Opinion

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VIEW FROM THE TOP

Congress leader Rahul Gandhi

Modi's "most extensive" budget consultation ever, is reserved for crony capitalist friends & the super rich. He has no interest in the views or voices of our farmers, students... women, Govt & PSU employees

RationalExpectations

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Don't blame FM, ball in PM's court

PM's pre-budget meets have set off rumour mills, but can't blame the FM for the poor investment climate in oil, telecom, power etc

GIVEN THE DESIRE to find quick solutions to complex problems, made knottier by decades of inaction, every time the IIP, or GDP or any other such indicator, shows a dip, the knives are out for FM Nirmala Sitharaman; and now that PM Narendra Modi is meeting dozens of people to see how to fix the economy, the capital's rumour mills are abuzz that there could be a new FM soon after the budget. Former ICICI Bank chief KV Kamath is tipped to be a front-runner. A non-politician like Manmohan Singh, his familiarity with the financial world is a big positive since, right now, India's biggest challenge lies in its banks and NBFCs.

It is possible that, should Modi actually replace Sitharaman—and with Kamath—the latter may just make a good FM, but only the naïve will believe the FM calls the shots or is alone responsible for fixing the investment climate; or, for that matter, for ruining it in the first place. Though Yashwant Sinha was one of the best FMs India has ever had, he was pilloried as 'rollback' Sinha since PM Vajpayee frequently made him roll back his proposals. And for all Manmohan Singh's stature as India's first reformer, it was really Narasimha Rao that allowed him to go ahead with the reforms; and the moment Rao decided to pull back, Singh pretty much stopped reforms. And if, as PM, Singh wasn't able to push much of a reforms agenda, it was because he wasn't allowed to by party president Sonia Gandhi.

To fix the broken financial system, should this be the top priority, the government needs a bad bank to take over the NPAs of banks and NBFCs. But it doesn't require a Kamath to come up with the idea; Arvind Subramanian suggested this when he was chief economic advisor. But to fund the bad bank—through a bond—the government will have to cut back on other expenditure on subsidies etc; that requires Modi's explicit approval.

And, even assuming that a bad bank takes over the NPAs, getting the banks to lend once their balance sheets are clean isn't a given. Despite both Modi and Sitharaman repeatedly exhorting banks to lend and promising that no genuine business decision will be questioned, bankers remain reluctant to lend. Indeed, they are parking ₹3-4 lakh crore in RBI's reverse-repo window at fairly low interest rates instead of either buying GSecs—they fear mark-to-market losses once the true fiscal deficit is revealed and interest rates rise—or simply lending.

Getting banks to be less fearful means that the time-honoured practice of prosecuting someone when a loan goes bad has to be scrapped. While changing the law to fix this was promised when the government came to power in 2014, there are enough instances of bank and corporate chiefs being investigated by the CBI even when there is no proof of corruption in the form of disproportionate assets or money trails. This can't possibly be the FM's responsibility, the ball can only lie in the prime minister's court.

> Yashwant Sinha was one of India's best FMs, yet he was called 'rollback' Sinha as Vajpayee kept vacillating. Manmohan Singh was a great FM but only till Narasimha Rao allowed him

Or take an example brought up during one of the pre-budget meetings that the PM had. One hotelier spoke of how, after he had spent a few hundred crore rupees to build a hotel, he couldn't get the necessary permissions to start operations for eight months; this set him back by around ₹80 crore in terms of interest costs, staff salaries etc.

The principal secretary to the PM wrote to various secretaries in different ministries six months ago, asking them to, in the context of heightened US-China tensions, explore the possibility of getting some top manufacturers to relocate to India. Apple, for instance, has exports from China that entail at $200 bn and it employs (directly and indirectly) 47 lakh people in that country; India's total exports are $300bn! And when Samsung shut its last China factory a few months ago, it shifted this to Vietnam where it produces half its mobile phones—Apple and Samsung together account for 60% of the $500 bn global export market for mobile phones. It is not up to the FM alone to woo Apple/Samsung, other ministries—like commerce and electronics—have to sign on and nothing can be done till the PM indicates that he is willing to bear the brunt of the *suit-boot-ki-sarkaar* tag as he gives Apple/Samsung the incentives they want to shift operations.

