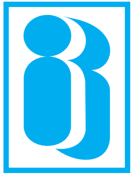

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Growing Importance of Co-lending in Financial Intermediation

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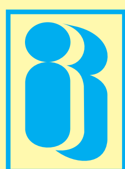

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ध्येय

संस्थान का ध्येय मूलत: शिक्षण, प्रशिक्षण, परीक्षा, परामर्शिता और निरंतर विशेषज्ञता को बढ़ाने वाले कार्यक्रमों के द्वारा सुयोग्य और सक्षम बैंकरों तथा वित्त विशेषज्ञों को विकसित करना है ।

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Mr. Biswa Ketan Das
Chief Executive Officer,
IIBF, Mumbai

The year 2022 has been an eventful year in terms of revival of economic development of the nation. The nation has responded well towards vulnerabilities in the global economic environment. At IIBF too, this year has been quite eventful, inasmuch as, the Institute has completely revised the syllabi of its flagship & capacity building courses, collaborated with national and international agencies and enriched its training programmes in lines with industry requirements.

The Institute had organised its 12th Shri. R. K. Talwar Memorial Lecture on 21st October, 2022. The lecture was delivered by Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India on "Reflections on Policy Choices in the Indian Financial System". The lecture was very insightful and was well appreciated by the senior bankers. We are publishing the 12th Shri. R. K. Talwar Memorial Lecture as the first article of this issue.

Banks and Non-Banking Financial Companies (NBFCs) are the two important pillars of credit disbursement in the Indian financial ecosystem. One of the most pivotal factors in the success of any enterprise is the availability of adequate credit at a reasonable rate. Banks and NBFCs may leverage their capabilities through co-lending in their attempt to increase their reach. Considering the relevance of synergised efforts of banks & NBFCs through co-lending, we are bringing out this issue of Bank Quest on the theme "Growing Importance of Co-lending in Financial Intermediation".

The second article of this issue is penned by Ms. Sameera Saurabh, Economic Adviser, Ministry of MSME, Government of India on "Growing importance of co-lending in Financial Intermediation". Ms. Sameera Saurabh has discussed in detail the role of Government schemes to support MSMEs and advantages of co-lending model.

The third article of this issue is written by Mr. Vijay Prakash Srivastava, Former Assistant General Manager (AGM), Bank of India on "सह उधार: वित्तीय मध्यस्थता का एक नया साधन". Mr Srivastava has described the major features of the co-lending model.

The fourth article of this issue is jointly written by Mr. Subrata Das, Ph.D, Research Scholar, Department of A&A Economics, Utkal University, & Dr. Mitali Chinara, Professor, Department of A&A Economics, Utkal University on "Corporate Governance and Performance of Commercial Banks in India". The authors have observed that in case of the public sector banks, it was found that corporate governance practices have an important bearing in influencing its financial performance.

The fifth article of this issue is jointly written by Mr. George Paul, Vice President, ESAF Small Finance Bank & Dr. T. G. Saji, Professor, School of Management Studies, Cochin University of Science and Technology on "Disfavoured Derivative". The authors have studied the forward premium of the INR/USD exchange rates of three

different maturities (3 Month forward, 6 Month forward and 12 Month forward) and concluded that exchange rates and forward premia follow a 'random walk'. Their analysis have confirmed that the actual spot exchange rate was either higher or lower then the corresponding (forward) rate calculated by using market forward premium.

The sixth article of this issue is penned by Mr. J. Ravichandran, Former Assistant General Manager, Indian Bank on "Kisan Credit Card (Dairy) Data-enabled Agricultural Credit for Financial Inclusion". Mr. Ravichandran had discussed in detail the scope & prospects of application of Business Analytical tools to source, process, and underwrite KCC Dairy credit proposals through digital mode.

The seventh article of this issue is jointly authored by Dr. M. Rathi Meena, Assistant Professor, Department of Business Administration, Dr. Umayal Ramanathan College for Women, Karikudi & Dr. G. Parimalarani Professor, Department of Banking Management, Alagappa University, Karikudi on "Skill Gap Analysis of Bank Employees Based on Branch Managers' Perceptions". The authors have concluded that there is a skill gap between the skill sets expected by managers and the skill sets possessed by the employees.

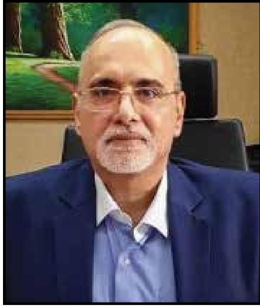
The eighth article of this issue is penned by Mr. Girish Mainrai, Chief Manager (Faculty), Bank of India on "ESG Financing: Importance, Challenges & Way Ahead". Mr. Mainrai has explained the concept of ESG financing and shared its importance, challenges & the developments in this emerging area.

I hope this last issue of the year 2022 will be appreciated by the readers for its content and coverage.

As we complete another year, it is time to sit back and review the year gone by and plan for the future. I am reminded of the wonderful words of Bessie Anderson Stanley, *"He has achieved success who has lived well, laughed often, and loved much"*.

I wish you all a very Happy & successful year ahead!

Biswa Ketan Das



Reflections on policy choices in the Indian Financial System

M. Rajeshwar Rao*

I. Introduction: Indian Financial System - Looking back and looking ahead in the 75th year of Indian Independence

It is a privilege to deliver the twelfth memorial lecture honouring the great legacy of late Shri. R. K. Talwar. I feel thankful and humbled for this opportunity as an occasion to remember personality like Shri R.K. Talwar given his contribution to the banking industry.

India recently celebrated 75 years of its independence and during this period, our country has witnessed a transition to a promising and prominent force in the new global order. However, the journey is far from complete, and a lot remains to be accomplished to realise our true potential. Such occasions as these give us an opportunity to reflect on the path traversed, the continuing and emerging challenges and the way ahead.

Shri. R. K. Talwar took the helm at India's largest bank at a very pivotal point in our banking history- the period of nationalisation. He reoriented the commercial banking to serve the underprivileged, which aligned seamlessly with the objectives of nationalisation. His emphasis on innovative banking, rehabilitation of sick units, convenient and accessible financing to small scale industries and credit impetus for rural development are testaments to his vision which later became the cornerstone of responsible banking, paving way for inclusive development in our country.

Since independence, our country has taken giant strides in growth and development in all sectors. The GDP of India rose from a meagre Rs. 5 lakh crore (1950-51) to about 147 lakh crore (2020-21) at constant prices of 2011-12, growing about 27 times with a CAGR of about 4.8 per cent. But in the shadow of this growth, story lies a duality which attracts the attention of every policymaker and concerned citizens. Even as the GDP has grown 27-fold in last seven decades, the per capita income has grown merely seven-fold from about Rs.14,000 (1950-51) to about Rs. 1 lakh (2020-21) at constant prices of 2011-12, with a CAGR of about 2.9 per cent[1]. This duality highlights the importance and requirement of inclusive growth of our country - a goal we all should aspire for and contribute towards in our respective professional capacities.

The evolution of the financial system, too, has been dotted with several twists and turns, reflecting the policy choices made in a given socio-economic and political context. As is generally said, policy making is not amenable to corner solutions. The outcomes more often than not lie somewhere in the hazy middle, reflecting the contextual trade-offs. In my remarks today, I intend to dwell on some of these tradeoffs, the idea being not to judge them for their existence, or to contemplate about their counterfactuals but just to bring forth the specific structural paths our financial system has journeyed over the course of last seven

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*Deputy Governor, Reserve Bank of India.

12th Shri. R. K. Talwar Memorial Lecture delivered by Shri. M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India - on October 21, 2022 - in Mumbai. The inputs provided by Shri. Vaibhav Chaturvedi, Shri. Pradeep Kumar and Shri. Saurabh Pratap Singh are gratefully acknowledged.

[1]Ministry of Statistics and Programme Implementation, GoI.
https://mospi.gov.in/web/mospi/download-tables-data/-/reports/view/templateOne/28401?q=TBDCAT

decades whilst bolstering the ever-evolving Indian growth story.

I will, therefore, briefly touch upon some of such structural and regulatory dualities of Indian financial system which are integral to addressing some of the key questions that I highlight, while venturing with a few thoughts of my own on the way ahead.

II. Bank-led vs market-led financial intermediation in India

Is it possible to envision a transition from a bank-dominated financial system to a non-bank intermediation channel?

There is extensive empirical evidence and literature which substantiates the claim that economic development of a country is closely associated with the development of financial system, which creates an efficient system of pooling the savings and channelising them to productive capacities of the country.

While bank credit has historically been a dominant source of financing in India, the same has been supplemented over the period by non-bank channels, which have grown significantly in last one decade or so. India now has more than 10 crore demat accounts and there has been a spurt in the entities accessing primary market to raise funds. Relatively newer entrants to this game, Mutual Funds, have clocked Assets Under Management (AUM) of around Rs. 40 lakh crores. The corporate bond market has also grown significantly, though, structurally, it remains confined to better rated corporates with the expected penetration down the credit curve remaining an enduring challenge. There has been a steady increase in the corporate bond issuances and the outstanding amount has crossed Rs. 40 lakh crore as of March 2022. As we all know, corporate bond market acts as a risk diffuser within the financial system, redistributing the risk among a larger set of investors.

While the gradual shift in the flow of credit from banks to market-based mechanisms has been evident, the road has been longer in our case as we can still see the centrality of banks in the economic system. Ironically, banks have also been supporting several market segments of non-bank intermediation channel – as providers of secondary market liquidity, for credit enhancement and as market makers. This makes the job of Reserve Bank, as a regulator, even more critical because of the interconnectedness of all economic agents with the banking system.

The government, Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) have taken several steps to develop corporate bond market. SEBI has put in place a market microstructure for corporate bonds in the form of Delivery versus Payment (DvP) settlement, electronic bidding platform and reporting of trades to increase transparency in pricing. RBI has also endeavoured to develop complementary markets such as repo and Certificate of Deposit (CDs) to supplement the efforts of SEBI. We firmly believe that with the growing need for credit, the sources would also need diversification. This would enable a competitive pricing of credit risk among the market participants and give more bargaining power to the companies looking to fund their growth and expansion and thus, would be beneficial to the real sector.

However, over the years, there is, one key aspect in which the role of banks has become more and not less important, - inclusiveness of intermediation – both geographic as well demographic. The banking sector has, over the years, borne much of the burden in this regard, absorbing a lot of costs in the process.

Any assessment of the performance of the banking system vis-à-vis other channels must not lose sight of this critical aspect!

III. Ownership - Public vs Private
Does there exist a middle ground in the debate?

Indian banking system has a very distinguishing characteristic pre-and-post liberalisation. Before liberalisation, Indian economy was largely a mixed economy with government playing a dominant economic role for planned development. This economic structure was well aligned with the contemporaneous banking structure where Public Sector Banks (PSBs) owned roughly 90 per cent of total banking assets in India, especially after two major episodes of nationalisation of banks (1969 and 1980).

The genesis of financial sector reforms in India could be attributed to the recommendations of the Committee on the Financial System - chaired by Shri. M. Narasimham in 1991 (popularly known as Narasimham Committee-1). Based on the recommendations of the committee, the dual regulation of banks was proposed to be removed, interest rates were largely deregulated, Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) were reduced to increase the productive capacity of bank capital, and more importantly, the banking sector started to get re-organised with entry of private sector and foreign banks. The idea of introducing new banks was to improve the competitiveness of the banking system for better allocative efficiency.

Since commencement of their business, the new age private sector banks have been contributing increasingly to the credit needs of the economy. In about last 25 years, their share in total credit has increased from about 3 per cent in 1996-97 to 36 per cent in 2021-22[2]. While private banks have had their share of problems, their presence has made the financial system more resilient and has provided impetus to the efforts of financial deepening in form of an accelerated growth in bank-credit to GDP ratio from about 26.7 per cent in 1995 to about 52 per cent in 2021[3].

As regards the public sector banks, their role has been extensively debated over the years. The idea of banking consolidation was first pitched in the Narsimham Committee-1 through establishment of a three-tier banking structure: i) three large banks with international presence, ii) eight-to-ten national banks, and iii) large number of regional and local banks. It is argued that large, consolidated banks may potentially have better risk diversification due to economies of scale and capacity to finance large projects. The latter rationale of consolidation becomes more pertinent as Indian firms, and their concomitant credit requirements grow.

Government of India has been facilitating consolidation of public sector banks in India over last few years. As a result, the number of public sector banks has reduced from 27 (as of Mar 2017) to 12 (as of Jun 2022). The number of private sector banks has remained constant at 21 during the same period. The consolidation of public sector banks does not seem to have had any negative impact on their outreach or inclusive banking efforts as the total number of bank branches has largely remained same (with minor reductions due to rationalisation) pre-and-post merger. Besides, the financial inclusion efforts have already transcended to a business correspondent led model leveraging on technology.

At a broader level, for enabling a reasonable level playing field, there would have to be a gradual convergence in terms of the operating space and flexibility available to each class of entity. In terms of

[2]Handbook of Statistics on Indian Economy, RBI, Sep 2022.
[3]Bank for International Settlements.

regulatory and prudential norms governing the Public and Private sector banking operations, there is already a significant amount of convergence. Therefore, from prudential perspective, the debate is infructuous. However, the same level of convergence would have to be extended to managerial and operational flexibility of PSBs based on certain governance standards. Going forward, this will generate the requisite space for both PSBs as well as private banks to grow their business and thrive.

IV. Business models - Diversified vs Specialised

Does the promise of niche, specialised banking still hold?

With widespread digital revolution and massive penetration of internet in Indian households, the need for aligning banking practices of 21st century with new aspirations of India was felt. Based on this evolving scenario, a committee under the chairmanship of Dr Nachiket Mor, the then member of central board of RBI, was constituted to study the scope of comprehensive financial services to small businesses and low-income households. The committee submitted its report in 2013 and discussed idea of 'differentiated banking' in India on the basis of horizontal and vertical differentiation involving formation of separate stylised banks on the basis of regional/sectoral scope and activities (deposit, transaction, or credit). The concept of 'payment bank' was first discussed in that report which started the formal discourse on differentiated banking.

Subsequently, the Union Finance Minister announced in 2014-15 budget speech that RBI will create a framework for licensing Small Finance Banks (SFBs) and other differentiated banks. In accordance with the announcement, RBI issued guidelines for setting up SFBs and Payments Banks (PBs) in November 2014. The specified objectives of setting up of SFBs, as envisaged in the licensing guidelines[4], is to further financial inclusion by provision of savings vehicles, and increase supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology- low-cost operations. On similar lines, PBs were set-up with the objective to further financial inclusion by providing small savings accounts and payments/remittance services to migrant labour workforce, low-income households, small businesses, other unorganised sector entities and other users[5].

Since their inception, SFBs have started playing a progressive role in mobilising savings from and providing credit to their niche customer segments, furthering the cause of financial inclusion. The growth of aggregate deposits and credit of SFBs have been significant since March 2018. In the quarter ended Mar 2022, the deposits grew by 37.3 per cent on y-o-y basis while growth in credit portfolio was 25.6 per cent, as against growth rate of deposits and credit of Schedule Commercial Banks (SCBs) at 10.2 per cent and 10.8 per cent respectively.[6] Although, it may seem unfair to compare the concerned numbers of public and private sector banks to SFBs because of scale-effects, even in terms of outreach through bank branches, SFBs represent about 4 per cent of bank branch network in India currently, expanding from less than 1% in 2017[7].

Payments Banks are truly first-generation new age differentiated banks designed on activity based functional differentiation. The impact of these banks on digital payment economy and doorstep banking cannot be assessed just by their points of presence but also from the data of facilitated digital transactions. Just to give you all a perspective on

[4]Guidelines for licensing small finance banks, RBI https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=32614
[5]Guidelines for licensing of payment banks, RBI https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=32615
[6]Commercial Banks at a glance, DBIE, RBI.
[7]Bank-wise Number of Functioning Offices of Commercial Banks as at end of the Quarter, DBIE, RBI.

this, the payments banks facilitated a total of about 11.4 crore mobile banking transactions amounting Rs.17,465 crore in value in the month of June 2020, which has increased to 47.3 crore transactions with aggregate value of about Rs.46,338 crore in just two years (August 2022), growing by 4.1 times in terms of volume and 2.7 times in terms of value. It is also important to highlight that as of August 2022, there were 2.5 crore active users of payments banks using their mobile banking facilities, representing about 2.7 per cent of all active internet users in India[8].

The primary objective of a differentiated banking structure, as alluded earlier, was to expand the reach of financial services and institutions with financial inclusion being the overarching objective. Therefore, the underlying premise of differentiated banking institutions is based on differentiated reach. As we all are experiencing now, almost all banks have or are adopting technology to improve and expand delivery of financial services and products. The Reserve Bank has been taking progressive measures to improve availability of digital infrastructure for banking services and this process recently got a significant boost by the launch of 75 Digital Banking Units (DBUs) by Hon'ble Prime Minister.

These DBUs will be set up in 75 districts to commemorate 75 years of independence under the Azadi Ka Amrit Mahotsav for a targeted Digital Banking drive. The DBUs would facilitate the customers in embarking the digital journey through digital modes/ channels in a paperless, efficient, safe and secured environment, enhance financial inclusion and make available the full array of financial service products to the public in a seamless and efficient manner and enhance their banking experience. These DBUs would also help in creating awareness on various aspects on digital banking, lessening the hesitation among customers towards availing digital financial services and thereby catalyse faster adoption of digitization.

Establishment of DBUs is a noteworthy step to augment digital infrastructure for banking services in the country and facilitate a seamless banking experience. Given the scope to scale up the financialisation of the Indian economy[9], and accelerate the pace of financial inclusion, there exists enough space for differentiated financial institutions to operate and grow. At the same time, it needs to be ensured that business models have to be sufficiently robust to provide the required financial resilience; and good governance and technological standards are adhered to while striving to fulfil their desired objectives.

V. Innovation vs. Customer Protection

Technology-enabled innovation in financial services has been one of the greatest disrupters to the traditional way of banking. Alternate models of lending are rapidly changing the market dynamics and affecting the role of traditional intermediaries. While banks have access to low-cost deposits, tech firms' advantage is that with technology's aid, they can utilise a range of data/ alternate inputs for evaluating creditworthiness or who to lend to. From a regulatory standpoint, while there are strong arguments for making sure that the traditional vehicles of lending continue, there is a view that regulators are reluctant to encourage fintech led innovations and this approach is perceived to unfairly skew the balance in favour of banks. To my mind this would not be the right inference; technological changes need to be imbibed in digestible doses to forestall destabilising of the financial system. No doubt, growth of tech led innovation need to be fostered, but preserving financial system stability is an overriding objective for the Regulators and achieving the right mix of

[8]Bank wise volumes in ECS/NEFT/RTGS/Mobile transactions, Data releases, RBI.

[9]Financialization of an economy may be defined as increasing depth and size of financial market. In this context, I refer it to the volume of financial assets in an economy as a proportion of its GDP.

ensuring stability while fostering innovation remains the goal. Therefore, regulators expect that the nature of partnership between traditional banks and the new fintech players to evolve into a symbiotic one, and not necessarily an adversarial one.

