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Print

Publication	The Economic Times Magazine - Sunday
Headline	The Silo Breaker
Date	08/10/2017
Edition:	Mumbai

The Silo Breaker

London-based economist Tarun Ramadorai has a contrarian take on household finances

:: Suman Layak

When in Mumbai, Tarun Ramadorai prefers to work out of his father's apartment in Malabar Hills. In Delhi, it's usually the offices of one of the many think tanks. Most of the time, though, he is in London, at the Imperial College Business School, where he works, teaches and researches financial economics. For the son of former TCS CEO Subramanian Ramadorai, there was enough opportunity to strike it rich in the corporate world. However, Tarun, 42, preferred the world of economics and academia. He did inherit something else from his parents, though – the love for music. Mother Mala Ramadorai is an accomplished classical singer and teacher, and Ramadorai senior, though not a musician himself, is an expert on classical music. Tarun learnt to play the tabla.

The traditionally orthodox grammar of Carnatic music starkly juxtaposes with the rather radical suggestions of the Ramadorai-led RBI Committee on Household Finance. Ramadorai told *ET Magazine*: "We are always thinking in silos for household finance as if they are separate markets: the insurance market, the loan products market, the mutual funds market etc. The householder, however, thinks differently."

Outlier Speak

What the report says:

The gold problem cannot be solved unless we can offer instruments that provide alternatives

A second house should be dis-incentivised to ensure people invest in more liquid assets

The bank cannot be the primary vehicle for delivering financial products. It still intimidates people

Create regulatory sandbox for experimentation and pilot testing new ideas

Midas Touch

To illustrate the point, Ramadorai suggests we look at gold. He says there are six-seven reasons why gold is so popular in India. Just a single product like gold bond will not be enough to replace gold or wean investors off it. Among other things, gold is a matrilineal way of passing on wealth – from mothers to daughters. It is a safe haven and an inflation hedge. It is also effective collateral for loans. "Then, of course, we have all seen the Amitabh Bachchan movies that show how it is a way to stash away ill-gotten gains," he adds.

Among the suggestions made by the Ramadorai committee is a proposal to link all gold transactions by jewellers to PAN cards. While that is to deal with the illegal bit, he suggests that inflation-indexed bonds are another product that can help people invest in financial instruments instead of gold, as also the need to make unsecured credit easily available. A howl of protests will surely follow the suggestion to link PAN card.

The committee on household finance was **set up by former RBI governor Raghuram Rajan** last year

It was **headed by Tarun Ramadorai**, professor at Imperial College Business School, London

Other members of the committee represented **Sebi, PFRDA, IRDA and RBI**

The committee submitted its findings on August 24, 2017

It went through **seven data sets comparing Indian household** finances with those across the world

Gold, Ramadorai says, is a small part of a bigger problem – of Indian households being stuck with physical assets which, in the absence of reverse mortgage, turn terribly illiquid at times of need. The report shows how in the average Indian household, 84% of the wealth is invested in real estate and other physical assets, 11% is in gold and only 5% in financial products.

Chief Economist at the Mahindra Group, Sachchidanand Shukla, feels there is no easy or quick cure for India's gold addiction, and points out that even when gold prices drop globally, Indian rupee tends to depreciate, keeping gold prices in India more or less stable, making it an irresistible inflation hedge. "In a democratic country like India, any regulatory change will bring in protests. Linking jewellery purchase to PAN card or Aadhaar can help tackle illegal gains," Shukla adds. He thinks inflation-indexed bonds have serious problems: firstly, they are no match for instruments like PPF and, secondly, being linked to the consumer price index instead of the wholesale price index makes them less attractive.

The Ramadorai panel has suggested some tough measures to restrict investment in real estate – especially in a second house. "The current rules give you tax exemptions if you sell a house and reinvest that money in another house. It encourages people to stay invested in real estate," says Ramadorai.

