QUICKLY

ICICI Lombard, MobiKwik in tie-up

New Delhi, March 18

ICICI Lombard General Insurance, a leading non-life insurance company, has entered into a strategic partnership with MobiKwik, a digital financial services platform, to provide cyber insurance cover for the latter's mobile wallet users. The relationship aims to provide protection against unauthorised and fraudulent transactions online, across bank accounts, debit/credit cards and mobile wallets. The cyber-insurance can be availed digitally through the app at only ₹99 per month and with a sum insured of ₹50,000. The policy's validity is only for one month. As on date, MobiKwik has about 10.7 crore users in India. MobiKwik users can enroll under this insurance product at the time of loading money into their wallet or in a standalone format, as per their wish. OUR BUREAU

Central Bank to raise up to ₹270 cr

New Delhi, March 18

State-owned Central Bank of India will raise up to ₹270 crore by issuing shares to its staff under the employee share purchase scheme (ESPS). The bank's board, on Monday, approved a proposal to raise equity capital by issuance and allotment of up to 10 crore shares at the issue price of ₹27 per share to eligible employees, Central Bank of India said in a regulatory filing. The Central Bank of India stock closed 0.44 per cent down at ₹33.85 on the BSE on Monday. PTI

Tight liquidity in domestic market sees MFIs raising $53 m via ECB in FY19

Small and medium MFIs have been hit most ever since the IL&FS crisis broke out

NARAYANAN V

Chennai, March 18

External commercial borrowings (ECB) of micro finance companies witnessed a three-fold jump to touch $53 million during the current financial year, even as tight liquidity in the domestic market continues to hurt the industry, particularly small and medium institutions.

Traditionally, banks and money-market instruments are the major sources of borrowing for non-banking financial companies/micro finance institutions (NBFC-MFIs), while some large and well-managed MFIs occasionally tap overseas borrowings through non-convertible debentures (NCDs) and ECBs.

But small and medium MFIs that count NBFCs as their major source of borrowing have been hit hard by the liquidity shortfall, with banks and mutual funds having reduced their exposure to the sector ever since the IL&FS crisis broke out.

"Banks' lending to NBFC-MFIs qualifies for priority sector lending; hence, the larger MFIs are in a position to raise debt, but small- and medium-sized MFIs are affected with this structural shift," said Milind Nare, Chief Financial Officer, Arohan Financial Services.

The Kolkata-based NBFC-MFI raised $15 million through ECB during the current financial year, and expects its overseas borrowing to go up further if the liquidity crisis in the domestic market persists.

Realigns lending strategy

Although mutual funds have not reduced their exposure to NBFCs on a great scale, it had realigned its lending strategy to focus on less-risky or larger lending companies backed by PSUs or a strong corporate brand.

"The appetite of mutual funds for instruments floated by NBFCs has reduced, forcing them to approach traditional banks for credit limits," said Nare.

Small and medium MFIs, which offer financial support to low-income households in rural hinterlands, are also seeing their borrowing costs going up due to limited liquidity in the market.

"Earlier, small MFIs were borrowing at 13.5-14 per cent, but now, in some cases, it has even touched 16 per cent," said an industry veteran.

While leading MFIs agree that the cost of borrowing has gone up, they also add that the IL&FS crisis had no impact on the industry, which is protected by a strong asset-liability management (ALM) mechanism.

"Small MFIs dependent on NBFC funding are affected to some extent, but they were able to manage the liquidity crisis by securitising their portfolios," said Udaya Kumar Hebbar, MD and CEO, Credit Access Grameen.

"Some of the MFI lenders also provided wholesale lending to smaller MFIs during the crisis," added Hebbar.

Small and medium MFIs see NBFCs as their main source of borrowing ISTOCK

Positive ALM mismatch

Credit Access Grameen, which has made the highest ECB borrowing of $19 million, said it did not face any liquidity crunch due to its positive ALM mismatch.