This could create a win-win outcome for all the stakeholders, but one challenge that may arise is that of proxy disintermediation, with the attendant risks of financial activities taking place outside the regulatory perimeter. The recent guideline on digital lending is an attempt to have an enabling framework, balancing competing considerations.

Most of the innovations in the delivery of financial services have an inherent aspect of conduct - the choice between exploitative vs responsible conduct. It is important to establish a common denominator of what is 'responsible'. This dimension has a lot more subjectivity while seeking to address the issue.

Ethical and responsible banking, being sensitive to the needs of people we are serving, being inclusive in our approach to vulnerable sections of the society, taking prudent financial decisions - these all are the choices which are always available to each one of us engaged in the financial sector. Banking fraternity being the trust bearer of the society owes it to people and the country, to be sensitive, inclusive, responsible, and prudent.

Our financial institutions have navigated and will continue to navigate through these choices. Adopting unfair means, oblivious to the consequences may push top line in the short run but will potentially harm organisation in the long run. After all, financial institutions are not in this business for few years but for a long haul. Hence, purely from a business point of view, it makes a lot of sense to act in the interest of all stakeholders. All aspects - affordability, accessibility, and especially the appropriateness should, therefore, be adhered whenever we design a financial product or deliver it. Breaching any of the above cannot be a choice at all.

VI. Concluding remarks

I have tried to briefly highlight the critical dualities of Indian financial system. As mentioned earlier, I do not intend to judge any of these categories. The only intention to bring forth these dualities is to emphasize the largely organic evolution of Indian financial system in response to our growing economy and highlight that the regulatory frameworks of RBI have facilitated meeting the ever-changing needs of the country. At every juncture of growth in financial system, at every kink, there are innumerable policy choices for a regulator. The decisions we make today have the potential to shape the present and future of our economy and our nation. But sometimes, we can wonder on what could have been the counterfactual and answering such a counterfactual is difficult. But it can be most certainly stated that the depth, size, and resilience of Indian financial system owes much to such decisions in past taken at various crossroads. One may well argue that these policy choices were not necessarily pro-active but sometimes reactive as well. True! Central Bankers do not have liberty to innovate freely, we have to put our mandate and financial stability first. There have been times when we are appreciated for our prudent policies and times when we are criticised for being conservative. But let me assure you, whatever we do, we strive to do in broader public interest. Every policy stance of ours is customised to the need of our growing economy and preserving financial stability, and that remains our guiding principle.

In a conventional set-up, the banking regulation has some pre-specified toolkits which are time tested and globally adopted. Every financial crisis offers some

insights to the regulators, and the toolkit is accordingly modified in response to the lessons learnt. But, with a dynamically evolving financial system, regulators do not have liberty to rely excessively on existing means because many of the potential challenges emanating from the emerging financial order are not foreseeable. Worldwide, regulators are striving to remain ahead of the curve, because they simply cannot afford to be reactive in this environment. The changes we feel to be insignificant can now grow manifold in a very short span of time posing threat to the stability of financial system. Therefore, we have to be cognisant of all the financial changes happening around and respond appropriately to such changes. As the regulatory perimeter gradually extends to uncharted domains – climate finance, regulation of digital lending, *etc.* some of these issues will become even more relevant.

To guide us in this transition, we have tried to fix some broad principles that make the policy stances adaptive enough to cope up with any present and future challenges, while creating enabling environment for innovations with positive externalities. At a broad level, three guiding principles that would be helpful in framing financial regulation going ahead are - principle-based, proportionate and activity-based regulations. In an uncertain business environment, it is very difficult to predict and then prescribe all possible scenarios of a financial transaction.

Therefore, such complex superstructure warrants that regulator should move away from rule-based prescriptive regime to principle-based regime and the principles of regulation should always have the financial stability and interests of consumers at its core.

The second principle for present and future regulation should be a differentiated regulatory system based on size, complexity and contribution to systemic risk. Further, as the interconnectedness, scope of activities and harmonisation of financial intermediation increases, entity-based regulatory architecture may create arbitrage between different entities undertaking similar activity. Therefore, going forward, activity should form a common regulatory thought for future regulations.

Let me end by citing a few lines from the well-known poem by Robert Frost, which not only resonates with what I just said but also touches upon the theme of this lecture- the reflection on policy choices:

"Two roads diverged in a yellow wood, And sorry I could not travel both…

I took the one less travelled by,

And that has made all the difference."

Thank you once again IIBF for organising this lecture and giving me an opportunity to share my thoughts. And thank you to all the distinguished guests for your patient listening.

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Growing importance of co-lending in Financial Intermediation

Sameera Saurabh*

The Micro, Small and Medium Enterprises (MSMEs) sector plays an important role in enhancing and ensuring India's socio-economic development. The sector has gained significant importance due to its contribution to the country's Gross Domestic Product (GDP) and exports. It is estimated that MSMEs have generated more than 111 million jobs through 63.38 million enterprises and contribute over 30% of the nation's GDP and more than 40% of the country's overall exports.

However, one of the sectors that was most impacted by the COVID-19 pandemic and global uncertainties, was the MSME sector. Further, the prolonged pandemic has resulted in global slowdown and all-time high inflation rates.

As the pandemic worsened, it became certain that the MSME sector would require a helping hand to survive. The Reserve Bank of India (RBI), to mitigate the impact of the pandemic on the vulnerable sections of the society, revised and rechristened its 2018 framework for co-origination of loans into a more flexible framework of Co-Lending Model (CLM) in 2020. This model facilitates collaboration between banks and registered Non-Banking Financial Companies (NBFCs)/Financial Technology (Fintech's) firms, thus, enabling priority sector lending at an affordable cost. The idea was to improve flow of credit to the unserved and underserved sectors of the economy such as MSMEs. A co-lending arrangement usually involves two or more parties coming together for a specific purpose or a project. Such an arrangement allows them to use their respective strengths and capabilities for the benefit of MSMEs. Co-lending allows for increased liquidity and credit penetration.

Co-lending

1. Introduction

In 2018, RBI rolled out guidelines for co-origination of Priority Sector Loans by Scheduled Commercial Banks with Non-Banking Financial Companies - Non-Deposit taking - Systemically Important (NBFC-ND-SIs)[1]. Later, in 2020, RBI rolled out amended Co-Lending Model (CLM)[2]. Further to this, in 2021, the revised guidelines related to Transfer of Loan Exposure, which are also applicable to co-lending transactions came in force. In addition to this, there are Securitization of standard assets directions, 2021 and Master direction - Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021[3].

2. Objectives of the Co-lending

The objectives of the co-lending are as follows:

- Help NBFCs in increasing their reach towards the growth of MSMEs.
- Help MSMEs in giving access to formal low-cost credit.
- Promote MSME funding through MSME focused NBFCs.
- MSME to get banking facilities (e.g. Forex transaction) through NBFCs through various arrangements with bank.

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[1]RBI/2018-19/49 FIDD.CO.Plan.BC. No.08/04.09.01/2018 date September 21, 2018.

[2]RBI/2020-21/63 FIDD.CO.Plan.BC. No.8/04.09.01/2020-21 dated November 05, 2020.

[3]RBI/DOR/2021-22/85 DOR.STR.REC.53/21.04.177/2021-22 circular dated September 24, 2021.

3. Scope of the Co-lending

The co-lending can be done between any Schedule Commercial Bank (SCB) and RBI registered NBFCs (including HFCs).

4. Target Segment

The vision of co-lending is to deploy low-cost funds through NBFCs in the priority segments like MSME and granular assets space in all geographies.

Over the last two years, MSMEs have proved themselves as a key player in the consumer market in the Indian economy in terms of last-mile delivery, community support and even encouraging adoption of digital technology. This happened despite the challenges being faced by MSME sector in the wake of market downturn to maintain cash flow and access working capital, while dealing with supply and workforce disruptions. It is no surprise that MSMEs have emerged as a backbone for global economies market like India.

However, despite the pivotal role MSME sector holds in Indian economy, they face challenges in accessing credit, which hinders their ability to navigate volatile market dynamics.

In order to help MSMEs, National Small Industries Corporation (NSIC) was set up as a Public Sector Unit (PSU) in the year 1955 to provide handholding and positive eco-system to MSMEs through various interventions created by it over a period of time. NSIC has been working to support, promote and strengthen the growth of MSMEs in the country. NSIC is a profit-making dividend paying company.

NSIC carries forward its mission to assist Micro, Small & Medium Enterprises by providing specially tailored schemes for them. To enhance the competitiveness of MSMEs, NSIC provides integrated support services under marketing, technology and other support services.

Credit Support to MSMEs

Access to timely and adequate credit is the need of the hour for MSMEs growth and development. Indian banks have been advised to achieve 20% year-on-year growth in credit to Micro and Small Enterprises. Also, the allocation of 60% of the MSME advances to the Micro Enterprises is to be achieved.

Meeting credit needs of MSMEs through tie-up arrangement with banks

One of the major challenges faced by MSMEs is inadequate access to finance due to lack of financial information and non-formal business practices. To overcome these problems, NSIC has entered into tie-up arrangements with various public sector & private banks/Financial Institutions (FIs) for helping MSMEs in accessing credit for working capital requirements and other expenses. NSIC has taken initiative of on-line finance facilitation to facilitate easy access to finance for MSMEs. The portal allows MSMEs to apply online for loan from various banks which have tie-up arrangements with NSIC. Further, web linkages with portals of various banks are also created to ensure speedy disposal of credit proposals, thus, saving time and cost of MSMEs.

Salient features of Bank Credit Facilitation Scheme

- It facilitates credit to MSMEs by having an integrated mix of various public and private sector banks.
- It opens the option for MSMEs to switch over to different banks.
- It provides assistance to MSMEs in completing the documentation process, before submitting it to the bank.
- To facilitate large number of MSMEs who are desirous of availing credit facilities.
- To provide handholding support to MSMEs.

Financing procurement of raw materials & marketing activities (short-term)

NSIC provides support to MSMEs to process raw materials by making arrangements with bulk manufacturers. It also provides financial assistance to MSMEs for procurement of raw materials by making payment to suppliers.

Benefits of the Scheme

- It provides credit support up to 180 days for the procurement of raw material.
- This scheme provides support to MSMEs for bulk purchases, cash discounts, etc.

NSIC also provides financial assisstance for marketing activities such as Tender Marketing, Exports and Bill Discounting to Micro, Small & Medium Enterprises.

Self-Reliant India (SRI) Fund

The Hon'ble Finance Minister, announced creation of a Fund of Funds (FoF) for Micro, Small and Medium Enterprises (MSMEs) under the Atmanirbhar Bharat package on the 13th May 2020, to address severe shortage being faced by MSMEs in securing growth capital. Consequently, Ministry of MSME, Government of India, designated the National Small Industries Corporation (NSIC) to execute Fund of Funds scheme of Rs.10,000 cr., by anchoring it through a 100% owned subsidiary company. Accordingly, NSIC Venture Capital Fund Limited (NVCFL) was incorporated as a wholly owned subsidiary of the National Small Industries Corporation (a Miniratna Public Sector Enterprise (PSE) under the MoMSME catering to the MSME segment) for implementing the Fund of Funds, named as Self-Reliant India (SRI) Fund.

The 'Self Reliant India (SRI) Fund' is launched as the first scheme of NVCFL. SRI Fund will employ a 'Fund-of-Fund' investment strategy wherein, the fund shall invest in SEBI registered Category I and Category II Alternative Investment Funds ("Daughter Funds"), which shall in turn, invest in MSMEs. The Daughter Funds (DFs) shall invest at least 5 times the amount of capital received from SRI Fund (net of fees and expenses) in MSMEs, defined as per the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

Objectives of SRI Fund

The objective of SRI Fund is to provide funding support to the MSMEs through the Daughter Funds as growth capital in the form of equity or quasi-equity for enhancing equity like financing to MSMEs, listing of MSMEs on stock exchanges. It also empowers MSMEs to produce globally competitive products and services through strategic and operational guidance. SRI Fund has a fund life of 15 years and can commit minimum Rs. 25 cr. and up to 20% of DF fund size or Rs. 2,000 cr., whichever is lower. The other objectives of SRI Fund are as follows-

- Enhancing equity, quasi equity and debt financing, as per the relevant SEBI guidelines for MSMEs;
- Supporting the speedy growth of MSMEs and thereby, ignite the economy and create employment opportunities;
- Supporting enterprises which have the potential to graduate beyond the MSME bracket and become National / International champions; and
- Supporting MSMEs which help making India self-reliant by producing relevant technologies, goods and services.

Role of SRI Fund

- Within 1 year of its operations, SRI Fund has held 15 Investment Committee Meetings and has provided final approval to 33 Daughter Funds with commitment of Rs. 4,805 cr. Investment Committee (IC) has also provided preliminary approval to 5 Daughter Funds with commitment of Rs. 470 cr.

- This offering by the Government of India through NSIC and NVCFL will go a long way in providing the much-needed growth capital to MSMEs, so that they can become champions and also graduate from the MSME segment. This should also enable MSMEs to tap the equity market for low-cost, long-term funding.
- Until 30th September 2022, SRI Fund has invested Rs. 274 cr. across 125 MSMEs generating ~ 20,000 jobs, spread across the country, through 22 Daughter Funds that are empaneled with SRI Fund. This investment into MSMEs from SRI Fund has helped them raise additional capital of Rs. 2,335 cr. of investments from all investors, thereby, providing a catalytic capital to MSMEs. Over the entire term of SRI Fund, it is expected to support 2,700 MSMEs.

Support provided to beneficiary MSMEs from SRI Fund

The aim of funding provided by SRI Fund is to help the investee companies to scale and grow into mature businesses that can attract larger rounds of equity capital which will have a large multiplier effect. SRI Fund till August, 2022 has benefited 94 MSMEs to the tune of Rs. 227.34 crore. These beneficiary MSMEs operate in sectors such as Defence, Education, Agriculture, Retail & FMCG, Climate, Healthcare and others. This funding may be utilized in the following ways:

1. To help increase the capital spent thereby, expanding manufacturing capacity;
2. To hire more talented team members, thus, generating more employment; and
3. For research and development to launch new products.

Advantages of Co-Lending

1. *Increase in reach* - Since NBFCs / Fintech's have the potential to the remotest areas of the country, underserved target groups and also have greater digital penetration. This, banks can benefit from such wider reach and large base of customers to lend to.
2. *Better customer experience* - NBFCs / Fintech's value customer service and thrives to provide them with exceptional customer experience. Therefore, the customer management gets handled by a partner in a smooth and convenient manner, which helps in attracting customers and retaining them in long run.
3. *Risk management* - Since two or more parties co-lend, the risk is divided between the parties and help reducing the credit risk. It gives an added sense of security and minimization of losses, in case of default.
4. *Lower interest rates* - Customers do not need to pay high interest rates, just to go through a convenient lending process, as they get considerably lower interest rates due to banks being on board.
5. *Assured market linkage* - The producer need not worry about market linkage and for marketing setup containing such costs to a large extent. Collaboration between large banks and niche NBFCs/Fintechs, wherein, Lending as a Service (LaaS) would become a prominent force has become quite popular. Large public sector banks benefit from partnerships with third party platforms and NBFCs/Fintechs with the last mile reach which these institutions have. Banks can provide the funds to MSMEs in Tier II/III cities and rural areas by leveraging the kind of reach NBFCs and such other platforms. They may lend to a greater number of customers and have a robust recovery mechanism in place. Such firms help banks reduce their exposure to credit risk.

Similarly, there can be a wide scope for implementation of the concept of co-lending in Central Public Sector Enterprises (CPSEs) mainly engaged in manufacturing or process industries.

These CPSEs can give assurance for procuring raw material/semi-finished goods from identified vendor. Based on this assurance, the vendor is provided finance by a financial institution to procure machines and raw material. All this can be easily structured through a tripartite agreement. To illustrate, let us take the example of NTPC. NTPC requires coal to fire its boilers to produce electricity. Coal is procured from coalfields which are often situated far away from the power plant. However, in the vicinity of the power plants, there might be a large number of farms which would be encountering the problem of disposal of their farm waste i.e. parali (stubble). Stubble burning causes widespread pollution which is a social evil and causes severe problem to health and well-being. So, NTPC can tie up with the farmers and procure briquettes, converted stubble from them to fire their boilers. The conversion of stubble is a short thermo-mechanical process for which machinery is required. Simultaneously, NTPC can also assure one or more financial institutions to provide financing to the farmers for procuring the machine and because of the assured market linkage, they will be paying the farmer regularly, as per supply made. Such an arrangement, if made, would be a win-win situation for all, as explained below:

a) Industry Major-Central Public Sector Enterprises (CPSEs) - they would get assured supply of raw material at relatively cheaper cost.

b) Financial Institution - assured of repayment and end-use of their investment.

c) Farmer - extra income from farm waste inter-alia ensuring cleanliness and hygiene.

d) Society - less pollution resulting in better quality of life.

This model can, be used by other CPSEs also for the benefit of all stake holders.

6. *Affordable housing* - Shortage in affordable housing continues to be a major concern for India, especially, for the economically weaker and informal sections of the society. To further improve the penetration in this segment, State Bank of India (SBI) has entered into partnerships with five Housing Finance Companies (HFCs), namely, PNB Housing Finance, IIFL Home Finance, Shriram Housing Finance, Edelweiss Housing Finance and Capri Global Housing Finance. This collaboration will help SBI to enhance its distribution network, as it aims to expand its credit reach to more home loan borrowers in the unserved and underserved segments.

   In another instance, Bank of Baroda (BoB) has recently launched an end-to-end digital platform in collaboration with Paisalo Digital Limited, a leading NBFC for deploying around Rs. 10,000 cr. for the benefit of Micro, Small and Medium Enterprises and women entrepreneurs. This is a laudable initiative by BoB and will definitely pave the way for other banks and NBFCs to give life to the co-lending policy of the RBI.

Conclusion

Co-lending helps banks reaching geographies/ segments where banks have very little presence and NBFCs are extending the credit with their regional knowledge/network/branches. This model has the potential to bring about a significant change in the priority sector. Large customer base and integration of technology of NBFCs such that the end users at remote places can take advantage of such schemes, combined with the robust financial backing of large institutions may transform the lending and borrowing market in the priority sector. Moreover, CPSEs as of now are not involved in any co-lending activities. However, the ways in which CPSEs contributes to co-lending in terms of financial intermediation may be explored. If the co-lending model implemented in the manner envisaged by the RBI, this may just prove to be the catalyst for the industries and in uplifting of the priority sector from its economic hardships.

