

Financial Institutions & Services

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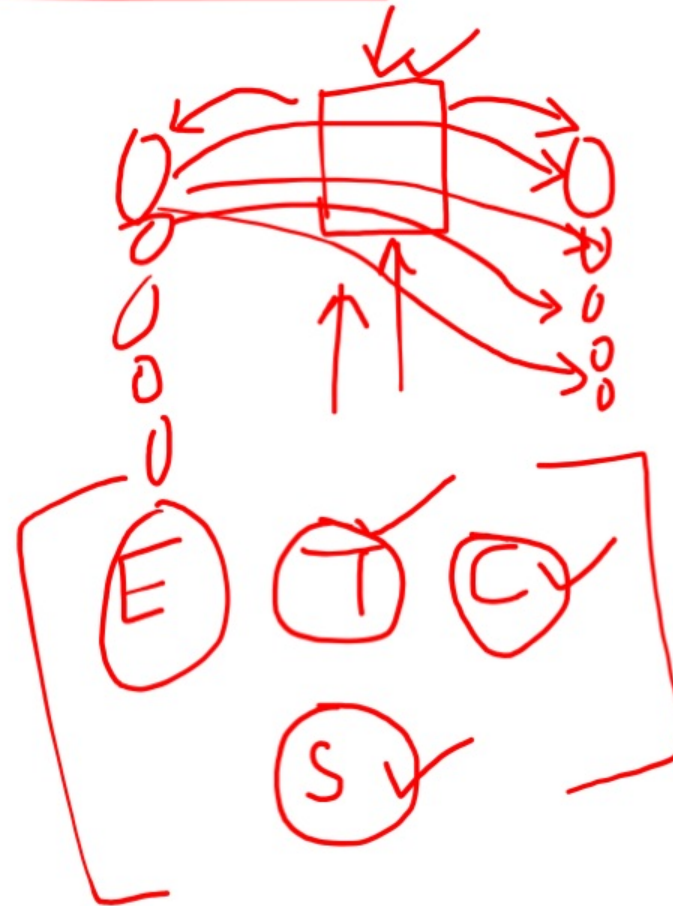
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Bouquet of financial services

- ▶ Payments
- ▶ Deposits and Lending
- ▶ Investing
- ▶ Wealth Management
- ▶ Insurance
- ▶ Financial inclusion
- ▶ Others



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Fintech use-cases

- ▶ Payments
- ▶ NeoBanking ✓
- ▶ Lending
- ▶ Investing
- ▶ WealthTech
- ▶ InsurTech
- ▶ Financial inclusion
- ▶ AI assisted tools to improve time, access, cost, risk

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Banking systems in India

Reserve Bank of India - Establishment (RBI Act, 1934)

PREAMBLE

An Act to constitute a Reserve Bank of India.

Whereas it is expedient to constitute a Reserve Bank for India to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage;

AND WHEREAS it is essential to have a modern monetary policy framework to meet the challenge of an increasingly complex economy;

AND WHEREAS the primary objective of the monetary policy is to maintain price stability while keeping in mind the objective of growth;

AND WHEREAS the monetary policy framework in India shall be operated by the Reserve Bank of India;

3. Establishment and incorporation of Reserve Bank.

- 1) A bank to be called the Reserve Bank of India shall be constituted for the purposes of taking over the management of the currency from the Central Government and of carrying on the business of banking in accordance with the provisions of this Act.
- 2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

RBI

- ▶ Balance Sheet: <https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1412>
- ▶ Monetary Policy: https://m.rbi.org.in/scripts/FS_Overview.aspx?fn=2752
- ▶ MMO: https://rbi.org.in/Scripts/BS_ViewMMO.aspx

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Models of Banking - a comparison

- Intermediaries between security issuers and investors to help firms raise capital.
- Provide financial consultancy services, equity research.
- Provide various financial services - M&A, leveraged finance, restructuring, risk management, underwriting, securities trading, asset management, etc.
- Main Income source: Commissions and fees.

