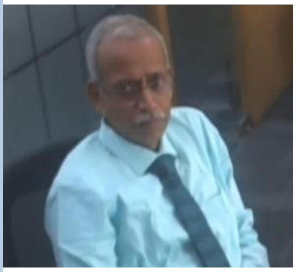
CAFRAL
CENTRE FOR ADVANCED FINANCIAL RESEARCH AND LEARNING
Promoted by Reserve Bank of India

CAFRAL Newsletter
November 2021 – December 2021

Highlights of Learning Programs

CAFRAL Virtual Conference of CFOs: November 9-10, 2021 Online CISCO WebEx


G Mahalingam

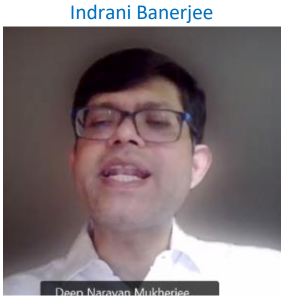

Indrani Banerjee


Arnab Chowdhury


M D Ranganath

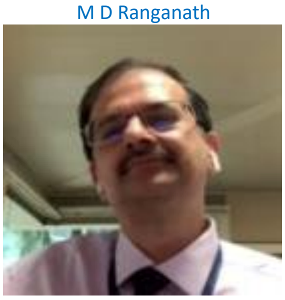

Zubin Mogul

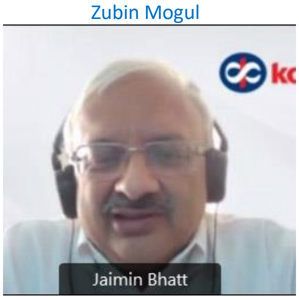

Charanjit Attra



Deep Narayan Mukherjee


Yatrik Vin


Rakesh Jha



Jaimin Bhatt

CAFRAL had organized a two day Virtual Conference of Chief Financial Officers (CFOs) on November 9-10, 2021. This was the CAFRAL's annual conference held for Chief Financial Officers. The conference deliberated upon regulatory, legal and technological developments in the finance and accounts function and the CFO's role in the same. Speakers discussed with the participants how the role of the CFO has been evolving and the CFO in recent times has gained recognition as one of the crucial senior management functionaries in banks and financial institutions.

G. Mahalingam, former Whole-time Director, SEBI addressed a special session on CFO & Capital Market. Arnab Chowdhury, Chief General Manager, Reserve Bank of India shared with the participants the supervisory expectations on Finance & Accounts Function and the regulatory expectations from the CFOs of banks and financial institutions. In an exclusive session, participants shared their experiences on Finance Function in Banks: Controls, Risks and Governance.

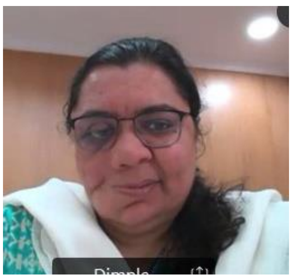
Some of the other issues covered were Aligning Bank's ESG and Financial Goals; What ACB and Board Expects from CFO; Risk Appetite Statement and CFO; Balance Sheet Optimization; Blockchain Technology, Artificial Intelligence and Robotic Process Automation in Finance Function; Enterprise Risk Management and CFO; Emerging Role of CFO in Digital Era; CFO: Traditional and Evolving Mandates.

The key speakers included M D Ranganath, Independent Director, HDFC Bank; Zubin Mogul, Partner and Managing Director, Boston Consulting Group; Charanjit Attra, CFO, SBI; Yatrik Vin, CFO, NSE; Chaitanya Kalia, EY India Climate Change and Sustainability Services Leader; Rakesh Jha, CFO, ICICI Bank; Jaimin Bhatt, CFO, Kotak Mahindra Bank; Deep Narayan Mukherjee, Partner & Associate Director, BCG.

CAFRAL Virtual Conference on LIBOR Transition and Benchmark Reforms December 23, 2021, Online CISCO WebEx


R Subramanian


Indrani Banerjee


Dimple Bhandia


Sunil Singh

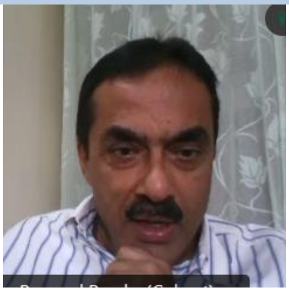

Sravan Kumar Vajjula

Anurag Ghuwalewala

Dr. Tasneem Chherawala

Rudra Narayan Kar

Sudipto Lahiry



Pramod Kumar Panda

CAFRAL had organized a one-day Virtual Conference on LIBOR Transition and Benchmark Reforms on December 23, 2021.

This one day CAFRAL Virtual Conference sought to provide all stakeholders a platform to deliberate on the technical details and implementation challenges in LIBOR transition. Also, it attempted to assess the state of preparedness amongst the financial sector stakeholders as far as the transition is concerned, while deliberating on the progress in benchmark reform.

