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Confederation of Indian Industry

Paradigm Shift in Banking

Future Strategies

September 2017

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Foreword by CII

The Indian banking sector is significantly changing day by day. It comprises the largest and strongest segment of the financial services industry. The new GST regime has prompted changes in both structure and operations. The cost of financial services is also getting revised.

In fact, the problem that confronts the banking industry is a huge pile of non-performing assets (NPAs). According to the Economic Survey 2017, stressed assets, i.e. bad loans and restructured loans, constitute 20% of the total loans in the system. For the Government, merger and consolidation is a bold step towards resolving the problem. So is the Insolvency and Bankruptcy Code 2016 which binds defaulters with a timeline – something which did not exist in the past.

Demonetization, too, has given rise to digital banking. It is also a pragmatic step towards creating a cashless economy. It is time that banking leaders lived up to the challenges by adopting new technologies in operations and customer service, and also embracing appropriate business models. It is also time for microfinance institutions and non-banking financial companies (NBFCs) to adapt to the digitized economy.

With a record budgetary allocation of INR 396,135 crore this year, infrastructure has received a boost. Affordable housing has been given infrastructure status. As per a report by Crisil, affordable housing loans account for 25% of all housing loans as on March 2017, and hence it is an opportunity for the housing financial segment.

A Reserve Bank of India (RBI) discussion paper has proposed setting up of long-term finance banks, especially to fund infrastructure and greenfield projects of industries, with a minimum capital requirement of INR 1,000 crore. The Wholesale and Long-term Finance Bank (WLTFB), which will finance infrastructure and core industries, will not have the mandate to open branches in rural and semi urban areas and lend to agriculture and weaker sections of society.

Rising non-performing assets along with loan risk provisions and mounting losses in the real estate industry have resulted in significant reduction in credit offered by banks. There has also been a decrease in bank credit by 24-26% from 2014 onwards. Private Equity (PE) players have partially filled the credit gap and are currently the biggest source of institutional finance for the real estate industry. Moreover, Indian Banks will now have to compete with some new entrants who have come up with new financial products, higher rates to attract depositors and lower rates to sell to borrowers.

Financial regulators in India have helped build one of the world's strongest banking and financial systems that has sailed past international crises. Under the changing economic parameters and reformative actions taken by the government, we are yet to see the final structure of the banking sphere. We hope that this CII-Deloitte report on Paradigm Shift: Future Strategies will help industry understand the changing landscape of banking better.

Umesh Chowdhary
Chairman
CII Eastern Region

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Foreword by Deloitte

The Indian financial service industry has remained stable in the recent past. Moody's outlook for the Indian Banking system as of September 2017 is Stable, although on the back of improved prospect for asset quality. Managing stressed assets poses a growing risk to the Indian economy. Due to the inadequate leverage of multiple options to manage stressed assets and NPAs, a few banking behemoths like public sector banks have suffered the most so far. Respective industry players can fund these assets during the cash generating projects life cycle. These players are those with large capital under their asset management arms, or well settled players in the industry where stressed assets belong. By analyzing the different options available, and tweaking NPA resolution rules (with the introduction of new policies), the Indian economy is gearing up to resolve the issue of NPAs. For speedier recovery proceedings and settlement of debts, the Insolvency and Bankruptcy code (IBC) has been introduced. The code provides the insolvency resolution process, or liquidation as two paths to recovery of stressed assets. Most standard restructured loans are now NPA. Our report brings to the forefront our view on steps required for successful implementation of the IBC.

Another measure which would impact the business model and performance of Banks is the proposed introduction of the Indian Accounting Standards (Ind AS). With the Industry seeking advocacy and standardization, ensuring robust implementation of the Ind AS is critical. An organization-wide transformation to ensure the business model of the Bank is in line with the changing laws and policies of the Indian banking industry, and the need for coordinated efforts of stakeholders that will drive the successful implementation of Ind AS, are also discussed in our report.

Recently the Indian economy has seen a massive change in its indirect tax regime with the introduction of the Goods and Services Tax (GST). Its biggest impact is the shift to decentralized registration in financial services, in turn requiring robust operations, IT and accounting systems. Two questions we are hearing often are: (i) the requirements under the GST, (ii) its impact across the financial services spectrum. The GST regime is bound to increase compliance across the Indian economy. Though the impact on FSI is not that significant, the effect over other commercial transactions / Industries is slowing financial transactions, and hence, the effect on banking. The report covers the new requirements of GST and its effects on the Banking, Leasing, Insurance, Stock broking services, Asset Reconstruction Companies and Asset Management Companies.

Spurred by increased awareness among customers and a shift in their expectations; emerging competition from start-ups, and limitations in the traditional models of conducting business; banks have reached a tipping point. To stay relevant in the business and become the "Go-To" platforms in the industry, they are forced to redefine their purpose and align with their new vision. Creating smart products that self-optimize around customer goals; leveraging, mining, and sharing data; investing in technologies and cybersecurity; are necessary steps to be taken in this journey and will ultimately be a net positive for the Bank of tomorrow. Our report talks about the Digital Bank of the future and the path to be taken in this transition.

Unsurprisingly, macro regulation and micro supervision have increased the cost of compliance in the Banking sector. Due to unresolved issues from the previous year, revisions to approaches to deal with risks will be seen in the coming year. These include cyber risks, recovery of NPAs, strengthening credit underwriting and early warning systems, and capital optimization. Capital requirements for banks are also expected to go up since investments so far undertaken, have not yet shown satisfactory results. Further to this is the continuous need to invest to stay relevant. Due to the potential risks that new entrants in the industry (such as FinTech firms) bring, it is expected that regulations will focus on unassessed risks that are a byproduct of emerging technologies. "Post-event analytics" will change to "during the event analytics" or "preventive analysis" to project potential stress on cash flows. There will be an increased focus on cyber security. Investments in risk and regulatory technologies to bring down the cost of compliance will also be crucial in the coming year. The need for Risk based internal Audit will gain ground. Lastly, the importance of Risk Governance in steering the organization towards better risk management is also highlighted in our point of view that follows.

We hope you find this report useful in understanding the various issues of national impact within Financial Services and the outlook for the coming year.

Kalpesh J. Mehta

Paradigm Shift in Banking | Future Strategies

Introduction

In the coming years, the Indian Banking stage is set by the introduction of Goods and Services Tax (GST), emerging futuristic Digital Banks and revisions to Risk Management approaches.

While the Non-Performing Asset (NPA) problem is the great fault line of our banking system, signs of moving away are emerging with resolution mechanisms such as the Insolvency and Bankruptcy Code (IBC).

Our point of view hereafter captures the unique intricacies of these emerging trends and mechanisms in the Indian Banking space in 2018.

Stressed Assets Management

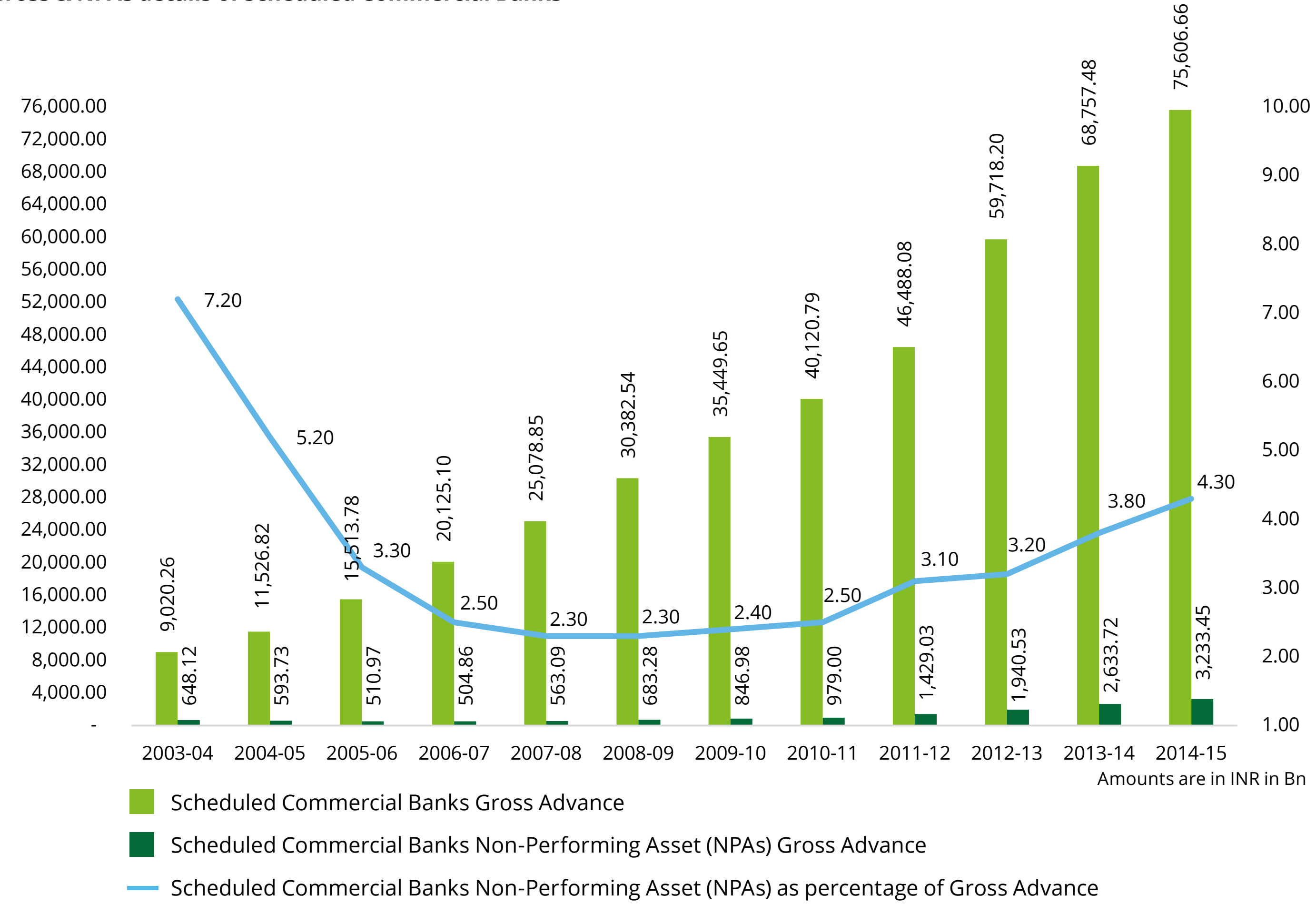
Background of Stressed Assets and Non-Performing Assets (NPAs) in India

There has been a lot of buzz in the economy in the recent past on Stressed Assets – and rightfully so. The quality of assets has emerged as one of the key risk factors in the Indian banking sector, as well as the economy.

Stressed Assets comprise of Non-Performing Assets (NPAs) and Restructured Loans. A loan whose principal and/or interest remains overdue for a period 90 days is considered as an NPA. NPAs are further classified into substandard asset, doubtful asset, and loss assets depending upon how long a loan remains as an NPA, however, NPA alone does not communicate the complete story of the asset quality of banks. Some of the loans are restructured by the bank providing the borrowers an additional opportunity, in case of default. This could be in a combined form of extended time period, reduced interest rate, conversion of part loan into equity or similar such conditions.

The Gross NPA (GNPA) ratio of the banking system stood at 9.6% and the stressed advances ratio stood at 12% as of March 31, 2017[1]. This certainly is a matter of concern for the banking sector as well as the economy. A trend analysis of the GNPAs for scheduled commercial banks as a percentage of advances is provided as follows:

Gross & NPAs details of Scheduled Commercial Banks



Source: The Reserve Bank of India: RBI Statistics on Gross and Net NPAs of Scheduled Commercial Banks

[1] The Reserve Bank of India: RBI Statistics on Gross and Net NPAs of Scheduled Commercial Banks

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There has been an increasing trend in the ratio of GNPAs as a percentage of advances and the number has increased more than twice from 2014-15 (4.3%) to 2016-17 (9.6%). Amongst the banks, the worst hit have been the public sector banks.

