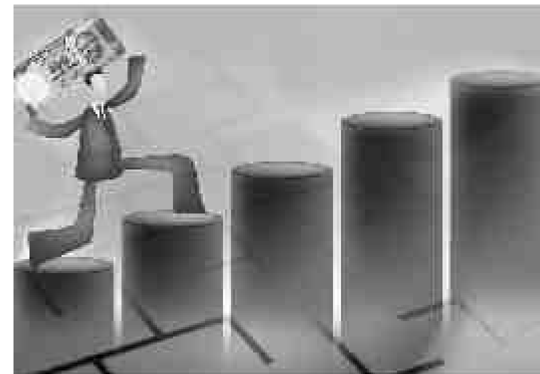
## GROWTH

The stimulus package introduced in the economy during the crisis period of 2008-09 is taking its effect and consequently the economy has registered a decline in government spending and private spending has picked up. The economy has rebounded strongly from the recent global crisis unlike many other more 'developed' economies still struggling in its aftermath.

Indian economy is on an upswing after clocking 8.9 % growth in Quarter 1 and 2 of the 2010-11 financial year. The robust expansion has led many analysts to predict that the economy will grow at a faster pace for the entire fiscal than the Finance Ministry's projection. The third quarter Monetary Policy review of the RBI on January 24th predicts GDP growth to retain at 8.5 % with an upward bias. Looking beyond 2010-11, GDP growth rate may decline somewhat as agriculture reverts to its trend (assuming a normal monsoon).

As per Ministry of Finance data for the month of December 2010, agriculture grew by 4.4 %; industry by 8.9 % and services by 9.8 %. As per the Revised Estimates (RE) of Central Statistical Organization (CSO), the growth in gross domestic product at factor cost at constant (2004-05) prices was estimated at 7.4 % in 2009-10 as compared to a level of 6.7 % in 2008-09 (Quick Estimate). At disaggregated level, this (RE 2009-10) level of growth comprises of 0.2 % in agriculture and allied activities, 9.3 % in industry and 8.5 % in services as compared to growth rates of 1.6 %, 3.9 % and 9.8 % respectively during 2008-09.

India is poised to replace China as the fastest growing economy in the near future. This success is compounded by the stability and robustness of India's domestic consumption. According to a CRISIL report, the inherent strength of India's domestic demand will enable it to maintain 8.4 % annual growth over the next five years (2011-12 to 2015-16). However, even as the economy is expected to pick up pace in the years to come, the financial needs of the economy are also commensurately increasing.



## FISCAL DEFICIT

Higher-than-expected revenues from the sale of 3G spectrum and the positive thrust to tax revenue from sustained economic recovery is expected to keep the fiscal deficit within the budgeted 5.5% of GDP in the current fiscal year, which began in April 2010. As a proportion of budget estimate, fiscal deficit during April-November 2010-11 was 48.9 % and revenue deficit was 50.7 %. The lower levels reflect one-off nature of growth in non-tax revenue (from auction of spectrum) (GOI, MoF Data). The report of the 13th Finance Commission, tabled in parliament has projected that fiscal deficit should drop to 4.2 % in 2012/13 and to 3 % in 2013/14.

## INDUSTRIAL PRODUCTION

Overall growth in the Index of Industrial Production (IIP) was 2.7 % during November 2010 as compared to 11.3 % in November 2009. During April-November 2010-11, IIP growth was 9.5 % as compared to 7.4 % during April-November 2009-10. In mining, manufacturing and electricity sectors, the growth rates in November 2010 were 6.0, 2.3 and 4.6 % respectively. In the use-based industrial groups, the growth rate has increased only in capital goods sector. In basic goods and intermediate goods, the growth rate in November 2010 has decreased as compared to the growth in the corresponding period of previous year. In consumer goods sector, the growth rate is negative in November 2010.

The index for six core industries (comprising crude oil, petroleum refinery products, coal, electricity, cement and finished carbon steel) with a weight of 26.68 % in the IIP grew by 5.0 % during April-November 2010-11, as compared to growth rate of 4.5 % achieved during the corresponding period in 2009-10. During the month of November 2010, the overall growth of the core sector industries was 2.3 % as compared to the growth of 5.9 % during November 2009. During November 2010, the growth is remarkable in crude oil sector, a slight increase in electricity sector, decrease in finished steel sector and negative in petroleum refinery and cement sectors.

Industrial growth has plummeted and the latest figure of 2.7 % growth in November 2010 is a cause for concern. Key sectors like consumer non-durables, capital goods, apparels and chemicals have registered negative growth and with further appreciation in Rupee and hardening of interest rates, the growth of manufacturing sector may be significantly affected.

Although the RBI claimed that the rate hike in the third quarter monetary policy review on January 24th was moderate so as not to disrupt growth, in the context of the tight liquidity situation, such rate hike is bound to put pressure on

banks to increase lending rates further. This would be a dampener for industrial growth particularly in consumer durables and automotive sector.

## INFLATION

Headline Index WPI in the fastest growing economy after China accelerated to 8.43% in December, led by the rising cost of food, fuel and commodities. The inflation rates that the economy is now experiencing, both from the supply and the demand sides, are clearly a matter of great concern. This reflects an acceleration of 95 basis points compared to WPI inflation in November, 2010. (Inflation was 6.92 % in December, 2009 and 6.60 % in December, 2008). The build-up of inflation since March to December, 2010 stood at 6.1 % during current financial year as against 7.9 % in the corresponding period last year.

