CAFRAL
CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING
Promoted by Reserve Bank of India

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Smt. Indrani Banerjee joined Centre for Advanced Financial Research and Learning (CAFRAL) as Additional Director (Learning and Administration) from April 20, 2021. Prior to joining CAFRAL, she was Executive Director, Reserve Bank of India.

Highlights of Learning Programs

CAFRAL Program on Agro MSME Lending for Senior Officers at NABARD: January 27-28, 2021, Online CISCO WebEx - Virtual Learning Program

This program was customised to cater to the request of NABARD Senior Officers. The participants actively discussed and engaged with speakers on various topics such as Emerging Contours of Agri Value Chain, Wellness Agriculture, Climate Risk, Regulatory aspect in Agro MSME Lending etc. The participants spoke to active players in the Agri Value Chain solutions provider and had an opportunity to see the agricultural ecosystem through a different lens. NABARD appreciated and was very happy with the program as CAFRAL had tried to cover all the topics requested by NABARD.

The speakers for the program were Dr. Ashok Dalwai, IAS, CEO, NRAA, Michael Andrade, MD & CEO, Samaaru Finance Pvt. Ltd., Raul Rebello, Head, Rural Lending and Financial Inclusion, Axis Bank; S G Anil Kumar, Founder &CEO, Samunnati Financial Intermediation & Services Private Ltd; Anil Sharma, ED, RBI; Dr. K S Mahesh, CFO NABKISAN; S Adikesavan, CGM- Agri Business, SBI; P G Ganesh, Independent Consultant, Climate Smart Agriculture & Consultant to Rain Forest Alliance, RA; Rohan Sawant, AVP, Citi Bank.

Program on ALM, Liquidity Risk Management and Transfer Pricing for Senior Officers of NABARD: February 1-3, 2021, Online CISCO WebEx - Virtual Learning Program

The objective of the program was to discuss and share with participants' the concepts, techniques, methods, processes and organisational arrangements/ set up, regulatory standards relating to ALM and LRM. The program discussed ways of integrating balance sheet management, optimisation strategies with interest rate risk management in low/negative markets and funds transfer pricing. One of the unique features of the program was to discuss ALM and LRM against the broader canvas of central bank balance sheet management and liquidity management by central banks, particularly Reserve Bank of India.

The program covered topics such as Balance Sheet Management by Central Bank vis-a-vis Banks and FIs : Looking at the Micro Through the Macro Lenses; ALM and Strategic Balance Sheet Management – Composition of Assets and Liabilities and Fund Transfer Price Mechanism; Basic Concepts and Measurement Techniques used in ALM and Risk Management – Gap analysis, Duration, VAR, Simulation Methods, etc.; Measuring, Monitoring and Managing Liquidity Risk in Banks; Liquidity Management of Financial Sector and Liquidity Risk Management : Linking the Macro with Micro; Measuring, Monitoring and Managing Interest Rate Risk in Banking and Trading Books; Liquidity Risk Management Under Basle Standards; ALM-Deciding Base Rates, and Deposit Rates and Targeting NIM; Redefining Risk: Context, contours and mitigation; Fundamentals of Asset Liability Management (ALM); Derivatives for ALM and Liquidity Risk Management – FRA, Interest Rate Swaps, etc.; Asset Liability Management (ALM) and Risk Management Practices in Rural Cooperative Banks and RRBs.

The key speakers in this program were Dr. B K Bhoi, Visiting Fellow, Indira Gandhi Institute of Development Research/ Former Principal Advisor, Monetary Policy Department , RBI; Vasudeva Konda, Head ALM, ICICI Bank; Dr. Pradip Bhuyan, Director, DSIM, Reserve Bank of India; Amol Padhye, Head Market Risk, HDFC Bank; Ananth Narayan, Associate Professor, Finance SPJIMR & Non-Executive Director, Yes Bank; N S Venkatesh, Chief Executive, Association of Mutual Funds of India (AMFI); Brij Raj, General Manager, RBI; Haseeb Drabu, Former Chairman & Chief Executive, J & K Bank; Ajit Kumar, DGM, Department of Supervision, RBI; Ashok Nag, Consultant & Former Adviser, RBI; Prabhat Keshava, DGM, Faculty Member, National Bank Staff College and Pramod Kumar Panda, Senior Program Director, CAFRAL.

