

Highlights of Learning Programs

Roundtable for discussion on the need to have an effective Financial Institution for providing long term credit: July 15, 2019, Mumbai.



Delegates and CAFRAL Staff during the Roundtable on the need to have an effective Financial Institution for providing long term credit, Mumbai

A Roundtable on the need for an effective Financial Institution (DFI) for providing long term credit like financing infrastructure was held with select invitees. Delegates discussed the need for this kind of FI for providing long term credit and what could be the business model, equity and liability structure (foreign equity/private equity/Multilateral agencies like IFC and others participation), special dispensations needed regarding reserve requirements, priority sector, ALM/liquidity standards, IRAC norms, etc. as also the need for state support and/or regulatory support. The RBI Discussion Paper on Wholesale and Long Term Banks served as a starting point for discussion in the roundtable. The banking system has limitations for infra financing on account of: (i) ALM mismatch; (ii) limited technical/sectoral expertise; (iii) inherent tension between risk based pricing vs project viability pricing; (iv) shareholder expectation (of profitability) from a listed entity; (v) IFRS 9 requirements that are punitive for project financing; and (vi) regulatory



Delegates during Roundtable for discussion on the need to have an effective Financial Institution for providing long term credit, Mumbai

capital requirements that favours retail assets. Considering the inability of the banking system and the corporate bond market to underwrite infrastructure project implementation risks, the delegates felt that there is a need for a specialised

institution for financing infrastructure considering the complexities in appraisal and funding. This institution may be labelled as Specialised Finance Institution or Long Term Finance Institution or Wholesale and Long Term Finance Bank. These institutions should mandatorily do project financing, say 75% of their lending should be infra/project financing. The ownership structure could be either fully private or with government participation to the extent not exceeding 26%. However, in the latter case the government should not have any special rights lest it becomes difficult for attracting foreign and domestic private participation. The presence of government and quality investors would ensure that the entity is AAA rated as it would need to raise funds easily & competitively and also do credit enhancement to projects for raising project funds. As the institutions will require long term funding at a somewhat attractive cost, providing interest subvention and/or allowing them to raise tax free bonds or tax exempt bonds or allowing bonds issued by these institutions to qualify as SLR bonds could be considered. Besides, the norms relating to asset classification has to take into account the sectoral specific risks in this type of financing. At the same time, the institutions would need to build expertise and necessary skills for project and infrastructure financing in various sectors like roads and highways, airports, ports, electricity, etc.

Conference of Treasury Heads: July 20, 2019, Mumbai



Rajeshwar Rao, Executive Director, RBI delivering keynote address at Conference of Treasury Heads, Mumbai

CAFRAL provided a platform to Heads of Treasuries and senior officers involved with risk management function to discuss contemporary and emerging issues in financial markets with the regulators, banking experts and their peers.

Conference covered topics such as Exchange rate and liquidity management, Implications of moving to floating rates for assets and liabilities, Effective funds transfer pricing, implications of LCR & Net Stable Funding Ratio for business model, Retailing of government securities & foreign exchange, customer appropriateness & suitability, managing credit risk arising on account of inter-linkages among financial institutions, valuation of corporate bonds & limitations of risk management by CRAs.

Workshop on Private Wealth Management: Regulation & Business: July 22-23, 2019, Mumbai



Program participants with speakers at Workshop on Private Wealth Management: Regulation & Business, Mumbai.

This workshop conducted by CAFRAL for the first time sought to impart learnings on Private Wealth Management Business (PWMB) from both regulatory and business perspective. Some of the sessions explored the transition of PWMB into a composite business involving the asset side of banks' balance sheets, besides the traditional liability side and fee based businesses. The topics that were discussed in the workshop were, PWM Sales & Services around Investment & Insurance, SEBI Regulations on Investment Advisory Services and PMS, COSO ERM and Basel II/III PW Customer Life Cycle Management and Retail Lending to HNWI and UHNWIs, Family Office Business etc.

Workshop for NBFCs and HFCs: Risks, Regulation and Business Strategy: July 31 – August 1, 2019, Mumbai



Program Participants with CAFRAL Staff and Speakers at the Workshop for NBFCs and HFCs: Risks, Regulation and Business Strategy, Mumbai.

