Opinion

MONDAY, JANUARY 28, 2019

E-COMMERCE TRADE TALKS

Cecilia Malmstrom, EU's top trade official

"Electronic commerce is a reality in most corners of the world, so we owe it to our citizens and companies to provide a predictable, effective and safe online environment for trade"

SC boost to IBC process will mean faster resolution

Tightening of rules on wilful defaulters welcome, and SC indicates is may not exempt power firms from Sec 12

WITH THE SUPREME Court upholding the Insolvency and Bankruptcy Code (IBC) in its entirety, the resolution process will move faster now. SC emphasised that a person "who is unable to service its own debt beyond the grace period referred to above, is unfit to be eligible to become a resolution applicant. This policy cannot be found fault with". The apex court has relaxed the definition of related party so that bona fide persons, who are not involved in the business operations of the bankrupt company, are allowed to bid for the stressed asset. Had SC specified the timeline for Section 12A, which relates to pulling out or settlement of the bids, though, there may have even been greater clarity. Most of the amendments to this seminal piece of legislation have been commendable, especially the tightening of section 29A which ensures that wilful defaulters or those who have been classified as NPAs for more than a year will not be eligible to submit a resolution plan. This means bankers will now be able to recover their dues faster. The average duration for resolution for cases solved till end-December was a fairly high 313 days; in Essar Steel, which has now dragged on for more than 500 days, bankers are losing ₹17 crore a day. That is why SBI had decided to sell the exposure but later put off the sale after NCLAT said the Ahmedabad NCLT had to give its verdict by January 31.

Most critically, the apex court's ruling establishes the hierarchy of creditors with bankers now right on top and operational creditors (OCs) below them; OCs were seeking a status equal to that of financial creditors and a seat on the Committee of Creditors. The judges noted that OCs had enough safeguards to protect their interests. This newspaper had earlier noted that putting home buyers at par with financial creditors, which was done by an amendment, could delay and hurt the process. However, allowing promoters of smaller businesses to bid for their companies was a good idea since, without this, many of these assets would have been sold as scrap.

While Friday's ruling suggests the SC would not derail the IBC process by exempting power producers from the provisions of RBI's February 12-circular, the court will pronounce a verdict on February 4. The circular mandates that even a one-day default in servicing any account of ₹2,000 crore or more would warrant a resolution plan within three months, else insolvency proceedings must be initiated. Given how lenders have been so lenient with borrowers in the past, it is important they be disciplined; there is no case for any exemption to any sector or class of borrowers. Lowering the voting threshold for creditors to 66%, from 75%, is another pragmatic move which will prevent a handful of lenders from disrupting the process and pushing the company towards liquidation. Given the differences in opinions between NCLT benches, the law has also clarified that late bids will not be entertained.

While the IBC process has proven to be far more effective than the SARFAESI or DRT, sadly, more than half the cases till end-December 2018 have been resolved via liquidation which means banks would have recovered very little. Also, the haircuts have been very steep and banks have managed to recover 52% of the admitted claims in less than 15% of the cases. In all, between Q3FY18 and Q3FY19, they have managed to recover a net ₹66,000 crore, though this number should go up sharply once the Essar Steel case is resolved. As RF Nariman and Navin Sinha observed, the defaulter's paradise is lost. In its place, the economy's rightful position has been regained.

Infra takes a hit with IL&FS

Strategic default by subsidiary makes SPV-based loans dicey

THOUGH IT IS early days, some luck, and timely action by the government in asking PSU financial institutions to provide credit to NBFCs, ensured that the IL&FS collapse didn't spiral out of control into a Lehman-style contagion. A strategic default by IL&FS SPV Jharkhand Road Projects Implementation Company Limited (JRPICL), however, could play havoc with India's infrastructure lending.

Infrastructure projects, by their very nature, are difficult to finance, and one reason is that there isn't much collateral to begin with. While, in a road project, for instance, the land always belongs to the government, an SPV structure offers a solution. Since, barring unforeseen circumstances, the annual revenue stream from a road project will continue, a good idea is to put it into an escrow account with strict guidelines on how this money is to be used, for salaries, maintenance, repayment to lenders, carpeting upgrades, etc. Once such a structure is in place, it doesn't even matter if the parent firm goes belly-up since the interests of lenders are fully secured. Indeed, while some ratings firms were, rightly, grilled for their AAA ratings to IL&FS without paying attention to the group-level debt and the ability to service this, in many cases, the allegations were unfair since the ratings firms were rating ring-fenced projects like JRPICL. Normally, a JRPICL will never default since the money can never be diverted, but the IL&FS Group, under a government-appointed board, had NCLAT's blessings to not pay creditors till it came up with a plan to deal with its ₹106,000 crore debt; it is not clear, right now, how many other IL&FS group firms/affiliates will do similar strategic defaults.

