



Narendra Modi to launch AB-PMJAY on October 29

New Delhi: The health coverage for all citizens aged 70 years under the Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) is likely to be rolled out by Prime Minister on October 29, an official source said. The U-WIN portal developed for maintaining an electronic registry of routine immunisations, which is currently operational on a pilot basis, will also be launched by Modi on the same day. Besides the two, some other projects will also be launched on Tuesday, the source said. PTI

Interest subsidy plan for exporters up for revamp

Move after FinMin sought justification

SHREYA NANDI

New Delhi, 27 October

With the finance ministry seeking “justification” for continuing the Interest Equalisation Scheme (IES) for exporters, the commerce department is exploring ways to revamp it to ensure the scheme meets the objectives outlined during its launch nine years ago.

The scheme is currently set to expire on December 31.

IES is an interest subvention initiative under which banks offer reduced interest rates to exporters on their pre- and post-shipment rupee export credits. Lenders are then compensated by the government.

Launched in 2015 for five years, the scheme aimed to alleviate stress among exporters, particularly in labour-intensive sectors, as well as micro, small and medium enterprises (MSMEs). Since then, it has been periodically extended.

“We are working on a revamped IES that more convincingly demonstrates due diligence regarding labour intensiveness and ensures benefits are properly passed on. Overall, the goal is to determine whether the scheme is serving the objectives outlined by IES,” said a source familiar with the matter.

The finance ministry has been of the opinion that the scheme enhances the profitability of exporters rather than their competitiveness, according to another source.

As a result, the scheme’s effectiveness is being reassessed, considering factors such as the overall cost of finance for exporters, utilisation of available funds, the correlation between export realisation and the subvention provided, and its impact on the growth of loans for exporters in sectors covered by the scheme.

Exporters, particularly MSMEs, believe the scheme has been helpful because credit costs for them are quite high. In some cases, the cost of credit has posed a bigger concern than freight costs.

Ajay Sahai, director-general and chief executive officer of the Federation of Indian Export Organisations, said that before making a decision on the extension, it will be crucial to take a holistic view.

“One should examine international key rates — India



OVERHAULING EXPORT SCHEME

■ Launched in 2015 for 5 years, the scheme aimed to alleviate stress among exporters

■ Commerce department plans IES revamp to ensure objective alignment

■ Scheme offers interest relief on pre- and post-shipment export credit

■ IES aimed at MSMEs, labor-intensive sectors to ease export costs

■ Recent changes cap benefits, limiting MSME exporters to ₹50 lakh annually

■ Over 75% of beneficiaries under the scheme were MSMEs in FY24

vis-à-vis other countries — and conduct a comparative study. It is essential to consider not only profitability but also whether IES mitigates the disability factor faced by exporters. In this case, the scheme helps insulate against the high cost of credit. Overall, it is beneficial for exporters and should continue,” Sahai said.

However, over the past year, the benefits under the scheme have been diminishing. Initially, the scheme applied to 416 identified tariff lines and to all MSME manufacturer-exporters across all export lines.

In June, the government extended IES until September 30, but it was limited to MSME exporters, excluding other exporters covering 410 tariff lines.

The scheme was then extended for another three months, but fiscal benefits for each MSME, on aggregate, were capped at ₹50 lakh for 2024-25 until December 2024. Previously, benefits to individual exporters were capped at ₹10 crore per annum.

The commerce department has also been advocating for the inclusion of both MSMEs and non-MSMEs with the scheme’s extension.

IDBI Bank stake sale gathers pace

HARSH KUMAR

New Delhi, 27 October

The Union Ministry of Finance is expecting to complete the privatisation process of IDBI Bank by March 2025, according to a senior government official familiar with the matter.

“As the Reserve Bank of India (RBI) has issued the ‘fit and proper’ certificate to the shortlisted bidders, the government is moving at full pace on the disinvestment of IDBI Bank, aiming to complete it by this financial year. We will give access to the virtual data room to the bidders by the second week of November,” said the official.

The government and Life Insurance Corporation (LIC) plan to sell a 60.72 per cent stake in IDBI Bank. As on December 31, 2023, LIC holds 49.24 per cent of IDBI Bank, while the government owns 45.48 per cent.

“KPMG, the transaction adviser, is facilitating the process by providing access to the bank’s data room for evaluation and addressing any queries. The next step involves finalising the draft Share Purchase Agreement in collaboration with the bidders,” the official added.

In the FY17 Union Budget, the government proposed reducing its stake in IDBI



LIC holds 49.24% of IDBI Bank, while government owns 45.48%

Bank to below 50 per cent. The strategic stake sale is seen as a test case for the government’s public-sector enterprise policy to reduce its presence in business. The Department of Investment and Public Asset Management (DIPAM) had received multiple expressions of interest for the proposed stake sale and transfer of management control in IDBI Bank.

The government forwarded bidders’ details to the RBI in January 2023. “One reason for the delay is the involvement of multiple players — private equity firms, NBFCs (non-banking financial companies),

a consortium — and not just banks (who are in the fray). In that case, the conditionalities are also detailed,” the official said.

The government received expressions of interest (EoIs) from multiple bidders on January 2, 2023. Once the RBI approves, the eligible bidders will conduct their due diligence on the bank.

“If a bank successfully bids to buy IDBI Bank, the promoters will be granted a reasonable period to merge the two entities in order to meet the RBI’s requirement that a promoter or promoters can hold only one bank licence,” according to source.

About the further disinvestment of other public-sector units, a senior government official said the pace of disinvestment would be slow in the current financial year.

“This year, we are expecting a slow pace in terms of disinvestment. Any disinvestment process requires lots of effort. Rather, we are focusing more on the growth of companies,” added the official.

The privatisation of the state-owned Shipping Corporation of India (SCI) could be delayed beyond FY25, as the Centre has been unable to resolve “documentation issues” with the state government following the demerger of its non-core assets, according to a senior government official who requested anonymity.

Progress on MDB reforms ‘disappointing’: G20 report

RUCHIKA CHITRAVANSHI
New Delhi, 27 October

Terming the steps taken towards the multilateral development banks’ (MDB) reforms suggested under India’s G20 presidency as “disappointing”, a G20 independent expert group has said the pace and ambition of implementation falls well short of what is required even though every institution has embarked on a programme of reform.

“Major shareholders of the MDBs must shoulder the main responsibility for this disappointing performance... Our judgement is that we are still falling well short of ‘good enough progress,’” the G20 Independent Expert Group Report Card on strengthening MDBs titled ‘An incomplete grade’ said.

The report card comes a year after the G20 independent expert group on

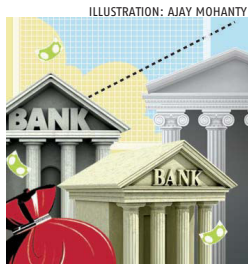


ILLUSTRATION: AJAY MOHANTY

FROM THE REPORT

- Major MDB shareholders are criticised for failing to back reform efforts with adequate resources
- Only \$70 billion of private capital mobilised last year, highlighting a conservative rather than transformative approach
- An estimated \$3 trillion annually by 2030 is required for global goals, with MDBs needing \$100 billion in new equity

Strengthening MDBs had made its recommendations for reforming these institutions.

It added that shareholders signalling of support for the overall agenda has not been matched in the implementation phase or in the provision of additional resources.

Authored by the co-convenors of the G20 expert group Lawrence Summers, former United States secretary of the Treasury, and Nand Kishore Singh, chairperson, Fifteenth Finance Commission of India, it highlighted that despite some commendable improvements, such as the expanded use of

guarantees, the aggregate volume of private capital mobilisation at about \$70 billion in the last year shows an incremental approach, not a radical transformation of business mode.

“Changing MDB relationships with the private sector has proven to be hard and difficult,” the report said.

The expert group in its report last year had said that an additional spending of some \$3 trillion per year is needed by 2030, a part of which can come from leveraging the current balance sheets and implementing the capital adequacy framework. The report said that there is an inescapable need for a significant increase in new equity of \$100 billion across all MDB institutions.

The report card presented on the sidelines of the annual meetings of the International Monetary Fund and World Bank in Washington DC said that the

MDBs have put in place measures to expand annual sustainable lending by making better use of their balance sheet and attracting additional capital through innovative channels. However, it noted, that the volumes involved - about 30 per cent of current lending volume - fall far short of the tripling they need, given their enlarged mandate.

“We had also recommended a tripling of concessional finance channelled through MDBs to the poorest countries, but we see few signs of any meaningful rise. Expanding mandates with insufficient financial resources will not work effectively,” the report said.

It said that the short-sighted approach of waiting until a crisis hits before acting forcefully on MDB reform will turn out to be a costly misjudgment. “Time is not on our side,” the report added.