> "You cannot solve the moneylender problem without solving the insurance problem"

Ramadorai suggests that if the goal is to make Indians invest in a wider range of financial products, a holistic approach is needed. He takes up the issue of the moneylender to illustrate the approach. "When you walk into a moneylender's shop for a loan, the average time taken for getting the money is usually 15 minutes. "A bank will at least take three-four days to disburse a similar credit."

A moneylender lends at 4-5% monthly interest and there is a 40% chance of default, yet the system survives. The report insists that the banking system's way of disbursing a loan is often intimidating and even humiliating for a borrower, especially one of lesser means.

Ramadorai explains that an unsecured loan at high interest is often taken to ward off an emergency, usually a medical emergency. Such a need can be met through insurance. However, life insurance penetration in India is as low as 22% and health insurance is even lower. "You cannot solve the moneylender problem without solving the insurance problem," he says.

Shukla tries to explain why the moneylender succeeds: he knows his customer. "Indian banks seems to have walked in the opposite direction. While KYC norms have been made stricter, the interface is impersonal, with little human contact."

The Ramadorai report also notes that the peculiarity of Indian household finance is the near total absence of investments in pension products and Ramadorai says the expectation is often that the next generation will take care of the elderly as is the norm in the traditional Indian joint family structure.

A jigsaw piece from a different puzzle, the realty puzzle, partly explains this. A very large percentage of Indians often gets into mortgage real estate buying at the age of 55 and above, which is counter-intuitive to the traditional approach of buying realty when young. "It is almost like buying property for the sole purpose of bequeathing it to the next generation, with the understanding that children will take care of parents," he says. "One should take a good look at realty returns over the years. It just does not create wealth."

While advocating a holistic approach the committee has also suggested what the report calls "old-fashioned" recommendations for every sector. The chairman of the committee is also in some ways old-fashioned. Even after spending years in London, Ramadorai still loves his filter coffee, laments the lack of chicory-powered punch in the coffee he drinks in London and insists on the right amount of sugar: "The layer of sugar must be so high that when you dip the spoon to stir the sugar, it must stand straight." ■

Publication	The New Indian Express
Headline	Inequality can impact economic growth
Date	8/10/2017
Edition:	Chennai

INTERVIEW

Inequality will impact economic progress

*A recent RBI-constituted study chaired by **Dr Tarun Ramadorai**, Professor of Financial Economics at Imperial College London, revealed that a staggering 95 per cent of Indian households' savings are in gold and real estate. Wealth inequality, which is more pronounced than income inequality, is worrisome both from a political and social perspective Ramadorai tells **Sunitha Natti** of TNIE. Excerpts:*

Is the savings trend unique to India?
There are international comparisons that show that it's not unusual for developing countries, including China and Thailand, to have high levels of physicals assets in household portfolios. What is unusual in India is that 95 per cent allocation doesn't alter as Indians become wealthier. There's simply a shift in gold from the lowest point of the wealth distribution, to real estate at the highest point of the wealth distribution, with the 95 per cent share roughly fixed. Two, gold is an unusual Indian problem with a particularly high allocation, not seen in other comparable economies.

Do you think the pace of wealth generation has been slower and lower compared to individuals favouring financial products?
Yes, we document in the (RBI) report that movements away from gold into other financial assets can generate greater income growth, and that Indians would benefit financially from implementing changes in household behaviour.

How can more financialization of savings be achieved? How will it help the economy?
Participating in financial assets can sometimes be a challenge because of high levels of bureaucracy making it difficult for people to enter such assets. We suggest that technology be used to facilitate people's access, though we also need to be aware of Data Privacy issues.

Clearly a large movement of household assets into physical assets will provide a strong tailwind for the Indian market, should this change be achieved.

Lack of trust in financial institutions, which partly explains our tendency to avoid financial products. Would you recommend this trend be reversed?
Trust issues correlate highly with the income level of the household, which helps to explain the tendency of households to eschew financial products and to invest in instruments such as gold instead. Cost and distribution considerations seem important to Indian households, and the report explores how best to rationalise distribution incentives. For example, we recommend rationalisation of commission on insurance products. We recommend that building trust is essential, and we believe this is part of the solution.