Program of Compliance for Senior Officers at Axis Bank, March 11-13, 2021, Online CISCO WebEx - Virtual Learning Program

The VLP was customised for the Axis Bank. It dealt with various topics such as RBI's Expectation on Compliance by Banks, Compliance Culture, Compliance Incidence Management, Compliance with Regulatory Prescriptions on Consumer Protection and Handling Customer Compliants & Grievances, Compliance with FEMA and RBI Regulations on Forex Transactions, Risk Based Supervision and Assessment of Compliance Risk, RegTechs in Compliance Management, Governance & Supervisory Perspective Of Compliance, Compliance With Capital Market Regulations and Compliance Management. The participants intensely interacted with speakers on compliance issues particularly those surroundings ethics, conduct, reputation risk and governance.

The speakers for the program were Nethaji Bhudevan, DGM, Department of Supervision, RBI; Amarendra Mohan, Financial Sector Expert, BIS, Basel; Rei Tanaka, MD & Partner, BCG Tokyo; Bernhard Gehra, MD & Senior Partner, BCG Munich; Norbert Gittfried, Partner & Director, BCG Frankfurt; Vineet Agrawal, Senior Vice President, Axis Bank; Ranjhana Sahajwala, CGM, Consumer Education and Protection Department, RBI; Anil Sharma, ED, RBI; C. Sri Hari Phani Kumar, Deputy Legal Advisor, RBI; Prashant Kumar Dayal, GM, Foreign Exchange Department, RBI; Devinder Kumar, DGM, Foreign Exchange Department, RBI; Salil Ravindran, Head-Digital Banking & FinTech Research Advisory, Medici; Sujoy Banerjee, GM, Department of Supervison; Prabhat Gupta, MD & Legal Head – Compliance and secretarial, DBS India; Anil Chowdhury, Partner, Finsec Law Advisors; Prasanna Seshachellam, Expert, GRC & Financial Services Regulation, Advisor to Chairman, International Financial Services Centre.

Program for Company Secretaries and Secretaries to the Boards of Banks & Financial Institutions March 18-19, 2021, Online CISCO WebEx - Virtual Learning Program

The objective of the program was to provide a forum to the Company Secretaries and Secretaries to the Boards for experience-sharing and cross learning against the background of recent developments which have brought these professionals to the centre stage of corporate governance. The program also deliberated on the issues that lie at the intersection of the compliance function and Secretarial function.

The program covered topics such as Emerging Trends in Compliance, Corporate Governance & Capital Market Regulation: Role of Company Secretaries, Secretarial Standards and their Implementation, Legal Provisions Relating to Financial Regulations, Secretarial Audits, What the Chairperson Expects from Company Secretary?, Modern Governance and Board Meetings: Why Company Secretaries should embrace Digital Transformation? and What an Independent Director expects from a Company Secretary?

The key speakers in this program were Shrimohan Yadav, CGM, Department of Regulation, RBI; Pradeep Ramakrishnan, General Manager, SEBI; Meghna Shah, Partner, MSDS & Associates; C Sri Hari Phani Kumar, Deputy Legal Advisor, Enforcement Department, RBI; Shailashri Bhaskar, Former Deputy General Manager, SEBI; Jyotin Mehta, Chairman, JSW Ispat Special Products Ltd.; James Cooper, Regional Sales Director, Asia, Diligent, Ananth Narayan, Associate Professor, Finance SPJIMR & Non-Executive Director, Yes Bank and Pramod Panda, Senior Program Director, CAFRAL.

