

QUICKLY

**Japan's MUFG to take \$1.9-b hit**  
Tokyo, December 30  
The banking unit of Japan's Mitsubishi UFJ Financial Group Inc (MUFG), on Monday, said it would book a one-off charge of about ¥207.4 billion (\$1.9 billion) for the quarter ended December 31, due to a drop in the share price of an Indonesian subsidiary. PT Bank Danamon Indonesia Tbk, of which MUFG Bank owns 94.1 per cent, closed at 3,950 rupiah on Monday on the Indonesia Stock Exchange's last trading day of 2019. If Danamon's shares close below 50 per cent of the average price MUFG paid for its stake, the Japanese bank is required to reassess the value of the holding and book a one-time charge. **REUTERS**

**Rupee rises 4 paise versus dollar**  
Mumbai, December 30  
The rupee appreciated by 4 paise to settle at 71.31 against the US currency amid weakening of the dollar in overseas markets. Subdued equity markets and high oil prices restricted the gains in the rupee. At the forex market, the rupee opened at 71.36 against the US dollar. During the day, the rupee saw a high of 71.30 and low of 71.39. It finally settled at 71.31, higher by 4 paise over the previous closing price. **PTI**

SECOND SPECIAL OMO

RBI buys long-term govt securities worth ₹10,000 cr

**PRESS TRUST OF INDIA**  
Mumbai, December 30  
In the second special open market operation (OMO), the Reserve Bank of India, on Monday, bought ₹10,000 crore of long-term government securities and sold ₹8,501 crore of three short-term bonds.  
Lat week, the RBI had announced to purchase and sell simultaneously government securities under Open Market Operations (OMO) for ₹10,000 crore each. Though the RBI offered to sell four securities in the auction, it accepted bids for three bids only.  
In the OMO purchase of 6.45 per cent GS 2029, the 10-year benchmark security, the RBI received ₹25,698 crore worth of bids from the participants but accepted ₹10,000 crore of bids. The RBI received

285 bids to purchase 6.45 per cent 2029 security but accepted only 151 bids.  
The cut-off yield at which bids were accepted was 6.4874 per cent. The RBI offered to sell four government securities - 6.65 per cent GS 2020; 7.80 per cent GS 2020; 8.27 per cent GS 2020, and 8.12 per cent GS 2020 through OMO sale.  
It accepted only ₹8,501 crore worth of bids for the three securities against ₹38,551 crore bids it received for four securities in the OMO sale auction. In terms of number of bids, the central bank received 27 bids for 6.65 per cent GS 2020; 34 for 7.80 per cent GS 2020 and 29 for 8.27 per cent GS 2020 but accepted 11, 12 and 8, respectively. For 8.12 per cent GS 2020 security, the RBI received 49 bids but did not accept any bid.

Life insurers pay ₹4,442-cr dividend in FY19, the highest in last five years

**G BALACHANDAR**  
Chennai, December 30  
Both public and private life insurers paid a total dividend of ₹4,442 crore in 2018-19 when compared to ₹4,192 crore in 2017-18. This is the highest dividend amount paid by insurers in the past five years. The previous highest amount paid was ₹4,364 crore in 2015-16.  
Top player LIC paid/proposed ₹2,660.60 crore as dividend to the shareholder, the government of India. It paid a dividend of ₹2421.82 crore in 2017-18. Seven private insurers, such as HDFC Life, ICICI Prudential, Max Life, SBI Life, Bajaj Allianz, Shriram Life and SUD (Star Union Dai-ichi) Life, proposed dividends in 2018-19. In the previous fiscal, five private players

proposed/paid dividends, according to the latest annual report of Insurance Regulatory and Development Authority of India (IRDAI).  
ICICI Prudential Life, a leading Indian private life insurer with an APE (annual premium equivalent) market share of 18 per cent (FY19), proposed/paid a dividend of ₹703 crore (₹990 crore in FY18), while HDFC Life's dividend for FY19 was ₹329 crore (₹273 crore). Max Life, SBI Life and Bajaj Allianz paid/proposed ₹397 crore (₹286 crore), ₹200 crore (₹200 crore) and ₹105.5 crore.  
Shriram Life and SUD Life proposed dividends of ₹18 crore (₹20 crore) and ₹5 crore. But none of the four public sector general insurance companies paid di-

vidends during FY19. Private general insurers paid a dividend of ₹618 crore (₹625 crore in 2017-18), and specialised insurers paid ₹30 crore in FY19.  
GIC Re paid ₹1,184 crore in FY19 when compared to ₹1,002 crore in FY18. In 2017-18, only New India Assurance paid a dividend of ₹309 crore in the public sector category.