सह उधारः वित्तीय मध्यस्थता का एक नया साधन

विजय प्रकाश श्रीवास्तव*

किसी भी प्रगतिशील देश के नागरिकों के लिए बैंकिंग एक अनिवार्य सेवा मानी जाती है। बैंकिंग सेवाओं को भारत के कोने-कोने में पहुँचाने के लिए हमारे देश में अनेक कदम उठाए गए हैं। इनमें सर्वाधिक महत्वपूर्ण तथा ऐतिहासिक कदम 1969 तथा 1980 में दो चरणों में बैंकों का राष्ट्रीयकरण था, जिसके पश्चात देश में इन बैंकों की बहुत सारी नयी शाखाएँ खोली गईं, विशेष रूप से ग्रामीण क्षेत्रों तथा दूरस्थ इलाकों में। इसके बाद 1976 में क्षेत्रीय ग्रामीण बैंक अधिनियम लाकर विशेष रूप से देश के ग्रामीण इलाकों के लिए तथा ग्रामीण जनों की आवश्यकताओं के अनुरुप वित्तीय सुविधाएं उपलब्ध कराने हेतु एक नई श्रेणी के बैंकिंग तंत्र की स्थापना की गई। इन उपायों से देश में बैंकिंग सुविधाओं का अत्यंत व्यापक तरीके से विस्तार हुआ और देश की अर्थव्यवस्था को एक नई दिशा मिली। वर्ष 2014 में शुरु की गई जनधन योजना के तहत करोड़ों भारतीयों के बैंक खाते खोल कर उन्हें बैंकिंग तथा वित्तीय सेवाओं के दायरे में लाया गया जो देश में वित्तीय समावेशन के लिए एक बड़ी सफलता थी।

आज हमारे देश में बैंकिंग का एक सुदृढ़ तंत्र है जो देश की प्रगति में निरंतर योगदान कर रहा है। इसी प्रकार देश में गैर-बैंकिंग वित्तीय संस्थान (एनबीएफसी)भी मौजूद हैं जो सीधे-सीधे समस्त प्रकार की बैंकिंग सेवाएँ तो प्रदान नहीं कर सकते पर सीमित रूप से व्यक्तियों तथा व्यापारिक कंपनियों को वित्तीय सेवाएँ उपलब्ध कराने का कार्य करते हैं। जहां तक विनियमन का प्रश्न है कई विनियम ऐसे हैं जो बैंकों तथा गैर-बैंकिंग वित्तीय संस्थानों दोनों पर समान रुप से लागू हैं, इसके साथ बैंकों तथा गैर-बैंकिंग वित्तीय संस्थानों के लिए अलग-अलग विनियम भी हैं। ये सभी अर्थात बैंक तथा एनबीएफसी विभिन्न उद्देश्यों के लिए ऋण देने के कार्यकलाप में शामिल हैं। वास्तव में उनके द्वारा दिए गए ऋणों पर उन्हें प्राप्त ब्याज ही उनके आय अथवा लाभ का एक बड़ा स्रोत है।

कहावत है, एक और एक मिल कर ग्यारह होते हैं। बैंकों तथा एनबीएफसी के साथ आने को शायद हम इस कहावत से जोड़ कर देख सकते हैं। सहउधार जो अंग्रेजी के कोलेंडिंग के लिए हिंदी में प्रयुक्त शब्द है, में बैंक तथा एनबीएफसी संयुक्त रुप से कर्ज़ देने का कार्य करते हैं। सहउधार के लिए बाकायदा एक मॉडल उपलब्ध है जिसे सीएलएम के नाम से जाना जाता है। जैसा कि पहले कहा गया है, ऋण देना बैंकों तथा एनबीएफसी दोनों का प्रमुख कार्य है और सभी बैंकों तथा एनबीएफसी को इसके लिए बाज़ार की ज़रुरत होती है। अत: अगर एक दूसरे के प्रतियोगी बनने की बजाय ये मिलकर बाज़ार पर अपना ध्यान केन्द्रित करें, तो इस मॉडल के अन्तर्गत व्यवसाय के अवसर जुटाए जा सकते हैं।

हमारी अर्थव्यवस्था में एनबीएफसी की भूमिका

अर्थव्यवस्था में बैंकों के योगदान की चर्चा अकसर होती रहती है, पर इस विषय में हमें एनबीएफसी की भूमिका को भी नज़रअंदाज़ नहीं करना चाहिए। यह सर्वविदित है कि देश की आबादी का एक वर्ग बैंकिंग सुविधाओं के दायरे से बाहर रहा है। इस वर्ग को मोटे तौर पर हम दो भागों में विभाजित कर सकते हैं। एक भाग ऐसे लोगों का है जिन्होंने वित्तीय सेवाओं के किसी संगठित नेटवर्क से जुड़ने की अपनी तरफ से कभी कोशिश नहीं की, अगर कभी ज़रुरत महसूस हुई, तो ये लोग स्थानीय महाजनों जिनकी मौजूदगी अभी भी बनी हुई है, पर निर्भर रहे। दूसरे भाग में एनबीएफसी की सेवाएँ लेने वाले लोग हैं। इन लोगों ने एनबीएफसी से जुड़ना क्यों पसंद किया, इसके पीछे कई कारण हो सकते हैं। बहुत से

*सेवानिवृत्त मुख्य प्रबन्धक एवं संकाय सदस्य, बैंक ऑफ इंडिया।

मामलों में एनबीएफसी द्वारस्थ सेवाएँ प्रदान करते रहे हैं। उनकी सेवाएँ कई बार स्थानीय प्रतिनिधियों के माध्यम से उपलब्ध कराई जाती हैं, जिसमें ग्राहकों को सहजता महसूस होती है। यह भी हो सकता है कि वित्तीय सुविधाएं प्रदान करने का एनबीएफसी का तरीका कम औपचारिक हो और निर्णय लेने की प्रक्रिया त्वरित हो। एक वर्ग ऐसा भी ज़रुर होगा, जो बैंको के साथ-साथ एनबीएफसी का भी ग्राहक हो। हमें यह स्वीकार करने में हिचक नहीं होनी चाहिए कि भले ही एनबीएफसी की पहुँच बैंकों जितनी व्यापक न रही हो, पर उन्होंने भी आबादी के एक बड़े हिस्से तक विभिन्न प्रकार की वित्तीय सेवाएँ पहुंचाई हैं तथा इस प्रक्रिया से वित्तीय समावेशन का विस्तार किया है। हो सकता है, इसके आधार पर ही भारतीय रिज़र्व बैंक ने कुछ विशिष्ट उद्देश्यों के लिए बैंकों तथा एनबीएफसी के सम्मिलित प्रयासों को मान्यता दी हो।

बैंकों की भांति एनबीएफसी भी व्यैक्तिक ग्राहकों को तथा संस्थाओं को वित्तीय सेवाएँ प्रदान करते हैं। संस्थाओं से यहाँ आशय व्यापारकर्ता निकायों, सूक्ष्म, लघु तथा मध्यम उद्यमों, सूक्ष्म वित्त संगठनों आदि से है। कुछ एनबीएफसी बहुत बड़े पैमाने पर कार्य करते हैं तथा परियोजना वित्त/अवसंरचना के वित्तपोषण में सक्रिय हैं। विभिन्न व्यावसायिक कार्यकलापों के लिए ऋण देना, वित्तीय आयोजना से संबंधित परामर्श सेवाएँ प्रदान करना उनके कार्यकलापों में शामिल हैं। हाँ, उनके द्वारा मांग जमाराशियाँ नहीं स्वीकार की जा सकतीं तथा उन्हें रिज़र्व बैंक द्वारा परिभाषित दायरे में कार्य करना होता है। एनबीएफसी, कंपनी अधिनियम 1956 के तहत पंजीकृत होते हैं तथा उनकी भिन्न श्रेणियाँ भी होती हैं।

एनबीएफसी का विनियमन तथा सह उधार मॉडल (सीएलएम)

एनबीएफसी के विनियमन का कार्य भारतीय रिज़र्व बैंक ने अपने गैर-बैंककारी पर्यवेक्षण विभाग को सौंपा है। सहउधार ढांचे पर दिशानिर्देश भारतीय रिज़र्व बैंक ने 2018 में जारी किए थे। 2020 में इसे संशोधित कर सीएलएम का नाम दिया गया। इस संशोधन की एक मुख्य बात आवास वित्त कंपनियों को इस ढांचे में शामिल करना था। एक विनियामक के रूप में रिज़र्व बैंक के संबन्धित दिशानिर्देशों में विवेकपूर्ण मानदंडों का समुचित ध्यान रखा गया है। वाणिज्यिक बैंक, रिज़र्व बैंक के यहाँ पंजीकृत तथा अवसंरचना वित्तपोषण, उपकरण पट्टे पर देने, हायर पर्चेज, कर्ज़ देने, फ़ैक्टरिंग, तथा निवेश कार्यकलापों में नियोजित एनबीएफसी को, शर्तों के अधीन, कार्यशील पूंजी हेतु आवश्यकता आधारित ऋण प्रदान कर सकते हैं। रिज़र्व बैंक द्वारा सीएलएम, बैंकों तथा एनबीएफसी के अलग-अलग सुदृढ़ पक्षों का सम्मिलित लाभ उठाने के उद्देश्य से तैयार किया गया है। एनबीएफसी सोर्सिंग तथा वसूली में मजबूत पाए गए हैं, जबकि बैंकों की मजबूती उनके पास चलनिधि की मौजूदगी और इसके विनियोजन में है। रिज़र्व बैंक द्वारा सीएलएम लाए जाने का एक उद्देश्य एनबीएफसी को चलनिधि उपलब्ध करा कर उत्पादक क्षेत्रों को ऋण के प्रवाह में वृद्धि करना है। सीएलएम मुख्यत: उन लोगों तक ऋण सुविधाओं का विस्तार करने पर केन्द्रित है, जो अब तक ऐसी सुविधाओं से वंचित रहे हैं।

प्राथमिकता प्राप्त क्षेत्र एवं अन्य महत्वपूर्ण क्षेत्रों को ऋण

जैसा कि हम सभी जानते हैं सरकारी निर्देशों के अनुसार, अनुसूचित वाणिज्यिक बैंकों द्वारा दिए जाने वाले ऋणों का न्यूनतम 40 प्रतिशत प्राथमिकता प्राप्त क्षेत्र के लिए होना चाहिए। इस प्राथमिकता प्राप्त क्षेत्र को उप-क्षेत्रों (जैसे कृषि, सूक्ष्म उद्यम, कमजोर वर्ग आदि) में विभाजित कर इन उप-क्षेत्रों के लिए भी लक्ष्य निर्धारित किए गए हैं। यहाँ उचित लक्ष्य समूह को चुनने में बैंकों को कई बार कठिनाई आती है। ऐसे मामलों में बैंक एनबीएफसी की मदद ले सकते हैं और/या बैंक तथा एनबीएफसी मिल कर ऋण प्रदान कर सकते हैं। सहउधार की व्यवस्था में ज्यादा ऋण आवेदन जुटाए जा सकते हैं और उनमें से सबसे उपयुक्त पात्रों का चयन किया जा सकता है।

सीएलएम को अपनाने में बहुत से फायदे हैं। इसमें आवेदक की ऋण पात्रता का आकलन ज्यादा अच्छी तरह किया जा सकता है, जिससे आगे चल कर ऋण के खराब होने की संभावना कम होती है। वैसे भी सहउधार में चूंकि दो भिन्न ऋणदाता होते हैं, जोखिम का बंटवारा उन के बीच होता है और ऋणी द्वारा चूक की स्थिति में एक ही पक्ष को पूरा जोखिम नहीं उठाना पड़ता। सहउधार में ऋण देने की लागत कम रखी जा सकती है और इस लागत लाभ के आधार

पर ब्याज दरें नीची रखना संभव होता है, जो स्पष्ट रूप से ऋणियों के हक में होता है।

एनबीएफसी बैंकिंग सेवाओं से पूर्व में वंचित रही आबादी तथा पारंपरिक बैंकों के बीच एक सेतु का कार्य करते हैं। बैंकों द्वारा सीधे एनबीएफसी को ऋण पहले से दिया जाता रहा है, पर ऋणी कंपनियों द्वारा इन ऋणों को चुकाने में विफलता के बढ़ते मामलों को देखते हुए बैंक, एनबीएफसी को प्रत्यक्ष कर्ज देने से बचना चाहते हैं। रिज़र्व बैंक की पहल पर यहाँ सह उधार का रास्ता अपनाया गया है

सहउधार में प्रौद्योगिकी का उपयोग

बैंकिंग में प्रौद्योगिकी का उपयोग निरंतर बढ़ता जा रहा है। अधिकांश, विशेषकर बड़े एनबीएफसी भी अपने परिचालनों में प्रौद्योगिकी का बढ़ चढ़ कर प्रयोग करने लगे हैं। कुछ एनबीएफसी ने अपनी सेवाओं को पूर्णत: प्रौद्योगिकी आधारित बना रखा है। कई बैंकों ने सह उधार के लिए प्रौद्योगिकी आधारित एनबीएफसी के साथ गठजोड़ किया है अथवा इस हेतु संभावनाओं की तलाश कर रहे हैं। दुनिया में तथा हमारे देश में भी फिनटेक कंपनियों की संख्या में निस्तर वृद्धि होती जा रही है। अनेक फिनटेक कंपनियां बैंकों के साथ भागीदारी करने की इच्छुक हैं ताकि उन्हें बड़ा बाज़ार मिले, वे अधिक से अधिक ग्राहकों तक पहुँच सकें तथा इसके चलते बड़े पैमाने की किफ़ायतों का लाभ उठा सकें। इस प्रकार संभावना व्यक्त की जा सकती है कि समय के साथ सहउधार का बाज़ार बढ़ेगा तथा बैंकों एवं फिनटेक कंपनियों की भागीदारी अधिकाधिक जरुरतमंद लोगों की ऋण आवश्यकताओं की पूर्ति कर सकेगी।

सहउधार हेतु दिशानिर्देशों की प्रमुख बातें

भारतीय रिज़र्व बैंक ने सह उधार के लिए नियमों को परिभाषित किया है। नियमों के अनुसार सह उधार को लेकर बैंक तथा एनबीएफसी के बीच करार में यह व्यवस्था होनी चाहिए कि एनबीएफसी द्वारा दिए जाने वाले ऋणों में बैंक या तो अनिवार्यत: अपनी हिस्सेदारी सुनिश्चित करें या कतिपय ऋणों, जिनमें समुचित सावधानी का पालन न किया गया हो, को नामंज़ूर करने का विवेकाधिकार अपने पास सुरक्षित रखें। यदि बैंक द्वारा प्रथम विकल्प का चुनाव किया जाता है तो इसे बैंकों द्वारा वित्तीय सेवाओं की आउटसोर्सिंग में जोखिम प्रबंधन तथा आचार संहिता पर रिज़र्व बैंक के मौजूदा दिशानिर्देशों का पालन करना होगा। कुछ मामलों में, शर्तों के अधीन, बैंक ऋणी हेतु तीसरे पक्ष द्वारा संचालित समुचित सावधानी प्रक्रिया पर भरोसा कर सकते हैं। बैंकों को, प्रवर्तक समूह से संबंधित एनबीएफसी के साथ सह उधार का करार करने की अनुमति नहीं है। सह उधार में ग्राहकों के लिए संपर्क हेतु स्थल या बिंदु एनबीएफसी ही हुआ करेंगे तथा ग्राहकों के साथ करार भी एनबीएफसी के द्वारा किया जाएगा। इस करार में ऋण व्यवस्था की मुख्य बातें दी गई होंगी तथा बैंक एवं एनबीएफसी की भूमिकाओं का विधिवत उल्लेख होगा। जैसा कि अन्य ऋणों में होता है, ऋणी को इस व्यवस्था की जानकारी देकर उनकी स्पष्ट सहमति प्राप्त की जाएगी। सर्व समावेशी ब्याज दर का निर्धारण, इस संबंध में दिशानिर्देशों का ध्यान रखते हुए, बैंक तथा एनबीएफसी परस्पर सहमति से करेंगे। ऋणों की निगरानी तथा वसूली हेतु व्यवस्था भी सम्मिलित रुप से तय की जाएगी। सह उधार के संबंध में लागू ग्राहक सेवा तथा उचित व्यवहार संहिता के पालन का भी पूरा ध्यान रखा जाना होगा। ग्राहकों की शिकायतों के निवारण हेतु बैंक तथा एनबीएफसी द्वारा मिल कर एक प्रणाली स्थापित की जानी होगी तथा शिकायतों का समाधान 30 दिन के भीतर किया जाना होगा। यदि शिकायत समाधान निर्धारित अवधि के भीतर नहीं होता तो ग्राहक मामले को आगे बैंकिंग लोकपाल या एनबीएफसी हेतु लोकपाल या रिज़र्व बैंक के ग्राहक शिक्षा तथा सुरक्षा प्रकोष्ठ के पास ले जा सकेगा। प्रतिभूति सृजन, आस्ति वर्गीकरण तथा प्रावधानीकरण, लेखापरीक्षा के लिए भी समुचित व्यवस्थाएँ निर्धारित होंगी।

इस प्रकार सह उधार के लिए रिज़र्व बैंक ने एक निष्पक्ष, पारदर्शी, सुपरिभाषित तथा व्यावहारिक तंत्र स्थापित करने का पूरा प्रयास किया है जो अग्रदर्शी है तथा संभावनाओं से परिपूर्ण है। एक वृद्धिशील अर्थव्यवस्था को अपना विकास जारी रखने के लिए कई बातों की आवश्यकता होती है। इनमें से एक उत्पादक कार्यों के लिए वाजिब दरों पर तथा सहजता से ऋण उपलब्धता सुनिश्चित कराता होता है। भारत में बैंक तथा एनबीएफसी स्वतंत्र रूप से ऋण देने का कार्य दशकों से करते चले आए हैं। उनका यह कार्य तो जारी रहेगा, पर यदि वे सम्मिलित रूप से ऋण देने का कार्य करें

तो कर्ज़ देने के बाज़ार में दोनों की हिस्सेदारी बढ़ेगी। बैंकों को इस दिशा में पहल कर अच्छी ख्याति वाले एनबीएफसी को अपने साथ जोड़ने का प्रयास करना चाहिए। इसी प्रकार एनबीएफसी भी अपने कारोबार का विस्तार करने हेतु बैंकों के साथ भागीदारी कर सकते हैं। हालांकि बैंकों द्वारा सह उधार हेतु भागीदार चुनने के मामले में सावधानी बरतनी चाहिए। कई बार देखा गया है कि 'एए' तथा 'एएए' की रेटिंग रखने वाले बड़े एनबीएफसी बैंकों के साथ मिल कर कार्य करने हेतु अधिक उत्साह नहीं दर्शाते, क्योंकि उन्हें बैंकों के अलावा भी अन्य स्रोतों से कम लागत वाली निधियाँ हासिल करने में कठिनाई नहीं होती तथा उनके लिए कारोबार जुटाना मुश्किल नहीं होता। वे कमजोर तथा छोटे एनबीएफसी बैंकों के साथ मिल कर कार्य करने के ज्यादा इच्छुक होते हैं, क्योंकि वे यहाँ बैंक के सुनाम तथा ख्याति से लाभान्वित हो सकते हैं। यहाँ बैंकों को नकारात्मक दृष्टिकोण नहीं अपनाना चाहिए, बल्कि प्रयास ऐसे एनबीएफसी को परख कर उनमें से चुनाव करने का होना चाहिए। बैंकों को इस बात के प्रति भी सजग रहना पड़ेगा कि उनके नाम, ब्रांड तथा छवि का दुरुपयोग न हो तथा वे जिन एनबीएफसी को भी अपने भागीदार के रुप में चुनें, वे इसके योग्य हों तथा यह भागीदारी उनमें से प्रत्येक को लाभ की स्थिति में रखे न कि अपनी कमजोरी के लिए दूसरे को ढाल बनाए। बैंकों द्वारा भागीदार का चयन किस आधार पर किया जाए, इसकी अपनी चुनौतियाँ हैं- यहां निर्णय एनबीएफसी के तुलन पत्र को देख कर लिया जाए अथवा नकदी प्रवाह को देख कर, यह एक बड़ा प्रश्न हो सकता है। इसका विधिवत आंकलन अनिवार्य होना चहिये।