Or take the ₹100 lakh crore infrastructure push announced a few weeks ago. If not too many are taking it seriously, it is not just because, compared to the actual infrastructure spending of ₹36 lakh crore in FY13-17—the numbers for FY18-19 given by the government are estimates—the government is looking at almost trebling this over FY20-25. Indeed, while a fourth of the infra-spend is to be made in the power sector, thanks to the failed Uday scheme, state electricity boards remain loss-making and strapped for cash, and owe the private sector as much as ₹46,000 crore! Who is going to invest till the power minister can fix this? A fifth of the investment is to be in the roads sector where, from 85% in 2013, the share of the private sector in road awards is zero today.

Telecom, traditionally a big investment area, has seen investments crash primarily due to hostile government policy. And while it is true the FM will be one of the decision-makers if, say, licence fees are to be scrapped, the actual proposal has to come from the telecom minister—who remains unconvinced about the need—and then okayed by the PM. Despite the ill-conceived SC judgment on AGR revenues which will play havoc with both telcos and non-telecom PSUs—GAIL's revenues from its internet licence were ₹35 crore since FY02, but has to pay ₹1.72 lakh crore in AGR dues!—the ministry has still not challenged the SC ruling or come up with an alternate formulation for the courts to mull over. This is despite the fact that, if things aren't fixed soon and Vodafone Idea shuts down, the government stands to lose a large part of the ₹2 lakh crore owed by the firm.

None of this is to say the FM is irrelevant to the reforms process; apart from the importance of getting tax and fiscal policy right and putting an end to tax-terror, the FM has traditionally been seen as the torch-bearer for reforms across the government. Having an experienced FM and one who is an instinctive reformer is a big plus, but if other ministers are pulling in a different direction and the investment environment is vitiated in most important sectors (see *bit.ly/309GICE* on the oil sector), the PM has to personally take charge and give his ministers strategic direction. That is what he is trying to do, whether this works or not remains to be seen.

PingingFREEDOM

A new report shows India lost $1.3 billion in 2019 to internet shutdowns

India may be celebrating the advances it has made in terms of promotion of technology—the government is pushing Digital India—but a new report on internet shutdowns shows that the country also curbs internet freedom to a high degree. *The Global Cost of Internet Shutdowns* report shows that India was the third-most economically affected country, after Iraq and Sudan, accounting for over 100 shutdowns. The report further shows that internet shutdowns lasted 4,196 hours in 2019 costing $1.3 billion. If that number is correct, then India lost close to half of what it had between 2012 and 2017 in just one year—an Icrier study had found that the economic impact of internet shutdowns for 2012-17 was $3.04 billion.

Moreover, reports from Twitter, Facebook and TikTok showed that most content take-down requests had come from India. While the government is promoting Digital India to enhance productivity and value, and as internet becomes a basic necessity—an SC judgment on J&K just reiterated this—the government also needs to look at shutdowns differently, especially when they can have such a large economic impact. Shutting down services for maintenance of law and order is justifiable, but it can't be the go-to solution. Besides, with apps like Bridgefy—this does not require internet but works on bluetooth and has been instrumental in Hong Kong protests—gaining currency, the purpose of shutdowns get defeated. The government would do well to keep internet flowing. After all, being being in the same club as Iran and Sudan on digital freedoms is deeply shameful.

SUBSIDY PROBLEM

DBT WILL EMPOWER FARMERS TO MAKE RIGHT CHOICES BASED ON CROP/SOIL NEED, REDUCE IMBALANCE IN FERTILISER USE, AND GIVE A BOOST TO 'MAKE IN INDIA'

Modi must not give up on fertiliser DBT

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ACCORDING TO A survey by NITI Aayog, nearly two-thirds of the farmers don't favour direct benefit transfer (DBT) of fertiliser subsidy. If this is also the thinking of our policymakers, then it would leave one shell shocked as it would be tantamount to a complete reversal of the process set in motion a couple of years ago.

In FY17, the government launched pilot projects for linking subsidy payments to producers, for the sale of fertilisers to farmers by retailers in 18 districts spread over 12 states. It was launched across the country in April 2018. Under the scheme, manufacturers receive 100% of subsidy after fertiliser is delivered to the farmer, and the latter's identity viz. Aadhaar is captured on the point of sale (PoS) machine at the dealer's shop. Termed direct benefit transfer (DBT), the nomenclature is misleading as the subsidy continues to be routed through manufacturers.

The manufacturers sell urea at the maximum retail price (MRP) controlled by the Centre, which is kept at a low level. They also get subsidy reimbursement on unit-specific basis under the new pricing scheme (NPS). The manufacturers of non-urea fertilisers are given 'uniform' subsidy (on per nutrient basis) under the nutrient based scheme (NBS).

