March 2022

IBS VIGYAN

VISIONING BANKERS

Evangelistically Speaking

Dear Stakeholders,

Change is constant. This may sound cryptic. The sooner we accept change, the easier it becomes to adapt and move on. Hence, the relevance of resistance to change and the strategies to address such inertia.

The efforts of IIBF in dynamically updating the syllabus for their certification programs and the content of their recommended literature needs to be applauded. This has enhanced the competency of the upskilled professionals. The ensuing Certificate Examinations of IIBF will be the last opportunity for career aspirants to appear under the existing syllabus. The apprehensions and resistance to change attendant to such revision is being witnessed in the higher number of professionals registering for our coaching programs for the examinations during this period. While it is exciting and equally challenging to be engaged with larger number pf professionals, let me also assuage the fears of professionals by stating that a revised syllabus enhances the competency of the professional. This aspect has been uniformly expressed by our faculty too and they have also flagged the need for themselves to stay updated. Therefore, concomitantly our faculty have also been equally responsive to the dynamic evolution of content.

As the economy unshackles itself from the fetters of the pandemic, banking sector needs to gear up to meet the challenges. RBI has been progressively moving towards supervision being less prescriptive. Recent guidelines issued by RBI, demanding Micro Finance Institutions to have their own Board Level policy on pricing of their loans has been one such step wherein they have removed the prescriptive cap on loan pricing. This measure that will even out the playing field and simultaneously instil more competitiveness in MFI sector has been elaboratively covered in this month's Curated Cube

Looking forward to a meaningful and sustaining engagement.

Sincerely Yours

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CURATED CUBE

Small is beautiful. This statement is oft revisited across diverse domains, be it technology, finance, social well being and so on. RBI considered it apposite to remove the cap on maximum interest rate that Micro Finance Institutions (MFI) can charge on their loans to micro finance sector. It has directed the MFIs to put in place a policy framework on pricing. The revised Master Directions, inter-alia, contain the following.

1. The annual family income has been capped at ₹ 3 lakhs to be eligible to be classified under micro finance.
2. All micro finance loans must be non-collateralised. The maximum loan at first cycle should not exceed ₹ 75,000 and ₹ 1,25,000 in subsequent cycles.
3. The maximum repayment obligation has been limited to 50% of monthly household income, including existing collateralised and non-collateralised loans and the proposed loan.
4. All MFIs must have a Board approved pricing policy, that must address

a) Interest rate model or approach for computing all-inclusive rates.

b) Delineation of the components like cost of funds and risk premium margin

c) Range of spread of each component

d) Ceiling on interest rate and all other charges.

5. All Lenders must have a published Fair Practices Code.
6. Issuance of non-credit products must carry expressed consent of borrower.
7. The minimum requirement of qualifying assets to be eligible for classification as MFI has been reduced from 85% to 75% of asset size.
8. The maximum lending to micro finance by non-qualified NBFC-MFI institutions has been raised from 10% to 25% of their total assets.

These measures are expected to address over indebtedness, while increasing the leeway for MFIs in diversifying their loan book.

The RBI bulletin for March flags "Green transition risks" to Banks as industries gear up for net-zero carbon emission targets. It has identified Electricity, Chemicals and Automobiles as prominent sectors that could impact asset quality of Banks, but concludes that Banks' exposure to these sectors is low. It has also guided Banks to increase their underwriting rigor to indirectly exposed industries/sectors through enhanced Interest Coverage Ratio, tracking of NPA Ratio and the like

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

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FOURTH PILLAR

- **Voluntary Retention Route – Enhancement of Limits** : The Voluntary Retention Route (VRR) for investment in government and corporate debt securities by Foreign Portfolio Investors (FPIs) was introduced on March 01, 2019 with a view to facilitating stable investments in debt instruments issued in the country. A dedicated investment limit of ₹1,50,000 crore was set for investments under the VRR. It is proposed to increase the investment limit under VRR by ₹1,00,000 crore to ₹2,50,000 crore with effect from April 1, 2022.

- **Increasing NACH Mandate Limit for TReDS Settlements** : Trade Receivables Discounting System (TReDS) facilitates discounting / financing of receivables of Micro, Small and Medium Enterprises (MSMEs). TReDS settlements are carried out through mandates in the National Automated Clearing House (NACH) system. Presently the amount of the NACH mandate is capped at ₹1 crore.Keeping in view the growing liquidity requirements of the MSMEs and the requests received from the TReDS platforms, it is proposed to increase the NACH mandate limit to ₹3 crore for TReDS settlements

- **Market-makers in the OTC market**: The following entities shall be eligible to act as market-makers in credit derivatives: a. Scheduled Commercial Banks, except Small Finance Banks, Payment Banks, Local Area Banks and Regional Rural Banks;

  b. Non-Banking Financial Companies (NBFCs), including Standalone Primary Dealers (SPDs) and Housing Finance Companies (HFCs), with minimum net owned funds of ₹500 crore as per the audited balance sheet as on March 31 of the previous financial year and subject to specific approval of the Department of Regulation, Reserve Bank and

  c. EXIM Bank, NABARD, NHB and SIDBI.

- **Enhancement of the Cap under e-RUPI** : The e-RUPI prepaid digital voucher, developed by the National Payments Corporation of India is a person-specific and purpose-specific cashless voucher and can be used by individuals, corporates or governments. e-RUPI runs on the UPI platform and has a cap of ₹10,000/- per voucher. It is proposed to increase the cap on amount for e-RUPI vouchers issued by Governments to ₹1,00,000/- per voucher and allow use of the e-RUPI voucher multiple times.

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

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Inquisitively Speaking

1) Net Owned Fund (NOF) for Asset Reconstruction Companies shall be minimum of __________on an ongoing basis.

a. Rs.50 crore
b. Rs.100 crore
c. Rs.200 crore
d. Rs.500 crore

2) For enforcement of security Interest Asset Reconstruction Companies are required to obtain, for the purpose of enforcement of security interest, the consent of secured creditors holding not less than ________ of the amount outstanding to a borrower as against 75% hitherto.

a) 50%
b) 60%
c) 66%
d) 65%

3) Every Asset Reconstruction Company shall maintain, on an ongoing basis, a capital adequacy ratio, which shall not be less than _____________percent of its total risk weighted assets

a) Eight
b) Nine
c) Fifteen
d) Twenty

4) Under Basel III the risk weight for open foreign currency and open gold position is

a) 75%
b) 50%
c) 125%
d) 100%

Answer Key

1. (b)	Rs 100 crore
2. (b)	60%
3. (c)	Fifteen
4. (d)	100%

Stretch n Speak

AIF	Alternative Investment Fund
DFS	Department of Financial Services
GHG	Green House Gas
CSIR	Council of Scientific and Industrial Research
CSO	Central Statistical Organisation