Opinion

WEDNESDAY, OCTOBER 30, 2019

TICKET TO EDUCATION

Chief minister of Delhi, Arvind Kejriwal

"Girls and women who had to drop out of schools and colleges because of high transportation cost don't need to sacrifice their education. They can now take buses to good schools and colleges"

RationalExpectations

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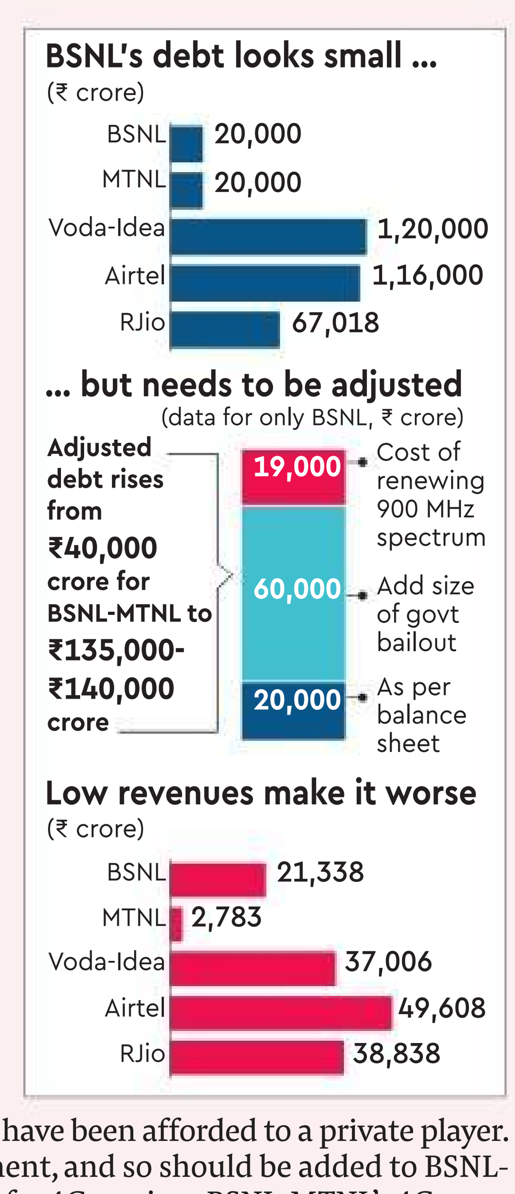
Let's get realistic about BSNL revival

After cost-of-revival package is added, BSNL's debt rises four times; also, costs are understated and revenues overstated

EVER SINCE THE press critiqued the government's ₹70,000 crore bailout package for BSNL-MTNL, BSNL supporters have called it ill-informed, and one-sided; it does not, for instance, take into account the tens of thousands of crores of private telecom debt that PSU banks will have to write off. Indeed, if the debt owed by telcos to the government is added, the figure could runs into lakhs of crores; while companies like RCom and Aircel are already in the insolvency courts, many believe Vodafone-Idea is running out of funds to sustain operations. And, after the Supreme Court judgment on AGR, you can add another ₹1.33 lakh crore to private sector telecom debt. Put that way, the argument is a sound one: why is writing off private sector debt okay, but a bailout for the public sector problematic?

But, before BSNL's top brass, and the politicians, start trotting this out, a reality check may not be a bad idea. While no one supports private sector telcos reneging on lakhs of crores of debt—the spectrum-payment obligations to the government, of course, will be recovered as the spectrum will revert to it in the event of default—that does not justify losing money in a no-hope bailout. One bad deal in the past cannot possibly justify another one. It is a big risk if, after BSNL's turnover falling by over a third over the last four years, the turnaround plan projects revenues rising by two-thirds over the next four years. This, in an environment where, thanks to RJio's pricing, it is not clear if the bloodletting is over.

Nor is it quite correct to look at BSNL's low debt as a sign of it being healthy relative to the private sector; if BSNL's debt is low, it is because it has comparatively little capex and spectrum. In fact, once the ₹60,000 crore bailout package—₹70,000 crore if you add MTNL—comes through, its cost needs to be added to the debt since, had BSNL not been a government company, this would have been financed by taking on fresh debt.



There's more. The revival package allocates ₹15,000 crore—this money is to be raised by the PSUs based on a government guarantee—for capex. But, while this is to be spent on other things as well, it is unlikely that even a modest 4G network can be set up at less than double this amount. So, for a full pan-India 4G rollout, the government is likely to have to pump in more money.