The ongoing food price inflation rate however has exerted pressure on the RBI to hike interest rates further. RBI raised the key rate (Repo rate) six times in 2010 to 6.25% but that hasn't succeeded in reining in food prices. With expensive vegetables and fruits pushing up food inflation to a 23-week high of 18.32% in late December, RBI hiked its short-term lending and borrowing rates by 25 basis points in its third quarter review of monetary policy 2010-11 on January 24th. Repo rate was raised by 25 basis points to 6.5 % and the Reverse repo rate hiked by 25 basis points to 5.5 %.CRR and Bank rate were however retained at 6%.Structural demand-supply mismatches in several non-cereal food items such as pulses, oilseeds, eggs, fish and meat are likely to keep food inflation high. The fiscal-end inflation projection was raised to 7 % by the RBI from 5.5 % earlier.

## FOREIGN TRADE

On the trade front, export growth has been in double digits since January 2010. Exports, in US dollar terms and customs basis, during November 2010 increased by 26.5 % and imports increased by 11.2 % over November 2009. Oil imports increased by 2.3 % and non-oil imports increased by 15.0 % during November 2010 over November 2009. India's Imports, which were hit by the crisis, have recovered sharply with high positive growth since December 2009. The ascending trend in imports has continued.

## FOREIGN INVESTMENTS

With the return in the confidence amongst investors, India is consistently becoming an attractive destination for inbound investment with both foreign investments and domestic investments picking up. India has been ranked at the second place in global foreign direct investments in 2010 and will continue to remain among the top five attractive destinations for international investors during 2010-12 period, according to UNCTAD in a report on world investment prospects. According to Ernst and Young's 2010 European Attractiveness Survey, India is ranked as the 4th most attractive foreign direct investment (FDI) destination in 2010. However, it is ranked the 2nd

most attractive destination following China in the next three years.

India attracted FDI equity inflows of USUSD 1,392 million in October 2010. During April-October 2010, Mauritius has led investors into India with USUSD 4,480 million worth of FDI comprising 42 % of the total FDI equity inflows into the country. The FDI equity inflows in Mauritius is followed by Singapore at USUSD 1,282 million and the US with USUSD 908 million, according to data released by DIPP. With the Indian economy on the recovery path, it is expected that with time both portfolio investments and foreign direct investments would go up further.

According to research reports, India has received more FII funds as compared to its Asian peers. According to Bloomberg, Net FII inflow (till November 23 2010) stood at USUSD 28.5 billion, far ahead of South Korea (USUSD 16 billion) and Japan (USUSD 13 billion). Net FII inflows as a %age of the market

capitalization are also the highest in India at 1.8 % in 2010, followed by South Korea at 1.6 %.

## FOREIGN EXCHANGE RESERVES

India's foreign exchange (forex) reserves increased by USD3.4 billion to USD297.41 billion for the week ending Jan 14,2011 on the back of rise in the value of foreign currency assets. The foreign currency assets, the biggest component of the forex reserves, rose by USD3.30 billion to USD267.86 billion during the week under review from USD264.56 billion in the previous week, according to the weekly statistical supplement of the RBI. With the outlook on FDI and FII flows in the coming months being quiet positive, it is expected that our reserves position will further strengthen in the months ahead.

## EXCHANGE RATE

The rupee appreciated by 2.0 % against Pound Sterling, 0.6 % against Japanese and 3.1 % against Euro and depreciated by 0.3 % against US dollar in the month of December 2010 over November 2010. After reaching a peak rate of Rs. 51.2/USD in December 2008, the value of Rupee has slowly but steadily appreciated to the current level of 45.527 against the dollar as reported on January 24th, 2011. The strong FII inflow in the equity markets is being cited as the main reason for this trend reversal in the value of Rupee.

## Banking Sector

### 1. RBI raises RTGS transfer limit to Rs 2 lakh

The RBI has raised the threshold limit for real time gross settlement (RTGS) transactions from Rs 1 lakh to Rs 2 lakh and introduced a new value band for National Electronic Fund Transfer (NEFT) in effect from November 15 in order to promote electronic transactions amongst customers. According to the revised rates, banks can levy Rs 25 as service charge for transactions from Rs 2 lakh to Rs 5 lakh and a service charge of Rs 50 can be charged for transactions exceeding Rs 5 lakh. The RBI has also introduced a new value band for NEFT transactions. The service charge on transactions of Rs 1 lakh to Rs 2 lakh will only be Rs 15 as against Rs 25 previously.

### 2. RBI asks banks not to hide any charges on loans

RBI on 13th November, directed the lenders to disclose all information about various costs associated with loans. "Banks must disclose all in cost inclusive of all such charges involved in processing, sanction of loan application in a transparent manner to enable the customer to compare the rates with other sources of finance," the RBI said in a notification. RBI specifically asked banks to disclose information about fees, charges payable for processing the loan application, the amount of fee refundable if loan amount is not sanctioned, and penalty for delayed repayment. The central bank asked lenders to also inform borrowers about conversion charges for switching loans from fixed to floating rates and vice-versa. The RBI also directed banks not to discriminate against customers for these charges.