Das receives A+ in Central Bank Report Cards 2024

ANJALI KUMARI

Mumbai, 27 October

Reserve Bank of India (RBI) Governor Shaktikanta Das received an A+ grade in the Central Bank Report Cards 2024 for the second consecutive year.

The award was presented by Global Finance in Washington, D.C. Grades were assigned on an “A+” to “F” scale, evaluating success in key areas like inflation control, economic growth targets, currency stability, and interest rate management.

An “A” reflects outstanding performance, while an “F” indicates a clear failure.

Since 1994, Global Finance has published the Central Bank Report Cards annually, grading central bank governors from nearly 100 key countries, territories, and regions, including the European Union and various central banks in the Caribbean and Africa.

Governor Das is credited with many achievements, particularly how he navigated the pandemic challenge and then the war in Europe amid global central banks’ increasing interest rates. During his tenure, the banking sector has become resilient, improving profitability and maintaining healthy capital.

During his tenure, India’s foreign exchange reserve has expanded by \$311 billion. During the tenure of the past five governors, the total reserves expanded the most, followed by \$200 billion expansion witnessed during the tenure of Dr YV Reddy. During 2024 (up to October 11), India’s



RBI Governor Shaktikanta Das got the grade for the second straight year PHOTO: PTI

SBI named best bank in '24

State Bank of India (SBI) was recognised as the best bank in India for 2024 by Global Finance Magazine of the US at its 31st Annual Best Bank Awards event held during the sidelines of Annual Meetings of the IMF and the World Bank. SBI Chairman CS Setty received the award.

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reserves saw a net increase of \$68 billion, positioning the country as the second-largest accumulator of foreign reserves, behind only China, among major reserve-holding nations.

When deposits become 'assets' of banks

Offering a higher interest rate is an easy but costly solution. It's time for banks to innovate

My neighbour Mr Fernandez has resumed his habit of visiting bank branches. A super senior citizen, he earlier used to visit the branches often. But he stopped as branch staff started hounding him, selling mutual funds and insurance policies.

He has kept his money with two banks – a private and a public-sector bank. The “treatment” was the same at both banks.

Last month, the relationship manager of one bank dropped by Mr Fernandez's house. She convinced him to open a fat fixed deposit (FD) with the bank as a large amount in his savings bank account was earning very low interest. She also promised that Mr Fernandez would no longer be “harassed” if he decided to visit the branch.

She didn't lie. The first branch visit after a gap of three years was a pleasant surprise for Mr Fernandez. The branch manager ushered him into his glass cabin and offered him a cup of coffee. Instead of selling him mutual funds and insurance policies, he floated the idea of opening another FD for a higher return.

The branch manager also suggested that Mr Fernandez opt for a sweep-in facility. Such a facility ensures whenever funds in his savings account drop below a certain level, money will flow from the FD to his savings account without affecting the interest rate on his fixed deposit.

Banks are desperately looking for deposits as high credit deposit (CD) ratio is staring at them. Until this phenomenon had hit them, they were happy earning commission and fee income, aggressively selling mutual funds and insurance products. Now, they have reached a stage where they need to choose between fee income and interest income. (Of course, they can always earn processing fees from loans.)

They can't afford to win away depositors' money into these avenues any more as their credit growth will be affected, with deposits failing to meet the credit demand. This will also bring down their interest income.

Banking is the only business in the world where raw material and finished products are the same – only packaging changes.

Lime, silica, alumina, calcium sulphate, iron oxide, magnesia, sulphur trioxide, soda and potash are used to produce cement. Similarly, the ingredients for making a pizza are flour, yeast, mozzarella cheese, white sugar, tomatoes, onion and olive oil. But banking is about taking Mr Fernandez's money as deposit and passing it to, say, Mr Tripathy, as a loan. Money could be kept in savings accounts, fixed deposits or recurring

deposits and the loan could be a home loan, auto loan, personal loan or working capital and term loan (for corporations), but the ingredient remains the same – money.

On a bank's balance sheet, the deposits are placed on the left side and loans and investments on the right. The deposits are a bank's liability and loans and investments are assets.



BANKER'S TRUST

TAMAL BANDYOPADHYAY

Mobilisation of deposits is not easy as depositors run the risk of losing money if a bank fails (up to ₹5 lakh worth of deposits enjoy an insurance cover). Choosing the borrowers is equally tough; if a borrower does not pay up, a loan turns

bad, and the bank needs to provide for it. This affects a bank's profitability and capital.

Even after giving a loan, a bank needs to keep a hawk eye on the borrower to make sure that the account doesn't turn bad. In contrast, once a depositor is in, nothing needs to be done till an FD is due for renewal.

For every ₹100 worth of deposits, banks need to keep ₹4.50 with the Reserve Bank of India (RBI) under the cash reserve ratio requirement. Another ₹18 is spent on buying government bonds under the statutory liquidity ratio requirement. This means, they are left with ₹77.50 to lend for every ₹100 worth of deposits. That's not exactly the case as most banks invest far more in government bonds. Besides, depending on the profile of the liabilities, they also need to keep additional 3-4 per cent of deposits under liquidity coverage ratio requirements. Of course, they use their capital too to lend.

In FY24, banks' CD ratio rose from 75.8 per cent to 80.3 per cent, the highest level since FY05. It had been hovering around 80 per cent since September 2023 before the recent downward movement. In fact, in March this year, the incremental CD ratio was 95.94 per cent.

As on October 4, year-on-year credit growth had been 12.8 per cent and deposit growth 11.8 per cent -- leaving a gap of 1 percentage point. At the beginning of the current financial year (on April 5), year-on-year credit growth was 19.9 per cent vs 13.8 per cent deposit growth – a gap of 6.1 percentage points. (Of course, they are not exactly comparable as the base of the credit portfolio is lower than the deposit portfolio.)

Many reasons have been cited for the low growth in deposits.

The most prominent among them is that the community of savers has become investor. Instead of keeping money with banks, they are investing in the stock market – buying equity directly as well as putting money in

mutual funds. The counter argument is: The money ultimately comes to the system. Instead of coming from individual savers, it is flowing through a different route. Of course, the cost of such money and maturity and tags are different from deposits.

Another reason is that a large segment of the population does not have money to keep in banks. India's household savings as a percentage of gross domestic product (GDP) has declined from 22.7 per cent in 2021 to 18.4 per cent in 2023. This is a 47-year low.

The theory that every credit creates new deposits may not always work, particularly if the money raised as a bank loan is used for investing in the stock market.

Everyone agrees on one issue: The cash management by the government – both at the central and state levels – has affected banks. Instead of keeping money with banks, the governments are now keeping money with the RBI. Particularly during the general elections, the government's cash balance with the regulator was huge.

Bankers feel that their hands are tied and they cannot fight with mutual funds. Typically, the return from mutual funds is higher than bank deposits. On top of that, there's tax advantage on such returns while interest income on bank deposits is taxable (depending on the customer's annual income)— even before it is realised. If one keeps a two-year FD, the tax clock starts ticking from the first quarter itself, even though the FD will mature after two years. This is not the case with mutual fund returns.

What can banks do to raise deposits? The easiest solution is raising the interest rate. But this will impact their profitability as they will not be able to raise loan rates when the policy rate is set to go down.

It's time for banks to innovate. State Bank of India has spoken about targeting trusts, societies, associations and clubs as well as the Jan Dhan accounts for deposits. Another bank has introduced a liquid product – one can withdraw money after seven days but earns the FD rate. And many banks are planning to expand their branch network to reach out to more people for deposits.

After the savings bank rate was deregulated in 2011, a few private banks experimented with savings bank products. When it comes to FDs, we have not seen innovation, barring floating-rate FDs, which never took off. It's time to innovate. Depositors are not the liability of the banking system; they are the real assets.

The financial system should also prepare itself for structural changes. In most developed nations, corporations source money from the market, not banks. This means we need a more vibrant corporate bond market. That's a separate story.

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Stop, think, then take action: PM's mantra to counter 'digital arrests'

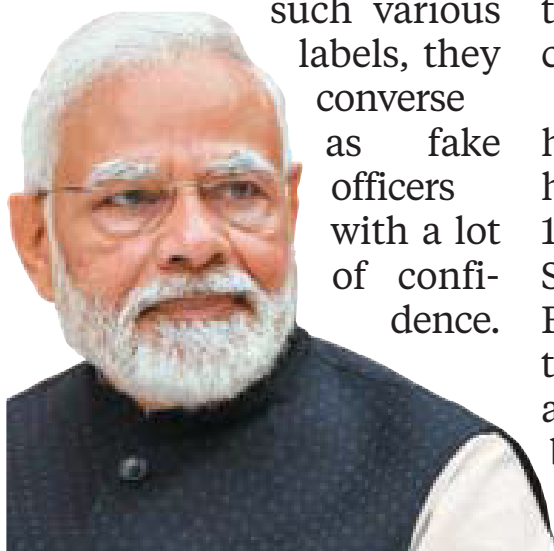
Prime Minister Narendra Modi on Sunday flagged the issue of fraudsters targeting people with the cyber crime of "digital arrests" and urged people to adopt the mantra of stop, think and take action-when faced with such a scam, asserting that these steps will provide digital security to them.