While giving IL&FS time to work out solutions and agreements with lenders makes sense at a group level, the implications for lenders to projects like JRPICL are large. Since it is now possible for courts to allow such protection from lenders—even if for limited periods of time—this means lenders can no longer find comfort in ring-fenced structures, but will have to look at the health and past behaviour of the parent company. In other words, a perfectly good structure that has helped raise funds is now under question.

It is not just in this, but in other cases, too, that the government has taken action that can have unfortunate consequences. When the NSEL scam broke and investors claimed they had lost ₹5,600 crore due to this, the government decided it would get the money back from NSEL's cash-rich parent FTIL (*goo.gl/XJ5C16*). Apart from the fact that it was not clear that those who lost their money were innocents—those lending money on NSEL knew this was illegal and the government has, since, filed cases against several of them—the move was a bad one, since, it was against the principle of limited liability. Under this, an investors'—in this case, FTIL—liability is restricted to the value of equity. In which case, while FTIL's liability in the NSEL case was just its equity investment in NSEL, forcing a merger with NSEL—as the government wanted—meant all of FTIL's profits and other assets were being sequestered. At some point, sooner rather than later, the government needs to examine the implications of these moves.

DynastDREAD

Dynasts get a much easier launch in politics, but their success isn't guaranteed

WHATEVER ELECTORAL GAINS inducting Priyanka Gandhi Vadra as the party general secretary for western UP may bring the Congress party in coming general elections, it has to fight a battle of perception in the present. Party loyals believe it will inject fresh energy into the Congress's chances in the state. But critics, especially the BJP, have called it further proof of Congress's dynasty politics. That is quite rich of the BJP, considering two Union ministers of the Modi government are the sons of two Vajpayee-era Union ministers from the party—one is a sitting Rajya Sabha member—and the children of many prominent BJP leaders, including one Union minister, two former chief ministers from the party, two deceased Union ministers, are now lawmakers. Critics have also talked of how Priyanka Gandhi was para-dropped on the cadres, given her lack of political experience. But, this, too, is true of the 'son-rise'/'dawn of the daughter' in almost all parties, with the exception of some Left parties.

It is true dynasts enjoy a distinct advantage—a high-profile launch, without having to gather the grime that leaders who have risen through the ranks did. But, this is true of lawyers, doctors, architects, businessmen, actors—indeed, it is hard to think of a profession where lineage doesn't distort the playing field. But, the advantage ends there. There is no guarantee that children of successful businesspersons, actors, lawyers—as also of politicians—will prove as successful as their non-dynast peers. Examples of such launches ending in a whimper abound. It is, therefore, perhaps prudent to turn one's criticism of dynasts in politics to their performance than their launch.

SPENDING FALLOUT

ADDITIONAL EXPENDITURES ON RURAL INDIA, AMONGST OTHERS, ARE LIKELY TO KEEP THE NEW 60% PUBLIC DEBT-TO-GDP RATIO TARGET ELUSIVE

The fog of fiscal finances

PRANJUL BHANDARI
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A FOG HAS set over New Delhi: the fiscal outlook for the medium term seems unclear. With the Centre bringing down its primary deficit meaningfully, its debt has been falling. On the other hand, the aggregate state primary deficit has risen meaningfully (from 0.4% in FY12 to 1.3% in FY18). And, more importantly, its borrowing costs have been soaring. Last year, when the much-needed new fiscal rules (Fiscal Responsibility and Budget Management—FRBM) were enacted in Parliament (in March 2018), public debt was made the main anchor of the fiscal framework. They stipulated that the Centre's debt should not exceed 40% and the overall Centre plus states' debt should not exceed 60% by the end of FY25, down from over 70% now. Based on these assumptions, only if the overall government cuts its fiscal deficit by 1.4 percentage points (from 6.4% GDP in FY18 to 5% of GDP) will it be able to reach the 60% debt target by FY25. If divided equally, as suggested by the new FRBM, both the Centre and the aggregated states should run deficits of no more than 2.5%, each, by FY25.