✓ Investment Banks

- Main functions - deposit taking, making loans - Asset Transformers.
- Clientele - private, corporate, government, sovereigns.
- Other services - credit cards, payments and settlements, private banking, custodial services, providing guarantees and trade financing.
- Main Income sources: Interest from loans and investments, commissions and fees from other services.

Commercial Banks

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Financial Intermediation

- ▶ Financial intermediary is a middleman entity between two parties in a financial transaction
- ▶ Process of channeling funds from lenders to investors/borrowers by intermediating between them
- ▶ Evolution of various financial instruments
- ▶ Benefits:
 - ▶ Lower transaction costs (expertise, time and money spent; economies of scale)
 - ▶ Promotes efficient markets, price discovery, lower cost of doing business
 - ▶ Risk sharing (risk assumption vs diversification)
 - ▶ Reduces asymmetric information (adverse selection and moral hazard)

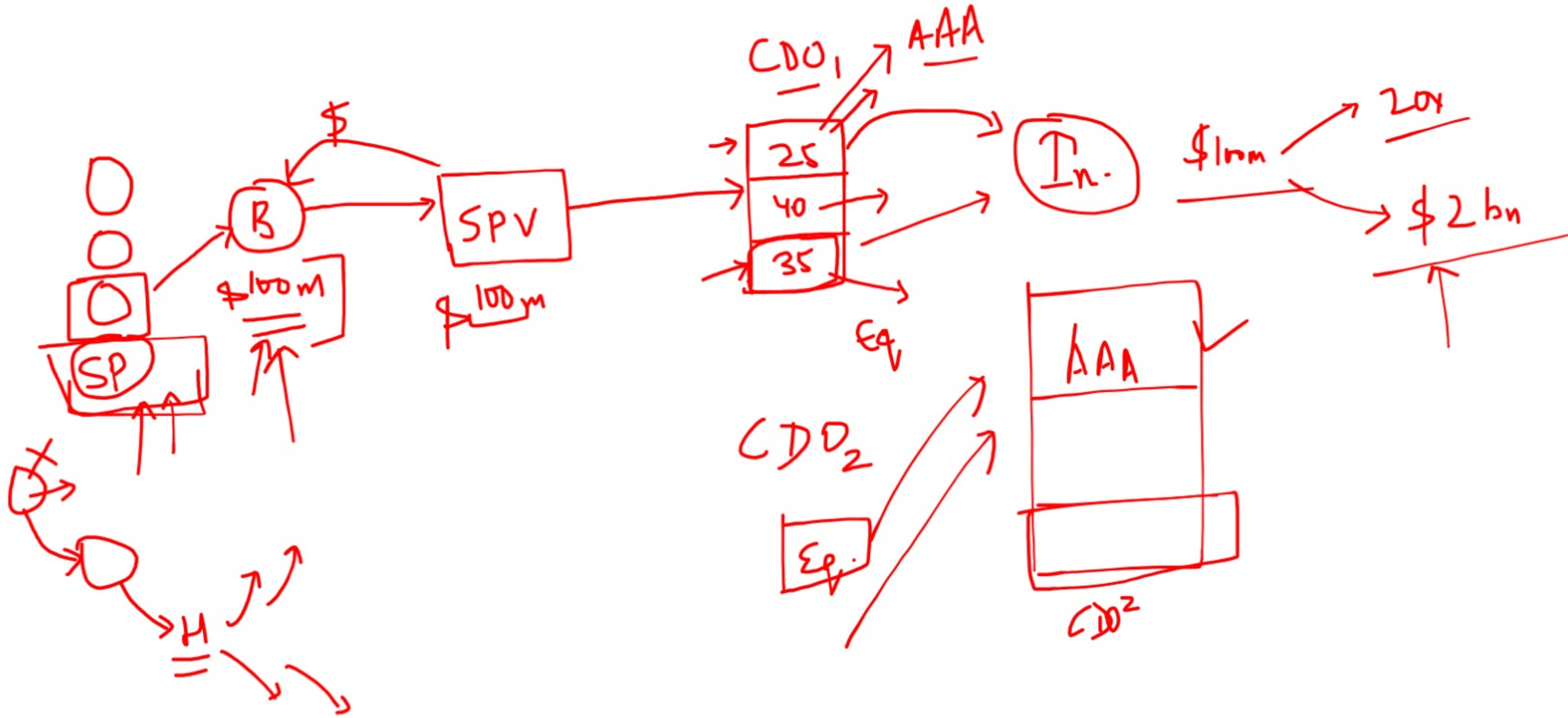
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Global Financial Crisis 2007-08: causes and effects