"Overseas borrowing through NCDs and ECBs has been part of our diversification strategy since 2012-13, and it contributes close to 30 per cent of our overall borrowings," said Hebbar.

Upgraded version of HDFC Bank's mobile banking app launched

SURABHI

Mumbai, March 18

Private sector lender HDFC Bank has relaunched the upgraded version of its mobile banking application (app), which was pulled down weeks after its launch in November.

"Customers can install the new version of the app, which is available on both Google Play Store and Apple App Store," said a person familiar with the development.

HDFC Bank did not respond to an e-mail query sent by *BusinessLine*. The private sector lender had launched the next-gen mobile banking app with over 120 transactions and features such as biometric login on November 27 last year, but withdrew it after many users complained of malfunction while logging in.

It had restored the older version of the app and had said that customers who had deleted the older version in order to install the new version would not be able to use the app till further notice.

This time around, the relaunch of the upgraded app has been on a quieter and cautious note. In November, the app was launched at the bank's annual Digital Innovation Summit 2018 in New Delhi.

However, sources said that during the review, no bugs or security problems were found.

"It seems to have been more of a pipeline problem as no one anticipated the number of people who would download the app," said the person.

The private sector lender is understood to be keeping a close watch on the app, although there has been no large-scale problem till now.

As on September 30, 2018, HDFC bank had 4.3 crore customers. Its mobile and internet banking reach had expanded from just 3 per cent of its customer base in 2008 to 85 per cent in 2018.

The HDFC Bank scrip gained 0.44 per cent and closed at ₹2,261.45 apiece on the BSE.

With surge in cyber attacks and bribery charges against staff, banks up cover for directors/officers

SURABHI

Mumbai, March 18

Faced with rising risks of cyber frauds and charges of bribery and corruption against senior officials, banks are ramping up their insurance cover in a big way, with some policies even crossing the ₹100-crore sum insured mark. And it's not just the larger public sector and private lenders that are seeking adequate protection, rural and co-operative banks too are in talks for insurance against various risks.

According to insurers, with governance and regulatory problems surfacing in the last one year, banks, especially state-run lenders, have upped their cover for directors and officers' (D&O) liability insurance as they want better protection with fewer exclusions.

"Earlier, banks were taking minuscule covers. There was very little awareness; most banks didn't know how to claim them or understand the coverages. But, as we become more litigious, as the government action becomes so much more onerous and the onus on directors sometimes after they have left the job or retrospectively becomes huge, banks are looking to be adequately covered," said Supriya Rathi, Promoter Director, Anand Rathi Insurance Brokers.

While traditionally such policies were taken for ₹5 crore to ₹10 crore, they are now seeking sums insured of at least 10 to 15 times more, with larger lenders even looking at over ₹100 crore.

Banks are also looking for more customised policies with fewer exclusions, and are seeking cover for lifetime protection of their directors even after they retire, said Rathi.

Similarly, they also want cover against allegations of discriminatory actions in the workplace, and bribery and corruption.

The development comes at a time when directors and officials of many public and private sector lenders are under scrutiny for decisions regarding sanctioning of loans.

"Earlier, some of the large PSU banks bought D&O policies for namesake without adequate coverage," noted Manoj Kumar AS, Senior Vice-President, and Head, Liability Insurance, Global Insurance Brokers, adding that now D&O policy is becoming a must, given the way in which governance and regulatory disclosures are changing across the globe and shareholder activism is rising. "If there is any legal issue, to have adequate protection to protect themselves, such a policy is mandatory," he said.

Cyber insurance

Concerns over cyber risks are emerging, especially after the ₹94-crore cyber attack on Pune-based Cosmos Cooperative Bank last August.

According to Rathi, apart from large commercial banks, even rural and cooperative banks are now in talks for policies against cyber attacks.

Since risk is omnipresent regardless of the size of the institution, "they know that they are vulnerable", she said, adding that a number of co-operative and rural banks are now discussing such covers.

