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<b>Publication</b>	The Financial Express
<b>Headline</b>	<a href="#">"Household finance in India: What a shift from informal to formal sector borrowing requires"</a>
<b>Date</b>	18.09.2017

India's fascination for the glittering yellow metal has always been intriguing to say the least, especially after the latest RBI report finding that a staggering 11% of the total wealth is invested in gold. Even as we see unprecedented inflows to the tune of Rs 20,362 crore into equity mutual funds in August, RBI report reveals that this amount is only the tip of the iceberg, as a whopping 84% of the total wealth in India is invested in real estate and other physical assets, while 11% is invested in gold, making only 5% of the residual money available to find its way into financial assets such as mutual funds, bank fixed deposits and so on (both debt and equity). Clearly, the mutual fund inflows pale in front of the amount invested in gold.

In an interview to CNBC TV18, Dr Tarun Ramadorai, Chairman of the Household Finance Committee set up by RBI said, "Fascination for gold and real-estate in India is a multi-faceted problem. Deep rooted cultural beliefs about gold, obtaining gold loan easily, and tax evasion seem to be the most important factors for preferring gold."

In the same conversation, Dr Ramadorai points out that this preference for gold has actually hurt the investors, as financial assets have outperformed gold by heads and shoulders. In fact RBI says in its report that just a minor reallocation of wealth away from gold to financial assets will help the investors to create wealth, sufficient to move them up by more than 1% in the overall wealth distribution.

In the RBI report, elaborating on the benefits of moving from gold, the apex institution says, "If households in the middle third of the gold holdings distribution re-allocated a quarter of their existing gold holdings to financial assets, the wealth gain in real present value terms accruing would be sufficient to move these households roughly 1 percentage up the current Indian wealth distribution."

RBI has two more suggestions for securing your personal finances- plan your retirement corpus and finance your home with a mortgage. According to RBI data, the population of the elderly in India is expected to grow by 75 percent over the next 15 years. "Only a small fraction of this cohort has saved in private pension plans. Moreover, a large segment of the population of households in all age cohorts has not actively taken steps to insure adequate financial coverage during retirement," observes RBI. Underscoring the importance of saving for retirement RBI says, "The need to finance adequate consumption during retirement is therefore a looming issue, and when combined with the low penetration of insurance, households appear particularly vulnerable to adverse shocks later in life."

Regarding mortgages, RBI notes, "Despite the high holdings of real estate in India, mortgage penetration is low early in life, and subsequently rises as households age." According to the report, Indian households tend to borrow later in life and are more likely to reach retirement age with positive debt balances, which is a source of risk given that they are no longer earning income during these years.

<b>Publication</b>	The Financial Express
<b>Headline</b>	<a href="#">"Household finance in India: What a shift from informal to formal sector borrowing requires"</a>
<b>Date</b>	18.09.2017

Finance occupies an awkward place in present-day economic thinking. Much of economic analysis abstracts away from the role that financial intermediation plays in the allocation of resources. Financial excesses and financial crises focus attention on the worst failings of the sector, while its smooth functioning goes unnoticed. We know that Indian economic reform began over a quarter century ago, and we think of its core theme as the removal of unreasonable controls on markets, so that market prices can act as effective signals for efficient resource allocation. International trade and industrial activity have been two areas where this idea has played out.

The workings of financial markets as underpinnings of real economic activity have been less of a focus. One exception has been in thinking about macroeconomic impacts of money and credit. Another has been in the idea of financial inclusion, giving the poor access to various kinds of financial services ([goo.gl/X4UHcK](http://goo.gl/X4UHcK)). Of course, one of the earliest and most successful reforms in India came in the financial sector, when the stock market was modernised almost overnight, and changed the rules of access to capital for a small set of larger Indian firms. In my July 19 column, I argued that improving financial market functioning for the much greater number of smaller firms will have large benefits as well.

Complementing the need to improve business financing is the issue of household finance. In July, the Household Finance Committee, chaired by Tarun Ramadorai, presented a report that is a tour de force. This is obviously not the first report on Indian finance, and at least six earlier committees are acknowledged. But this document provides a deep dive into the nuances of Indian households' financial behaviour, buttressed by a large amount of empirical analysis and comparisons with household finance in other countries. What do we learn from the report? Here are some partial answers to that question.

Typical households in India (and not just the poorest or richest) have a large fraction of their wealth in physical assets, especially gold and real estate;

Use of mortgages is low early in the life-cycle, when they would be most valuable as a way to smooth consumption;

Pension wealth in India is almost negligible, and pension accounts and investment-linked life insurance products are widely used in only a few states;

There are high levels of unsecured debt, including from moneylenders and other informal sources;

Levels of use of all kinds of insurance (life and non-life) are very low;

The evidence is suggestive of households using high-cost informal borrowing to deal with negative shocks (possibly related to health, natural disasters or just weather, or macroeconomic variability).

As the report notes, some of the above patterns may be related to social structures in India, such as joint families and high spending at the time of marriage. But this is not the whole explanation. Some of what is observed can be blamed on inefficient financial institutions. The report calculates the potential

income gains from modifying household patterns of financial and other wealth-allocation decisions. These gains could be several percentage points per year, implying large cumulative gains. This implies that the costs of reducing existing inefficiencies in financial institutions (which are more one-time, but harder to estimate) could be outweighed by the gains.

The report spells out general policy recommendations. These include reducing the bureaucratic impediments to financial access by improving the internal organisation of financial institutions (and possibly improving the working of market competition), using technology to bring down transaction costs, introducing financial products that are suitable for the social structures of Indian household life, improving financial literacy and overcoming behavioural barriers with “nudge” solutions (providing good default options), and generally improving regulation to increase trust and transparency while reducing transaction costs.

Of course, the 180-plus page document provides much more detail on household behaviour, wealth situations, financial institutions, and policy implications. As noted, some of these points have been made in earlier reports, but this one is state-of-the-art in terms of empirical and theoretical underpinnings, its international comparative approach, and in many of its specific recommendations. At least from my perspective, there is nothing too politically challenging in making these recommendations a reality in a relatively short period of time.

The challenges will come from several directions. There will be institutional inertia within the financial sector, since increased efficiency and competition will impose costs on managers and employees. Overcoming this may require bold leadership and new players in the sector. Some who benefit from existing inefficiencies, such as informal lenders, may also have political clout, and be able to sabotage reforms that reduce their profits. Overcoming this may require some co-opting of these intermediaries. A third challenge is coordination of reforms. For example, the report notes that a shift from informal to formal sector borrowing will require a simultaneous development of appropriate insurance markets and products.

There is much more in the report, which is publicly available on the RBI website. Among the gloom coming from the continued negative impacts of demonetisation, slowing growth, and increased suppression of some minorities, the report is a ray of light for India.

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<b>Publication</b>	Morningstar
<b>Headline</b>	<a href="#">Bring all intermediaries under uniform regulation: FSDC</a>
<b>Date</b>	30.08.2017

Government's Financial Stability and Development Council (FSDC-SC) appointed committee has suggested a slew of measures to bring uniformity in advisory regulations and raise the professional standards of advisers regulated by RBI, SEBI, IRDAI and PFRDA.

The committee is chaired by Dr. Tarun Ramadorai, Professor of Financial Economics, Imperial college London and had representation from RBI, SEBI, IRDAI and PFRDA. Here are some of the key proposals of the committee:

#### **Financial advice: Standardized norms**

- Financial advice should be regulated in a unified manner consistent with other established professions, such as medicine, law and accounting.
- A clear nomenclature with uniform rules should be created for all financial advisers regardless of their specialization.
- Bring uniformity in definition, unify consumer protection, and apply stringent standards across regulators and underlying financial products.
- Create a unique "license number" for financial advisers by doing away with the ARN, RIA, RA, and EUIN number. An SRO-driven regulatory system for financial advisers across all products can use this unified identification number.
- Uninform regulation across advisers rather than based on the specific sectors or products. Bring SRO-driven regulatory system for financial advisers in the medium term.
- Insurance and MF distributors should be brought under uniform advisory regulations. Segregate advisory and distribution functions with no exemption.
- Rules and regulations governing investment advisory activities should be simple, self-explanatory and easy for advisers, investors and other stakeholders to comprehend the rules easily.
- Create an online directory of financial advisers with their standards of professional competence. Forms, compliance reports, and payments should be digital and easily accessible.
- Any investment adviser which is a body corporate or a partnership firm should appoint a compliance officer who will be responsible for monitoring compliance by the investment adviser.
- Swift action should be taken against unregistered/ non-compliant/errant advisers.

#### **Separating distribution and advisory businesses**

- Advice and sales functions of financial products should be separated, supported by a fiduciary standard in a phased manner. The first step can be to converge advisory activities across products and regulatory jurisdictions followed by rationalization in fees/commission across financial products.
- All transactions should be made in electronic form with a pre-determined sunset clause on cash transactions. Commissions and incentives paid to distributors (both incremental and cumulative) should be included in every statement sent to investors.
- In the short-term, every investment should have two tags - distributor code and an adviser code with uniform nomenclature which is self-explanatory across all financial products. The banking

regulator should immediately (rather than after 3 years) require banks to have a separate entity to sell products.