The inconsistencies in expenditure began when several new spending plans with substantial fiscal costs were announced. In an effort to address rural slowing, about 10 states announced farm loan waivers worth about ₹1.9 trillion. And, following a seemingly successful experiment in Telangana, three other states have announced a direct cash transfer scheme for rural India, which is likely to cost ₹300 billion per year. Estimates suggest that if the government were to enact a similar direct cash transfer scheme nationwide, it could cost around ₹2 trillion. However, if it subsumes some pre-existing schemes, the additional burden will be lower than ₹2 trillion. The government has increased the issuance of bank recapitalisation bonds from ₹0.8 trillion in FY18 to ₹1.06 trillion in FY19. Recall that these bonds were first announced in 2017 to recapitalise India's public sector banks. Higher MSPs and a new healthcare scheme are other expenses, though of a relatively smaller quantum. After factoring in this additional expenditure burden, the 60% debt target will be difficult to meet, even if the government is successful in doubling its efforts of fiscal consolidation.

So is it all doom and gloom? Not necessarily. Perhaps GST revenues can fit that bill? At present, GST revenues account for a third of the Central government's tax revenues. Assuming that: (a) this proportion will remain unchanged over the next few years, and (b) that, over that time, the GST reaches a steady state where the Centre's GST equals the states' GST, GST revenues will have to grow higher than nominal GDP growth for the next six years to meet the 60% debt target while still being able to fund additional expenditures. GST collections will need to rise from ₹0.9 trillion today to ₹2.2 billion by FY25, implying a CAGR of 14.2% for 2019-25.

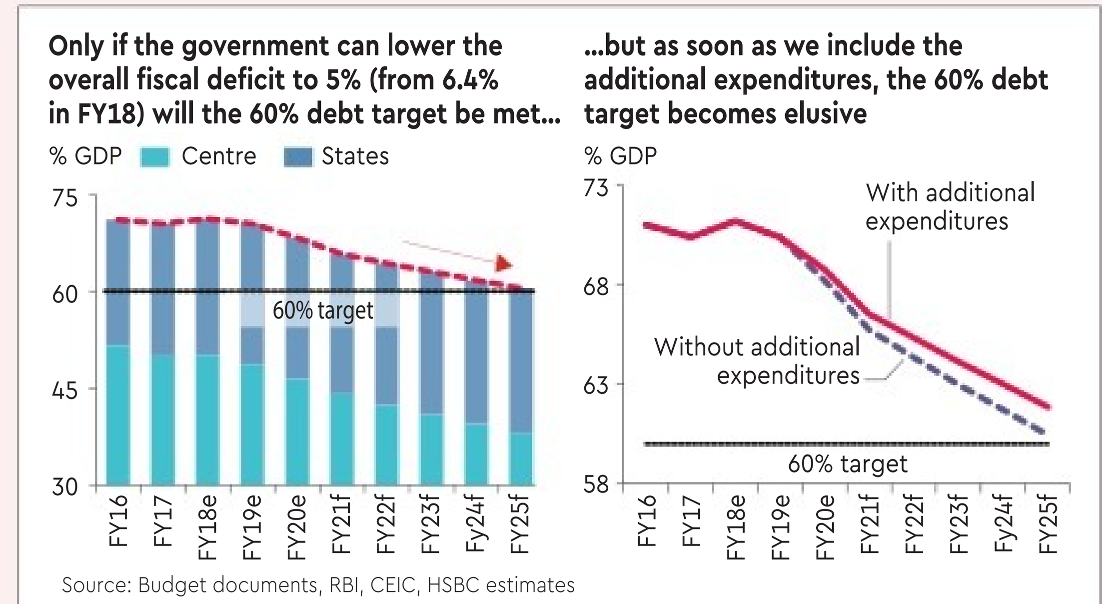
A debate on whether RBI is over-capitalised has been raging for the last few months. This debate is important because it has implications for how much funds RBI can potentially transfer to the government in the current election year and over the medium-term. If, indeed, some excess capital is identified, these are several ways in which it could be transferred to the government over the next few years, with the following implications. One, instead of using some of the current year's surplus to add to the contingency fund, RBI can instead be asked to transfer all of it to the government. Two, RBI may be asked to consider making several accounting changes by which it accounts for a larger proportion of its revaluation gains as profit for the year, and shares it as a dividend with the government. Note that, as per the current practice, it does not account for unrealised revaluation gains as profit.