Early last year, Niti Aayog and ministry of finance (MoF) were working on a road map for giving subsidy directly to farmers. The plan was to implement it within 3-4 months after the new government took charge. This has not happened so far. Now, if abandoning of the scheme is being consideered by the official think-tank, there is a need for deep introspection. Is it because farmers don't want it or is there more to it?

To get to the root, let us consider this. At present, the farmer pays ₹268 for a bag of urea—a bag contains 50 kg—as against the cost of supply that is at least twice as much , or ₹536 (it could be even higher depending on the manufacturer who supplies the material). The difference is claimed by the manufacturer as subsidy from the government. Under this arrangement, subsidy to farmer is embedded in the price—also termed as subsidised price.

Under DBT, the farmer will have to pay the higher cost-based price or ₹536 to the manufacturer, and get subsidy of ₹268 'directly' in the bank account. Effectively, he will continue to shell out ₹268—as is the position under the existing dispensation. Yet, the switch-over makes a big difference as he has to first pay the full price, and thereafter, get the subsidy. And, there lies the rub.

The very rationale for giving subsidy is that majority of the farmers are poor and cannot afford to pay a higher price. Yet, if a farmer has to pay a higher price, where will the extra money come from? Who will plug the gap at the time of purchase? Will banks provide the funds? Who will bear the interest cost?

Even if the government directs banks to give loans and agrees to fully reimburse the interest cost, farmers will still have to go through a nightmare. Many may not even get the funding, forcing them to fall back on the money lender—the surest invitation to a debt-trap. But, this can be avoided if only the subsidy is transferred to farmers' account as an advance. The government can conduct post-facto checks to detect misuse and take appropriate legal action and deny the benefit of subsidy in the future.

During the initial years of the existing scheme, the bulk of the subsidy amount was released to manufacturers on 'dispatch' of the material from the factory. Even prior to April 2018, the government was releasing 95% of the subsidy to urea manufacturing units and 85% to complex manufacturers linked to 'sale of material in the district' (balance 5%/15% for urea/complexes was paid on confirmation of sales to farmers by states). If, then, subsidy was paid before actual sale to farmers, by the same logic, the money can be given to farmers.

> DBT will save the government quite a lot on the subsidy by eliminating misuse and ensuring better targeting through Aadhaar linkage

If this crucial point is addressed, there won't be any reason for farmers to worry. But, the bottleneck is at the doorstep of the government.

The government is prone to providing much less funds for fertiliser subsidy than required, leading to a pile up of arrears—according to Fertiliser Association of India, the current year is likely to end with whopping dues of ₹60,000 crore to the industry. The petition of manufacturers to the ministry of finance does little to ensure adequate allocation even as the latter is obsessed with managing fiscal deficit.

However, under DBT, the government cannot continue with business as usual. It will be forced to provide adequate allocation to meet all needs in full, and ensure that no dues are kept pending, or else, it will invite the wrath of farmers, which will be politically suicidal. That will take away the flexibility it currently enjoys to manipulate expenses in sync with the fiscal target. Hence, it is unable to muster courage to switch over the benefit of the DBT to farmers.

The other factors include its unwillingness to discontinue the protection of public sector plants including those being revived, viz Sindri, Gorakhpur, etc, available under NPS; vested interests in continuing with import of urea (currently, this is allowed only through state agencies such as MMTC, STC, etc) and the bureaucracy which doesn't wish to let go of its discretionary powers.

The business-as-usual approach is unsustainable. The government should switch to the policy of DBT to farmers. This will empower them to make the right choices based on crop/soil need, reduce imbalance in fertiliser use, improve efficiency in the supply chain and give a boost to 'Make in India'. It will save quite a lot on the subsidy by eliminating misuse, and owing to better targeting. Further, need not fear falling short of funds even while achieving the fiscal target.

Honesty of climate scientists not good

When it comes to irreducible uncertainty regarding climate change—the "unknown unknowns" of the climate problem—talking about this just seems to confuse people

MARK BUCHANAN
Bloomberg

FOR MORE THAN 30 years, scientists have tried to inform governments and the public on the urgent threat of global warming, working hard—as scientific norms demand—to acknowledge honestly the limits to what they know. It hasn't worked. As a recent report from the United Nations Environment Program shows, global carbon dioxide emissions have gone up, not down, even in the few years since the once-promising Paris Agreement. Nations' own projections for fossil fuel use suggest that emissions will keep rising at least through 2030, making the climate problem worse.