#### **Fiduciary model for advice**

- Investment adviser should act in a fiduciary capacity towards clients and should disclose all conflicts of interests. Clearly define the fiduciary duty of the investment adviser towards the client in the regulations. Conflict of interest should be disclosed to clients by advisers.

#### **Certification and Rating of Advisers**

- Create a uniform professional qualification and certification of investment advisers that covers multiple financial products. Continuous professional education and certification be made mandatory for financial advisers.
- In order to expand the number of advisers and to ensure their professional competence, replace a minimum experience requirement with a relevant certification requirement for registration as a financial adviser.
- In order to help investors take informed decisions on choosing financial advisers, information on advisers expertise, business volume, past credentials, and quality of recommendations should be centralized and made available online.
- Consumers who have received advice from an adviser should be able to provide qualitative feedback for public view on the same platform. This public platform can be jointly managed by RBI, SEBI, PFRDA and IRDA, as a public good under the FSDC sub-committee funded through funds reserved for financial development. Based on publicly available information, an annual report on the quality of financial advice should be produced which should be reviewed by the FSDC sub-committee.

#### **Robo-advice**

- All four regulators should clarify that robo-advice is permitted, subject to the right checks and balances.
- The legal person behind a robo-advice shall be the firm or individual who owns and operates such automated advice. If particular financial advisers are responsible for advice given out in automated advice services, each transaction based on such advice must identify the particular adviser involved in each recommendation as well.

<b>Publication</b>	Mint
<b>Headline</b>	<a href="#">Need supply side solutions to solve the household finance problem in India</a>
<b>Date</b>	30.08.2017

Recommendations of the Tarun Ramadorai Household Finance Committee Report. The research analyses household-level micro-data from India and 6 other countries. Edited excerpts:

#### Mortgages

- > Real-time reset of floating interest rates, common quotation conventions.
- > Quoting loans to customers in the form of a market-wide standardised rate + spread as opposed to MCLR + spread, to facilitate cross-product comparison.
- > Standardising the reset period across banks, to be immediate.
- > Banks should quote the rate for every fixed rate product relative to the repo rate.

#### Gold

- > Propose variant of gold bonds that can be physically redeemed at choice of household.
- > Offer tax incentives to investors in inflation-indexed bonds.
- > Support creation of a spot gold exchange.
- > Propose PAN card requirement for gold transactions from jewellers be extended to all transactions regardless of size.

#### Pensions

- > Ease of switching and choice in annuity plans; segregate annuity investment from insurance investment.
- > Increase transparency in annuity market in terms of expenses, commissions, annual fees and surrender charges.
- > Investigate whether cap on NPS management fees is internationally comparable.
- > Relax mandatory requirement that only point of presence (POP) entities can engage in sales, and allow digital marketing of pensions.

#### Insurance

- > Publish highly granular insurance claims statistics in machine readable format.
- > Rationalize distribution incentives, level commissions structures between initial sale and policy renewal, encourage renewal.
- > Rationalize discrepancy in commissions between products, incentivise purchase of simple term insurance products.
- > Make PoS disclosures simple and comprehensible.

- > Continue clamping down on mis-selling.
- > Permit redress using delegated representatives, especially in rural areas.

#### Financial advice

- > Uniform and consistently stringent standards across regulators for provision of financial advice. Insurance and mutual fund intermediaries brought under uniform advisory regulations.
- > Advisory and distribution functions effectively segregated in a manner that avoids conflicts of interest.
- > Unique license number for financial advisors. Information about financial advisors and standards of competence verified and available online.
- > Fiduciary model for advice.

#### Financial technology

- > Support e-KYC, and elimination of all paper processes or wet signatures.
- > Propose DigiLocker service be extended to brokers, insurance companies, and nationalised banks, and link CERSAI to DigiLocker.
- > Seamless switching across financial products at the request of the consumer at low cost, portability of e-KYC across products.
- > Further simple financial products to be seeded using PMJDY as a platform.
- > More complicated financial products to require explicit “opt-in” by consumers.
- > Support new data privacy framework to protect household data, using a rights-based approach.

#### Regulatory Sandbox

- > Propose establishment of a cross-regulator “Regulatory Sandbox”, a safe space in which the regulator can facilitate small-scale tests by temporarily relaxing certain regulations to collect empirical evidence whilst containing risks.

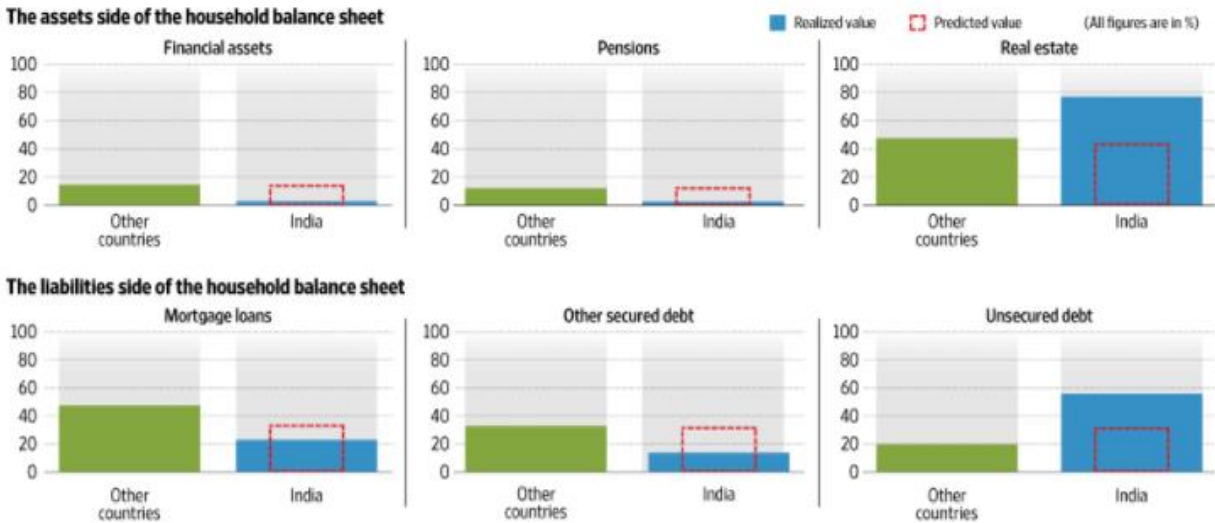
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<b>Publication</b>	Mint
<b>Headline</b>	<a href="#">Report on the state of India's household finances</a>
<b>Date</b>	29.08.2017

Why Indian households remain in financial behaviour that is 'regressive' is a question that has wrinkled the brows of many a policy maker. 'Regressive' behaviour is the over-exposure of Indian households to cash, gold and real estate instead of financial assets. This behaviour includes a reliance on the moneylender for debt, rather than the formal financial system, and the use of ex-post borrowings to deal with medical and other emergencies rather than purchasing an insurance contract. With the mandate of the Reserve Bank of India (RBI), the Tarun Ramadorai committee set out to find answers to some of these questions in 2016. While other committees have looked at the same issue of the strange behaviour of Indian households from the supply side and found serious problems in the way formal markets have been set up, the Ramadorai Committee was asked to look at the problem from the demand side and provide solutions to it. In short, the committee found (read the report here: [bit.ly/2iC3GKU](http://bit.ly/2iC3GKU)) that Indian households are indeed globally unique in their financial behaviour. Not only do they rely heavily on gold and real estate, they are under-insured, have very little pension corpus build-up, take home mortgages much later in life than their mature-market counterparts, and walk into retirement still carrying the burden of debt on their heads.

So, are Indian households stupid? No. Just as the other government committees (Swarup committee 2009 [bit.ly/2wi1F9O](http://bit.ly/2wi1F9O) and Bose committee 2015 [bit.ly/2gi02oG](http://bit.ly/2gi02oG)) found, the Ramadorai committee too finds that it is the supply side that needs to be fixed rather than a massive outreach of financial literacy to fix the demand side. The financial-literacy-is-the-solution approach bounces the ball at the households, making them responsible for their errors. This approach is akin to saying: we can't make cars that don't blow up, you learn car engineering and understand what makes a car safe and then you buy a safe car. It is good to see that the Ramadorai committee concludes that the solution is in getting the market right.



**Methodology:** First, wealth levels of surveyed households from China, Thailand, the US, the UK, Australia and Germany in 2012 equivalent Indian Rupees, were taken. Bilateral exchange rates and inflation levels in respective countries used. Then, within-country quintile dummies were made to capture positions of households in their own country's distribution of ages and wealth levels. Cross-country quintile dummies captured the same in the world. For each asset and debt share, two identical regressions were run for India and 'rest of the world'. To obtain counter-factual 'predicted' values for India, values of the explanatory variables for Indian households were multiplied with the estimated coefficients from the 'rest of the world'. Weighted population averages were calculated across households using representative population weights, as indicated in each survey.

