

JULY 2023



# IBS VIGYAN

VISIONING BANKERS



## Evangelistically Speaking

### Dear Stakeholders,

As I sit down to communicate my thoughts for this month, the story of Brahma becoming the creator comes up in my mind. This is narrated in Brahmandapuranam.

After the great deluge, Brahma finds himself seated atop a lotus with only water around. In this bewildered state, he is unable to identify even himself. Lord appears as a swan and comes near him. He asks the swan, who are you and who am I. Without giving a direct reply, the swan conveys "Om" sound. Brahma begins penance chanting this Pranava mantra. When he opens his eyes, he sees a fish. The fish hands over the Vedas to Brahma. Brahma chants Om Bhoo and Bhuvaha and the earth and sky appear. He draws confidence that he can begin creation with the Vedas. At this moment, two demons, Madhu and Kaitava emanate from the ear wax of Lord and snatch away the Vedas. In distraught, Brahma goes back to meditation, chanting the Pranava mantra. Then Lord appears as the horse necked "Hayagreeva". He kills the two demons and retrieves the Vedas to Brahma. A pleased Brahma pays obeisance to the Lord. The Lord explains to Brahma why he himself who came as a fish and granted the Vedas made them to be snatched away through the two demons. It was because Brahma displayed egoism that he can learn the Vedas by himself and begin creation. Vedas need to be learned from an Acharya. Lord himself became an Acharya and conveyed the Vedas to Brahma. The story goes on as Brahma commences creation.

Let me revisit the exasperation and angst displayed by many career aspirants who had enrolled for our learning programmes for the just concluded Certificate examinations of IIBF. We had taken out all recorded videos from the Vigyan app. Fresh batches have also commenced for the upcoming examinations in November. It would have made better commercial sense for us to retain the videos and roll the same out to the fresh batches. Then, they would have missed an Acharya! The conviction that every learner must experience the presence of an Acharya led me to take this tough decision. This is partly vindicated by the Edtech industry reverting more to physical mode or at least hybrid mode.

Let me exhort every participant to draw full benefit from the live sessions and then go back to the recorded versions for revision only. This approach will definitely elevate your scores.

Looking forward to a sustaining engagement with all.

Sincerely Yours

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## Curated Cube

The Basel Accord on Capital Adequacy rests on three pillars. Pillar 1 dwells on defining minimum capital and methodologies for computing capital charge. For computing capital charge for Operational Risk, Gross Income has been prescribed as a proxy measure. Depending on the methodology adopted, the capital charge varied from 12% to 18% of average gross income of the last three years.

On 26th June 2023, RBI published Master Directions on computing operational risk charge. Through this Direction, RBI has introduced Basel III Standardised Approach. This will replace the existing methodologies, be it Basic Indicator Approach, The Standardised Approach, Alternative Standardised Approach or Advance Measurement Approach. Under this approach,

Operational Risk Charge = Business Indicator Component X Internal Loss Multiplier (BIC X ILM)

This charge multiplied by 12.5 would be the equivalent Operational Risk Weighted Asset. The BIC is obtained by multiplying Business Indicator (BI) by a set of marginal coefficients. Therefore, BI would act as a financial statement-based proxy. The BI would be the sum of three components as under: BI = ILDC+SC+FC Where, ILDC is the Interest, Lease and Dividend Component; SC is the Services Component; and FC is the Financial Component.

The ILDC, SC and FC shall be computed as per the formula below, where a bar above a term indicates that it is calculated as the average over three years: t, t-1 and t-2, and:

- $ILDC = \text{Min} \left[ \overline{\text{Abs}(\text{Interest Income} - \text{Interest Expense})}; 2.25\% \times \overline{\text{Interest Earning Assets}} \right] + \overline{\text{Dividend Income}}$
- $SC = \text{Max} \left[ \overline{\text{Other Operating Income}}; \overline{\text{Other Operating Expense}} \right] + \text{Max} \left[ \overline{\text{Fee Income}}; \overline{\text{Fee Expense}} \right]$
- $FC = \overline{\text{Abs}(\text{Net P\&L Trading Book})} + \overline{\text{Abs}(\text{Net P\&L Banking Book})}$

Where, Max=Maximum, Min=Minimum, and Abs= Absolute value of sub-components irrespective of their signs (+ or -)

The BIC shall be calculated by multiplying the BI with the marginal coefficients ( $\alpha_i$ ), which increases with the size of the BI, as tabulated below.

Bucket	BI Range (in ? Crs)	BI Marginal Coefficients
1	= 8000	12%
2	8000 < BI = 240000	15%
3	>240000	18%

The Internal Loss Multiplier is to be computed on Loss Component which will be 15 times average annual operational risk losses. Banks need to have ten years data on operational risk losses. RBI has not announced the date from which Banks would be mandated to switch over to this method. There would be no parallel run of existing approaches.