The rich don't just have more wealth, but bulk of the wealth comes from different -- more lucrative -- asset sources. What should be done to replicate this to the bottom of the pyramid?

As we have seen, political and social developments can in turn substantially affect trust in and support for economic growth if the benefits of economic growth are not widely distributed.

The rich do not actually have better allocation of wealth compared to the poor. If households at bottom of the pyramid allocated their assets better, this would help to reduce income and wealth inequality as these households earn greater rates of return on their assets.

How does wealth inequality hurt the economy or growth?
It is certainly worrisome from both a social and political perspective. Indeed as we have seen, political and social developments can in turn substantially affect trust in and support for economic growth if the benefits of economic growth are not widely distributed.

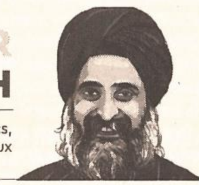
Publication	The Financial Express
Headline	"Household Finance in India"
Date	18/09/2017
Edition:	Mumbai

Household finance in India

A shift from informal to formal sector borrowing will require a simultaneous development of appropriate insurance markets

NIRVIKAR
SINGH

Professor of economics,
University of California, Santa Crux



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). 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.

Publication	The Times of India
Headline	Balance sheet of Indian families a matter of life and debt
Date	07/09/2017
Edition:	Mumbai

Balance Sheet Of Indian Families A Matter Of Life And Debt

Subodh.Varma@timesgroup.com

New Delhi: Indian families borrow and invest in very different ways than families in the US, UK or Germany, and even those in China. The depth of these differences, across all ages and economic levels, is revealed in a recent report on household finances prepared by the RBI.

It shows that a major proportion of household wealth in Indian families is kept as real estate or gold, even among younger families, and even by the poorest 40% of population.

This is not the case in other countries. Institutional borrowings by Indian families are low in early life and go on increasing leaving many retired persons with a debt overhang, unlike advanced countries where mortgages reduce after retirement. And, pensions are virtually absent in India while in most Western countries they are a major asset in old age.

More than three quarters of family wealth is invested in real estate (land and dwelling units) by an average Indian family compared to just 44% in the US, and 37% in UK and Germany. In China, about 62% of wealth goes into real estate. Even among the poorest 20% of the population, 59% have some land or dwelling unit in India, while in China, the similar proportion is 61%.

But in the rich countries a minuscule share of the poorest quintile has real estate — 4% in US, and less than 1% in UK and Germany.

This may sound bizarre considering India's poverty but here is the thing: average value of the main residence in the poorest Indian households is Rs 22,000, while it is Rs 15 lakh in Germany and Rs 3.7 lakh in the US.

TIMES SPARK

READ TO LEAD

The RBI report is talking of proportion of different types of family wealth. Their absolute values are obviously very different.

Besides real estate, the other main target of investment in India is gold. About 11% of family wealth goes into buying gold. Families in other countries spend virtually nothing on this, with the Chinese spending a mere 0.4% of their wealth on gold. Indian families also have gold loans amounting to about 8% of their total liabilities, again a feature not found anywhere else.

Medical emergencies, especially among the elderly, are one of the main reasons why families in India seek loans at usurious rates from money lenders

"Most households use debt to cope with emergency expenses, such as hospitalisation, or property damage due to a natural disaster. The interest rates on unsecured debt are very high. Therefore, households prefer to put their savings in real estate and gold, which can also be used as collateral," RBI's Household Finance Committee chairman Tarun Ramadorai of Imperial College, London, told TOI. Detailed data on countries drawn from various surveys is available in a paper by Ramadorai and co-authors published in 2017.

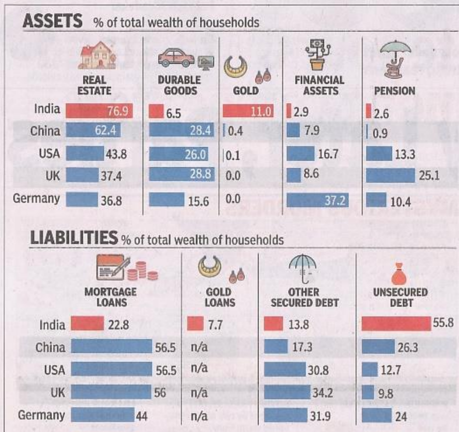
Although 73% of families in India have financial assets like cash, bank accounts and pension accounts, they hold very small amounts adding up to just 5% of their total wealth, he added.