Much of this is the direct result, of course, of a decades-long disinformation campaign funded by fossil fuel interests and right-wing politicians. But, could the way scientists communicate also be part of the problem? Psychology studies show that people tend to accept a message more readily if they hear it expressed with brimming confidence, uncertainties suppressed. And recent experiments suggest that scientists going the extra mile to be honest about their uncertainty may actually make people less likely to trust them.

But, this finding isn't wholly depressing. It also offers some ideas on how scientists can show their uncertainty in a less self-defeating way. The key, it seems, is to realise that people understand that climate is not perfectly predictable, and so they expect to hear about a range of possible outcomes. But, emphasising the vast complexity of the problem only seems to overwhelm them.

Psychologists know that people are often less likely to accept a message if they hear it alongside qualifications and admissions of uncertainty. For example, studies find that judges follow the advice of expert advisers when they seem more confident and certain. Eyewitnesses tend to be more convincing the more certain they are about what they saw; when they are uncertain, it stirs doubt.

But, few studies have looked in detail at such situations as climate change, where significant uncertainties obviously cannot be eliminated, and therefore, no mention of uncertainty would clearly be suspect. If everyone accepts there is uncertainty, how should scientists talk about it?

Social psychologist Lauren Howe and colleagues undertook an experiment with more than 1,000 Americans across the social and political spectrums, testing to see what they took away from messages about future sea-level rise expressed in different ways. Some were given just a single prediction of the most likely rise by year 2100; others were given a most likely prediction along with an upper and lower bound ("We expect sea levels by 2100 to rise between one and seven feet"). Finally, a third message stated a most likely value, added a "worst case" estimate of how high levels might conceivably go, and also expressed the further view that it is probably impossible to accurately foresee the full consequences of sea-level rise given so many prevailing uncertainties, such as how powerful and frequent future storms may be.

> Less encouraging, however, is how people responded to what, scientifically, might be considered the most brutally honest message

An encouraging finding is that people responded positively to the "bounded uncertainty" expressed through the upper and lower bounds. People accepted that message even more readily than the message made with no uncertainty at all. Admitting to uncertainty helps spread the message, Howe suggested to me in an email, because it builds trust. People understand that climate is an issue that involves inherent uncertainty, so not admitting to it would seem dishonest.

Less encouraging, however, is how people responded to what, scientifically, might be considered the most brutally honest message: admitting that the full costs of sea-level rise are extremely difficult to assess. That is useful, additional information, and certainly true. Yet, this expression of open-ended uncertainty tended to increase listeners' skepticism. Admission of too much uncertainty seems to make people doubt the science, and get them wondering if the scientists even agree among themselves.

So what are scientists to do? The take-home message is that they should not banish uncertainty from their communications, but discuss it clearly and, whenever possible, put quantitative bounds on it. They are likely to reach more non-experts by doing so. But, there is a danger in going too far and hiding behind the awesome complexity of the climate system to avoid making strong statements. That is a cautious and comfortable place for scientists, but when it comes to irreducible uncertainty—the "unknown unknowns" of the climate problem—talking about this just seems to confuse people.

"The public seems to struggle to understand how anyone can act on such information", as Howe put it. "They think: Wait a minute, if scientists just shared this precise range of possible outcomes with me, why are they now telling me that this precise range doesn't capture everything that could happen?"

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LETTERS TO THE EDITOR

Split and specialise

While separation of the MD and CEO roles would call for more niche-skilled personnel in the top management, the proposal can enhance individual accountability and render greater independence, especially when firms are, at some point of time, confronted with governance issues. That said, it is more important for the leadership to develop a vision in order to attain business excellence, uphold their values and adhere to ethical business practices to fulfill their mission. High-performance and enhanced shareholder confidence are the by-products of transparent market activities and willingness to accomplish the promised CSR objectives. Unambiguously defined leadership roles and an optimised structure at the top, can undoubtedly promote an agile and independent board, one that is actively engaged in operations. However, one size doesn't fit all. A vast majority of global conglomerates led by a simple yet operationally efficient and cost-effective structure have generated appreciable returns for investors. Despite a recent shift of preference from unified command to split-roles at a high-percentage of MNCs, several mid-size Indian Firms deem a joint CEO-MD role to be culturally viable, associated with low-overheads and free of ego conflicts. It is usually, the mission statement and operational complexities which determine the board-structure and the height of the pyramid. At times, besides the MD/CMD, multiple Chief Officers (CXOs) are required at a firm, which explains the reason why many large-cap organisations opt for a separate CMO, CFO, CTO and COO in the top-management. The concept is gaining prudence among corporates, to viably support the key growth-objectives outlined by the CEO and directors, and stay ahead in a business-era where cut-throat competition is the new norm.