In his monthly 'Mann ki Baat' broadcast, he said probe agencies are working with states to deal with the issue but added that awareness is essential in protecting oneself from this crime.

He also shared a conversation between a victim and a fraudster to highlight the cyber crime of digital arrest.

"The fraudsters of digital arrest phone calls, at times, impersonate as police, CBI, Narcotics; at times RBI... using

such various labels, they converse as fake officers with a lot of confidence.



Scammers use fear, urgency: Cyber agency

Indian cyber-security agency CERT-In on Sunday shared a list that talks about more than a dozen ways in which online scams are being perpetrated by fraudsters in the country, including "digital arrest" to dupe people by stealing their money and private data.

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Explaining the modus operandi of such fraudsters, he said they collect personal information as their first move and then in their second move create an atmosphere of fear.

The prime minister also highlighted that the country has decided to celebrate the 150th birth anniversary of Sardar Vallabhbhai Patel and Bhagwan Birsa Munda, noting that while Patel's 150th birth anniversary celebrations will begin from October 31, Munda's will start from November 15.

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ICICI Bank beats sector blues

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Amid a shortage of deposits, an emerging pain point for the banking sector is the stress in retail and rural segments. Slowdown in FMCG sales and recent earnings of some banks mirror this concern. In this background, private sector lender ICICI Bank's standalone September quarter (Q2FY25) result is commendable. The bank has managed the stress in retail and rural portfolio well through aggressive write-off.

Net addition (after recoveries and upgrades) to gross NPA of ₹1,754 crore during Q2FY25 came entirely from retail and rural portfolio. The bank has written off NPAs worth ₹3,336 crore as against ₹1,753 crore in Q1FY25. Higher credit costs pulled down the growth in core profit before tax to 9% year-on-year even though core pre-provision operating profit (PPOP) rose 13% year-on-year (y-o-y) to ₹15,502 crore. Here, core profit refers to profit excluding dividends from subsidiaries, associates etc. and treasury MTM.

Despite healthy year-on-year growth in net advances of 16%, the net interest



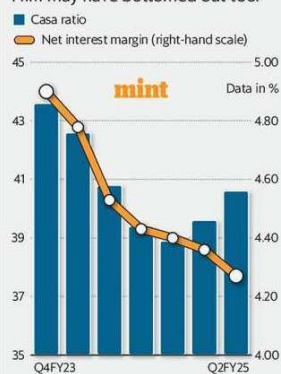
The bank has written off NPAs worth ₹3,336 crore in Q2FY25.

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income rose only 9.5% reflecting the pressure on net interest margin (NIM). Yield on interest earning assets remained steady at 8.63% y-o-y, but cost of funds increased 31 basis points (bps) to 5.09% mainly because of higher cost

Turning the tide

With Casa ratio showing an uptick in the past two quarters, ICICI Bank's NIM may have bottomed out too.



Casa ratio is percentage of current account and saving account deposits to total deposits
Source: Company

PRANAY BHARDWAJ/MINT

of deposits. NIM shrunk by 26 bps y-o-y to 4.27%. The sequential decline in NIM was smaller at 9bps, which shows that NIM has stabilized till there is a turn in the interest rate cycle, according to the bank's management. Fee income rose

by 13% to ₹5,894 crore.

Operating expenses rose 7% as the bank has managed to rationalize some of its costs. One prime example being the reduction in number of ATMs and CRMs from 17,102 to 16,120 sequentially. Consequently, cost to income ratio improved significantly from 40.9% to 38.6%. Even sequentially, the ratio improved by 110 bps.

The bank's return on assets (RoA) came in at 2.4% in Q2FY25, much higher than 1.9% recorded by HDFC Bank, its bigger rival. Even if credit-deposit ratio, which shows liquidity position, is compared, ICICI Bank has fared better at 84% in Q2FY25 versus 101% of HDFC Bank as it stays inflated after the merger with the parent. At a time when most banks are feeling the deposit crunch, ICICI Bank has done well with its average deposits growing by 16% y-o-y with the share of low-cost current account and savings account (Casa) deposits remaining steady at nearly 41%.

The bank's retail loan book growth details show that the secured loans like

vehicle loans grew by 8% whereas the personal loans and credit card loans, relatively riskier as they are unsecured, surged by 20%. While the overall share of the unsecured loans remains moderate at almost one fourth of total retail loans and 14% of total advances, the portfolio needs to be monitored closely for any further signs of stress.

The bank remains well capitalized with a common equity tier-1 ratio of 16%, which means that it does not have any pressure to raise capital for growth at least in the near future.

Meanwhile, in the last one year, ICICI Bank stock has outperformed all the leading private sector banking stocks by gaining 37%. Yet, its valuation does not appear frothy. Adjusted for the value of subsidiaries at about

₹200-250 per share as per the estimates of various brokerage houses, the stock trades at P/ABV of about 2.25x based on Motilal Oswal Financial Services' estimate for FY26. This is a nearly 10% premium to that of HDFC Bank, which seems justified given almost 20% higher RoA.

SMART STRIDES

THE bank managed retail and rural stress well through aggressive write-offs

ICICI Bank's RoA came in at 2.4% in Q2FY25, much higher than 1.9% recorded by HDFC Bank

Top firms back NFRA's new group audit rules

Regulator proposes to raise lead auditor accountability to ensure quality

Gireesh Chandra Prasad

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NEW DELHI

The National Financial Reporting Authority's (NFRA) board will soon consider enforcing tighter norms for statutory audits of conglomerates, two people aware of the development said, a move that has received support from some of the top audit and consulting firms.

The period for receiving public feedback ends this month and the NFRA's 12-member board is expected to meet soon after, said one of the people seeking anonymity. It will consider the proposal for making the auditor of a holding firm of business groups responsible for consolidated financial statements even if subsidiary accounts are signed by other auditors.

"Implementation will be based on the decision of NFRA's board, which comprises representatives of Sebi, RBI, Comptroller and Auditor General of India and two independent members. The board's decision will be notified," said the person.

NFRA is set to go ahead with the changes even as audit profession's self-regulator, the Institute of Chartered Accountants of India (ICAI), had called for a "pause" on harmonizing domestic audit norms for group companies with the global practices to allow for "a comprehensive review and discussion with all relevant stakeholders".

NFRA has offered a carve-out for audit of certain businesses from the proposed norms so that small auditors' concerns over larger audit firms increasing their market share are addressed.

BSR & Co. LLP., PwC in India, Grant Thornton Bharat and another leading audit firm, which did not wish to be named, supported NFRA's tighter norms.

"BSR & Co LLP believes that alignment with the global standards is a step in the right direction for audit quality," the firm told *Mint* about NFRA's proposed amendments to SA600, the audit standard dealing with group financial statements. "Any changes should allow for education and transition for the audit profession."

While BSR has a contractual arrangement with KPMG to share certain methodology, tools, software and training, it is an independent firm.



The amendments aim to address gaps in group audits, flagged as "severely deficient", with lead auditors overly relying on subsidiary auditors.

ISTOCKPHOTO

The amendments seek to fix gaps in the current regime of audit of business groups which the regulator has said are "severely deficient" as the lead auditor of holding firm was seen placing a "mechanical reliance" on auditors of subsidiaries. NFRA said in some group audit cases it investigated, there were signs of siphoning funds using promoter-led subsidiaries.

Sanjeev Krishan, chairperson, PwC in India, said with the proposed changes,

Grant Thornton Bharat, said it has always supported regulatory initiatives that aim at enhancing audit quality. "As indicated by trends in regulatory findings, SA600 was clearly in need of alignment with the international standards and we are glad to see the proposal in that direction, albeit in a staggered manner. It is encouraging to see the regulators presenting their rationale for the proposed changes, including their consideration of apprehensions related to the alignment."

NFRA's proposed change applies to public interest entities under the regulator, barring state-owned companies, banks, insurers and respective branches. "We do believe the proposal will work toward bringing in global best practices in group audits with clarity in the role of principal auditor, enhanced transparency in component reporting and essentially enhancing trust in financial reporting," said Chandiook. The principal auditor oversees the holding company, while components refer to its subsidiaries.

Queries emailed to the NFRA, ICAI and SRBC & Co. LLP., a leading audit firm, on 23 October seeking comments remained unanswered at the time of publishing.