Medical emergencies, especially among the elderly, are one of the main reasons why families in India seek loans at usurious rates from money lenders. Such unsecured loans make up nearly 56% of all liabilities for Indian families, much higher than China at 26%, US (13%) and Germany (24%). The RBI report notes that "some of these risks could be mitigated through strengthening the public provision of health and social welfare services."

Indian families are also exceptional in that housing loans are low in early life and rise beyond retirement ages. In other countries such loans rise in middle age but fall off at retirement. This happens because Indian families borrow later in life and it is customary to bequeath property to future generations who in turn look after the elderly.

These traditional structures are increasingly under pressure from shifting demographic patterns, social norms, and changing economic conditions, introducing risks to economic well-being especially as households age, the report says.

HOME AND GOLD TOP BUYS, LOANS RUN TILL OLD AGE



MORTGAGES

- Just 8% Indian families have mortgages compared to 25% in China, 48% in US, 21% in Germany
- **Repayment** of mortgages **increases with age** in India, from 15% of family assets for 35 or less to 31% for those over 65 yrs
- In rich nations, mortgage payments decline after age 55

UNSECURED DEBT

- **46% of family finances** are devoted to repaying unsecured debt by seniors over 65 yrs in India
- Similar shares are 15% in China, 19% in US, 22% in UK and 32% in Germany

FINANCIAL ASSETS

- Financial assets are **just 8%** of wealth for families in India below age 35
- This share declines to a mere 4% for seniors
- In rich countries, the youngest age group families hold much higher financial assets — Germany (62%), UK (20%), US (32%)

Source: RBI, The Indian Household Finance Landscape by Cristian Badarinza, Vimal Balasubramaniam & Tarun Ramadorai, India Policy Forum, 2017

Publication	Business Standard
Headline	'Stick to your life policy for the entire tenure'
Date	05/09/2017
Edition:	Mumbai

Stick to your life policy for the entire tenure

Allowing it to lapse leaves you unprotected and may cause loss of premia paid

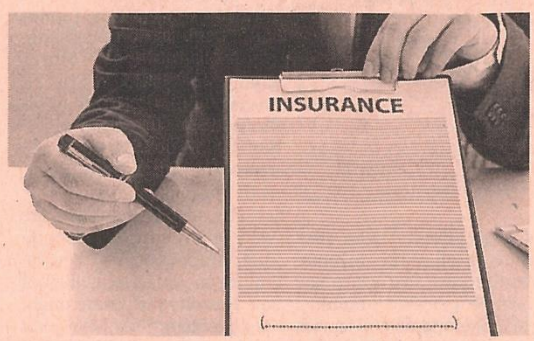
SANJAY KUMAR SINGH

Persistency level, which shows the percentage of an insurer's policies that are still in force after a certain period of time (say, one year, three years, or five years), is low in India. The median level for five-year persistency in life insurance is 28 per cent (Source: Handbook of Indian Insurance Statistics), which means that half the insurers are able to retain less than 28 per cent of their policies after this duration. The Reserve Bank of India (RBI) Committee on Household Finance, in its recent report, flagged low persistency as a major concern, saying: "Households do not understand the impact of lapsation on their future claims to benefit."

Experts attribute a variety of reasons for the low persistency of life insurance policies. "Customers sometimes buy a policy without understanding its terms and conditions properly. This leads to disillusionment. They allow the policy to lapse when they perceive that it is not going to help them meet their financial goals," says Lalitha Bhatia, chief operating officer, IDBI Federal Life Insurance. Such purchases happen most often when policies are bought in a hurry for the purpose of tax-saving rather than to meet the primary need for protection. Financial crises caused by illness or loss of job, high expenditure incurred during a marriage or festive season, etc. are other factors that cause people to allow their policies to lapse.