In case of stressed assets and NPAs, the lenders have mainly been exercising the following options:

I. Resolution through various re-structuring mechanisms which can be undertaken primarily as per defined RBI guidelines
II. Initiating recovery proceedings in the case of NPAs under the existing legal framework, primarily through Lok Adalats, Debt Recovery Tribunals (DRTs) and enforcing security interest under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act)
III. Assignment of debt to asset reconstruction companies (ARCs).

Let us now take a closer look at the above mentioned options:

I. Resolution which can be undertaken primarily as per defined RBI guidelines

I.I Framework for Revitalizing Distressed Assets - January 2014

Key features:

- Incipient stress identified in account before becoming NPA
- Categorization under SMA-0,1,2 (Special Mention Account)
- Report credit information and classification of accounts into SMA to CRILC (Central Repository of Information on Large Credits) for exposure > INR 50 Mn
- Form Joint Lender's forum (JLF) if aggregate exposure > INR 1,000 Mn
- Explore options under Correction Action Plan (CAP) such as – Rectification, Restructuring, Recovery
- Restructuring referred to CDR Cell (withdrawn with effect from April 1, 2015).

While this guidelines have largely facilitated timely identification and reporting of stressed accounts by the lenders, from a resolution and recovery mechanism, the lenders still need to rely on either the restructuring guidelines or the recovery options available in the existing legal framework.

I.II 5:25 Scheme for Infrastructure Projects - July 2014

Key Features:

- Flexible refinancing and repayment option for long term infrastructure projects where total exposure > INR 500 crores
- Ensure long term viability of infrastructure/core industries sector projects by smoothening the cash flow stress in initial years
- Need for restructuring is minimized allowing banks to take up refinancing
- Extend tenure of loan to 20 to 25 years to match cash flows of projects, while refinancing them every 5 years

The key challenge here is that banks which structure loans under the scheme by stretching repayment periods had to mandatorily protect the net present value (NPV) of the loans refinanced to save themselves from having NPAs.

I.III Framework on Fraud Detection and Reporting - May 2015

This framework mainly helps in identification of willful defaulters and undertaking criminal proceedings against defaulting promoters. This framework has been developed on the premise of identification of Early Warning Signals (EWS), which cannot be treated as fraudulent in nature, unless proved.

Key Features:

- To direct the focus of banks on the aspects relating to prevention, early detection, prompt reporting to –
  - RBI (for system level aggregation, monitoring & dissemination)
  - Investigative agencies (for instituting criminal proceedings against the fraudulent borrowers)
- Timely initiation of the staff accountability proceedings (for determining negligence or connivance, if any) while ensuring the normal conduct of business of the bank, their risk taking ability is not adversely impacted and no new and onerous responsibilities are placed on the banks
- For loans above INR 50 crore,
  - Listing down and monitoring EWS applicable to borrower accounts
  - Integrating with credit monitoring process by detailed study of Annual report, analysis of any related party transactions etc.
  - Identifying suspicious fraudulent activity and classifying accounts as Red Flag Accounts (RFA) based on EWS, reporting RFA status to CRILC and convening JLF within 30 days
  - Conducting Forensic Audit within period of 3 months and convening JLF within 15 days of completion of audit to decide further action.

I.IV Strategic Debt Restructuring (SDR) Scheme – June 2015

The purpose of the scheme is to convert the whole or part of the loan and interest outstanding into equity shares in the borrower company, so as to acquire majority shareholding in the company. The SDR scheme is aimed at helping banks turn around companies that are faring badly by initiating management changes.

Key Features:

- Option to convert Debt into Equity and compensate for sacrifices made by the Lender
- Invoked when promoters are unable to achieve viability milestones within timelines specified in the loan/ restructuring agreement
- Adequate approvals and authorizations to be obtained for invoking SDR
- SDR package to be signed and approved within 120 days from review of account for indication of distress/non achievement of milestones and viability of change of ownership
- JLF to collectively hold 51% or more of the equity shares issued by the company to gain management control
- New promoter should not be associated to or from within the existing promoter group

Some of the challenges faced by the lenders in implementation of the scheme are as follows:

- **Timely identification of buyers:** The act lists down a timeline for completion of this transaction and getting the right buyer within the timelines prescribed has been a challenge. Further, the scheme does not explicitly provide for a partial stake sale, which further adds to the problem of finding a buyer to pick up a larger stake.
- **Managing with existing management:** Post implementation of SDR, lenders have not had any option but to continue with existing promoters until a new investor is identified. This can be an issue especially where the operations of the company have suffered due to poor governance by existing promoters.
- **Managing operations of the company post conversion of debt:** Post conversion of debt, the lenders become majority shareholders in the company, and in such a situation managing and continuing with existing operations will be a challenge.

I.V Scheme for Sustainable Structuring of Stressed Assets (S4A) – June 2016

Key Features:

- Eligibility conditions:
  - The company should have commenced operations commercially and the aggregate exposure of all lenders should be more than INR 500 crore
  - Sustainable debt should not be less than 50% of current funded liabilities
- Bifurcation of outstanding debt into sustainable debt and equity/quasi-equity instruments, which are expected to provide an upside to lenders when the borrower turns around
- Lenders do not have to find a new buyer in any defined period of time. This provides a longer timeframe for turnaround, and provides the bank an opportunity to benefit from an increase in equity valuation.
- Incentivizes existing promoters to opt for this scheme as options under the Resolution Plan continue to hold majority stake
- The resolution plan shall be agreed upon by a minimum of 75% lenders by value and 50% of lenders by number, in the JLF/consortium/bank

Under the S4A Scheme, existing promoters are allowed to continue in the management even while being a minority shareholder, whereas in the case of SDR, the promoter is delinked and ownership is changed. Similarly, under the S4A Scheme, the lenders also have an option of holding optionally convertible debentures instead of equity, which might be a more preferred option. Some of the factors influencing decision making for loan restructuring under this scheme are as below:

- Non rescheduling of original tenure of repayment
- No repricing of debt
- Sustainable debt based only on the ability of current cash flows. It does not factor incremental cash flows that could arise as the external environment improves. Given the significantly low level of current cash flows of most highly leveraged companies in sectors such as metals and mining, the number of companies which could benefit from this scheme could be very low.
- Applicable only to current operations and does not cover new projects

II. Recovery of NPAs under the existing legal framework, primarily through Lok Adalats, Debt Recovery Tribunals (DRTs) and invocation of SARFAESI

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("SARFAESI")

This scheme empowers lenders to either take custody of secured assets or sell the loan account to Asset Reconstruction Companies. However, these provisions are used by lenders as the last recourse, mainly for willful defaulters. The banks can seize the assets without the intervention of the court, only where the NPAs are backed by securities charged to the bank by way of hypothecation or mortgage or assignment. However, if the asset in question is an unsecured asset, the bank would have to move the court to file a civil case against the defaulters.

Some of the key challenges faced by banks in implementing the SARFAESI are as follows:

- Selling the property: In general, banks find it a difficult task to sell the property after taking possession. Since there is no specific provision to acquire the property for themselves, the bank can hold possession without recourse to wipe off the liability from its books.
- Government claims: Though the SARFAESI Act has got overriding effect on other legislations, the claim of government prevails, and often the amount realized through the sale is claimed by the Government authorities.
- Intervention by High Court: Often High Courts are interfering in the SARFAESI Act proceedings by entertaining writ petitions filed by the aggrieved parties. Though Supreme Court decisions are there to the effect that only after exhausting the remedies prescribed in the respective statute, one can opt for other modes. This causes a lot of delay as far a recovery is concerned.

Selling stressed and NPA accounts to asset reconstruction companies (ARCs)

An Asset Reconstruction Company (Securitization Company/Reconstruction Company) is a company registered under Section 3 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. It is regulated by the Reserve Bank of India as a Non-Banking Financial Company. An ARC's primary goal is to manage and to make profitable those assets which have been underperforming, or which have been formally classified as NPA's. Selling stressed and NPA accounts to ARCs has been increasing since March 2014, because of the regulatory support extended to banks under the Framework to Revitalize the Distressed Assets in the Economy). The following table[2] indicates the trend in number of ARCs and assets acquired by ARCs from banks:

Time Period	Count of Companies	Value Acquired from Banks (INR Bn)
December 2013	5	164
March 2014	13	352
March 2015	14	585
March 2016	16	726

Source: RBI Report on trend and Progress of Banking in India 2015-16

Introduction of Insolvency & Bankruptcy Code

The Insolvency and Bankruptcy Code, 2016 (IBC 2016) was introduced by the Minister of Finance, Mr. Arun Jaitley applicable from May 28, 2016 and extends to all of India, except the state of Jammu and Kashmir. The Code creates a framework for resolving insolvency in India and the provisions of this code shall be applied to any company, Limited Liability Partnership (LLP), partnership firms and individuals in relation to their insolvency, liquidation, voluntary liquidation or bankruptcy, as the case may be. Most importantly, it provides for resolution of insolvency in a speedier and time-bound manner, and also specifies prioritization of settlements of debts owed by a corporate debtor.

Insolvency codes worldwide have taken time to stabilize. With the right implementation process, it can have a positive impact on the economy. General Motors in the U.S. is one of the biggest bankruptcies filed under Chapter 11 and is an example of how a company under stress due to macro-economic crises can be rehabilitated. Post June 2017, there has been an increasing trend in lenders opting to invoke the IBC code for resolution of stressed / NPA accounts. The IBC 2016 is a step in the right direction. It reorganizes and balances the interests of all stakeholders, and seeks to resolve the issues in a time bound framework, while paving the way for credit availability, without impinging on entrepreneurship.

[2] RBI Report on trend and Progress of Banking in India 2015-16

India vis-à-vis global norms on resolution of Stressed Assets

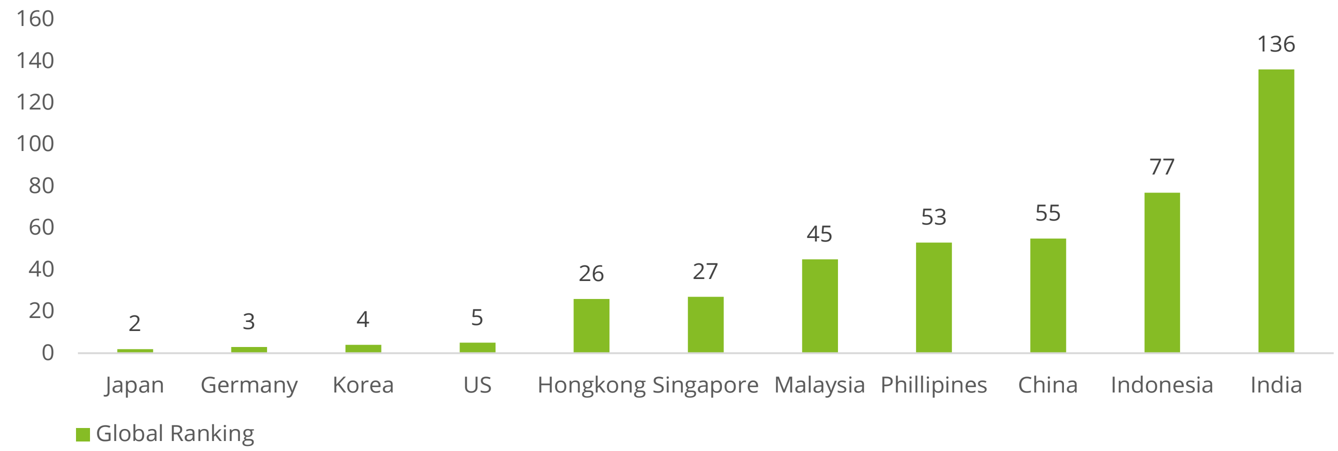
In the U.S., Chapter 11 of the Bankruptcy code provides a mechanism for rehabilitation of stressed companies. Chapter 11 was enacted with the view that the value of a company sold or reorganized as a going concern is much higher than in case the company is liquidated and assets are sold on an individual basis. The company reorganized under Chapter 11 has an opportunity to turnaround the business under new management in case it was in decline due to gross mismanagement, or due to unscrupulous management practices. Also, lenders are better off as collectively their recovery rate is much higher than under liquidation process.