### 3. RBI goes strict on settling export orders through online payment

The RBI has issued stiff guidelines for settlement of export-related receipts through Online Payment Gateways (OPG) and decided to allow Authorised Dealers Category -1 banks to handle repatriation of export-related receipts by entering into standing arrangements with Online Payment Gateway Service Providers (OPGSP). Banks desiring to offer such services must obtain one-time permission from RBI and thereafter report the details of arrangement with each OPGSP as and when entered into. The OPGSPs, which are already providing such services on the basis of the specific holding-on approvals issued by RBI, must open liaison offices in India

within three months and in respect of new arrangements, they must open liaison offices in India with RBI approval before operationalising the arrangement. RBI says that banks offering such facilities by entering into arrangements with OPGSP abroad must open a Nostro collection account for receipt of export-related payment.

### 4. RBI asks banks to fund self-help groups directly

Alarmed at MFIs taking advantage of lethargic lending on part of both public and private sector banks and becoming aggressive lenders at high rate of interest exposure to self-help groups (SHGs), the RBI asked public and private-sector banks to step up lending to SHGs. This directive also comes at a time when micro-finance institutions (MFIs) have been asked to reduced their high rate of interest being offered to their customers.

### 5. RBI, Sebi to draft norms for banks' MF investments

Mutual funds are regulated by Sebi. The RBI has been concerned over investments in mutual funds, essentially debt funds because it amounted to diverting from its core business of lending. Besides, there have been fears of 'circularity' of fund flows from banks to mutual funds and back through the collateralised borrowing and lending obligation (CBLO) route. RBI will collaborate with market regulator

Securities and Exchange Board of India (Sebi) to finalise the guidelines for banks' investments in mutual funds which are seen as a destabiliser during market swings.

**6. Some relief for home loan customers**

Central bank raised cap on LTV ratio to 90%. Borrowers can now get 90 per cent of the value of their home as loans from banks. The RBI in December had increased the cap on the loan-to-value (LTV) ratio to 90 per cent from the earlier 80 per cent. The central bank said loans up to Rs 20 lakh would be treated as small-value ones. To prevent excess leveraging, it had earlier prescribed an 80 per cent cap in its second quarter review, irrespective of the loan size. These loans are considered priority-sector ones by banks.

**7. RBI clamps down on teaser home loans; curbs excessive lending**

In a move to curb excessive lending in the housing segment, the RBI said that the standard asset provisioning on the outstanding amount of the so-called teaser home loans has been increased from 0.40% to 2%. The provisioning on these assets would revert to 0.40% after 1 year from the date on which the rates are reset at higher rates if the accounts remain "standard." RBI has also made margin money of at least 20% a mandatory process for any home loan to get sanctioned. The margin money earlier stood somewhere between 10 to 15%. A slight concession has however been made for home loans upto Rs 20 lakhs where the loan can be availed by paying 10% of the total property value as margin money.

**8. RBI allows OTC forex derivatives from February**

After a long wait and two draft proposals, RBI has finally unveiled the guidelines on over-the-counter (OTC) foreign exchange derivatives, overseas hedging of commodity price and freight risks. These final guidelines, with effect from February 1, 2011, will be applicable with certain changes permission for cost-reduction structure.

**9. RBI's third quarter review of Monetary Policy:**

- RBI hiked its short-term lending and borrowing rates by 25 basis points
- Repo rate raised by 25 basis points to 6.5 percent
- Reverse repo rate hiked by 25 basis points to 5.5 percent
- Cash reserve ratio retained at 6 percent
- Bank Rate retained at 6 percent
- Fiscal-end inflation projection was raised to 7 percent from 5.5 percent earlier

- Projection of GDP growth retained at 8.5 percent with an upward bias
- Looking beyond 2010-11, GDP growth rate may decline somewhat as agriculture reverts to its trend (assuming a normal monsoon)
- Structural demand-supply mismatches in several non-cereal food items such as pulses, oilseeds, eggs, fish and meat likely to keep food inflation high
- Hike in rates expected to contain the spill-over from rise in food and fuel prices to generalised inflation
- Rate hike moderate enough not to disrupt growth
- Will continue to provide comfort to banks in their liquidity management operations
- Current growth and inflation trends warrant persistence with the anti-inflationary monetary stance

# Capital Markets Sector

1. SEBI has permitted domestic stock exchanges to offer trading in futures and options contracts on foreign stock indices in the equity derivatives segment, as long as these instruments are rupee denominated.

2. In the aftermath of the Rs. 400 crore Citibank fraud, SEBI has announced that the almost Rs.1 trillion wealth management industry could soon come under the regulatory ambit.

3. SEBI plans to frame new rules for outsourcing of business by brokers, mutual funds, portfolio managers and other market entities. However, the Securities and Exchange Board of India (SEBI) has indicated that market players will not be allowed to outsource core business activities like customer verification and resolution of investor grievances.

4. In an effort to strengthen the regulatory oversight on overseas entities and individuals investing in the Indian capital market, the Securities and Exchange Board of India (SEBI) introduced the concept of 'beneficial owner' by asking participatory note (PN)-issuing foreign institutional investors (FII) to report their activities.

