



Shailesh J. Mehta School of Management, IIT Bombay  
and



Present

**Finance Continuum 2013**

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Global Financial Architecture

1<sup>st</sup> September 2013

## CONTINUUMS

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Continuum, the rolling seminar series, is the flagship event of the annual industry interaction sessions at Shailesh J. Mehta School of Management, IIT Bombay. The Continuums are held across the various domains of management like Consulting, Finance, Human Resources, Marketing, Operations, Systems and Technology Management. Continuums aim to cover the latest trends in management by inviting eminent speakers from industry and academia. These seminars focus on the issues and challenges faced by management functions, and aim at drawing insights from the knowledge and experience of the speakers. The seminars are well attended by delegates from different organizations, our distinguished alumni, and students from various business schools. Continuum series also holds various competitions among students, like case study competitions and business simulation games.

The one day event provides a very good learning experience for the students. It provides a platform for their inquisitive minds to interact with industry stalwarts. Enlightening sessions by eminent speakers are generally followed by rounds of mutual interaction between the speaker and the students. This helps the students to get a holistic picture of the industry trends. The event is a platform for deliberation, knowledge sharing and aims to develop curiosity among the participants regarding specific aspects of business. The event has been received very well in the past by delegates from the industry and various business schools. The event has grown from strength to strength over the years, and is now well acknowledged by the industry.

## FINANCE CONTINUUM 2013

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The Finance Continuum 2013 will be organized on **1<sup>st</sup> of September 2013** with a theme reflecting the current trends and challenges faced by finance professionals. The Finance Continuum 2013 will include a series of presentations on the theme:

### GLOBAL FINANCIAL ARCHITECTURE

Economies across the world faced difficulties due to the global financial crisis, triggered by the sub-prime crisis in the USA. Effects of this near-meltdown were felt in geographies ranging from the Americas and Europe to India and the rest of Asia. The G20 has been foremost in championing the need for revamping and strengthening the international financial system. Among the areas to be addressed are financial regulatory and oversight mechanisms, macroeconomic policies, free trade, and the establishment of an institution that monitors and works towards improving the global monetary and financial system. These components together will contribute to the much needed stability of the international financial system. The sub-themes of this seminar, mentioned below, delve deeper into various aspects of such a global financial architecture.

## Speakers: Finance Continuum 2012

**Inaugural Address:** Prof. S.V.D. Nageswara Rao, SJMSOM, IIT Bombay

- **Dr. Prabhakar Patil** - Joint Director, SEBI
- **Mr. G. Chockalingam** - Executive Director & CIO, Centrum Capital
- **Mr. Anup Bagchi** - Managing Director & CEO, ICICI Securities
- **Mr. Manishi Raychaudhuri** - Managing Director, BNP Paribas
- **Mr. Harsh Nanda** - Executive Director, Goldman Sachs
- **Mr. Vivek Joshi, Associate Director** - Kotak Investment Advisors Limited
- **Dr. G. Ramachandran** - Head of Global Research, ICICI Bank
- **Mr. Jacob Mathew** - Managing Director, MAPE Advisory
- **Mr. Rajesh Mokashi** - Deputy Managing Director, Care Ratings

## UNDERLYING THEMES

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Listed below are some of the suggestive and non-restrictive sub-themes for discussions:

### **Proposed Panel Discussion Topic: New Banking License–Will it help financial inclusion?**

After a long time, Ministry of Finance and RBI have announced the issue of new bank licenses to private players & NBFCs. The RBI has finalized a set of guidelines for new players to get the bank license.

Looking at the Indian banking sector, the total number of offices has increased by a CAGR of almost 6.5 % during the last five year period. But this is majorly contributed by the 9.5% CAGR in the semi-urban India while the number of offices in rural part grew at a rate of 4% CAGR.

Financial inclusion means provision of banking and other financial services to all the people, particularly those with lower income. But even now almost 6 lakh villages do not have access to any banking facilities. And this time, to contribute to financial inclusion the RBI

has issued the guidelines that new bank applicants shall open at least 25% of their branches in the unbanked rural centers.

Would expansion of the banking network with the entry of new players and opening of new branches in rural areas help the cause of financial inclusion? There are various challenges to achieve the objective.

1. Transaction cost per customer would be higher
2. Existing financial products may not be suited to the rural sector
3. Credit analysis of the customers would be difficult
4. Rise in NPAs from 2.33% to 3.17% of total asset pool in the last 5 years.

So, It requires a discussion to understand whether granting bank licenses to new players would lead to Financial Inclusion or not.

### Prudential oversight of the global financial system

The Financial Stability Board (FSB) was established in April 2009 after the G20 London summit. On the FSB's charter are goals such as monitoring the global financial system and making recommendations for its improvement. Key focus areas for the FSB are:

- Oversight of capital, liquidity, and risk management
- Enhancing transparency and valuation
- Improved use of credit ratings
- Improving authorities' responsiveness to risks
- Arrangements for dealing with stress in the financial system

While every economy has a regulatory body for the capital markets, be it the SEC in the US or the SEBI in India, how will such oversight and regulatory mechanisms operate in the global context? How will they manage the myriad of interests from various perspectives like growth and stability, arising from different geographies? Will a global oversight body such as the FSB be able to meet the targets mandated for its establishment?