Some of the topics deliberated during the conference were Preparedness for LIBOR Transition: Regulatory Assessment; Preparedness for LIBOR Transition: Experience Sharing; Valuation of LIBOR Linked Loans, Bonds and Deposits; LIBOR Transition - Beyond MIFOR: Where Do We Stand; LIBOR Transition: A Cross Country View

R. Subramanian, Executive Director, RBI made the opening remarks. The other speakers were Dimple Bhandia, Chief General Manager, Financial Markets Regulation Department, Reserve Bank of India; Sunil Singh, Deputy General Manager, SBI; Sravan Kumar Vajjula, Head-Derivatives, Product & Interbank, ICICI Bank; Anurag Ghuwalewala, Director, Rates Trading and Structuring, HSBC India; Dr. Tasneem Chherawala, Assistant Professor, National Institute of Bank Management; Rudra Narayan Kar, Chief Executive Officer, Financial Benchmark India Ltd.; Sudipto Lahiry, Head Enterprise Sales for North ASEAN, Bloomberg L.P, Singapore.

CAFRAL Virtual Conference on Data Protection, Data Privacy and Data Localization, December 27, Online CISCO WebEx

J K Dash

Indrani Banerjee

Andrew Joseph

Nandkumar Saravade

Sudhanshu Prasad

A G Giridharan

Ruchika Arora

Pramod Kumar P.C

Pramod Kumar Panda

CAFRAL had organised a one-day virtual conference (VC) on Data Protection, Data Privacy and Data Localization on December 27, 2021.

The VC deliberated on the business, technological, legal, regulatory and governance aspects of data management in the context of data security, protection and privacy. Indrani Banerjee, Additional Director, CAFRAL made opening remarks and J K Dash, Executive Director, Reserve Bank of India (RBI) delivered the keynote address, discussing the current issues an organisation faces in data protection and data privacy..

The conference covered topics such as Legal and Regulatory Framework for Data Privacy: Current and Emerging Regimes; New Frontiers of Data Protection and Cyber Security; Data Localization: Regulatory Outlook and Issues; Bank Data Offshoring and Supervisory Requirements; Cloud Adoption and Adoption of New Technologies; Data Protection in Banks: Current and Emerging Frameworks - Data Protection by Design and by Default & Storage and Management of Personally Identifiable Information (PII).

Other speakers in this Conference were Nandkumar Saravade, Former CEO, Data Security Council of India & Former CEO, Reserve Bank Information Technology Pvt. Ltd (ReBIT); Andrew Joseph, Legal Adviser, Legal Department, RBI; Sudhanshu Prasad, General Manager, Department of Payment and Settlement Systems, RBI; Pramod Kumar P.C, Data Protection Officer, ICICI Bank Ltd; A G Giridharan, Deputy General Manager, Department of Supervision, RBI; Ruchika Arora, Senior Manager - Security and Compliance, Salesforce.

Highlights of Research Activities

Dr. Gautham Udupa, Research Director, updated his research working paper titled "International Business Cycles - The Role Of Technology And Resource Transfers Via Multinationals". The updated version is available on the CAFRAL website.

Presentations to industry and academic institutions.

Dr. Nirupama Kulkarni's paper "Bank Deposit Franchise, Interest Rate Risk, and Default Risk" was presented at the NYU-NSE conference held between December 8-10, 2021 and at the Webinar in Finance and Development held on November 22, 2021. The paper was also presented at the NEUDC 2021 conference on November 6, 2021.

Abstract: "We examine the deposit franchise of banks in India and relates it to banks' supply of long-term fixed rate lending. We hypothesize and provide evidence for two distinct deposit franchise channels in India: the deposit franchise of private sector banks comes from their deposit market concentration, whereas the deposit franchise of state-owned banks comes from their implicit and explicit government guarantees. While deposit franchise allows banks to pay deposit rates that are insensitive to market interest rates, fixed costs associated with sustaining the deposit franchise requires banks' income to also be insensitive to interest rates. Therefore, banks with stronger deposit franchise have an incentive to engage in maturity transformation by advancing longer-term fixed-rate loans. Using the boom period of the 2000s in India as a laboratory, we document that banks with stronger deposit franchises significantly increased exposure to sectors characterised by long-term advances and rigid rates, whereas banks with weaker franchise increased exposure to sectors with flexible interest rates. Subsequently, banks with lower sensitivity to market interest rates have higher non-performing loans. Our evidence suggests that while maturity transformation allows banks with strong deposit franchises to hedge against interest rate risk, it may expose them to default risk due to the scarcity of safe long-term fixed-rate lending avenues in developing economies such as India."

Dr. Kaushalendra Kishore's paper "Credit Insurance, Bailout and Systemic Risk" was presented at the India Finance Association Annual conference held between December 16 – 18, 2021 and at the Annual Conference on Economic Growth and Development organized by ISI Delhi from 20-22 December.