   It also removed restrictions on FIIs to issue ODI (Offshore Derivative instruments) to non resident Indians. Participatory Notes (PNs) are derivative instruments based on Indian securities issued by FIIs to those overseas entities or individuals who prefer to invest indirectly into Indian stock markets.

5. With an aim to increase retail investors' participation in stock market, SEBI is considering higher allocation of public offer shares for mutual funds. Initial and follow-on public offers have traditionally been a preferred route of stock market investment for mutual funds, but they do not get enough shares these days because of a surge in demand from foreign institutional investors. Currently, all the Qualified Institutional Buyers (QIBs), which includes a whole range of institutional investors including mutual funds, are together allocated 50 per cent of shares being sold through IPOs and FPOs. But, there is no direct reservation for mutual funds (MFs).

6. A high level committee headed by former Reserve Bank Governor Bimal Jalan looked into governance and ownership issues relating to market infrastructure institutions (MIIs). The prudent recommendations were given on three important components of capital market infrastructure in India - stock exchanges, clearing corporations and depositories.

# Insurance Sector

1. **IRDA limits outsourcing functions of insurers**

   IRDA has greatly restricted the processes that can be outsourced by insurance companies. In its draft guidelines on outsourcing issued in November, the IRDA has defined the core functions to include tasks such as product design, claims, IT support and policy servicing as some aspects which are currently being outsourced; besides the named core functions, all functions that are not included in the 'non-core' list have to be done in house. Thus, insurers can only outsource non-core functions and these include: housekeeping, website management, internal audit, payroll management, HR services, data entry, medical check-ups, tele marketing and call centre for outbound calling among others.

2. **IRDA gives universal plans a new name and issues new norms**

   Owing to its popularity and the associated vulnerability to mis-selling, IRDA has come out with new guidelines on VIPs. IRDA in November issued new guidelines and clarified that universal plans will be known as variable insurance products (VIPs), which will be traditional products, not Ulips. These would be offered only on the non-unit linked platform and will not be permitted on unit linked platform. The guidelines state that a VIP shall be defined as a non-linked life insurance product that provides a death benefit equal to the guaranteed sum assured plus the balance in the policy account.

   Every policy must have a corresponding account where the balance shows the accrual to the policyholder. Charges must be deducted under three heads - risk premium, administrative charges and agents' commission. The minimum duration of policy and premium payment must be five years and all VIPs must have a lock-in period of three years. IRDA also said that the statement of policy account shall be sent to the policyholder at least once a year. The policy account must be credited with premium net of all charges and a statement of policy account sent to the policyholder at least once a year. Expenses have been capped at 27.5% of the first year premium, 7.5% of the second and third year premium and 5% for the fourth and subsequent premium. IRDA has also made surrender benefits more investor-friendly.

3. **IRDA on Pension Plans**
   IRDA's recent guidelines on pension plans made it mandatory for investors to buy an immediate annuity with two-thirds of the corpus. Similarly, the New Pension Scheme requires the person to buy an immediate annuity plan with 40 per cent of the corpus, when he or she decides to redeem the investment.

4. **IRDA plans to set up investor protection fund**

   Following in the footsteps of the Securities and Exchange Board of India, the IRDA(IRDA) plans to set up an investor protection fund. The fund will work to protect the interests of policyholders and spread awareness about insurance.

5. **New IRDA Norms Allow Trade Financing, Cover Not Meant For Bank Credit**

   In order to ensure growth of the sector, IRDA has issued new guidelines in December which will enable insurance companies to provide cover for trade, but Credit

insurance will, however, not be available for securing bank credit. In other words, the seller cannot realise the proceeds of sale from a bank using the credit insurance policy as a security. Second, insurers have been barred from selling protection for a single transaction and have to cover all the trades. A trade credit insurance policy could be sold to a seller on a total turnover basis. The guidelines also specify the creation of premium, claims and reserves on an actuarial basis, among others. The non-life companies should also appoint a credit management agency for assessing credit worthiness of the policyholder.

6. **IRDA asks companies to refrain from charging policyholders differential premium**

IRDA in the first week of Jan has asked insurance companies to refrain from charging policyholders differential premium without the prior approval of the watchdog. The insurance regulator in its circular to the general insurance companies said, "It should be ensured that no premium quotation is given, which is outside the range filed with IRDA and a rate that the underwriter and appointed actuary did not approve." IRDA has also asked the insurers to market their products in accordance with the terms and conditions as approved by the watchdog.

# FICCI Economic Outlook Survey – January 2011

## About the Survey

The fifth round of FICCI's Economic Outlook Survey was conducted during December 29, 2010 to January 18, 2011. As part of the survey, a structured questionnaire was drawn up and sent to key economists with a view to gauge their perception and views on topical economic issues as well as to seek their outlook for key macro-economic variables. 11 economists of repute participated in the survey. These economists largely come from the banking and financial sector. The sample also includes economists from industry and research institutions.

The economists were asked to provide their **forecast for key macro economic variables for the year 2010-11** as well as for **Quarter 3 (Oct-Dec) of 2010-11 and Quarter 4 (Jan-Mar) of 2010-11.**

In addition to these, FICCI sought the views of economists on three topical issues - **outlook for inflation and corrective measures to curb inflation; expected monetary policy action by RBI in the forthcoming monetary policy review and fiscal situation of India.**

The feedback received from the participating economists was aggregated and analyzed. The results obtained are presented in the following pages.