For an extended version of the story go to livemint.com

EMBRACING GLOBAL STANDARDS

NFRA will go ahead with the changes even as ICAI called for a comprehensive review of proposals

IT proposed carve-outs to ease small auditors' concerns about larger firms expanding mkt share

THE changes apply to public interest entities, barring state-owned firms, banks and insurers

NFRA aims to adopt best global accounting and auditing standards to ensure Indian practices align with international standards. "This initiative, coupled with proper training and appropriate transition time, will foster investor confidence and create trust among stakeholders," Krishnan said. "It will help establish an enabling framework that supports sustainable economic growth while upholding highest standards of accountability, positioning India as a leader in financial governance."

Vishesh C. Chandiook, chief executive,

Post-rejig, FinMin may extend interest equalisation scheme

Amiti Sen

New Delhi

The Finance Ministry may consider extending the popular interest equalisation scheme on pre- and post-shipment rupee export credit beyond the year-end if the Commerce Department suitably revamps it. It has to be “more convincingly” established that the scheme is serving the objective of promotion of exports of labour-intensive items and actually benefitting MSMEs, sources have said.

“The Directorate General of Foreign Trade is looking at ways to tweak and revamp the scheme to make the interest equalisation scheme more acceptable to the Finance Ministry in terms of its usefulness,” a source tracking the matter told *business-line*. The scheme, first implemented in April 2015 for five years, allowed exporters of around 410 identified items and all MSMEs access to bank credit at a subsidised interest rate. The banks are reimbursed for their lower interest earnings by the government.

Details on P3

● PEER PRESSURE

Why P2P lending has RBI on edge

IN A FLUX. Forced to drop many of its attractive features, peer-to-peer lending faces an existential crisis in India

Piyush Shukla

After the Reserve Bank of India's clampdown on peer-to-peer (P2P) exchanges in August this year, the industry's asset under management (AUM) plummeted by 35 per cent — from an estimated ₹10,000 crore to ₹6,500 crore. No surprises there, since the RBI's restrictions targeted features that were most attractive to potential investors — tenure-linked assured minimum returns and liquidity options — apart from mandating T+1 settlement cycle.

A P2P platform's role is limited to facilitating transactions between lenders and borrowers without participating directly in the lending or borrowing process.

While opinions differ on the industry's ability to comply with the new norms, *businessline* takes a look at the past, present and likely future of P2P lending in India.

INFORMAL LENDING

Talk of regulating P2P lending first emerged in 2016, to curb informal moneylending. Citing the global pickup in P2P lending and newer entrants in India, the RBI floated a discussion paper on whether regulation was needed or not.

The arguments against included inadvertently lending credibility to P2P lending, with the stamp of regulation; stifling growth; and the absence of any immediate systemic risk from the nascent sector.

Those calling for regulation argued that P2P lending cannot be overlooked owing to the growing potential of online trading; P2P lending caters to underserved borrowers and, if regulated, it can facilitate cheaper loans for such borrow-



GO-BETWEEN. Peer-to-peer lending platforms facilitate transactions between lenders and borrowers ISTOCK

ers more effectively; if left unregulated, the sector may be riddled with unhealthy practices.

After the feedback from stakeholders, the RBI in 2017 issued master directions on P2P lending in India, specifying the scope of activities for the lenders, eligibility criteria, and transparency and pricing disclosure requirement, among other norms.

WHAT WENT WRONG?

According to an RBI official, who requested anonymity, P2P exchanges began acting like a bank, drawing the ire of the reg-

ulator. They pocketed the spread between the borrowing rate and the interest that a lender charged on the platform.

"They were brought on board to curb moneylending, but started acting more like a bank than an exchange. Features like instant withdrawals, fixed withdrawals made investors feel there is no credit risk to the instrument," the official says. The RBI's restrictions soon followed.

The regulator declared that P2P exchanges cannot utilise the funds of one lender to replace those of another, effectively killing the secondary mar-

ket. It also stressed that P2P players must disclose their fees at the time of lending.

The RBI also disallowed the practice of matching and mapping participants within a closed user group, whether through an outsourcing agency or otherwise.

There are divergent views on the likely future of P2P lending in India. A large P2P exchange has stopped onboarding new customers since August 16, leading to 30-35 per cent loss in AUM, an official said.

"RBI officials are visiting our

offices to assess whether we are in compliance with the new norms. If some of the secondary market features are not revived, the industry may see a sharp fall in volumes. Large players like us are thinking of giving up the licence," a company official said.

But not all are pessimistic.

Bhavin Patel, founder and CEO, LenDenClub, argues that in any regulated business some players will push the boundaries till the industry reaches product-market fit.

"Before the guidelines were announced, many young entrepreneurs, including technocrats, participated in this segment. In the US and Europe market, too, young players pushed the boundaries until regulators stepped in," he says, adding this was common in Southeast Asian countries like Indonesia, Vietnam and Thailand, too.

While customers looked for products with liquidity, re-investment, automated selection of borrowers, and secondary market of loans, among other features, the RBI is wary of premature loan exits.

"We were never into liquidity on our platform. We also immediately halted the secondary market product we had with one partner," Patel says.

"Auto-lending was discontinued, as it needed flow change, but this did not affect customers," he says.

Neha Juneja, CEO, IndiaP2P, says the exchange enables finance for women running small businesses, avoiding usurious moneylenders.

"We made adjustments to technology and staff training, and relaunched a few weeks ago," she says.

"I think the RBI wants the industry to take a different direction. While investor sentiment is low, P2P players have to rebuild trust," she says.

FinMin wants suitable revamp of interest equalisation scheme before further extension

Amiti Sen
New Delhi

The Finance Ministry may consider extending the popular interest equalisation scheme on pre- and post-shipment rupee export credit beyond the year-end if the Commerce Department suitably revamps it. It has to be “more convincingly” established that the scheme is serving the objective of promotion of exports of labour-intensive items and actually benefiting MSMEs, sources have said.

“The Directorate General of Foreign Trade is looking at ways to tweak and revamp the scheme to make the interest equalisation scheme more acceptable to the Finance Ministry in terms of its usefulness,” a source tracking the matter told *businessline*.

The scheme, first implemented in April 2015 for five years, allowed exporters

The Finance Ministry wants it to be convincingly established that the scheme aids labour-intensive exports, MSMEs

of around 410 identified items and all MSMEs access to bank credit at a subsidised interest rate. The banks are reimbursed for their lower interest earnings by the government.

After 2020, the interest equalisation scheme has been extended several times for smaller periods.

In August 2024, the fund-limited scheme was extended only for MSME manufacturer exporters till September 30, 2024 following which it was given another three months extension till December 31, 2024.

The fiscal benefits of each

MSME, on aggregate, will be restricted to ₹50 lakh for 2024-25 till December 2024.

“The Finance Ministry wants the Commerce Department to go with a revamped scheme which puts forth more convincingly that due diligence regarding labour intensiveness has been done, the benefit is being passed on properly to MSMEs and it is serving the objective that was outlined for the scheme,” the source said.

NO MAJOR SCOPE

The scope of revamping the scheme is not too wide, the source pointed out.

“The variables include the kind of products it will cover and the rates. These are actually the only major ones. The scope of revamping is less.

But since the Finance Ministry has said that it wants a revamp, it has to be done and we will go back with something that will hopefully be satisfactory,”

the source added. The Finance Ministry seems to be under the impression for long that the interest equalisation scheme is only putting some extra money into the hands of some exporters and is not actually helping in promoting exports, a Delhi-based exporter pointed out.

“In today’s competitive global market, exporters are operating with wafer thin margins.

“The interest subsidy acts as a much needed support that helps Indian exporters retain their competitiveness against exporters from other countries who have access to cheaper finance.

“If the scheme is withdrawn, many MSME exporters may decide to shut down operations,” the exporter said.

In April-September 2024-25, India’s goods exports grew by 1 per cent to \$213.22 billion, while imports increased by 6.16 per cent to \$350.66 billion.

US banks prepare to share consumer data

New rule seeks to foster healthy competition

Bloomberg

US banks will now have to give customers access to their financial data after the top consumer watchdog finalised a long-awaited rule aimed at fuelling more competition for financial products and services.

Under the Consumer Financial Protection Bureau's open banking measure, consumers will be able to demand, download and transfer their highly-coveted data to another lender or financial services provider for free. The rule is aimed at making it easier for consumers to shop around for better rates and switch providers, which in turn will help lower the price of loans and improve services by boosting competition, CFPB Director Rohit Chopra said in a recent statement.

"Too many Americans are stuck in financial products with lousy rates and service," Chopra said. The rule will empower people to get better rates and service on bank accounts, credit cards, and more, he added.

Even if consumers don't take any action, they could still benefit as lenders pro-actively offer them better service or rates to prevent consumers from jumping ship, Chopra told *Bloomberg News*. The rule could also urge lenders to consider different, newly accessible data in consumer loan applications, he added.

