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

CAFRAL Newsletter

Highlights of Learning Programs

Workshop on Use and Impact of CRILC Data: April 15, 2019, Mumbai.

Program participants with program speakers at Workshop on Use and Impact of CRILC Data, Mumbai.

The Workshop led by Department of Banking Supervision, Reserve Bank of India provided a platform for the banks to discuss amongst themselves and with the supervisor, not only the use and impact of CRILC data in banks but also the technical issues around its generation. The supervisors received feedback on the effectiveness of the CRILC database in fulfilling its objectives and practical suggestions to further enhance its effectiveness. Speakers from DBS emphasized the need for maintaining timeliness and data quality under CRILC.

Sydney and Mumbai - CAFRAL and Macquarie University Program "Leadership, Strategy and Risk": Indian Leg, May 1-2, 2019, Mumbai | Overseas leg, May 5-11, 2019 Sydney

Program participants with speakers at CAFRAL and Macquarie University Program "Leadership, Strategy and Risk in Sydney.

The program designed for senior executives of the Indian financial institutions, aimed at enhancing the knowledge-base and skills of senior level functionaries so that they could assume even higher leadership positions in future. It provided a comprehensive insight, from national as well as global perspective on three key themes (i) Leadership, Management and Decision-making in a changing world (ii) Sustainable Strategies for Banks and Financial Institutions and (iii) Risk Culture, Risk Governance and Risk Management during the course of eight days in Mumbai & Sydney.

Program on Resolution of Distressed Assets: May 15, 2019, Mumbai, India

Speakers from World Bank Group with Chandan Sinha, Addl. Director, CAFRAL; Sudarshan Sen, Former ED, RBI and M P Baliga, Sr. Program Director, CAFRAL at the Program on Resolution of Distressed Assets, Mumbai.

CAFRAL organised the captioned program in Mumbai in association with the World Bank Group. The management and resolution of large volumes of distressed assets poses considerable challenges to lenders and as such needs setting up an operational framework covering various aspects of resolution/recovery/workout process. While the Insolvency and Bankruptcy Code (IBC) has been a game changer, the resolution of NPAs is also being supplemented outside the IBC mechanism by generally following the IBC principles. This program discussed key features of the frameworks and also some international experiences. The program reviewed the resolution of distressed assets and deliberated on further improvements in the extant frameworks.

Program on Housing Sector: Mortgage financing, risk mitigation and securitization: May 28, 2019, Mumbai, India

L-R: Srinivas Acharya, MD, Sundaram BNP Paribas Housing Finance Co.; Sanjeev Naryani, CGM, SBI; R V Verma, Former CMD, NHB; Anup Bagchi, ED, ICICI Bank and Mehnaz Safavian, World Bank Group at Program on Housing Sector: Mortgage financing, risk mitigation and securitization.

The one-day program covered cover various issues and challenges in mortgage financing and possible ways of mitigating the risks in the background of opportunities that exist today and the current situation of unsold inventory and liquidity/credit issues faced by the housing financing companies. Among other things, the program deliberated on securitisation of mortgages, introduction of covered bonds, promoting REITS & green financing, role of mortgage guarantees, fintech tools for valuation, title insurance, reverse mortgages, etc. The key note address was delivered by P K Gupta, MD, State Bank of India.

Program on Digital Transformation in Banking: A 360 Degree View: June17-18, 2019, Mumbai, India

Program participants with Mrutyunjay Mahapatra, MD, Syndicate Bank; Chandan Sinha, Addl. Director, CAFRAL and P K Panda, Sr. Program Director, CAFRAL at Program on Digital Transformation in Banking: A 360 Degree

The Program provided the participants with both conceptual and practical inputs to on how to build a digitally driven Bank/Financial Institution. Banks, fintechs and technology providers shared their experiences and insights on the implementation of any digitalization program. The topics /issues covered were challenges in implementing digitalization; digitization and backend analytics; digital transformation: IT architecture, business architecture and human centered design; next generation technologies in payments; digital retail and MSME lending; design thinking & user experience in digitalization, digital & cyber security; AI, robotics, machine learning, etc.