**The findings of the survey represents the views of the leading economists and do not reflect the views of FICCI.**

## Executive Summary

### Annual Forecasts for 2010-11

- GDP growth - 8.7 percent
- Agriculture and allied activities growth - 4.4 percent
- Industry growth - 8.6 percent
- Services growth - 9.6 percent
- Fiscal Deficit - 5.3 percent of GDP
- IIP - 8.7 percent
- WPI inflation rate (End March 2011) - 7.0 percent
- USD / INR exchange rate (End March 2011) - Rs. 44.5/USD
- Bank credit growth - 21.3 percent

**Quarterly Forecasts for Q3 of 2010-11 and Q4 of 2010-11**

- GDP growth - 8.7 percent (Q3, 2010-11) and 8.2 percent (Q4, 2010-11)
- Agriculture and allied activities growth - 5.4 percent (Q3, 2010-11) and 5.0 percent (Q4, 2010-11)
- Industry growth* - 7.3 percent (Q3, 2010-11) and 6.5 percent (Q4, 2010-11)
- Services growth - 9.9 percent (Q3, 2010-11) and 9.5 percent (Q4, 2010-11)
- IIP* - 6.5 percent (Q3, 2010-11) and 6.1 percent (Q4, 2010-11)
- WPI inflation rate - 7.0 percent (Q4, 2010-11)
- USD / INR exchange rate - Rs. 44.5 / USD (Q4, 2010-11)

* The downward revision in the quarterly forecasts of growth of Industry sector and IIP growth are a reflection of hardening raw material prices and rising cost of capital which are impacting the growth of industrial sector in India.

## Executive Summary

### Economists' views on

- Expected monetary policy action by RBI
  - There was a consensus amongst all economists that RBI would continue to move ahead on its path of monetary tightening and would hike both the repo and the reverse repo rate in the forthcoming monetary policy review on January 25, 2011. Most of them expect RBI to hike both these rates by 25 basis points.

  - The hike in policy rates (repo and reverse repo) is expected by all economists on the grounds that inflationary pressures are still looming large on the Indian economy and it is one of the key responsibilities of RBI to ensure price stability in the country. The upside risks to inflation such as rising global commodity prices and crude oil prices could pose a significant challenge. The robust GDP growth which can lead to a wage-price spiral and higher input costs could further add pressure on the inflation front. The economists feel that all these factors taken together would force RBI to hike the policy rates.
  - However, given the present level of liquidity conditions, RBI is expected to maintain a status quo with regards to CRR.
- **Outlook for inflation**
  - Majority of the economists expect inflation to remain a reason for concern throughout the calendar year 2011. The moderation in inflation indices is only seasonal in nature and there are many economists who expect the pressures on inflation front to continue through the current year.
  - Headline inflation is not expected to come down

significantly in the near future due to several reasons:

- o Global food supplies to India have been adversely affected due to natural calamities in some parts of the world.
- o The impact of the post harvest relief witnessed would fade away leading to a further rise in prices.
- o There is a risk of a possible spillover of higher international commodity prices as well as firmed up global food prices.
- o Rising global crude prices will be passed through to the consumers in India.
- o Rising domestic commodity prices and supply constraints in several sectors can drive up the non-food manufacturing inflation.
- o Aggregate demand pressures due to rise in rural incomes, change in consumption patterns, supply bottlenecks and stagnant output and productivity levels in agriculture would continue to keep food articles inflation high and sticky.

❖ While this is the majority view, some economists do expect inflation to moderate in the coming months primarily due to a higher base effect along with the positive impact of the active intervention undertaken by both the government and RBI to combat the mounting inflationary expectations.

❖ The corrective steps suggested by the surveyed economists in order to bring down inflation covers both the short term and long term. The immediate/short term measures that need to be undertaken to bring down prices are:

- o Urgent need to take firm action against hoarding and black marketing as has been done in China.
- o Implementation of the amended APMC act so that farmers are permitted to sell their produce to private buyers as against only to the government
- o Infrastructure for storage and transportation of food products should be put in place - refrigerated trucks/vans, food processing units, involvement of corporates in farming and marketing etc.

❖ The long term measures suggested to tame inflation have been given with a view

that inflation has now become somewhat structural in nature and more so a supply side issue.

- o Removal of supply side bottlenecks to increase food supply and curb the persistent rise in food articles inflation. There is a need to open more procurement and distribution centers, thereby making food grains and horticultural products easily accessible to the masses. Also farmers should be encouraged to deal with these procurement centers directly.
- o Encourage more public private partnership to make investments in agriculture infrastructure especially in

opening of more cold storages across country.

- o Every state of India must increase their spending on agriculture especially in areas like irrigation, power and rural connectivity to increase farm productivity in the medium run and to ensure that we have a higher quantum of production.

- Although a policy rate hike is anticipated by all economists, it has also been pointed out that to address the inflation issue in the long run, addressing the supply side problems are most essential. Taking note of this, it is important to highlight that successive monetary policy tightening would not help in cooling down inflation as it is a supply side phenomenon. It

  would rather have a dampening effect on the industrial growth of the economy and may induce a slowdown in the manufacturing sector as the cost of capital further rises.