बैंकिंग के विभिन्न कार्यकलापों में अब डेटा अनलिटिक्स विश्लषन का इस्तेमाल बढ़ रहा है जो एक सुखद स्थिति है। सहउधार के मामले में भी बैंक तथा एनबीएफसी डेटा अनलिटिक्स को प्रयोग में ला सकते हैं। बैंक इसकी मदद लेकर भागीदारों का मूल्यांकन कर सकते हैं। सह उधार में जोखिम प्रबंधन, अनर्जक आस्ति प्रबंधन, आदि में डेटा अनलिटिक्स की मदद ली जा सकती है।

वर्तमान स्थिति को देखा जाए तो कहीं न कहीं निजी क्षेत्र के बैंक सहउधार के क्षेत्र में अधिक सक्रिय हैं। इन निजी क्षेत्र के बैंकों के अनुभवों के आधार पर सार्वजनिक क्षेत्र के बैंक भी सहउधार हेतु अपनी भावी रणनीतियाँ निर्धारित कर सकते हैं। सहउधार की प्रक्रिया में बैंकों द्वारा एनबीएफसी चुनने के मानदंड कड़े हों, इसमें कोई हर्ज़ नहीं, पर ध्यान रखा जाए कि ये अव्यावहारिक कदापि न हों।

वर्ष 2022 के पूर्वार्द्ध में आयोजित पीएसबी मंथन में बैंकों को सह उधार हेतु भागीदारी व्यवस्थाएँ निर्मित करने को कहा गया था, जिसमें उन्हें आवास ऋण जैसे प्राथमिकता प्राप्त क्षेत्र तथा खुदरा ऋणों के पोर्टफोलियो के विस्तार पर ध्यान केंद्रित करने के लिए बताया गया था। इस संबंध में बैंकों द्वारा हाल में प्रस्तुत रिपोर्ट में दिए गए नवीनतम आंकड़ों के अनुसार 2021-22 की आखिरी तिमाही में सहउधार आधारित संवितरण की राशि एक वर्ष पहले इसी अवधि में 643 करोड़ रुपए के संवितरण की तुलना में 4.5 गुना बढ़कर 2901 करोड़ रुपए हो गई है। यह एक शुभ संकेत है। इसे देखते हुए आशा की जा सकती है कि आने वाले समय में बैंकों तथा एनबीएफसी द्वारा सहउधार में और वृद्धि होगी।

BANK QUEST THEMES

The themes for "Bank Quest" are identified as:

1. January - March, 2023: Increased footprints of Financial Planning and Wealth Management
2. April - June, 2023: Competence based Human Resources Management in Banks
3. July - September, 2023: Digital disruption - Challenges and Opportunities

Corporate Governance and performance of Commercial Banks in India

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Introduction

The Global Financial Crisis (GFC) of 2007-09 resulted in failure and collapse of large number of financial institutions across the globe, which, to name a few, includes Bear Stearns, the Lehman Brothers Holdings, etc. Renewed interests, greater focus and attention was riveted on good corporate governance of commercial banks, their soundness, efficiency, resilience and overall financial stability and sustainability in a country as the failure of these institutions had wide ramifications manifested in the form of high-cost bail out packages of billions of dollars, financial instability, negative impact on economic growth and welfare, severe financial losses to the investors etc. It was therefore, portrayed as the 'worst since the Great Depression' in terms of geographical spread and intensity. Brown & Caylor (2006) echoed on similar lines that since the past few decades, the financial crises and economic collapses around the world have led to an enhanced focus on the issues of corporate governance. Several studies also held that 'corporate governance had an important impact on firm performance during the crisis through firms' risk-taking and financing policies' (David H. Erkens, Mingyi Hung, Pedro Matos, 2012).

Corporate Governance in Indian Banks

Corporate governance is more critical, essential and of great importance and significance for banking entities due to the unique and special feature of financial intermediation of banks in the economy, especially taking deposits and lending to meet various needs to lubricate the wheels of the real economy. They are the conduits of monetary policy transmission and the fulcrum of the economy's payment and settlements systems. Banks are also highly leveraged and therefore, the need to safeguard depositors' money. In view of these specialised functions and responsibilities, the issue of corporate governance in financial firms including banks is different from that of non-financial firms and corporations. Of late, there is growing realisation that the financial sector is unique and the interests of 'other stakeholders' appear more important to it than in the case of non-financial sector. Leeladhar (2004) observed that "in the case of traditional manufacturing corporations, the issue has been that of safeguarding and maximising the shareholders' value. In the case of banking, the risk involved for depositors and the possibility of contagion assumes greater importance than that of consumers of manufactured products". He further held that the interests of other stakeholders appear more important in banks than in the case of non-banking financial entities and non-financial organisations.

In the case of banks, the risk involved for depositors

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and the possibility of contagion assumes greater importance than that of shareholders. Therefore, protection of depositors' interest and customers' interest is an important objective of banking supervisors' recent focus on governance in banks. The growing size, diversity, interconnectedness, and complexity of the financial system in India underscores the significance of and necessity for strengthening corporate governance norms, practices, and standards in banks. This has provided the necessary motivation to undertake this study.

Understanding Corporate Governance

Although researchers trace the genesis of corporate governance to the East India Company having a board known as Court of Directors and its structure and drew attention to the agency problem in "The Wealth of Nations" by Adam Smith (1776–89), perhaps, the most frequently quoted, simplest and common definition was given by the first version of the UK Code on Corporate Governance in 1992 by the Cadbury Committee i.e., "Corporate governance is the system by which businesses are directed and controlled." Over a period of time, a paradigm shift happened from a very narrow view of corporate governance as maximisation of the value of shareholders towards more wide-ranging and broader objective of value maximisation of various stakeholders which gained currency and influenced the thoughts and actions of the corporates.

From the perspective of the banking industry, The Basel Committee on Banking Supervision, initially published its guidance paper - "Enhancing corporate governance for banking organisations" in September 1999, which were later superseded and revised. The committee defines corporate governance as "*a manner in which business and affairs of a bank are governed by the board of directors and senior management*" (BCBS, 2015). For the current study, we have adopted a comprehensive definition of Corporate Governance given in the '*Discussion paper on Governance in Commercial Banks in India (2020)'* of Reserve Bank of India (which is based on definition of Organisation for Economic Co-operation & Development (OECD), 2004) –

"Corporate governance" means a set of relationships between a company's management, its board, its shareholders as well as other stakeholders which provides the structure through which objectives of a company are set, along with the means of attaining those objectives and monitoring performance. It helps define the way authorities as well as responsibilities are allocated and how decisions are made".

Review of Literature

As a topic of research interest, corporate governance is prominent among the researchers. Factors such as integration of domestic economy with world economy, financial intermediation of banks being their special and unique characteristic and the severity of the spillover effect of governance failures in these entities on real sector emphasise the importance of corporate governance in commercial banks. Mishra and Das (2019) held that "Effective corporate governance enhances access to external financing by firms, leading to greater investment, higher growth and employment".

Berger *et al*., (2005) in their work analysed the role of changes in ownership of banks on performance using data from Argentine banking system in the 1990s. This research exercise empirically found out that state-owned banks performed badly, and privatization of the banks led to improvement in their performance. Adnan *et al.* (2011) empirically analysed and found a positive relationship between corporate governance and financial performance of Malaysian

banks. James and Joseph (2015)'s study of Malaysian banks revealed positive relationship between only Capital Adequacy Ratio variable with performance of the bank (RoA). In the case of Kenya, Mang' Unyi (2011) had examined empirically the influence of ownership structure and corporate governance on the performance of Kenyan commercial banks. Romano *et al.,* (2012) analysed the interaction between corporate governance and performance in case of Italian banks during the period 2006-2010 in a panel framework and the empirical investigation revealed the positive influence of composition of the Banks' Board. Wang *et al*., (2012) examined the relationship between the operating performance and corporate governance of Bank Holding Companies (BHCs) in the U.S. and found negative impacts of corporate governance variables (board size, outside directors, the average age of directors and CEO/ Chairman duality) on BHC's performance whereas they found positive relationship between the number of committee and auditors and BHC's performance. However, the results of their study further proved that "corporate governance is important for the operating performance of BHCs".

As regard similar research on India, Jalan (2002) highlighted the influence of corporate governance on performance of commercial banks in India and suggested to have "Corporate Governance of the best standards". Reddy (1999) held that "banks are special and to the extent banks have systemic implications, corporate governance in the banks is of critical importance to the RBI". Handa (2018) covering the period from 2008-2015 examined the relationship between corporate governance and financial performance of select banks in a panel framework and found key elements of corporate governance practices such as existence of Chairman-CEO duality, higher remuneration for directors, presence of female director/s on the bank board, positively influencing the performance of commercial banks. On similar lines, Thomas *et al.* (2014) also found out better corporate governance practices significantly affecting financial performance of Indian commercial banks. Gowd *et al.* (2013) studied the impact of corporate governance practices adopted by the State Bank of India on its financial performance and found positive correlation between sales and Profit After Tax (PAT) with corporate governance practices.

Stylised Facts: Financial Performance of the Indian Commercial Banking Sector

Scheduled commercial banks are dominant players in the Indian financial system accounting for around three-fourths of the total assets of all financial institutions. They are categorised into six different groups according to their ownership and / or nature of operation, such as, (i) Public Sector Banks, (ii) Private Sector Banks, (iii) Foreign Banks, (iv) Small Finance Banks, (v) Payments Banks and (vi) Regional Rural Banks.

Before undertaking the empirical examination of the relationship between corporate governance practices and the performance of Indian commercial banks, it is essential to take a glimpse of the trends in the financial performance of major commercial banking entities in India. A preliminary analysis of these major bank group-wise data on various financial parameters would provide insight on their financial performance.

Return on Assets (RoA)

There are several metrics which emphasise that public sector banks have been lagging behind their private sector competitors in profitability. One such vital parameter has been Return on Assets (RoA) for different banking segments from March 2004-05 till March 2019-20, which reveals how the foreign banks

and private sector banks have outstripped both the SBI group (before merger of associate banks) and the other nationalised banks in the past several years in terms of this important financial parameter (Figure 1).

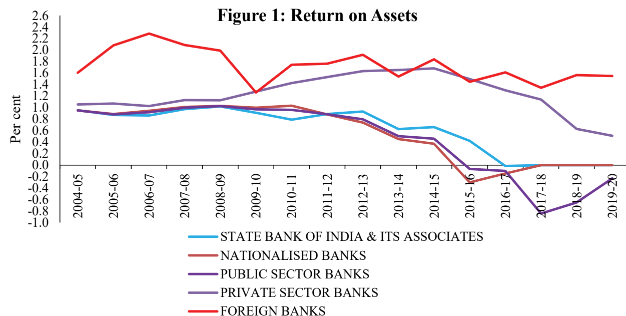

Figure 1: Return on Assets

Source: Author's presentation based on Statistical Tables relating to Banks in India

Return on Equity (RoE)

Another major profitability indicator of the scheduled commercial banks is the Return on Equity (RoE), which is computed as a ratio (in %) of Net Profit to total of Capital and Reserves & Surplus. Noticeably, in line with the rise in loss as well as NPAs of the public sector banks, there has been a huge dip in their financial return from 2015-16 onwards. On the other hand, the private sector and foreign banks were able to continue their focus on maximising return on equity during the corresponding period without any interruption (Figure 2).

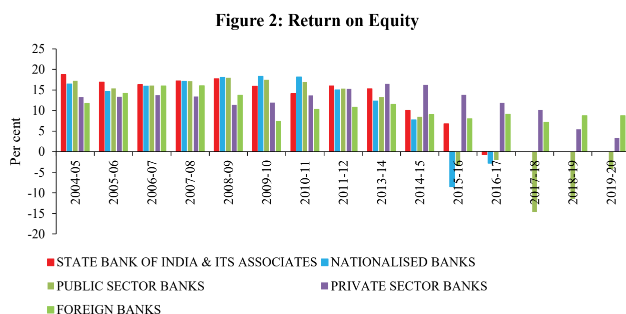

Figure 2: Return on Equity

Source: Author's presentation based on Statistical Tables relating to Banks in India

Non-Performing Assets (NPA)

The comparatively better performance exhibited by the foreign and private sector banks *vis-à-vis* their public sector counterpart is visible in the mammoth amount of NPAs accumulated by the public sector banks (Figure 3a and 3b).

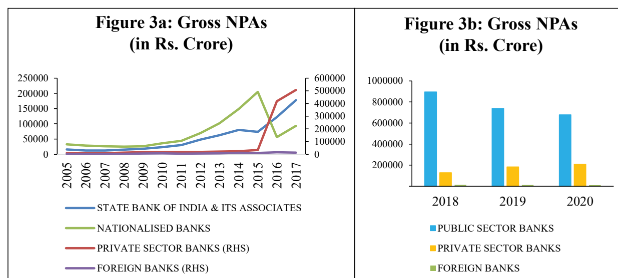

Figure 3a: Gross NPAs (in Rs. Crore)

Figure 3b: Gross NPAs (in Rs. Crore)

Source: Author's presentation based on Statistical Tables relating to Banks in India

Profitability

On the profit front, all major categories of Scheduled Commercial Banks were faring well in terms of profit generation till 2015-16. However, post this period, there has been drastic drop in the profits of public sector banks, whereas their private and foreign counterparts have continued to churn out profit from their banking operations (Figure 4a and 4b).

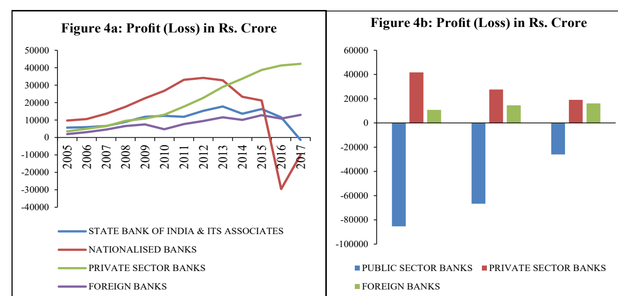

Figure 4a: Profit (Loss) in Rs. Crore

Figure 4b: Profit (Loss) in Rs. Crore

Source: Author's presentation based on Statistical Tables relating to Banks in India

Objective/ Hypothesis, Data and Research Methodology for the Study

For undertaking empirical exercise, several proxy variables have been considered for corporate

governance, banking operational parameters and banking financial performance indicators. The proxy variables (*i.e.,* independent variables) considered for depicting corporate governance in select public sector and private sector banks comprised of the bank's board size, number of Independent Directors, number of shareholders' directors, number of women directors, and lastly, existence of duality in holding the post of Chairman and Chief Executive Officer (CEO).

Corporate Governance Proxy Variables

Explanatory variables	*Symbol*	Description
Panel A: Selected variables relating to corporate governance		
Board size	bs	Total number of executive and non-executive directors
Independent directors	id	Number of independent directors
Shareholder directors	sd	Number of shareholder directors
Women director	wd	Number of women directors
Chairman/CEO duality	dual	Dummy variable, where CEO & Chair of the board =1, else equal to 0

Select CAMEL Variables

Variable Name	Ratios	Calculation
A. Operational banking variables (independent variables)		
Capital Adequacy	CAR	Total Capital/ Total risk weighted asset
Asset Quality	NPA	Net NPA/Net Advances
	PCR	Total Provisioning/ Gross NPA
Liquidity	LATA	Liquid assets/Total assets
B. Financial Performance variables (dependent variables)		
Earnings	ROA	Profit after tax/Avg. Total assets
	ROE	Net Profit / (Capital + Reserves & Surplus)

On the other hand, the select indicators which depict the operational variables of the commercial banks (independent variables) as well as indication of their financial performance (*i.e.,* dependent variables) were chosen based on the CAMELS approach recommended by the S. Padmanabhan Committee in 1995. The CAMELS based approach is based on six rating factors for Indian commercial banks. However, for the econometric exercise in this study, the operational banking variables selected (*i.e.*, independent variables) based on the CAMELS approach comprised of Capital Adequacy Ratio (CAR); Net NPA to Net Advances (NPA); Provision Coverage Ratio (PCR); and lastly, Liquid Assets/ Total Assets (LATA). On the other hand, the banks financial performance indicating variables (*i.e.*, dependent variables) chosen for the empirical exercise were the Return on Assets (RoA) and Return on Equity (RoE).

For undertaking the empirical exercise, ten banks were selected - Five each from the public sector and the private sector. The select banks from the public sector were State Bank of India, Bank of India, Canara Bank, Union Bank of India and Punjab National Bank. On the other hand, the private sector banks selected for the empirical investigation comprised of three new generation banks and two old generation banks such as, Axis Bank, ICICI Bank, HDFC Bank, Karur Vyasya Bank and Karnataka Bank, respectively. The data for these ten banks were collected for a period covering 16 years starting from 2005 till 2020. The data on corporate governance indicators for these ten banks for the above-mentioned time period were sourced from the respective annual reports of the commercial banks.

Panel data regression was chosen as the statistical and econometric analysis method because of the presence of ten different commercial banks with each bank having data for 16-year period relating to various parameters of corporate governance, operational and financial performance.

A commonly used panel data regression model could be written as follows:

Yit = α + bXit + εit

Where:

Y: is the dependent variable

X: set of the independent variables

α & β are the coefficients

i and t are the indices for individual and time

ε: refers to the error term

In the panel regression analysis of this exercise, the Hausman test has been used in for deciding between fixed and random effect model, where the null hypothesis is that the preferred model is random effects (the alternative is fixed effects). For the various regression models, tried out in this empirical exercise, the Breusch - Pagan Lagrange Multiplier (LM) tests were also undertaken (which reveals whether the random effects in the model are appropriate or not). In the empirical analysis adopted in this study, as per the results shown by the LM test, all the panel regressions were undertaken in the simple Ordinary Least Square Framework (OLS). From the OLS regression, the relations between the various dependent and independent variables were established and the importance of each variable was then parameterized. After undertaking the regression exercise for all the select commercial banks (*i.e.*, both public sector and private sector) together, this study also details out the results when the similar empirical regression analysis was carried out separately for public sector and private sector banks.