While these would increase the RBI's pay-out to the government in some years, it does not guarantee a fixed, steady stream of revenues because: (a) RBI's profit/surplus depends on many other factors, for instance the interest rate environment, and (b) the value of the ₹. While a depreciation in the ₹ can lead to higher revaluation gains, the opposite is also possible in any given year. This method of transferring 'excess' capital can also have an impact on incentives. It may incentivise the authorities to pursue policies that weaken the ₹, as that would generate higher revaluation gains. Some pre-existing excess capital in RBI's balance sheet can be transferred as government revenues over one or a couple of years. If higher transfers and thereby higher government spending stokes inflation, however, leading to tighter monetary policy by RBI, it could impose a cost on private enterprise. If the transfer is made by contracting the RBI's balance sheet though (for example, selling government bonds), it could impinge on future interest income from these assets that RBI shares with the government. Excess capital in RBI's balance sheet can, instead, be transferred to the government for writing off government debt. In an economic sense, this is likely to be superior to the previous option because it will not have an inflationary consequence as it does not become a part of RBI's revenue. However, caution that this write-off of India's public debt should not interfere with the definition of debt used by the new FRBM committee. All told, while some of RBI's excess capital could help, it cannot completely be relied upon for reaching the public debt target of 60%.

There is no agency in the government that looks comprehensively at both Central and state, fiscal costs and revenues, and relating them to the fiscal rules that the country has enacted. Without such counsel, the government risks sub-optimal policy decisions. The FRBM committee report of 2017 had called for such an institution, naming it the 'Fiscal Council'. The idea of the 'Fiscal Council' is to create an institution that provides clear analytical inputs and works with the government to deliver better fiscal outcomes, which are necessary for a healthy bond market and higher and sustainable economic growth. It is time this is set up.

Edited excerpts from HSBC's *India: The fog of fiscal finances* (January 10)

Co-authored by **Aayushi Chaudhary**, economist at HSBC Securities and Capital Markets



Source: Budget documents, RBI, CEIC, HSBC estimates

EM junk bonds look good? Think again

Preferring credit is understandable: With the Fed no longer raising rates this year, a major overhang has been lifted for emerging markets' (EM's) dollar issues and stocks, on the other hand, need better earnings prospects, which no one is expecting

SHULI REN
Bloomberg

AFTER A BRUISING rout, emerging-market junk bonds are scaling a golden mountain. Credit seems like the right place to be these days. Since a low in late November, Asia's high-yield corporate bonds have already risen more than 4%, while emerging-market stocks have been trading sideways.

In this lower-for-longer rate environment, junk issues are seductive. Since November, China's real-estate developers—the elephant in the market—have been racing to raise dollar bonds, at the expense of offering average interest payments of about 10%. Meanwhile, because of their high-yield nature, these issuers tend to sell bonds with two-year maturities.

What are the chances a developer will default in such a short amount of time, now that Beijing is loosening credit? The sweet double-digit yield seems worth the risk, the reasoning goes. Think again. If the outlook for junk issuers has improved so much, why aren't they raising bonds at home? With Beijing opening the tap again, they should be able to do so more cheaply. The central bank's more dovish stance has pushed the two-year sovereign yield to 2.6% recently from more than 3% in September. China's high-yield developers have raised close to $15 billion offshore since November, but they still can't finance onshore.

It is possible that Beijing is simply paying lip service by promising to ease the private sector's pain without really opening up the tap. More likely, banks and fund managers in China are too scared to dip in.

To be sure, China's property developers have a lot of dollar obligations to pay off. They have even more in yuan. The sector needs to refinance 6 trillion yuan ($880 billion) worth of liabilities this year, estimates Sinolink Securities Co., a local brokerage. Because of tight financing in 2018, private enterprises will have a particularly hard time servicing this debt. On average, they paid a 7.49% coupon for their bond issues.

There are already red flags in the dollar-bond market. Jiayuan International Group Ltd. issued a one-year bond at 12% in November, before a flash crash that sent its stock down 89%. This real-estate developer operates in tier-two cities at best—in 2018, its average selling price was only 11,292 yuan per square meter—and can generate a return on assets of just 5.7%. How investors believe the company can service a 12% cost of debt is a mystery. Home-price growth in tier-two cities has lost momentum since September.

> **If the outlook for junk issuers has improved so much, why aren't China's real-estate developers raising bonds at home?**

And then there is China Evergrande Group and its insatiable appetite for dollar bonds—even if that means chairman Hui Ka Yan has to buy a substantial chunk himself. The company requires long-time supporter Chinese Estate Holdings Ltd. to prop up its stock and bond offerings.