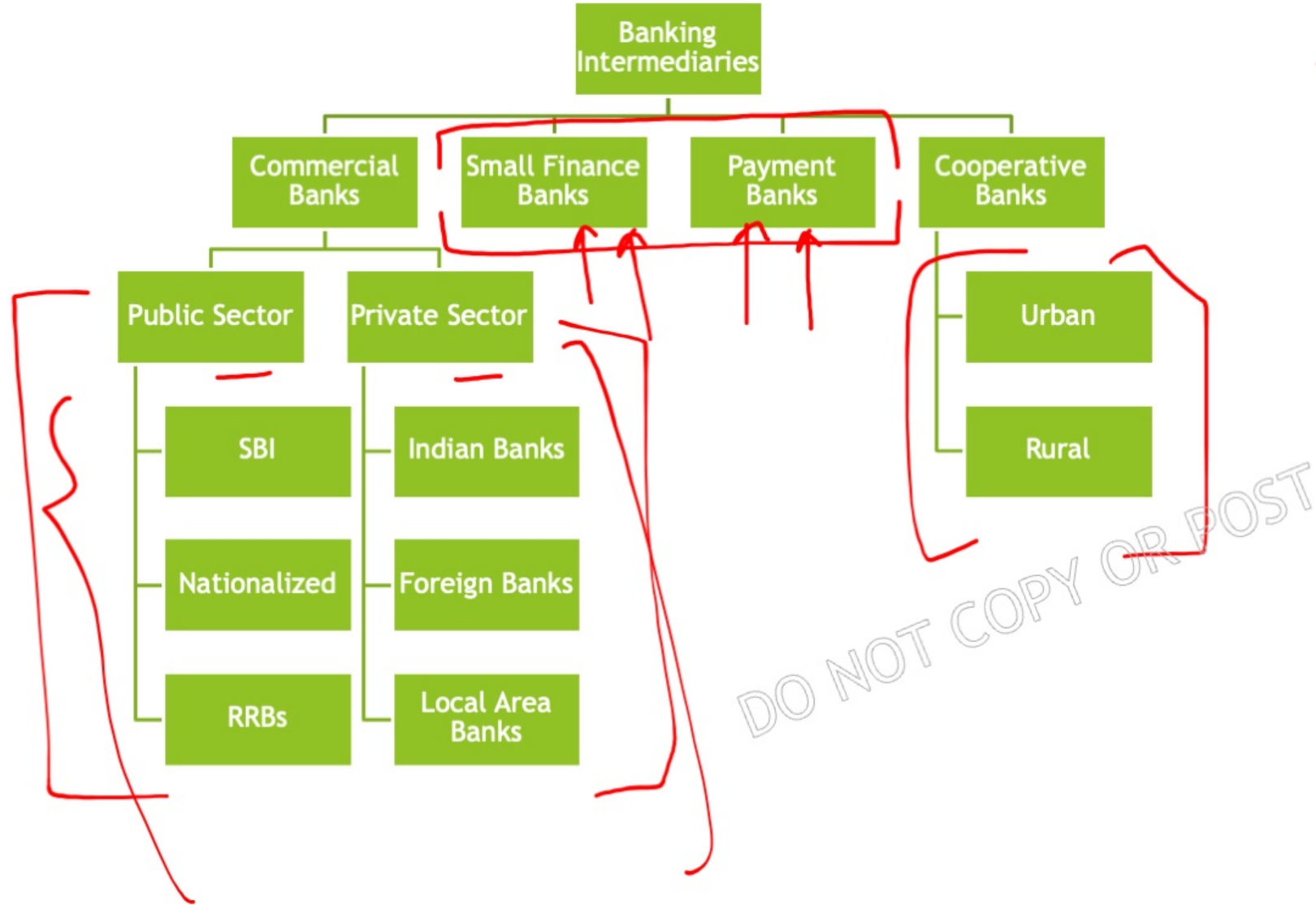
- ▶ Global Financial Crisis was essentially a result of heightened risk taking (web of derivative structures) with relatively far less monitoring
 - ▶ Lower interest rates → asset price 'bubble'
 - ▶ Evolving financial innovation vs failure of risk management
 - ▶ Highly leveraged financial institutions - inadequate regulatory framework
 - ▶ Inter-connectedness of the activities of regulated and non-regulated participants
 - ▶ Heightened systemic risk