Results and Discussion[1]

Panel Regression considering both Public Sector and Private Sector Banks together

With the Return on Assets (RoA) being the dependent variable and the independent variables being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets, Capital Adequacy Ratio (CAR), Provision Coverage Ratio (PCR), Bank Board Size (BS), number of Shareholder Directors (SD), number of Women Directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 1).

Table 1: OLS Regression for All Banks with RoA as the Dependent Variable

Random effects GLS Regression			Number of Obs = 160			
Group Variable: bankid			Number of groups = 10			
R-sq:			Obs per group:			
Within = 0.6807			min = 16			
Between = 0.9835			avg = 16.0			
Overall = 0.7827			max = 16			
Corr (u_i, X) = 0 (assumed)			Wald chi² = 540.20			
			Prob > chi² = 0.0000			
roa	**Coef**	**Std. Err**	**z**	**P> |z|**	**[95% Conf. Interval]**	
npa	-.2052895	.018851	-10.89	0.000	-.2422367	-.1683423
lata	-.0061225	.0120585	-0.51	0.612	-.0297566	.0175117
car	.0651403	.0157971	4.21	0.000	.0341785	.0961021

[1] Further detailed results of the empirical exercise are listed out in the Annex.

pcr	.000333	.0001321	2.52	0.012	.0000741	.0005919
bs	.0189406	.0197907	0.96	0.339	-.0198485	.0577297
dual	.1390629	.0958931	1.45	0.147	-.0488842	.32701
sd	.0934508	.0361351	-2.59	0.010	-.1642742	-.0226273
wd	.0493565	.0390305	-1.26	0.206	-.1258549	.0271419
id	-.0057352	.0172189	-0.33	0.739	-.0394836	.0280132
_cons	.3920626	.3131411	1.25	0.211	-.2216826	1.005808
sigma_u	0					
sigma_e	.33335861					
rho	0	(fraction of variance due to u_i)				

The results of the panel OLS regression with RoA as the dependent variable revealed that in case of all select commercial banks when considered together, the variables NPA, CAR, PCR (*i.e*. variables indicating operational aspects of the commercial bank) turns out to be significant with the appropriate sign in influencing the financial performance indicator under consideration (*i.e.* RoA)

Interestingly, none of the corporate governance variables considered for the analysis seems to be influencing the financial performance variable. This prompted us to look for their influence on another important financial performance indicator *i.e.,* Return on Equity (RoE). The results of the regression model in OLS framework are detailed out in Table 2.

Table 2: OLS Regression for All Banks with RoE as the Dependent Variable

Random effects GLS Regression				Number of Obs = 160		
Group Variable: bankid				Number of groups = 10		
R-sq:				Obs per group:		
Within = 0.8183				min = 16		
Between = 0.9526				avg = 16.0		
Overall = 0.8324				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi² = 744.91 Prob > chi² = 0.0000		
roe	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-3.650138	.2395329	-15.24	0.0000	-4.119614	-3.180662
lata	-.3763836	.1532227	-2.46	0.014	-.6766946	-.0760725
car	.0512091	.2007286	0.26	0.799	-.3422117	.44463
pcr	.0023385	.0016785	1.39	0.164	-.0009513	.0056284
bs	.3165182	.251474	1.26	0.208	-.1763617	.8093981
dual	5.854662	1.218482	4.80	0.000	3.466482	8.242843
sd	-.9296176	.4591563	-2.02	0.043	-1.829547	-.0296878
wd	-.8597848	.4959474	-1.73	0.083	-1.831824	.1122542
id	-.6926885	.2187945	-3.17	0.002	-1.121518	-.2638593
_cons	22.82703	3.978978	5.74	0.000	15.02838	30.62568
sigma_u	0					
sigma_e	4.2011651					
rho	0	(fraction of variance due to u_i)				

- The results of the panel OLS regression with RoE as the dependent variable revealed that in case of all select commercial banks when considered together, only the variable NPA (*i.e.*, indicating operational aspects of the commercial bank) turns out to be significant with the appropriate sign in influencing the financial performance indicator under consideration (*i.e.* RoE) Additionally, duality of Chairman/CEO, an important proxy for good corporate governance, seems to also matter in influencing financial performance of commercial banks. In order to confirm as to whether this relationship holds under all circumstances, additional empirical regression exercise was undertaken separately for public sector banks and private sector banks.

Panel Regression considering only Public Sector Banks

- With the Return on Assets (RoA) being the dependent variable and the independent variables being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets (LATA), Capital Adequacy Ratio (CAR), Provision Coverage Ratio (PCR), Bank Board Size (BS), number of Shareholder Directors (SD), number of Women Directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 3).

Table 3: OLS Regression for Public Sector Banks with RoA as the Dependent Variable

Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.7967				min = 16		
Between = 0.8035				avg = 16.0		
Overall = 0.7960				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi² = 273.09 Prob > chi² = 0.0000		
roa	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-.1786404	.0273723	-6.53	0.000	-.2322891	-.1249917
lata	.0042986	.0180682	0.24	0.812	-.0311144	.0397117
car	.0539113	.0351635	1.53	0.125	-.0150078	.1228305
pcr	.0005567	.0005821	0.96	0.339	-.0005842	.0016976
bs	.0420698	.0325913	1.29	0.197	-.021808	.1059477
dual	.3811452	.1548398	2.46	0.014	.0776649	.6846256
sd	-.0589771	.0855274	-0.69	0.490	-.2266077	.1086534
wd	-.0700462	.0578059	-1.21	0.226	-.1833437	.0432513
id	-.0487548	.0342629	-1.42	0.155	-.1159089	.0183992
_cons	.1137816	.641084	0.18	0.859	-1.14272	1.370283
sigma_u	0					
sigma_e	.33594981					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression was undertaken with RoA as the dependent variable (when the public sector banks were exclusively considered) revealed that the variables, NPA representing operational aspects of the bank and duality of Chairman/CEO depicting corporate governance turns out to be significant with the appropriate sign in influencing the financial performance indicator under consideration (*i.e.* RoA)

- Similarly, another regression model was attempted with the Return on Equity (RoE) being the dependent variable and the independent variables remaining same as used above, and the following was the OLS regression output (Table 4).

Table 4: OLS Regression for Public Sector Banks with RoE as the Dependent Variable

Random effects GLS Regression			Number of Obs = 80			
Group Variable: bankid			Number of groups = 5			
R-sq:			Obs per group:			
Within = 0.8849			min = 16			
Between = 0.8585			avg = 16.0			
Overall = 0.8833			max = 16			
Corr (u,I, X) = 0 (assumed)			Wald chi² = 529.75 Prob > chi² = 0.0000			
roe	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-3.4972	.3801577	-9.20	0.000	-4.242295	-2.752104
lata	-.4226066	.2509388	-1.68	0.092	-.9144375	.0692244
car	.3712322	.4883651	0.76	0.447	-.5859457	1.32841
pcr	0.133844	.0080843	1.66	0.098	-.0024606	.0292293
bs	.167169	.4526422	0.37	0.712	-.7199934	1.054331
dual	7.600232	2.15048	3.53	0.000	3.385369	11.81509
sd	.2340368	1.18784	0.20	0.844	-2.094087	2.562161
wd	-1.187799	.8028327	-1.48	0.139	-2.761323	.3857239
id	-1.218177	.4758577	-2.56	0.010	-2.150841	-.2855127
_cons	18.92937	8.903644	2.13	0.034	1.478545	36.38019
sigma_u	0					
sigma_e	4.5934551					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression was carried out with RoE as the dependent variable (in case of public sector banks) revealed that the variables, NPA representing operational aspects of the bank and duality of Chairman/CEO depicting corporate governance practice turns out to be significant in influencing the financial performance indicator under consideration (*i.e.*, RoA)

Panel Regression considering only Private Sector Banks

- With the Return on Assets (RoA) being the dependent variable and the independent variables

being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets (LATA), Capital Adequacy Ratio (CAR), Provision Coverage Ratio (PCR), Bank Board Size (BS), number of Shareholder Directors (SD), number of Women Directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 5).

Table 5: OLS Regression for Private Sector Banks with RoA as the Dependent Variable						
Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.4015				min = 16		
Between = 0.9635				avg = 16.0		
Overall = 0.5607				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi^2 = 90.64		
				Prob > chi^2 = 0.0000		
roa	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-.2455162	.0409213	-6.00	0.000	-.3257204	-.1653119
lata	-.0019947	.0204021	-0.10	0.922	-.0419821	.0379927
car	.0641071	.0207551	3.09	0.002	.0234279	.1047864
pcr	.0002354	.0001626	1.45	0.148	-.0000833	.0005542
bs	.0063998	.0357508	0.18	0.858	-.0636705	.07647
dual	-.0453686	.1746571	-0.26	0.795	-.3876903	.2969531
wd	-.0184909	.0655327	-0.28	0.778	-.1469326	.1099509
id	.0097345	.041569	0.23	0.815	-.0717393	.0912083
_cons	.4618668	.4436962	1.04	0.298	-.4077618	1.331495
sigma_u	0					
sigma_e	.33358497					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression with RoA as the dependent variable was undertaken exclusively for the private sector banks, only the operational parameter variables depicted by NPA and LATA turn out to be significant with the appropriate sign. It is noticeable that no corporate governance proxy variables turn out to be significant in case of private sector banks in influencing its financial performance variable under consideration (*i.e.,* RoA)

- With the Return on Equity (RoE) being the dependent variable and the independent variables being Net NPA to Net Advances (NPA), Liquid Assets/ Total Assets, Capital Adequacy Ratio (CAR), Provision Coverage Ratio, Bank Board Size (BS), number of Shareholder Directors (SD), number of women directors (WD) and lastly, the number of Independent Directors (ID), the following was the OLS regression output (Table 6).

Table 6: OLS Regression for Private Sector Banks with RoE as the Dependent Variable						
Random effects GLS Regression				Number of Obs = 80		
Group Variable: bankid				Number of groups = 5		
R-sq:				Obs per group:		
Within = 0.5700				min = 16		
Between = 0.9974				avg = 16.0		
Overall = 0.6619				max = 16		
Corr (u,I, X) = 0 (assumed)				Wald chi² = 138.98 Prob > chi² = 0.0000		
roe	**Coef**	**Std. Err**	**z**	**P> |Z|**	**[95% Conf. Interval]**	
npa	-2.54794	.3897781	-6.54	0.000	-3.311891	-1.783989
lata	-.0431661	.1943314	-0.22	0.824	-.4240486	.3377165
car	-.2066504	.1976936	-1.05	0.296	-.5941228	.1808219
pcr	.0032101	.0015491	2.07	0.038	.0001739	.0062464
bs	-.0076456	.3405285	-0.02	0.982	-.6750691	.6597779
dual	2.732918	1.663621	1.64	0.100	-.5277185	5.993555
wd	-.9423468	.6242037	-1.51	0.131	-2.165763	.2810699
id	.2239854	.3959478	0.57	0.572	-.5520581	1.000029
_cons	19.30498	4.226236	4.57	0.000	11.02171	27.58825
sigma_u	0					
sigma_e	3.3023864					
rho	0	(fraction of variance due to u_i)				

Thus, when the panel OLS regression with RoA as the dependent variable was undertaken for the private sector banks exclusively, it revealed that only the variables, NPA and PCR representing operational aspects of the bank turns out to be significant in influencing the financial performance indicator under consideration (*i.e.,* RoA). Once again, the proxy variables for corporate governance have failed in influencing the financial performance of private sector banks.

Concluding Observations

This paper has empirically analysed the influence of corporate governance practices based on selected proxy variables in commercial banks over their financial performance as denoted by Return on Assets (RoA) and Return on Equity (RoE). Overall, the study found no significant relationship between existing corporate governance practices of the ten banks and their financial performance. However, in case of the public sector banks, it was found that corporate governance practices have an important bearing in influencing its financial performance. Further, the existence of duality of Chairman/CEO in the Bank Board, an important proxy variable representing good corporate governance practices, was found to be significantly influencing the financial performance of public sector banks besides other conventional operational banking parameters such as Net NPA to Net Advances, Capital Adequacy Ratio and Provision Coverage Ratio. This is a significant finding of the present study which reinforces one of the basic tenets of corporate governance i.e. separation of the role of non-executive Chairman from CEO or avoidance of Chairman / CEO duality in the public sector banks.

On the other hand, in case of the private sector banks, no such significant relationship could be

found. This could be attributable to the differences in the structural characteristics of private sector banks which differentiates it largely from the public sector counterparts such as better accountability of the board members as well as their greater accountability to a large array of stakeholders, among several other factors. Though corporate governance doesn't seem to influence the financial performance of the private sector banks, nevertheless, it would be highly recommendable to adopt good corporate governance practices for the private sector banks as well. The adoption of good corporate governance practices in the private sector would be helpful in further improving and strengthening the trust of investors and shareholders in the bank. Banking is a major sector which is the backbone in providing funds for undertaking the day-to-day economic activities in the real sector. Banks are also highly leveraged institutions, and hence, their success and failure will influence the entire economy. This would, in fact, lead to fulfilling the broader responsibility for the society, and hence, it is essential that banks irrespective of the ownership structure should put in place better corporate governance practices, norms and mechanisms that would engender the trust of investors, debtors, customers as well as would aid in promoting resilience, controlling mechanisms and transparency and mitigating overall governance risks.

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Disfavoured Derivative

Introduction

In September 2022, a report by 'Bloomberg' about the Indian economy has received a lot of media attention. As per the report, during the last three months of 2021, India has become the fifth largest economy in the world, beating the United Kingdom. According to IMF's 2022 forecast, Indian GDP expects to reach $3.53 trillion and the UK to $3.38 trillion respectively. There is a steady improvement in the country's GDP growth from USD 496 billion in 2001 to over USD 3500 billion in 2022. One of the major drivers of this progress is global trade.

India was very reluctant and cautious to open borders for international trade since it is an independent sovereign state. However, depletion of country's foreign exchange reserves to a precarious level in the year 1991, forced the government to introduce conscious policy changes to facilitate international capital flow and trade. The opening of economy during the 1990's acted as a catalyst for historical changes in the financial fabric of the country. As a part of the saga, global business has also been increased manifolds. Trade barriers were dismantled and individuals and entities from the country expanded their business to various international destinations, for selling their products and for sourcing capital & investment. Several Indian companies, especially in the field of IT/ITeS, were become global leaders in their field of operations. This international make over subjects enable such entities to have diversified revenue streams from different geographies that ultimately lead to the enhanced volume of non-INR exposure.

The national currency INR is the only one currency which enjoys the 'legal tender' status in India. Literature and findings of the past study observed that Indian foreign exchange market is weak form efficient and that exchange rates follow a 'random walk'. Change in value of currency rates are influenced by economic factors like demand & supply, interest rates, inflation, and health of the economy (FDI, FPI, Forex Reserve, CAD) etc. Political factors will also influence the currency movements. One of the classic examples for this phenomenon is the steep fall in value of Great Britain Pound on decision of 'BREXIT' (the highly sensitive resolution for exiting from the European Union). Likewise, psychological factors could be instrumental in changing value of currencies. Many times, onset of geopolitical frictions around the world leads to hardening of US dollar as it possesses the 'safe haven' status. We may recall the recent episode of high volatility experienced by the national currency and breaking the psychological barrier of Rs. 80/US dollar (USD) on 19th July 2022. Even though rupee traded at that level for a brief period during the early day trade, subsequently, it has regained some lost momentum and closed the day at Rs. 79.90. FBIL fixed the reference rate of INR/USD for the day as 79.9478. Geopolitical developments,

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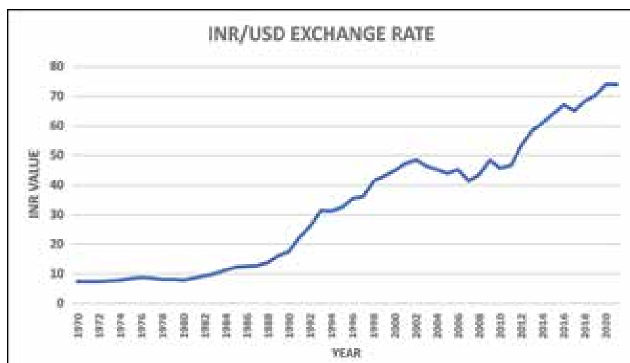
mainly Russia-Ukraine war, which started in February 2022 and the spike in crude price as its aftermath, was the main trigger for the fall of Indian rupee.

Figure 1: Rupee-Dollar Exchange rate movement:1970-2021(Calendar- year annual average data)



Source: RBI, FEDAI and FBIL

The 'Random walk' movement of INR against the USD poses hurdles to various stake holders - from policy makers to public. Exchange rate fluctuations affect the value of international investment portfolios, competitiveness of exports and imports, value of international reserves, currency value of debt payments, and the cost to tourists in terms of the value of their currency. Movements in exchange rates, thus, have important implications for the economy's business cycle, trade and capital flows (Dua & Ranjan, 2010). The constant depreciation in the Rupee against the US Dollar reflects concerns around the widening trade gap amid sustained capital outflows (Ghose, 2022).

The strategic choice of hedging such currency risk is by using derivative instruments like forward contracts, currency futures, currency options and swaps. Among these instruments, forward contracts are the most popular ones in India's foreign exchange market. The country, being a fast-developing economy, experiences spike in international trade, especially after the openness of the economy during the 1990's. Development of a matured and effective derivative market facilitates the growth of international trade.

The weakening of INR in a quick pace during the month of July 2022 has prompted us to dig deep into the subject - managing currency risks using forward contracts in Indian context. The study was concentrated primarily on the derivative product 'forward contracts', as the market of remaining derivative products is very shallow in Indian foreign exchange ecosystem. Debasish made a study on the foreign exchange risk management practices in India and concluded that, in terms of the external techniques for risk hedging, the preference is mostly in favour of forward contracts (Debasish, 2008). Sivakumar & Sarkar studied about the methods of corporate hedging for foreign exchange risk in India and found that forward contracts are the most popular hedging tool. They further observed that forward contracts can be tailored to the exact needs of the firm, and this could be the reason for their popularity.Tailorability is a consideration as it enables the firms to match their exposures in an exact manner compared to exchange traded derivatives like futures that are standardised where exact matching is difficult (Sivakumar & Sarkar, 2008). Our focus in this article is INR against US dollar as about 85% of the foreign exchange transactions of India have dollar exposure.

