MARCH 2025

IBS VIGYAN

VISIONING BANKERS

Evangelistically Speaking

Dear Stakeholders,

Throughout the sixteenth Ashtapadi of Jayadevar's Geetagovindam, Radha endeavours to establish that what is sauce for goose is not sauce for gander. She begins with the lament that a Gopika may be enjoying, reclining on a silky bed, but for her, such a mattress conjures up agonising pangs of separation from Krishna. Does RBI also have the liberty to follow double standards when it comes to assuaging the bank specific apprehensions of retail depositors?

In the late 1990s, when South India Cooperative Bank was put under liquidation, similar sounding South Indian Bank, on the same day, faced large withdrawal of deposits. The Bank, which had no adverse supervisory rigour at that point of time, desperately pleaded to RBI to issue a clarification that both banks were disparate entities. RBI turned the other way. In 2008-09, when ICICI Bank defaulted on reserve maintenance and faced the semblance of a run on it, RBI hastily gave a notification on the stability of the Bank. May be, the Chairman of South Indian Bank was a minnow in the eyes of RBI compared to the heft of K.V.Kamath! Fast forward to 2025. RBI, for reasons best known to themselves, approved the continuance of the CEO of IndusInd Bank Shri Sumant Kathpalia for another year, unlike the three year extension they usually approve. Subsequently the bank informs the Stock Exchanges of a likely hit in their P&L of an amount that exceeds the profit of the previous quarter, arising from misclassification of certain derivative contracts and attendant non-compliance of accounting guidelines of RBI.

A very cryptic way of covering up losses from derivatives! Is the bank covering another Nick Leeson? But the stock market turned ruthless on the bank's stock which has eroded nearly half of its recent peak. Unconfirmed reports indicate that SEBI is also likely to examine if the CEO and CFO engaged in insider trading. Yet, RBI found it apposite on 15th March 2025 to issue a statement on the financial stability of the Bank. The statement does not contain anything other than what is in the public domain about the Bank's financials. So, to what end is this statement intended? The statement adds that the Bank has been directed to make appropriate disclosures after complying with prescribed accounting standards for derivatives.

While on disclosures, the regulator's concerns on effect of climate change on financial institutions and the need for appropriate disclosures on this impact is covered in this month's Curated Cube.

Looking forward to a sustaining engagement with all.

Sincerly yours

Satheesh Kumar. S
Managing Director

ibsbankcareer.in
vigyan@ibsbankcareer.in
+91-479-2445593

INSTITUTE OF BANKING STUDIES(IBS)
CORPORATE OFFICE, 3C, SI CAPITOL CENTER
STATUE JUNCTION, THIRUVANANTHAPURAM - 6905001
HO - CENTER POINT, KP ROAD KAYAMKULAM, KERALA– 690502
NOW AT : CHENNAI, BANGALORE, HYDERABAD, PUNE, VIJAYAWADA, JAIPUR

ibsbankcareer.in
vigyan@ibsbankcareer.in
+91-479-2445593

Curated Cube

What if an unforeseeable climate change devastates the tea crop in North Eastern India, what if the apple orchards of Kashmir report poor yields, what if the unseasonal rains affect paddy yields from the rice belts, what if the soaring temperatures trigger productivity issues and elevate the cost of compliance with labour laws, what if the cost of compliance with emission norms dents the competitiveness of certain sectors, what if the value of collaterals held by banks erode on account of climate change related events? Are these apprehensions limited to the real economy alone or will there be spillover to the financial system? These apprehensions have begun to agitate the minds of financial regulators and standard setters like the Basel Committee for Banking Supervision (BCBS).

In last July, while delivering the Prof. Suresh Tendulkar memorial lecture of RBI, Dr. John C Williams, President and CEO of Federal Reserve of New York flagged climate change related issues as one of the major concerns in the near future. In November 2024, Shri Rajeshwar Rao, Deputy Governor, RBI, in his speech articulated on these apprehensions. He categorized the primary fallout of the apprehensions mentioned in the opening para as physical risks while the apprehensions on the rising cost of compliance issues as transition risks. Transition risks emerge from efforts to mitigate climate change.

In March 2025, Shri Sanjay Malhotra, in his speech articulated on the facilitative dimension involving capacity building development of the ecosystem and financing of green and sustainable transitions, as well as the prudential aspect of risk management. He noted that Central Banks in Advanced Economies have followed an asset neutral approach while those in Emerging Markets and Developing Economies have adopted directed lending practices to channelize credit to certain sectors. He mentioned about the setting up of a repository Reserve Bank Climate Risk Information System (RB-CRIS) to bridge data gaps by providing standardized data sets.

The Basel Committee's Consultative Document on Disclosure of Climate Related Financial Risks rests on a holistic approach across the three pillars of Regulation, Supervision and Disclosure. On qualitative disclosures, the document lists governance structure, strategy, risk management and concentration. On the quantitative disclosures, it has mentioned impact on profitability on sectoral exposures emanating from lower revenue, higher credit losses, increased operational, legal and regulatory costs.

The consensus is that impact of climate change related risks is not just on individual institutions but on the financial system as a whole. This would involve scenario analysis and stress testing exercise, using both bottom up and top down approaches.

(Cube gives a third dimension in geometry. Curated Cube endeavors to conflate events in the market over the past month.)