*(Cube gives a third dimension in geometry. Curated Cube endeavors to conflate events in the market over the past month.)*

## COMMENCEMENT OF CAIB CLASSES - NOV/DEC 2023 STARTS FROM 26/07/2023 (Wednesday)

Online Zoom Classes, Whatsapp/Telegram support, Recorded Videos & Mock Test Series

## FOURTH PILLAR

**CGTMSE COVER LIMIT INCREASE:** Under CGS-I the coverage has been increased to ₹500 Lakh per borrower for eligible MLIs & MSEs, w.e.f., 1st April 2023. The threshold for waiver of legal action is also raised to ₹10 Lakh per claim while invoking guarantee.

**REDUCTION IN GUARANTEE FEE FOR CGTMSE COVER FOR LOANS UP TO ₹100 LAKH:** The revised fee structure is:

Slab	Rate % p.a.
Up to Rs. 10 lakh	0.37
> Rs. 10 L – Rs. 50 L	0.55
> Rs. 50 L – Rs. 100 L	0.60
> Rs. 100 L – Rs. 200 L	1.20
> Rs. 200 L – Rs. 500 L	1.35

**FRANCE GETS INDIA'S UPI:** India's Unified Payment Interface will be adopted by France, which will enable Indian tourists in France to pay in India Rupees at selected places. NPCI is in talks with other countries for such acceptance.

**PNB – VIRTUAL BRANCH IN METAVERSE:** PNB Metaverse is a virtual branch of the bank, which will deliver a unique experience of banking to existing and new customers who can now explore the bank's products and services such as bank deposits, retail/MSME loans, digital products, women/senior citizens, 'Do It Yourself' and government flagship schemes etc.

**INITIATIVES FOR IMPROVING EFFICACY & CUSTOMER SERVICE PROVIDED BY CREDIT INFORMATION COMPANIES (CICs):** RBI has announced to introduce: (i) A compensation mechanism for delayed updation and rectification of errors in credit information reports; (ii) Borrowers will now receive SMS or email alerts whenever their credit reports are accessed; (iii) The CICs will now have to specify a timeframe within which data received from lenders will be incorporated in their database.

**MINIMUM CAPITAL REQUIREMENTS FOR BANKS - OPERATIONAL RISKS:** All existing approaches viz. Basic Indicator Approach (BIA), The Standardised Approach (TSA) and Advanced Measurement Approach (AMA) shall be replaced by the new Standardised Approach, hereafter referred to as the 'Basel III Standardised Approach.' The calculation methodology will be based on components such as (i) Business Indicator - BI; (ii) Business Indicator Component (BIC), and (iii) Internal Loss Multiplier (ILM)

*(Fourth Pillar strives to position beyond the three pillars of Basel and is culled from the Four Estates)*



# INQUISITIVELY SPEAKING

1. SHG qualifying the criteria will be eligible for loan up to 1:10 times of their savings/corpus fund subject to a maximum ceiling of ₹.....

- a. 2 Lakh                      b. 2.50 Lakh  
c. 4 Lakh                      d. 5 Lakh

2. Collateral free loan limit for short-term agri-credit has been increased from ₹1 lakh to ₹... Lakh

- a. 1.50                      b. 1.60  
c. 1.80                      d. 2.00

3. India's green financing requirement is estimated to be at least \_\_ per cent of GDP annually till 2030.

- a. 5                      b. 4  
c. 2.5                      d. 2

4. \_\_\_\_\_ is the process of conveying a false impression or misleading information about how a company's products are environmentally sound. It involves making misleading, unsubstantiated, or otherwise incomplete claims about the sustainability of a product, service, or business operation.

- a. Green washing  
b. Green Hushing  
c. Green-Tech  
d. Green-Flexing

5. From July 1, 2023, individuals conducting international transactions using debit or credit cards up to ₹\_\_\_ lakh, will be exempted from the 20 percent TCS levy. This exemption will also exclude these transactions from the LRS limit of \$250,000 per annum.

- a. 5                      b. 7  
c. 10                      d. 20

## ANSWER KEY

1. d  
2. b  
3. c  
4. a  
5. b

## Stretch n Speak

**GFIN:** Global Financial Innovation Network

**UTSAH:** Undertaking Transformative Strategies & Actions in Higher Education

**MDR:** Merchant Discount Rate

**DPIIT:** Department for Promotion of Industry & Internal Trade

**FAME –** Faster Adoption of Manufacturing of Electric Vehicle in India