The recommendations cover a wide landscape and attempt to pin down the redrawing of a complicated market created by policymakers and regulators—people who sat on defined-benefit pensions, full medical cover from the government, who had little understanding of issues of household finance that even literate urban mass-affluent Indians struggle to solve. I'll pick a few of the recommendations here.

One, RBI must move the mortgage market from the current marginal cost of funds based lending rate (MCLR)-linked rate system to a repo rate-linked system. This author has argued for a Mumbai interbank offered rate (Mibor)-linked home mortgage system for years. The repo works just as well. Basically, any benchmark that stops the banks from cheating retail borrowers. If you wondered why your loan rate only moves up and never down, here is the reason. Today your loan is linked to a benchmark that a bank controls. The committee recommends that it move to a benchmark that is common to all and not owned by the bank, such as the repo rate.

Two, the National Pension System (NPS) must hike its management charges from the current levels of 0.25% of entry fee and 0.10% per year of fund management charges. It finds that the low levels of NPS use may be linked to its lack of uptake: "This low cap on charges potentially hurts consumer welfare, since distribution incentives may not be sufficient to enable households to fully benefit from the product...."

Three, insurance costs must come down. Incentives in life insurance must be rationalised across the life of the policy. What this means is that the high first-year commissions must be reduced with a greater emphasis on trail. The difference in commissions across different insurance products must be rationalised. This means that the high commissions allowed on traditional plans must be aligned to the lower ones of unit-linked insurance plans (Ulips).

Recommendations two and three contradict each other. If indeed it were front incentives that drove retail participation and persistency in a long-term financial product, surely the 40%+ commissions for over 60 years in the life insurance industry, should have ensured that India be a fully insured country by now. I wish the report would have taken note of the experience of Indian mutual funds that went no-load in 2009 and have seen evidence of increasing retail participation built on a trail model to inform the recommendations. Policymakers should leave NPS alone—it is a good product in a bad market. Instead of fixing the bad market we want to fix the 'goodness' of the NPS product.

Four, better disclosures in a manner that people can understand in life insurance and a clamp down on mis-selling of traditional products. If you remember, in 2010 Ulip rules were changed to take the monkey of huge costs and the ability of the insurance firm to keep all of the investors' money in case of lapsation in the first few years. The committee is recommending the same for traditional plans.

Five, to wean people from gold, the committee wants the government to issue inflation-indexed bonds and make gold more demat with the help of a gold registry. To tackle issues of gold being a sump of black money, link gold purchases even below Rs2 lakh, to a Permanent Account Number (PAN).

Six, the market should be clearly divided between distribution and advice. A distributor can only vend products for a transaction cost or trail commission paid by the product manufacturer and cannot advise consumers. An adviser is a fee-for professional who is paid by the consumer directly. Each adviser must

have a unique identification number and there must be a self-regulatory organization (SRO)-driven regulatory system for financial advisers.

Seven, there must be uniformity in the financial adviser industry. There cannot be different norms around costs, behaviour and rules for different financial products. Insurance intermediaries must be brought under this uniform SRO-driven advisory regulatory framework with the advisory and distribution functions effectively segregated. If implemented in spirit, this will mean that the insurance agent will just vend the policy and not 'advise', moving pure sales effectively online. Insurance advisers will have to agree to a fiduciary standard and that means putting the customers' interests above their own. Long road there.

Eight, to remove the high on-boarding costs due to Know Your Customer (KYC) requirements, the Committee wants a standardisation of rules and guidelines around e-KYC.

Nine, a rights-based approach to be used to ensure privacy of data generated in a digital-heavy financial system. This means that digital exhaust of a consumer must belong to her and not the firm that sells a product or a service. Right now, there is Wild West in the space with some bank apps taking perpetual rights over digital data of their consumers.

Ten, an essential financial kit with simple products to be made available, linked to Jan Dhan accounts. This will have a no-frills savings account, a target date investment product, flexible fixed deposit schemes, micro pensions, simple term life insurance, basic health and catastrophe insurance, micro credit, simple collateralised loans, and a good reserve mortgage product, among others. This is a tall ask and just implementing this will take years of work. But at least we know what a simple money box looks like.

Last, there is a recommendation that regulators use the 'sandbox' approach to test new technologies, products and processes. This is a technique being increasingly used across the world to introduce something new in the market in a controlled environment to see how it works. It is a good suggestion, but I wish the committee had asked for financial literacy modules for regulators first. I'd like to know how many of the regulatory staff would see images of a child's playpen when they hear the words sandbox.

There are recommendations on better data collection and disclosure of this data across the report. I wish the committee had gone one step further and asked the Government to work on a common protocol for data collection, saving and disclosure. Privacy rights, the use of machine readability and relevance of the data collection to various stakeholders are issues that can be solved once for the whole country using a principle-based approach and then individual regulators can use the matrix for their own pieces of the market.

This comprehensive report must be taken seriously by policymakers, governments and regulators. It is the third report in a decade to say the same thing—fix the supply side. Decision makers, sitting in high towers of isolation, must stop blaming households for their own failures. If the market is failing, it is not because people are stupid. It is because you have created a regulated market that is unreachable, high-cost and treacherous. People are just being smart to stay safe in cash, gold and real estate.

Disclosure: The author deposed before the Ramadorai committee, was a consultant to the Swarup committee and a member of the Bose committee.

<b>Publication</b>	Bloomberg Quint
<b>Headline</b>	<a href="#">Financial Inclusion: Have we been approaching the problem all wrong?</a>
<b>Date</b>	29.08.2017

Any conversation around financial inclusion inevitably turns into one around banks and access to banking. Do we have enough banks? Do we have enough kinds of banks? Do these banks have enough branches and business correspondents? And do all Indians have bank accounts?

That's the thought process that drove the Jan Dhan Yojana, which intended to ensure bank accounts for all Indians. It's the same thinking that pushed the Reserve Bank of India (RBI) to create a new category of lenders called Small Finance Banks. A similar consideration forms the backbone of the new branch banking guidelines, which aim to spread the network without the cost associated with traditional brick and mortar branches.

But what if access was not the problem in pushing more savings towards financial assets? And, on the liability side, what if the stronghold that money lenders have over Indian finance was more about insurance rather than banking?

Those are some of the issues put up for debate by the RBI-appointed Committee On Household Finance, headed by Tarun Ramadorai, Professor of Financial Economics at the Imperial College. According to the report, the average Indian household holds 95 percent of its assets in physical assets. Real estate, gold being prime among them. Only 5 percent is held in the form of financial products. The phenomenon has been well-documented but remains 'stubbornly persistent', said the report.

"The lack of trust in financial institutions partly explains the tendency of households to avoid financial products and invest in physical assets such as gold instead," the report added.

While it is tough to measure an intangible like trust, the report notes that households often have a negative perception of formal financial service providers, exacerbated by the occasional poor experience. This perception appears to be more prevalent in lower income households, where it is felt that the formal financial services are the prerogative of the elite.

"High transactions costs and bureaucratic impediments to efficient participation create a high "nuisance factor" for households hoping to engage in formal financial markets," the report notes.

It would be unfair to suggest that Indian regulators have ignored such intangibles in their quest to achieve greater financial inclusion. The RBI, for years, has stressed the need for financial literacy. It has tried to make the banking market more competitive in the hope that with increased competition will come better and differentiated services. The Banking Ombudsman Scheme has been in place for years and a Financial Redressal Agency has been suggested by the Financial Sector Legislative Reforms Commission.

If neither of these have worked, perhaps it is time to think differently, suggests the report.

"...Demand-side considerations cannot be solved through regulation and can only be addressed by a supply-side environment that dynamically innovates to address demand characteristics observed amongst Indian households," write the authors of the report.

One part of this is to create products that are simple, intuitive and tailored to meet the needs of the end consumer. Another, suggests Ramadorai, is to use technology to overcome the reluctance that low income earners may have in interacting with the formal financial system.

One of the things we propose is that we should de-personalise some of these interactions by using technology. You might say that poor households don't have access to technology but I don't think that's quite right since cellphone penetration in the country is quite high. So the question is how can we do things at a price point that is quite low, in a seamless fashion and de-personalise the transaction for people. - Tarun Ramadorai, Chairman, Committee On Household Finance

#### The Link Between Insurance And Informal Finance

The committee also tries to switch the approach taken towards financial inclusion from a liabilities perspective.

According to the report, unsecured debt accounts for close to two-thirds of total liabilities for the very poor and one-third for the rich. "The picture that emerges is one in which Indian households are relatively less indebted than their foreign counterparts, but those that take on debt are more likely to have no collateral to secure it, which leaves them exposed to repayment risk even in old age," the report notes.

The problem, according to the committee, may lie more with the lack of penetration of insurance products than the inability of low income households to access formal banking products.