Speakers were drawn from the RBI, NPCI, banks, consulting firms, technology companies and NBFCs.

Program on Asset Liability and Liquidity Risk Management: June 24, 2019, Mumbai, India

Dr. Viral Acharya, Deputy Governor, RBI addressing the participants

Asset liability management (ALM) and Liquidity risk management are important facets of risk management framework. The asset liability mismatches generally arise from funding of long-term assets by short-term liabilities. This risk was recently experienced by a few large NBFCs and if such problem is not addressed effectively and on a timely basis could pose a serious systemic risk. The program objective was to discuss and find ways of improving the effectiveness of risk management to address issues arising on account of asset liability mismatches and liquidity risk. The program covered topics such as Asset liability management – Issues and Challenges, Addressing asset liability mismatches; Funds transfer pricing; strategic balance sheet management; Systemic risk - Inter linkages between banks, mutual funds and NBFCs;

L-R: N S Venkatesh, Chief Executive, AMFI; Ananth Narayan, Former Regional Head of Financial Markets, Standard Chartered Bank; Sudarshan Sen, Ex ED, RBI; Vasudeva Konda and Kumar Ayashkanta, Head Treasury Strategy & Ratings Group, L & T Finance Ltd. at Program on Asset Liability and Liquidity Risk Management, Mumbai.

Liquidity risk management – Standards and Monitoring tools; Managing liquidity risks; Liquidity risk and solvency – Recent phase of stress and challenges.

Highlights of Research Seminars and Brown Bag

Four Facts About Corporate Bankruptcy In The U.S. by Prof. Katherine Waldock, Assistant Professor, Georgetown University's McDonough School of Business, USA at Mumbai, April 22, 2019

Paper Abstract

The U.S. Bankruptcy Code has been in place for four decades. In this time, the bankruptcy process for large firms has evolved in ways that were intended and un- intended. Chapter 7 has become obsolete, with 99% of large corporate bankruptcies playing out in Chapter 11. Even firms wishing to liquidate usually choose to sell their assets in Chapter 11. Bankruptcy outcomes are mostly consistent with objectives: for example, firms that intend to reorganize but ultimately liquidate only account for 6% of the sample. Using a combination of heuristic and machine learning techniques, I characterize the events that take place prior to bankruptcy. I show that sophisticated, pre-arranged bankruptcy plans have been steadily rising. Of those firms that experience unanticipated liquidations, the characteristics of failed reorganizations differ from those of failed acquisitions. These findings have profound implications for ex-ante bankruptcy efficiency, the export of U.S. bankruptcy policy to other nations, and the direction of bankruptcy research.

Risk-Sensitive Basel Regulations And Firms Access To Credit: Direct And Indirect Effects by Dr. Sanket Mohapatra, Associate Professor, IIM Ahmedabad at Mumbai, April 24, 2019

Paper Abstract

This paper examines the impact of risk-sensitive Basel regulations on debt financing of firms around the world and investigates how firms cope with the impact through adjustments to their financing sources and capital investments. We find that the implementation of Basel II regulations is associated with reduced credit availability and higher cost of debt, particularly for lower-rated firms. Such firms mitigate the shortage in bank credit through increased reliance on accounts payables, lower payouts to shareholders, and reduction in their capital investments in the post-Basel II period. The results are robust to alternative estimations that control for credit supply shocks and the inclusion of loan-level information. The findings of this paper substantially contribute to the understanding of the real effects of risk-sensitive bank capital regulations.