Interestingly, when MTNL's 900MHz spectrum expired in April this year, the government extended the licence till January 2021; something similar has been done for BSNL. Fresh renewals would cost MTNL ₹8,000-9,000 crore, and BSNL ₹18,000-19,000 crore. While the government justified the extension by arguing that neither PSU got to use its spectrum at the time of allocation due to policy issues, it is unlikely a similar extension would have been afforded to a private player. This renewal will also be paid for by government, and so should be added to BSNL-MTNL's debt. If it is not renewed, and then used for 4G services, BSNL-MTNL's 4G spectrum will be much less than that with rivals like RJio, Bharti Airtel, and Vodafone-Idea.

The costs don't stop here. BSNL-MTNL subscribers will have to increase their monthly-spend considerably if they move to 4G; while it is not clear they can afford to do that, they will also need to buy new handsets since they cannot use their current feature phones on 4G networks. RJio subsidised the 4G handsets (JioPhone) to facilitate the move to 4G; if BSNL is to do the same, it may need to incur similar costs.

The assumptions on revenue growth—a 66% hike over the next four years—we've said, is optimistic. But, even if that happens, is that enough to make BSNL profitable? According to the presentation made to the Group of Ministers, BSNL's wage costs are 60% of its turnover—this is 87% for MTNL; the actual number, though, is 77% for BSNL if you go by the more detailed annexures in the presentation. Even if you accept the lower figure, the wage-to-income ratio is 63% for the combined entity; it is 78% based on the real figure for BSNL. Going by the projected revenue given in the presentation, and assuming (incorrectly) that there is no hike in salary costs, this means staff costs will be 35% of revenue in FY26. Take the most aggressive estimate for staffers taking VRS, and assume the wage bill gets halved as a result—the VRS planned is for 50% of the employees over 50-years of age, so a more aggressive VRS requires greater funding. Even if that happens, BSNL-MTNL's wage costs will still be over 17% of turnover compared to 3-5% in the case of most of its private sector competitors.

Given how the expenditure in the revival plan seems horribly understated, and the revenues quite overstated, the very least the government needs to do is to make public the exact assumptions made; if the arguments made in this column are incorrect, the government needs to show how that is the case. Indeed, since this is valuable public money that is being spent, both Parliament—through some standing committee—as well as the CAG should be examining the assumptions to see if they hold water. Otherwise, in the grand tradition of all bailout packages, this too will be followed by another, most likely much bigger, one.

KashmirCONUNDRUM

Letting European lawmakers visit J&K internationalises the issue; besides, it is odd since Indian MPs couldn't go

WHILE THE GOVERNMENT'S decision to allow a group of members of the European Parliament (MEPs) to visit Jammu & Kashmir "to talk to locals and assess the on-ground situation" is aimed at changing the international narrative on the region, it is a big gamble. An official statement issued by the PMO after the MEPs' meeting with the prime minister reads, "Their (the MEPs') visit to Jammu and Kashmir should give the delegation a better understanding of the cultural and religious diversity of the region of Jammu, Kashmir and Ladakh; apart from giving them a clear view of the development and governance priorities of the region." While there is always the possibility the group may not endorse India's view, if it does, many will point to the group's constitution: many of the parties the MEPs represent are seen as xenophobic, and anti-Islamic. There is also the issue of how foreigners were allowed while Indian MPs weren't.

Also, while it is clear the situation hasn't normalised—doing so can take months given the level of the militancy—inviting the MEPs looked half-baked anyway. Against such a backdrop, it is hard to fault former Union minister Jairam Ramesh when he terms allowing MEPs to visit J&K while preventing Indian lawmakers from doing the same as "an outright insult to India's own Parliament and our democracy". It doesn't help that the visiting MEPs are not an official European Parliament delegation, but are on a 'private' visit. Ironically, with the prime minister and other senior officials meeting the MEPs, it is possible to argue the issue has been internationalised; while the visit closely follows the US Congressional hearing on the Kashmir lockdown, the government's action could lead to requests for fact-finding missions from UN bodies (UNHRC, for instance), international NGOs, etc. What that could lead to is anybody's guess.

NPA AILMENT

REVERSAL IN NPA CYCLE COULD SPELL DISASTER. DOUBTS COULD RESURFACE ABOUT DISCLOSED ASSET QUALITIES, AND RETURN TO PAST BEHAVIOUR BY LENDERS LIKE EVERGREENING ASSETS

Financial sector fragility persists

RENU KOHLI
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Views are personal