Research done by the committee suggests that events such as loss of crop, medical emergencies, damage to property etc account for major financial losses in more than 60 percent of the cases. Job losses, an increase in costs of agricultural inputs and a deterioration in overall market conditions are other factors that create financial stress.

In order to cope with such risks, most households end up approaching the informal financial system since penetration of insurance products is low. This, in turn, exposes households to the prohibitively high cost of informal finance and often leads to a debt spiral.

"Formal bank loans are almost irrelevant as a means to cope with unexpected emergencies. Instead, we document a trade-off between the take-up of insurance products and the reliance on non-institutional sources of unsecured credit," the report notes.

In order to tackle some of these cross-sectoral issues, Ramadorai is pushing for greater regulatory coordination and pitching for a 'regulatory sandbox'.

We have this tendency to regulate from a product perspective in silos...But the point is that from the household's perspective, it doesn't think of optimizing product by product. So we need a regulatory system which operates in the same way (as households)... Also, we have suggested a regulatory sandbox. Within that, we think there is potential for a inter-regulatory framework to be set up which allows financial technology firms to get an integrate perspective of the regulations and then look for solutions to some of these issues. - Tarun Ramadorai, Chairman, Committee On Household Finance



<b>Publication</b>	Bloomberg Quint
<b>Headline</b>	<a href="#">Indians Borrow From Moneylenders To Avoid Administrative 'Nuisance': RBI Report</a>
<b>Date</b>	25.08.2017

Indian households continue to have high levels of unsecured debt from informal sources like moneylenders, putting them at risk of falling into a debt trap, a study by a central bank-appointed panel has found.

Such a dependence on unsecured loans leads to higher costs and traps households in a long cycle of interest repayments, according to a report by the Household Finance Committee released by the Reserve Bank of India on Thursday. "We note that this phenomenon has been well-documented over the decades, but nevertheless remains stubbornly persistent," the committee said.

The reason why these households prefer informal sources of funding is because they have a low nuisance factor, according to the committee. The average Indian household associates the formal banking system with high administrative burden and complicated paperwork, it said.

The committee is an inter-regulatory group consisting of members from the banking regulator, the Securities and Exchange Board of India, Insurance Regulatory Development Authority and Pension Fund Regulatory and Development Authority, and was chaired by Tarun Ramadorai of The Imperial College, London.

The central bank said the penetration of insurance products is very low in Indian households, which is a significant concern owing to the risks emanating from excess rainfall, health shocks and natural disasters. More worrying is the habit of Indian households borrowing high-cost debt after a shock as opposed to insuring themselves in advance, it said.

This is an important observation, since it suggests that efforts to reduce informal lending will likely fail in an environment in which households are not sufficiently well-insured against risks.

Report of Household Finance Committee, 2017

According to the committee, this finding might be due to tight constraints on Indian household budgets which do not allow them to buy insurance in advance, or because of adverse selection, moral hazards or other issues which may cause the insurance premiums to become unaffordable.

This could be overcome by strengthening the public provision of health and social welfare services.

For the median Indian household, shifting from non-institutional debt to institutional debt can lead to gains equivalent to between 1.9–4.2 percent of annual income on an ongoing basis, or equivalently when capitalised, to upward moves along the current Indian wealth distribution of 2.5-5.5 percentage points.

In terms of assets, Indian households are still dependent on physical assets especially gold and real estate, which is unusual when compared internationally and also unusual for younger households, the report said.





“ Despite the high holdings of real estate, mortgage penetration is low early in life, and subsequently rises as households age. This is also at variance with Indian households’ counterparts in other countries, where debt has a characteristically hump shaped pattern over the lifecycle.

Report of Household Finance Committee, 2017

One major issue for a distorted assets and liabilities picture in Indian households is the lack of unified framework or guidelines for the provision of high quality and low-cost financial advice.

According to observations made in the report, Indian households need customised and cost effective financial products. These products would need to be made available without any issues surrounding incentives to those providing it. The report also recommended that complicated paperwork and bureaucratic impediments be reduced, by ensuring that the terms and conditions of financial products are made simple and intuitive to the intended customers.

As part of its recommendations, the committee proposed a set of sector-specific recommendations to improve the functioning of mortgage, collateralised lending, insurance, pensions, and gold markets.

“We also propose improvements to official survey data on Indian household finance, in an effort to spur more detailed analysis and research of these issues in the future, and to assist in the implementation of evidence-based policy,” the committee report said.

The committee suggested a set of standardised norms across regulators for financial advice to be implemented in a phased and unified manner, supported with a fiduciary standard for financial advisors. It also proposed that the provision of financial advice be clearly separated from the distribution of financial products, and provided in a manner that avoids conflicts of interest.



We propose that the total time and effort taken to engage in the financial market be substantially reduced through a combination of digital end-to-end distribution networks and the movement of know-your-customer requirements into purely paperless form (i.e., eKYC). We also propose that regulators and service providers strive to enable quick, cost-effective, and seamless switching between financial service providers.

Report of Household Finance Committee, 2017

The committee stressed the need for flexible regulatory processes to further encourage financial innovation that will benefit households. It proposed the creation of a regulatory sandbox to allow regulators to facilitate small-scale tests by financial technology firms.

<b>Publication</b>	Bloomberg Quint
<b>Headline</b>	<a href="#">Link Home Loans To Repo Rates, Says RBI Committee</a>
<b>Date</b>	25.08.2017

The Reserve Bank of India-appointed committee on household finance has recommended that banks should link home loan rates to the central bank's benchmark repo rate. The committee, whose recommendations are not binding, suggests that this will allow for better and more transparent transmission of interest rates in the economy to individuals.

“Banks should quote loans to customers using the RBI repo rate rather than based on their own MCLR rates,” said the report released on Thursday.

According to the committee, this would make it easier for customers to compare rates at the time of purchase. The recommendations come at a time when the RBI has repeatedly chastised banks for not transmitting the full extent of rate cuts announced by the RBI. Earlier this month, RBI Deputy Governor Viral Acharya said that the marginal cost of funds-based lending rate (MCLR) system will be reviewed.

The committee suggests doing away with the MCLR entirely.

“For prospective borrowers at the point of purchase, every floating-rate home loan should be quoted to prospective borrowers in the form of a market-wide standardised rate + spread as opposed to MCLR + spread.” - Report of Household Finance Committee, 2017

Linking to the repo rate would be preferable since the it does not vary across banks, the committee added. Moving to a standardised rate + spread quoting convention will thus provide prospective borrowers with an immediate and useful benchmark for cross-product comparison, the committee added.

It also suggested that banks be asked to move to a standardised period over which loan rates are reset. This period should be one month, the committee said.

Under the current system, most floating rate loans are reset roughly once a year. “This may impede the monetary transmission mechanism, and not allow borrowers to immediately benefit from interest rate drops,” the committee noted.

For fixed-rate loans as well, the committee recommends that rates be quoted in reference to the repo rate.

“While the borrower still has to compare the rate for the appropriate fixation period across banks, the universal quoting convention should facilitate easy comparison both along this dimension, as well as across fixed and floating-rate loans.”- Report of Household Finance Committee, 2017

<b>Publication</b>	The Times of India
<b>Headline</b>	<a href="#">Plan to make PAN card must for all transactions in gold</a>
<b>Date</b>	28.08.2017

A panel of financial regulators has proposed that PAN card requirement for gold transactions from jewellers be extended to all transactions, and not just those above Rs 2 lakh and has supported the daily cash limits against the sale of gold to curb tax evasion.

To prevent PAN requirements driving gold transactions underground, the committee has recommended that all gold transactions be registered using an electronic registry such as a depository.

"The committee also notes that measures in the gold market are unlikely to fully deter tax avoidance motivations for holding the asset. A more incisive use of income tax data may be required to detect tax avoidance, and the committee believes that the enforcement of tax avoidance should be strict," the report of the household finance panel said.

The panel was set up to look at various facets of household finance in India on the recommendations of the subcommittee of the Financial Stability and Development Council meeting last year.

The panel chaired by Tarun Ramadorai, professor of financial economics, Imperial College, London, had representation from all the financial sector regulators, RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA).

The committee has said that gold holdings in India appear to be high compared with other parts of the world, and notes that Indian households can achieve higher rates of return from reallocating some portion of these gold holdings towards financial assets.

"There are multiple reasons that households hold gold. One possibility is that the high rate of gold holdings is evidence of tax avoidance, or the hiding of illicit proceeds, and we propose steps to address this if so."

The panel has recommended a variant of gold bonds currently in operation be introduced, which have default inheritance features. "In particular, variants of these certificates could be structured such that their inheritance is matrilineal unless the woman has no daughters in which case sons can inherit," it said.

The committee has also proposed a new variant on the RBI sovereign gold bonds currently in circulation be introduced that can be physically redeemed if households wish, and not just redeemed in cash upon maturity.

<b>Publication</b>	The Hindu
<b>Headline</b>	<a href="#">‘Indians tend to borrow later in life’</a>
<b>Date</b>	25.08.2017

Indian households tend to borrow later in life and are more likely to reach retirement age with positive debt balances, which is a source of risk given that they are no longer earning income during these years, a report of the Household Finance Committee observed.