I. Foreign Exchange Risk Management

Exchange rates, like other asset prices, are influenced not only by current market conditions, but also to a very important extent by the expectations of the market participants of future events likely to affect exchange rates(Mussa, 1981). Currency markets are incredibly complex, and it is impossible to completely enumerate all the factors that determine exchange

rates (archana et al, 2022). Exchange rates are susceptible to perennial fluctuations. Hence, one of the major risks associated with international business is foreign exchange risk. Hedging currency exposure is equivalent to replacing the very volatile and stochastic exchange rate component of international investment returns with the ex-ante known and much less volatile forward premium or discount (Schmittmann, 2010). Foreign Exchange Risk Management (FERM) involves using both internal and external techniques such as forwards, futures, options, and swaps that are called as currency derivatives. The firms with greater growth opportunities and tighter financial constraints are more inclined to use currency derivatives (Basanna & Vittala, 2019). Firms with extensive foreign exchange-rate exposure and economies of scale in hedging activities are also more likely to use currency derivatives (Geczy et al., 1997). A proper and systematic FERM strategy will enable the individuals and firms having foreign currency exposure, to mitigate their currency risk. This will further enable them to be released from the clutches of complications in foreign exchange risk management and focus more on their core business activities. Hedging helps to remove one of the most important potential sources of foreign exchange risk to the economy (Becker & Fabbro, 2006).The question of whether or not to hedge exchange risk becomes a question of the company's own risk profile with respect to interim volatility in earnings and cash flows (Lewent & Kearney, 1990).The foreign exchange settlement in the country is highly skewed towards settlement of contracts on spot terms. Concentration of inter-bank trading is in the SPOT window, and Forwards account for little less 10% in terms of deals and more than 20% in terms of value (Nath, 2013). The proportion of forward trades to the total foreign exchange trades in India is showing a declining trend and as per the data, it is 3.98% as on March 2022.

Figure 2: Proportion of forward market trade in total foreign exchange trades in India (month wise)

Source: 'Fact Book 2022', The Clearing Corporation of India Ltd

It is quite surprising to observe that stakeholders in India generally follows lukewarm hedging strategies, despite the volatility and uncertainty of the value of foreign currencies. We tried to find an answer to this paradox. This study was focussed on the derivative product forward contracts.

II. Forward contracts

The hedging strategy using forward contracts is the process of entering into a contract to buy/sell foreign currency on a future date with a fixed rate which is called forward exchange rate. Forward exchange rates are determined by the difference in interest rates of the currency pair. This is known as the 'Interest rate parity' theory. The theory states that, the exchange rate differential between the currencies of the two countries in the forward market will set off the interest rate differential between two countries.

Interest rate parity is a no - arbitrage condition. According to the Interest rate parity theory, the percentage spread (annualised premium or discount) between the forward rate and spot rate of a currency will be approximately equal to interest rate differential between two countries. The theory explains that no investor will be allowed to gain a riskless return by

borrowing funds at lower rate in one country and investing at higher rate in another country. The two assumptions to interest parity theory are absolute capital mobility and perfect substitutability of domestic and foreign assets. The theory explains that under market equilibrium,exchange rate adjusted expected return on foreign assets will be equal to the return on domestic assets.

Data & Method

The analysis was done on the accuracy in market forward premium of the INR/USD exchange rates. Three different maturities (3 month forward,6 month forward and 12 month forward) were analysed during the study.

Table 1: Details of data collected and analysed

Category	Period	Number of observations
3 Months forward	31-08-2002 to 30-04-2022	237
6 Months forward	31-08-2002 to 31-01-2022	234
12 Months forward	31-08-2002 to 31-07-2021	228

Source:Thomson Reuters database

The future exchange rate was calculated based on the forward premium. Then arrived rates were compared with the actual spot exchange rates on the respective maturities to test the accuracy. A total number of 699 observations were analysed. The result of the study revealed that in the case of 698 observations, the spot rate was different from the forward rate. Approximately, in 65% of the observations, the spot rates were lesser than the forward rates and in 35% of the instances, the spot rates were higher than the forward rates. The trend was uniform across all the three maturities. Only in one observation (6 Months forward as on 31-12-2003), the forward rate and spot rate had the same value. Details are given below.

Table 2: Difference between real spot rate and forward rate (rate calculated by adding the forward premium on the spot rate of forward booking date)

Category	No. of months in which real spot rate are higher than forward rate	No. of months in which real spot rate are lesser than forward rate	Total
3M Forward	87	150	237
6M Forward	83	150*	233
12M Forward	77	151	228

* Difference is nil in 1 observation

Discussion

I. Deficiency

There is a general consensus that forward rates have little power to forecast future spot exchange rates (Fama, 1984). In the Indian context, demand and supply factors viz., Foreign Institutional Investor (FII) flows and Current Account Balance play a dominant role in determining the forward premia on USD/ INR rather than the usual interest rate differential between Indian and US economy(Sharma & Mitra, 2006).The outcomes of forward hedging during the study period, whether it is gain or loss, indicates the failure of the strategy to make accurate the prediction of prices. The findings support the past studies and literature acclaiming weak form efficiency of Indian foreign

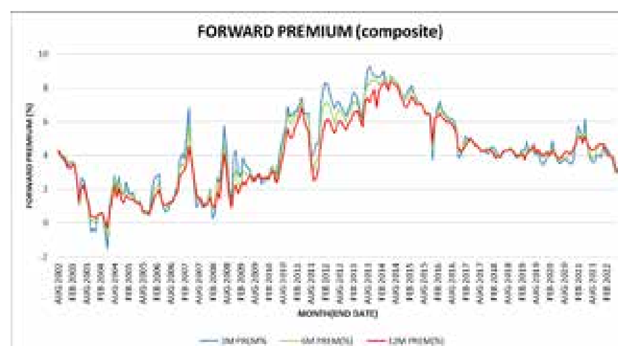
exchange markets and 'random walk' behaviour of rupee-dollar exchange rates and forward premium (%) rate.

A failure is defined as an event that occurs when the delivered service deviates from correct service (Afsharnia 2017). Attribution theory views people as rational information processors whose actions are influenced by their causal inferences. It is not merely the judgment that the product has failed that determines consumer response. People try to determine why the product failed; the type of reason inferred influences what they do (Folkes, 1984). Forward contract is a financial product and the inability in predicting accurate forward rate is deficiency of the product. This provides a logical answer to the aversion towards the derivative product.

II. Volatility

The study analysed forward premium (in percent) of INR-USD for three different maturities (3 month forward, 6 month forward and 12 month forward) by using data pertains to the period August 2002 to April 2022.

Figure 3: Forward market premium



Source: Thomson Reuters database

A critical observation of the study is the level of volatility in premium (%) values among different months. The monthly values of forward premium (%) were highly volatile and the severity is extensive as represented.

Table 3: Volatility in forward contract (%) values.

Value	3 Month	6 Month	12 Month
Low	-1.5150 (May 2004)	-0.8000 (May 2004)	-0.3000 (May 2004)
High	9.2650 (Sep 2013)	8.7100 (June 2014)	8.4200 (June 2014)
Median	4.0475	4.0900	4.0850
Standard Deviation	2.34	2.21	2.08

Source: Thomson Reuters database

The result of the study revealed that the forward market hedge has ended at loss in two-third of the sampled observations, despite the average amount of gain per month is greater than that of loss. However, rupee appreciation in spot markets over and above the forward markets results in losses to forward market buyers, while the same phenomenon produces gains to sellers. Accordingly, during the most part of observations, profit of forward market hedge had been in favour of exporters from India. International trade in India is skewed towards outflow of foreign currencies, documented by the perennial presence of trade deficits. Importers, oil companies and foreign currency borrowers are the potential forward market buyers in the country. The trading volume of US dollar buying outnumbers selling every

month. The forward market behaviour could tempt the dollar buyers to keep their position unhedged, as a profit generation strategy. At the same time, the steady weakening of the rupee against the dollar could induce many foreign currency sellers to keep their position open, anticipating more profit. Overall, the financial behaviour of stakeholders in the country could be of indifferent towards forward contracts.

III. Additional risk

Forward contracts are advocated as one of the effective hedging tools to mitigate the exchange risk. But the stochastic movements of interest rates will generate a new and additional risk for the users of forward contracts. Exchange rates and international interest rates are indeed intermingled, so that it is inconsistent to assume the former stochastic and the latter deterministic (Lioui & Poncet, 2002). When a forward contract is used, the value of underlying asset will be locked till the maturity of the contract. Marking - to - market these assets by discounting them at the current date with the prevailing rate will generate an additional interest rate risk. In the cases of forward contracts for longer maturities, this new risk will be more prominent. Hence, hedging strategy, itself create additional risk and that makes the product more complicated and reasonably unpopular.

IV. Awareness deficiency

Per Alkebäck & Niclas Hagelin had made an international comparative study on the usage of derivative products and results showed lack of knowledge about derivatives within the firm was the issue of most concern for financial directors (Alkeback & Hagelin, 1999). Several studies in the Indian context have also been taken place. Findings from two of such studies are quoted below. Quite a few do not have adequate knowledge of the use of derivatives (Debasish, 2008). Awareness about the various uses of currency derivatives can help investors to reduce risk and increase profits as the lack of knowledge appears to be the most significant barrier to investors (Pahuja & Sehgal, 2012) leading to a rise in the demand for risk management instruments for hedging exposure linked to real and financial flows. This volatility in financial markets requires investors (individual as well as corporate). Financial literacy has not yet reached to a matured level in India. Many of the entities and individuals of the country, who are exposed to international financial markets are not aware about the exchange risk and risk mitigation techniques. Except some very large business houses, majority of the business entities are not equipped with a dedicated treasury desk and not having the presence of personnel with good expertise in FERM. Bankers are providing the basic tips of exchange risk management to the public in most of the cases. But service of bankers is largely confined to their asset holding clients, with an intention to protect bank's own financial interest. This could be one of the reasons for the lack of enthusiasm for forward contracts.

V. Policy changes

Foreign exchange transactions in the country must be done in strict conformity with the rules and regulations promulgated by the central bank from time to time. Foreign currency exchange, forward contracts must be routed only through commercial banks, authorised by the regulator. Usage of hedging tools like forward contracts is regulated by the periodical directions issued by the Reserve bank of India. We can notice that lot of changes are taking place in regulatory directions regarding the booking, cancellation, rebooking of forward contracts. Sometimes directions will be changed regarding underlying exposure and substitution of such assets. Intention behind issuing these directions is to curb unwanted speculation in foreign exchange market. But sometimes frequent

changes will act as an impediment in flourishing the forward contract market.

VI. Complacency

The foreign exchange market of India was highly regulated till the recent past. After the introduction of Foreign Exchange Management Act, (FEMA), 1999, on 1st May 2000, which has replaced Foreign Exchange Regulation Act (FERA), 1973, regulatory culture has been substituted by management culture in foreign exchange dealings. Exchange rate stability is ensured by the regulator, but without a fixed target or band. Nevertheless, this experience has led to complacency in FERM. Importers have a notion that central bank will always intervene to halt sudden declines in rupee value and exporters feel that rupee has only unidirectional movement of decline. This peculiar mindset by the stakeholders leads to the reduced usage of forward contracts.

Conclusion

Foreign exchange market in India is volatile and exchange rate follows a random walk. Surprisingly, most of the players in the market are lazy in following an efficient exchange risk management. Even the trade volume of forward contracts, a plain vanilla derivative instrument, is abysmally low. The study is a systematic investigation to find out the probable factors leading to the paradox. In the study, forward premium (%) of INR-USD for three different maturities (3 month forward, 6 month forward and 12 month forward) were analysed by using data pertains to the period between August 2002 to April 2022. The analysis was confined to the INR/US dollar currency pair, as about 85% of transactions in the Indian foreign exchange market is denominated in this currency pair. The results of the study confirmed that Indian foreign exchange markets are weak form efficient, and that exchange rates and forward premia follow a 'random walk'. The findings are in conformity with most of the past studies and literature.The analysis confirmed that in the case of 698 out of the 699 observations, the actual spot exchange rate was either higher or lower from the corresponding (forward) rate calculated by using market forward premium.

Further, the study reasoned that higher level of divergence in spot rates and forward rates, volatility of forward premia, additional risk generation due to the stochastic movement of interest rates, lack of awareness, repeated rule changes and habitual complacency are the probable reasons for the low usage of foreign currency forward contracts in India.

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Kisan Credit Card (Dairy) Data-enabled Agricultural Credit for Financial Inclusion

J. Ravichandran*

Credit is an important input for increasing agriculture production as well as for Financial Inclusion. Agriculture, in the broader sense, covers both Crop production and Animal Husbandry (AH). A typical Indian farm undertakes both crop cultivation and allied activities like dairying and integrates both enterprises. The credit requirements of the farmers for crop cultivation are largely met by the Banks through the issuance of Kisan Credit Cards (KCC). Over the years, farmers have also become fully conversant with the operation of KCC for cultivation of crops. However, their requirement of credit for working capital for animal husbandry has not been fully met. Despite the big push being given by the Government of India, only a fraction of the working capital requirement of Animal Husbandry, more particularly, Dairy Animals, has been met by banks through issuance of KCC (AH). The major reasons are lack of awareness among the farmers, not so customer friendly loan underwriting process and the complexity in operation of accounts. Also, the average ticket size is not big enough to enthuse the banks. KCC Dairy through digital lending could provide the fillip to bridge the gap.

Milk Production and Food Grains production

The production of the two principal food grains viz., rice and wheat stood at 226.73 MT (2019-20)[1] and the total milk production was 198.44 MT[2]. The estimated value of the milk produced (@Rs.30 per Kg) is Rs.5.95 lakh crore and is nearly equal to the combined value of the two principal food grains which (@ an average of Rs. 28 per kg) is about Rs. 6.35 lakh crore.

The Milk production has increased from 127.9 MT in 2011-12 to 198.4 MT in 2019-20. The Compound Annual Growth Rate (CAGR) of milk production in the country during 2013-14 to 2020-21 is 6.21%.

There are about 8 crore Dairy farmers in India. The Hon'ble Finance Minister in the meeting held with Public Sector Bank (PSB) CEOs in July 2022 noted that as on 1st July 2022 about 19.56 lakh KCC (Dairy and Fisheries) have been issued. That works out to less than 4% coverage of Dairy Farmers. A deeper analysis is required to identify the challenges, remove misconceptions if any and take necessary course correction.

Market size does matter

About 46% of the milk produced is either consumed at the producer level or sold to non-producers in the rural area, the balance 54% of the milk is available for sale to organised and unorganised players. The total size of dairy market was about Rs. 11.35 lakh crore in 2020. The liquid milk market represents about half of the total dairy market in the country. Of the total liquid milk market, the share of organised sector has increased from 32 % to 41 % in last 3 years[3]. Thus, on a conservative basis, it can be assumed that roughly one third of the milk produced (valued at Rs.2,00,000 crore) is marketed through organized sector.

For the milk procured by the cooperatives and the private dairies, the milk proceeds are directly transferred to farmers' bank accounts which means around Rs.2,00,000 crore cash flows through Dairy

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[1]Annual Report 2021-22, Department of Agriculture and Farmers Welfare.

[2]Annual Report 2021-22, Department of Animal Husbandry and Dairying.

[3]Annual Report 2021-22, Department of Animal Husbandry and Dairying.

Farmers' Bank accounts per annum. Dairying is perhaps the only major agricultural activity other than sugarcane cultivation where entire sale proceeds of milk procured by the organized sector are channelized through bank accounts. It is this feature the farmers can leverage to get better access to working capital credit. Also, this regular cash flow should significantly lower banks' perception of risk associated with such small ticket advances and re-orient the banks positively.

EASE 4.0

The Hon'ble Union Finance Minister launched EASE 4.0 (Enhanced Access and Service Excellence) agenda one year back. EASE agenda is a common reform agenda for Public Sector Banks (PSBs), which is aimed at institutionalising clean and smart banking.

Simplified credit under EASE 3.0 Agenda had a good impact on Retail loans and MSME through proactive sourcing of credit, reduction of tax, credit initiation through digital channels and doorstep support. However, it did not have the same impact on agricultural credit.

Under EASE 4.0, reforms agenda viz., "Data-enabled Agricultural Credit", "Empowered customers and hassle free experience" and "EASE of credit-further simplified, instantaneous" have put agricultural credit also on the forefront.

Data-enabled Agricultural Credit

If banks turn their focus on KCC Dairy, they can make significant progress under Ease 4.0, also it can also lead to a paradigm shift in the Agricultural credit delivery system and eventually, data-enabled agricultural credit will become a reality sooner than later in letter and spirit.

KCC Dairy is an ideal product for the banks to offer as pre-approved credit through digital lending. The basic criteria for offering pre-approved credit facilities are properly verified KYC, good credit history and stable income. Since, the dairy farmer is already a customer of the bank, verification of KYC can be done from the Customer Information file already available with the Bank. Credit history can be traced from the data available with the bank as well as by accessing credit reports from Credit Information Companies. Stable income can be assessed through summation of milk proceeds credited in the farmers' accounts.

It is a fairly easy task to identify those farmers who satisfy the norms by engaging simple business analytical tools at backend and to offer pre-approved credit to the farmers.

The quantum of credit is normally arrived at based on the scale of finance per animal. In the absence of readily available data on the number of animals maintained by the farmer, an alternative methodology could be used to assess the quantum of credit. The credit limit can be arrived at as a percentage (say 30%) of average milk proceeds credited in the farmer's account during the past period (one to three years).

Thus, the dairy farmers also can have all the advantages of pre-approved credit including quick and paperless application processing, minimum documentation and collateral free instant loans.

Win-Win situation

This is one Agricultural Credit facility where the cost of credit to farmers is very low at 4% (after interest subvention of 3%) and the Credit Cost to the banks will also be very low because of ring fencing of cash flow.

KCC Dairy as a Financial Inclusion initiative

To quote Mr. Arun Raste, then Executive Director, NDDB, "As per a study conducted by NDDB it was found that 85 percent of the work in the dairy sector is done by women. Microfinance and dairy have become economic multipliers as far as rural economics is concerned. 40 percent of the dairy farmers become

microfinance customers when they wish to purchase a milch animal." [4]

In India, the microfinance landscape is dominated by Self Help Group (SHG)-Bank linkage program. As per NABARD's publication, 'Status of Microfinance in India 2021-22', as on March 2022, the outstanding credit to SHGs through banks stood at Rs.151051 crore covering 67.40 lakh SHGs[5] (with more than eight crore members). SHG bank linkage program has been the most prominent Financial Inclusion initiative and has a profound impact in the rural ecosystem.

The other important players, Microfinance Industry lenders namely NBFC-MFIs/NGO, MFIs are not far behind. Outstanding credit through NBFC-MFI and NGO MFIs stood at Rs.96841 crore covering 4.26 crore individual borrowers.[6] The top ten States viz Tamilnadu, Bihar, Karnataka, Uttar Pradesh and Maharashtra, Madhya Pradesh, West Bengal, Odisha, Rajasthan and Jharkhand account for nearly 3.55 crore loans amounting to Rs.82142 crore (85%). The average ticket size is Rs.38000. The contribution of these Microfinance Industry lenders, though commendable, comes at a much higher cost (at around 20% to 24% per annum) to the borrowers. However, these individual borrowers still prefer Microfinance Industry lenders over banks because of the ease at which both the credit dispensation and recovery happens and doorstep delivery of services.