The measure breaks banks' hold on data from savings patterns and checking account to rent payment history — a set-up where some firms made switching harder to help boost profits, says Chopra. The effort stems from the financial crisis, when Congress enacted the Dodd-Frank Act with section 1033 giving consumers rights to access their financial data. An initial proposal was made public last year.

Banks and credit unions with more than \$850 million in assets must comply with the rule. The largest institutions have until April 2026 to adhere,



WATCHDOG. Rohit Chopra, director, Consumer Financial Protection Bureau BLOOMBERG

while smaller institutions have until April 2030. Non-depository firms of any size also have to comply, according to CFPB.

FINTECHS BENEFIT

Fintechs like PayPal Holdings Inc's Venmo and Betterment LLC are poised to benefit from a more connected ecosystem of consumer financial data. Consumer advocates and the fintech lobby have long called for regulators to make it easier for people to fire a financial services provider that does not satisfactorily meet their credit needs, as a way to bolster competition.

Plaid, which connects consumers' bank accounts to fintech apps and services, said the rule puts consumers in the driver's seat.

Wall Street industry groups, however, have argued that the CFPB rule could expose them to liability if a third-party is compromised, among other concerns. A spokeswoman for the US bank JPMorgan Chase & Co called the measure "anything but" safe.

"This isn't open banking — it's open season for more fraud and scams," Trish Wexler, the JPMorgan spokeswoman, said over email.

Chopra said the rule institutes strong privacy safeguards. Any company authorised by a consumer to access their data can only use that data to provide products or services the consumer asked for, he said at a recent conference.

Governance, compliance in focus as RBI cautions lenders against lapses

BY
INVITATION



UMESH MOHANAN

Gold loans are used by many Indian households to meet financial exigencies — the organised gold loan market is valued at ₹7.1 lakh crore and expected to cross the ₹14-lakh-crore mark within four years, according to a recent PWC report.

Nevertheless, the segment has its share of problems. Governance and compliance lapses are rising in tandem with the growth in gold-loan assets. This issue came to the fore again recently, after the Reserve Bank of India issued a directive highlighting the irregularities in loan sourcing, appraisal, valuation, auction, end-use monitoring, loan-to-value (LTV) ratio monitoring, and application of risk weights.

Specifically, the banking regulator cautioned banks and non-banking financial companies (NBFCs) against the practice of rolling over loans at the end of the term, evergreening, non-categorisation of gold loans as non-performing assets (NPAs), multiple gold loans under the same PAN, lower realisation from gold auctions, and closure of loan accounts soon after sanction.

The RBI also highlighted serious lapses such as gold valuation in the absence of customers, credit appraisal and valuation by fintech firms or business correspondents (BC), gold-keeping in the BC's custody, delayed transportation of gold to bank branches, outsourcing 'know your customer' (KYC) compliance service to fintech partners, and poor verification of end-use of funds.

UNORGANISED PLAYERS

Considering the popularity of gold loans and its deep impact at the grassroots level, regulating the segment is top priority for the RBI. However, this proves challenging, given the dominance of unorganised players at nearly 63 per cent, according to the PwC report.

They provide quick loans with little or nil documentation but at exorbitant interest rate. Customers also risk losing valuable



YELLOW LIFELINE. Organised sector gold loans have registered a compound annual growth rate of 25 per cent during FY20-24 BLOOMBERG

collateral. The silver lining is that specialised gold-loan companies and banks are gaining ground.

Notably, the bigger presence of commercial banks promises to make the gold loan market more transparent, regulated and accountable. Public sector banks offer gold jewellery-backed farm loans at lower interest rates. A recent RBI report shows that gold loans from banks are increasing at 41 per cent year-on-year, as of August this year.

Overall, organised sector gold loans have registered a compound annual growth rate (CAGR) of 25 per cent between FY20 and FY24, says an ICRA report. Banks dominated this segment with a higher CAGR of 26 per cent since agri loans were included. Banks also have the advantage of low-cost funds. Gold loans offer a means for diversification and risk mitigation through a secured portfolio. This would help strengthen customer base too, says the PwC report.

NBFCs grew their gold loan business at 18 per cent during the period. They have an edge over banks as they employ innovative ways, including digital and AI tools, to boost business. Moreover, banks appear unable to explore the gold-loan market to the full extent as it doesn't fall in their core business area.

FINTECH CHALLENGE

With the emergence of new technology partners such as fintechs, systemic risks are on the rise.

The RBI's observations are aimed at making intermediaries — third-party service providers and technology partners — more reliable. It is a stern message for lenders to ensure compliance when partnering with fintech companies and outsourcing core business operations, or risk disastrous outcomes.

The RBI appears a bit wary about the role of fintechs. Though fintechs are contributing significantly to financial inclusion, digitalisation, 'ease of doing business', and streamlining of loan processing, some do stray from their prescribed roles. The onus is on the lenders and NBFCs to ensure their tech partners follow regulatory guidelines, corporate governance practices, and ethical standards. In fact, regulating fintechs is priority for RBI, as was apparent from the alacrity with which it appointed the Fintech Association for Consumer Empowerment (FACE) as the first Self-Regulatory Organisation for Fintech (SRO-FT) in August this year. More SROs may be in the offing as fintech regulation requires cutting-edge technologies and close coordination with other regulators.

The RBI's scrutiny and three-month window to address procedural lapses and accounting follies offer gold-loan entities an opportunity to create robust internal mechanisms to avert a systemic collapse.

RBI expects daily UPI transactions to hit a billion in months

SACHIN KUMAR
Mumbai, October 27

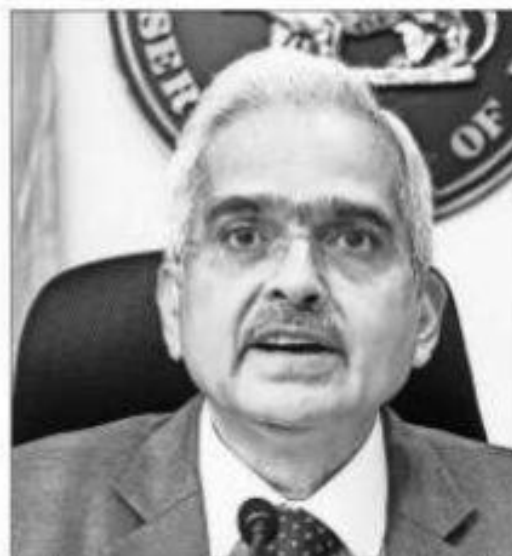
THE RESERVE BANK of India (RBI) expects daily Unified Payments Interface (UPI) transactions to reach the milestone of one billion in the next few months, from 500 million transactions per day at present.

At a panel discussion during Group of Thirty's Annual International Banking Seminar in Washington, DC on Saturday, governor Shaktikanta Das said the RBI will not rush to announce a nationwide rollout of the central bank of digital currency (CBDC), as it aims to conduct thorough trials and be fully confident about its design, robustness and security before considering broader implementation.

"UPI has brought in high efficiency into the payments system. Today, the number of transactions that takes place in UPI per day is about 500 million," said Das. "We are trying to step it up further and the idea is to reach 1 billion transactions, may be in the next few months."

The average daily transaction count crossed 500 million in September, up from 483 million in August, according to the National Payments Corporation of India (NPCI) data. In September 2024, UPI processed 15.04 billion transactions, valued at ₹20.64 lakh crore.

The RBI is taking steps to link UPI with payment systems of more countries. "UPI has actually got a lot



Daily transactions of 500 mn take place in UPI, said **Shaktikanta Das**

of potential for cross-border payments. We have also taken the initiative of linking the UPI of India with the fast payment systems of other countries," Das said. UPI is now available in seven countries – France, the UAE, Singapore, Bhutan, Sri Lanka, Mauritius and Nepal.

On e-rupee, the governor said the RBI will take a measured approach to a nationwide rollout of the CBDC. The most significant potential of the CBDC lies in cross-border payments. By eliminating multiple intermediaries, CBDC can facilitate low-cost, fast and instant cross-border money transfers.

The RBI launched the pilot phase of its first CBDC for wholesale transactions of government securities on November 1, 2022, followed by the pilot for retail transactions a month later, on December 1.



● SALES OF FINANCIAL PRODUCTS ARE GAINING TRACTION

PhonePe's calls are paying off

SHOBHANA SUBRAMANIAN
New Delhi, October 27

IN A WORLD of fragile Fintechs, PhonePe's has been a stand-out story. As it closes in on ten years of its existence, revenues have crossed ₹5,000 crore. These have come largely from payments transactions, a business which most believed, could at best be a loss-leader. Not only are revenues flowing in, they are doing so with much less incentivising than in the initial years; the cash backs --- used to win over customers --- are now down to just ₹15 crore from approximately ₹950 crore in FY19. And net of Employee stock ownership plan (ESOP) costs, profits in FY24 were ₹197 crore.