The committee was formed following discussions at the Financial Stability and Development Council headed by Tarun Ramadorai, professor of financial economics, Imperial college London. It had representation from all the financial sector regulators.

“Despite the high holdings of real estate, mortgage penetration is low early in life, and subsequently rises as households age. This is also at variance with Indian households’ counterparts in other countries,” the report said.

The report further notes that the Indian household finance landscape is distinctive through the near total absence of pension wealth. “Pension accounts and investment-linked life insurance products exist, but they are only used frequently by households located in a small group of states, while in most other states, the contribution of pensions wealth to household wealth is negligible,” it said.

#### Unsecured debt

The report observes high levels of unsecured debt, taken mostly from non-institutional sources such as moneylenders. As such debt generates high costs for Indian households, it is likely to lead to households becoming trapped in a long cycle of interest repayments, it said.

The report notes a large fraction of the wealth of Indian households is in the form of physical assets — in particular, gold and real estate. But, it said they can benefit greatly by re-allocating assets towards financial markets and away from gold.

<b>Publication</b>	The Indian Express
<b>Headline</b>	Household finance panel for repo-based mortgage loans instead of using MCLR
<b>Date</b>	25.08.2017

The Committee on Household Finance has proposed that banks should quote mortgage and collateralised loans to customers using the Reserve Bank's repo rate rather than based on their own marginal cost of fund based lending rate (MCLR). The committee, set up after discussions in the sub-committee of the Financial Stability and Development Council (FSDC-SC), has set out several recommendations on enabling better participation by Indian households in formal financial markets, including a regulatory sandbox for assessing the role of new financial technologies and products.

The committee has also recommended that SARFAESI provisions should be made applicable to smaller loan sizes below Rs 1 crore. "Moving to a standardised rate plus spread quoting convention would thus provide prospective borrowers with a useful benchmark for cross-product comparison," the panel said.

"All banks should use the same reset period, which should be one month. Under the current system, in effect, floating rate loans have a fixation period of roughly one year. This may impede the monetary transmission mechanism, and not allow borrowers to immediately benefit from interest rate drops," said the panel headed by Tarun Ramadorai, professor of financial economics, Imperial college London. For fixed-rate loans, the panel recommended that quoting conventions be changed, so that banks quote the rate for every fixation period relative to the repo rate.

"While the borrower still has to compare the rate for the appropriate fixation period across banks, the universal quoting convention should facilitate easy comparison both along this dimension, as well as across fixed and floating-rate loans," it said.

The committee has also recommended that SARFAESI provisions should be made applicable to smaller loan sizes in an attempt to bring "underground" collateralised lending into the mainstream. SARFAESI is currently not applicable to loan sizes below Rs one crore. "The recovery process under the SARFAESI and RD Act is substantially shorter than the debt recovery procedure before the Tribunal. This means that access to collateral in the event of default on smaller obligations is currently very onerous," it said.

To encourage the annuity industry, the panel said households should be allowed the choice to shop for the best annuity plan, and recommended segregating annuity investment from insurance investment. It also suggested that in the short-run, until such time as these markets are better developed, there is a need to relax the investment guidelines of annuity funds so that they have more flexibility to optimise their portfolios. The panel also proposed a simple, cost effective insurance policy for households, which can cover the structure and contents of a household, at a low monthly premium. It also proposed a low-cost travel insurance plan for senior citizens, including a coverage of personal accident, medical treatment, baggage insurance, and transfer of mortal remains.

The committee also recommended low-cost catastrophe insurance, which should be made low cost and potentially even mandatory when purchasing properties in zones that are at risk of natural disasters. "These policies will have a hassle-free claim procedure including auto triggered payouts in the event of catastrophes occurring," it said. On health insurance, the panel said: "While all these schemes exist, little is known about why usage of health insurance is low overall, and why most households borrow to

finance medical costs. We recommend that a wide range of both public and private hospitals should accept these insurance policies as cover, with an appropriate mechanism of claims to be worked out to enable easy access to high quality medical care.”

<b>Publication</b>	The Economic Times
<b>Headline</b>	<a href="#">Banks should link home loan rates to repo rate: RBI appointed committee</a>
<b>Date</b>	25.08.2017

A Reserve Bank of India appointed committee on Household Finance has suggested that banks link their home loan rates to the RBI's repo rate, the rate at which it lends to banks, instead of the Marginal Cost of Funds based Lending Rate (MCLR), which the banks follow now.

"Banks should quote loans to customers using the RBI repo rate rather than based on their own MCLR rates," the committee report chaired by Dr Tarun Ramadorai, Professor of Financial Economics, Imperial College Business School, London, suggests. "To facilitate ease of comparison for prospective borrowers at the point of purchase, every floating-rate home loan should be quoted to prospective borrowers in the form of a market-wide standardised rate + spread as opposed to MCLR + spread."

While these recommendations need not be accepted by the regulator, it comes when the RBI had hinted it was unhappy with the rate transmission under the MCLR regime. In the past three years the central bank has reduced the policy rate by 200 basis points, but the weighted average lending rates have fallen by 145 basis points. A basis point is 0.01 percentage point.

"The experience with the marginal cost of funds based lending rate or MCLR system introduced in April 2016 for improving monetary transmission has not been entirely satisfactory even though it has been an advance over the earlier base rate system," Viral Acharya, deputy governor RBI had said on August 2.

"We have constituted an internal study group across several clusters to study various aspects of the MCLR system and to explore whether linking of the bank lending rates could be made direct to market determined benchmarks going forward. The group will submit the report by September 24th 2017."

The committee has also recommended that all banks use the same reset period of one month for loans. Under the current system, floating rate loans have a fixation period of roughly one year. The report argues that the current system impedes monetary transmission mechanism and does not allow borrowers to immediately benefit from interest rate drops.

<b>Publication</b>	Business standard
<b>Headline</b>	<a href="#">RBI panel seeks rights-based data privacy in household finance</a>
<b>Date</b>	25.08.2017

here is a need to adopt a rights- based privacy framework in household finance rather than the widely prevalent consent-based approach, a Reserve Bank panel has said.

"(We) suggest adoption of a rights-based privacy framework in contrast with the more common consent-based privacy framework," the report of the Household Finance Committee of the central bank said.

The panel was set up following discussions in a sub- committee of Financial Stability and Development Council on April 26 last year. The RBI published the report hours after the Supreme Court gave its landmark judgement affirming privacy as a fundamental right on Thursday.

"We note that technological advances like machine learning and big data have changed the ways in which we process data and as a result, have made consent a less-than- effective tool to protect personal privacy," the report said.

Therefore, it is imperative to deploy an alternative system to protect data privacy, it said, adding the law should create a class of technically skilled intermediaries authorised to review algorithms that process personal data to evaluate whether the data is being processed in a privacy- neutral manner.

"The new privacy framework should contemplate the creation of a Data Commissioner who shall be responsible for redress of grievances as well as for establishment of standards of accountability and transparency," it said.

"Our current belief is that rather than consent, a robust privacy framework in the modern world may call for a rights-based approach," it said.

"Data controllers (financial firms) will also be responsible for ensuring accountability, transparency, non-discrimination and data security while processing data," the panel recommended, adding they will be held accountable for any breach.

Noting that "all financial technology solutions require the use of households' personal information, a form of wealth in itself", the committee said it is "worried" the country lacks a formal legal framework for data protection.

"There is no formal privacy statute and the closest thing to a formal privacy law is in the rules enacted under Section 43A of the IT Act of 2000 that spell out, in general terms, privacy obligations that apply to anyone who collects and processes sensitive personal data," the report said.

"Continued lack of clear privacy regulations presents an ever-increasing risk to personal privacy," it said.

In most countries, privacy and data protection regulations restrict the extent to which data are available for both transactional and research purposes, it noted.



The committee was headed by Tarun Ramadorai, a professor in financial economics at Imperial College London, and had representatives from all financial regulators. Most of its recommendations are not mandatory and open for public comments at present.

The panel was also of the view that there should be a mandatory catastrophe insurance with automatically triggered pay-out in zones with high natural disasters like floods and earthquakes risks, Ramadorai said, adding that this was the only mandatory suggestion made by the panel.

<b>Publication</b>	Live Mint
<b>Headline</b>	<a href="#">Linking of bank loans to RBI repo rate is in the works: Tarun Ramadorai</a>
<b>Date</b>	28.08.2017

The Reserve Bank of India (RBI) is likely to consider linking lending rates to the repo rate, said Tarun Ramadorai, chairman of an RBI-constituted committee on household finances. In an interview, Ramadorai also said lack of inter-regulatory coordination is the biggest roadblock to implementing the committee's recommendations. Edited excerpts:

Unlike the previous two committees on household finance, you examined the issue from the demand side. What did you find? Are Indian people stupid to be investing in gold and real estate?