Table 1: State wise estimates of Milk Production and lending by Microfinance Industry

Estimates of Milk Production (2019-20)		Lending by Microfinance Industry as on 31.03.2022	
State	**Milk Production (in 000 tons)**	**No. of MFI loans (Rs. in lakhs)**	**Outstanding balance (Rs. in crore)**
Uttar Pradesh	31864	42	9355
Rajasthan	25573	20	4808
Madhya Pradesh	17109	34	7655
Gujarat	15292	11	2664
Andhra Pradesh	15263	2	573
Punjab	13348	11	2165
Maharashtra	12024	30	7606
Haryana	11735	7	1692
Bihar	10480	58	13009
Karnataka	9031	44	12015
Tamil Nadu	8759	57	13242
West Bengal	5859	28	4925
Telangana	5590	0	68
All Other States	16513	83	17064
All India	198440	426	96841
Source: Department of Animal Husbandry, Dairying & Fisheries, Ministry of Agriculture and Farmers Welfare, GoI		Source: NABARD publication- Status of Microfinance in India 2021-22	

It is not a coincidence that these states are also among the major milk producing states. The scale of finance for a three animal unit under KCC Dairy is about Rs.52500 in Tamilnadu which is more than the average ticket size of microfinance industry lenders. It is a clear pointer that if only access to credit through KCC Dairy and a convenient cash payment mechanism are made available at ease to the Milk

[4] The Free Press Journal, dated 27-07-2020.
[5] NABARD's publication, 'Status of Microfinance in India 2021-22'.
[6] NABARD's publication, 'Status of Microfinance in India 2021-22'.

producers, KCC Dairy can very well substitute the high cost borrowing from Microfinance lenders. Thus, KCC Dairy as a financial package has the potential to emerge as a major Financial Inclusion initiative.

Other attendant benefits

The farmers can also leverage the cash flow through the bank accounts to avail themselves of a bouquet of other products like term loan for purchase of animals, repayment of high cost debt from money lenders or MFIs, housing and other consumption needs. From banker's perspective, the regular cash flow throws open a window of opportunity to design innovative and customer centric products suitable for dairy farmers. To cite an example, banks can design a Gold Loan Product (which is one of the most popular and hassle free loan products in rural areas) exclusively for the Dairy farmers, where the Loan to Value (LTV) of Jewel can be enhanced to 100% as against the present level of 70% to 85%. Another product could be for monetizing the livestock assets by extending term loans for calf rearing or for repayment of debts incurred by the farmer for purchasing livestock.

Some Operational Issues to be addressed

At present, banks open a separate KCC account and transfer the amount (milk proceeds) credited in the Savings Bank (SB) account to the KCC account at regular intervals. This is a cumbersome procedure, for it involves manual intervention by bank staff and for the farmers, this procedure entails understanding the process of flow of milk proceeds through two accounts. Ideally, the existing SB account can be converted as 'SB cum KCC' account with a specific drawing limit, so that opening of another account and manual intervention by the society or the bank for transfer of money from one account to another can be avoided.

Farmers are much more conversant and comfortable with EMI mode of repayment rather than operating a KCC facility within the limit sanctioned. The banks have to address this issue and impart necessary financial literacy to the farmers on the advantages of operating the KCC account as a 'Cash Credit' facility and avoid operating multiple accounts.

Further, banks should ensure that the farmers have the freedom and comfort to withdraw cash from any/ all service points viz., Bank branch, ATM, Business Correspondents (BCs) at village level and Merchant PoS of their choice, in a hassle free manner. Ideally, cash payments should be made by the business correpondents at the place where milk procurement centers are located, on the same day milk proceeds are credited in the bank account. Any slackness in this may lead to customer dissatisfaction and may drive the customers away. It is of paramount importance for banks to put in place necessary infrastructure at all service points.

Sending SMS irrespective of the amount of transaction and updating of pass book at regular intervals at Business Correspondent points will obviate the need for customers to visit the branch and save their time.

These small positive steps may immensely enhance the customer's experience for a dairy farmer who is not as tech savvy as its urban counterpart.

Banks may desist from the practice of insisting on traditional tie-up letter/undertaking letter from the Cooperative Society officials or the Private Dairy authorities for routing the milk proceeds and avoid paperwork as well as third party interventions.

Alternatively, it may be of mutual interest for the cooperative societies and banks to enter into a MoU with the former as a Business Correspondent for sourcing of applications, periodical sharing of data, ensuring transfer of milk proceeds on a continued basis and sorting out any ground level problems. The

banks may come forward to pay some commission (say 0.50% of the credit) to the societies for their services which will be an additional income to the societies. Also, such institutionalized arrangements will help them in scaling up their operations as a producer organization.

Milk Procurement by Private Dairies and Cooperatives

There are 228 dairy cooperative milk unions covering about 172.63 lakh farmers under the ambit of 1.96 lakh village level dairy corporative societies. The total number of Private Dairies (Milk Processing Units) as per FSSAI Licenses (till May 2019) is 1944.[7] At all India level, the milk procured by Private Dairies and Cooperatives are almost equal even though there is wide variation among individual States. For example, in Uttar Pradesh, milk procurement by private dairies and cooperatives is in the ratio of 95:5, whereas, in Gujarat, it is 5:95.

Table 2: Milk Procurement Scenario 2020-21 (LKPD – lakh kg per day)

State	Private Dairies	Cooperatives
Maharashtra	123-127	36-38
Uttar Pradesh	121-125	5-7
Tamil Nadu	75-79	36-38
Andhra Pradesh	35-37	14-16
Punjab	30-32	17-19
Madhya Pradesh	30-32	9-11
Haryana	27-29	4-6
Telangana	12-14	5-7
Rajasthan	27-29	28-30
Karnataka	12-14	80-84
Gujarat	12-14	225-227
Bihar	7-9	18-20
Other States	33-35	47-49
All India	**557-562**	**535-540**
Source: CRISIL Research Data on Milk procurement by Dairy Companies in India (ANI News Agency Report dated 06.10.2021)		

Therefore, it is important that the banks focus both on cooperatives and private dairies according to the market conditions prevailing in a particular state.

Way forward

Banks may put in place necessary Business Analytical tools to source, process, and underwrite KCC Dairy credit proposals through digital mode. Initial focus could be on members of Milk Producers Cooperative Societies. Parallelly, in states like Tamil Nadu, Maharashtra, Uttar Pradesh, Andhra Pradesh, Punjab, Haryana, Madhya Pradesh, where Private Dairies are dominant players, a collaborative approach with the Private Dairies may help in wider coverage without much loss of time. Banks, guided by the business potential may go all out to bring 1.50 crore dairy farmers within the ambit of KCC dairy and this data driven Agricultural Credit is bound to emerge as an important Financial Inclusion initiative in the near future.

Let the Data-enabled Agricultural Credit flow the 'Milky' way.

[7] Annual Report 2021-22, Department of Animal Husbandry and Dairying.

ESG Financing: Importance, Challenges & Way ahead

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The importance of sustainability has increased manifold in every sphere, especially after the outbreak of COVID-19. Humans have realized that integrating environment and society can only ensure survival and existence. Finance is no exception, as proper thrust on these issues can promote sustainability. Finance is an important resource in manufacturing and services, and proper channeling of it can make a difference. Financial Institutions can play a big role in sustainability, not only by promoting finance to environment-friendly sectors/industries but also by regulating its flow towards undermining sectors. Environmental, Social, and Governance or popularly called ESG refers to measures that ensure the well-being and growth of the environment, and society and promote governance issues. More specifically, Environmental issues include climate change, waste management, biodiversity renewal energy, etc. Social factors include those impacting individuals and society such as health, safety, human rights, etc. and Governance issues include management and internal controls. Specifically, it covers board structure, diversity, transparency, accountability, ethics, cultures and practices of the entity being financed.

The big question arises that why financial institutions need to care about these factors as their primary objective is to maximize shareholders' wealth. The answer lies in coexistence, as they do not exist in solitude and the ESG factors and finances impact each other and their interplay ensures sustainability for both. Overlooking ESG factors by financial institutions can lead to enhanced risk and even loss. Recent events like the failure of PMC bank raised the issue of governance. Similarly, an environmental tragedy like the Bhopal Gas Tragedy or oil spills in the ocean highlights the importance of the environment in sustainability.

Environmental	Social	Governanvce
•Climate •Carbon Emission •Biodiversity •Greenhouse Gases •Renewable Energy •Pollution	•Gender Equality •Financial Inclusion •Human Rights •Employment	•Governance Structure •Transparency & Accountability •Management •Controls

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Financial institutions extend financial assistance to businesses whose success depends inter alia on ESG factors. Corporate scams like those at Satyam and many others raised the issue of corporate governance. So, apart from an ethical point of view, ESG issues have business potential for Financial Institutions.

Major International Initiatives

Several initiatives are undertaken to increase awareness and promote sustainability in finance. Prominent among them is the United Nations Environment Programme, Equator principles, Global Reporting Initiative, and International Finance Corporation's initiatives. Let us discuss these initiatives in detail.

UNEP: United Nations Environment Programme was established in 1972 to foster economic growth coupled with sustainability. In 2019, UNEP FI (United Nations Environment Program Finance Initiative) launched the principles for responsible banking which specify broad guidelines for banks across the globe to promote sustainability. These principles are as under:

Alignment: Aligning business strategy to individual needs and society goals.

Impact and target setting: Increasing positive impact while reducing the negative impact on and managing the risk to people and the environment.

Clients & Customers: Working with clients and customers for promoting sustainability.

Stakeholders: Consulting, engaging, and partnering with stakeholders for achieving the society's goals.

Governance & Culture: Commitment towards governance and culture of responsible banking.

Transparency & Accountability: Ensuring transparency & accountability about impact and contribution to society's goals. Reporting on progress in these aspects leads to transparency and accountability.

These principles cover nearly all businesses and operations of banks and are in line with Sustainable Development Goals (SDGs) and Paris Climate Agreement. These also ensure target setting for increasing positive impact and reducing negative impact. These principles not only act as a framework but also help in implementing sustainability measures.

Equator principles

This is an initiative of IFC (International Finance Corporation) launched in 2003 intending to serve as a framework for identifying and managing environmental and social risk. Equator principles are environmental and social guidelines that signatories consider while financing projects. These apply to projects over 10 million US dollars. The projects are classified based on their impact on the environment and society ranging from significant (A), limited(B) and minimal (C). Based on this classification, banks in agreement with borrowers, develop environment plans for managing risk. The Banks, if warranted can take corrective action for non-compliance with the plan by the borrowers. For high-risk projects, borrowers consult and provide information to the stakeholders. The equator principles serve as an effective tool in assessing and mitigating environmental and social risk.

Global Reporting Initiative (GRI)

It started in 1997 as a project of CERES (Coalition for Environmentally Responsible Economies) and UNEP (United Nations Environment Programme), GRI presently is an independent organization headquartered in Amsterdam. GRI provides standards for sustainability. These standards are developed collectively by policymakers, investors, civil society, and labour organizations for the organizations across the world. There is no limitation on the use of these

standards and can be used by any organization, irrespective of whether it is private or public or from any sector and of any size, be it large or small.

GRI standards consist of three categories:

i. GRI Universal Standards

ii. GRI Sector Standards

iii. GRI Topic Standards

GRI Universal Standards: The application of the standards is universal i.e., applicable to all organizations. The standards cover purpose, requirements for reporting, disclosures relating to reporting governance, etc. It also lays a foundation for reporting under sector and topic standards by identifying its impact areas defined under them.

GRI Sector Standards: For bringing consistency to reporting and inclusiveness, these standards list topics that are of significance to entities in a particular sector. These standards are developed for various sectors mainly having a high impact on environment like oil and gas, fishing, aquaculture, etc. The organizations belonging to a particular sector for which sector standards are available, are required to use it for reporting under GRI standards.

GRI Topic Standards: It includes disclosures for divulging information on topics. It also describes the information to be furnished, according to standards.

Thus, GRI standards act as a guide for policy formulation and its effective implementation. They are also useful to various stakeholders in identifying risk and control measures adopted by organizations.

Instruments for ESG financing

ESG financing is in the developing phase, and products are being introduced to satisfy the varied needs of the customer. Let us discuss some of the major instruments in detail.

Green bonds: Green bonds are similar to bonds or any fixed-income security, the difference being that it is that the money raised through them is used for financing environment-friendly projects. Apart from the projects having a positive impact on the environment, projects reducing negative impacts like pollution, waste etc. can also be financed through green bonds. As investors now care about their use of money, they are assured that it is used for a good purpose. Green bonds can be issued by Government or private entities. It exhibits the commitment of the issuer toward the environment. It also educates the stakeholders about the values of the organization. The projects financed through green bonds are diverse and may include renewable energy, green building, waste reduction, clean water, clean transportation, etc. Their popularity is increasing on account of the distinct advantages offered by these instruments. Green bonds can also come with tax incentives for the amount invested in promoting environment-related issues. Investors can diversify their investments through these bonds. It can attract a new class of investors who are concerned about the use of money invested by them. It also aids in raising awareness about the environment and organizational values in businesses. Thus, it is of mutual benefit to both investors and issuers by providing a novel method of raising finance.

Green loans: Green loans are similar to green bonds in purpose, i.e., are used to fund projects that promote and protect the environment. The difference lies in the approach toward evaluation, assessment and monitoring involving an emphasis on sustainability. The entire process focuses on factors promoting environmental health and discharging the negative impact of the project on the environment. The objective of this entire process apart from identifying the positive factor is to assess the risk involved. The measures adopted by the entity to mitigate the

negative impacts on the environment. Green bonds are standardized and may be listed on Exchange, whereas, Green loans are customized according to the requirement of the customers. Green loans are cheaper to issue as compared to Green bonds, which involve high transaction costs. Environmental risk identification and its mitigation lies at the heart of the entire process of the issuance of green loans. These loans are similar to other instruments promoting sustainability focusing on promoting positive impact and discouraging negative impact.

Green deposits: The deposits offered by the customers are utilized for lending by the banks. Green deposits cater to the needs of depositors, who are concerned about the use of their funds. As proceeds of green deposits are used for financing environment-friendly projects, depositors are assured of the end use of their deposits. These can be offered to both individuals as well as corporates. Financial institutions can offer a preferential rate of interest for promoting these deposits.

Green equity: It simply means raising capital by the company for promoting sustainability. This can be directly in the form of shares of the company or indirectly, in the form of funds investing in companies promoting and protecting the environment.

There are several challenges in ESG financing, which are discussed as under:

Lack of Framework: A big challenge concerning sustainability finance is the lack of framework. An effective framework would ensure through laid down principals, policies and guidance leading to growth in ESG finance. In the absence of such a framework, there is ambiguity about what constitutes sustainability and which instrument will qualify for it. In the absence of such a framework, the growth is not sustainable and restricted to the efforts of few financial institutions.

Greenwashing: It is a big challenge for financial institutions concerning sustainable financing. Greenwashing refers to the false representation by companies that their product and process policies are environment savvy, whereas it is otherwise. While financing, financial institutions face the challenge of being caught in the trap of greenwashing by financing a project or company which are not environment friendly. Organizations may camouflage their operations or project as environment friendly, which in reality, cause despair to the environment and society. So, identifying and assessing the real impact of the project or process on the environment becomes very difficult. Greenwashing may impact risk assessment which is another big challenge faced by financial institutions.

Risk Management: Financial institutions already face several risks as a part of their business. Risk management for financial institutions becomes more complex in the case of ESG financing, as they have to identify, evaluate and assess many parameters. Improper identification and business model of the project expose the financial institutions to greater risk. Similarly, a defective assessment which may be due to a lack of skill, or the complexity of the project may add to the risk faced by the financing entity. Therefore, proper identification and mitigation of risk become more important in ESG financing.

Business models/ products: ESG is in an evolving stage, products/ instruments for financing are fewer, catering to niche categories. Similarly, financial institutions have established models for normal financing business but are yet to determine the appropriate model for ESG financing. The model should ensure sustainability for the financial institution and the entities being financed. For example, the financial institutions offering a high rate of interest on deposits and concessions on loans for advances in ESG financing might be unsustainable in long term.

Benefits of ESG financing

Several direct and indirect benefits accrue to financial institutions, which are discussed in brief as under:

Risk Management: Banks are susceptible to several risks as a part of their business, including climate-related risk, the impact of which is growing day by day. Climate risk manifests in the form of physical risk and transition risk which crystallizes on account of the migration of businesses to green alternatives. By incorporating these risk-related parameters as a part of the assessment, financial institutions, can properly identify and take measures for effective management. Similarly, the nature of technology and its impact on identified parameters can be incorporated into appraisal processes. Activities adversely impacting ESG expose businesses to liability risk affecting their growth and survival. So, sustainability in finance through proper identification and promotion can help financial institutions in building a comprehensive and robust risk management framework.

Niche opportunities: Sustainability is permeating every sphere creating demand for newer products and processes. Banking is no exception, where growing awareness among customers is creating demand for both asset and liability products. Financial institutions can cater to the rising concern and demand for the environment and social-friendly products and services. The rising acceptability and popularity of green deposits and loans are an example of how financial institutions can step in to fill the demand created by sustainability. Apart from this, sustainability is creating opportunities for new segments like renewable energy, recycling, etc. Financial institutions can benefit through financing and promoting these sectors. Financial institutions facing saturation in many sectors can exploit this segment for their growth.

Ancillary benefits: Apart from the above-mentioned benefits of integrating sustainability as a part of business strategy, it also offers other benefits. First, it integrates the benefits of all stakeholders, may it be customers as discussed above or the employees who are motivated to work for an organization that cares for ESG issues while doing business. Another benefit that can accrue to a financial institution is image building and trust, not only by offering ESG-compliant products but by implementing it in its day-to-day operations. These initiatives, if well implemented and communicated, can create a distinct image in the minds of all stakeholders.

Way Forward

The importance of sustainability cannot be undermined as it affects Financial Institutions in multiple ways. Therefore, it needs to be nurtured and promoted in a big way. Let us now look at ways by which sustainability can be augmented in finance:

Involvement of top management: The commitment of top management towards sustainability will drive the orientation towards ESG finance in an organization. A positive approach reflected in policy formulation and its effective implementation at all levels of hierarchy would promote sustainability in all spheres. These include internal areas like processes and procedures or external ones in terms of financing the project and its monitoring. Thus, the involvement of top management can foster progress in sustainability in finance.

Awareness: As sustainability in finance is in its developing stage, creating awareness can lead to acceptability and growth for this sector. Training and workshop through classroom and virtual mode, celebrating and sharing success stories in sustainable finance can be a good initiative for creating awareness in the organization. Similarly, blending ESG in different initiatives can also augur awareness of sustainable financing. Apart from these internal measures, advertisement campaigns, borrower awareness programs and CSR activities

centered around sustainability can be the source of creating awareness externally.

Exposure: Another measure for promoting sustainability is through re-balancing of exposure by financial institutions, this could be through shunning exposure in non-ESG sectors and increasing exposure in ESG-compliant sectors.

Appraisal/Assessment procedures: The procedure of appraisal can be reworked for loans above a particular threshold to start with by incorporating ESG parameters through the entire process of lending. Later, these parameters can become a part of all the assessments for the financial institutions. Indicative parameters could be over the nature of business, and its impact on Environment, Social, and Governance issues. Scoring models based on these parameters could be developed to eliminate any subjective biasness that might creep into the decision-making.