Optimal Infant Industry Protection. by Dr. B Ravikumar, Senior Vice President and Deputy Director of Research, Federal Reserve Bank of St. Louis, USA at Mumbai, May 07, 2019

Paper Abstract

We consider a dynamic model in which a domestic firm has a positive marginal cost of production and a foreign firm has zero marginal cost. With free trade the foreign firm would serve the entire domestic market and the domestic firm would not produce. We assume that there is a social benefit for the nation if the domestic firm produces. This could be, for example, because there is learning by doing at the firm level that spills over to other domestic firms. We also assume that the domestic firm can stochastically improve its technology and produce at zero cost. This probability is increasing in domestic production. However, whether the domestic firm has transitioned to zero cost or not is private information. We use a mechanism design approach to deliver optimal protection in the presence of such persistent private information. Our incentive-compatible protection policy induces the domestic firm to reveal its true cost. Our results are as follows. First, the import quota i.e., the fraction of the domestic market served by the foreign firm, increases over time. Second, when the domestic firm announces that it has transitioned to zero cost, the firm receives a one time lump sum payment. Finally, there is an endogenous cutoff date at which time the protection ends. This policy can be implemented by announcing (i) a domestic subsidy policy and (ii) a tariff rate policy, and providing the domestic firm with an initial quantity of assets. The tariff rate is chosen such that the foreign firm makes zero profits every period. The subsidy rate is chosen such that the domestic firm's loss per unit in each period is limited to the difference between its marginal cost of production and the price charged by the foreign firm. The domestic firm would offset its loss by depleting its assets. At the time of transition to zero cost, the domestic firm would have no loss and would have the asset balance as its lump sum reward. Allowing for costly state verification of private information, the optimal policy is to verify the domestic firm's cost periodically. The interval between verifications is constant.

International Price System, Intermediate Inputs And Regional Trade by Nikhil Patel, Economist, Bank for International Settlements at Mumbai, May 08, 2019

Paper Abstract

International trade is mostly priced in a few key vehicle currencies. We model the effects of this pricing system on the macroeconomic dynamics of regional trade. We find key differences between the dynamic response of regional trade in final goods and intermediate materials to internal and external shocks. We use a granular decomposition of bilateral exports at the sector level to test the main predictions of the model and find reasonable evidence for the muted impact of US monetary policy stance on intermediate goods and global value chain oriented trade on the one hand, and final goods and regionally oriented trade on the other.”

Efficient Demonetization by Dr. Shiv Dixit from ISB, Hyderabad at Mumbai, May 27, 2019

Paper Abstract

Traditional models of money assume that the marginal social cost of printing fiat currency is zero, justifying the optimality of the Friedman rule. However, in an environment where the degree of hidden income is alleviated by the dearth of cash, demonetization could be efficient. To implement this policy, the Reserve Bank of India (RBI) imposed non-discriminatory transfer limits, which I argue are too blunt to insure against idiosyncratic income risk. I propose a set of instruments that provide a better hedge against such shocks - transfer limits dependent on reported household income. I isolate conditions under which optimal state-contingent transfer limits are monotonic in endowments and promised values. This framework successfully predicts the heterogeneous response of households to demonetization. A model disciplined by the distributions of wealth, income and consumption expenditure in India reveals that long-run gains in the surplus of the central bank upon switching to a state-contingent monetary policy from a non-state-contingent one are 28.5% of aggregate income.

Private Placements And Wealth Constraints Of Owner-Managers by Prof. V Ravi Anshuman, IIMB at Mumbai, May 28, 2019

Paper Abstract

We present an asymmetric information model of private placements of equity to owner-managers and institutional investors. The investment-financing decision depends on the interaction between asymmetric information held by owner-managers and their wealth constraints. Our model shows that such private placements can mitigate, if not entirely eliminate, the underinvestment problem. Using a sample of 1064 preferential allotments issued in the Indian capital markets during 2001-2017, we find that announcement period returns are (1) positive, (2) higher for pure owner-manager preferential allotments, (3) unrelated to pre-announcement insider ownership, (4) negatively related to market capitalization, (5) negatively related to volatility of returns and (6) dependent on regulatory constraints that determine the issue price.