Business has been especially brisk for use-cases such as money transfers, mobile recharges and bill payments.

But given how margins in the payments business are wafer thin, PhonePe has explored half a dozen new revenue streams. The idea is to cross-sell financial products --- loans, insurance, mutual funds and wealth products --- to its 550 million users. Its early days and as Kartik Raghupathy, Head, IR and Strategy, says the payments will continue to remain its core and will remain a large portion of the business in terms of contribution to top line and bottom line.

At the same time, the company, Raghupathy says, is building a meaningful financial services distribution business. "These are the two, I would say that are shaping up well," he says.

The share of financial services, in the total revenues of ₹5,046 crore in FY24, is low because most products were launched in 2023. But Raghupathy is confident they will contribute "materially to the top line and the bottom line in the next few years".

To be sure, lending and insurance products can deliver better margins than payments transactions and PhonePe is working with several use cases to make money.

Ansuman Deb at ICICI Securities believes PhonePe's sheer scale in payments differentiates it from peers. It enables better operating leverage in financial services which operates via several independent segments "but cohesively build solid earnings prospects".

But, even as it plays for scale, PhonePe is clear it will not build a

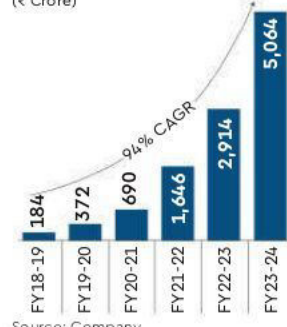


THE BIG PICTURE

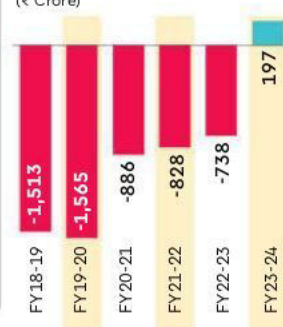
EVEN AS IT PLAYS FOR SCALE, PHONEPE IS CLEAR IT WILL NOT BUILD A BALANCE SHEET. IT FEELS ITS STRENGTH LIES IN DISTRIBUTION

THE CASH IS COMING

Revenue from Operations
(₹ Crore)



PAT-excluding ESOPs Cost
(₹ Crore)



balance sheet. "We are distributors by DNA," says Raghupathy. The decision not to build a loan book is probably a good one, say experts, given how the Fintech lending experience has been somewhat mixed. Fewer than a handful of Fintech lenders have been able to stay afloat.

At LendingKart, for instance, credit costs have gone up to 3.5% of average managed assets, compared to 2.3% the previous year

driving down stand-alone net profits in FY24.

But while the potential to source small borrowers is huge, sustaining the growth will not be easy. For one, the growth will depend on the appetite of the lenders to disburse unsecured loans to individuals and micro and nano enterprises at a time when the regulator is becoming strict.

"Lending has the best revenue potential but the banks and NBFCs

must have risk appetite," says an industry insider. Also, while banks may not be nifty enough to start owning the borrowers, NBFCs may be smarter, points out an industry executive. Again, business could slow down once data privacy laws kick in and the outreaches and consents increase.

"It's unlikely though that many customers will mature," says the CEO of a Fintech. So, not having any skin in the game can also hurt. But,

the wealth piece --- Share market --- can be scaled up since the addressable opportunity is big even if margins may be thinning. The rise of Groww and Upstox, experts say, proves there is room for challengers.

There is of course, the possibility that the government subsidies --- paid in lieu of the zero MDR on UPI and which contribute 10% to revenues --- may stop though that is unlikely. As Vivek Mandhata, managing director & partner at Boston Consulting Group, observes, Fintechs are making big investments, driving innovation and building the rails for more borrowers to access formal credit.

Experts also point to the strong technology platforms that companies like PhonePe and others have built. Raghupathy believes that to achieve leadership in payments one needs to offer a seamless, reliable, experience, adding that to handle immense scale efficiently is a differentiator. It is probably one of PhonePe's moats.

The company has decided to own the data services, rather than outsource them and has invested heavily. Spends on the servers, according to PhonePe's Chief Financial Officer (CFO) Adarsh Nahata, account for 50% of the firm's capex.

Given how the Reserve Bank of India (RBI) is becoming stricter with fintechs, it is critical they play by the rules. There are enough instances of businesses coming apart overnight because the regulator doesn't find the modus operandi kosher. Mandhata highlights the fact that the stronger fintech players have, in the last few years, focused on governance. "They are all making sure they stay on the right side of the regulator," he said, adding compliance is now taken very seriously.

PhonePe prides itself on the fact that it has had no run-ins with the regulator. "I would say corporate governance is one of our moats," says Raghupathy.

PhonePe has been fortunate that National Payment Corporation of India (NPCI) is allowing it to enjoy a 50% market share in the UPI space.

While a growing market would see an increase in the user base even with a cap, it's nonetheless a concern. For the moment, PhonePe seems to be justifying the billion-dollar tab for coming home.



New OTP norms to cut pesky texts, make transactions safer

FC BANKING BUREAU

MUMBAI, OCT. 27

From November 1, the telecom users could face disruptions in receiving bank and delivery of one-time passwords (OTPs) due to the new traceability rules of the Trai.

The new norms mandate the telecom companies to ensure traceability of all transactional and service messages sent by principal entities such as e-commerce platforms, banks and other financial institutions. They also require telecom companies to block messages with an irregular sending chain, which could disrupt the delivery of OTPs and other important alerts.

The cellular operators association of India (COAI) have approached the telecom regulatory authority of India (Trai) seeking relaxations in the traceability mandate.

The telecom operators have warned that messages containing OTPs and other critical details might not reach recipients, as telemarketers and principal entities have yet to implement the important technical solutions.

The principal entities have requested an additional two months, during which they could update their systems to avoid interruptions in message

NO HASSLES

NEW NORMS from Nov. 1 mandate the telecom companies to ensure traceability of all transactional and service messages.

TRAI initiatives to ensure a clean and secure messaging ecosystem, safeguarding customer interests and preventing fraudulent activities.



NEW RULES to ensure that all the SMSes from the sender to receiver are thoroughly checked revealing the content to operators.

PREVIOUSLY, users inadvertently clicked on dubious links resulting in hackers gaining access to personal data resulting in theft of money or other sensitive information.



delivery.

However, given that the deadline has been extended several times, it is unlikely that Trai will grant further extension.

The norms instructing telecom companies to ban sharing messages containing URLs, APKs, OTT links or call back numbers which are not whitelisted by the sender.

According Trai, these measures have taken forward its initiatives to ensure a clean and secure messaging ecosystem, safeguarding customer interests and preventing fraudulent activities.

Previously, companies have been required to register the header and tem-

plate of the message with telecom companies so long as these two things in a message are in place, telecom companies send the SMSes to customers.

However, many times the content contains spam and dubious links. Many users inadvertently click on these dubious links resulting in hackers gaining access to personal data resulting in theft of money or information.

The new rules will ensure that all the SMSes from the sender to receiver are thoroughly checked revealing the content to the telecom operators who will have permission to block the messages that do not follow the guidelines.

Union govt. defends Aadhaar-based wage payment for workers

The Hindu Bureau

NEW DELHI

The Union Rural Development Ministry, in a statement on Sunday, defended using the Aadhaar-based Payment System (ABPS) for MGNREGS workers, calling it a “major reform” that helps in better targeting, increased efficiency, reducing delays in payments, and greater inclusion by curbing leakages.

The Ministry was reacting to a report by LibTech, a consortium of activists and academics, pointing to the high rate of deletion of workers enrolled under the programme that coincides with the government’s insistence on using the ABPS for wage payments.

From January 1 this year, the ABPS has been made mandatory. Between April and September, 84.8 lakh workers were removed from the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). At the same time, only 45.4 lakh new workers had

been added, with net deletion of workers standing at 39.3 lakh.

The Ministry said that ABPS conversion was a major reform process, where benefits are credited directly into bank accounts based on the Aadhaar numbers of workers under the MGNREGS, doing away with several layers in the delivery process.

As on October 26, the Centre said that 13.1 crore active workers, or 99.3% of the total number of active workers, are eligible for ABPS.

“It is a fallacious argument that workers’ demand for work is not registered if their accounts are not ABPS-enabled and that their wages remain unpaid because of this reason. In case of non-eligible workers, whose ABPS is still pending, States/UTs have been requested to sensitise all banks to ensure timely seeding of Aadhar numbers of NREGS beneficiaries into NPCI (National Payments Corporation of India) mapper,” the Ministry said.

