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NEWS

INDIA'S SERVICES SECTOR ACTIVITIES EASED TO 3-MONTH LOW IN APRIL AMID COVID CRISIS: In April, India's services sector activity fell to a three-month low. The pandemic slowed the increase in business activity, and optimism about future development subsided. From 54.6 in March, the seasonally adjusted India Services Business Activity Index dropped to 54 in April. While Indian services firms were optimistic about the 12-month outlook for business performance, overall confidence dropped to its lowest level since October. According to the survey, new export orders fell for the 14th month in a row, and at a faster rate than in March.

(Source: Money Control)

BANK CREDIT SHRINKS BY RS 89,087 CR IN APRIL ON SECOND WAVE IMPACT:
In April, commercial bank credit in India fell 0.8 percent (Rs 89,087 crore), implying a sluggish start to the new financial year (FY22) and the adverse effect of Covid-19's second wave. According to Reserve Bank of India data, the outstanding credit as of April 23, 2021 was Rs 108.60 trillion. Credit had declined by 0.9 percent in April of FY21. Bankers say it's too early to predict how much credit will grow in the coming months. What is probable is that the health-care crisis and its implications would have an effect on consumer expenditure and credit demand. The RBI's regulation bundle, which focuses on individuals and small businesses, may, however, aid in the system's support.

(Source: Business Standard)

INDIA MUST DEMOCRATISE CRYPTOCURRENCY; DEALS FACE FEMA COMPLIANCE, INVESTOR IDENTITY, AND OTHER LEGAL HURDLES:
Crypto trading volumes are increasing in India, where 8 million investors now hold 100 billion rupees ($1.4 billion) in cryptocurrencies, with new registrations up 30-fold from a year earlier. Bitcoin is now being embraced as a mainstream investment class and a new digital gold by millennials, who have seen returns of 300 percent or more. The government believes that the huge spike poses a significant risk to the country's currency stability and financial sovereignty. To keep the current account deficit and forex reserves in control, the RBI's Liberalised Remittance Scheme (LRS) allows an individual to spend only $250,000 per year in overseas investment instruments.

(Source: Financial Express)

VEDANTA REGAINS RS 1-TRILLION M-CAP; STOCK SURGES 7%, HITS 3-YEAR HIGH:

In intra-day trading on Friday 7th May, Vedanta shares rose 7% to a three-year high of Rs 287.50 on the BSE. The stock was at its highest level since May 2018. Vedanta was trading higher for the fourth day in a row, up 12% in that time frame. The stock has soared almost 200 percent in the last six months, outperforming the economy. In fiscal 2022, Vedanta's Ebitda is anticipated to reach more than Rs 35,000 crore. However, the improved earnings outlook is followed by a rise in debt at VRL (Vedanta Resources Ltd), which was incurred to buy more shares.

(Source: Business Standards)

FINANCE MINISTRY RELEASES ₹9,871 CRORE AS REVENUE DEFICIT GRANT TO 17 STATES:
The Finance Ministry has released the second monthly installment of the revenue deficit grant to 17 states, totaling Rs 9,871 crore. The grants are distributed in accordance with the Finance Commission's recommendation. For the fiscal year 2021-22, the 15th Finance Commission has approved an aggregate Post Devolution Revenue Deficit Grant of $1,18,452 crore. The grant is distributed in 12 monthly installments to the states. It is dependent on the gap between the state's revenue and expenditure projections. Andhra Pradesh, Haryana, Himachal Pradesh, Karnataka, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand, and West Bengal are among the states that have been recommended.

(Source: Financial Express)

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COVID IMPACT ON BANKING INDUSTRY

The Covid pandemic has hit the Indian economy at a time when growth has slowed to the lowest in ten years. The recent past showed signs of recovery in the Indian economy. However, the approaching outbreak of the virus is likely to severely impact the recovery process.

The pandemic is impacting the banking industry in multiple ways. The immediate effect of Covid on the banking industry is the increased credit risk of corporate and retail clients of the banks. It has led to a significant reduction in demand from SMEs and corporates, structural shifts in customer behaviour, and overall operating model.

Banking stocks were impacted during Covid- 19. Most banks saw a price slump in mid-March 2020. A continued crisis is likely to increase customer preference towards digital channels. It is necessary to have an increased reliance on online banking, telephone banking, and call centre services in addition to remote working. As banks are mobilizing and taking steps to minimize these impacts, they are likely to face short-term and long-term implications on profitability.