Abstract: This paper highlights a new channel through which too-big-to-fail (TBTF) institutions can create systemic risk. Failure of a TBTF firm, like AIG, may result in subsequent failure of counterparty banks by triggering a run on them. During the run, the regulator cannot distinguish between solvent and insolvent banks, hence it cannot use targeted policies to bailout the system such as providing liquidity to the solvent banks to buy the insolvent ones. So the regulator has to bailout the TBTF firm. This imperfectly targeted policy incentivizes the banks to make correlated investments ex ante, thus creating systemic risk. I build a model in which correlated investment by banks, underpriced insurance contracts and a TBTF insurance firm arise endogenously. Further, the insurance firm instead of diversifying its risk, chooses to invest in the same industry as the banks thereby increasing the size of the bailout. The paper explains why before the crisis, the banks and AIG made large investments in real estate and wrote underpriced insurance contracts. The policy implication is that putting a cap on the size of the insurance firms can mitigate the problem of correlated investments and prevent bailouts.

Highlights of CAFRAL Research Seminars

Monetary Policy, User Cost and Inequality: Homeowners versus Renters by Dr. Neha Gupta from University of St. Gallen, Switzerland on November 3, 2021

Paper Abstract

User costs of housing are a major part of a household's expenditure. I empirically investigate the heterogeneous impact of an unanticipated expansionary monetary policy on housing markets and household tenurial decision by exploiting the user cost of housing channel. Drawing on a Swiss household panel data and daily interest rate futures, I find that the less financially constrained households are 3.45 percentage points more likely to become homeowners in case of unexpected decrease of 100 basis points in 3-month CHF Libor. The households in the upper income quartile with pillar 3a savings benefit the most in case of an unanticipated negative monetary policy shock. The real user cost expenses of renting also benefits significantly by a decrease of on average 19% from an unexpected expansionary monetary policy. Single family houses do not benefit from the shocks in the monetary policy. The findings highlight the importance of apartments and multifamily housing.

Rural Banks Can Reduce Poverty: Experimental Evidence from 870 Indian Villages by Dr. Giorgia Barboni from Warwick Business School on November 17, 2021

Paper Abstract

We evaluate an at-scale experiment that randomized branch placement by a private-sector bank across 870 South Indian villages. Within two years of branch opening, one in three households in treated villages had taken a formal loan and roughly a quarter had taken up an insurance or savings product. Survey data show a 10% reduction in informal borrowing levels. These changes impact individual and aggregate well-being: Relative to control villages, poverty rates in treatment villages are 8% lower and hair-sample based stress biomarkers also show a reduction. Alongside, occupational diversification and village economic activity rise: households in treated villages are 7% more likely to have a member working in non-agriculture self-employment, have 20% higher business income, and 6% higher wage income. Our evidence is consistent with a model of entrepreneurship in which access to cheaper formal credit increased village-wide labor demand.

Credit Constrained Firms and Government Subsidies: Evidence from a European Union Program by Dr. Almos Teledgy from Corvinus University of Budapest on November 24, 2021

Paper Abstract

We utilise unique data to study how European Union subsidies affect the development of credit constrained firms in Hungary. We consider those firms as credit constrained which have been credit checked by unrelated banks – reflecting a loan application – but have not received loans subsequently. Using a difference-in-differences panel regression framework which compares firms that won with those that did not win a subsidy, we find that subsidies improve firms' growth outcomes. Zooming in, we find a sizeable incremental impact on asset growth of constrained firms that won a subsidy, even though this effect declines over time in magnitude and statistical significance. Yet, in terms of loan access, sales, employment, profitability or labor productivity, subsidies do not lead to an incremental impact – rather, the impact on credit constrained and unconstrained firms is similar. Exact and propensity-score matching reinforce our baseline findings. Our analysis suggests that easing credit constraints is not a major channel for how European Union subsidies may assist firms' development.

Upcoming Learning Program

CAFRAL Virtual Program on Governance for Directors on Boards of NBFCs January 24-25, 2022| Virtual Conference

Background:

In recent times, the NBFC sector has come under sharper regulatory focus due to several reasons. The sector has been playing an increasingly important role in the financial system, contributing to nearly 20% of the total credit flow, with credit to NBFCs by banks at around 10 % of the total bank credit. NBFCs can potentially promote wider financial inclusion and deliver credit more efficiently due to their greater capacity to innovate, leveraging on technology, differentiated strategies, unique business models and nimbleness in operations. On the flip side, there is a risk of weakening governance in the face of quick growth. Failures of several large NBFCs point to weak governance standards relating to assurance functions. The Board of an NBFC is expected to make sure that the assurance functions are not only in place but also perform effectively. For the Board to collectively discharge this responsibility well, each Board member must meet fit and proper criteria. One such criteria is that Board members, particularly the Independent Directors, should have good insight into risk management, compliance, audit, law and regulations on corporate governance etc.

Objective:

In the given context, there is an imperative need to build capacity at the Board level in NBFCs so that the Boards insightfully craft, monitor and review strategies, business models and assurance functions, mindful of governance standards, extant regulations, the existing legal framework and supervisory expectations. Keeping the above in view, CAFRAL has designed a two day Virtual Learning Program (VLP) for the directors on the Board of NBFCs.

Participants' Profile

Independent Directors, Non-Executive Directors, Whole-time Directors and Top Management Executives from NBFCs

Nominate Now