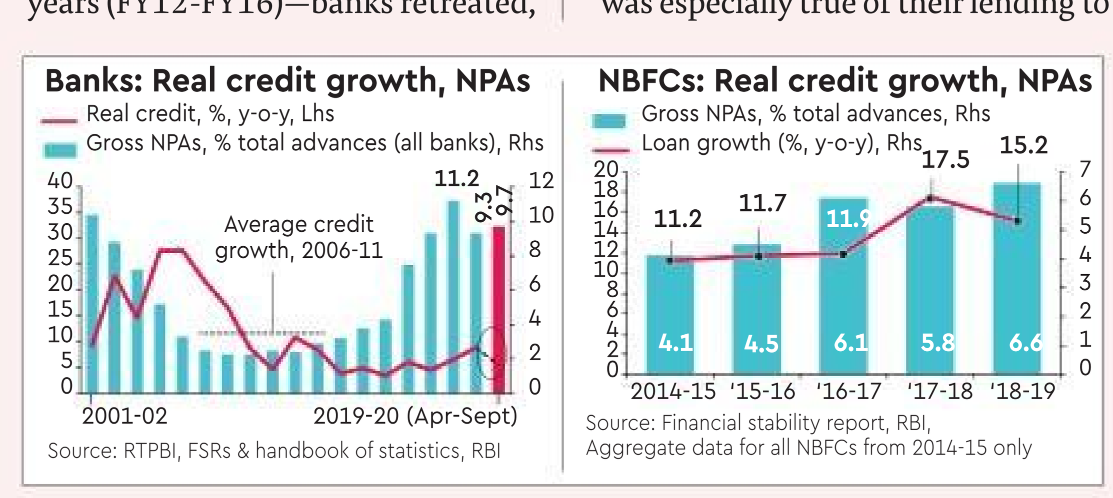
IS THE NON-PERFORMING asset cycle beginning to reverse after a brief spell of improvement? Nascent signs have appeared, even though an enduring setback is not yet visible. The Reserve Bank of India reported, recently, that credit quality deteriorated in June 2019, with rise in stressed and NPA ratios in all sectors except industry (*Monetary Policy Report*, October). Although the central bank did not provide numbers, charted trend shows the gross NPA ratio closer to 10% from 9.3% in March, which represented a four-quarter successive decline. It was only a quarter ago that RBI stated NPAs seemed to have turned around (*Financial Stability Report*, June 2019). A *Jefferies* report in early October predicts a second wave of NPAs seeing significant divergence in ratings and financial health of some stressed corporates, adding that asset quality deterioration risk has risen, following a shift in lending to bottom-end customers from non-banks to the banks. Then, September quarter results indicate fresh stress, special mention accounts, NPAs, and provisions for several banks.

These are early signs, possibly mirroring weak demand conditions. It remains to be seen if the deterioration persists, leading to an enduring increase in gross NPAs. The aggregate NPA ratio may not necessarily reflect the increased underlying stress ahead: post-June 2019, the revised RBI framework for resolution of stressed assets expects lenders to initiate resolution even before a default, giving complete discretion for any decision including reorganisation, sale, and restructuring. One is not sure if financial intermediaries (non-banking financial companies or NBFCs, and small finance banks are now included) will engage in more restructuring to alleviate stress than recognise such assets as NPAs. Evolving developments indicate a tilt towards restructuring or disposal of stressed assets; lenders increasingly prefer to avoid the IBC path as unanticipated complications at the forum prolong resolution, and increase uncertainty. Moreover, the underlying stress in MSME loans will remain unrecognised from the one-time restructuring allowed for specific defaults classified as standard assets on January 1, 2019 up to end-March 2020.

These counters could keep the lid on NPAs, preventing a full-blown reversal of the cycle. Nonetheless, the emergent setback cannot be taken lightly in the context of intense strains in the financial system, which is visibly vulnerable to frequent defaults in fresh trouble spots, e.g., real-estate exposures of banks through NBFCs. Besides, increasing the extent of restructured or reorganised loans—with or without approved additional financing—is a sure sign of persisting financial fragility. It is significant that this transpires after substantial resolution efforts, and recapitalisation of public sector banks. If economic conditions continue to deteriorate, i.e., the expected recovery from October-December quarter does not materialise, a reversal in the NPA cycle could be a serious blow. This would add to the lingering presence of past NPAs, portending a perpetuation of a pattern that eventually ends in reduced lending.

Take the case of banks first. Charted trends show brisk credit growth (in real terms) in first round; this is followed by rising NPAs; real credit then slows down, or even comes to a standstill in some cases, as balance sheets are too weak for further lending. In 2006-11, real credit growth averaged 12% annually; NPAs followed with a lag, after which the pace of real credit slowed to an average 4.5% for four successive years (FY12-FY16)—banks retreated, short of capital to fund further growth with increased provisioning needs. As recapitalisation and resolution delays were addressed, the pace of real lending picked up to about 9% last year. But, in April-September 2019, real credit growth slowed again to 5.5%, down 1.6 times over a corresponding 9.1% one year ago; NPAs have started increasing. A sustained setback could result in a further lending slowdown, unless capital is quickly augmented.