I have an enormous amount of respect for traditional systems. Traditional systems usually come up in an environment when they are in optimal response to prevailing condition. I have an enormous amount of respect for an average Indian. I don't think people are stupid or backward. They are optimizing in the face of an environment which they see. If an environment is good, it generates a certain outcome. If the environment has got market failures embedded in it, then it generates other outcomes. It's not that demand side is silly but it's responding to an institutional environment which needs to alter. The question is how does it alter? We have to remove the hassle factor from institutional loans. Changing the collateral registry, enforcing KYC (know your client) standards within banks so that you don't have to push people to needless bureaucracy.

One of the big things that we come across in the report is that people experience a huge amount of pain from having to deal with bureaucratic institutions. People, especially at the bottom of the pyramid, when they deal with bureaucratic situations feel shame and embarrassment, feel inadequacies, can't speak the language properly. They feel like people are looking down on them, they feel like financial products are products for the elite group. What we are saying is let's depersonalize all of this. Massively leverage technology so that people don't have to deal with that kind of stuff.

Are new institutions like small finance banks, more adaptable to technological innovations?

It doesn't matter if you are a new player or established player. One of the biggest impediments to creating new technology is the fact that there is a huge regulatory uncertainty. Hence we suggested having what is called a regulatory sandbox and this should be a cross-regulatory initiative and it should be a safe space in which financial technology firms can experiment with temporary relaxation of rules with the view towards gathering evidence. Through this process, financial technology firms will develop the technology in the right way. The regulator gets comfort that this will do (well) for the market and in the process can later regulations as well. What also happens is that regulators will start coordinating with each other and cross functional products are allowed to get out there.

Regulators are behind the tech curve. What makes you think that a sandbox will even be understood by Indian financial sector regulators?

Capacity problem is a well-known problem. There are two ways to deal with the capacity problem. You either say regulator are behind the curve and let's not create a new institution. In which case we have a status quo and we try to effect the change within the pre-existing system. This is an idea that has not worked. Our thought is if you create a dynamic new institution and populate it with people who are

cutting edge within the organisation, then in some (cases) what you get is capacity building incrementally.

What are the biggest roadblocks to implementing your recommendations?

Inter- regulatory coordination is going to be tough. You need to have consistency of standards across different regulators.

One of the other reasons why we proposed a regulatory sandbox is that it is a way to get regulators to coordinate with each other. There are always going to be special interests that don't like certain prescriptions. It was very hard initially when (former Securities and Exchange Board of India chairman Chandrasekhar Bhaskar) Bhavé did the commission reduction (for mutual funds). It was universally excoriated.

But now growth in the mutual fund industry has been massive. One thing we have to ask ourselves is can we convince people in the long run that some of the measures we are advocating are beneficial even though there will be some short-run costs?

RBI and banks have not exactly won awards for their consumer focus. What makes you believe that a repo rate linked bank loan system will even be on the discussion table?

I think we are starting to see some changes. I think this repo rate linking plus immediate reset (of loans every month) plus immediate pass through is all going to happen. It's all in the works. I think my committee report is going to be helpful in providing more evidence that this is going to be a useful thing and I hope we will be able to see this going forward.

What is the base result you hope to achieve with this report?

I'd like to see much more financialization of savings. Second, what I definitely want to see is an increase in the rate of pension and insurance take off in the country. Third one is a switch away from money lenders and so on which has been a stubbornly persistent problem towards institutionalized credit. There I think you can't ban informal credit but also have to improve the provision of formal credit.

How do you expect institutions to go about executing these simplified financial products?

There is a role for the government. PMJDY was quite an interesting initiative and it has worked. There have been critics about account seeding. By and large it has introduced people into financial system and we should consider this a success.

We should piggyback on this initiative and should push other stuff. The government can't do it on its own. It has to partner with private institutions to come out with these products. There has to be product innovation that the government encourages. The government is good at doing platform innovation. So they can create a PMJDY platform and other people can come and work on the platform. They can create an Aadhaar platform and other institutions can work on this. I think that's what they should be thinking about—how do we create platforms that then private sector can come and capitalize on.

<b>Publication</b>	Live Mint
<b>Headline</b>	<a href="#">RBI panel on household finances suggests simpler financial products</a>
<b>Date</b>	26.08.2017

A Reserve Bank of India (RBI) constituted panel on household finances has recommended that households be given a suite of simple, customized, financial products with a default opt-out structure to further their participation in formal financial markets.

The panel, headed by Tarun Ramadorai, professor of financial economics, Imperial College Business School, also made sector specific recommendations, providing integrated financial advice for households and leveraging technology to reduce transaction costs.

For instance, in the credit markets, the panel suggested that banks should quote loans to customers using RBI's repo rate (repurchase rate, its key policy rate) rather than based on their own marginal cost of funds-based lending rate (MCLR) to help comparisons. It further recommended that all banks use the same period for resetting floating loan rates, which should be one month.

It has suggested that households be allowed the choice to shop for the best annuity plans and investment guidelines for annuity funds to be relaxed. Further, it has proposed investigating whether raising the cap on management fees will boost the national pension system.

In insurance, it has proposed simplified low-cost home and contents insurance and travel insurance. It further said that low-cost catastrophe insurance could perhaps be made mandatory when purchasing property in areas that are at a high risk of natural disasters.

Such simplified products also tie in with the panel's advice of ensuring an essential minimum financial kit for households when they access any one and finish KYC (know your customer) compliance. This means that when households open say, a no-frills banking account, they will automatically get access to simple term insurance, basic health insurance, micro unsecured credit, simple collateralized loans, flexible fixed deposit accounts, etc.

The panel has proposed a uniform set of standards and definition for consumer protection and providing integrated financial advice to households. These rules will apply regardless of the specific product or function to which the advice pertains, the report said. The committee has proposed that advice and sales of financial products be separated, supported by a fiduciary standard. It said it believed that technology such as Robo advice can bring down costs.

In general, it has pushed for embracing technology to cut transaction costs such as using electronic forms for KYC compliance.

In that context, it has also called for a so-called regulatory sandbox for trying out new innovations.

A regulatory sandbox is a safe space which allows the regulator to conduct field tests to collect evidence on new financial innovations, while carefully monitoring their risks, it said.

The panel noted that if current patterns of asset allocation —mainly to physical assets—are maintained, there will be significant additional pressure on the demand for gold and real estate in the coming

decades. Households appear to be vulnerable to adverse shocks later in life because of low penetration of insurance and private pension plans.

<b>Publication</b>	The Hindu Business Line
<b>Headline</b>	<a href="#">RBI panel seeks rights-based data privacy in household finance</a>
<b>Date</b>	25.08.2017

There is a need to adopt a rights-based privacy framework in household finance rather than the widely prevalent consent-based approach, a Reserve Bank panel has said.

“(We) suggest adoption of a rights-based privacy framework in contrast with the more common consent-based privacy framework,” the report of the Household Finance Committee of the central bank said.

The panel was set up following discussions in a sub-committee of Financial Stability and Development Council on April 26 last year. The RBI published the report hours after the Supreme Court gave its landmark judgement affirming privacy as a fundamental right yesterday.

“We note that technological advances like machine learning and big data have changed the ways in which we process data and as a result, have made consent a less-than- effective tool to protect personal privacy,” the report said.

Therefore, it is imperative to deploy an alternative system to protect data privacy, it said, adding the law should create a class of technically skilled intermediaries authorised to review algorithms that process personal data to evaluate whether the data is being processed in a privacy-neutral manner.

“The new privacy framework should contemplate the creation of a Data Commissioner who shall be responsible for redress of grievances as well as for establishment of standards of accountability and transparency,” it said.

“Our current belief is that rather than consent, a robust privacy framework in the modern world may call for a rights-based approach,” it said.

“Data controllers (financial firms) will also be responsible for ensuring accountability, transparency, non-discrimination and data security while processing data,” the panel recommended, adding they will be held accountable for any breach.

Noting that “all financial technology solutions require the use of households’ personal information, a form of wealth in itself”, the committee said it is “worried” the country lacks a formal legal framework for data protection.

“There is no formal privacy statute and the closest thing to a formal privacy law is in the rules enacted under Section 43A of the IT Act of 2000 that spell out, in general terms, privacy obligations that apply to anyone who collects and processes sensitive personal data,” the report said.

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The panel was also of the view that there should be a mandatory catastrophe insurance with automatically triggered pay-out in zones with high natural disasters like floods and earthquakes risks, Ramadorai said, adding that this was the only mandatory suggestion made by the panel.

“The panel suggested a set of standardised norms across regulators for financial advice, supported with a fiduciary standard for financial advisers,” Ramadorai told PTI over phone from London.

The panel also proposed simple home insurance policy covering structure and contents at a low premium.

<b>Publication</b>	India today
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<b>Publication</b>	Outlook India
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"Continued lack of clear privacy regulations presents an ever-increasing risk to personal privacy," it said.

In most countries, privacy and data protection regulations restrict the extent to which data are available for both transactional and research purposes, it noted.