— Girish Lalwani, Delhi

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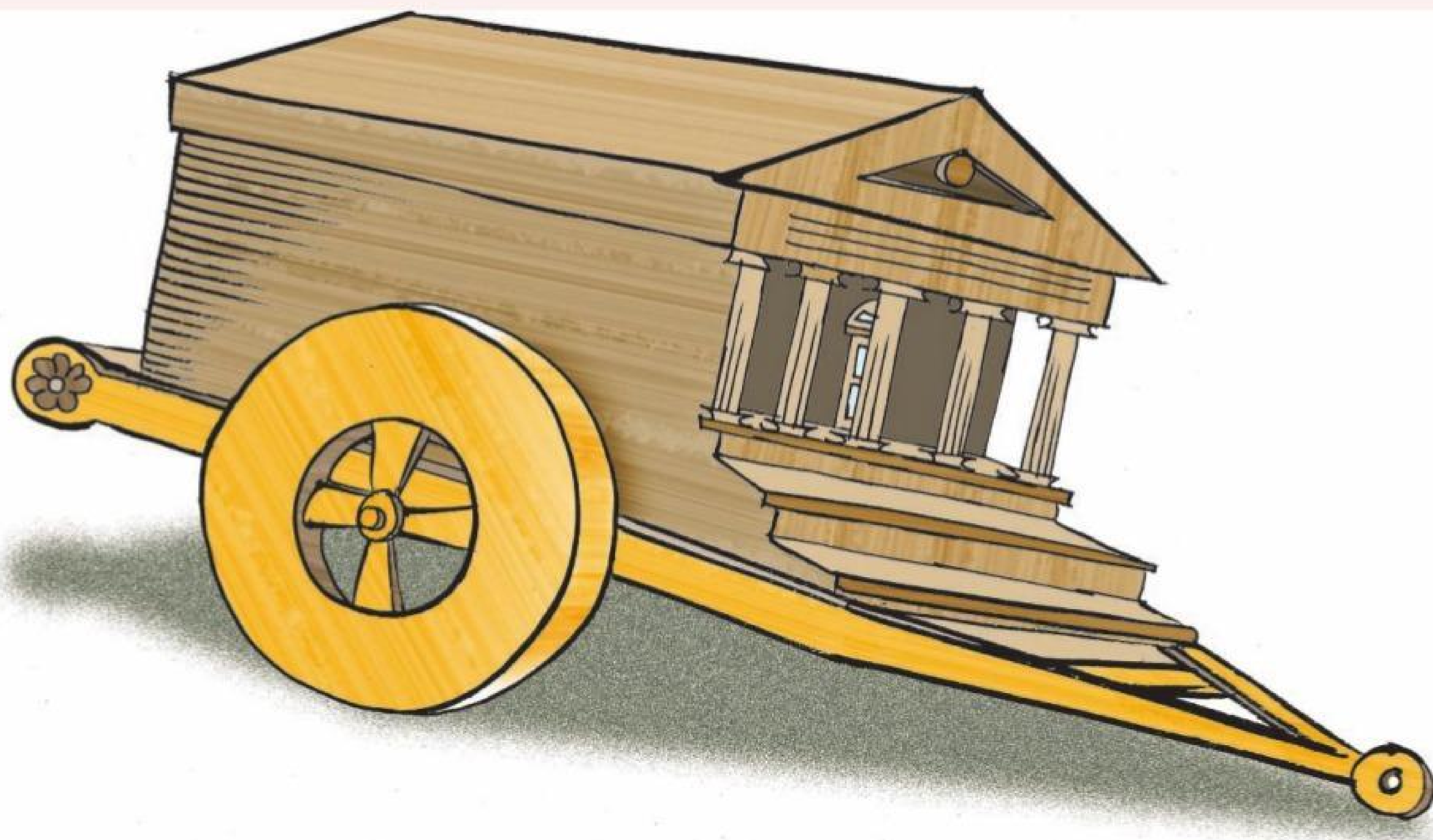

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CREDIT REPORT

A crisis of recognition

The recapitalisation of PSBs hides or even prevents some significant signals that are otherwise associated with a banking crisis. Because the government recapitalises banks, there are hardly any bank runs. The underlying crisis very much exists

RESERVE BANK OF INDIA (RBI) report released on December 24, 2019, showed that gross non-performing assets (NPAs) for the banking sector have come down to 9.1% in end-September, 2019 from 11.2% in FY18. However, we have seen such changes before. Unlike other countries, NPAs have resurfaced in India after 2000.