This week, Evergrande raised another $3 billion of debt, on the heels of $2.8 billion in November by its subsidiary Hengda Real Estate Group Co., which owns the group's property development assets in the mainland. That begs the question of why the company is issuing bonds at the group level this time and how it plans to use its proceeds.

On this week's conference call with investors, Evergrande said funds raised by the parent group may be used for ventures beyond real estate, including tourism, health care and new industries. Lately, the company has been enamoured of electronic vehicles, pledging $2 billion for start-up Faraday Future. This month, the developer paid $930 million for a Swedish electric-vehicle company and over 1 billion yuan for a Chinese car battery maker.

It all feels too familiar: Hui loves branching out into new businesses. In 2013, Evergrande entered the mineral-water market, only to abandon its endeavour three years later because of a heavy debt load.

I get why investors prefer credit to equity these days. Now that we no longer see the Federal Reserve raising rates this year, a major overhang has been lifted for emerging markets' dollar issues. Stocks, on the other hand, need better earnings prospects, which no one is expecting. After all, the International Monetary Fund just lowered its global economic outlook again.

But debt buyers beware. The double-digit yield you're getting comes with lots of strings attached.

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LETTERS TO THE EDITOR

No wall, no way!

As the regime continues to hold its stance and not cave-in, the socio-economy continues to witness adversity as furloughed federal workers have resorted to loan borrowing in order to pay bills/expenses. The longest ever US shutdown has frozen the negotiations and triggered a situation of national emergency. Workers losing out on pay and opposition by lawmakers/financial agencies has aggravated the impact of perhaps the most disruptive shutdown ever. While enforcement of an automatic continuing regulation can prevent the turmoil and avert the potential risk of a depression, the Indian economy might escape unscathed as IT/pharma exports are mostly to private/non-Fed entities. Further, uncertainty in the financial system on account of delayed tapering and higher risk-aversion in dollar assets can facilitate influx of funds in emerging markets and build a positive rupee sentiment

— Girish Lalwani, Delhi

Fitting honour

The move to posthumously award the Ashok Chakra—India's highest peace-time gallantry award—to Lance Naik Nazir Ahmad Wani, who shunned militancy in Jammu and Kashmir nearly two decades ago to join the Indian Army, is a fitting honour for a brave heart. Wani fell fighting hardcore terrorists during an anti-terror operation at Shopian in Kashmir last November. The 38-year-old is also the first army man from the trouble-torn Valley to receive the Ashok Chakra which will be given away to his widow Mahajabeen on Republic Day by President Ram Nath Kovind

— Ravi Chander, Bengaluru

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ILLUSTRATION: ROHNIT PHORE

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The author is an economist. Views are personal

What inflation is RBI impacting?

Barring food and fuel, some categories of the core CPI basket may not be responsive to RBI policy. Certain categories within core inflation seem to have dominance of supply-side factors. Demand in such categories is relatively inelastic and fails to respond effectively to price increases. In other cases, the market structure allows for imperfect competition and arbitrary pricing. Consumers are left with no choice but to pay higher prices. All this makes around 30% of the core inflation relatively ineffective to monetary policy

IN OCTOBER 2018, the Reserve Bank of India (RBI) changed its policy stance to calibrated tightening. This effectively ruled out any possibility of a rate cut in the near future. Back then, the central bank cited risks to inflation from higher MSPs, high oil prices and rising input costs. Then followed the talks of a rate hike to support the weak rupee before the December 2018 policy. Moving on since then, the rupee has strengthened, oil prices have fallen and inflation prints have been the lowest in over a year. The broad expectation on the street from RBI is to hold rates steady in its February policy.

RBI's upper bound of acceptable headline number is 6%. The latest CPI inflation for December came in at 2.2%. The month's trend was no different—being driven by fall in food inflation. Food inflation has made almost a complete about-turn from 2.9% in the first quarter of the fiscal to -2.0% in the third quarter, to average 0.5% in the fiscal so far. Vegetables, pulses and sugars have witnessed a deflation in this year so far. Core inflation (as measured by various metrics) has not followed a similar path and has remained consistent around 6%.

Within core, housing, health and education have witnessed the fastest rates of inflation. Housing inflation is still bearing the impact of the increased HRA under the recommendations of Seventh Pay Commission.

The miscellaneous category has a weight of 28.32% in the CPI basket—over 60% weight in the core CPI basket. Inflation in this category has averaged 5.8%, during the first three quarters of the fiscal. Within this category, items like metal utensils, cookware, electrical appliances and electrical fittings and fixtures have experienced high rates of inflation. Such categories have around 10% weight in the miscellaneous category. One possible explanation for this could be the high inflation in WPI Base Metals. This could be an outcome of an increase in global metal prices and a weak rupee.