NBFCs illustrate similar patterns (see graphic). Consolidated data for all NBFCs exists only from 2014-15, but it can be seen that an average 11.6% real growth in loans in FY14-FY16 shot up to 17.5% in 2017-18, followed by 15.2% last year, as NBFCs rapidly expanded lending, replacing banks. An almost five-point jump in real credit growth in this period is accompanied by a 1.5-2 percentage point jump in their gross NPA ratio, reversing the moderation in 2014-15. In 2017, RBI observed that their double-digit credit growth "has improved resilience and stability of the economy by filling up the financing gap opened up by the muted bank credit growth from 2014-15" (*Report on Trends and Progress in Banking in India*, December 2017), reaffirming last year that "the slowdown in SCBs' credit growth...provided a fillip to loan companies as substitution effects provided tailwinds. This was especially true of their lending to commercial real estate, consumer durables, and vehicle loans" (*RTPBI*, December 2018).



Source: RTPBI, FSRs & handbook of statistics, RBI

Source: Financial stability report, RBI, Aggregate data for all NBFCs from 2014-15 only

NBFC lending began to slow late last year, triggered by the IL&FS default that led to close scrutiny of funding sources, asset-liability mismatches, and exposures. For the current year, aggregate NBFC loan data is unavailable yet, but NBFC credit growth is reportedly declining 3-4 percentage points; new financing contracted ₹1.26 trillion in April-mid September against ₹412 billion correspondingly a year ago.

From the viewpoint of financial stability, matters are equally concerning. The June 2019 re-examination by RBI (*Financial Stability Report*) highlights extensive interconnectedness risks: *inter alia*, banks' exposure to NBFCs increased 9 percentage points in June 2017-March 2019; NBFC credit to four consumer credit sub-segments grew 20% CAGR in two years to December 2018, with retail assets as key drivers of portfolio size, growth, and delinquencies in asset finance and loan companies; NBFCs lead delinquency levels in almost all consumer credit sub-segments, applying the 90-day norm. Recently, RBI said "the events of 2018-19 showed there was irrational exuberance and considerable overleveraging, with asset-liability mismatches" (*Annual Report*, August 2019).

In a context of visible vulnerabilities within the financial system, a sustained increase of gross NPAs or the alternate build-up of restructured/reorganised stressed loans could have adverse consequences that could be more severe than they have been in recent past. Doubts could resurface about disclosed asset qualities, and return to past behaviour by lenders, like evergreening assets; equally, a loss of faith in IBC is not a good augur. If past patterns are a pointer, rising NPA stress could morph into a further lending slowdown by both banks, and non-banks. Growth repercussions could be felt beyond credit supply. For instance, the credit channel that is still not fully operational may remain so, blocking full transmission and negating the positive impulse expected from monetary policy. The chain effect loops back to the fiscal side if further recapitalisation is needed to unclog credit pipelines. The persistence of financial fragility could indeed be a long and severe drag.

Golden age is ending in India

India's outsize role in the world gold market isn't going to disappear overnight. Still, this change in gold demand should be a warning to investors

DAVID FICKLING
Bloomberg

THE WORLD'S MOST important gold market isn't what it used to be. Just a decade ago, India's hunger for gold jewellry and bullion meant it accounted for about a quarter of global demand. Consumption has since fallen by about 24%. Ahead of Sunday's Diwali festival, when purchases traditionally peak, imports in September fell to their lowest level in three years.

Part of this is a reaction to short-term pricing factors. Buyers tend to stay away when the bullion price in Mumbai rises above about 30,000 rupees ($422.97) for 10 grams. Thanks to the rupee's slump and the metal breaking through its long-standing $1,350-a-troy-ounce ceiling, it has been in that territory now for the best part of two years, and is currently trading at 38,200 rupees.

There are longer-term issues to worry about, though. About two-thirds of the country's gold is bought in rural areas, where its traditional roles as investment and adornment are oddly intertwined. Rural Indians are far more inclined to buy gold jewellry than their urban counterparts, and tend to favour plain pieces that can easily be valued and traded in if money gets tight.

That makes demographic changes a risk to the entire market. Rural population growth is grinding to a halt as people migrate to cities and birth rates fall, shifting the focus of consumption spending. "Millennials in urban India are increasingly tempted by goods other than gold, particularly luxury fashion and smartphones," according to a report by the World Gold Council, an industry group.

There are also a growing number of alternatives to gold jewellry for those who want to save up for a rainy day. (In the case of rural India, the better term might be "a dry day," as weak monsoons tend to tighten farmers' cash flows, and force them to pawn or sell.) Gold was originally popular as a store of value because banks weren't available, but the share of rural adults with an account has soared to 79% in 2017 from 33% in 2011, according to the World Bank. A larger proportion of the adult population now has a bank account than in Hungary or Turkey.