Highlights of Research Activities

Dr. Nirupama Kulkarni presented her paper titled "Unearthing zombies" at the Shiv Nadar seminar series in April 2021 and also paper titled "Mortgage policies and their effects on racial segregation and upward mobility" at the NBER-RFS conference held in April 2021.

Paper Abstract

Since ineffective debt resolution perpetuates zombie lending, bankruptcy reform has emerged as a solution. We show, however, that lender-based frictions can limit reform impact. Exploiting a unique empirical setting and novel supervisory data from India, we document that a new bankruptcy law had muted effects on lenders recognizing zombie borrowers as non-performing. A subsequent unexpected regulation, targeting perverse lender incentives to continue concealing zombies, increased zombie recognition particularly for undercapitalized and government-owned banks, highlighting the role of bank capital and political frictions in

sustaining zombie lending. Resolving zombie loans allowed lenders to reallocate credit to healthier borrowers who increased investment.

Dr. Nirupama Kulkarni presented her paper titled “Mortgage policies and their effects on racial segregation and upward mobility” at the NBER-RFS conference held in April 2021.

Paper Abstract

Increasing homeownership has long been a major policy goal in the U.S. We argue that two primary policy tools since the 1990s, (i) eased access to mortgage financing and (ii) targeting underserved neighborhoods, have increased racial segregation and hampered upward mobility for Black families. First, while mortgage policies were effective in increasing overall homeownership, only Black homeownership increased in geographically targeted neighborhoods, while white homeowners decreased in these neighborhoods. This result is strongest in cities (commuting zones) with improved access to mortgages, making it easier for white families to move to non-targeted neighborhoods. Second, easier access to mortgage financing predicts reduced upward mobility among low-income Black families. For low-income white families, we estimate an adverse effect for those remaining in the targeted neighborhood but little or no adverse effect overall. We show that changes to the neighborhood (locational effects) and not selection or direct effects of home owning drive the negative impact on upward mobility. Local mechanisms include a reduction in education spending and an increase in crime. We provide evidence for a main channel driving the decline in upward mobility: house prices in targeted neighborhoods decline, and the resulting decline in property tax revenue reduces education spending and lowers school quality in targeted neighborhoods. Further, stringent land-use housing restrictions perpetuate these segregation effects even when the Black children are adult by preventing them from moving to better neighborhoods.

The paper “Zombie Lending due to Fear of Fire Sales” jointly co-authored by CAFRAL researchers Dr. Kaushalendra Kishore and Dr. Nirupama Kulkarni was presented at the 57th Eastern Finance Association Meeting held between April 7 to April 10, 2021. The paper has also been released in the CAFRAL Working paper series.

Paper Abstract

This paper documents a new externality stemming from the fear of fire sales: increased zombie lending during real estate price downturns. Firms use pledgeable assets such as real estate collateral to borrow. Using firm and syndicated loan data in the U.S., we find that while the sensitivity of firms' debt to real estate collateral is positive, sensitivity falls during real estate price declines. Using the structural break in real estate prices and supply-side elasticity for real estate price shocks, we show that increased zombie lending during real estate price declines explains the asymmetry in price shocks. The mechanism is as follows: lenders internalize the price externalities of liquidating real estate collateral and continue lending to even distressed firms. We show that banks with a higher share of market share in an MSA are more likely to extend zombie credit. MSAs with greater bank concentration have more zombie lending, and results are similar using variation in branching deregulation to instrument for bank concentration. Zombie presence also depresses the investment and profitability of healthier firms. Our paper highlights a new mechanism for zombie lending resulting from reduced collateral liquidation in markets prone to fire sales.

Dr. Gautham Udupa’s new working paper titled “Dollar Liquidity, Trade Invoicing, and Real Effects: Evidence from India” was accepted at the European Economic Association conference to be held in August 2021.