Another group within miscellaneous that has reported high inflation is the charges for domestic help and cleanliness workers. More often than not, people working on these jobs usually ask for a salary/wage hike to meet their non-subsistence expenses like kids' education, medical care, hike in kerosene/gas prices, or to meet their conveyance expenses. In a practical scenario, their demand for a hike is often justified and is often met. From a consumer (people availing their services) point of view, it seems only just to pay higher price for their services on moral grounds as well. In addition, the increased outflow on their services usually constitutes a very small portion of the overall household expenditure. What also comes into play is the inflation the consumer itself perceives in the normal, day-to-day life.

Health-related items have around 21% weight in the miscellaneous category. Items like hospital charges, doctors' fees and medicines have seen quite high inflation. The situation of our healthcare sector is very well known. Public healthcare facilities in most places are inadequate both in terms of availability and capability, forcing people to resort to private healthcare. More often than not, people would like to avail the services of the best doctor, sometimes even when the doctor fees might be straining their budgets. Fees and charges of private doctors and hospitals are not regulated. Given the shortage of good public medical facilities, private healthcare has significant pricing power. India's healthcare market is imperfect—oligopolistic pricing can be rather irrational and arbitrary. It also not uncommon for medical practitioners to prescribe such medication to their patients that is often branded and quite expensive, and that fetches them the highest margins from pharmaceutical companies. Yes, we can definitely ask for a cheaper generic with the same formulation, but many of us still want to go with the prescribed medicines and not take any chances.

Transportation fuels (diesel and petrol) account for around 8.2% weight in the miscellaneous category. Changes in these fuel prices are a direct function of global crude oil prices and our exchange rate. The movement in crude oil price impacts inflation directly via the weight of fuel components in the CPI basket and indirectly via second round impact on other items of the CPI basket. Government taxation, too, has some bearing on retail fuel price inflation. Between April to December 2018, Brent crude price has moved in the range $50-86 per barrel. A recent RBI Mint Street Memo by Saurabh Ghosh and Shekhar Tomar quantifies the impact of crude price movement on domestic inflation. Under their conservative estimate, a $10 per barrel increase in crude price at the price of $65 per barrel will lead to a 49 basis points (bps) increase in headline inflation. A similar increase at $55 per barrel gives around a 58bps increase in headline inflation. Other fuel items like kerosene, LPG and coal (under fuel and light category) too have seen double-digit or close to double-digit inflation during the first three quarters.

Inflation in tuition and college fees (having 10% weight in the miscellaneous category) has also averaged 6.8% in the fiscal so far. Inflation in this category has averaged 6.1% since the start of the new CPI series. School and college fees also take a substantial share of households' income. Government schools account for 41.2% of the total secondary schools and 73.1% of the total elementary schools in India. According to the latest ministry of education data, mean achievement score of students at national level (Class 10) for private schools is at least 10% higher than that of government schools across subjects—English, mathematics, science and social sciences. According to a research paper by Geeta Gandhi Kingdon, between 2010-11 and 2015-16, student enrolment in government schools across 20 Indian states fell by 13 million, while private schools acquired 17.5 million new students. Private tuitions and coaching institutes have become too common, formal and commercialised. Parents would like to get their kids educated in the best schools with whole gamut of activities and facilities, even if it means higher cost of a private school as opposed to a cheaper government school. Increased adoption of international educational boards and standards has further pushed up the cost of education. Exorbitant fees and donation in medical and engineering colleges is not unheard of. In the absence of any strong regulation governing the fees charged by private unaided institutes, parents have no option but to pay the high fees.

Theoretically, the monetary policy is targeted at demand-side inflation. Hence, food and fuel fall outside the purview of target of the central bank's policy. Food constitutes 39.06% of the basket and fuel 6.84%. Diesel and petrol under the miscellaneous category is another 2.3%. When money becomes dearer, the demand for certain discretionary items/services should fall and, hence, keep their prices in check. Core inflation (demand-side inflation, computed as inflation excluding food and fuel) is what the monetary policy aims to tackle. As discussed above, certain categories within core inflation seem to have dominance of supply-side factors. Demand in such categories is relatively inelastic and fails to respond effectively to price increases. In other cases, the market structure allows for an imperfect competition and arbitrary pricing. Consumers are left with no choice but to pay the higher price. This makes around 30% of the core inflation relatively ineffective to monetary policy. High inflation in these categories could also be one of the reasons for household inflation expectations remaining high. While the stance and actions of RBI remain very important for the broad economy, it is also worthwhile to keep in mind what portion of its target variable is it actually able to impact, and to what extent.