Considering the State Bank of India's current 6.4% benchmark one-year deposit rate and inflation at 3.99%, a savings account is a far better way to protect your wealth against rising prices than a bangle.

Even in deprived urban areas, alternative stores and sources of capital are opening up. About four million people in Delhi's shantytowns will be granted ownership rights, the government said this week, a move that would help them take out loans to build houses.

To be sure, the allure of gold can't be wiped out by banking. Another reason that buying tends to be so vigorous in late October is that it is peak wedding season. About half of India's gold-jewellry demand is for the heavy pieces worn as part of a bridal outfit, according to the World Gold Council. Consumer spending, the other main leg of gold demand alongside investment (industrial uses are a distant third) will tend to rise with income, benefiting from the same urbanisation that is depressing purchases in rural areas.

This year, however, consumers are a tough market to bet on. Motor-vehicle purchases, usually a good proxy for the public's appetite for big-ticket items, are collapsing. Sales of cars, trucks and buses fell by more than a third in September from a year earlier, and two-wheelers were down 22.1%.

The same pattern is borne out in broader data. The share of consumers who think their current economic situation has worsened and is set to deteriorate over the coming year was its highest since 2013 in September, according to the Reserve Bank of India. Perceptions of the job market are the worst in seven years of records. For the first time in four years of data, consumers think they're spending less on discretionary purchases.

India's outsize role in the world gold market isn't going to disappear overnight. Its consumers still account for more than one in six ounces bought globally.

Still, this change in gold demand should be a warning to investors. For many years, its role as a rural investment made India a downside buffer for the yellow metal, with farmers rushing in to make physical purchases whenever the price fell to levels that tempted investors to liquidate their positions.

As the country changes, that dynamic is disappearing. While high gold prices still appear to put off purchases, consumption-focused urban jewellry buyers aren't necessarily going to be around to prop up the market when it is weak.

Gold's attraction for investors has long been its counter-cyclical tendencies. As this crucial part of the market grows more pro-cyclical, they'd do well to pay attention.

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LETTERS TO THE EDITOR

Visit to the Valley

Eyebrows are raised at the visit of a 'select' team of European Union lawmakers to the Kashmir Valley. While supporters of the Modi government's Kashmir policy hail it as a "truth tour" and an "excellent diplomatic strike", critics denounce it as a "guided tour" and a "face-saving exercise". Touted or decried, the clear signal is that the government is badly in need of a certificate of normalcy to corroborate its version of the situation in the Valley, even at the cost of further internationalising the Kashmir issue. The government has not agreed to an all-party delegation of Indian parliamentarians to Kashmir, but it has given foreign parliamentarians access, exemplifying its skewed and self-serving nationalism in the process. EU MPs cannot be expected to make an objective assessment of the situation on the ground. The high-profile panel stands to lose credibility when it meets army officers and does not meet the leaders under detention. A lot more than the promise of development is needed to address the sense of being occupied and subjugated. Something more than enumerating the 'advantages' accruing from the revocation of special status is needed to wean the people away from their voluntary and peaceful civil disobedience. The humanitarian crisis in Kashmir is of the government's own making. The government can and must win the hearts and minds of the people of Kashmir by rescinding its decision to abrogate article; 370 and taking steps to fulfil their legitimate political aspirations.

— G David Milton, Maruthancode

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CITIES AT CROSSROADS

Single-use plastic only part of the challenge

But it is good to begin with single-use plastic, its large and growing volume adds enormously to the total plastic waste

PRIME MINISTER NARENDRA Modi made a dramatic announcement on August 15 that India would eliminate single-use plastic by 2022. This generated a lot of speculation on whether a ban on single-use plastics was in the offing. Then came another statement on October 2, Gandhi Jayanti, by the Prime Minister that single use plastics will be phased out by 2022, and the officials indicated that states will play a major role in ensuring this happens.

Single-use plastics are plastics which are used just once as in disposable packaging, and also in items such as plates, cutlery, straws, cups, etc. A study by FICCI estimates that 43% of India's plastics are used in packaging and much of it is single-use. We are also experiencing completely unnecessary single-use plastic entering homes in the form of covers for invitation cards, magazines, bread wrappers, and advertisements.

Single-use plastic is only a part of what is truly a massive challenge, and that is the management of all kinds of plastic waste. But it is good to begin with single-use plastic, its large and growing volume adds enormously to the total plastic waste. The growing volume, to a large extent, is because of rising e-commerce in India. People buy from companies like Amazon.com and Flipkart.com, that use single-use plastic (cling film, bubble wrap, etc.) for disposable packaging. Both the companies have made a commitment to phase out their use of single-use plastic, but this is not likely to happen anytime soon.