<https://www.youtube.com/watch?v=gS7TH7ICMRk>
- ▶ Key reforms:
 - ▶ Capital requirements to be able to absorb financial shock (safer and fairer)
 - ▶ Central Counterparty Clearing Houses - takes care of systemic risk to a large extent; cpy risk management through initial and variation margins

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Banking Intermediaries



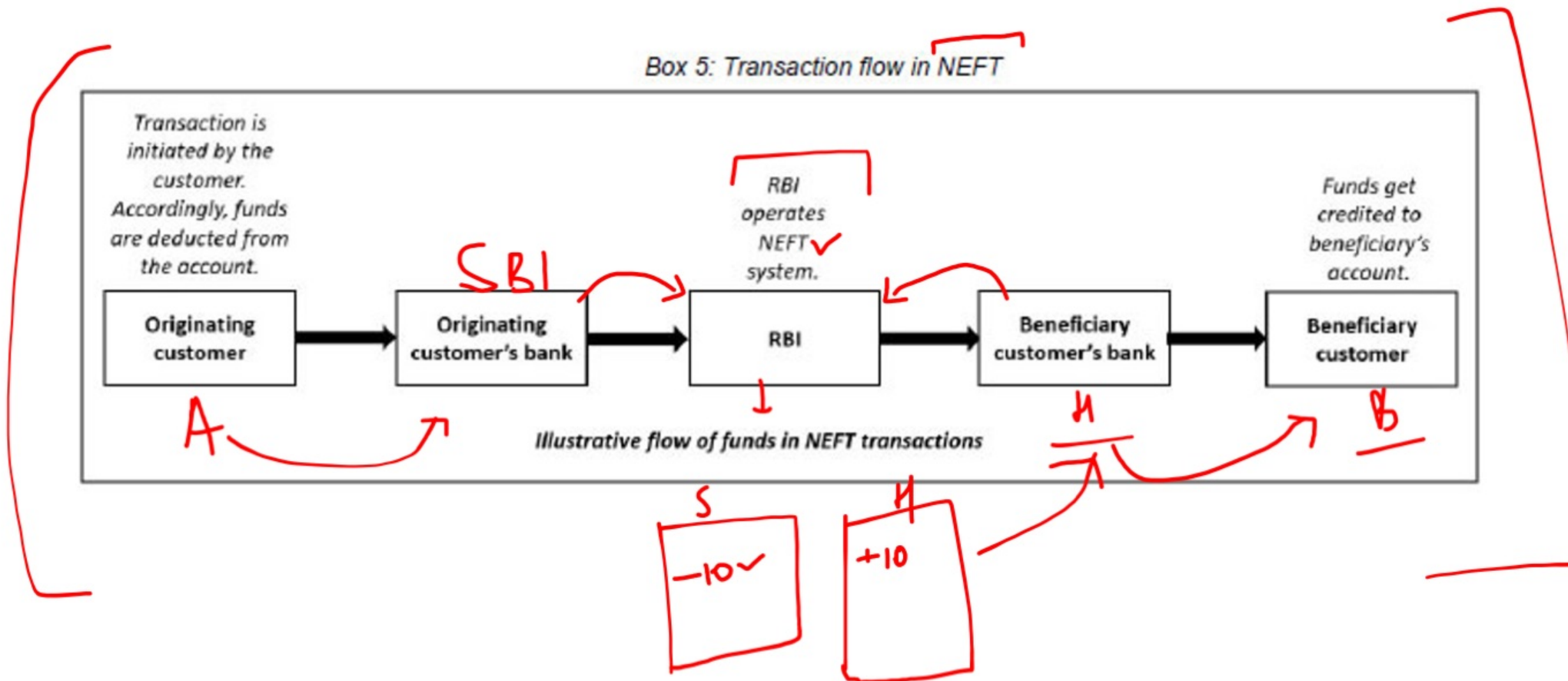
Payments Banks

- ▶ Payments Banks to accelerate financial inclusion by
 - ▶ Providing savings accounts
 - ▶ Providing payment/remittance services to migrant labour workforce, LHH, small businesses, unorganized sector
 - ▶ by enabling high volume-low value transactions in deposits and payments/remittance services in a secured technology-driven environment
- ▶ Deposits:
 - ▶ Can accept only demand deposits up to INR 1 Lakh day-end balance; can issue debit / ATM cards
- ▶ Deployment of funds:
 - ▶ Payment bank is not allowed to undertake lending activities; cannot issue credit cards
 - ▶ CRR + 75% of demand deposit balances in approved Govt securities with maturities up to 1 year