### Reversing Currency Wars

It was not very long ago when countries were involved in currency war trying to devalue their currency to boost exports. Brazilian Finance Minister Guido Montega in September

2010 famously accused US of flooding the world with cheap money. Many believed such quantum of cheap money will erode dollar's value and the other currencies will move up relative to dollar hampering domestic industries.

But it has all reversed in recent times after US Fed indicated its plan to wrap \$85 billion a month bond buyback program. A lot has changed in the perception of investors towards emerging economy which were considered safe post 2008 but the finance community has now switched faith to developed economies leading to exodus of huge money from emerging economies to their developed counterparts. This is wreaking havoc on currencies across emerging economies. Same is the case with India which is facing widening current account deficit due to surge in gold imports. FII's have withdrawn \$3 billion just in the month of June making Indian rupee the worst performing currency in Asia. With unemployment still an issue in US, it will be interesting to watch if Fed can really afford to act on its indications and how the story unfolds on the emerging economies who find themselves on the other side of global investors' preference.

### Implication of capital account convertibility on the Global Financial Architecture

Convertibility refers to the ease with which the domestic currency of a country could be exchanged with that of a foreign currency. In India, we have partial rupee convertibility i.e. the rupee is convertible on the current account but not on the capital account.

Successful internationalization is generally associated with financial openness, allowing for the free flow of capital and contributing to the development of domestic financial markets, as restrictions on the convertibility of a currency for capital account transactions are likely to raise the costs of transactions denominated in the currency, and limit foreign access to domestic stores of value.

While there are a number of theoretical arguments in favour of Capital Account convertibility, historical evidences show that pre-mature capital account liberalisation can turn India into a 'high beta' economy vulnerable to volatile external cycles, sharp fluctuations in exchange rates and asset price build-up and bubbles. The Asian Growth miracle and subsequent financial crisis of 1997 was attributed to the adoption of KAC to fuel their export driven growth strategies.

It is a known fact that Capital account liberalisation should be sequenced by other structural reforms with pre-requisites like lowering fiscal deficit to 3.5% of GDP, CRR to be brought down to 3%, gross NPA of public sector banks to be 5% of the total assets, inflation rate to be around 3.5%. Hence, capital account convertibility is a process rather than an event, a gradual rather than a Big Bang opening of the door.

Key Question: What are the implications of fully convertible Rupee on the Global Financial Architecture? We survived the 2008 crisis, but can we survive the current one? What is the process we must adopt?

### Turning into an attractive global destination

A lower effective tax rate, a bigger tax treaty network, a favourable atmosphere for foreign-source income, a tax-efficient flow of interest and royalties and a vast tax treaty network identify a country as suitable for setting up global headquarters or even regional hubs.

On the non-tax front, an excellent regulatory and legal framework, political and economic stability, liberal exchange control regime, potential to tap global markets and overall credibility are factors that an MNC keeps considers while finalising its decision.

Singapore has set an example in this context. It has a low corporate tax rate of 17% and it does not have a mechanism like the minimum alternate tax. A Singapore company does not bear the capital gains tax if it pulls out its investments. Besides, foreign dividends received from overseas entities are tax-exempt in Singapore.

The Indian corporate tax rate of nearly 33% is very high compared to that in other countries that are attractive destinations for HQ or regional HQ companies. To add to the misery, there is nearly 16% dividend distribution tax levied on distributed profits. Developing countries shall set up an Economic Development Board to consider a lower tax rate which would depend on the operational and investment parameters.

### India, The Innovation Hub - Can Investment Banks Turn Angel Investors?

India has, for long, been known for its technical expertise, especially in the software domain. Over the years, the Indian software industry has moved from being a beneficiary of wage arbitrage to providing value added services to enterprises worldwide. The

potential for innovation, in the country has been nurtured by a host of top-notch Engineering institutes, including, but certainly not limited to 16 IITs. The last decade has seen this forte being clubbed with a latent entrepreneurial ability. The number of start-ups in this country has gone up remarkably, in many cases helped by formal business education at premier institutes. One factor common to all new ventures is a need for capital.

Another side of the India story has seen billions of dollars of foreign capital flow into the country's economy. This has no doubt been helped by the government policy, which has seen considerable easing in recent times. Hence, the time is ripe for investment banks to step in to fill in the gap. Will they capitalize the growth potential of technology start-ups by taking up ownership in them in return for providing a steady stream of funding?