During these uncertain times created by the pandemic, banks should stress test their portfolios, for each of the defined scenarios, to understand the impact better. This stress testing should be done in such a way that it will have direct implications for decisions that these banks make in real-time. It will be necessary to identify high-risk sectors and re-evaluate the loan loss provisions under different economic scenarios.

A continued spread of the pandemic will consequently slow down business. Therefore, banks must take measures to ensure business continuity. Banks must also prepare for scenarios that might occur after the lockdown period.

The long-term implications of the pandemic for the banking industry are not known. However, when normalcy returns, banks are likely to have learnt some lessons. These may include how to best retain operational resilience when confronted with future pandemics, and how to redesign new operating models such as alternate work arrangements and innovative ways to interact with customers in a remote set-up.

Rhea Pinto
(Newsletter Team Member)

FINTECH IMPACT ON BANKING INDUSTRY

"Embrace the Changes with Open Arms".

Fintech, also known as Financial Technology is the digital revolution in the world of finance. It was presented as an innovative tool meant to be used at the back-end frameworks of banking and other financial institutions. However, from that point forward its definition has changed essentially.

This technology blast in developed and developing countries has gradually paved the way for moving from Internet banking to portable banking and then refining into a more consumer friendly, digital banking.

FinTech has changed the entire financial framework, from a branch-explicit cycle to different computerized channels like on the web, social, and versatile. It additionally has lessened the need to operate multiple physical branches of banks.

Chatbots have become an integral part of all the banks since it not only reduces costs and enhances the customer satisfaction but also allows agents in the call centres to focus on value addition.

Artificial intelligence, become a fundamental piece of the FinTech banking administrations. AI with Machine learning has become important for fraud detection. The product that banks use for fraud detection creates cautions at whatever point there's a possible fraudulent transaction. To combat this, banks are now adopting AI technology more increasingly.

The tremendous development of E-wallets is another marker of the ascent of FinTech in banking administrations. Samsung Pay, PayPal, Android Pay, and Apple Pay and are a portion of the significant e-wallet organizations on the planet. These wallets are utilized for plenty of purposes, particularly in P2P instalments, top-up and service charges, booking tickets, and many more.

Banks should challenge this technological change decidedly by not being complacent and not simply hanging tight for premium changes from regulators; rather they should deal with the key techniques that can rethink banking in this new digital and competitive era.

Nidhi Agarwal
(Co-Head)

Concepts of Mortgage, Hypothecation & Leasing

Mortgage: A mortgage is a person's property as a guarantee to get money in the form of a loan. The mortgagor is the owner of the property, while the mortgagee is the owner of the loan. When the mortgage transaction is formed, the debtor gets the cash with the loan and promises to pay the loan. When a person gets a mortgage, the lender gives a set amount of money to buy the home and comply with paying back your loan with interest over several years. People don't fully own the house until the mortgage is paid off.

Hypothecation: Hypothecation is nothing but offering an asset as collateral security to the lender or bank. In hypothecation, the ownership lies with a lender and the borrower enjoys possession of that asset. It is a legal transaction exhausted during a case of movable assets, for creating the charge against collateral security for the loan given. In the case of any loan, the asset remains with the borrower but an equivalent is hypothecated to the bank. If there's any default made by the borrower, the bank or financier takes possession of an asset after giving notice then sells the same to recover the debt. Apart from tangible assets, hypothecation is often finished stocks and bills receivables.

Leasing: A lease is a contract highlighting the terms under which one party agrees to rent property owned by another party. It is a contract that permits a lessee to secure the utilization of the tangible property for a specified period by making payments to the owner. To summarize, lease finance is acceptable for a private or business which cannot raise money through other means of finance like debt or term loan due to the shortage of funds. The business or lessee cannot even arrange the deposit money to boost debt. The lease works best for him. On the other hand, the lessor, who wants to position his money efficiently, becomes the financier for the lessee and earns the interest.

Snehal Wagh
(Co-Head)

WHAT IS PRIME LENDING RATE (PLR)?

The prime rate also known as the prime lending rate or prime interest rate is the interest rate that commercial banks charge their utmost responsible business clients. The central funds instant rate serves as the base for the prime rate, and prime serves as the initial point for most other interest rates.

Commonly, the prime rate is kept for only the most capable customers those who pose the smallest amount of non-payment risk. Prime rates may not be offered to distinct borrowers as often as to larger entities, such as companies and predominantly stable businesses.