- **Fiscal Situation of India**

  ❖ Majority of the surveyed economists believe that India would be able to achieve its budgeted target of fiscal deficit in the year 2010-11. Most of them actually expect it to be slightly lower than the estimated level of 5.5 percent in the current fiscal.

  ❖ The fiscal deficit target for the year 2010-11 is attainable on account of the following factors-

  - o A one-off hike in the revenue generation of the government through the 3G/BWA auctions. The highly successful auctioning of 3G and BWA auctions have ensured a total revenue of approximately Rs. I,06, 262 crore for the central government.

  - o The government has also generated a large quantum of resources through disinvestments in PSUs. Dilution of stakes has already taken place in Satluj Jal Vidyut Nigam, Coal India, Power Grid and Engineers India in the current fiscal which has resulted in a mop up nearly Rs. 25,000 crore for the government. In its bid to achieve its target of Rs. 40,000 crore for the current year more disinvestment are lined up.

  - o Overall economic activity has picked up and improved industrial activity has led to higher indirect tax collections. Indirect tax collections went up by 42.8 per cent to Rs 2,37,192 crore in April-December period this financial year, against Rs 1,66,133 crore in the corresponding months of 2009-10.

  - o Control over expenditure by the government for example reduction in petroleum

subsidy following the decontrol of petrol prices has also helped in curbing expenditure.

- While this year's fiscal situation is comfortable, the next year is what most economist are worried about. According to most of the surveyed respondents the fiscal consolidation in the next two years could come under pressure since government's expenditure is on the rise (rising subsidy bills: higher food subsidies under the Food Security Act and potentially higher oil subsidies if crude rises further).

- Though this is the majority view, a few respondents opined that given the proposed plans of disinvestments and current pace of GDP growth, the fiscal deficit targets for the years 2011-12 and 2012-13 are achievable.

- Steps that need to be taken by the government to focus on fiscal consolidation and achieving the FRBM targets are:

  - A revamp of the subsidy bill especially the food and fuel so that the benefits reach the intended beneficiaries only. A cut back on the oil subsidy bill through diesel price deregulation would also benefit immensely.

  - Tax reforms need to be introduced which would be vital for further progress on the path of fiscal consolidation.

  - Need to follow an approach of targeted spending and cutting down wasteful expenditure.

# FICCI-ACGA Round Table on "Corporate Governance Reforms and Developments in India"

1st December, 2010, FICCI, Federation House, New Delhi

FICCI in partnership with Asian Corporate Governance Association (ACGA) jointly organized a high power group interaction on the theme "Corporate Governance reforms and developments in India". The Asian Corporate Governance Association (ACGA) is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. Mr. Jamie Allen, Secretary General, Asian Corporate Governance Association made a presentation on Corporate Governance issues of concern to institutional investors. The Inaugural remarks at the meeting were made by Mr. Sidharth Birla, Chaiman, FICCI Corporate Law Committee and Xpro India Ltd and special remarks were made by Mr. Jitesh Khosla, Officer on Special Duty, Indian Institute of Corporate Affairs, Government of India and Mr. Shardul Shroff, Managing Partner, Amarchand Mangaldas.

Some of the key issues that were deliberated upon at this roundtable were the convergence of Indian Accounting Standards with IFRS, audit profession, clause 49 of listing agreement, corporate disclosure, preferential warrants, related party transactions, shareholder meetings/voting.

This roundtable was a useful opportunity for organizations in India to meet and exchange views with a group of global institutional investors interested in corporate governance issues, while at the same time imparting greater insight into corporate governance practices, including reforms and developments that have taken place in this space, in India.

# Interactive Session with Mr. Dominique Strauss Kahn, Managing Director of the International Monetary Fund

2nd December, FICCI, Federation House, New Delhi

FICCI organized a roundtable interactive discussion with Mr. Dominique Strauss Kahn, Managing Director of the International Monetary Fund, on an extremely contemporary issue - 'India's Evolving Role in the Global Economy.' The meeting was also addressed by Dr. Kaushik Basu, Chief Economic Advisor, Ministry of Finance, Government of India along with two other very eminent panellists -Dr. Y V Reddy (Former Governor, Reserve Bank of India) and Mr. Nandan Nilekani (Chairman, Unique Identification Authority of India). The major highlights of this Interactive session with specific focus on India are as follows:

- The lessons of financial crisis across the world have taught us the importance of fiscal prudence. In face of unfavourable capital inflows, financial stability must be fortified wherein India has done brilliantly well owing to the early introduction of countercyclical macro prudential measures by Reserve Bank of India. India's promise to fiscal austerity in targeting medium term deficit and debt reduction has been successful to combat this severity to a larger extent. India's strong surveillance could help utilising the capital inflows appropriately without compromising financial stability.

- The scenario in emerging market economies of Asia preferably in India and China have remained optimistic because of robust domestic demand and rebound in global trade. The two powerful features of India's success story are (i) inclusive growth and (ii) technological advancement. India's focus on inclusive growth is built on strong microeconomic foundation that has been able to bring millions out of poverty and the technological development, especially in the services sector has been another hallmark of the country's rapid growth in the last decade.