#### Widening Current Account Deficit – What India can do?

Rising Current Account Deficit is the biggest problem faced by Indian economy today. This has contributed to the INR becoming the worst performing currency in Asia, in the recent past, reaching a lifetime low against the US Dollar on July 8<sup>th</sup> this year. This CAD has been fuelled by the huge increase in gold imports which constitutes the second highest import bill after petroleum oil. Another major issue is the announcement in world financial market by Fed in US about gradual cut in easy supply of money. This has led to an exodus of foreign investors from almost all the emerging markets to USA.

The decision by RBI to introduce Inflation indexed bonds comes at a very important time. It can provide Indian investors an instrument alternative to gold through which they can protect themselves against the high inflation prevailing in our economy. With interest and principal both linked to inflation, investors can be sure of real returns on their investments. The negative side is that recently inflation is cooling off in India which may make IIBs, as they are called, unattractive. With reversing currency war, where countries were fighting for a weak currency very recently, and a drastically changed global financial dynamics, it will be interesting to see what new measures Indian government and RBI take to salvage India growth story.

#### Role of Infrastructure in easing constraints on economic growth

Given the present economic realities, investments should be channelled towards sectors such as infrastructure and others that benefit agriculture and employment generation. Infrastructural development eases supply side constraints to economic growth. The huge

investments required in infrastructure are currently sourced by the private sector to a large extent. One of the key limitations to growth would be the ability of banks to provide financial resources to support the desired level of investment in private infrastructure projects. Also, our budget deficit limits the scope for increasing investment in public services like health and education. To overcome these hurdles and to ensure a sustainable long term growth rate, India needs new corporate governance norms in order to attract capital in the areas of agriculture, healthcare, and construction.

### Financing of MSMEs- the road ahead

Micro, small and medium-sized enterprises (MSMEs) are the backbone of all economies and a key source of economic growth, employment, dynamism, and flexibility. In India too, MSMEs play a major role in the industrial economy. MSMEs constitute the dominant form of business organisation, accounting for over 80% of the total number of industrial enterprises and 45% of India's total industrial employment.

Despite MSME being such an important sector, there is a huge gap in meeting its financing needs. Lack of basic information, incomplete range of financial products, technological obsolescence, and regulatory rigidities coupled with a volatile pattern of growth and lower survival rate are some of the factors that undermine the initiatives taken by the government like provision of micro-credit and micro-finance by SIDBI, better risk management and technological upgradation of the Banks.

What could be the new innovative ways to bridge the gap between requirements and availability of funds to MSME sector?

### Making corporate finance relevant: Re-engineering the finance function

Most functions in Corporate Finance are reactive and focus on cost-cutting practices. This ignores the original calling of re-engineering - reformulating business processes to achieve competitive advantage. The real objective of corporate finance re-engineering should be improving management's ability to measure and manage uncertainty, plus its ability to plan for contingencies.

Key Question: Is Corporate Finance input the key to strategic planning?

## Tentative Schedule

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<b>Finance Date 2013</b>		<b>Continuum</b>
<b>Event</b>	<b>Start Time</b>	<b>End Time</b>
Inauguration Speech	09:00 AM	09:15 AM
Speaker 1	09:15 AM	10:00 AM
Speaker 2	10:00 AM	10:45 AM
Tea Break	10:45 AM	11:00 AM
Speaker 3	11:00 AM	11:45AM
Speaker 4	11:45AM	12:30 PM
Corporate Lunch	12:30 PM	01:45 PM
Speaker 5	01:45 PM	02:30 PM
Speaker 6	02:30 PM	03:15 PM
Tea Break	03:15 PM	03:30 PM
Speaker 7	03:30 PM	04:15 PM

## The Legacy

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Some of the prominent speakers that we've had in the Continuum series are:-

Mr. Jacob Mathew	Managing Director, <b>MAPE Advisory</b>
Mr. Govind Sankaranarayanan	CFO & COO, <b>Tata Capital</b>
Mr. D R Dogra	MD & CEO, <b>CARE</b>
Mr. Sivaraman	Sr. Vice President, <b>L&amp;T Finance</b>
Mr. Parag Wahg	Vice President, Corporate Banking, <b>Citibank</b>
Ms. Latika Kundu	Head, Market Operations, <b>MCX-SX</b>
Mr. Somak Ghosh	Head, Corporate Finance, <b>Yes Bank</b>
Mr. Anup Bagchi	Executive Director, <b>ICICI Securities</b>
Mr. Prachetas Raykar	Senior Vice-President, Credit Risk, <b>HSBC</b>
Mr. Anil Nair	Business Journalist and Executive Editor with, <b>UBM</b>
Dr. Prabhakar Patil	Joint Director, <b>SEBI</b>
Dr. G. Ramachandran	Head of Global Research, <b>ICICI Bank</b>
Mr. Ajay Srinivasan	Chief Executive, <b>Financial Services Aditya Birla Group</b>
Mr. Paramdeep Singh	Founder Director, <b>Pristine</b>
Mr. Harsh Nanda	Executive Director, <b>Goldman Sachs</b>

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