The objective of the Program was to focus on the recent developments in the NBFC and HFC sector, the lessons to be drawn for risk management and governance, implementation of recent regulations and its implications for business strategy going forward. It covered topics such as: Recent RBI Guidelines on ALM and Liquidity Risk for NBFCs; Recent NHB's Regulation for Housing Finance Companies; Risk and Business Strategy: The Way Forward for NBFCs and HFCs; RBI's Supervisory Expectations; Financial Stability: Stress Tests and Resilience of the NBFC Sector; KYC/AML Guidelines and ALM/ Risk Management.

Program for Risk Managers: August 05 - 09, 2019, Chennai

The objective of the program for a commercial bank was to enhance the skill levels of mid & senior level officers in the area of risk management. The coverage included various aspects of credit risk management like appraisal, financial/ratio analysis, credit monitoring; resolution of distressed assets; liquidity risk management; market risk management covering risks in treasury operations and measurement of risk; operational risk - IT & cyber risk and frauds besides issues around Basel III implementation, ICAAP, Stress Testing, Risk Based Supervision and themes like Compliance & Risk culture and Design Thinking.

Program on Enterprise Risk Management: August 29 - 30, 2019, Mumbai



Anil Kishora, Deputy Managing Director & Chief Risk Officer, State Bank of India, addressing program participants.

The program aimed to sensitize the participants on Enterprise Risk Management (ERM) that could put in place a more efficient, enhanced and extended risk management framework in the banks and financial institutions. Participants appreciated how ERM, as a new set of processes, helps the organizations shift from “silo” approach to “holistic” approach in risk management. The new COSO framework was discussed highlighting the need to align risk with strategy and performance. Other topics covered included Risk Culture & ERM, ERM in Basel Standards, Thinking About Cyber Risk and Planning for Existential Digital Risks, Development and Implementation of ERM frameworks, Supervisor’s Perspective, Risk Assessment Approach in ERM and Data Aggregation and Data Analytics.

Highlights of Research Seminars and Brown Bag

Import Competition And Outsourcing by Dr. Asha Sundaram, Senior Lecturer, Department of Economics, University of Auckland, New Zealand Mumbai, July 24, 2019

Paper Abstract

A new and growing literature shows significant evidence of fragmentation of production as a result of increased product market competition. Using a novel dataset on outsourcing of manufacturing jobs by Indian firms and exploiting rising imports from China, we explore the relationship between import competition and firm outsourcing. We find that greater import competition is associated with (i) a significant increase in outsourcing activity by Indian firms. A 10 percentage point increase in the import penetration ratio leads to a 0.24-0.50 percentage point increase in the share of outsourcing expenses in total expenses; (ii) a corresponding increase in the likelihood of sub-contracting among firms in the informal sector; and (iii) a larger increase in outsourcing in states with inflexible labour laws. Additionally, we explore heterogeneous effects across firm types. Outsourcing increases in firms across the size distribution, belonging to the final goods (as opposed to the intermediate goods) sector, domestic non-exporters, multi-product firms and those single-product firms that export and are in the final goods sector. Overall, our study highlights international trade as a determinant of firm organization and a role for rigid labour market regulation in magnifying the relationship between import competition and the fragmentation of production.

Explaining The Pricing Of State Development Loans In India Dr. Golaka C. Nath, Dr. Vardhana Pawaskar and Priyanka Shiraly, CCIL at Mumbai, July 25, 2019

Paper Abstract

The paper tries to establish the drivers for pricing of SDLs using state-specific fiscal and market indicators in a panel data framework covering 15 states over the decade from FY 2008-09 to FY 2017-18. Federal States raising resources from the market through issuance of State development loans (SDLs) may have to offer a return higher vis-à-vis pure Government bond as these bonds are sub-sovereign bonds with credit and liquidity risk. The study examines the hypothesis of risk transfer from States to Central Government. An ex-ante measure of theoretical spread is defined based on trade information. It is compared with the ex-post observed SDL auction yields. It is observed that none of the fiscal indicators were highly significant except transfers from the center, indicating support from the Central government to State government, through perceived implicit guarantee, has a direct bearing on lowering borrowing costs. The ex-ante theoretical measure of the SDL yield entirely captures the ex-post SDL auction yields movement. This indicates that the premia on SDLs is a uniform spread over the corresponding maturity G-sec market yields. Similarly, the variation in SDL yields are a function of the variation in underlying G-sec market yields. The spreads do not vary based on the issuer state or the issuance maturity. This study provides key insights into the current SDL pricing by market participants. It suggests that the credit risk of states is being transferred to the central government as the pricing in the SDL market is heavily

dependent on the central government securities as anchors, thereby increasing the implicit cost of government borrowing.