**Profit and loss**  
In FY19, the life insurance industry reported a profit after tax (PAT) of ₹8,436 crore when compared to a profit of ₹8,512 crore in 2017-18. Of the 24 life insurers, 20 companies reported profits in 2018-19. LIC reported a profit of about ₹2,689 crore in FY19 (₹2,446 crore in FY18), while the private insurers reported PAT of ₹5,747 crore (₹6,064 crore). In FY19, the total PAT of general insurance industry stood at ₹683 crore against ₹6,909 crore in FY18. Public sector companies reported a loss after tax of ₹3,288 crore in FY19 against a profit after tax of ₹2,543 crore in FY18. Private insurers reported a PAT of ₹3,584 crore when compared to a PAT of ₹3,798 crore in FY18.  
Specialised insurers' PAT was ₹685 crore (₹670 crore), while standalone health insurance companies incurred a loss of ₹298 crore against a loss of ₹102 crore in FY18. Of the four public sector general insurers, only New India reported a PAT of ₹580 crore, while National Insurance, Oriental Insurance and United India Insurance reported losses of ₹1,696 crore, ₹294 crore and ₹1,878 crore.

Why the MDR controversy refuses to die down

Zero Merchant Discount Rate on Rupay and UPI will hit expansion of digital payments, says PCI

**ANALYSIS**  
**KR SRIVATS**  
New Delhi, December 30  
One man's meat is another man's poison. While the Central Government may have played to the gallery of consumers and merchants by making zero Merchant Discount Rate (MDR) mandatory for Rupay and UPI, this has certainly put some players in the payments industry in a spot, as a question mark arises on the survival of their business model, especially those in the merchant-acquiring space.  
**Negative impact**  
So much so that several players are now wondering as to whether the Centre has now nationalised the payments in-

dustry by mandating zero MDR on Rupay and UPI from January 1. One thing is for sure. The merchant-acquiring business will suffer. There will be a significant negative impact on the payment ecosystem - innovation, job losses, and slow-down in the expansion of digital payments in India - according to Vishwas Patel, Chairman, Payments Council of India (PCI), and Director, Infibeam Avenues.  
"Payment Service Providers play a vital role in growing digital payments. The prohibition on charge of MDR on Rupay and UPI will kill the industry and make the business model unviable. It is like nationalisation of the payments industry," said Patel.  
It will also result in near stoppage in customer incent-

ive spends by the participants. Elimination of MDR will dry out revenues and, therefore, create a catastrophic situation for new start-ups and fintechs as banks will not pay for their services, said Patel.  
A better system would be that MDR, if not charged to the merchants, should be borne by the government, according to the PCI, the representative body of merchant acquirers and aggregators.  
This will help the acquirers to focus and invest in expansion of the acquiring infrastructure. Additionally, if there is zero revenue from the more than 500 million plus Rupay debit cards that are active in our country, then service providers will start withdrawing the existing deployed PoS terminals from unviable small shops and establishments, as continued maintenance of these PoS machines, training, and supply of printer rolls will increase their losses. If the gov-

ernment wants to grow digital payments, then MDR zero is not the solution; a lower controlled MDR, along with added tax benefits to merchants, will go a long way in growing acceptance in India, according to the PCI  
**'Investments to be hit'**  
Navin Surya, Chairman Emeritus, Payments Council of India, said the decision to hastily implement zero MDR for Rupay as well as UPI will impact the whole digital payment industry as well as investments into the industry. This is especially true for debit cards, which require infrastructure such as PoS and switches and continuous operations to mitigate risks, and frauds will become extremely difficult to manage, according to Surya.  
The current ongoing regime of 'No MDR Charge for below ₹2,000 transactions' was already working and was supported by the industry, he said.

Various discussions and reports from payments expert committees before this year's Budget (Nandan Nilekani and earlier RP Watal Committee of NITI Aayog) recommended market-driven pricing and only correction in the ratio of sharing between issuing and acquiring banks with an increase for the acquiring bank to drive PoS deployment for the merchant.  
Digital payments (as against cash) during demonetisation was around 13 per cent of the retail spend; now it is around 11 per cent with increase in cash in circulation. "Such move would weaken the industry position to drive growth aggressively.  
"Also, it is irrational to pass on benefits to large retail merchants for transactions above ₹2,000 as they are also earning revenue and doing business for profits. RBI/banks subsidising to reduce their cost is misplaced," he added.

For UPI, on the other hand, considering a relatively lower capex and operations cost, and lower and efficient model could be appropriate, but free is not the right model.  
"We hope the government reconsiders this and discusses this with the larger ecosystems of the payment industry involved beyond just banks and payment networks," said Surya.  
**A positive move**  
Not all are on the same page as the PCI. For instance, Mandar Agashe, founder and Vice-Chairman, Sarvatra Technologies, felt the government move to do away with MDR is a great booster dose for the growth of debit card and UPI transactions.  
This would make it easy for every merchant to start accepting payments via Rupay debit card and UPI and push digital payments in a big way at merchant outlets.