The committee was headed by Tarun Ramadorai, a professor in financial economics at Imperial College London, and had representatives from all financial regulators. Most of its recommendations are not mandatory and open for public comments at present.

The panel was also of the view that there should be a mandatory catastrophe insurance with automatically triggered pay-out in zones with high natural disasters like floods and earthquakes risks, Ramadorai said, adding that this was the only mandatory suggestion made by the panel.

"The panel suggested a set of standardised norms across regulators for financial advice, supported with a fiduciary standard for financial advisers," Ramadorai told PTI over phone from London.

<b>Publication</b>	Bloomberg Quint
<b>Headline</b>	<a href="#">Link home to loans to Repo, says RBI Committee</a>
<b>Date</b>	25.08.2017

The Reserve Bank of India-appointed committee on household finance has recommended that banks should link home loan rates to the central bank's benchmark repo rate. The committee, whose recommendations are not binding, suggests that this will allow for better and more transparent transmission of interest rates in the economy to individuals.

“Banks should quote loans to customers using the RBI repo rate rather than based on their own MCLR rates,” said the report released on Thursday.

According to the committee, this would make it easier for customers to compare rates at the time of purchase. The recommendations come at a time when the RBI has repeatedly chastised banks for not transmitting the full extent of rate cuts announced by the RBI. Earlier this month, RBI Deputy Governor Viral Acharya said that the marginal cost of funds-based lending rate (MCLR) system will be reviewed.

The committee suggests doing away with the MCLR entirely.

For prospective borrowers at the point of purchase, every floating-rate home loan should be quoted to prospective borrowers in the form of a market-wide standardised rate + spread as opposed to MCLR + spread.

Report of Household Finance Committee, 2017

Linking to the repo rate would be preferable since it does not vary across banks, the committee added. Moving to a standardised rate + spread quoting convention will thus provide prospective borrowers with an immediate and useful benchmark for cross-product comparison, the committee added.

Also Read: Indians Borrow From Moneylenders To Avoid Administrative ‘Nuisance’: RBI Report

It also suggested that banks be asked to move to a standardised period over which loan rates are reset. This period should be one month, the committee said.

Under the current system, most floating rate loans are reset roughly once a year. “This may impede the monetary transmission mechanism, and not allow borrowers to immediately benefit from interest rate drops,” the committee noted.

For fixed-rate loans as well, the committee recommends that rates be quoted in reference to the repo rate.

While the borrower still has to compare the rate for the appropriate fixation period across banks, the universal quoting convention should facilitate easy comparison both along this dimension, as well as across fixed and floating-rate loans.

Report of Household Finance Committee, 2017

<b>Publication</b>	Bloomberg Quint
<b>Headline</b>	<a href="#">Understanding Household Finances</a>
<b>Date</b>	28.08.2017



<b>Publication</b>	India Infoline
<b>Headline</b>	<a href="#">RBI panel seeks rights-based data privacy in household finance</a>
<b>Date</b>	28.08.2017

RBI panel on Household Finance has emphasised on the need to adopt a rights-based privacy framework in contrast with the widely prevalent consent-based approach.

On April 26 last year, a panel was set up following discussions in a sub-committee of Financial Stability and Development Council. The RBI published the report hours after the Supreme Court gave its landmark judgement affirming privacy as a fundamental right on Thursday.

<b>Publication</b>	Scroll In
<b>Headline</b>	<a href="#">Offer simple financial products to help households enter formal markets, says RBI panel</a>
<b>Date</b>	25.08.2017

A panel, set up by the Reserve Bank of India, has suggested offering simple and customised financial products to encourage households to enter the formal financial markets. These include assets, liabilities, insurance, and savings, the bank's Report of the Household Finance Committee said, Hindu Business Line reported.

The committee, headed by Tarun Ramadorai of Imperial College Business School, suggested creating a default opt-out structure.

The panel made sector-specific recommendations and compiled an essential kit for households to gain adequate benefits from the formal financial markets. The committee also stressed the need to incorporate technology for transaction cost cuts including using electronic forms for Know Your Customer compliance.

It has suggested that new technology initiatives be introduced in a phased manner through a regulatory sandbox, which allows for field testing to collect evidence.

The "essential kit" aims to serve as a checklist for households, the report said. It recommends flexible fixed deposit accounts, micro-pensions with flexible dates of pay, simple term life insurance and basic health insurance.



<b>Publication</b>	Daily pioneer
<b>Headline</b>	<a href="#">Rbi Panel For Rights-Based Privacy Framework In Household Finance</a>
<b>Date</b>	26.08.2017

There is a need to adopt a rights-based privacy framework in household finance rather than the widely prevalent consent-based approach, a Reserve Bank panel has said. “(We) suggest adoption of a rights-based privacy framework in contrast with the more common consent-based privacy framework,” the report of the Household Finance Committee of the central bank said.

The panel was set up following discussions in a sub- committee of Financial Stability and Development Council on April 26 last year. The RBI published the report hours after the Supreme Court gave its landmark judgement affirming privacy as a fundamental right on Thursday. “We note that technological advances like machine learning and big data have changed the ways in which we process data and as a result, have made consent a less-than- effective tool to protect personal privacy,’ the report said.

Therefore, it is imperative to deploy an alternative system to protect data privacy, it said, adding the law should create a class of technically skilled intermediaries authorised to review algorithms that process personal data to evaluate whether the data is being processed in a privacy- neutral manner.

“The new privacy framework should contemplate the creation of a Data Commissioner who shall be responsible for redress of grievances as well as for establishment of standards of accountability and transparency,” it said. “Our current belief is that rather than consent, a robust privacy framework in the modern world may call for a rights-based approach,” it said.

“Data controllers (financial firms) will also be responsible for ensuring accountability, transparency, non-discrimination and data security while processing data,” the panel recommended, adding they will be held accountable for any breach. Noting that “all financial technology solutions require the use of households' personal information, a form of wealth in itself”, the committee said it is ‘worried’ the country lacks a formal legal framework for data protection.

“There is no formal privacy statute and the closest thing to a formal privacy law is in the rules enacted under Section 43A of the IT Act of 2000 that spell out, in general terms, privacy obligations that apply to anyone who collects and processes sensitive personal data,” the report said. “Continued lack of clear privacy regulations presents an ever-increasing risk to personal privacy,” it said. In most countries, privacy and data protection regulations restrict the extent to which data are available for both transactional and research purposes, it noted. The committee was headed by Tarun Ramadorai, a professor in financial economics at Imperial College London, and had representatives from all financial regulators. Most of its recommendations are not mandatory and open for public comments at present.

The panel was also of the view that there should be a mandatory catastrophe insurance with automatically triggered pay-out in zones with high natural disasters like floods and earthquakes risks, Ramadorai said, adding that this was the only mandatory suggestion made by the panel. “The panel suggested a set of standardised norms across regulators for financial advice, supported with a fiduciary standard for financial advisers,” Ramadorai told PTI over phone from London. The panel also proposed simple home insurance policy covering structure and contents at a low premium.

<b>Publication</b>	Zee Business
<b>Headline</b>	<a href="#">Over 40% Indians act on financial advice given by spouse, RBI report shows</a>
<b>Date</b>	24.08.2017

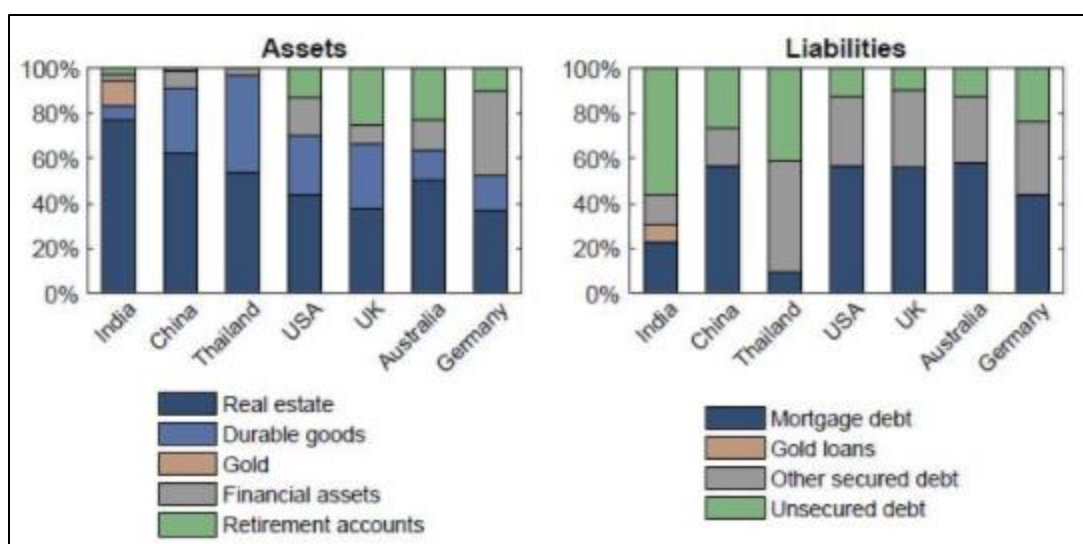
Key Highlights:

- Over 50% Indians think that their children will take care of them financially after retirement
- 44% Indians do not think they will ever retire from work
- An average of 66% of randomly selected adult household members have a bank account

The Reserve Bank of India (RBI) on Thursday made public its report on household finance in the country. The report showed that only 5% of the total household assets in India are held in financial assets.