 - ▶ Max 25% in current and time / fixed deposits with other scheduled commercial banks for operational purposes and liquidity management
- ▶ Min paid up capital of INR 1.0 bn; FDI for private sector; minimum capital adequacy ratio of 15%

Small Finance Banks

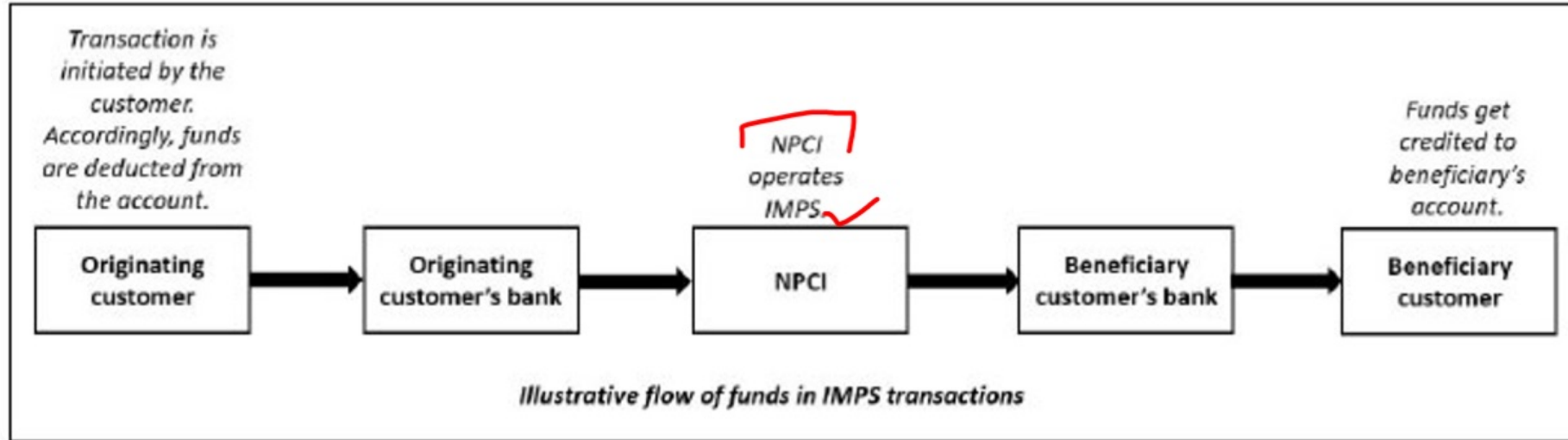
- ▶ SFBs to promote financial inclusion by
 - ▶ Providing savings vehicles
 - ▶ Supplying credit to small business units, small and marginal farmers, MSMEs, unorganized sector
- ▶ Eligibility criteria laid out by RBI (individuals - 10 yrs / resident company, society, NBFC, MFI, LAB)
- ▶ Min paid up capital of INR 2.0 bn; FDI for private sector
- ▶ Min promoters' holding at 40%; bring down to 26% in 12 years
- ▶ To follow all prudential norms and regulations as applicable to existing commercial banks
- ▶ Minimum capital adequacy ratio of 15% of RWA
- ▶ No restriction in the area of operations; min 25% of its branches in unbanked rural centres
- ▶ Minimum 75% credit to sectors eligible for PSL
- ▶ Minimum 50% of loan portfolio should constitute loans and advances of up to Rs. 25 lakh