New 'invisible ink' may help detect fake currency notes

**PRESS TRUST OF INDIA**  
Greater Noida, December 30  
Scientists at the Shiv Nadar University have developed a low-cost security ink that may help detect counterfeit currency and could be employed in official documents and medical diagnosis. The new ink, described in the peer-reviewed *Journal of Physical Chemistry C*, offers improved security features compared to existing inks that are more expensive, the researchers said.  
These materials can be used in other applications, such as security signs, emergency route signs, traffic signage, in addition to medical diagnosis and background-independent bio-emitting probes, they said.

"Our white security ink is made from cheaper, organic compounds that can be used in daylight as they show white emission with afterglow feature covering visible range of the spectrum (400-700 nanometres) under UV light exposure, said Debdas Ray, a professor at Shiv Nadar University.  
"These single component security inks give better stability, colour reproducibility and simple device fabrication over the multi-component security inks that are costly, toxic and work under different background," said Ray.  
The researchers, including Harsh Bhatia from the Department of Chemistry, noted that secured storage

has attracted increased attention in economic as well as military fields due to the increase in cyber thefts.  
Security ink has gained tremendous importance during the past decades, they said. For application as a security ink, the components of that ink must be invisible under daylight.  
The researchers noted that white light-emitting materials that show afterglow have become of increasing importance because their behaviour can be changed after switching off the light exposure.  
These light-stimuli responsive luminescent materials are promising alternatives for the application of data recording and data security, they said.

What investors can look forward to in 2020 with China opening up its \$45-trillion financial market

**BLOOMBERG**  
December 30  
China's big-bang opening of its \$45-trillion financial industry begins in earnest next year - a step-by-step affair that's unfolding just as economic strains threaten the promised windfall luring in global firms.  
The Communist Party-ruled nation will enact the most sweeping changes in decades to allow the likes of Goldman Sachs Group, JPMorgan Chase and BlackRock to expand their footprint in China and compete for a slice of its growing wealth.  
Foreign financial firms may plow 7 trillion yuan to 8 trillion yuan of assets onshore in the next few years, Huang Qifan, said Vice-President at China Center for International Economic Exchanges and former mayor of Chongqing.

For the global powerhouses, the opportunities are immense barring a major economic slowdown or change of course. Up for grabs is an estimated \$9 billion in annual profits by 2030 in the commercial banking and securities sectors alone.  
Here's a guide to what steps await, what's at stake, and who's rushing in:  
**Insurance**  
To kick off the new year, foreign insurers can apply to set up 100 per cent-owned units offering life insurance, a segment that accounts for three-quarters of the Chinese insurance market. Joint ventures - of which ICBC-AXA Assurance is the biggest - brought in 8 per cent of the sector's total premiums last year, but have not been growing as fast as domestic competitors, according

to Fitch Ratings. Local firms dominate the market with their vast distribution networks and millions of agents, led by China Life Insurance Co and Ping An Insurance (Group) Co. Among those poised to expand their presence is German insurer Allianz, which in 2018 got the green light to set up the first entirely foreign-owned insurance holding company.  
Others, including Cigna Corp and Standard Life Aberdeen, have indicated no intention to seek control, with Cigna calling its partnership with China Merchants Bank a winning formula.  
**Futures**  
Also on the first day of the year, overseas firms will be allowed to set up their own entities to trade futures in a crowded market where nearly 150 local players had combined profits

of only 3.4 billion yuan (\$485 million) in the first half.  
Foreign interest has, so far, been limited by restrictions in China on making unhedged bets against the market and quotas imposed on index and commodity futures. That could change quickly, should authorities push forward with a broad swath of changes in the derivatives space.  
**Investment banking**  
A seismic shift will begin towards the end of 2020 after global investment banks are allowed to operate on their own from December 1.  
While some have been doing business in China for over a decade, serving as dealmakers for the nation's corporate titans across the globe, taking full control will allow Wall Street firms to dictate expansion plans and navigate away

from culture clashes with local partners. They will meet fragmented competition as China's 131 brokers are comparative minnows with combined assets equal to what Goldman Sachs sits on by itself. Still, a recent push by regulators to forge local investment banking giants means the competitive landscape in China's \$21-trillion equity and bond markets may become more challenging.  
For China, the opening is as much a chance to reform financial markets and strengthen local champions as it is an opportunity to address US complaints about the Asian nation being a one-sided beneficiary of trade. With the world's two largest economies now moving closer to signing the first phase of a trade deal, the slow dismantling of restrictions is set to continue apace.

Should we say goodbye to banking as we know it?