Rupee retains momentum on 'strong' foreign money inflow

CURRENCY CALL

GURUMURTHY K

BL Research Bureau

The Indian rupee, which is retaining strength, continues to gain momentum. The currency has strengthened, breaking above 68.45 as expected. Indeed, the rupee has strengthened much beyond the expected level of 69.1 mentioned in this column last week.

The currency breached the key psychological level of 69 and surged to a high of 68.44 on Monday before closing at 68.53, up 1.97 per cent for the week.

The inflow of foreign money into the equity segment has been helping the rupee remain strong against the dollar. Foreign Portfolio Investors (FPIs) bought $2.2 billion in Indian equities, and $1.2 million in the debt segment last week. Indeed, FPIs have poured over $5 billion in the equity segment over the last three weeks alone. This has put the Indian benchmark indices, the Sensex and the Nifty 50, on a strong note. The indices are bullish and there is a strong likelihood of the indices revisiting their previous highs in the coming weeks. Strong equities will, in turn, push the rupee further higher against the dollar in the coming weeks.

Fed meeting

The US Federal Reserve monetary policy meeting is scheduled this week. The outcome of this meeting on Wednesday will be significant to see if there is a change in its stance on the rate-hike front. It will be important to see the Fed's comment on global economic growth at a time when other major central banks are revising their respective region's growth prospects. European Central Bank (ECB) has revised the growth outlook of the Euro region substantially lower to 1.1 per cent from its earlier forecast of 1.7 per cent. The ECB has also announced a new stimulus programme. Any hint from the Fed to slow down the pace of interest rate hikes will trigger a sharp fall in the dollar.

The rupee breached the key psychological level of 69, and surged to a high of 68.44 on Monday before closing at 68.53

This, in turn, will be positive for risky assets such as equities and non-dollar currencies. It could push the rupee further higher against the dollar.

The strong gap-up opened above 69 on Monday, and a subsequent break of 68.86 – the 50 per cent Fibonacci retracement level – is a positive for the rupee. This has strengthened the upmove in the rupee which has been in place over the last few weeks. The level of 68.86 and the region between 69.1 and 69.2 will now act as a strong support. As long as the rupee trades above 68.86, the bullish outlook will remain intact. There is a strong likelihood for the rupee appreciating further to 68.3 and 68 in the near term.

A further decisive break above 68 can take the rupee higher towards 67.55. The level of 67.55 – the 61.8 per cent Fibonacci retracement support – is the next crucial resistance for the rupee. As long as the rupee trades above 69.2, an upmove to test even 67.55 cannot be ruled out over the medium term.

Is the RBI chief stuck between a rock and a hard place?

OPINION

ANDY MUKHERJEE

March 18

Several theories explain why India's new central bank governor took his boldest step yet. Little attention has been paid to the consequences.

Last week, Governor Shaktikanta Das made an unexpected tweak to the Reserve Bank of India's traditional management of longer-term liquidity in the banking system: by buying and selling government bonds. India's currency, sovereign-debt, and credit markets were caught off-guard by the announcement of a three-year, dollar-rupee swap.

The RBI will buy $5 billion from banks for its reserves by giving them rupees, and reverse the trade in 2022. This preemptive move would prevent the currency's appreciation, according to one theory.

The central bank may want to scoop up incoming dollars from ArcelorMittal's long-awaited $5.8-billion cheque for Essar Steel India, lest the rupee strengthens from an oversupply of greenbacks. That payment should be coming in now that the Ruia family, former owners of the bankrupt asset, is almost out of legal options to prevent the sale. (Footnote: I remain sceptical of a resolution before the next general elections are over, and a new government is formed.)

Non-banking entities

Another hypothesis ties the swap to elevated funding costs for non-banking financiers.

The real economy, which is already slowing, could be in trouble if shadow lenders are forced to turn off the tap for builders amid a glut of unsold apartments. In this line of thinking, the RBI's move aims to ease financial conditions.

