www.pwc.com/in

*The monthly Financial Regulatory Technology news dose*

# *Vinyamak*

**August 2018**

pwc

# *Credit infrastructure: new avenues*

Credit access to the underbanked is the need of the hour and major efforts are being made to bring the underbanked into the formal banking system. Banks are constantly working on coming up with innovative solutions and products to reach out to the masses, and there has been an equal focus on creating the infrastructure backbone to support the large banking population under the financial sector. PCR and GSTN are two such technology infrastructure, which can help in growth of financial services.

## Need for innovation in the current banking scenario

India has a modest credit-to-GDP ratio that signifies poor penetration of the financial system in the Indian market. Therefore, the current focus is on initiatives that can help to gather and analyse credit data better. With a robust credit information management, we can include more of the informal sector under the formal financial system to achieve holistic financial inclusion.

On the other hand, even borrowers' preferences are now shifting to formal credit from the earlier informal credit lending ecosystem. While the demand for these small ticket loans has been increasing, the response of traditional banks in tapping these customers is slow. In the existing system, banks end up spending more on background checks and loan initiation processes than what they earn through interest and charges.

There are ample opportunities in terms of launching need-based products that address specific financial demands of borrowers across terms such as the ticket size of the loan, tenure of the loan and customisation options across key features. Nano finance, micro investments, customised insurance packages and sachet-based financial services[1] are few such innovative products. Success of these innovative products require change in the mind-sets of providers from a push-based approach of offering specific products to a pull-based approach of meeting specific, context-based needs by modifying core product offerings.

> Sachet-based financial offering is a concept to provide borrowers with access to any financial product anytime, anywhere and in any quantity, according to their specific requirement. The resulting outcome will be beneficial to borrowers, who will get access to cheap credit, as well as lenders, who will have alternate source of revenue.[2]

## PCR enabling objective credit decision making

Creation of PCR will result in an extensive database holding comprehensive information of borrowers in a single portal. PCR aims to fill these gaps due to unavailability of credit information and eradicate scenarios of adverse selection wherein low-risk borrowers are charged increased prices, while high-risk customers pay reduced prices on their loans.

The envisaged Indian PCR will mandate recording of all material events for all loans extended by all credit institutions such as commercial banks, cooperative banks, NBFCs, MFIs and from other sources and centralised credit information reporting. Relevant stakeholders will have access to information according to the allowed access level. This view is presented in the proposed information architecture on PCR.[2]

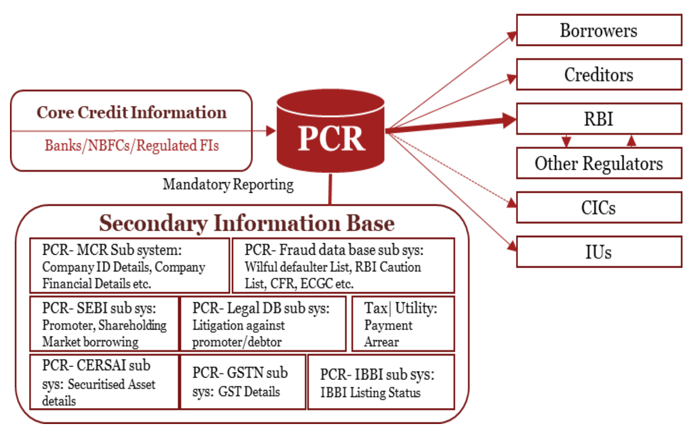


*Fig 1: PCR high level information architecture*

1 The time is ripe for the sachet model in financial services (Link)

2 Report of the High Level Task Force on Public Credit Registry for India (Link)

Stakeholders with access to PCR will be equipped with full information on the profile of the borrower, enabling them to take sound credit decisions at low cost.

PCR with full coverage of credit market information will result in benefits for the lender, borrower and regulator. The value additions provided by the PCR system is shown in the figure below and described in brief in the following section.