**OPINION**  
**ANDY MUKHERJEE**  
So is China readying its own Bitcoin? Banish the thought. It is far bigger than that. Yes, just like any other cryptocurrency or for that matter, cigarettes in prisoners-of-war camps, the upcoming digital yuan will be tokenised money.  
But the similarity ends there. The crypto yuan, which may be on offer as soon as 2020, will be fully backed by the central bank of the world's second-largest economy, drawing its value from the Chinese state's ability to impose taxes in perpetuity. Other national authorities are bound to embrace this powerful idea.  
Little is known about the digital yuan except that its been in the works for five years and Beijing is nearly ready to roll. The consensus is that the token will be a private blockchain, a peer-to-peer network for sharing information and validating

transactions, with the People's Bank of China in control of who gets to participate. To begin with, the currency will be supplied via the banking system and replace some part of physical cash. That won't be hard, given the ubiquitous presence of Chinese QR code-based digital wallets such as Alipay and WeChat Pay.  
It may start small, but the digital yuan can disrupt both traditional banking and the post-Bretton Woods system of floating exchange rates that the world has lived with since 1973. No wonder that for China, blockchain and the yuan digital currency are a national strategic priority almost at the level of the internet, says Sanford C Bernstein & Co fintech analyst Gautam Chhugani.  
**The most crucial ledger**  
Ever since the advent of the 17th-century goldsmith-banker in London, the most crucial thing in banking has been the ledger, a repository of irrefutable records to establish

trust in situations where it does not exist.  
When Peter in Vancouver agrees to send money to Paul in Singapore, they are forced to use a chain of interlinked intermediaries because there is no ledger in the world with both of them on it. Blockchain technology shows promise in handling a large number of transactions simultaneously, then digital currencies could become substitutes not just for physical cash but also for bank reserves.  
That's when the game changes. Reserves at a central bank are maintained by deposit-taking lenders. A digital yuan or Singapore dollar or Indian rupee could bypass this system and allow any holder of the currency to have a deposit at the central bank, potentially making the state the monopoly supplier of money to retail customers.  
As Agustin Carstens, the general manager at the Bank for

International Settlement, noted recently, if the central bank becomes everybody's deposit-taker, it may find itself becoming everybody's lender, too.  
But why would central banks want to demote their own banking systems? One answer, looking at Europe and Japan, is that negative interest rates are doing that anyway.  
Lenders are starved of profit because while the central bank charges them for keeping money on deposit, they can't as easily pass on those negative interest rates to their own depositors.  
If the global economy gets mired in long-term stagnation, official digital currencies will at least be an efficient way of monetary easing without involving banks.  
The reason may be that technological progress is making the status quo untenable. It is no coincidence that China hastened its national cryptocurrency after Facebook announced the Libra project,

which was touted as an alternative dollar. Perhaps that was fanciful, and the Libra has hit a wall of regulatory concerns. But if they are offered like Spotify gift cards at the local 7-Eleven, there will be demand for tokens that are acceptable across borders, stable in value against baskets of national currencies, and can be used in global trade and investing. Someone in Silicon Valley will eventually succeed, blowing away the fig leaf of monetary sovereignty in emerging markets in the process.  
**Political activism**  
The changes won't end with banking and monetary arrangements. Token transactions will be pseudonymous: If the central bank wants to see who is spending where, it can. Anonymity disappears when cash does. While that will make life difficult for money launderers and terrorists, it could also become a tool to punish political activism.

**BLOOMBERG**  
December 30  
South Korea's won has surged through the pack to become the best-performing Asian currency for December after being the outright worst over the previous 11 months.  
The catalysts behind its revival: the agreement of an initial trade deal between the US and China - South Korea's two largest trading partners - and improving local data that suggest that economy is turning the corner following a series of interest-rate cuts.  
The won has jumped 1.7 per cent this month after President Donald Trump said on December 13 the US and China had reached a phase-one trade deal, helping to limit any further escalation of the dispute that has pummeled emerging-market assets this year.  
An upswing in Korea's economic outlook has also helped fuel the won's uptrend. Consumer confid-

Korean won is now Asia's best-performing currency

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ence climbed to a seven-month high in November, while a slowdown in exports and imports eased, and a gauge of manufacturing rose for a second month. Economists predict that industrial production and inflation data this week will continue the recent positive trend.  
There are still challenges ahead. The Bank of Korea said on Friday that uncertainties over economic growth remain high and it will continue to manage interest rates accommodatively.  
The central bank cut its benchmark by 25 basis points in July and again in October to stimulate growth. Technical analysis is sending a positive signal. The dollar-won exchange rate formed a so-called death cross earlier this month, with the 50-day moving average dropping below the 200-day one. This suggests the dollar will keep weakening against the won.