That's not far-fetched, with the biggest arranger of Indian corporate debt warning of a crisis in credit markets. However, there's a third view, which sees the swap spurring demand for lacklustre government bonds.

Long-term yields continue to be stubbornly high. Banks could use the rupees they get by selling dollars to buy sovereign notes. To the extent their purchases push yields lower, they get to book mark-to-market gains or cut losses on their asset portfolios by March 31, the end of their financial year.

However, it does not matter whether the RBI had currency, credit or interest rates in mind. What's more relevant is how the new liquidity-management tool will shape expectations of what comes next.

Bond market

Now that the central bank is buying dollars to create domestic liquidity, will it continue to snap up as many Indian government bonds?

The purchases in the current financial year have topped $42 billion. Traders expect these to be dialled down, starting from April 1.

If the reduction is large enough to offset the $5-billion infusion, bond investors get nothing in the net. They may remain cautious about buying 10-year government bonds, given the risk of fiscal slippage next year is high.

Much of the massaging of headline fiscal deficit, for instance, by pushing a chunk of the government's borrowing off-budget, will be reversed once the poll results are in. The bond market has not failed to notice that a state-run telecom company has delayed salaries; hard-to-privatise national carrier Air India is on perpetual life support; and that state-run banks' balance sheet repair job is proving longer and more expensive than the government expected when Prime Minister Narendra Modi took office in 2014.

Shaktikanta Das, Governor, Reserve Bank of India

Put another way, the benchmark 10-year bond yield may remain sticky even if inflation doesn't accelerate.

To that extent, the dollar swap may be ineffective in the government-bond market, though it could help ease the private sector's worsening credit crunch.

Where the swap could do damage is the currency market. A steeper yield curve might attract foreigners to tactically buy into high long-term yields. Now that Das is acquiring dollars in bulk via long-term swaps, the market may expect him to purchase less in the spot market. A one-off swap to stanch rupee appreciation could thus end up being foreign investors' invitation to push the rupee uncomfortably higher on a daily basis.

But what is the alternative to the Das put? If the RBI keeps buying government bonds, it surrenders its power to teach the government a lesson in fiscal arithmetic. Regardless of who wins on May 23, the next administration is expected to take a hard left turn. More unfunded programmes will be unveiled.

Aficionados of modern monetary theory may say deficits don't matter, but unlike the US, India's private and public sectors together can't borrow all they need in their own currency. Besides, inflation which MMTers accept as the only constraint on government borrowing, isn't as well-anchored as in developed nations. Volatile food and fuel prices still dominate consumers price expectations.

A stooge of America

On the other hand, if the RBI stops resisting day-to-day rupee appreciation, and steps in only periodically with bulk dollar buying via swaps, an overvalued rupee will usher in a short-lived asset-price boom, followed by a bust. After all, fiscal and monetary policies can be coordinated locally, and politicians longing to reclaim their power to freely print money can be ignored. But how does Das ask Federal Reserve Chairman Jerome Powell to guarantee that the dollar won't resume its upward march?

A $5-billion swap is harmless enough. Any more and Das would become as villainous, in the eyes of the politically dominant Indian nationalist thinking, as his two immediate predecessors for turning India into a stooge of America. The RBI's new boss is stuck between a rock and a hard place. BLOOMBERG

Affordable home loans under PMAY, a hit with middle-income customers

G NAGA SRIDHAR

Hyderabad, March 18

Subsidised home loans under Prime Minister Awas Yojana (PMAY) have become popular among the middle-class, and are driving loan growth for banks.

"PMAY loans have been one of the drivers for overall growth of home loans. We are witnessing a 20 per cent growth year-on-year in this segment," Ajay Kumar Srivastava, Executive Director, Indian Overseas Bank, told *BusinessLine*.

A major factor that attracts middle-income customers to these loans is interest subsidy, he added.