Even if the prime rate is set at a certain percentage, around 5%, a creditor still may offer rates lower than 5% to well-qualified customers. The prime rate is used as a standard only, and though it is likely to be the bottommost announced rate accessible, it should not be considered as a binding minimum.

The prime rate is heavily reliant on the federal rate. The federal rate is the interest rate that banks charge on money lent to other banks, which are believed to be the most responsible entities in an economy, next only to the government.

If the overnight rate rises, it can show that commercial banks are seeing their credit lessening. If the affluence of the most creditworthy entities in an economy is falling, it can be a sign that the total economy is weakening.

Thus, the prime rate is likely to rise as a result, since large companies are perhaps also facing more hard-hitting economic conditions. Such situations may affect the large establishments' capabilities to pay off existing debt, which, in turn, places a descending burden on their credit scores and eventually results in hikes in the prime rate.

The rates for hypothecations, small commercial loans, and individual loans are based on prime.

Khuzaima M. Banatwala
(Newsletter Team Member)

HOW ARE BANKS COMPETING AGAINST NBFC?

Banks in India, especially public sector banks (PSBs), are facing stiff competition from non-banking finance companies (NBFCs), which are cutting into their market share. Between calendar years 2014 and 2017, the share of NBFCs in overall loans is expected to have risen from 21% to 44%, while the share of public sector banks dropped from 49% to 28%. “NBFCs have rapidly increased their market share, especially in terms of the amount of loans disbursed, owing to their aggressive push to extend and gain market share in the certificate of deposits and gold,” says the study. Furthermore, NBFCs are increasingly becoming the preferred lenders for India's youth. According to the survey, NBFCs had the highest market share of 49 percent of total loans issued by financial institutions in India to people aged 21 to 35. “With their emphasis on a lower ticket and early credit life stage items, NBFCs have captured close to 50% of the youth loan market.

On the asset hand, banks and NBFCs bid for related types of markets. Leasing and hire-purchase, corporate loans, investing in non-convertible debentures, IPO financing, margin funding, small ticket loans, venture capital, and other NBFC goods and services are available. NBFCs, on the other hand, do not provide operating account services such as savings and current accounts, cash credits, and overdrafts. Since banks and NBFCs are increasingly competing for similar types of market, especially on the asset side, and since their regulatory and cost-incentive mechanisms are not equal, such checks and balances must be established to ensure that bank depositors are not implicitly exposed to the risks of a different cost-incentive system. Almost all financial institutions and goods are available to banks. They will take deposits on request. Request deposits are unavailable to NBFCs.

NBFCs can only do functions that are particular to them. NBFCs are accepted in a small number of deposits,but they are heavily supervised by the RBI. NBFCs are allowed to accept and renew public deposits for a minimum of 12 months and up to 60 months. Regarding the interest rate, the maximum interest rate that an NBFC can offer is 12.5%.

Jattin Jacob
(Newsletter Team Member)

DO YOU KNOW CITIBANK EXITS CONSUMER BANKING INDIA?

Citibank is part of the multinational Citigroup which offers financial services. The bank is located in 19 countries which have about 2649 branches. Citi Bank made its first appearance in India in 1902 and began with the consumer banking business in 1985, but it recently announced leaving the high consumer banking business in India as part of a global strategy. In India, the bank had approximately 35 branches and had employed more than 4000 people in the sector of consumer banking.

The bank had decided to exit from the consumer banking businesses in 13 countries. The major reason explained by CEO Jane Fraser for this was an absence of scale to compete in these geographical locations.

The consumer banking business has various lines of business including wealth management, retail banking, home loans as well as credit cards. The bank had survived in the consumer banking sector in India for more than 30 years.

The conclusion of this immediate exit is not entirely known and the bank is yet to comply with the various regulatory approvals before the exit.

Citi India's Chief Executive, Ashu Khullar said that there would not be any instant change to their operations and no instant impact to their colleagues as a result of this exit. He also reasoned this exit for strengthening their ability to give full global power to their various clients and to become the leaders across the commercial as well as corporate banking.

As of 2020, consumer sector of Citibank had issued loans of approximately 27,911 Crore ` rupees for various reasons such as housing and agriculture. They also extended help to MSMEs (Micro, Small and Medium Enterprises). Of the total amount, ₹4,975 crores were offered to weaker sections.

Apart from the institutional banking business, it will continue to focus on offshoring or global business support rendered from centres in Mumbai, Pune, Bengaluru, Chennai and Gurugram. Khullar said India has got great talent so it will continue to grow the five 'Citi Solution Centers'.

Raveena Batreja
(Newsletter Team Member)