Bankruptcy laws in U.K. for decades focused just on liquidation. The Insolvency Act 1986 was introduced with a view to creating a 'rescue culture' for businesses. In fact, with the introduction of Enterprise Act 2002, the primary objective of the administrator (appointed typically by the lead bank) was to rescue the company as a going concern.

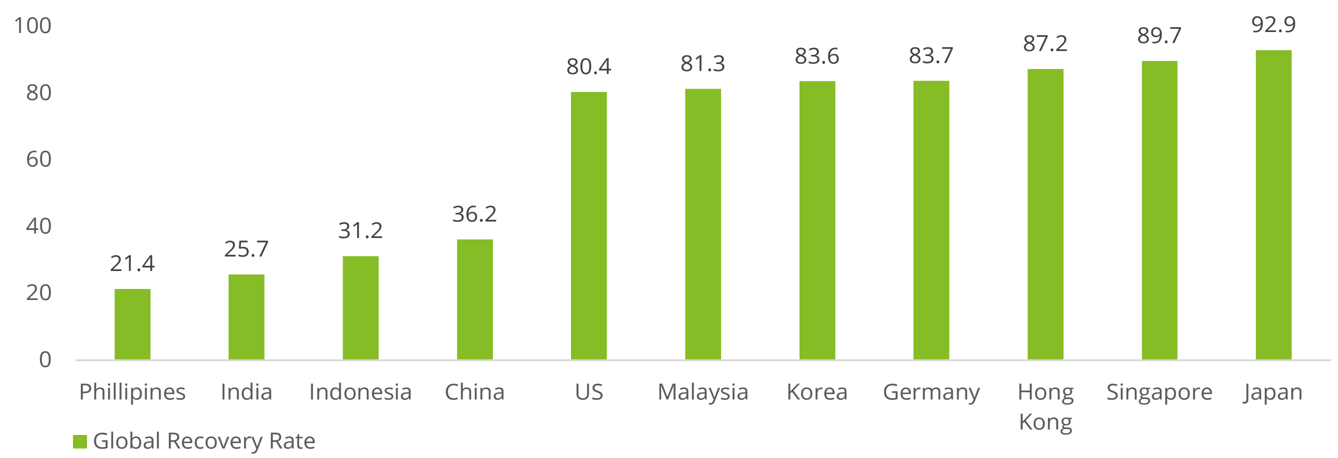
As per statistics provided by the World Bank, compared to other progressive countries, time taken for resolving insolvency or bad debts in India is much higher as compared to established markets. i.e. ~ 4.3 years were required to wind up a company in India as against an average liquidation period of 1.5 years for most of the other countries.

India ranks 136th globally out of 189 countries in resolving insolvencies. Also, the recovery rate of India at 25.7%, was much lower compared to other countries[3].

Ease of doing business rank



Global Recovery Rate - Cents on Dollar



[3] World Bank Data

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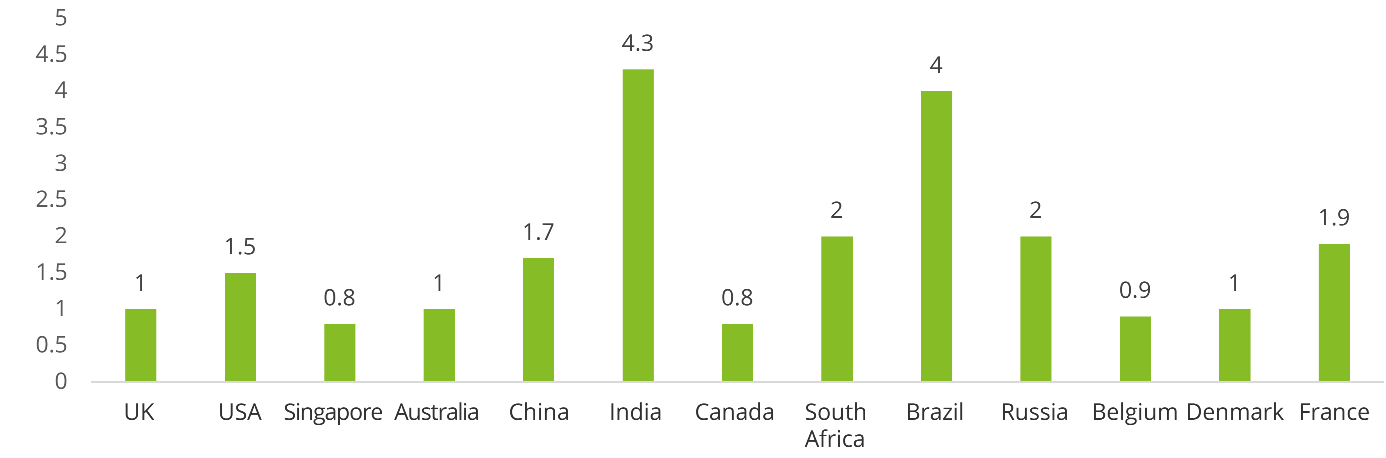
Time Taken for Liquidation (in Years)



Source: World Bank Data

Way forward

Management of NPAs is one of the key focus areas for banks and needs expertise and diligence in managing the same as there are too many stakeholders involved apart from the lender and the borrower. With every call back of loan on a NPA, there are multiple aggrieved stakeholders (regulators, vendors, contractors, employees), apart from the promoters of the company. Further, there is an increased monitoring of restructuring cases by the regulators to confirm the viability and/or whether the cases are genuine.

The introduction of Insolvency & Bankruptcy Code, is a major milestone and should prove to be instrumental in reducing and cleaning the NPA stress which has built up in the Indian banking system over the last decade.

The decisions of lenders to restructure or recover NPAs or potential NPAs are reactive and short term measures. Simultaneously, lenders need to have more of a proactive approach and a long term solution which will address timely identification of stressed accounts, so that corrective action can be taken. This will help in the overall reduction of NPAs and stressed assets. While there have been various checks and balances by lenders during the disbursement stage, these need to be undertaken with a renewed rigor. Banks need to invest time and resources to scale up existing practices for credit evaluation, background checks, and post disbursement monitoring. Investing in analytics solutions to identify early warning signals could help in adopting a proactive approach in monitoring the credits. Other innovative solutions need to be developed, such as asset sale, debt equity conversions, equity sale, along with development of succession planning to ensure skilled and experienced resources are managing complex debt exposures. Moreover, all assets during their life cycle need to be funded and owned by different types of financiers depending on the maturity level of the assets and the life cycle stage. We have seen growth in special situation funds, asset managers looking to invest, institutions looking to refinance based on change in ownership. These would be some key factors in managing the level of stressed assets in the credit portfolio of banks.

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Insolvency & Bankruptcy

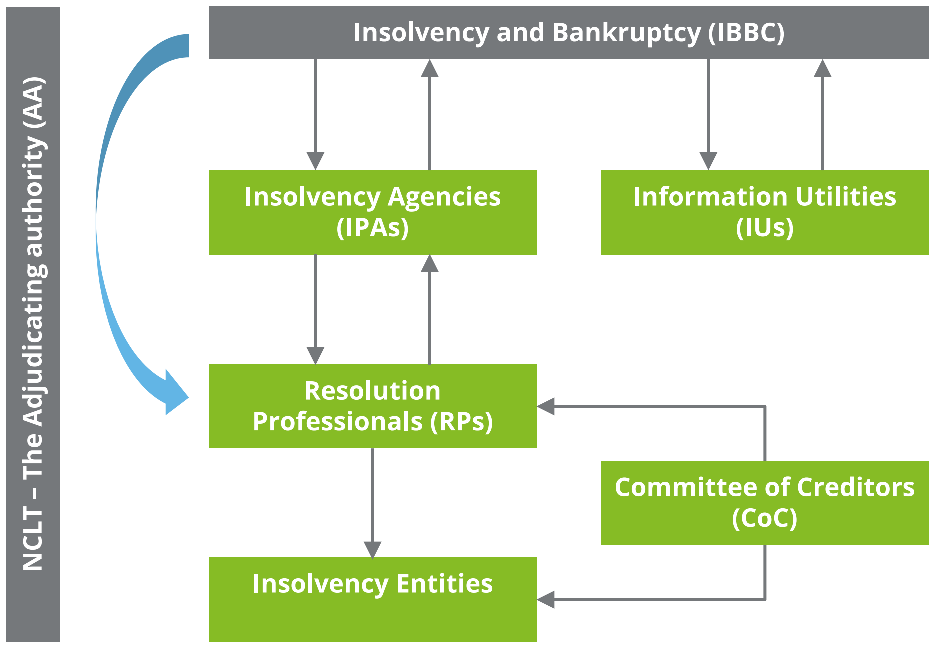
Background

Until the Insolvency & Bankruptcy Code came into force in India, lenders were exercising recovery proceedings through special laws such as the 'Recovery of Debts Due to Banks and Financial Institutions Act 1993', or the 'Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act ("SARFESI") 2002', and restructuring options as per RBI guidelines such as Corporate Debt Restructuring ("CDR"), Strategic Debt Restructuring, Scheme for Sustainable Structuring of Stressed Assets ("S4A") etc.

However, legal remedies did not empower the creditors to control the company in the event of default.

Given the backdrop, May 28th 2016 is a historic landmark in the history of Indian business. The Insolvency and Bankruptcy Code, 2016 (“IBC 2016”) was introduced by the Minister of Finance, Mr. Arun Jaitley. IBC 2016 is applicable from May 28, 2016 and extends to all of India except the state of Jammu and Kashmir. The Code creates a framework for resolving insolvency in India and the provisions of this code shall be applied to any company, Limited Liability Partnership (LLP), partnership firms and individuals in relation to their insolvency, liquidation, voluntary liquidation or bankruptcy, as the case may be. Most importantly, it provides for resolution of insolvency in a speedier and time-bound manner, and also specifies prioritization of settlements of debts owed by a corporate debtor. The Code provides for taking of control of the company by the creditors by appointing an insolvency professional.

Insolvency And Bankruptcy - Key concepts



Insolvency And Bankruptcy - Key concepts

01 **IBBI –** Insolvency and Bankruptcy Board of India will act as regulator, set up the infrastructure and accredit IPs, IPAs & IUs

02 **IPA –** Insolvency Professional Agency is a professional body registered with the IBBI to promote and regulate the insolvency profession; CA, CS and Cost Accountant Institutes have started agencies

03 **RPs –** Resolution Professionals are licensed private professionals regulated by the Board. IPs will conduct the resolution process, act as Liquidator/bankruptcy trustee, get appointed by creditors, and will act as interim management.

04 **IU –** Information Utility are centralized repositories of financial and credit information of borrowers. IU would validate the information and claims of creditors’ vis-à-vis borrowers, as needed.

05 **Adjudicating Authority (AA) -** NCLT for corporate insolvency - to entertain or dispose any insolvency application, approve/ reject resolution plans, decide in respect of claims or matters of law/ facts thereof. DRT for individual Insolvency.

06 **CoC –** Committee of Creditors consists of financial creditors who will appoint and approve actions of IPs

Insolvency Resolution and Liquidation Process for Corporates

If the default is above 1 Lakh INR (may be increased up to 1 Cr INR by the Government, by notification), the creditor may initiate the insolvency resolution process. The Code proposes two independent stages:

Insolvency Resolution Process – During which financial creditors assess whether the debtor’s business is viable to continue and the options for its rescue and resurrection; and

Liquidation – If the insolvency resolution process fails or financial creditors decide to wind down and distribute the assets of the debtor.