"The scheme is an enabler for the spurt in affordable home loans, and there has been good response," said J Swaminathan, Chief General Manager, SBI, Hyderabad circle.

The main customers are those who have an annual income in the range of ₹6 lakh to ₹18 lakh under the two middle-income groups of the scheme.

"Now, they have made it mandatory for capturing the information of customers of home loans so that the eligibility can automatically be noted," said Swaminathan.

Subsidy amount

PMAY loans carry a subsidy amount of up to ₹2.67 lakh, with a much lower interest rate of 6.50 per cent per annum.

The credit-linked subsidy, at 4 per cent, will be available for loan amounts up to ₹9 lakh in the case of middle-income group (MIG) -I and, at 3 per cent, for loans up to ₹12 lakh in the case of MIG-II.

However, banks can sanction home loans more than ₹9 lakh or ₹12 lakh, but the subsidy will be restricted to ₹9 lakh or ₹12 lakh, as the case may be.

For SBI, housing loans, including affordable housing loans under PMAY, have been driving growth in retail advances. In the third quarter ended December 2018, SBI posted a 16.4 per cent growth in its home loan portfolio.

PNB has also been witnessing growth in small-ticket advances in housing, along with other retail loans, which have gone up 15 per cent.

According to a report by the RBI, affordable housing loans (especially housing loans up to ₹10 lakh) have been witnessing robust growth from 2016-17 onwards.

At the same time, the number of beneficiaries of higher-value home loans of above ₹25 lakh have come down.

Do away with KYC for low-value digital payments: Nasscom to RBI committee

KR SRIVATS

New Delhi, March 18

Nasscom wants policymakers to equate low-value digital transactions with cash and do away with the need for know-your-client (KYC) requirements for such transactions.

For low-value transactions, Nasscom does not want KYC to be mandated. Any transaction between ₹2,000 and ₹5,000, should not cause systemic risk, and the government should promote digital payments in the same level as cash is promoted, said the industry body. Right now, KYC is triggered at every level and there is no zero KYC for digital transactions.

Clear framework needed

In its recent presentation to the Nandan Nilekani-headed RBI committee on digital payments, Nasscom also demanded a clear framework by which a fintech company could adopt e-KYC solutions without fearing regulatory questioning or intervention at a later stage.

"Currently, in the fintech space, there is great uncertainty around e-KYC. Only for banking and telecom things are clear after the ordinance.

"Online authentication through e-KYC is not permitted for other fintechs, and for them to use Aadhaar e-KYC, they need to get approved from the Central government. There is no clarity for such fintechs on what e-KYC they can use and on what basis the Central government will approve the new e-KYC for such fintechs," Ashish Aggarwal, Senior Director and Head Policy Advocacy, Nasscom, told *BusinessLine*.

The Aadhaar ordinance says the Centre has the power to notify the modes of e-KYC.

"Now what mode of KYC the Centre can notify we don't know. So, we have told the committee to lay down the principles to say that if any mode satisfies the specified 2-3 conditions, then the Centre should create a framework where that mode gets approved."

There is a need to tell the industry and consumers at large about the valid e-KYC that would be acceptable to the RBI and financial sector regulators, he said.

"The approved e-KYC could be tone-based e-KYC, iris-based e-KYC, Aadhaar based, or digi-lock-based. We don't want an exhaustive list. But there should be an objective process – based on set standards – to approve future new solutions that fintechs may come up with," he said.

Subsequently, there should not be any demand from the authorities for paper KYC 5-6 months after a customer goes through e-KYC.

Nasscom has also urged the RBI-appointed committee to create more use cases to drive digital payments. To drive usage, there is a need to shift focus to use cases. Today usage is focussed only on shopping. "If you want to make usage more prominent, then focus on mobility and transit. Unfortunately, industry can't solve all the pieces in the areas of mobility and transit. There are so many government departments that have to move together," said Aggarwal.