We all know that there have been serious difficulties in the banking sector. But is the situation grave enough to label it as a banking crisis? Yes. But before I explain this, it is important to understand why a label is important in the first place.

A crisis cannot be tackled till it is recognised as one. So far, there is hardly any acceptance that the trouble goes beyond huge NPAs. The difficulties are deeper, persistent and far reaching. The recognition that we have a banking crisis can be the beginning of a major policy change. At the moment, policymakers are not dealing with the chronic disease; they are providing a pain killer in the form of recapitalisation of banks. That too at an exorbitant and recurring cost. But policy change is a different story; the focus is on the recognition of a banking crisis.

We have had NPAs that stood at 14.6% in public sector banks (PSBs) as of March, 2018. To put this in context, considering the capital that banks hold, the PSBs as a whole had become bankrupt (and several PSBs were indeed individually bankrupt). The reason these banks survived lies in recapitalisation to the extent of ₹2.5 lakh crore over the last five years. This does not include recapitalisation that happened earlier and it, of course, does not include recapitalisation that is likely to be required in the future, if there is no major change in policy!

The recapitalisation of PSBs hides or even prevents some significant signals that are otherwise associated with a banking crisis. Because the government recapitalises banks, there are hardly any bank runs. But the underlying crisis very much exists.

Also, given that recapitalisation of banks happens sooner or later, there is little contagion from one bank to another or from the PSBs to other parts of the financial intermediation business due to sentiment, panic, etc. However, it is important to note the following. First, Hal S Scott in his 2016 book Connectedness and Contagion made an important distinction between the two terms. Even though there is little contagion here, there have been serious adverse effects of the difficulties in the banking sector on the economy due to connectedness between the two (due to 'fundamentals' in the economy). Second, despite the significant improvements in the bankruptcy proceedings due to the Insolvency and Bankruptcy Code (IBC) that was brought in in May, 2016, the process to resolve the NPA cases is still slow. Furthermore, and more important, it has been reported that "for every one case resolved, four cases end up in liquidation, where the recovery falls down sharply to 15-25% of the book."

Given that PSBs are inefficient and at the end of the day loss-making in the aggregate (though not always for any fault of their own), the competition for private sector banks and foreign banks is rather weak. The result is that these banks make good profits year and after year. Now, high profits are usually associated with efficiency, innovation, risk-taking, creative destruction, and so on. Also, high bank profits are usually associated with the absence, and not the presence, of a banking crisis. However, in the context of banking in India, it is possible for private Indian banks and foreign banks to make good profits year after year even if they are not great banks, thanks to the continued protection for the PSBs. The sustained high profits and impressive growth of a section of banks and NBFCs is in part, if not entirely, a perverse and counter-intuitive outcome of, what is and has been for a while, a crisis of a banking crisis in India!

Given that an Asset Quality Review (AQR) has been carried out for commercial banks and not for cooperative banks, the data for NPAs in the latter category of banks may not be reliable. But indicators suggest that NPAs there may be high too. The case of bad assets in Punjab and Maharashtra Cooperative (PMC) Bank is not an isolated one. There have been over 400 cases of cooperative banks over the period 2009-10 to 2018-19 with the Deposit Insurance and Credit Guarantee Corporation (DICGC).

AQR has also not been carried out for non-banking financial companies (NBFCs). So, again, it is hard to rely on the usual data on NPAs in such financial intermediaries. But there are reasons to believe that the problem is serious. The IL&FS case came to the surface in September 2018. But there can be many more NBFCs that have serious NPAs. It is also reflected in the credit spreads in debt instruments that have been issued by NBFCs (even if we leave aside the panic that gripped the debt markets for a while in India). It is well known that there are serious difficulties in the residential segment. There is a huge number of projects that are stuck, and there is a very big pile of unsold inventories in finished projects (estimated at ₹8 lakh crore for top-8 cities as compared to sales of about ₹2 lakh crore). It is, however, interesting that despite all this, so far average prices have not fallen much, if at all. This situation may continue. Alternatively, at some stage in future, prices may drop significantly. In that case, builders and investors may have serious difficulties in repaying or rolling over their debts. This will lead to another round of large NPAs; this is particularly true for housing finance companies (HFCs). The NPA problem does not stop here. NPAs are expected in Pradhan Mantri Mudra Yojana (PMMY). MK Jain, Deputy Governor of the RBI on November 27, 2019, highlighted this issue. It is true that there is no conclusive evidence at this stage that we have huge NPAs in cooperative banks and NBFCs, and in real estate loans (such evidence exists for commercial banks only). However, I would like to make two observations here. First, the lack of transparency itself suggests a serious weakness there. Second, in any case, there is a serious enough problem in commercial banks which still dominate the financial intermediation business.