Financial assets include deposits and savings accounts, publicly traded shares, mutual funds, life insurance and retirement accounts.

The Committee, headed by Tarun Ramadorai, said, "We find several attributes of Indian households that are exceptional in the international context. Importantly, these distinctive features of Indian household balance sheets cannot be explained by differences in the demographic characteristics, wealth, or income of Indian households relative to their counterparts in other countries."



The report found that the average Indian household holds 84% of its wealth in real estate and other physical goods, 11% in gold and the residual 5% in financial assets. It said, "Retirement accounts play a very limited role in household balance sheets, even at the top of the wealth distribution. Indian households continue to accumulate debt as they approach retirement age, and most debt is unsecured (56%), reflecting an unusually high reliance on non-institutional sources such as moneylenders."

The report said, "Despite the high holdings of real estate, mortgage penetration is low early in life, and subsequently rises as households age," adding, "The Indian household finance landscape is distinctive through the near total absence of pension wealth. Pension accounts and investment-linked life insurance products exist, but they are only used frequently by households located in a small group of

states, while in most other states, the contribution of pensions wealth to household wealth is negligible."

It said, "We recommend the creation of a tax-exempt savings vehicle that is agnostic to the choice of financial products in which households choose to invest, with an annual limit of contributions beyond which taxes shall apply. Examples of such vehicles include the Individual Savings Account (ISA) in the United Kingdom, and the 401K plan in the United States."

The Committee said that as per Financial Inclusion Insights Survey, Wave 3 (2015), 40.5% Indians receive financial advice from spouse while 25.1% acted on financial advice given by friends, family and neighbours.

**Financial advice**

In this table, we report the shares of the population that obtain financial advice from different sources. The source of the data for India is the Financial Inclusion Insights Survey, Wave 3 (2015). We calculate population averages using frequency weights, as reported by the surveying institution.

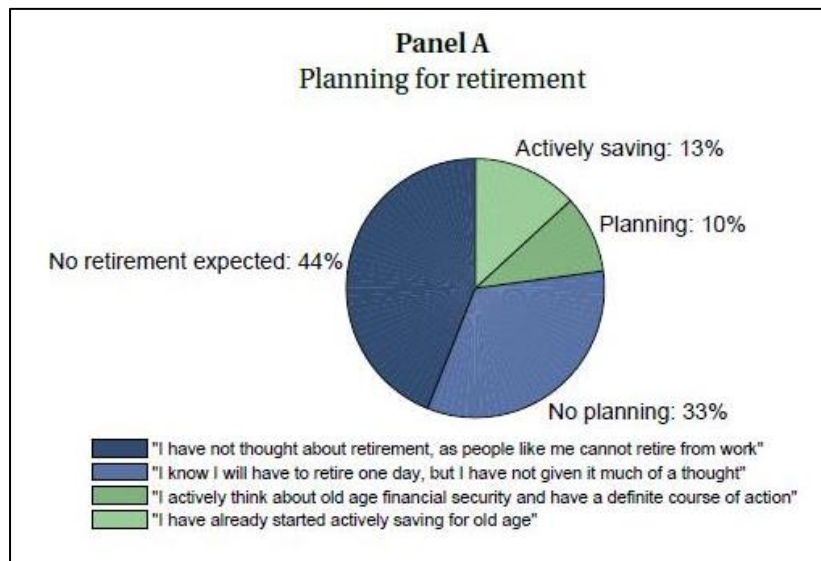
What or who do you depend the most for a financial advice?	
Spouse	40.5%
Myself only	30.4%
Friends, family, and neighbours	25.1%
Bank/financial institution	1.4%
Informal savings/lending groups	0.2%
Radio	0.1%
TV	0.1%
Religious institutes	0.1%
Insurance company	0.1%
Other	2.3%

Table 3.3

Retirement:

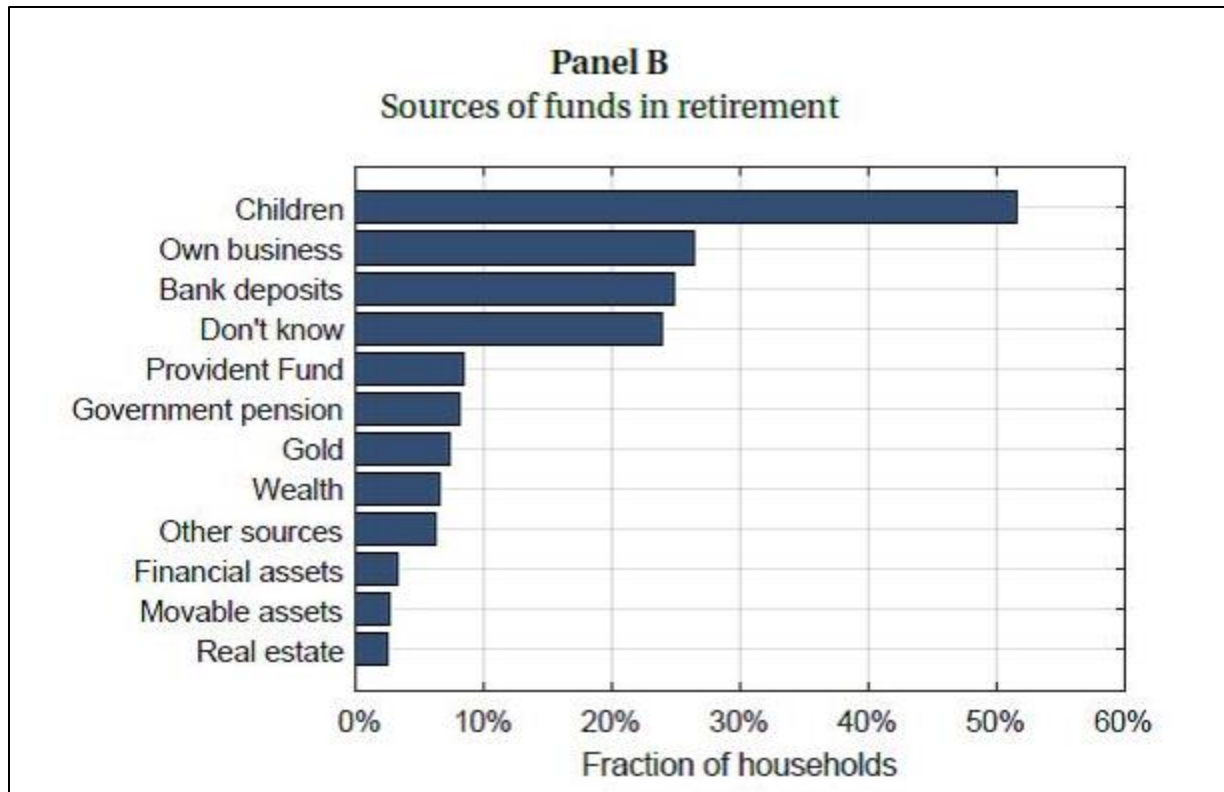
The report said that 44% Indians have not thought of retirement as "people like me cannot retire from work," they said.

Only 13% people surveyed were actively saving for their retirement while 33% had absolutely no planning for retirement.



The data further said that slightly over 25% people felt that their own businesses will be enough for them as source of retirement funds while over 20% had no idea where their retirement funds will come from.

Only around 5% people had money invested in financial assets for their retirement planning while gold formed nearly 10% of this fund.



Recommendations:

The Committee said, "We propose a set of traditional policy remedies motivated by the evidence that we harness in the first part of this report, but also make the case that to enable better outcomes in Indian household finance, in addition to state-driven solutions, we will need innovation in the finance industry, with a particular emphasis on the use of financial technology."

"We therefore propose measures to harness financial innovation to reduce transaction costs imposed by physical, psychological, bureaucratic, and monetary barriers, and to address the reluctance of Indian households to hold and to transact in products that can improve their financial well-being," it said.

The Committee further said that even though financial technology firms are rapidly developing reality in Indian financial markets, so far the focus has been on developing cost-effective ways to deliver traditional financial products such as mutual funds and life insurance policies. "Financial technology holds promise to surmount some of these historical obstacles to customised delivery of financial products in a fashion that scales well even at low ticket sizes to households across the wealth distribution in India," it said.

It concluded, "One of the important recommendations of this committee is to set up a regulatory sandbox, which is an institution to test and verify the impacts of product innovations and selectively experiment with the relaxation of preexisting regulatory standards or establish more relevant regulatory standards for financial innovation. The goal of this new institution should be to enable better outcomes in Indian household finance."