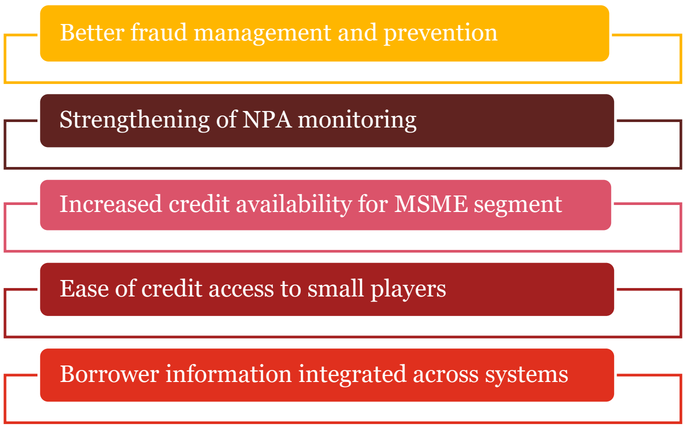


*Fig 2: Value additions from PCR System*

PCR will strengthen the monitoring of credit exposure. It can help to develop and generate early warning signs to banks for any defaulting entity. If any defaulting entity seeks lending anywhere in the ecosystem, the timely dissemination of information will help avoid further lending to the borrower and reduce the likelihood of NPAs by value and volume. The reduction in NPAs will increase the availability of credit that can be lent out to the more deserving borrowers such as the micro, small and medium enterprise (MSME) and start-up entrepreneurs. Striving towards inclusive banking by increasing reach of credit to MSMEs has been one of the target objective to be achieved via PCR.

With PCR providing credit history and validated data for borrowers, more options will be available for smaller players with need of credit without any minimum threshold. Availability of reliable information on credit profile will help good borrowers distinguish themselves from the rest and have easy access to credit. Even borrowers without a previous credit history will have simple and fast access to formal credit without being stuck in long and stringent verification processes. This process will formalise credit lending and support financial inclusion.

## GST accelerating expansion of financial services

GSTN has been the technology backbone for implementation of GST. GSTN provides a platform where sellers upload their invoices that can be approved by the buyer. Therefore, in a way, GSTN has also become a trusted repository of matched invoices.

Following the GST roll out, it has been observed that small firms, who generally buy from large enterprise, are actively registering with GSTN to gain the incentive of input tax credit. As small and medium businesses are getting integrated with GSTN, we see formalisation and inclusion of the SME sector. As we progress, banks and lending institutions will be presented with a unique proposition to leverage technology infrastructure such as GSTN and PCR to calculate credit worthiness of SME players at a reduced cost.

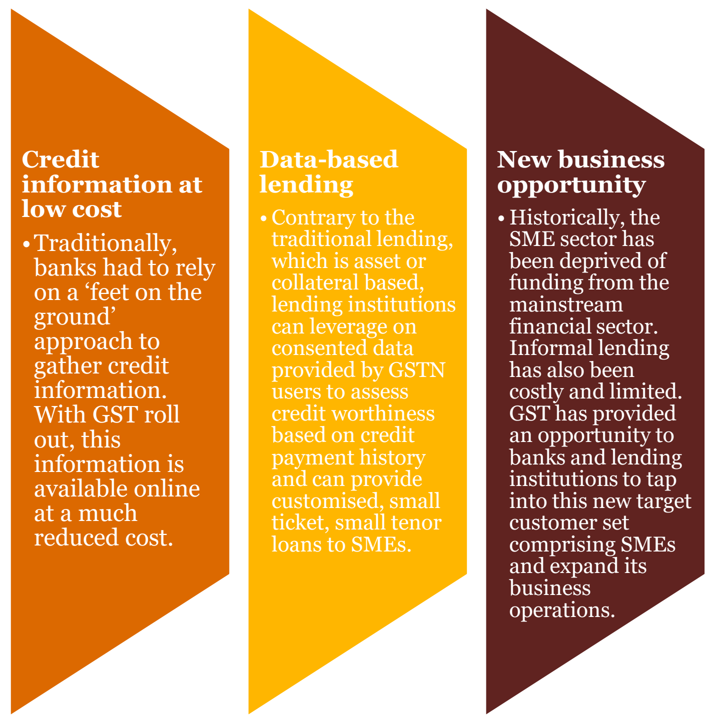


*Fig 3: Opportunities presented by GST*

Banks are also providing GST filing services to its users that again provides credit information for both customers and its suppliers. As small businesses provide secure and verifiable details of transactions, lending institutions will get more authentic data on the health of SMEs.

PCR will create a unique identification of borrowers across databases and systems. A combination of PAN, Aadhaar, CIN and LEI could potentially be used as the unique identifier of entities, since most of the existing reports are based on either of these identification codes. Linkage can be established between other systems such as UIDAI, SEBI, GST systems, Govt. record, EPFO, CBDT, stock statements, NCLT and E-Court.

A holistic profile of the borrower can be built by pulling PCR information on attributes such as GSTIN and tax filed, date of filing of first tax return, date of last income tax filed, last annual gross income, legal and suits details, credit score, debt details, insurance premium payment arrears, utility bill payments arrears and debt and collateral details.