Payment infrastructure



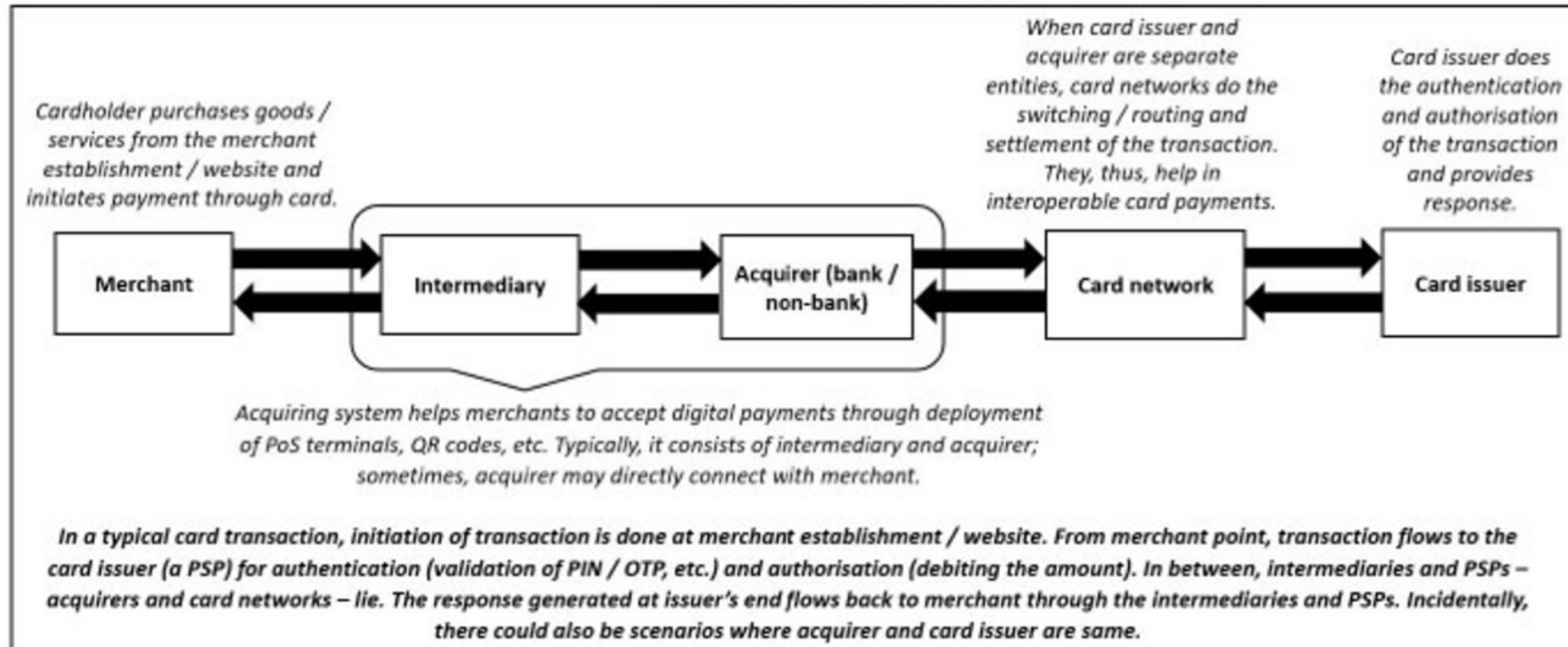
Payment infrastructure

Box 6: Transaction flow in IMPS



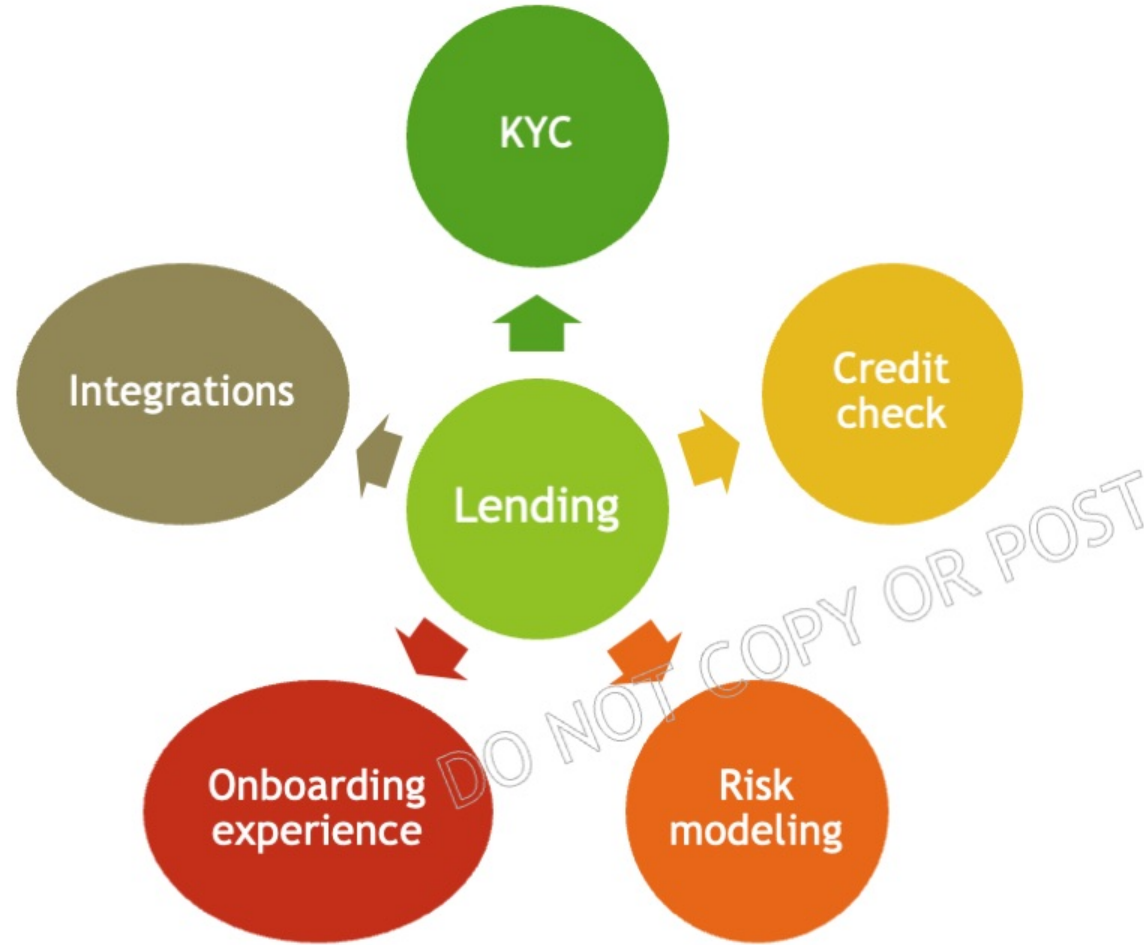
Payment infrastructure

Box 1: Card transaction flow



Lending business DO NOT COPY OR POST

Lending



Customer relationship process



Web resources

- ▶ News portals
- ▶ Financial data
 - ▶ Aggregators
 - ▶ Stock Exchanges
 - ▶ Brokers
 - ▶ MCA
- ▶ Regulators
 - ▶ RBI - Regulations, Money market data, trends
 - ▶ SEBI - Regulations, Issue documents, intermediary data
- ▶ Rating agencies
- ▶ Broker research reports

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