Going beyond an apple a day

ARINDAM HALDAR

The author is CEO, SRL Diagnostics

Disease prevention is taking centre stage

HEALTHCARE INDUSTRY LANDSCAPE is shifting, and we have seen a shift in mindsets from 'curative' to 'preventive', driven by awareness of rising prevalence of non-communicable diseases (NCD) like cardiovascular diseases, diabetes, chronic respiratory diseases and cancer that account for three of every five deaths—an alarming number given that NCDs are largely preventable and need only lifestyle changes. NCDs are typically present in people aged 55 years or older in developed countries, but their onset in India is happening earlier, at about 45 years of age. Cardiovascular diseases—ischaemic heart disease, stroke—made the largest contribution to total burden of mortality in India in 2016, at 28.1%, and diabetes contributed 3.1%. Compounding this problem is infectious diseases that pose a huge challenge to the health system, resulting in a double burden of having to deal with both NCDs and communicable diseases.

However, awareness is growing fast. A recent survey on diagnostic test results for diabetes found that amongst the working-age population under 40, while the rising trend of diabetes diagnosis had been muted in the last year, the number of people getting regularly tested had risen significantly at 32% annually. This shows that people are being armed with knowledge of diabetes and are working towards ensuring their blood sugar levels stay in control.

Consider cervical cancer. In the US, the incidence of cervical cancer decreased by 54% during 1973-2007, following implementation of a widespread screening programme. In India also, despite having a patchy screening programme, age-standardised incidence of cervical cancer has decreased by 39.7% from 1990 to 2016. This gives us a glimpse of what a robust preventive healthcare mindset can achieve.

This shift places a responsibility on the diagnostics sector that has to improve its services both while front-facing consumers as well as in the laboratory. Last year, diagnostics companies ramped up home collection capabilities in a bid to improve reach. They are also introducing customised tests and technological innovations.

> With importance given to preventive healthcare, it is expected that the pressure on secondary and tertiary healthcare systems will come down significantly

Artificial intelligence

AI can make healthcare system smoother, personalised and more efficient. With heaps of data being accumulated, these systems are goldmines of information for developing AI solutions. Microsoft India and SRL Diagnostics have partnered to expand the AI network for healthcare to pathology. By increasing efficiency in the histopathological analysis of human samples through artificial neural networks, it will be possible for a laboratory to cut down on manual errors and process more samples in a day with higher levels of accuracy. Similar AI technologies have enabled interpretation of complex genomic test results and arriving at a personalised treatment plan easier.

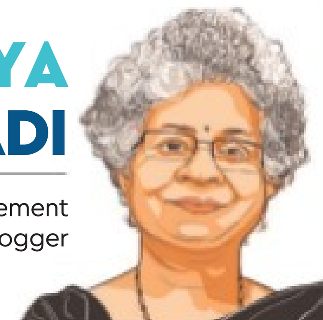
With more importance being given to preventive healthcare, it is expected that the pressure on secondary and tertiary healthcare systems will significantly come down. The biggest advantage of moving towards a preventive, rather than a curative, healthcare mindset is that NCDs are invariably tackled first, and these have a better chance of reversal if detected and managed early.

This year and beyond, for diagnostic labs the main drivers will be continued focus on preventive healthcare, shorter turnaround time through automation, next-gen logistics network, value-added services like AI for personalising test packages and qualifying lab reports, home collection of samples, and establishing connect with customers through handheld devices.

An issue that needs to be addressed is regulation and standardisation. Mid-sized and small labs dominate the industry in India, holding 85% of the market—unlike in most markets globally, where the industry is dominated by large organised chains. As the sector evolves, quality and customer service will become more important and a wave of consolidation in the industry will follow. So, it is imperative the government brings in a regulatory regime and stipulates standardisation principles of diagnostic tests. This will not only ensure a healthier and more productive India, but also remove fraudulent fly-by-night operators from the market.

Dealing with the VUCA world

Both employers and employees are facing the brunt of the VUCA world—VUCA is equal to uncertainty



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VUCA IS AN acronym used to describe the state of business, political, societal and ecological world. VUCA stands for Volatility, Uncertainty, Complexity and Ambiguity. The world is experiencing a crazy spin of events because too many uncertainties have plagued it. Most organisations exist by adapting to complexities and by behaving flexible because they operate in multiple countries. We are seeing new trends in organisational structures seemingly evolving as fast as they can be identified.