Ever since plastic was invented by John W Hyatt in 1869, many more inventions of synthetic polymers followed, plastics have been an integral part of our lives, contributing much to the convenience and ease of modern living because of the pliability, flexibility, durability, and lightness of the material. Plastics are used not only in airplanes, computers, cars, trucks, and other vehicles but also in everyday use items such as refrigerators, air-conditioners, furniture, and even casings for electric wires, to name only a few.

The problem is that plastic does not decompose naturally and sticks around in the environment for thousands of years. Safe disposal of plastic waste is, therefore, a huge challenge worldwide. For an excellent short introduction to plastics, see bit.ly/2or5ieh.

Close to 20 states of India have imposed a partial or a total ban on single-use plastics at one time or another. Maharashtra, Tamil Nadu, Telangana and Himachal Pradesh opted for complete bans, while others including Madhya Pradesh, Bihar and Odisha have tried partial bans. Plastic bags have been banned in even a larger number of cases. The bans have by and large not been successful owing to poor state enforcement capacity.

Plastic carry bags pose a special problem. Although they are strong, lightweight and useful, and can be saved, cleaned and reused many times, this is mostly not done because they are available very cheap and are, therefore, not valued (often shops give plastic carry bags for free). They become effectively single-use plastics.

A compulsory charge by retail stores on carry-bags has proven most effective in reducing their use sans a ban. In Ireland, a minor charge added to every bill saw a 95% reduction in demand for such carry-bags, as most shoppers began bringing in their own reusable grocery-bags.

In India, the Plastics Waste Management Rules 2016 included a clause in Rule 15 calling for explicit pricing of carry bags, which required vendors to register and pay an annual fee to the urban local bodies. But lobbying by producers of plastics meant that this clause was removed by an amendment in 2018, that was never put up for public debate, as is mandatory.

In India, plastic producers have been advocating thicker and thicker micron sizes for carry bags. Also, when there is a ban on carry-bags, it instead leads to use of non-woven polypropylene (PP) bags, which feel like cloth and are now even being printed to look like cloth. These are actually more dangerous for the environment as their fine fibres rub off and enter global waters as teeny micro-plastics.

Discarded plastic bags create the greatest problems in waste management. Wind-blown into drains, they cause flooding of urban areas. Used as waste-bin liners to dispose of daily food scraps, they find their way into the stomachs of roaming livestock. Animals ingest them to get at the food inside and this ultimately causes death. All plastic waste is eventually carried by rain, streams and rivers into the oceans.

A Texas-sized Great Garbage Patch of floating plastics swirling in the Pacific first attracted attention in the 1960s. A similar or even greater quantity of sunken plastic, especially discarded fishing gear, called ghost nets, blankets our ocean floors. Both floating and sunken plastics kill riverine and marine life.

We need to build awareness of the damage caused by single-use plastics and develop consumer consciousness to minimise their use. For example, at airports, we could replace meters of cling-film, used to wrap luggage, with a pretty cloth bag temporarily sealed by machine stitching that can later find alternative uses. In our parties, we could use paper plates and bamboo straws. In our pantries, we could use butter-paper as in olden times replacing the millions of bread wrappers needlessly used for a product with shelf life of one to three days. We should also write to those sending us magazines or invitations or advertising in plastic sleeves to switch to tear-proof paper instead. Finally, plastic throw-aways at parties should be replaced with washable reusable tableware.

Single-use plastic can potentially be converted by thermo-mechanical recycling into plastic granules for blending into other plastic products, usually irrigation piping for agriculture. But collection of post-consumer waste and recycling poses a major challenge. This is particularly so when packaging consists of layers of different types of polymer. The multi-layer flexible packaging which is used for Kurkure and other snack foods cannot be made into granules because it contains layers of plastic with different melting points. The Plastic Waste Management Rules of 2016 require creators of such packaging waste to take it back at their cost or pay cities for its management under Extended Manufacturer Responsibility. But there is little compliance.

While it is true that India recycles much more than the industrialised countries through an informal network of waste collectors and segregators (a lot of this is downcycling), a study by FICCI points out that the fast growing consumption has brought us to a point where consumption has clearly outstripped India's current capacity to recycle plastics.

In our October 2017 column (bit.ly/2JuL4aN) we had pointed out how recycled plastic can be used in strengthening roads. Use of plastics more than doubles or triples road life, and has been approved by the Indian Road Congress (IRC 98 of 2013) and mandated by the National Highway Authority in November 2015 for up to 50 km around every city with population over 500,000. To date over 14,000 km of so-called plastic roads have been built which are long-lasting and free of potholes. Only corruption in road contracts inhibits their wider use, as longer lasting roads means fewer contracts for building and rebuilding poor quality roads.