Upcoming Learning Programs

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

Conference of Treasury Heads July 20, 2019| Mumbai

Program Objectives

The objective of the conference is to provide a platform to Heads of Treasuries and senior officers involved with risk management function to discuss issues like financial markets operations, liquidity management, managing market risk and operational risk in treasury operations, retailing of gsecs and forex, use of derivatives for risk management, prevention of market abuse and systemic risk arising due to inter-linkages among financial sector players. This conference would also provide an opportunity to the participants to interact with the regulator, banking experts and peers.

Participants' Profile

Officers at the level of DGM (or equivalent) and above from banks, financial institutions and NBFCs.

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

Program Objectives

Private Wealth Management (PWM) which started as niche business in Indian banking system decades ago, has now become an integral part of business for many banks and large NBFCs alike. In fact, some small NBFCs provide cutting edge PWM services through financial technologies. While, to start with, this business typically focused on High Net Worth Individuals (HNWIs) and Ultra High Net Worth Individuals (UHNWIs), today PWM business groups in financial institutions manage the wealth of even family businesses and corporates. Again, this business had typically been fee based, organically linked to the deposit accounts of the PWM customers. However, it has slowly evolved into a "composite business" linked to new business strategy for lending to HNWIs and UHNWIs for setting up of social enterprises, niche SMEs that are part of ultra-value chains and luxury life style. Digitalizing the Client Lifecycle for Global Wealth Management is yet another new frontier of this business

Financial institutions, through new business strategies, organisational structures and technologies are delivering integrated private banking services through multidisciplinary business groups. This in turn has been throwing up issues of governance especially relating to risk management, compliance, conflict of interest, unfair practices, products suitability and appropriateness in the context of customer protection. New regulations have either been put in place or are under contemplation.

Participants Profile

General Manager/ Deputy General Manager or officers of equivalent level from RBI, SEBI, commercial banks, NBFCs and Insurance Companies etc. Participants coming from across the financial sector will have unique opportunity for cross learning.

Nomination now

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

Program Objectives

The Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) play a very important role in the Indian Financial System by catering to diverse financial needs of a wide variety of customers, both in urban and rural areas. The NBFCs and HFCs play a complementary role to the banks as well as provide them competition. The balance sheet size of the NBFCs is around 16% of the combined balance sheet of the Scheduled Commercial Banks. Even as the importance of NBFCs in credit intermediation is growing, recent developments in the domestic financial markets have brought the focus on the NBFC and HFC sector especially with regard to their exposures, quality of assets and asset-liability mismatches (ALM). The debt default by a large NBFC in mid-2018 highlighted the vulnerability and need for strengthening regulatory framework and supervisory oversight on the NBFC and HFC sector. The NBFC and HFC sector needs to put in place sound risk governance and robust frameworks for asset liability management (ALM) and liquidity risk management.

The Program will 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 implications for business strategy going forward.

Participants Profile

The target group for the Program are Senior officers of NBFCs

Nomination now

Program in Washington DC, USA and Mumbai: CAFRAL Advanced Leadership Program (CALP): Credit, Markets & Financial Technologies Indian leg – September 19-20, 2019 - Non-residential | Overseas leg– September 23 -28, 2019 - Residential

Program Objectives

CAFRAL Advanced Leadership Program (CALP) has been designed and will be delivered in collaboration with a reputed business school in Washington DC, USA. It is a capsuled program that potentially shapes and reinforces financial leadership traits around technical skills in uniquely blended ways.

Coverage

Technical inputs will be provided to the participants on topics and issues surrounding credit, market and financial technologies (FT) through class room lectures and site visits. FT coverage would include business analytics for decision making, Big Data in banking & finance, blockchain technologies for book Keeping and contracting.

Leadership aspects to be covered are responsible banking, problem solving & design thinking, customer centricity & strategy, responsible financial leadership, decision making Site visits will take participants to regulatory institution (Securities and Exchange Commission) or multilateral institution (IFC) or business entity (Fannie Mae, Blackstone Group -Baltimore) in the USA.

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