Cyber fraud in banking transactions surges in FY24

Maharashtra accounts for more than one-fourth of the amount lost due to cyber fraud in India

DATA POINT

Sabir Ahamed
Md Zakaria Siddiqui

India's impressive expansion in online transactions also coincides with an unprecedented spike in cyber frauds. According to data from the Reserve Bank of India, sent in response to the authors' Right to Information (RTI) application, ₹3,207 crore was lost because of 5,82,000 cases of cyber fraud between FY2020 and FY2024. With digital transactions set to significantly surge again this festival season, this statistic assumes significance.

Chart 1 shows that FY2024 has been an exceptional year for cyber fraud, outpacing the previous three years in terms of both the number of incidents and the amount of loss. The number of cyber fraud incidents has increased from 75,800 cases in FY 2023 to 2,92,800 cases in FY2024. The amount of money lost rose from ₹421.4 crore in FY2023 to ₹2,054.6 crore FY2024 (**Chart 1B**).

As shown in **Chart 2**, Maharashtra accounts for more than one-fourth of the amount lost owing to cyber fraud in India, largely because Mumbai, as the country's commercial capital, records a high volume of online transactions. Tamil Nadu follows closely, representing 23% of the total value of amount lost due to fraud.

Digital transactions have been growing rapidly over the last decade in India. In March 2024, the RBI Governor, Shaktikanta Das, said digital transactions have grown 90-fold in the last 12 years. "In 2012-13, there were 162 crore digital payments. This number has grown to 14,726 crore in 2023-24 till February," he said. There were two major pushes for digital transactions. The first came in the wake of demonetisation in 2016. Nearly every national and regional daily then carried advertisements of a famous e-wallet company,

thanking the Prime Minister for promoting digital transactions. The next impetus came during the COVID-19-induced lockdown when physical currency was considered a potential carrier of the deadly virus. Digital transactions are meant to curb tax evasion, corruption, and the use of hard cash in crime. However, the decision to promote them was taken without putting in place adequate measures to prevent cyber fraud. Many people keep falling victim to new forms of online crimes. While financial institutions may implement sophisticated cybersecurity measures, many people find them too complex to navigate. Banks need to catch up and ensure cybersecurity before more money is lost.

Private sector banks collectively account for a much higher value (**Chart 3A**) and number of cases of fraud (**Chart 3B**) than public sector banks. There has been an unprecedented rise in the amount and number of cases in 2023-24 in both public and private sector banks. However, the increase in the number of cases and value of frauds in private sector banks was much more marked.

The top 5 banks that suffered the highest share of fraud amounts are Kotak Mahindra Bank, Axis Bank, State Bank of India, HDFC Bank, and ICICI Bank. The order keeps changing, but they remained among the top five banks consistently across the five years of data used for this analysis. During these five years, these banks accounted for about 62% of the total value of reported fraud cases and about 53% of the total number of fraud cases. Of these five banks, SBI is the only public sector bank. This shows that private sector banks are far more susceptible to cyber attacks. Perhaps there may be a trade-off in being user friendly and cybersecurity.

Sabir Ahamed is National Research Coordinator at Pratichi Institute, Kolkata and Md Zakaria Siddiqui teaches Economics at Jamia Millia Islamia, New Delhi

Digital thieves on the rise

The data for the charts were taken from a reply to a Right To Information (RTI) query



Chart 1(a): The number of cases of cyber fraud across the years in banking transactions

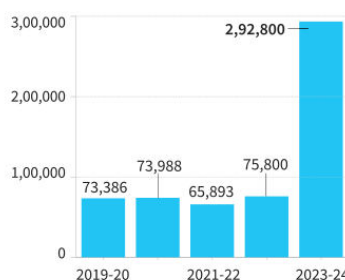


Chart 1(b): The amount of loss incurred from cyber fraud in ₹ crore

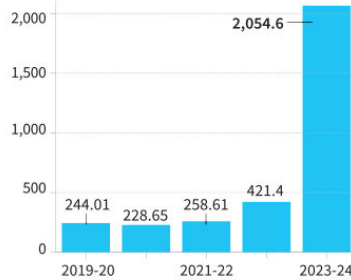
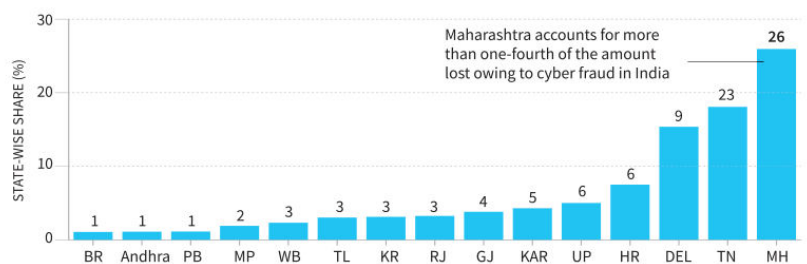


Chart 2: The State-wise share of total cases of cyber fraud in 2022-23. Figures are in %



Maharashtra accounts for more than one-fourth of the amount lost owing to cyber fraud in India

Chart 3(a): The chart shows the number of cases of cyber fraud in public sector and private sector banks

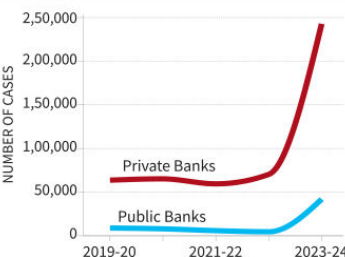
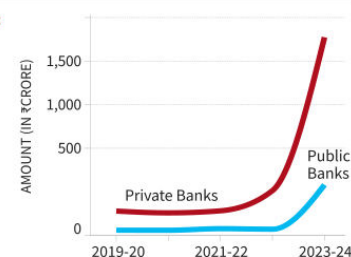


Chart 3(b): The chart shows the values of cyber frauds in public sector and private sector banks



Compliance in focus as RBI cautions gold loan providers

Umesh Mohanan

Gold loans are used by many Indian households to meet financial exigencies – the organised gold loan market is valued at ₹7.1 lakh crore and expected to cross the ₹14-lakh-crore mark within four years, says a recent PWC report.

Nevertheless, the segment has its share of problems. Governance and compliance lapses are rising in tandem with the growth in gold-loan assets.

This issue came to the fore again recently, after the Reserve Bank of India issued a directive highlighting the irregularities in loan sourcing, appraisal, valuation, auction, end-use monitoring, loan-to-value (LTV) ratio monitoring, and application of risk weights.

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The RBI also highlighted serious lapses such as gold valuation in the absence of customers, credit appraisal and valuation by fintech firms or business correspondents (BC), gold keeping in the BC's custody, delayed transportation of gold to bank branches, outsourcing 'know your customer' (KYC) compliance service to fintech partners, and poor verification of end-use of funds.



Lapses galore: The RBI had cautioned lenders against serious errors such as gold valuation in customers' absence. FILE PHOTO

Considering the popularity of gold loans and its deep impact at the grass-roots level, regulating the segment is top priority for the RBI. However, this proves challenging, given the dominance of unorganised players at nearly 63%, according to the PwC report. They provide quick loans with little or nil docu-

mentation but at an exorbitant interest. Customers also risk losing valuable collateral. The silver lining is that specialised gold-loan companies and banks are gaining ground.

Notably, the bigger presence of commercial banks promises to make the gold loan market more transparent, regulated and ac-

countable. Public sector banks offer gold jewellery-backed farm loans at lower interest rates. A recent RBI report shows that gold loans from banks are increasing at 41% year-on-year, as of August this year.

NBFCs grew their gold loan business at 18% during the period. They have an edge over banks as they employ innovative ways, including digital and AI tools, to boost business. Moreover, banks appear unable to explore the gold-loan market to the full extent as it doesn't fall in their core business area.

Fintech challenge

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vice providers and technology partners – more reliable. It is a stern message for lenders to ensure compliance when partnering with fintech companies and outsourcing core business operations, or risk disastrous outcomes.

The RBI appears a bit wary about the role of fintechs. Though fintechs are contributing significantly to financial inclusion, digitalisation, 'ease of doing business', and streamlining of loan processing, some do stray from their prescribed roles. The RBI's scrutiny and three-month window to address procedural lapses and accounting follies offer gold-loan entities an opportunity to create robust internal mechanisms to avert a systemic collapse.

(The writer is ED and CEO, Indel Money)

The rise and fall of P2P lending in India



Overstepping role: P2P exchanges had begun acting like a bank, drawing the ire of RBI. GETTYIMAGES/ISTOCK

Piyush Shukla

After the Reserve Bank of India's clampdown on peer-to-peer (P2P) exchanges in August this year, the industry's asset under management (AUM) plummeted by 35% – from an estimated ₹10,000 crore to ₹6,500 crore. No surprises there, since the RBI's restrictions targeted features that were most attractive to potential investors – tenure-linked assured minimum returns and liquidity options – apart from mandating T+1 settlement cycle. A P2P platform's role is limited to facilitating transactions between lenders and borrowers without participating directly in the lending or borrowing process. While opinions differ on the industry's ability to comply with the new norms, *businessline* takes a look at the past, present and likely future of P2P lending in India.