There have been sizeable withdrawals by banks and mutual funds from short-term funding at NBFCs in a small span of time. This has, in turn, affected lending by such NBFCs. This alongside the slow-down in credit from PSBs to the industry is, in fact, an important reason for the growth recession in the economy in recent quarters. The degree of the credit slowdown in the Indian economy is mind boggling. From April-September, 2018 to April-September, 2019, the flow of funds from financial institutions to the commercial sector has collapsed from plus ₹1,85,083 crore to minus ₹1,28,760 crore. To come to the main point now, all the above facts and arguments imply that we can indeed label the current situation in banking as one of a banking crisis. This is, in fact, very much in line with the notion of a banking crisis in the well known book "*This Time is Different*"; published soon after the Global Financial Crisis (GFC) by Carmen M Reinhart and Kenneth S Rogoff. The banking crisis is very much here. It is time we recognised this. The recognition will pave the way for appropriate long-term policy changes.

TECHNOLOGY

Banking upon mobile tech

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AI & ML can do a lot for financial services penetration in the hinterlands

BRANCHLESS BANKING, EITHER through agent or mobile route, is claimed to be instrumental in driving financial inclusion. Safaricom's M-PESA (a subsidiary of Vodafone) in Kenya unleashed the utility of agent or mobile banking in 2007–08. A similar sort of business model has been adopted by many developing and least-developed countries. India is no exception.

As per Micro Save 2019, mobile banking penetration—recorded in terms of the number of transactions—was 513 million followed by agent banking, and bank ATMs (80 million) and bank branches (28 million) between 2005–18.

The departure from a 'brick-and-mortar' structure to branchless banking (agent & mobile) can be attributed to ICT adoption by users. This has led to a structural and technical reform in the financial services landscape in the last decade—by partnering the mobile network operators with financial services providers—which has allowed adoption of low-cost solutions to deliver a slew of financial services to the unbanked.

It is well-known that e-commerce has impacted the quality of financial services and expanded the scope for scalability and increased operating efficiency. Nonetheless, inclusiveness in institutional finance access remains an area of concern as about 54% of population is yet be into the fold of formal financial institutions (NABARD, 2018). RBI (2013) reported that 90% of small businesses have no links with formal financial institutions and 60% of the rural and urban population do not even have a functional bank account.

While (bank) account opening by a percentage of poor is a a yardstick to measure the degree of financial inclusion, access to financial institutions and appropriate use of bank accounts for accessing various financial products or services, namely saving, credit, investment, insurance, etc. ascertains the extent of financial inclusion in true sense. Nachiket Mor Committee (2010) appointed by the Reserve Bank of India suggested a differentiated banking structure (vertical and horizontal) to meet up the demand for financial services.

> The success of mobile or agent banking to financial inclusion depends on the level of financial literacy

A financial inclusion measuring scale known as 'global findex' developed by the World Bank in 2010 and revised in 2015 has already been replicated by many scholars in India. Their findings suggest that the determinants of borrowing like formal education, gender, age, demography can affect the extent of financial inclusion and can be strengthened through branchless banking. In such scenario, bank could appoint individual agents or organisations (for example, FINO fintech foundation) as business correspondents (BC). To prop up the extent of financial inclusion, the penetration and success of agent banking is counted on trust fostering and customer relationship, quality of service delivery, customer protection (data security and localisation), and cash availability.

Two mobile or digital banking models have evolved to drive financial inclusion.

Model I: Financial service providers, say micro-finance-NBFCs are tying with mobile network operator for rendering mobile financial services; for example, Musoni is the first completely cashless microfinance institution in the world wherein customers receive and repay their loans via Safaricom's M-PESA system.

Model II: Financial service providers are partnering with payment banks to leverage branch or access points. Aadhaar-enabled payment system (AePS) supported by the unified payment interface plays a pivotal role.

The success of mobile or agent banking to financial inclusion depends on the level of financial literacy. This can improve risk-sharing among rural communities and increase their demand for financial services, reduce economic volatility, improve intermediation, and fructify overall financial development.

Digital payment and credit system will drive financial inclusion and make new business model scalable, robust, and secure. Machine learning and artificial intelligence can do a lot for financial services penetration in the hinterlands and extend the drive of banking the unbanked.