When and who can initiate the insolvency process?

Criteria	Financial Creditor	Operational Creditor	Corporate Debtor
Definition	A person to whom a financial debt is owed and includes a person to whom such debt has been legally assigned or transferred to E.g. Loan pertaining to Bank, Financial Institutions, Bonds, Derivatives etc.	A person (employee, government, statutory body) to whom an operational debt is owed and / or legally transferred to E.g. Workman and Employee, Statutory dues and trade payable	Corporate person who owes a debt to any person (financial creditor / operational creditor) E.g. Company, authorized shareholder, key managerial person
How	Either individually or jointly with other financial creditors	Step 1 - Deliver a demand of notice and an invoice copy demanding payment to the corporate debtor Step 2 - On non-payment within 10 days, can file an application	A corporate applicant may file an application
CoC Representation	Shall comprise all financial creditors	One representative may attend the meeting, but cannot vote	Directors of the Company may attend the meeting, but cannot vote

Insolvency Resolution Professional ("RP")

Along with the application for insolvency, the financial creditor/ operational creditor/ the corporate debtor has to provide details relating to the resolution professional proposed to be appointed, as the interim resolution professional for a term not exceeding thirty days from the date of his appointment. The AA shall appoint an interim resolution professional within fourteen days from the insolvency commencement date.

The committee of creditors may in their meeting resolve to appoint the interim resolution professional as a resolution professional ("RP") or replace the interim resolution professional by another resolution professional.

Powers of a Resolution Professional	Duties of a Resolution Professional
Power of the Board of Directors or partners of the corporate debtor shall be suspended and exercised by the Interim Resolution Professional	Conduct the entire corporate insolvency resolution process
Management of the affairs of the corporate debtor	Make available any financial information required by the committee of creditors
Gain access to all documents and records of the corporate debtor, as well as all records of financial institutions maintaining accounts of the corporate debtor	Take immediate custody and control of all assets of the corporate debtor, including business records
Access electronic records of the corporate debtor from information utility	Represent and act on behalf of the corporate debtor with respect to third parties
Make an application to the adjudicating authority in case of non-cooperation by the corporate debtor	Raise interim finance subject to approval from the committee of creditors
Enter into contracts on behalf of the corporate debtor, or to amend or modify the contracts, or transactions which were entered into before the commencement of the corporate insolvency resolution process	Appoint accountants, legal and other professionals in the manner as specified by the Board
Raise interim finance subject to certain conditions	Verify claims and maintain an updated list of creditors and clients
Conduct all meetings of the committee of creditors and act as the chairperson in all meetings	Convene and attend all meetings of the committee of creditors
Call for other evidence or clarifications from a creditor, for substantiating the whole, or part of its claim	Prepare the information memorandum
Convene a meeting of the committee of creditors as and when deemed necessary	Invite prospective lenders, investors, and any other person to put forward resolution plans and examine each plan received on set parameters
	Present all resolution plans at the meeting of the committee of creditor
	File application for avoidance of transactions in accordance with Chapter III

Committee of Creditors ("CoC")

- The interim resolution professional shall after collation of all claims received against the corporate debtor and determination of the financial position of the corporate debtor, constitute a committee of creditors
- The committee of creditors shall comprise all financial creditors of the corporate debtor

Timeframe:

- Corporate insolvency process shall be completed within 180 days of admission of application by National Company Law Tribunal ("NCLT")
- The resolution professional shall file an application to the AA to extend the period of the corporate insolvency resolution process beyond one hundred and eighty days, if instructed to do so by a resolution passed at a meeting of the committee of creditors by a vote of 75% of the voting shares.

IBC – Action so far

As per records of the Insolvency Board of India, as on August 31st 2017, 1,881 professionals are registered as RP's. Additionally, 27 Insolvency Professional entities (IPE's) and 3 Insolvency Professional Agencies (IPA's) are also registered with the board[4].

National e-Governance Services Utility (NeSL) which is a government entity has received an in principle approval for establishing an Information Utility (IU) in India and shall be the first IU under the IBC Code.

While the majority of the cases filed have been initiated either by operational creditor or the corporate debtor, the first major case to be filed in Insolvency by a financial institution was in January 2017 (ICICI Bank vs Innovative Industries). Further in June 2017, RBI instructed banks to take 12 NPA accounts under IBC setting a precedence for the other banks to follow. Post June 2017, there has been an increase in financial creditors mainly banks adopting the IBC route for recovery of stressed / NPA accounts.

As per the public statement given by Insolvency and Bankruptcy Board of India chief, as on May 18th 2017, approximately 500 applications have been filed with NCLT under the Insolvency & Bankruptcy law.

Out of the cases admitted, only recently has NCLT approved the first insolvency resolution order under Insolvency and Bankruptcy Code, 2016, in the matter of Synergies-Dooray Automotive Ltd, a maker of alloy wheels for cars on August 14th 2017, which resulted in lenders taking a significant haircut.

IBC – Key success factors

Some of the important factors which would be critical for a successful resolution of any account are listed below:

01. Selection of the right IP

One of the underlying premise of this Code is the vesting of entire management and operations of the company undergoing the insolvency process to an Insolvency Professional (IP), whose position is considered to be most significant in insolvency proceedings.

The role of the IP is crucial as he also has to ensure that the asset is maintained as a going concern, interact and negotiate with various stakeholders (including the management), inspect and accept claims from creditors, facilitate CoC meetings and evaluate resolution proposals as per the compliances defined in the act. Having the right Insolvency Professional in charge, and running the overall process will always play an important part in the successful resolution of the asset and discharge of various stakeholder interests.

[4] http://www.ibbi.gov.in

02. Protection of a company as Going Concern entity
The major challenge faced by the resolution professional (RP) is to maintain the entity as a going concern till a successful resolution plan is passed. The simple rationale behind this would be that an operating asset would always fetch more value as compared to the same asset being sold on either a break-up or piecemeal basis. Accordingly, in the interests of the stakeholders and ensuring maximum realization from the underlying asset of the corporate debtor, it would be important to maintain the business as a going concern. Some of the aspects which need to be dealt with in this matter would be:

a. Inadequate working capital to run the operations of the company – Important for the IRP / IP to arrange for interim financing as required, to ensure the entity is a going concern
b. Moratorium from past dues – One of the advantages which the code provides is a moratorium for a period of six months from past dues of the company. It is important that this benefit is applied in principle for majority of the dues of the corporate debtor in order to mobilize working capital funds for current operations.
c. Government agencies support – One of the creditors to the corporate debtor will be government agencies, specifically unpaid VAT / GST dues. It is important that this matter is dealt with and the moratorium obtained from government extends to the supply chain network of the corporate debtor, in order to ensure continuity in business operations.
d. Managing existing promoter group – Most of the corporate debtors admitted under IBC are promoter driven companies. To ensure that the business is maintained as a going concern and there are no disruptions made, it is important to garner support from existing owners to make this a successful process.

03. Timely decision making of lenders
One of the major challenges in implementation of the RBI restructuring schemes was the delayed decision making process to obtain consensus in a consortium banking arrangement of the borrower. Similarly, one of the important factors in resolution is the timely approval of the resolution plan by the COC within the 180 day timeframe specified under the act (plus 90 day extension on application), failing which the case will go in for liquidation. It is important for lenders to find suitable buyers of distressed assets (whether domestic or foreign partners) and consider resolution plans keeping in mind a macro outlook towards the industry and associated stakeholders. Such decisions will need to be taken by lenders on a timely basis, failing which the asset would go into liquidation which may turn out to be a more adverse scenario.

04. Setting up of Information Utilities
The role of Information Utilities as defined under the code is to record, store and facilitate verification of financial information pertaining to various entities. This database is envisioned to facilitate validation of claims by IP, better decision making by creditors and encourage discipline amongst debtors. However, this infrastructure is still in the process of being setup. In the absence of IUs, access to genuine financial information of creditors and debtors is a challenge and may impact the claim validation process by the IPs. It is important that infrastructure around IUs is setup on a priority basis and IU agencies are technically and administratively sound to handle the defined role, so as to ensure that the records are comprehensive, reliable and updated.

05. Protection to Insolvency Professional
The insolvency professional plays a key role in taking charge of the operations of the corporate debtor and in running the resolution process. In this overall process, there is always a risk of IPs becoming subject to arbitration claims by aggrieved stakeholders. Although there is a provision in Section 233 of the Code that no suit, prosecution or other legal proceedings will be permitted against insolvency professionals, liquidators and officials of the IBBI, for anything done in good faith under the Code, however this still leaves a window open for prosecuting against the IP. Also, unlike more established economies, India does not offer IP Indemnity Insurance which is a norm for running an Insolvency process in countries such as US, UK.

06. Legal Infrastructure
There is a question whether the NCLT, adjudicating authorities and regulatory framework formed is ready to handle this complex task as there will be a tidal flow of cases to NCLT court. Several old cases are pending under the company Law board, Board for Industrial & Financial Reconstruction (BIFR), various high courts and DRT courts, which may flow now to NCLT under the new code.

Successful implementation of IBC shall depend on how well the above mentioned risks are mitigated in the future.

Way forward

IBC 2016 is based on this principle of collective action and accordingly provides rights to all the key stakeholders. It reorganizes and balances the interests of all stakeholders, and seeks to resolve the issues in a time bound framework, while paving the way for credit availability without impinging on entrepreneurship. It also seeks to establish norms for asset valuation of debtors in a just manner.

The Insolvency Code in India creates a new institutional framework consisting of a regulator, insolvency professionals, information utilities and adjudicatory mechanisms, that will facilitate a formal and time bound insolvency resolution and liquidation process. The code has made it easy to exit or attempt revival of business which shall improve the NPA scenario for the financial services sector. Additionally, the code attempts to create a formal Insolvency Resolution Process ("IRP") for businesses, either by coming up with a viable survival mechanism, or by ensuring speedy liquidation. It will curb the number of long-pending cases substantially.

This new legislation should help resolve the nation's bad debt problem which hampers bank lending. It should also encourage foreign investment as well as promote entrepreneurship, as businesses and entrepreneurs can exit businesses faster and with fewer legal hassles. This should also result in an improvement in India's international ranking due to ease of doing business. However, these are still early days and it may take approximately 3 years to settle down, and for IBC to run as normal. Until then, there will be learnings to be uncovered each day, and precedence's to be set for future cases to follow.

Accordingly, the next two to three year period is important for the Indian Banking industry as it embarks on a journey of cleaning up the Stress and NPA buildup in various industries, and establishes successful resolutions which will pave the way for future growth in the country.

Ind AS Impact on the Banking Sector

Paradigm Shift in Banking | Future Strategies

The Banking sector in India has been witnessing a sustained push in the form of a number of initiatives and reforms from the government and various regulators, which have deepened and broadened the financial services sector. The advent of demonetization, digitization and changing regulations such as Ind AS, Goods and Services Tax (GST), and Basel III guidelines have caused a significant change in the way the Banking industry is continuously evolving.

The latest half yearly financial stability report[5] issued by the Reserve Bank of India (RBI) states that India's financial system remains stable, even though the banking sector continues to face significant challenges. While the global growth outlook and market sentiments have improved, political stability on the domestic front has further reinforced expectations of accelerated reforms, overall positive business sentiment and macroeconomic stability.

One of the most significant challenges plaguing the Indian banking sector is the rising non-performing and stressed assets. In the last few weeks, there has been increased focus on resolution and tackling the stressed assets scenario impacting the Banking sector. The upward rise in NPAs has placed the Indian banking and financial services sector in jeopardy, and the writing on the wall is that the situation may not get any better in the near term. In the last one year, there have been a few banks which have come under the scope of RBI Prompt Corrective Action (PCA). The triggering of PCA means there will be several restrictions imposed on the banks from lending to distribution of dividends, etc.