Paper Abstract

We provide causal evidence on the linkage between dollar liquidity and dollar invoicing exploiting an unanticipated shock to the dollar financing around the Taper Tantrum. Using the differential funding shock across countries, we test the impact of dollar liquidity on invoicing and imports by Indian firms using transaction-level data. We find that (i) firm-level dollar invoicing drops in response to dollar funding shock with corresponding rise in Euro and producer currency pricing, (ii) local presence of foreign banks allows Indian firms to smooth-out the liquidity shock, and (iii) firms transfer liquidity from one market to another using their internal capital markets to smooth-out country specific funding shocks. We document that firms unable to maintain the level of dollar invoicing are more likely to lose a trade connection.

Dr. Nirupama Kulkarni acted as a discussant for the paper "Consumer Demand Shocks & Firm Linkages: Evidence from Demonetization in India" at the 5th JAAF India Symposium on January 7 -8, 2021 jointly organized by IIMC, IIMA, IIMB, and ISB.

Highlights of Research Seminars and Brown Bag

The Real Effects of Bank Branching: Evidence from India by Indraneel Chakraborty from University of Miami, U.S on April 14, 2021

Paper Abstract

We study the impact of regulations expanding bank branching in India. We find that public sector banks (PSBs) reduce their lending to poorly performing firms when branching expands in a district. Nonperforming loans at PSBs also increase when branching expands. Also, inefficient firms that depend on PSBs deleverage and are more likely to exit after branching expands in a district. At the plant level, exposure to branching is associated with an expansion in size and employment. These results suggest that greater credit market competition can lead to more efficient lending and increased economic activity in economies with protected credit markets.

Impact of Information Disclosure on Consumer Behaviour: Case of AT1 Bonds by Dvara Research Team on March 10, 2021

Paper Abstract

Mis-selling by financial service providers poses a grave threat to consumer protection. This can adversely affect the financial well-being of consumers. Mandating information disclosures in order to bridge the information asymmetry between financial service providers and consumers is one concrete way to curb mis-sale and improve consumer outcomes. This paper report results from an experimental study that examines the impact of information disclosure on consumers' purchase decision of a high-risk financial product. We randomly assign two variations of information disclosure among the study respondents- one that is accurate, highlighting both the risks and returns of the product and the other that is inaccurate, focusing prominently on the potential gains from the product. We then examine the differences in purchase decision based on the disclosure type the respondents received and find that the odds of buying the high-risk financial product are 80 to 90% lower when the disclosure type is switched from inaccurate to accurate. The results of our study indicate the substantial impact disclosures can have in altering consumer's decisions against welfare reducing outcomes.

Upcoming Learning Program

CAFRAL Webinar on COVID Stress - Employee Health, Risk and Productivity May 11, 2021| Live Webinar

Objectives

COVID19 pandemic which has already lasted longer than a year has disrupted the normal operations in banks and financial institutions. This has resulted in potential systemic stress which in turn could exacerbate the stress on individual institutions. Also, there has been COVID stress at individual employee level affecting both health and morale.

As revealed in a survey in the USA, nearly 7 in 10 employees experienced moderate to extreme stress during last 6-12 weeks. Among those reporting stress, 62% noted losing at least 1 hour a day in productivity and 32% lost at least 2 hours a day due to COVID-19 related stress.

The prominence of stress among the workforce could prove costly for employers/institutions seeking to optimize workflow amid the pandemic. Lost time from work has been indicated in another study in USA to potentially cost employers upwards of $23 billion. And decreased efficiency of employees at work and resultant loss of productivity could further amplify these predictions. There is risk build up at more than one level. For instance, a dealer could potentially put through inappropriate deals with huge adverse financial implications for the institution when his mental health is under significant stress, accentuating operational risk for the institution. Thus, there is need for oversight on health conditions of employees working in sensitive areas of operations. Perhaps, several out of box HR strategies and processes need to be crafted to make sure that employers work together with the employees to track their health conditions non-intrusively and mitigate new risks to the institution and employees.

Participants' Profile

Senior Officers of banks, financial institutions and NBFCs particularly those working in the areas of HR, Strategy, Risk Management.

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