Therefore, when reliable data on transactions, derived from GSTN, is coupled with available credit information from other sources, lending ecosystem will be empowered with robust insights on credit worthiness across SMEs. This is expected to reduce the entry barrier for credit business in the SME segment and provide an opportunity to all lending players to develop a new market.

## Conclusion

Together, the PCR and the GSTN is expected to improve information access and quality by utilising modern technological advances.[3]

Availability of borrower information from trusted sources is likely to ensure ease of lending and financial inclusion to change for good rapidly. Moreover, with FinTech start-ups coming up with innovative approaches to customise offerings according to the needs of the borrower the hit ratio of these products will be high. Sachet offerings are the need of the hour and since they meet exact requirements of borrowers, there has been a shift in the concept of lending from traditional banking.

[3] Public Credit Registry (PCR) and Goods and Services Tax Network (GSTN): Giant Strides to Democratise and Formalise Credit in India (Link)

# *Regulatory News*

## Introduction of Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) for Scheduled Co-operative Banks

The Reserve Bank of India (RBI) has introduced Liquidity adjustment facility (LAF) and Marginal Standing Facility (MSF) to scheduled state co-operative banks. However, this will be applicable to scheduled state co-operative banks, which are core banking solution (CBS) enabled and has CRAR of at least 9%.

Department of Co-operative Bank Regulation (DCBR) will publish a list of eligible banks basis fulfilling the criteria of CBS and CRAR as stated above in the positive list and ineligible banks under a negative list.

The official notification can be accessed here.

## Investments in Non-SLR Securities by Primary (Urban) Co-operative Banks: approved counterparties for secondary market transactions

Urban and rural co-operative banks have been permitted by the RBI to carry out eligible transactions related to sale or acquisition of non-SLR investment in the secondary market with pension funds, provident funds, insurance companies and mutual funds in addition to existing transactions undertaken with commercial banks and primary dealers.

The transactions undertaken shall strictly adhere to instructions available in Para 7 of RBI Master Direction dated 10 Aug 2017.

The official notification on the same can be accessed here.

## Maintenance of CRR or SLR on Foreign Currency assets and liabilities: reference rate for INR/USD and exchange rate of other major currencies

The RBI has issued a circular dated 2 August 2018 pertaining to FBIL (Financial Benchmarks India Private limited) published rates. The circular advises banks to use the conversion rate announced by FBIL for the purpose of converting foreign assets and liabilities for reporting in Form VIII and Form A.

However, in cases where reference rates are not available from FBIL, banks can continue using New York Closing rates pertaining to the day-end of reporting Friday, for converting such currencies into USD. For further conversion into INR, banks may use USD/INR rates of FBIL of the same day.

The official notification on the same can be accessed here.

# Other Regulatory News

## SEBI seeks public comments on report submitted by the Committee on Fair Market Conduct

SEBI had formed a committee in August 2017 for reviewing the existing legal framework in order to tackle market abuse ensuring fair market conduct in the securities market. The committee was directed to review the current surveillance, investigation and enforcement mechanisms undertaken by the SEBI to make it more effective, while protecting investors' interests and market integrity.

The committee had representatives from law firms, mutual funds, brokers, forensic auditing firms, stock exchanges, data analytics companies, chamber of commerce and SEBI.

A report has been submitted by the committee in August 2018 suggesting amendments to Acts and regulations. Comments have been invited in a specified format from the public, based on the committee's recommendations in the report.

Here are the details of the press release.

## Know Your Client (KYC) Requirements for Foreign Portfolio Investors (FPIs)

The SEBI has extended the time frame for compliance with the circular released in April 2018 pertaining to KYC guidelines requirements for foreign portfolio investors. The deadline has been extended to 31 December 2018. In this regard, a working group is already in place to advise the regulator to help redraft FPI Regulations for simplification, to incorporate the provisions contained in circulars, FAQs and operational guidelines concerning Foreign Portfolio Investors (FPIs) and other FPI-related issues.

More details can be viewed here.

## Amendment to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 mandating transfer of securities in dematerialised form with a depository

Regulation 40 of SEBI has been amended by SEBI, which deals with listing obligation and disclosure requirements, 2015. The amendment is about processing of transfer of securities. It states that transfer of securities cannot be processed unless they are held in dematerialised form with a depository with effect from 5 December 2018.