Informal lending

Talk of regulating P2P lending first emerged in 2016, to curb informal money-lending. Citing the global pickup in P2P lending and newer entrants in India, the RBI floated a discussion paper on whether regulation was needed or not.

The arguments against included inadvertently lending credibility to P2P lending, with the stamp of regulation; stifling growth; and the absence of any immediate systemic risk from the nascent sector. After the feedback from stakeholders, the RBI in 2017 issued master directions on P2P lending in India, specifying the scope of activities for the lenders, eligibility criteria, and transparency and pricing disclosure requirement, among others.

What went wrong?

According to an RBI official, who requested anonymity, P2P exchanges began acting like a bank, drawing the ire of the regulator. They pocketed the spread between the borrowing rate and the interest that a lender charged on the platform. The RBI's restrictions soon followed. The regulator declared that P2P exchanges cannot utilise the funds of one lender to replace those of another, effectively killing the secondary market. It also stressed that P2P players must disclose their fees at the time of lending.

The RBI also disallowed the practice of matching and mapping participants within a closed user group, whether through an outsourcing agency or otherwise.

What lies ahead?

There are divergent views on the future of P2P lending in India. A large P2P exchange has stopped onboarding new customers since August 16, leading to 30-35 % loss in AUM, an official said. "RBI officials are visiting our offices to assess whether we are in compliance with the new norms. If some of the secondary market features are not revived, the industry may see a sharp fall in volumes. Large players like us are thinking of giving up the licence," a company official said.

But not all are pessimistic. Bhavin Patel, founder and CEO, LenDenClub, says in any regulated business some players will push boundaries till the industry reaches product-market fit. "Auto-lending were discontinued, as it needed flow change, but it did not affect customers," he said.

(The writer is with *The Hindu businessline*)

Personal Loans

Rates and Charges		Loan amount 5 lakh Tenure 5 years	Loan amount 1 lakh Tenure 5 years	(% of loan amount)
Name of Lender	Interest Rate (%)	EMI (Rs)	EMI (Rs)	Processing fee
HDFC Bank	10.85 *	10,834 *	2,167 *	Up to Rs 6,500
Tata Capital	11.99 *	11,120 *	2,224 *	Rs 101
State Bank of India	11.45-14.85	10,984-11,856	2,197-2,371	NIL
ICICI Bank	10.85 *	10,834 *	2,167 *	Up to 2%
Bank of Baroda	10.55 *	10,759 *	2,152 *	NIL
Axis Bank	11.25 *	10,934 *	2,187 *	Up to 2%
Kotak Mahindra Bank	10.99 *	10,869 *	2,174 *	Up to 5%
Bank of India	10.85-16.10	10,834-12,186	2,167-2,437	0.50%-1% (Minimum Rs 250 and Maximum Rs 10,000)
Canara Bank	10.95-16.40	10,859-12,266	2,172-2,453	0.50% (Maximum Rs 2,500)
Punjab National Bank	11.40-17.95	10,971-12,683	2,194-2,537	Up to 1%
HSBC Bank	9.99-16.00	10,621-12,159	2,124-2,432	Up to 2%
Federal Bank	11.49 *	10,994 *	2,199 *	Up to 3%
Union Bank of India	11.35-15.45	10,959-12,013	2,192-2,403	Up to 1% (Maximum Rs 7,500)
Bajaj Finserv	11.00 *	10,871 *	2,174 *	Up to 3.93%
Punjab & Sind Bank	11.25-14.00	10,934-11,634	2,187-2,327	0.50%-1%
South Indian Bank	12.85-20.60	11,338-13,414	2,268-2,683	Up to 2%
UCO Bank	12.45-12.85	11,236-11,338	2,247-2,268	Up to 1% (Minimum Rs 750)
IDFC First Bank	10.99 *	10,869 *	2,174 *	Up to 2%
Bank of Maharashtra	10.00-12.80	10,624-11,325	2,125-2,265	1% (Rs 1,000-Rs 10,000)
Karnataka Bank	13.43	11,487	2,297	Up to 2% of loan (Min. Rs 2,500 & Max. Rs 8,500)
IndusInd Bank	10.49 *	10,744 *	2,149 *	1.5% -3.5%

Car Loans

Rates and Charges		Loan amount 5 lakh Tenure 5 years	(% of loan amount)
Name of Lender	Interest Rate (%)	EMI (Rs)	Processing fee
Union Bank of India	8.70 - 10.45	10,307 - 10,735	NIL
Punjab National Bank	8.75 - 10.60	10,319 - 10,772	0.25% (Rs. 1,000 - Rs. 1,500)
Bank of Baroda	8.95 - 12.70	10,367 - 11,300	Up to Rs 750
Canara Bank	8.70 - 12.70	10,307 - 11,300	NIL
UCO Bank	8.45 - 10.55	10,246 - 10,759	Nil
State Bank of India	9.05-10.10	10,391-10,648	NIL
Bank of Maharashtra#	8.70 - 13.00	10,307 - 11,377	NIL
Indian Overseas Bank##	8.85 - 12.00	10,343 - 11,122	0.50% (Rs 500 - Rs 5,000)
ICICI Bank	9.10 *	10,403 *	Up to 2%
HDFC Bank	9.20 *	10,428 *	Up to 1% (Rs 3,500 - Rs 9,000)
Karnataka Bank	8.88 - 11.37	10,350 - 10,964	0.60% (Rs 3,000 - Rs 11,000)
Federal Bank	8.85 *	10,343 *	Rs 2,000 - Rs 4,500
Punjab and Sind Bank###	8.64 - 10.25	10,292 - 10,685	NIL
South Indian Bank	8.75 *	10,319 *	0.75% (Max: Rs 10,000)
IDFC First Bank	9.60 *	10,525 *	Up to Rs 10,000
City Union Bank	9.90-11.50	10,599-10,996	1.25% (Min: Rs 1,000)

#0.25% interest rate concession for existing housing loan borrowers and corporate salary account holders.
##0.50% interest rate concession to borrowers with credit scores of 800 and above. Interest rate concession of 0.25% to borrowers having credit scores of 750-799.
###Concession of up to 50% on processing fee for PSB Apna Vahan Sugam.

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What a personal loan costs you

Personal loans are a way to use tomorrow's income today, and the process involved is simple. But you must note that the interest rates are much higher than, say, for a car loan. This is because personal loans are unsecured loans. This means that the loan is not backed by any asset. The loan amount and interest rate depend on parameters such as your income, existing credit, repayment capacity, and others. As personal loans come with high interest rates, continuous default will put you on a downward spiral. Here are some of the lowest personal loan interest rates offered by various banks.

Loan amount: ₹1 lakh; tenure: 5 years



Lender	Interest rate (%)	EMI (₹)	Processing fee
Union Bank of India	9.30-13.40	2,090-2,296	Up to 1% ; Nil for women professionals
Bank of Maharashtra	10.00-12.80	2,125-2,265	1% + GST
Indian Bank	10.00-11.40	2,125-2,194	1% (Max ₹10,000); Nil for Govt/PSU Employees
Bank of Baroda	10.55-18.75	2,152-2,580	Nil under Festive Offer
Punjab & Sind Bank	10.75-13.50	2,162-2,301	0.50% to 1% + GST
Bank of India	10.85-14.85	2,167-2,371	Min ₹1,000 and Max ₹10,000 ;
Indian Overseas Bank	10.85-13.00	2,167-2,275	0.40% to 0.75%
HDFC Bank	10.85-24.00	2,167-2,877	Up to ₹6,500
ICICI Bank	10.85-16.25	2,167-2,445	Up to 2%
Karnataka Bank	10.93-13.43	2,171-2,297	0.25% (Min ₹250)
Canara Bank	10.95-16.25	2,172-2,445	Charges are 0.50% , Min ₹1,000 + Max ₹5,000 + GST**
UCO Bank	10.95-13.95	2,172-2,324	1% (Min ₹750)
Kotak Mahindra Bank	10.99-16.99	2,174-2,485	Up to 5% + taxes
IDBI Bank	11.00-15.50	2,174-2,405	1% (Min ₹2,500) + taxes
Axis Bank	11.25-22.00	2,187-2,649	Up to 2% + GST

Data as on 23 October 2024, as per banks' websites. The EMI range is indicative and calculated on the basis of interest rate range. In an actual situation, it may include other fees and charges. The interest rates are for salaried individuals and pensioners for unsecured personal loan. Actual applicable interest rate may vary based on the credit profile, loan amount, tenure, company you work for and as per bank's discretion.

PRANAY BHARDWAJ/MINT

MyMoneyMantra.com & bank websites