The Banking regulator has also formed an Internal Advisory Committee (IAC), which in its first meeting selected 12 large corporate loan accounts which can be immediately referred to the National Company Law Tribunal (NCLT) for resolution. These 12 accounts together constitute ~ 2 lakh crore INR of the nearly 8 lakh crore INR overall gross NPA of the banking system. The RBI has also issued an advisory letter to banks asking them to incorporate additional provisioning on accounts to be referred to the NCLT under the Insolvency and Bankruptcy Code (IBC). IBC is an Act which helps troubled corporates, partnership firms and individuals in debt to re-organize and opt for insolvency resolution in a time-bound manner to maximize value of its assets. The IBC, passed by the Parliament on May 11th 2016, received Presidential assent on May 28th 2016 and was notified in the official gazette on the same day. The IAC has also recommended that banks should finalize a resolution plan for the accounts being filed to NCLT and within six to nine months if a viable resolution plan is not agreed upon, banks should initiate insolvency proceedings under the IBC.

On January 18th 2016, the Ministry of Corporate Affairs (MCA) issued a press release setting out the dates of Ind AS (Indian Accounting Standards) applicability for Banks. The RBI subsequently through its circulars advised scheduled commercial banks and financial institutions to comply with Ind AS for financial statements for accounting periods beginning from April 1st 2018 onwards with comparatives for the periods ending March 31st 2018 or thereafter. Ind AS 109 Financial instruments which forms part of the Ind AS framework is similar to IFRS 9 as issued by International Accounting Standards Board (IASB) which is effective from January 1st 2018 and will have a significant impact on financial service organizations, including banks.

This is likely to be challenging for banks as the provisioning requirement would generally rise under the new standards. Although entire NPAs could be put on the altar of the IBC resolution mechanism, it has to be seen how much and how fast they actually go out from the balance sheets of banks, which at this point of time seem much stressed.

[5] Financial Stability Report – June 2017, Reserve Bank of India

"The roll out of IND AS will focus banks to look at their impaired portfolio provisions on an economic loss basis and not just on a minimum regulatory provision basis. This will go a long way in ensuring that stressed assets are adequately provisioned. A guidance from RBI on the minimum provision cover ratio would also help ensuring consistency in this process."

Pavan Kaushal
Chief Risk Officer - IDFC Bank Limited

In order to prepare the banks for changes under the Ind AS, RBI mandated them to submit pro-forma Ind AS financial statements for the half year ended September 30th 2016.

As per the half yearly report issued by the RBI, an examination of first pro-forma statements submitted revealed that while banks have initiated the implementation process, further efforts were required for a robust implementation. In particular, there were wide variations in assumptions involved in implementing the expected credit loss (ECL) framework under Ind AS 109. While the Reserve Bank is in the process of finalizing the regulatory guidance with respect to the ECL framework, banks are simultaneously expected to design their framework and policies keeping in view the ECL provisions of Ind AS 109.

The total estimated impact of Ind AS on equity/regulatory capital is likely to be adverse, mainly driven by the impairment requirements, although the downside impact is expected to be partially offset by creation of deferred tax assets.

Ind AS introduces a forward-looking view of credit quality, with banks expected to recognize credit impairment before a loss event. It is anticipated that there will be three main drivers of higher impairment. First, banks will provide for the lifetime expected credit loss of exposures that have declined in creditworthiness but not yet incurred a loss. Second, Ind AS 109 requires banks to recognize future losses on undrawn commitments, reflecting the tendency for customers to draw down on credit lines and the bank's ability to manage problem accounts. Third, banks are expected to develop probability-weighted loss estimates against a range of macroeconomic scenarios. This is likely to result in a more conservative view of impairment in many cases.

Moreover, despite the support of the RBI and the guidance available from the Working Group formed for addressing implementation issues, the transition is a mammoth task faced by Banks.

A bank's board of directors and senior management are responsible for ensuring that the bank has appropriate credit risk practices, including an effective system of internal control, to determine adequate ECL allowances in accordance with Ind AS, as well as the bank's stated policies and relevant supervisory guidance. Making sure that the bank has effective controls over compliance with the new financial reporting requirements and guarding against the reputational, regulatory and financial damage that may result from material control failures, will be key concerns for those charged with governance.

For most banks, ECL estimates are likely to be material to their financial statements. ECL estimation is complex and inherently judgmental. It is dependent on a wide range of data which may not be immediately available, including forward looking estimates of key macro and micro-economic factors and management's assumptions about the relationship between these forecasts and the amounts and timing of recoveries from borrowers. Because of the size of the potential impacts, these factors mean there is a risk of material bias affecting the financial statements. This could affect key financial and regulatory metrics. Accordingly, it is important that ECLs are determined in a well governed environment.

Apart from the ECL implications above, Ind AS bring in several changes when compared to the current Indian GAAP/ RBI regulations, and many of these would have a significant impact on reported earnings, and net worth. Certain critical areas that would have a transformational impact on the transition to Ind AS are fair valuation, assessment of business model, consolidation including evaluation of business combinations, revenue recognition especially transition to effective interest rate computation and securitization transactions.

The transition to Ind AS is far more than a technical challenge of adopting a new accounting standard. It will be one of the most fundamental changes to affect the banking Industry for many years. The change will transform the way the banking institutions and markets judge performance and value, and will require a decisive shift in areas ranging from product design, lending policies and earnings management to information systems, market communications and performance-based pay.

Beyond accounting, Ind AS has extensive disclosures requirements, which leads to extensive data mining. For example, classification and measurement of financial instruments; nature and extent of its exposure to the associated risks (credit risk, market risk and liquidity risks) both in qualitative and quantitative terms – to reflect the way management perceives, measures and manages these risks; areas involving significant estimates and assumptions and related sensitivities.

Effective Ind AS conversion would require significant input from practically every business unit and link in the decision-making and value-generating chain, including IT, HR, finance, marketing and investor relations. Without careful preparation, the volatility of reported results could reach unexpected levels and the level of execution risk may become unsustainable. Ind AS is likely to increase income volatility, which certainly needs to be managed, or at least carefully explained to the markets, to avoid undermining investor confidence. Also, Management Information Systems may need to be revamped and economic capital and other common value-at-risk measurements reassessed as the current strategies could prove untenable.

For successful implementation, there is large amount of time commitment that banks will have to invest as there are significant process and information challenges associated with the adoption. So, it is imperative that the implementation is done right, the first time.

With this context, we have highlighted key learnings based on our experience of working closely with the Banking Sector, both locally and globally.

Involvement of key stakeholders in Ind AS implementation seems limited at the current stage. Robust programme management with contributions from all relevant stakeholders is critical to the successful implementation of the Ind AS project.

"Under current circumstances, Expected Credit Loss will be the biggest challenge for the Banking sector. Further, getting the right business model for treasury operations will also have a long term impact."

Bharat Sampat
Chief Finance Officer - DCB Bank Limited

"For us at Kotak, the term 'bank' rests heavily on trust, and thereby, necessitates transparency, openness and caution rolled into a definitive structure. In addition to this, a bank's performance depends on pricing and managing risks well as it has larger implications on its overall operations. Prudent risk management can enable banks to create well-priced asset products as well as offer better returns to depositors. A crucial issue addressed well at Kotak is our ability to keep non-performing assets (NPAs) in check. While risk assessment is the first step toward NPAs, accepting a problem without brushing it under the carpet is an equally decisive step. Be that as it may, the implementation of Indian Accounting Standard (Ind-AS) (set to be effective from April 1, 2018) will herald a radical change in the Indian Banking system and we at Kotak welcome it. Ind-AS will bring in compatibility of financial information and performance within the industry both in India and globally. Ind-AS requires application of fair value principles in certain situations and this would result in significant differences from financial information currently presented, especially relating to financial instruments and business combinations. A stronger accounting system and rigorous risk management together can clean the system, which is critical not only for banks but the industry as a whole. Ind-AS is expected to drive a host of changes and will arm banks to tackle the NPAs better. The provisions relating to accounting of the fee and interest incomes would also undergo a change besides, it will bring in a lot of transparency and reliability. It is a shift to principles based accounting which would make things closer to the reality, at the same time putting significant responsibility on both management and directors."

Jaimin Bhatt,
President & Group CFO,
Kotak Mahindra Bank

Impact of Ind AS is strategic and pervasive therefore, it is important to understand the impact it has on the bank's business, capital and return on equity, accounting and reporting, pricing, lending, etc.

Clarity around acceptable and compliant interpretation of Ind AS is a key transition management challenge. Banks are currently looking to leverage off existing definitions, processes, systems, models and data used for regulatory and credit risk management purposes in order to implement Ind AS impairment requirements.
Data availability and quality are the most significant technical implementation challenges for banks.

Total estimated financial impact of Ind AS is mainly driven by the impairment requirements and to a lesser extent, by the classification and measurement requirements. Interpretation and application of some key elements of Ind AS 109 impairment requirements are challenging and have to be finalized in many cases.

Banks are currently in the process of identifying changes to existing systems and processes, including data requirements and internal controls, to ensure they are appropriate for use under Ind AS. Though recognizing its importance, IT solutions and system changes have not been currently considered for implementation changes.

Banks need to transpose all quantitative Ind AS assessments into a regulatory capital impact, bearing in mind that capital requirements and demand of Indian banks are quite onerous.
Adopting an integrated approach for end-to-end process design and implementing standardized processes and controls can significantly alleviate implementation and operational burden. Furthermore, a well-thought-out integrated approach should also lend itself to a consistent framework and is more likely to be accepted by auditors and regulators.

GST and its impact on Financial Services

The introduction of Goods and Services Tax ('GST') has brought in a sea change in the entire indirect taxation regime in India, impacting not only the taxation structure, but also business processes and technology. Financial Services such as those from banks, mutual funds, insurance companies, stock brokers etc. earlier attracted levy of Service Tax at 15%. Under the GST regime, financial services will fall in the bracket of 18%.

The biggest impact of the introduction of GST on financial services is the shift from PAN India Single registration to state wise registrations. Earlier Banks, Mutual Funds, Insurance Cos. etc. had a single PAN India registration under the Service Tax regime covering all their branches across India. However, under GST, they are required to take separate registrations for each state in which they operate. This has resulted in an increase in compliances and administration from filing two half yearly Service Tax returns to three monthly GST returns for each such registered state. Further, such requirement of multiple registrations has forced the financial sector players to prepare separate accounts for each such registration which is a mandatory requirement under the GST regime.

With the requirement of separate registration for each state, another challenge that the financial services sector had to deal with is to decide from which state the services to a customer have been provided. This is because of a newly introduced concept of 'location of provider of service' under GST. Further, the possibility of levy of GST on transactions between two branches situated in different states may also come into the picture. This is on account of the fact that such registered branches in different states would be regarded as 'distinct person' under GST and as per Schedule II to Section 7 of Central Goods and Service Tax Act, 2017 ('CGST Act, 2017'), transaction between distinct persons with or without consideration would be regarded as supply liable to levy of GST. This would also involve applicability of valuation provision and additional compliances for such transactions.

While lending activity, trading of securities, and actionable claims are kept outside the purview of GST, on an overall basis, every other fee based activity is liable to levy of GST. This would also involve applicability of GST on repossessed assets.

While compliances would increase under GST, the eligibility to avail input tax credit of GST paid on both goods and services (with certain exception) would be available, is a welcome move. The fact that the erstwhile provision of 50% reversal of input tax credit has been retained in the GST regime as well for banks, and other financial institutions, is also welcome. However, it would be important to note that such reversal ratio would have to be applied qua each registration under same PAN.