Prior to this amendment, the SEBI came out with various initiatives for spreading awareness about the proposed change. Depositories, exchanges and listed companies have been directed to take extra efforts to reach out to investors holding physical securities. The SEBI has clarified that amendment does not prohibit anyone from holding securities in physical form even after the deadline date. Moreover, the amendment is also not applicable for transmission and transposition cases.

Other details of the same can be viewed here.

## Change in investment guidelines for NPS w.r.t investment in Equity Mutual Fund by pension funds

The Pension Fund Regulatory and Development Authority (PFRDA) has decided to put a cap of 5% on investment in equity mutual funds in a way that the aggregate portfolio invested in such mutual funds should not exceed 5% of the total portfolio of the fund at any point of time and the fresh investment in such mutual funds should not exceed 5% of fresh accretions invested in the year.

The authority has also decided to exclude the amount of investment in any mutual funds, ETFs, or index funds made by Pension Funds via professional fund or asset managers for the purpose of computing the investment management fee.

The aforesaid revision should be applicable to both the referred guidelines for NPS Schemes applicable to Scheme CG, Scheme SG, Corporate CG, NPS Lite Schemes, APY and also to NPS schemes other than CG and SG.

The official communication from PFRDA for the same can be viewed here.

# Global Regulatory News

## Call for comments on governance of OTC derivatives data

The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have invited public comments on consultative report related to the governance of OTC derivatives data elements.

The report classifies key criteria, functions and bodies for the governance arrangements of the critical data. This will help in reducing systemic risk, preventing market abuse and improvement in transparency of the market. The plan is to aggregate data from various trade repository system to get complete and in depth view of OTC derivatives markets and its activity.

IOSCO, CPMI and Financial stability Board (FSB) have published various papers in recent times which has helped in preparing the groundwork for harmonisation of key OTC derivatives data elements.

The report has been prepared in response to FSB's request to develop global guidance on harmonisation of data elements reported to trade repositories including unique trade identifiers (UTI) and unique product identifier (UPI).

The final press release can be viewed here.

## ECB seeks feedback on draft ECB Regulation on money market statistics

The European Central Bank (ECB) has asked for feedback on draft ECB regulations on money markets statistics to improve the quality of data reported to European System of Central Banks (ESCB).

The amendments in this regulation will ensure coverage of money market transactions with all financial counterparties. This will also support the reporting of Legal Entity Identifier (LEI) of counterparties, as is, when available to ensure data collection benefits from extended mandatory use of the LEI reporting. The regulation also talks about development and administration of an unsecured overnight interest rate. The ECB plans to publish a feedback statement basis comments received.

Full information can be viewed here.

## ESMA to renew prohibition on binary options for another three months

The European Securities and Markets Authority (ESMA) has extended the existing prohibition of the marketing, distribution or sale of binary option to retail clients. The new three-month period will start from 3 October 2018. Current period of prohibition is from 2 July to 2 October 2018. ESMA has also agreed to exclude a limited number of product based on its review on specific features of these options. The decision has been taken considering various product features and protection of investor interest.

Complete details can be accessed here.

## FSB and standard-setting bodies consult on effects of reforms on incentives to centrally clear over-the-counter derivatives

The Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the committee on Payments and Market Infrastructures (CPMI), and the International Organization of Securities Commissions (IOSCO) together have published a consultative document on incentives to centrally clear over-the-counter derivatives. The main idea behind this paper is to evaluate the interaction of reforms and how incentives get impacted by these reforms. The final report will be published at the time of the proposed G20 Summit Scheduled at November end.

The consultative paper discusses various factors, which may impact incentives amid the proposed reforms. The official release is available here.

# About PwC

PwC helps organizations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 184,000 people who are committed to delivering quality in Assurance, Tax and Advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, visit www.pwc.com/in

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

You can connect with us on:

facebook.com/PwCIndia

twitter.com/PwC_IN

linkedin.com/company/pwc-india

youtube.com/pwc

# Contacts


*Vivek Belgavi*
*Partner*
vivek.belgavi@in.pwc.com
+91 - 9820280199

*Vishal Motwani*
*Associate Director*
vishal.motwani@pwc.com
+91 - 7506800901

*Hardik Gandhi*
*Associate Director*
hardik.gandhi@ipwc.com
+91 – 9819379703

*Abhishek Chaurasia*
*Principal Consultant*
abhishek.chaurasia@pwc.com
+91 – 9836849994

*Abhash Mishra*
*Senior Consultant*
abhash.mishra@in.pwc.com
+91 – 91677 52821

*Mamta Kumawat*
*Senior Consultant*
mamta.kumawat@pwc.com
+91 - 8451098066