- The major policy challenge for the emerging economies is to manage the surge in capital flows aftermath of the crisis. The benefits of long term capital inflows have helped India to build in its strong savings pool and promote financial development. This could be detrimental if the inflows would surpass the absorptive capacity of the economy as these can also result in rapid exchange rate appreciation, credit and asset price bubbles.

- Policy makers across the world should thrive for a collaborative approach towards rebalancing the global economy. In this direction, the advanced economies must make faster move in repairing their financial sector and household demands. The role of G-20 as a platform for international collaboration created much space for collective action as the countries accounting for 85% of the global output are working together in regular policy forum. Also the structural reforms in international financial institutions (e.g. shift in voting power to over 6 percent for EMEs in IMF) seek to strengthen the global framework for economic cooperation.

## Roundtable on recommendations of Dr. Bimal Jalan Committee

15th December, 2010: Hotel Taj President, Mumbai

SEBI had constituted a Committee under the chairmanship of Dr. Bimal Jalan, Former Governor, Reserve Bank of India, to examine issues arising from the ownership and governance of Market Infrastructure Institutions (MIIs). Given the importance of the recommendations of the Committee, FICCI organized a roundtable with a group of 50-60 key stakeholders from industry to discuss and deliberate upon the impact of the proposals contained within the report.

Some of the key recommendations of the Committee that were deliberated upon at this roundtable are as follows: Listing of stock exchanges, Only Public Financial Institutions and Banks Permitted to become anchor investors, Managerial remuneration, MIIs while being self-financing should not be permitted to make unreasonable profits, Net worth requirement for a Clearing Corporation be fixed at Rs 300 crore, Holding of exchanges in depositories be restricted to 24%

Many renowned speakers representing various stakeholders, members of stock exchanges, and representatives, consultants, economists, expressed that the recommendations were not in tune with current expectations of more competition and Corporate Governance in MIIs.

## FICCI's Corporate Finance Conference: 'Meeting the Funding needs of the Indian Economy'

12th January, 2011: Hotel Trident, Mumbai

With the economy expected to grow at around 9 per cent in the coming years, the financial needs of the economy are expected to commensurately increase. There is a need for the financial sector to gear up to meet the funding requirements of India Inc. as well as ensure sufficient flow of funds for the infrastructure sector, which will have a significant role to play in supporting sustained economic growth. Although the regulator and government have made several relaxations in the recent past, there

are several more reforms required to ensure flow of funds to the exports and infrastructure sectors that require further deliberation.

Through the first edition of its Corporate Finance Conference on 'Meeting the Funding needs of the Indian Economy', FICCI intended to bring together the funders and the borrowers to discuss major road blocks facing the economy in

achieving double-digit growth and identify solutions for them. The following issues were discussed in great detail at the Conference:

- **Capital for economic growth and impending financial sector reforms** - Key reforms required to ease the funding bottleneck and ensure that capital is properly utilized in order to achieve double digit GDP growth rates, need to further strengthen the banking system, and improving access to foreign capital as a supplement to domestic sources and alternate long term funding sources.
- **Funding the infrastructure sector and requisite reforms for the sector** - Ways to ensure that there are appropriate capital structures as per project requirements, reasons for mismatch between sanctioned funding vs. amount disbursed and ways to improve access to foreign capital for infrastructure projects.
- **Role of capital markets in funding India's growth** - structural and operational changes needed to make Indian market participants more competitive, policy measures to deepen and strengthen domestic debt markets, including the corporate bond market, so that funding does not remain dependant on the banking system and role that markets can play in easing flow of finances to the SME sector.
- **Private Equity (PE) and its role in India's growth story** - Sunrise sectors for PE players in the Indian market in coming decade, opportunities and challenges for PE players in India, whether restrictive regulation, including rules on foreign ownership and leverage are holding back PE firms and measures that need to be undertaken to increase the acceptance of private equity as a source of capital among Indian companies and promoters.

Dr. Subir Gokarn, Deputy Governor, Reserve Bank of India delivered the Inaugural Address at the Conference.

Participants included bankers and investment professionals from the financial sector and CFOs and finance managers from the corporate sector.

## Workshop on Health Insurance in Latin America: Lessons for India

22nd January 2011, FICCI, Federation House,New Delhi

FICCI in association with World Bank organized a workshop on "Health Insurance in Latin America: Lessons for India". The workshop was aimed at sharing experiences of Latin America in developing Health Insurance System and deriving possible learnings for India in its endeavour to develop a robust Health Insurance system.

The key speakers were Dr Paulo Borem, Consultant, USAID & UNIMED, Brazil, Dr Leonardo Cubillos-Turriago, Health System Consultant, World Bank Institute, Dr Jerry La Forgia, Lead Health Specialist, World Bank, India and Dr Somil Nagpal, Health Specialist-South Asia Region, World Bank, India. The workshop concluded with a Vote of Thanks by Mr.Girish Rao.

# FUTURE EVENTS

## FICCI MSMEs Summit 2011
## 'Vision 2020: Policies for a Dynamic Framework for MSMEs'

15th February, 2011 at FICCI, Federation House, New Delhi

The Federation of Indian Chambers of Commerce and Industry (FICCI) is organizing the MSMEs Summit - 'Vision 2020: Policies for a dynamic framework for MSMEs' on Tuesday, 15th February, 2011.