The erstwhile valuation rules for specific services such as life insurance, foreign exchange have been kept in the GST regime as well, with some minor changes.

One of the major changes that have been brought is in the place of supply rules for Banking and other financial services, including stock broking services. In the GST regime, the place of supply of services have been linked with the location of the recipient of service on records of the supplier of service. This would mean that the banks, insurance cos, mutual funds, stock brokers etc. would need to keep a proper record of the location of the recipient of service. Further, in case of any change in such records, the details of previous records need to be retained. This is on account of the fact that such details would need to be kept for a period of 72 months for the purpose of audit and assessment. This has called for a major administration

"Advantages of GST for Banking industries:

01. Seamless flow of tax credit to eliminate cascading of taxes.
02. Reduction in cost due to availability of Input tax credit for both goods and services
03. Common procedures for GST registration number, return filing and refund of taxes etc.

Disadvantages of GST for Banking industries:

01. Increase in compliance cost due to decentralized compliance (state wise) under GST provisions
02. Increase in cost due to change in business software"

Laxmikant Sharma,
Finance-Tax, DCB Bank Limited

and technology change to determine the place of supply and applicable GST in the system, and maintain such data for the period required under the law.

The time limit for issue of invoice by an insurance or banking company or a financial institution including a non-banking financial institution has been kept at 45 days in line with the erstwhile Service Tax law. Further, under GST, an insurer or banking company, or a financial institution including a non-banking financial institution have been given a relaxation on the issue of invoice as per the details prescribed under the law.

Banking Services

Barring loans, deposits, and advances where consideration is represented by way of Interest or discount, all other fee based activities are liable to levy of GST at 18%. Further, sale of purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers is also exempt from levy of GST. This exemption is similar to the erstwhile exemption under the service tax regime.

Under GST, there is a specific valuation rule provided for service of purchase and sale of foreign currency including money changing. However, unlike erstwhile indirect tax regime, GST law provides for a specific valuation mechanism for repossessed goods.

The biggest impact of GST on the banking sector is the shift to decentralized registration. Large banks having branches across all states are now required to take registration in each state where their branches are present. This has resulted in a multifold increase in compliance and administration activities for the banks. This has also resulted in the possibility of levy of GST on transactions between different branches across states where a customer having a bank account in one state does a transaction with a branch situated in another state.

Leasing Services

GST rate on leasing services, except aircraft, has been linked to the supply of like goods involving transfer of title in goods. This implies that the rate of leasing services would vary depending on the asset or goods being leased. Further, in the event such goods attract compensation cess, the leasing service provider would also be liable to levy compensation cess in addition to applicable GST.

With regard to leasing of motor vehicles, the input tax credit on purchase of such motor vehicle would be restricted to only those cases where such motor vehicle is further supplied or used for transportation of passengers. Accordingly, there is a restriction of input tax credit on purchase of motor vehicle by a leasing service provider.

Insurance Services

Life insurance services have been provided a special valuation mechanism in line with the mechanism that existed under erstwhile Service Tax regime. However, for other insurance services such as motor and health, the entire premium is liable to GST at 18% instead of the earlier 15% under the Service Tax regime. Moreover, charges collected under ULIP policies are now liable to levy of GST at 18%.

Service supplied by an insurance agent to an insurance company is kept under the reverse charge mechanism. This would result in additional compliances for the insurance company in terms of issuing self-invoices and uploading in GST return on a monthly basis. This would also include reimbursements of travelling or telecommunication expenditure by insurance companies to commission agents.

Stock Broking Services

GST on broking services have been kept at 18%. While securities have been kept out of the definition of both goods and services under GST, securities have been considered as goods for the limited purpose of the services of an intermediary. Accordingly, the services provided by a stock Broking Company to FIIs and other clients situated outside would be covered under the purview of GST, and the place of supply of such services would be the location of service provider. This is similar to the provision that was there under the erstwhile Service Tax regime.

Further, a challenge that stock broking companies faced was to decide from where the services of stock broking has been provided. For example, while the customer located in a particular state interacts with the agent situated in such state, the main nodal server with the stock exchange is situated in the state of Maharashtra.

Asset Reconstruction Company

One of the biggest challenges for ARC under GST was the registration of each trust in different states. As a 'trust' is also regarded as a person under GST, the question of registration of each trust also comes into picture.

Keeping actionable claims outside the purview of GST was a welcome move and provided a breather to ARC. However, it is important to note that actionable claim as per GST is linked to Section 3 of Transfer of Property Act, 1882 which covers only unsecured debts. Therefore, the question that arises is whether assignment of secured debts will be subject to GST as against the exemption in the erstwhile tax regime.

AMC – Mutual Fund

Management fee charged by AMC for its services to Mutual Fund would be liable to levy of GST at 18%. Further, the exit load charged from the customer will now attract GST at 18% against the erstwhile service Tax of 15%.

The reimbursement of expenditure by Mutual Fund to AMC may also be subject to levy of GST. Further, under the GST regime, services by mutual fund agents/ distributors have been kept under forward charge. Accordingly, such agents/ distributors would be liable to levy GST on the commission earned and issue invoices, wherever applicable. However, this may pose a challenge for AMCs for those agents who are not registered and whose annual turnover falls below the threshold limit for registration. In such a scenario, the AMC would be liable to pay GST under reverse charge, and issue self-invoice for such services procured from un-registered agents/distributors. This will result in an increase in compliances for AMCs.

Such a major overhaul of the entire indirect tax system calls for more robust operations and accounting systems to capture all the necessary details; IT infrastructure to maintain the data and support monthly compliances; proper training to all the employees to equip them to properly transact business with customer and understand the important aspects to be kept in mind while doing business. While the law is just 2 months old, the real impact of GST on the financial services sector will need to be properly monitored over next couple of months such that operations, transactions, accounting and compliance are aligned completely to the requirements of GST.

Digital Banking and the Future

Paradigm Shift in Banking | Future Strategies

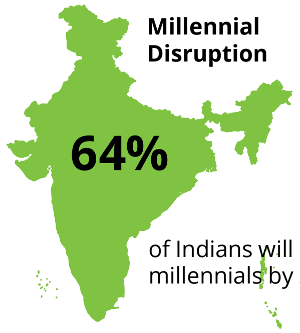
In a Digital environment, customer awareness and connectedness is causing a shift in their expectations of the banking product and the manner in which it is offered to them. Today, customers' expectations are higher than ever before and they are placing a premium on enhanced user experiences by way of targeted, interactive, on-demand and relatively inexpensive offerings. In a nutshell, customers expect to be at the center of the bank's engagement model.

In order for banks to do well in this changing environment, a key factor is how well they can respond to this shift in customer demand and give customers complete control of the financial supply chain. Therefore, a holistic understanding of customer needs becomes critical for service providers to embed their offerings into customer's lives.

Satisfying Tomorrow's Customer

Customers are now demanding intuitive, elegant and easy digital experiences with effective and round-the-clock support

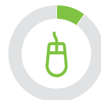
Millennial Disruption



of Indians will be millennials by 2021

In 2017, 30.8% of the population constitute India's Millennials

Millennials average 17 hours a week online



Only 11% of their online activity is spent on online transactions, including banking

Young adults have a transactional relationship with their banks, which has created **a gap between their needs and the services banks offer**

Lack of awareness

"I would love to learn about digital banking but I don't even understand the concept or where to begin yet"
-Naman

Disengaged customer

"I don't really understand what the bank is offering me since they don't make an effort to engage me"
-Kaveri

There is a strong need for banks to keep up with the pace of growing India since the **digital revolution has moved from 'potential threat' to 'survival strategy'**

Preferred Mode of Digital Payments Across Age Groups

- Mobile Device **48%**
- Swipe cards **38%**
- Computers **38%**

Perceived risk

"I am apprehensive about sharing my confidential information online as I don't find the system secure and it can crash at any time"
-Sujatha

Limited use

"I primarily use my mobile phone to pay bills; I conduct other transactions offline"
-Rohan

Source: Livemint, MorganStanley, Statista and Deloitte customer survey, 2017

Incumbents are running the risk of being displaced by start-ups

The financial services market today is becoming a more level playing field with an influx of start-ups that are endeavoring to address gaps in the market, in new and innovative ways. These start-ups generally have technology in their DNA, and are entering the market with a clean slate. Further, the dissolution of boundaries between sectors, the convergence of technologies and the gradual movement of start-ups into the mainstream, is prompting a fundamental rethink among banks to rise to the challenge and adapt their strategies in this market.

Dissolution of branch banking

So far, Indian Banks have struggled with extending the reach of Financial Services far and wide, especially in rural areas (predominantly owing to low bank account penetration). They have largely continued serving (at most-cross selling) to their captive user base, and this has added to the limited visibility of branch banking across the country. Over the years, traditional banking, symbolized by bank branches and manual/paper based processes, has increased customer dissatisfaction, typically seen during customer on boarding/KYC, and other branch banking services. Inefficiencies in the traditional model have paved the way for new players such as FinTech companies that are using innovative business models and digital methods to address the areas of customer dissent, and have large scale impact at a fraction of the costs (for example lower customer acquisition costs, servicing costs, operational costs). As a result, Digital Financial Services are reducing the need for branch banking in the Digital environment and shifting the focus to digital banking instead. The high penetration of mobile phones in India, and its potential in conducting banking activities is waiting to be exploited, which will further reduce the dependence on the traditional banking model.

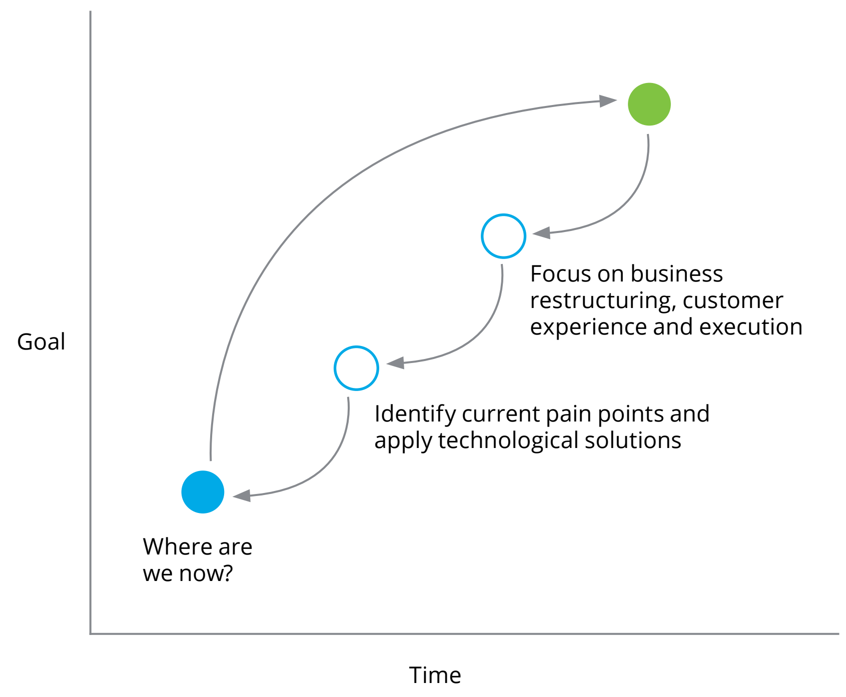
Dip your toe, or dive in?

Should incumbents look before they leap into this digital eco-system? Permeating digital into the organization is a goal that cannot be achieved overnight. Putting in place a digital strategy is the starting point of this journey. It is imperative to define the vision of the bank i.e. in what order does the bank value business growth, cost reduction and experimentation? They must weigh the pros and cons of what these priorities require them to do, and evaluate if they have the discipline and resources to execute the necessary steps.