Another ingenious idea is to replace Thermocole with totally biodegradable pith from the *shola/sola* plant (*Aeschynomene aspera*); this was used in huge quantities till the 1950s for making *sola-topees* or pith helmets for colonials and their armies. Today, it is used in Bengali weddings and for Durga Puja decorations. Imagine the rural income generation from steady commercial use of this wild marsh-land reed.

We need many more such innovative ideas and a fundamental change in mindsets to minimise the use of single-use plastic. It is high time we also turn to the larger challenge of plastic waste management if we want to avail of the many advantages offered by plastics in our modern lifestyle.

Oil or water?

SIDHARTH NARAYAN & V SRIDHAR

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Need to ensure that data nationalism, in the garb of additional security, does not hurt consumer interests

THE NEW PARLIAMENTARY Standing Committee on Communications & IT has a daunting task ahead, as it aims to study the contentious issue of restricting cross-border data flow, or data localisation (DL) among other policy issues, in the first year of its constitution. More so, as the government may table the 'Personal Data Protection' bill in the winter session.

Data as oil or water is a raging debate across the world. Many have have advocated for the free flow of data across borders, as it provides various benefits, increasing consumer surplus through dynamic pricing mechanisms; maintaining availability and quality of service; promoting innovation in the provisioning of digital goods and services; ensuring ease of doing business; and preventing and detecting fraud. However, many countries, including India, are leaning towards DL. Primary reasons being privacy; protection of national interest; utilisation as an economic resource; and so on. Other reasons include ensuring access to law enforcement agencies (LEAs) and creating a level playing field for smaller Indian tech companies.

Though there are many proponents and opponents of DL, conclusive research on consumer impact is missing. Consumer Unity & Trust Society (CUTS) is involved in a consumer impact assessment of data localisation.

The preliminary results indicates that claims of the opponents hold water. The survey shows that various consumer facing parameters such as freedom of speech, availability of services provided by smaller foreign service providers, privacy and data protection of consumers, are to be adversely impacted.

DL may result in reduction in international competitiveness of service providers. Moreover, DL may create a 'honeypot of data' concentrated in one geographical location, thereby enhancing the risk of data breaches and cyber-attacks. Also, experts are sceptical of the State having adequate cyber-security experts and vulnerability proof digital infrastructure. Capacity of LEAs in combating cybercrimes was also questioned. Furthermore, there were concerns of excessive tracking and monitoring of data.

It is imperative for the government to explore less intrusive means to achieve the objectives of data localisation

Preliminary findings also show that the government may make it easier for LEAs to access data, create conditions for growth and narrow competition between foreign and domestics service providers.

On the issue of realising the full economic benefits of DL, experts opined that this may largely be dependent on government's support in providing power, land and cooling for Data Centres (DCs). The capital intensive and not labour-intensive nature of DCs also question the amount of employment, DL is expected to create. Furthermore, experts also believed that large foreign companies are better placed to comply with DL, and set up their DCs within India, as opposed to smaller domestic companies, which may result in unintended negative impact on competition, and thereby consumers.

It seems that DL may not be the most appropriate way of achieving the regulatory objectives, since the envisaged benefits of the regulation are unlikely to outweigh the consequential costs. As the way forward, it seems necessary to analyse consumers' perceptions towards the benefits currently derived from data driven services, satisfaction levels with services and privacy risks faced, and estimate how the usage may change should these indicators be impacted on account of DL.

It is only then, that one would be able to answer the question if 'data could be oil or water, and whether it should flow freely across borders?', at least from a consumer perspective. Such evidence-based consumer facing findings, would certainly provide useful insights on the issue, and also act as fodder for further debate, which would ensure that data nationalism in the garb of additional security does not hurt consumer interests. Lastly, it is imperative for the government to explore less intrusive means to achieve the objectives of DL. Exploring alternatives to Mutual Legal Assistance Treaties (MLAT), such as becoming a member of "Chart of signatures and ratifications of Treaty 185: Convention on Cybercrime", which has specific focus on cross border cybercrimes and associated mutual assistance amongst members, will certainly be useful in this regard.

Battle for the "next billion" users

Fintechs need to collaborate with traditional financial institutions

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BANKS, FINANCIAL INSTITUTIONS and NBFCs are now playing a pivotal role in meeting the financial needs of individuals and business, which have traditionally been un-served or underserved. Regulations and compliances have, however, become stricter in recent times. In light of recent macroeconomic developments and a decelerating growth environment, there is credit crunch, as well as growing scrutiny on the broader financial sector. This has led to increases in the cost of borrowing and players are grappling with higher unit economics implications.