The MSMEs Summit 2011 aims to mainly deliberate upon emerging issues related to the sector including policy and regulatory reforms and the requisite strategies & approach to ensure the development and effective participation of MSMEs in the country's economic development and growth. FICCI is also under taking an exercise to ensure effective uptake by the MSMEs of government's promotional schemes and the findings of this work will also be presented at this forum. As the planning commission is in the process of finalizing approach paper to 12th five year plan, we will use this conference for gathering MSMEs' views on the approach to be adopted towards MSME's in the 12th Plan.

Shri. Virbhadra Singh, the Hon'ble Minister of Micro, Small and Medium Enterprises (MSME), Government of India, has been invited to inaugurate the MSME Summit. Shri. Uday Kumar Varma, Secretary, Ministry of MSME, Govt. of India would deliver the Keynote address and Shri. Arun Maira, Member, Planning Commission, Govt. of India would chair the session on "Building a competitive MSME segment- Policy Reforms & Regulatory Framework" during the summit.

The summit will also attract stakeholders from across the country including policymakers, regulatory authorities, financial institutions, corporate leaders & investors, small and medium enterprises, technology providers, MSMEs domain experts, and senior government officials. The media will also be invited and is expected to give extensive coverage to the conference. A nominal fee of Rs. 1000/- is being charged per participant.

## FICCI's Conference on
## Towards strengthening MFI's: Good Governance & HR Practices

14th March, 2011, Federation House, FICCI

FICCI is organizing a conference on **"Towards strengthening MFI's: Good Governance & HR Practices"** on 14th March, 2011 at Federation House, New Delhi. The conference is being organized under the aegis of the FICCI's Financial Inclusion Committee chaired by Mrs. Naina Lal Kidwai, Group General Manager & Country Head- India, HSBC Ltd.

FICCI through this forum would bring forth some of the best industry experiences for MFIs which will help them adapt some of these in their effort to scale up their activity and achieve the goal of Financial Inclusion. The conference participants would include Chairman/CEOs, Board of Director and Senior Management and other key decision makers involved in Management and Organizational Strategy.

## FICCI - SA-DHAN National Microfinance Conference

15th - 16th March, 2011, Hotel Ashok, New Delhi

FICCI in association with Sa-Dhan (The Association of Community Development Finance Institutions) is organising the National Microfinance Conference on 15th - 16th March, 2011 at Hotel Ashok, New Delhi. The theme of the National Conference this year is "Micro Finance Foot Prints: Lessons for future." This conference is being organised under the aegis of FICCI's Financial Inclusion Committee being chaired by Ms Naina Lal Kidwai, Group GM & Country Head, HSBC Ltd.

The Conference in 2011 aims to deliberate the footprints of microfinance sector, the lessons learnt, the steps taken as also the necessary measure desired.The forum would provide a common platform for all the stakeholders to think colectively on various contempory issues, share experinces and innovations and develop collaborations for the growth of the sector. The conference also provides strategic guidance towards policy formulation and future direction for the sector.

The conference alims to deliberate on the issues faced and the lessons learnt in relation to empowerment of clients, microfinance delivery practices, pricing and scale, interface of the polity and the sector and the measure undertaken thereof.The sessions would be enriched by industry stalwarts from both the development and corporate world where they would share their experiences.

Every year we witness the presence of diverse set of stakeholders: Regulators and Policy makers, like RBI, Ministry of Finance, Ministry of Rural Development , Ministry of Corporate Affairs, PFRDA, IRDA, etc. heads of apex development Financial Institutions like SIDBI, NABARD,etc and other commercial banks like SBI, Central Bank, ICICI Bank, Standard Chartered Bank, to name a few. This year too, we expect the presence of Parlimentarians, high level policy makers, regulators, senior bankers, global equity investors, insurance companies, livelihood support agencies, practitioners, international experts, academia and media.It will have participants representing the entire gamut of the microfinance industry including international delegates as was witnessed during the past conference.

## "India Insurance Turning 10, Going on 20"

April 11th, FICCI, Federation House, New Delhi

FICCI's Annual Insurance Conference is a process through which significance of Insurance Industry in the economy is re-emphasized. This year the one-day conference on "Insurance" is being held on 11th April, 2011 at FICCI Federation House New Delhi. The theme of the conference is "India Insurance Turning 10, Going on 20". This conference is being organized under the aegis of FICCI's Insurance and Pensions Committee. Mr. J. Harinarayan, Chairman, IRDA has kindly agreed to deliver the Key Note Address in the Inaugural Session at the Conference.

India's Insurance Industry (post opening up) is now 10 years old and has come a long way since 2000. The time has come to think longer term and look at the second ten year period to set the stage for India Insurance 2020.During the Conference we will draw up a pen picture of how Industry would look like in 2020 and the steps we need to take during the decade. Some of the key Issues to be deliberated upon are as follows: The evolving distribution world, the operating model of the future, Regulatory / policy support required.

The Conference participants would include representatives from Life Insurance industry, Non- Life Insurance industry, and Banking and Financial Services sector, MHIs, NBFCs, Insurance Brokers, and Agents.

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