Restructuring framework for the Banks of tomorrow

Build a bank that is designed for the customer, a bank that serves the user's needs as opposed to layering on more products

Strategic planning process



Purpose and Vision
Identify the ambition of your digital bank:

Business Growth
- Use agile processes and open API platforms
- Develop the ability to accommodate new workloads on demand

Cost Reduction
- Focus on efficient scaling, without exponential increases in costs
- Implement a digital onboarding process

Experimentation
- Partner with Fintech companies or Digital banks to form cross-industry partnerships to leverage FS offerings

Building the bank of tomorrow requires designing around the customer

Source: Deloitte Analysis

Next, they must take small steps toward their vision. Identifying immediate digital opportunities by assessing current issues/pain points in their existing processes is a good starting point. Applying different forms of technology to address these pain points should follow. It is critical that the technology applied must be customer focused, providing holistic control and flexibility to the customer. This is what differentiates the process now, from before embarking on the digital journey. The bank must then monitor impact of these technologies in resolving pain points. Deriving learnings from the process now from before, by evaluation of the success and failures of the digital process undertaken to avoid implementation pitfalls in the future. Once the waters have been tested, it is time to dive in and develop a detailed roadmap to move towards extensive digitization.

Digital Enablement – Go full throttle now

Step	Key Activities
Governance Model	• Set up a dedicated governance team
Scope and Assess	• Understand the customer's needs • Identify digital opportunities/analyze optimal processes for digitalization/digital tools to be deployed • Prioritize opportunities given limited investment - position them on a complexity / opportunity matrix and select top-3 processes in scope for PoC • Asses the scope, applicability and impact of technological tool application to PoC experiments • Define, agree and document the technical design specification of the PoC experiments • Identify training needs of staff and facilitate training programs around digital tools and processes to be implemented for PoC experiments • Agree up-front on the approach to evaluate i.e. measure and track benefits delivered
Proof of Value	• Apply learnings from initial review of digitization in pain point areas • Launch PoC's • Review outcome. Test and evaluate the proof of concepts. Imbibe learnings. • Develop the CoE and other workforce skills, and publish standards and best practices and compliance requirements to ensure smooth launch of detailed operations
Detailed Design	• Build business case and pilot shortlist process based on successful PoC's and business vision alignment • Design the operating model and key process requirements after shortlisting selected processes (functional and technical design documentation for each process) • Conduct training programs for various digital tools and processes implemented (create training & cultural enablement material)
Deploy and Change Management	• Pilot the selected processes • Manage, monitor and report progress of each activity planned with the help of the CoE • Ensure smooth running of operations of processes and enforce change management policy
Ongoing Support	• Develop approach to continuous improvement and control via periodic review and identification of further digitalization opportunity

Key strategic levers for the Digital Bank include:

- **Customer Centricity:**
  Engagement models of the Digital Bank will be centered on how they appeal to the human cognition.
  - Despite having different requirements, customers are offered non-differentiated financial services, with similar pricing and policies.

The Bank of the future needs to understand the specific requirements of its individual customers by segmenting them and conducting deep dives into specific issues. By narrowing its target groups, the Bank will be able to deploy its resources better, gain deeper knowledge of the target groups' needs, and serve them better.

With a customer-focused strategy, banks will be able to tap into a well-connected, highly informed and demanding customer base.

- Taking products to customers in ways that allow them to do everything on a single platform will become critical for Banks in this transition. A case in point is by allowing the customer to view multi-bank details in a single portal, the Digital Bank will be able to cross sell to the customer, as all data on a customer will be consolidated in one place.

- **Using, Mining and Sharing Data**
  Leveraging data will become an important part of the Digital Bank's strategy to resell new revenue streams going forward. Processing large structured, unstructured data, internally and externally available data, has huge potential to be monetized if analyzed appropriately. Data will provide insights into customers, operations, and transactions, and this will help the Bank in making more informed decisions and predict future challenges. Without effective data analytics financial organizations may find it hard to keep up with the growing requirements of banking.

- Seeing these benefits, Digital Banks will rely on consortium-type approaches to share resources. One such way is by opening up their APIs. This will allow them to extend the reach of their assets/facilitate sharing in the process.

- **Technology investments will enable a paradigm shift**
  Banks are currently inundated with excess demand. In transitioning to Digital Banks they will reap the benefits of basic efficiency improvements and cost avoidance. A variety of technological tools have entered the Indian market and Banks have been seen making large scale technology investments in them, as they realize the multiple applications of these tools. They have been quick to test and adopt these tools using pilot-based programs before a full implementation. Implementing advanced technology that is scalable, secure, flexible and agile, will allow the Digital Bank to serve tomorrow's customer.
  - Blockchain is one such investment that holds great potential. The World Economic Forum (WEF) has acknowledged its potential in transforming the Financial Services Value Chain. Using cryptography, Blockchain can be used for data sharing i.e. to sequentially distribute transaction databases that maintain a constantly-growing list of data records. It can also be transmitted through huge networks. While it cannot be modified by any party, only users on the Blockchain network can add information to it. By providing the user end-to-end access in the value chain, Blockchain can build transparency and brand loyalty for the Digital Bank, while it streamlines financial process. By educating customers on their banking journey, Blockchain is set to change the way customers will interact with their bank. Some applications include tracking the origin of transactions and fraud detection.
  - Artificial intelligence (AI): Defined by WEF as "programmed intelligence exhibited by machines using past experiences", AI has been around for a while. Banks can make better and quicker decisions using AI tools such as chat-bots, machine learning and even robo-advisers.
  - Robotic Process Automation (RPA): Using RPA, processes that are rule based and repeatable, can be automated within the Digital Bank. Teams can be freed up to focus on higher order skills and value-adding tasks. The challenge going forward for the Digital Bank will be to change the mind-set and misunderstanding that automation will lead to job losses.

- Chatbots: By building new age technological services such as chatbots, that hold conversations with users in natural language, decipher questions in a more efficient manner, process much faster than humans, and provide responses with the right information or direction, Digital Banks will be able to offer customer focused services/products such as suitable insurance plans for the customer, instant loan eligibility, etc.
- Cloud computing: Allows for asset light models with lower cost of transactions by facilitating storage and sharing of data.
- Visualization tools: These tools analyze financial data and throw light on key insights that can be useful to top management in making organization wide decisions. Some examples are discovery of pain points, insights into performers and non-performers.

- **Developing agility will bear fruit**
  IT infrastructure that is flexible, scalable, efficient and adjustable, is important for the Digital Bank. This will allow new and upcoming technologies to be integrated with current systems. This integration will also facilitate cross-industry partnerships that are being forged between Banks and FinTech companies, to leverage the FinTech Company's FS offerings (including innovative products and services). The Bank's market offerings are now strengthened considerably due to greater access to expertise outside the Digital Bank i.e. of the Partner. The collaboration framework, while has the promise of efficiencies, needs to be implemented in a responsible way, as actions of the partner will impact the Bank.

- **Fulfilling the customer via Digitized interactions at every stage and Omni-channel**
  By digitizing sale interactions, both customers and the banks will benefit as the customer is being serviced immediately, in his own time and in an informed way. The Digital Bank too, can lower its operational cost. Given the choices available to customers, they can now be swayed midway to use a different product/service. They gather information from all sources, and compare them across different metrics and make informed selections. This makes them vulnerable to being poached by competitors, right up to the point of purchase. To keep the customer engaged, it is imperative for the Digital Bank to provide additional user experience at every stage, including after the sale. Digital Banks also need to manage consumer interactions across multiple channels. They will need to upgrade their supply chains to create a seamless customer experience and build customer centric businesses.

- **Invest in Cybersecurity**
  Leveraging disruptive technologies, opening up APIs to third parties and sharing data makes the Digital Bank vulnerable to emerging risks such as cyber-attacks. Banks will have to invest in cyber security to make their service offerings secure, vigilant and resilient as attack severity increases. The Digital Bank's product portfolio is also likely to reflect the importance it places on enhancing security, thereby winning over customer trust. Facial recognition at POS terminals, and fingerprints and iris scanners at ATMs, are already being used to reduce theft and fraud among financial institutions.

Conclusive Remarks

The digital era is here and the Banks that will emerge as the industry's "go-to" platforms, will be the ones that recognize changes taking place in the industry, spurring the need for them to transform; put together a vision for their future and take steps to align with this vision. Most importantly, they put the customer at the center of their platforms.

Paradigm Shift in Banking | Future Strategies

Managing Risk during the Shift

The Banking Industry is facing a transformational phase where technological innovation and capital preservation have become the fundamental survival needs of every institution. While macro-economic factors have impacted credit off-take and slowed down asset growth to single digits, the rising levels of non-performing assets ('NPA') have severely dented profitability and return on equity. Additionally, the fairly relentless strengthening of macro-prudential regulations coupled with micro-prudential supervision has increased the cost of compliance, notwithstanding the fact that it has made the industry more resilient. In spite of these challenges, the banking industry has showed many signs of promise especially in the areas of financial inclusion, financial technology, risk and regulatory technology, and building of industry utilities especially for know your customer ('KYC').

The risk and regulatory outlook for FY17-18 is expected to be dictated by unresolved issues from the previous year coupled with a plethora of macro-prudential developments. Unresolved business from the previous year includes addressing cyber risks, recovery of non-performing loans, strengthening credit underwriting and early warning systems and capital optimization. There is expected to be abundance of macro-prudential regulation mainly in the area of capital adequacy covering revised standardized approaches for credit and operational risk, significant revisions to advanced approaches for market and credit risk, and increased focus on counterparty credit risk and interest rate risk in the banking book.

Financial performance of the banking industry is expected to stay under pressure as new macro-prudential regulations are expected to increase capital requirements. The impending implementation of expected credit loss models under IND-AS 109 is expected to increase provisioning in the near-term until banks are able to stabilize their models and collect meaningful recovery data. In spite of enhanced low cost liquidity in the banking system due to demonization, return on equity is expected to stay depressed without rationing and optimizing capital, concerted efforts for recovery of non-performing loans and focused investments in risk and regulatory technology to bring down the cost of compliance.

The much touted advent of financial technology firms that promised to bring down last-mile distribution costs is yet to fructify. While these firms promise to bring in competition, they can also bring about systemic risks that have not been factored into the current regulatory framework. There is expected to be a significant focus of regulation in addressing the unassessed risks from financial technology. Significant investments are also expected in building industry utilities to bring down the cost of compliance. Regulatory technology that can bring down cost of compliance and improve control efficacy will take centre-stage in FY 17-18.

Over the years, banks have spent significant sums of money on risk and regulatory systems for computation of risk weighted assets, regulatory capital, operational risk management, risk analytics and regulatory reporting. While these investments have addressed the immediate needs of regulatory compliance, significant value remains to be derived from these investments. These investments have so far failed to deliver competitive advantage. The FY 17-18 should bring significant focus on deriving value from these investments to gain competitive advantage through increased use of analytics and embedding risk intelligence into front-line decision making.

> "Risk Management is a proactive act of continuous, disciplined process of identification and resolution of unexpected events, in achieving the organization's objectives."
>
> **G. Muralidaran**
> DGM, State Bank of India

The costs of operating and maintaining the third line of defence have continued to increase through previous years. In spite of this, depth of assurance and early warning on potential issues has been elusive. There has been significant reactive involvement of third line of defence functions in addressing issues identified during regulatory supervision, internal frauds and non-compliance. FY 17-18 should see a significant move in focus of third line of defence functions towards pre-emptive intelligence through continuous control monitoring and offsite surveillance.

Most importantly, risk and regulation in FY 17-18 is expected to see significant focus on governance, risk culture and efficiency of controls. Banks are expected to take significant steps to embed the risk culture into performance management. Supervisors are also expected to focus on reviewing whether incentive mechanisms for senior and middle management encourage the right behaviour from a customer conduct, market conduct and systemic risk perspective.