To contest the current state of concerns and become fit for future, Financial Institutions and FinTechs are now turning their focus on niche customer segments, leveraging technology and partnerships to service 'Aspirers' and the emerging middle class or the 'Next Billion'. FS players are fulfilling these segments' financial needs with an impetus on digital, automation and hyper-personalised products and services. Traditional banking institutions, NBFCs and new age FinTechs are realising the potential of being agents of transformation and financial inclusion by focusing on developing innovative products and services, catering to low-income and intermittent earners in unorganised sectors and MSMEs, usually starved for credit or entangled in web of shadow banking.

In such a scenario, both traditional banking institutions and FinTechs are adopting business and operational models powered by cutting edge technologies. Investing in new technologies and strategic partnerships among incumbent banks, NBFCs and fintechs has favoured such institutions to organically increase their customer base, lower customer acquisition, transactional and operational costs, reduce time to markets and manage portfolio risk while trying to increase formal credit and banking products penetration in a growing and enterprising economy.

Apart from fintechs, new-age banks and NBFCs are using technology more than ever and are harnessing partnership ecosystems across the value chain of lead generation, engagement, customer onboarding, underwriting, disbursement, servicing, monitoring and collection. AI/ML and big data have equipped traditional lenders to measure individual customer insights and build alternative credit scoring models. Low cost data, smartphone penetration and advent of social media are enabling both traditional banks and fintechs to identify, engage and on-board inaccessible and isolated customers. Robotic process automation (RPA) has enabled streamlining of operational workflows, increasing productivity, accuracy, cost savings and customer engagement, servicing and grievance handling in various vernacular languages too, with supporting technologies like Natural Language Processing. Financial institutions are also experimenting with distributed ledger technologies for various use cases such as e-KYC, data exchange, loan disbursement and collection and cyber security. And, application programming interfaces (APIs) are being built and tested for robust connected ecosystems of various institutions and stakeholders.

Market size, key trends and developments

Today, India is at the core of innovation to create a financially inclusive and connected world, given its favourable demographics dividend. India's banking sector, NBFCs, other financial service providers and fintechs are presented with an abundant opportunity and are making remarkable progress riding on the country's pro-financial inclusion policies and the growing use of mobile phones more than ever before.

Out of all retail segments, the Aspirer and Next Billion segments present a golden opportunity for prolific demand of financial services built on convenience, transparency and low-cost. These segments are expected to grow significantly in the next five years. This provides FS players with an untapped potential to provide financial services.

In the past, it has been very challenging to reach rural communities and provide them with savings, payments, credit and other financial products. However, with increased digital technology penetration, there has been a boost in the design and development of business models to reach last mile; this includes innovative service delivery models and smart partnerships (tie-ups and correspondence with *kirana* stores and e-commerce).

Future state: maximizing likelihood of adoption

India, in the near future, is poised to be a leader in innovations and disruptions in banking and financial services. In a diverse country like India, financial sector incumbents and nuevo fintechs have to focus on the trinity nuances of price, product and customer service to succeed, and these nuances change with cultures and consumer segments.

Adopting technological innovations across value chains will aid optimisation of resources and processes, reduce turnaround time, facilitate intuitive and automated decision making and ensure accessibility of credit for customers at rates and terms tailored to their socio-economic profile. The success of India's financial sector companies to on-board and deliver for the Aspirer and Next Billion segments will largely be dependent on their ability to rationalise and maximise use of technology, human capital and cohesive financial and non-financial ecosystems.

One key strategy would be to provide financial services at the point of consumption, and thus an in depth understanding of the consumption needs of different segments is imperative. Lower income segment needs are more focussed on food and clothing, while as we move up the income pyramid, the needs shift towards housing and transport.

This presents incumbents with an opportunity to understand specific segments' aspirations and challenges and provide for core user need offerings. Players should focus on providing a simple, clean and efficient user experience leveraging technology, analytics and partnerships at the point of consumption. This would facilitate the growth of a user base with lower acquisition costs. Once an adequate user base has been built, there is then the opportunity to pivot and upsell/cross-sell other financial products and services, such as micro insurance with a consumer good product or a micro-loan for small ticket size consumption. A number of players have cracked this model by first providing basic payments services, and then pivoting into higher margin financial products.

The winning strategy still seems to be through collaborations and partnerships: traditional institutions like banks and non-banking financial institutions have a large base of customers and fintechs have the right technological support; together, they can form a mutually beneficial relationship to amplify the processes of helping the un-served and the under-served customers with financial services.