FOURTH PILLAR

PRIME MINISTER DHAN-DHAANYA KRISHI YOJANA: In the recent budget, to boost and strengthen the agriculture sector, this programme was announced which will target 100 districts characterized by low productivity, moderate crop intensity, and below average credit parameters. The prime objective of this programme is to enhance agricultural productivity, promoting crop diversification and sustainable practices, improving post-harvest storage through both short-term as well as long-term credit to the farmers.

REVISION IN CLASSIFICATION CRITERIA FOR MSME: In the recent budget, MSME sector was described as the 2nd power engine, after agriculture, for the development, as MSME sector contributes around 45% of the country's exports. To help MSMEs achieve higher efficiency scale, technological upgradation and better access to credit, the investment and turnover limits for classification of all MSMEs have been revised as under:

Classification	Investment in Crores (₹)	Turnover in Crores (₹)
Micro	2.5	10
Small	25	100
Medium	125	500

REMOVAL OF CAP ON THE TENOR OF SNRR ACCOUNT: A SNRR account is a Special Non-Resident Rupee account that non-residents (other than individuals) can open in India for legitimate business and investment related transactions. RBI has removed the existing seven-year cap on the validity of SNRR account. As such, the tenure of the SNRR account shall be concurrent to the tenure of the contract/period of operation/the business of the account holder.

IRDAI LIMITS ANNUAL HEALTH INSURANCE PREMIUM HIKE FOR SENIOR CITIZENS TO 10%: IRDAI has introduced a significant reform to protect senior citizens from excessive hike of health insurance premiums by the Insurance Companies. The new directive restricts the insurance companies to limit the hike within 10% level annually. This limit will help the senior citizens who generally face higher health risks and cannot afford to pay the higher premiums charged by the insurance companies due to annual hikes. It has also been directed by IRDAI that the insurance companies cannot unilaterally discontinue or withdraw health insurance plans catering to senior citizens.

EXPORTERS CAN NOW MAINTAIN FOREIGN CURRENCY ACCOUNT OUTSIDE INDIA: To facilitate international trade and enhance ease of doing business, the RBI has liberalized regulations governing foreign currency accounts for exporters. Under this framework, an exporter who is a resident of India, is now permitted to open and maintain a FC account with a bank outside India, which can be used for receiving the full export proceeds as well as receiving advance payments from a prospective overseas buyer.

CHANGES MADE IN THE EXTANT FEMA REGULATIONS: (a) Overseas branches of AD Banks can open INR account for person outside India for settlement of all permissible current account and capital account transactions with a person in India; (b) Persons resident outside India will be able to settle bona fide transactions with other persons resident outside India using the balances in their repatriable INR accounts; (c) Persons resident outside India will be able to use their balances held in repatriable INR accounts for foreign investment, including FDI, in non-debt instruments; (d) Indian exporters can open accounts in any foreign currency overseas for settling their trade transactions, including receiving exports proceeds and using these proceeds to pay for imports by them.

(Fourth Pillar strives to position beyond the three pillars of Basel and is culled from the Four Estates)

INQUISITIVELY SPEAKING

1. Union Budget 2025-26 has highlighted 4 driver engines for the growth and development. Which of the following is not an engine of Viksit Bharat?
a) Agriculture b) Exports
c) Insurance d) MSME
e) Investment

2. What are the revised new credit guarantee limits proposed for Micro & Small Enterprises?
a) ₹2 crore b) ₹5 crore
c) ₹10 crore d) ₹15 crore

3. What is the updated maximum loan amount available through KCC (Kisan Credit Card) under the Modified Interest Subvention Scheme?
a) ₹4 Lakh b) ₹5 Lakh
c) ₹7 Lakh d) ₹10 Lakh

4. What is the TDS limit on interest for Senior Citizens from Term Deposits when the TDS payer is neither a Bank, Cooperative Society nor a Post Office?
a) ₹10000 b) ₹20000
c) ₹25000 d) ₹50000

5. What is the revised FDI limit for the Insurance sector, as announced in the recent Union Budget, and under what condition?
a) 49% for all Insurance Companies
b) 100% for Insurance companies that invest the entire premium in India
c) 74% for Insurance companies with foreign investment
d) 51% for Insurance companies operating in rural areas

6. In terms of RBI guidelines, the wrongful debit in the customer's account on account of ATM failed transactions shall be reversed within __days from the date of transaction. failing which a penalty of ₹___ for each day of delay shall be credited to customer's account along with the disputed amount.
a) T+2, ₹200 b) T+4, ₹200
c) T+5, ₹100 d) T+6, ₹200

7. Borrowers including SMA0, SMA1 & SMA2, with aggregate fund & non-fund-based credit exposures of ₹ …. Crores and above to be reported to CRILC by banks.
a) ₹1 crore b) ₹2 crore
c) ₹5 crore d) ₹10 crore

ANSWER KEY

1. c 2.c 3.b 4.a 5.b 6.c 7.c

Stretch n Speak

CEOBE: Credit Equivalent of Off-Balance-sheet Exposure

FoF: Fund of Funds

RBI-DPI: Reserve Bank of India – Digital Payments Index

FIAT: Fund for Innovation and Technology

QIP: Qualified Institutional Placement

iSPOT: Integrated SEBI Portal for Technical Glitches

FPI: Foreign Portfolio Investors

DPDP Rules: Draft Digital Personal Data Protection Rules