Multinationals need to fight tough competition given by local players. Developing economies neither are behind the developed ones, nor show signs of competing with them. Emerging markets are different; they appear backward in some ways and advanced in others. For example, China's telecommunications infrastructure is newer and better than that in most parts of the US. At the same time, approximately 300 million Chinese live on less than $1 a day, according to the World Bank. In India, the educated elite who command international wages flourish in a nation with high rates of illiteracy. In Russia, abundant venture capital coexists with murky property rights and intimidating bureaucratic barriers. These disparities aren't likely to disappear soon, and they're creating unique markets.

Local businesses have fragmented the business world and multinationals have a tough time fighting them. In most organisations, there is a dearth of experienced professionals. Strategies are developed in the boardrooms, which are implemented fitfully. Lack of proper guidance and strong leadership make organisations vulnerable from inside. Many organisations are taking time yet to learn and get stabilised. Both employers and employees are facing the brunt of the VUCA world.

Volatility: It is ever-increasing. Brexit is a good example of the VUCA world. Britain's exit from the European Union took the world by surprise. A consequence of this political factor has affected economics, commerce, regulatory system and emotional perception of the people at large. Britain will be isolated from their major trading partners, i.e. the eurozone. That is surely not a healthy thing for global trade. The real shocks are yet to come.

After Brexit, political and security effects would be more important to the US. The potential economic gains and losses for the US in Brexit are small, apart from the TTIP (Transatlantic Trade and Investment Partnership) arrangement, which would result in substantial economic gains for the US. The US will miss the influence and global perspective that the UK brings to the EU decision-making process, particularly around foreign policy, security and defence. The TTIP is a planned agreement focused on lowering trade tariffs and removing costly regulations on business across the Atlantic. These barriers include labour rights, food safety rules and banking safeguards put into place following the recession.

Syria's war shows no sign of stopping. Syria can be described as several interconnected wars. It's not government-versus-rebels narrative it started out as in 2011. The US pressure on Turkey to deal with the ISIS will actually make Turkey more vulnerable to attacks from terrorist groups.

Brazil is unable to address its growing fiscal deficit. The war between North Korea and South Korea, and the political instability in many parts of world has increased volatility. The geographical, political, ecological, economical changes are too much of a burden on business organisations.

Uncertainty: It is linked to volatility. Making systematically-sound strategic decisions under uncertainty requires mature strategies in a framework for determining the level of uncertainty surrounding strategic decisions and for tailoring strategy to that uncertainty. Smart business organisations are reworking on their decision-making frameworks in which decisions can be executed. Management techniques were always based on assumptions about the future, and the use of planning is a major tool of management control. In today's world, they are made for the present. Mergers, acquisitions and takeovers have reached a peak globally because firms are seeking to position and reposition themselves.

Complexities: Globalisation has pushed the boundaries of doing business, which has only created a wide gap between developed and underdeveloped markets, increasing the competition from new entrants. Globalisation has put pressure on businesses of all sizes to tap international customer base. From a technology point of view, businesses need to review all processes and see how their legacy and systems can cope with. The biggest fact today is that the start-ups are giving competition to established businesses in many sectors; bigger and established players are dumbfounded due to creativity and innovation from smaller firms. Organisations today need 24x7 innovative pool of employees, those who can just keep innovation pumping at all levels of business.

Ambiguity: Too much of information keeps pouring in from everywhere, creating more and more ambiguity. Customers have a lot of information and they are confused about what to buy, how to buy, from where to buy, at what price to buy. For any given product, there is substitution. Customer loyalty is out of business dictionary. Everything has become complex: marketing, sales, pricing, operations, R&D, a firm's infrastructure, supply chains, buyer behaviour, big data systems, economic models, getting finances ... everything is challenging. Due to random organisational structures, the authority and responsibility lines have becomes blurred, which creates a big leadership challenge. Due to blurring responsibilities of managers, internal complexities keep growing in organisations. Employees get busy playing the blame game and politicising the work atmosphere. The same is with governments—blurring responsibilities gives way to non-transparency in systems. Globalisation has paved way for a growing number of multichannels at all levels, from governments to citizens, and each is stumbling with their own set of priorities and responsibilities. The conclusion: VUCA is equal to uncertainty.