Brand conscious

Does brand proliferation lead brand cannibalisation?

VIDYA HATTANGADI
Management thinker and blogger

BRANDING IS A COMPLEX process. It is a tough job for any marketer to personify a product or a service into an image, that is either liked or not liked. Marketers keep juggling with branding strategies. To introduce one new product and build a brand out of it is a very intimidating task. To have a plethora of brands in the portfolio can suffocate the basket of products. This concept of launching and managing a plethora of brands by one company is considered as Brand Proliferation. Brand proliferation is the opposite of brand extension. While in brand extension, new items are added using an existing brand name and several products are offered under the same brand name, in brand proliferation, more items are added to the product line with different brand names. In other words, the firm has several brands in the same product line or product category. It means that the list of independent brands increases. For instance, HUL has more than 20 brands of soaps; this produces diversity for the firm, enables it to capture its sizable portion into various market segments. However, it can also lead to money-spinning because of too many products, efforts and economic resources being wasted. Consumers get confused and make mistakes while purchasing products.

Each brand requires a different treatment, each brand is a unique identity, and each brand needs unique handling; the very dynamism of product proliferation makes it hard to manage the brand. Complexities multiply by an ever-changing landscape of customers who demand and companies' attempts to meet that demand with the formation of products and more product variations. Brand proliferation also leads to brand cannibalisation—each brand eating into the market share of another product from the same basket. ITC's soap portfolio consists of a product line with Essenza Di Wills at the top end, followed by Fiama Di Wills in the premium segment, Vivel in mid-segment and Superia at the entry-level. ITC seems to have segmented the market fittingly and has different products to cater to different segments. Moreover, Vivel is targeting young consumers who are ready to flirt with new brands.

On the negative side, when a firm introduces several brands in the same product line with an amount of parity among them, the danger of cannibalisation is high; the share of individual brands can come down because of sibling brands. Another disadvantage is that the company may dispel its resources over several brands, which may not guarantee proportionate returns, nurturing just a few brands to a highly profitable level often proves to be a wiser option. Having brands with distinctive positioning is, strategically, the best way of minimising cannibalisation. If different brands are designed to deliver different benefits to different segments of markets, it can restrict competition among brands. To avoid cannibalisation entirely is often impossible. It is not essential either, but one has to be sure whether a net incremental benefit that justifies the additional cost, also, complexity accrues by adding one more brand. When differentiation is not sensibly done the entire strategy can retort back.

Companies in their struggle to compete with other brands and the compulsions of growth often do not have kind of definite time at their disposal and time is the essence. They find takeover, acquisition and buyout of ongoing brands as an easy way out. For example, while entering India, Pepsi wanted to enlarge its brand portfolio and to ensure it without much gestation, it went in for out of some ongoing brands. Pepsi acquired the 105-year-old Duke's and gained two powerful brands, Duke's Soda and Mangola overnight. It gained a strong position in the Mumbai market which has dominated traditionally by Duke in the relevant categories. Similarly, Godrej acquired Transelectra, the company which revolutionised the Indian home insecticides market with many successful brands like Good Knight, Hit, Jet and Banish; it is an excellent example of acquisition of brands. The acquisition was part of Godrej's long-term strategy to become a substantial player in the growing home insecticides product market.

It is worth noting that most organisations do not go into the depth of examining their brand portfolios from time to time: this examination is essential to check if they are prone to sell too many brands, identify the weaker brands, and discontinue the loss-making brands or the unprofitable ones. When organisations tend to ignore loss-making brands and merge them with healthy brands instead of selling them off, or drop them, they choke the healthy brands. Furthermore, the startling truth is that most brands don't make money for companies. The 80-20 thumb rule is a reality that organisations make 80% of profits from 20% of their products from a small number of brands. Unilever had 1,600 brands in its portfolio in 1999, its business spread over in some 150 countries. More than 90% of its profits came from 400 brands. Most of the other 1,200 brands made losses, or they earned marginal profits.

Another example is Nestlé. In 1996 it marketed more than 8,000 brands in 190 countries, 55 were global brands, 140-odd were regional brands, and the remaining 7,800 or so were local brands. The bulk of the company's profits came from around 200 brands or 2.5% of the portfolio.

If only corporations realise that if they slot several brands into the same category, they incur hidden costs because multi-brand strategies and the decisions lead to a partial treatment to healthier brands. And, that brand proliferation strategy increases inter-brand rivalry.