Upcoming Learning Programs

Program Description & Nomination links are available on <http://cafral.org.in/Upcoming-Programs>

Conference of Chief Human Resource Officers (CHROs) and Chief Learning Officers (CLOs) September 30, 2019 | Mumbai

Program Objectives

The one-day conference will focus on the key challenges facing the Chief Learning Officers/Human Resource Heads of banks and how CAFRAL can play a useful role in meeting these learning needs, especially in the context of equipping the young managers with leadership skills so that they can assume higher responsibilities in future.

Participants' Profile

Chief Learning Officers of Banks and Heads of HR function.

[Nomination now](#)

Program for Non-Executive Directors on the Boards of Banks October 14-15, 2019 | Vivanta by Taj, Panaji

Program Objectives

The objective of the program is to focus on current issues and challenges faced by banks including those relating to governance, risk, compliance, business strategy, asset quality and capital planning. The program would also cover other topics like role of directors on various committees, banking sector outlook, improving the credit flow and managing risks in lending to MSME, housing and auto sectors, financial markets and managing systemic risk arising on account of inter-linkages between banks, NBFCs and Mutual Funds. The aim of the program would essentially be to sensitise the directors on various issues of current focus so as to improve their effectiveness on the boards of banks.

Participants Profile

Non-Executive Directors on the Boards of Banks

[Nomination now](#)

Program on KYC, Money Laundering (ML) & Financial Crime (FC) Risks Management October 15-16, 2019 | Mumbai

Program Objectives

The objective of the program is to review the important aspects and issues surrounding regulatory guidelines on KYC-AML-CFT in key areas of banks' operations including trade, remittances, wire transfers and payments; discuss the widening scope of compliance in the area of AML and financial crime risk management; explore how the compliance standards and performance can be strengthened through enhanced processes and controls including the use of technology, and demonstrate to the participants through case discussions and experience sharing the inter-linkages amongst operational risk management, fraud risk management and KYC, AML & financial crime risk management.

Participants Profile

Heads and Senior Officials in charge of KYC-AML implementation, financial crime management, Fraud Monitoring, Operational risk, ERM, internal audit, compliance and vigilance in banks, FIs and NBFCs.

[Nomination now](#)

Program in Washington DC, USA and Mumbai: CAFRAL Advanced Leadership Program (CALP): Credit, Markets & Financial Technologies Indian leg – October 31 – November 1, 2019 - Non-residential | Overseas leg– November 4-9, 2019 - Residential at McDonough School of Business (MSB), Georgetown University (GU), Washington DC, USA.

Program Objectives

It is a capsuled program that potentially shapes and reinforces financial leadership traits around technical skills in uniquely blended ways. This Program has been designed and will be delivered in collaboration with the McDonough School of Business, Georgetown University, Washington DC, USA

Coverage

The Program has following five building blocks which have been thoughtfully blended as one single theme for advanced financial leadership:

- Financial Crisis and Lessons, Regulatory Reform, Corporate Restructuring, Financial Markets, Market Risk, Credit Market Risk, Securitisation of Mortgages, Systemic Issues in Indian Financial System, Evolving Shape of Payments System,
- Responsible Banking, SME Finance, Retail Lending, Digitalization of Banking and Fintechs, Regulatory Approach to Innovation, Regulatory Sandbox, Future of Banking and New Frontiers of Finance

- Problem Solving & Design Thinking, Customer Centricity & Strategy, Responsible Financial Leadership, Decision Making & Leadership
- Business Analytics for Decision Making, Big Data in Banking & Finance, Blockchain Technologies for Book Keeping and Contracting
- Each of the above building blocks is reinforced by site visit to a regulatory institution (Securities and Exchange Commission) or multilateral institution (IFC) or business entity (Fannie Mae, Blackstone Group -Baltimore) in the USA.

The Program will be delivered by eminent Professors of the overseas Business School & Indian market practitioners and regulators (Indian leg) through class room lectures and case studies.

Participants Profile

Senior and top management at the level of General Manager or equivalent and above including EDs, DMDs, MDs as also Non - Executive Directors from banks, financial institutions and regulatory institutions

[Nomination now](#)

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