Non-performing assets and recovery

Non-performing assets and associated provisioning continued to dominate headlines through much of the previous year. Most of the regulatory efforts were initially driven towards review of asset quality and subsequent increase in provisioning. This was followed up by measures to reduce concentration risk through the Large Exposures Framework and enhancement in information sharing through development of a Central Repository of Information on Large Credits. While most of the efforts were focused on adequacy of provisioning, diversification of risk and information sharing, significant work still remains in many areas.

Regulatory focus is now expected to shift towards efficacy of recovery processes in individual banks, the quality of credit underwriting processes, and learnings from past credit losses. FY 17-18 is expected to see a move from post-event credit analytics to credit analytics across the life-cycle. This will include use of existing public and privately submitted financial data, industry level macro-factors and event based scenario analysis to project potential cash flow stress. Banks are also expected to increasingly focus on the financial risk management practices of borrowers as part of credit underwriting to determine future stress on cash flows resulting from movements in foreign exchange and commodity prices. Additionally, there will be an increase in exploring mechanisms to reward prudent financial risk management practices of borrowers through differentiated pricing.

Historical learnings from post facto credit analytics are expected to support decision making and differentiated credit pricing at the point of disbursement. FY 17-18 should see a renewed regulatory and internal focus on credit pricing, both from a transparency and risk management perspective. As the dust starts to settle, past default data will provide valuable insight relating to recoveries, defaults and factors impacting defaults. This will provide critical input and strengthen credit risk modelling, both for advanced approaches and for the purpose of expected loss provisioning under IND-AS 109.

Cyber security

The regulator took steps to address growing cyber security concerns by issuing guidelines on development of cyber security framework in banks. While the guidelines address the key elements of cyber security at a framework level, in-depth implementation of all elements of the framework will be the focus of banks through FY 17-18. Historically, Cyber incidents have in many cases gone unreported. FY 17-18 should see increased reporting in cyber incidents and strengthening the incident management processes by banks. Cyber security lapses have the potential to impact reputation in a significant manner. FY 17-18 will see more banks seek solutions for restitution of losses from cyber incidents through cyber insurance.

Capital optimization

The previous year saw pressure on profitability and return on equity mainly due to provisioning. However, capital adequacy remained largely intact due to a sharp fall in credit offtake, change in treatment of certain reserves and capital infusion. Falling interest rates and increased liquidity in the banking system are likely to aid credit growth in FY 17-18. However, the constrained capital position is likely to lead to rationing of credit and enforcement of risk based pricing based on regulatory capital computation. The constrained capital situation is likely to see banks focus on improving their mix between Tier I and Tier II capital.

Risk and regulatory technology

Edward Wilson, an eminent biologist, quoted "We are drowning in information, while starving for wisdom". As the banks manage to pull information from their large network across islands of information, drawing inferences from the data gathered is a daunting exercise for the banks. In order to effectively understand the data, banks need technology that is agile, speedy, readily usable and analytics capable. Technological innovation plays a vital role in risk management practices and over the past year has also made its way into growing its importance to finance, regulatory reporting and compliance. Investment into Compliance will continue to seek attention as the banks face increased challenges in this area with its rapid expansion across geographies, products & business lines; increasing instances of fraud & financial misconduct and greater focus on AML/ KYC with an increased penalty for non-compliance. Banks now have realized the cost benefit of an integrated risk and compliance framework that centralizes reporting to the regulator, auditor and management, provides a channel for dissemination and tracks all regulatory guidelines and internal policies and provides a governance framework for the bank to address any issues raised by the Board, external stakeholders and the management. Continued Investment into systemized collection of data and its storage will be a key focus in the coming year.

Third line of defense developments

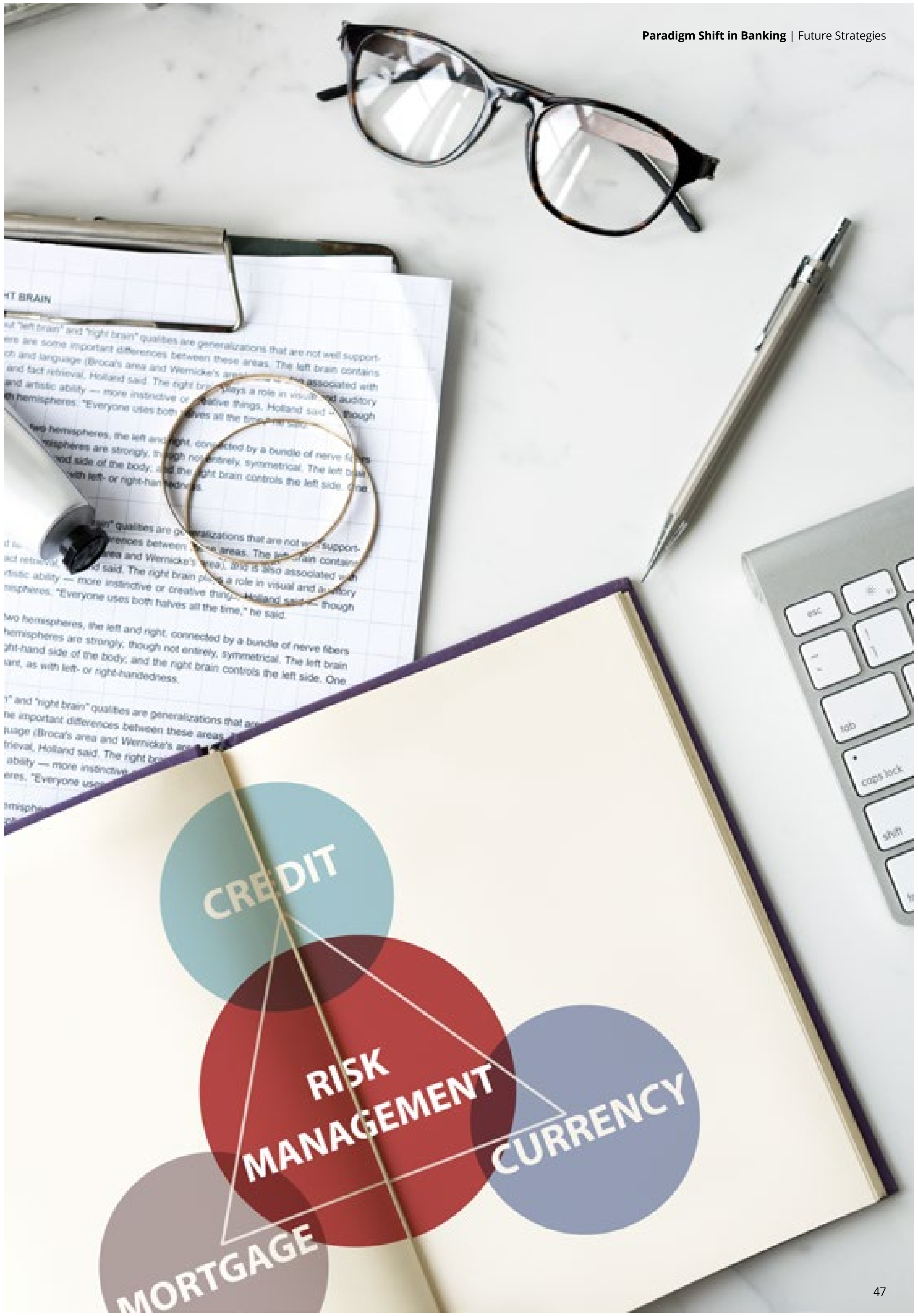
The Board of the all banks have increasingly been looking up to the independent assessment by the Internal Audit department that form the third line of defence in the banking governance framework for providing a true unbiased opinion on the functioning of the bank. With recent events of an increased scrutiny by the regulators along with posing monetary penalties for non-compliance, the role and responsibilities of the internal audit department have increased significantly. What started as a department that just performed audit of a selected sample of transaction and inferred its results to the entire asset pool has now evolved to comprehensive management audit of departments that involves assessment of their strategy & execution, adherence to regulatory and internal policy guidelines and extending deeper into the newer areas of model risk management and reputation risk management.

As the complexity of the business increases, quadrupled by the adaption and expected quick implementation of various global capital standards by the regulators, there is a large requirement to build subject matter experts within the Internal Audit department that could adequately assess the proper functioning of the business and its risks. As model based decisions are forming the essence of every aspect of banking, the analytics capability of these departments have to be enhanced as well, to assess and review the model validation performed independently by the bank. Risk based internal Audit has also evolved to a Liquidity, Capital & Risk Based Internal Audit (LCRIA) whereby the audit plan and calendar is prioritized by not only the risk the business holds and the capital it absorbs, but also at liquidity management of the bank and its future plans. Investment in technology towards planned execution over this vast agenda has also become one of the key requirements for successful implementation. As the banks march on this new paved path to audit a complex banking structure, they will also have to develop technical expertise to perform test algorithms for model driven businesses, specifying logic to be applied for test and assess appropriateness of outcome.

Conclusion

In the banking environment it is imperative that risk related activities are completely understood, including their potential rewards, stress scenarios and the various governance related aspects. Risk Governance is the paradigm under which an organization can take steps towards achieving risk related objectives. The underlying premise is that by increasing the focus of the board on risk management and elevating the status of risk executives, risk will be better managed leading to fewer surprises, scandals and insolvencies. In the long run, banks with strong risk governance should achieve higher risk adjusted performance. The Board holds the primary responsibility to guide the banks for the quantum and the type of risk that it is allowed to be undertaken as part of the banking operation. Risk culture mandates the same message to be consistently communicated across the entire organization and forms the guiding principle for every department and its employee's responsibilities. Such a coherent and consistent risk culture is critical to an orchestrated functioning, especially for large banks. The strong risk governance begets an impactful risk culture.

Paradigm Shift in Banking | Future Strategies



Glossary

AA	Adjudicating Authority
AI	Artificial Intelligence
AMC	Asset Management Company
AML	Anti-Money Laundering
APIs	Application Programming Interfaces
ARC	Asset Reconstruction Company
BIFR	Board for Industrial & Financial Reconstruction
CAP	Correction Action Plan
CDR	Corporate Debt Restructuring
CGST	Central Goods and Service Tax
CoC	Committee of Creditors
CoE	Center of Excellence
CRILC	Central Repository of Information on Large Credits
DRTs	Debt Recovery Tribunals
ECL	Expected Credit Loss
EWS	Early Warning Signals
GNPA	Gross NPA
GST	Goods and Services Tax
IAC	Internal Advisory Committee
IASB	International Accounting Standards Board
IBBI	Insolvency and Bankruptcy Board of India
IBC	Insolvency and Bankruptcy Code
ICDS	Income Tax Computation, Disclosure Standards
IPA	Insolvency Professional Agency
IPE's	Insolvency Professional Entities
IRP	Insolvency Resolution Process
IU	Information Utility
JLF	Joint Lender's forum
KYC	Know Your Customer
LCRIA	Liquidity, Capital & Risk Based Internal Audit
LLP	Limited Liability Partnership
MCA	Ministry of Corporate Affairs
NCLT	National Company Law Tribunal
NPAs	Non-Performing Assets
NPV	Net Present Value
OTC	Over-the-Counter
PCA	Prompt Corrective Action
PoC	Proof of Concept
RBI	Reserve Bank of India
RFA	Red Flag the Account
RPA	Robotic Process Automation
RPs	Resolution Professionals
S4A	Scheme for Sustainable Structuring of Stressed Assets
SARFESI	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest
SDR	Strategic Debt Restructuring
SMA	Special Mention Account
ULIP	Unit Linked Insurance Plans
WEF	World Economic Forum

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8,300 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 250 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2017-18, **India Together: Inclusive. Ahead. Responsible** emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development and training; affirmative action; women parity; new models of development; sustainability; corporate social responsibility, governance and transparency.

With 67 offices, including 9 Centers of Excellence, in India, and 10 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 344 counterpart organizations in 129 countries, CII serves as a reference point for Indian industry and the international business community.

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