Conclusion

Sustainability is essential for every sector, finance is no exception, where the players have realized the importance of ESG factors as a part of their existence. Realizing the importance of these factors in general and customer orientation towards sustainability, in particular, financers across the globe are launching ESG-compliant products. These are in the form of green bonds, green loans, green deposits, and green equity to name a few. This exhibit the growing awareness of ESG by both market players and customers. Similarly, several initiatives like Equator principles, Global Reporting Initiative etc. are initiated by global agencies to promote sustainability in financing. Though these initiatives provide broad guidelines, there is no common universal standard for implementing ESG financing. Another big challenge for ESG financing is the lack of framework, which is a big hurdle in the progress of sustainable financing. A set of common guidelines like Basel norms can provide a framework to players across the globe. Despite these hurdles, sustainability is progressing in financial sectors as in other sectors and becoming an integral part of business strategy.

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Skill gap analysis of bank employees based on Branch Managers' perceptions

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Abstract

Currently, banks are facing challenges due to scarcity of resources and skilled workforce to meet the growing needs of the economy. Such skilled workforce is not readily available in adequate numbers to meet the increasing requirements of the banking industry due to attrition, competition and faster business growth. One of the RBI report highlighted that one of the critical bottleneck, banks face is finding the suitable talent replacement, necessitated on account of attrition and retirement. The present research followed a descriptive research design. The survey was conducted on 106 commercial banks in both urban and rural areas of Madurai District. The primary data was collected through two well-structured questionnaires. The researcher collected 376 responses from bank employees and 100 respondents from branch managers from all the ten taluks. The study concludes that there is a minor skill gap between skills possessed by public sector bank employees and the skills required by the branch managers.

Introduction

In India, about 600 million people, more than half India's population, are under 25 years old. The report published by the International Labour Organization states that India will have a capacity shortage of 29 million people by 2030. According to Accenture, India's capability deficit would result in a loss of $ 1.97 trillion in terms of GDP. India's youth population will become the most prized asset of the nation. Besides this, India's skill gap continues on its current path. Most industries will face 75-80% skill gap. It means that just approximately 20-25 percent of people will be qualified for the available positions and the employability rate will be low. Moreover, as acknowledged by many authors, there is a gap between the level of employability skills possessed and the skills required by managers [McQuaid(2002)]. Therefore, it is vital to identify the skill gap to appreciate the negative economic consequences.

Deepa (2020), in her study, stated that the banking sector is one of the leading segments in India's GDP contribution and a significant source of employment. Chowdhury (2020) specified that employers in the banking industry have trouble in attracting the graduates as per their expectations and requirements. On the other hand, most of the young graduates have difficulties in finding decent jobs in banks due to the lack of relevant skills. Furthermore, the banking sector's tremendous growth is attracting the aspirants to choose banking as a career. In the present-day scenario, the banking sector attracts graduates of different streams, including technical and professional graduates of engineering. Though believed to be suitable for business and commerce graduates, the nature and scope of a banking career

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is increasing and including diverse talent from engineering, technical and other professionals' pool as their employees.

Nowadays, both private sector and public sector banks are providing innovative services like Internet, Mobile banking, ATMs, Telebanking, etc., so they need a vast workforce with suitable skills to manage the technology. To recruit employees, the RBI panel has recommended a standard banking aptitude test at the entry-level, setting up a center of excellence for leadership development and skill registry in the banking sector. By taking this as a background, the present study was undertaken.

Importance of Employability skills

Saterfiel and McLarty (1996) stated in simple terms, employability skills refer to the essential skills required to acquire and retain in a job. Dest (2002) defined employability skills as "skills required not only for entry into employment but also to progress within an organization to achieve one's potential and contribute successfully to enterprise strategic direction." The eligibility of an individual to apply for a job depends upon education, qualification and experience. Still, the success of an individual's career is made possible only by showcasing a set of skills called 'Employability skills'. Dunne and Rawlins (2000) and Bansal (2018) says that various studies offer a variety of labels for generic skills, such as key skills, core skills, life skills, essential skills, soft skills, foundational skills, work-readiness skills, job readiness skills, non-technical skills etc.

Rutkowski (2013) reported that employers face difficulties in recruiting human capital with required skills. Lankard (1990) opined that workers are expected to perform their job roles independently without supervision and requiring problem-solving and decision-making skills.

Nirmala, K. (2017), Sisodia and Agarwal (2017) highlighted that employability skills are valuable policy tools to upgrade mobility and earnings. Employees must possess the knowledge and skills to improve the organization's performance, competitiveness and advancement. Hence, employees need to update the skills required by the organization. The researchers specify that employers hire employees who can quickly adapt to the workplace and utilize higher-level teamwork skills with innovation and the capacity to evolve an enterprise.

Harvey (1997) opined that the employability skills possessed by employees may vary from person to person based on their educational qualifications. The employability skills concept led by Yorke et al. (2004) stated that achievement, skills, understanding and personal attributes make graduates more likely to gain employment and be successful in their chosen profession, benefit the individual human capital, the community and the nation.

James and James (2004) opined that essential technical skills were the only required skills for employment in earlier days. But he further emphasized that at present, technical skills are not sufficient for securing a job.

Geoff (2009) stated that employability skills denote the ability of graduates to adapt and use their personal and academic skills to create more tangible educational outcomes that link graduate employability with employment.

Klaus (2010) cited in Robles (2012), confirmed that 75% of long-term jobs depend on people skills, while only 25% depend on technical skills. Overtoom (2000), Bhola (2013) highlighted that employability skills are applied across a variety of jobs and also in a life context in which skills are developed and acquired throughout an individual's career. But the scarcity of employability skills originates from the lack

of focus on practical education and lack of interaction between industries and educational institutes, which results in a wide gap between required skills and available skills. The researchers concluded that the development of employability skills of students could be imparted through the combined effect of industries and educational institutions.

Cleary et al. (2006) opined that employability skills play a vital role in contributing to individuals' effective and successful participation in the workplace. Subramanian (2017) specified that Employability skills are transferable skills required by the person to make him employable, which is also necessary to achieve success in all the job aspects. Suarta et al. (2017) say that Employability skills are significant for both entry-level and established employees.

The various studies analyze the employability skill gap in various fields such as Reem et al. (2014) in nursing, Yang et al. (2014) in hotels and hospitality, Ramadi (2015) in engineering, Abas-Mastura (2013) in the government Sector, Dhiman (2012) in the tourism sector, Nayak (2015) in pharmaceutical, Poon (2012) in the real estate industry.

Table 1: Summary of Employability Skill Attributes with their sources

Research Focus	Literature support	Findings of Important Employability Skill Attributes
Employers' perceptions of business graduates	AlHashimi et al. (2020)	Information Technology, Customer Focus, Oral Communication, Lifelong Learning, Problem Solving and Leadership
Employers' Perception of Employability Skills and Career Development	Tejan et al. (2019)	Leadership, analytical, communication and creativity
Employability Indices of Business Graduates	Serrano (2019)	Reading skills, Communications skills, Computer applications and Personality
Identify the skill gap between skill expected by managers and skills possessed by business graduate working in banking sector	Abbasi et al. (2018)	Listening, Interpersonal and communication skills
Importance of Employability skills towards employer point of view	Chan (2018)	Communication skills
Employers' Perception on the Employability skills	Reddy (2017)	Interpersonal skills, Customer orientation, and Written communication
Employers' perceptions towards importance of employability skill of graduates in 21st century though review of literature	Suarta et al. (2017)	By analyzing various studies, the study found that communication skill, problem solving skill, decision making skill and teamwork skill are the attributes the employer required with high level of importance from the graduates while entering the workforce
Graduates' skills requirement for effective performance	Elif Cicekli (2016)	Communication, Team work and Interpersonal skills
Graduates' perception towards soft skills as an Employability factor	Dissanayake, Anupama. (2016)	Communication skills, Listening skills and Interpersonal skills

Research Focus	Literature support	Findings of Important Employability Skill Attributes
Required and Possessed University Graduate Employability Skills: Perceptions of the Nigerian Employers	Adebakin (2015)	Decision-making skills, Team-work skills, Leadership skill, ICT, Analytical and Problem- solving skills
Employers' Perception on the Employability and skills from graduates	Capsada (2015)	Team work and Ability to acquire new knowledge
Identified the Managerial competencies in Indian Banking sector	Pandey and Misra (2015)	Listening skills, team building, customer relations knowledge, and maintaining professional and ethical standards
Assessment of generic skills from employer point of view	Pitan (2015)	All the industries- Analytical skills, Communication skills. Banking sector - Analytical skills, Communication, numeracy, Critical thinking and Decision-making skills
Employers' Perception for Business Graduates	Al-Mutairi et al. (2014)	Numerical, Computing and Analytical skills
Factors affecting undergraduate to gain the employability	Finch et al. (2013)	Soft Skills (Written communication skills, Verbal Communication skills, Listening skills, Professionalism, Interpersonal skills)

Various authors have concluded that it's critical to have some employability skills such as Communication Skills, Team Lead Skills, Time Management Skills, Problem-solving Skills, Numeracy Skills, Information & Communications Technology (ICT) skills, Analytical Skills, Learning skills, Adaptability skills, and Customer care skills. As a result, the following employability skills were tested among bank employees for this study.

From the extensive literature review, it is identified that Abbasi et al. (2018), Sisodia (2017), Suarta et al. (2017), Finch et al. (2013) explained the skill gap between the skills expected and the skills possessed by bank employees, the importance of employability skills and the factors affecting to gain the employability. The present study, therefore, highlights an unexplored topic in the extent of sector wise classification of skill gaps among bank employees.

Methods

The present research followed a descriptive research design. The survey was conducted on 106 commercial banks in both urban and rural areas of Madurai District. The primary data is collected through two well-structured questionnaires. One set of questionnaires for branch managers and another set for bank staff. The samples were selected using Proportionate Random sampling technique. The researcher classified the subgroups (bank branches) based on the taluks. In Madurai district there are 10 taluks, namely Madurai North, Madurai South, Madurai East, Madurai West, Melur, Peraiyur, Thirumangalam, Thirpagakudgam,Vadipati and Usilampatti.

The sample size for this study was calculated using the Raosoft sample size calculator. The suggested sample size is 381 and was derived at a five percent significant level. To increase the accuracy of results and offer error-free results, the researchers collected data from 476 respondents. The researcher collected 376 responses from bank employees and 100 respondents from branch managers from all ten taluks.

Results and Discussion

Table 2: Demographic–Background Characteristics of Bank Employees			
Demographic Profile	Options	Frequency	Percent
Sector	Public sector	241	64.1
	Private sector	135	35.9
	Total	**376**	**100**
Gender	Male	189	50.2
	Female	187	49.8
	Total	**376**	**100**
Educational qualification	Under Graduation	210	55.9
	Post-Graduation	164	43.6
	Others	2	0.5
	Total	**376**	**100**
Years of Experience	Less than 1 year	18	4.7
	1-3 years	52	13.7
	4-6 years	125	33.2
	Above 7 years	181	48.3
	Total	**376**	**100**

Table 3: Demographic–Background Characteristics of Branch Managers			
Gender	Male	69	69
	Female	31	31
	Total	**100**	**100**
Age	31-35	23	23
	36-40	25	25
	41-50	27	27
	Above 50	25	25
	Total	**100**	**100**
Educational qualification	Under Graduation	48	48
	Post-Graduation	50	50
	Doctorate	2	2
	Total	**100**	**100**
Years of Experience as a branch head	1 to 3 years	23	23
	4 to 6 years	29	29
	7 to 10 years	27	27
	Above 10 years	21	21
	Total	**100**	**100**

Source: Primary Data

Among 376 bank employees considered for the study, 189 respondents (50.2%) were male and 187 respondents (49.8%) were female. 64.1% respondents are employed in public sector banks, while 135 (35.9%) respondents are working in private banks. 32 respondents (8.5%) were in the age group between 20-25 years, 110 respondents (29.4%) were in the age group between 26-30 years, 159 respondents (42.2%) in the age group between 31-35 years and 75 respondents (19.9%) were above 35 years. Amongst 376 respondents considered for the study, 210 respondents (55.9%) have qualified Graduation, 164 respondents (43.6%) have qualified Post-Graduation and 2 respondents (0.5%) have other qualifications.

Among 100 branch managers considered for the study, 69 were male and 31 were female. 23 were aged between 31-35 years, 25 respondents were aged between 36-40 years, 27 respondents were aged between 41-50 years and 25 respondents were aged above 50 years. 48 respondents have completed their Graduation, 50 respondents have completed their post-graduation degree and 2 respondents have completed their doctorate programme. 23 respondents have work experience between 1-3 years, 29 respondents have work experience between 4-6 years, 27 respondents have work experience between 7-10 years and 21 respondents have the work experience of above 10 years.

Branch Managers' Perspective: Employability Skills possessed by the Bank Employees Vs. Skills set Expected by Branch Managers

Rank analysis was performed to identify Employability Skills possessed by employees vs. Skills set expected from employees by the branch managers.

Table 4: Branch Mangers' Perspective: Employability skills possessed by the Bank Employees Vs. Skills set expected by Branch Managers

Skills Possessed by Bank Employees			Skills Set Required by Branch Managers		
Employability Skills	**Mean**	**Rank**	**Employability Skills**	**Mean**	**Rank**
Communication Skills	4.430	2	Communication Skills	4.780	2
Team lead Skills	3.980	9	Team lead Skills	4.131	10
Time Management Skills	3.970	10	Time-Management Skills	4.340	6
Problem solving Skills	4.080	8	Problem solving Skills	4.320	7
Numeracy Skills	4.490	1	Numeracy Skills	4.230	8
Analytical Skills	4.170	7	Analytical Skills	4.430	5
Learning Skills	4.410	3	Learning Skills	4.640	3
Adaptability Skills	4.360	6	Adaptability Skills	4.540	4
ICT Skills	4.410	3	ICT Skills	4.220	9
Customer care Skills	4.390	5	Customer care Skills	4.790	1

Source: Primary data

The table clearly illustrates that bank employees have strong numeracy skills [mean 4.490], communication skills [mean 4.430] and ICT skills [mean 4.410]. But the Branch managers expect skills like customer care skills [mean 4.790], communication skills [mean 4.780] and learning skills [mean 4.640] are highly desired skills for working in the banking industry. The study proves that there is a significant skill gap between the skill sets required by managers and the skill sets possessed by the employees from the branch manager's perspective.

Branch Manager's Perspective: Sector - Wise classification on Employability Skills Possessed and Skills Set Required from the Employees

As per the opinion of the branch managers, the rank analysis was used to determine the sector-wise classification of employability skills possessed by bank employees vs skills set required by branch managers.

Table 5: Branch Manager's Perspective: Sector - Wise classification on Employability skills possessed and Skills Set required from the Employees

Skills Possessed by Bank employees				Skills Expected by Branch Managers			
Public Sector Banks							
Employability Skills	**N**	**Mean**	**Rank**	**Employability Skills**	**N**	**Mean**	**Rank**
Communication Skills	262	4.223	4	Communication Skills	57	4.439	3
Team Lead Skills	262	4.257	3	Team Lead Skills	57	4.544	1
Time Management Skills	262	4.279	2	Time Management Skills	57	4.526	2
Problem-solving Skills	262	4.170	6	Problem-solving Skills	57	4.404	4
Numeracy Skills	262	4.050	9	Numeracy Skills	57	4.333	6
Analytical Skills	262	3.999	10	Analytical Skills	57	4.070	8
Learning Skill	262	4.167	7	Learning Skill	57	3.930	10
Adaptability Skills	262	4.146	8	Adaptability Skills	57	3.983	9
ICT Skills	262	4.177	5	ICT Skills	57	4.105	7
Customer-care Skills	262	4.311	1	Customer-care Skills	57	4.404	4

Private Sector Banks							
Employability Skills	**N**	**Mean**	**Rank**	**Employability Skills**	**N**	**Mean**	**Rank**
Communication Skills	114	4.223	3	Communication Skills	43	4.419	3
Team Lead Skills	114	4.242	1	Team Lead Skills	43	4.233	6
Time Management Skills	114	4.200	4	Time Management Skills	43	4.209	7
Problem-solving Skills	114	4.099	8	Problem-solving Skills	43	4.605	1
Numeracy Skills	114	3.952	10	Numeracy Skills	43	4.512	2
Analytical Skills	114	4.009	9	Analytical Skills	43	4.093	8
Learning Skills	114	4.199	5	Learning Skills	43	4.023	9
Adaptability Skills	114	4.101	7	Adaptability Skills	43	3.977	10
ICT Skills	114	4.188	6	ICT Skills	43	4.256	5
Customer-care Skills	114	4.242	1	Customer-care Skills	43	4.302	4
Total	**114**			**Total**	**43**		

Source: Primary data

The table clearly illustrates that public sector bank employees believe that they are strong in customer-service skills [mean 4.311], time management skills [mean 4.279] and team leadership skills [mean 4.257]. On the other hand, Public sector branch managers expect bank employees to have team-lead skills [mean 4.544], time-management skills [mean 4.526] and communication skills [mean 4.439]. Therefore, it is clear that there is a minor skills gap between public sector bank employees' skills possessed and the skills expected by the branch managers.

Furthermore, private sector bank employees believe they are strong in customer service, team leadership and communication skills. In contrast, branch managers want their employees to be strong in problem-solving skills, numeracy skills and communication skills. As a result, there is a large skill gap between the skills possessed by private bank employees and the skills set expected by the private sector bank branch managers. It is concluded that the private sector banks have huge skill gap when compared to the public sector banks.

Conclusion

From the branch manager's perspective, the results revealed that bank employees do not possess required communication skills, analytical skills and adaptability skills as per the managers' expectations. Branch managers opined that communication skills, learning skills, customer care skills and numeracy skills are highly desired skills for working in the banking industry. However, the bank employees possess learning skills, customer care skills, numeracy skills, ICT skills, problem-solving skills, time management skills and decision-making skills as per the managers' expectations. The study proves that there is a skill gap between the skills set required by managers and the skills set possessed by the employees.

There is a minor skill gap between skills possessed by public sector bank employees and the skills required by branch managers. Because bank employees and branch managers have remarkably similar opinions. It is concluded that public sector bank employees have already been sorted out in terms of three different levels of online exam and interview, resulting in a minor skill gap between public sector bank employees' skills possessed and skills expected by the branch managers.

There is a wide skill gap between the skills set required for private branch managers and the skills set possessed by private bank employees. Bank employees in the private sector are hired through various methods, such as campus placement and direct interviews. In public sector bank employees, there is a minor skill gap between the skills possessed

and the skills required by branch managers because a standardized approach for recruitment of bank personnel is followed. To overcome this shortfall, the study recommends that private sector banks should modify their recruitment strategies by implementing standardized recruitment patterns. The scope of the present study is confined to Scheduled Commercial Bank employees in the Madurai district. It may be extended to all the other banking sectors like Cooperative Banks, Regional Rural Banks, Foreign Banks etc.

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