The incentive structure of agents causes many to churn policies. "The upfront commission on the sale of a life insurance policy is higher than the trail commission. So instead of encouraging you to continue with your old plan, the agent could churn you from one plan to another," says Deepesh Raghaw, founder, PersonalFinancePlan.in, a Sebi-registered investment advisor (RIA).

If you have been sold a bad policy and realise this within a year, it may perhaps be okay to allow the policy to lapse even at the cost of losing out on the premium entirely. Otherwise, experts advise that customers should purchase an insurance policy after doing proper due-diligence or getting advice from a reliable source. Having purchased a policy, they should stick to it for its tenure. The foremost reason for not allowing a policy to lapse is loss of risk protection. "The lapse of a life insurance policy means that you will not get death benefit or maturity benefit," says Naval Goel, chief executive officer and founder, PolicyX.com. Moreover, reinsuring becomes difficult. "If you want a cover in the future, you may have only a few options as the top insurers may hesitate to insure you based on your history," adds Goel.



Unit-linked insurance policies (Ulips) come with a lock-in, so you can withdraw your money only after five years. Suppose that you surrender the policy after paying two premiums. The insurer will deduct certain charges and then transfer the balance to the Discontinued Policy Fund. The insurer can charge a fund management fee not exceeding 0.5 per cent of fund value. Your money will earn four per cent interest until withdrawn.

In case of a traditional policy, you could lose money if you stop paying the premium early. "The surrender amount for the initial seven years is fixed by the Insurance Regulatory and Development Authority of India (Irdai). From the seventh year, what you are paid depends on the insurer's policy (approved by Irdai)," says Goel. If you quit before paying the second premium, you get no money. If you quit in the third year, you get 30 per cent of the premiums paid. Between the fourth and seventh year, you get 50 per cent of the premiums paid.

LONG-TERM TIES

Life insurers with the best persistency ratios

Life insurer	Persistency ratio (%) 61-month
IDBI Federal	58.11
LIC of India	44.0
HDFC Standard	41.36
Sahara India	40.05
Kotak Mahindra	37.39
Median	28.0

Data is based on number of policies.
Source: Handbook of Indian Insurance Statistics, 2015-16.

Publication	Mint
Headline	'The economics of the household balance sheet'
Date	04/09/2017
Edition:	Mumbai

ourview

The economics of the household balance sheet

The reluctance of households to engage in the formal financial market shows that the institutional architecture has not worked as desired

JAYACHANDRAN/MINT

It is well known that financial assets play a limited role in the Indian household balance sheet. Higher preference for physical assets, among other things, has resulted in lower penetration of insurance products and the near absence of retirement savings. A committee headed by Tarun Ramadorai, professor of financial economics at Imperial College, London, which submitted its report recently, has taken a comprehensive look at these issues and made recommendations in order to increase the role of formal finance in the household sector.

The committee notes that an average Indian household has 77% of its total assets in real estate, 11% in gold, 7% in other durable goods and just 5% in financial assets. While households in other developing countries such as China also have a higher preference for physical assets, this is significantly different from developed countries where financial assets play a much bigger role in household finances. Interestingly, even households that move towards the top of the wealth distribution do not increase allocation to financial assets—they just shift gold holdings towards real estate. The committee has also found a strong link between lower take-up of insurance products and reliance on non-institutional sources of credit. This basically shows that lack of insurance pushes households to take debt from non-institutional sources. The report highlights that 69% of households depend on informal sources of funding to deal with medical emergencies. Funding from informal sources such as moneylenders comes with higher interest burden and affects household finances.

There are various reasons why households at different levels of wealth distribution prefer physical assets over financial assets. For instance, wealthier households may find it easier to divert their illegitimate income towards physical assets to avoid taxes, as investments in the financial sector are easier to track. For others, as the report notes, "High transactions costs and bureaucratic impediments to efficient participation create a high 'nuisance factor' for households hoping to engage in formal financial markets." Lower- income households often believe that the formal financial sector is only for the rich. The other important reason why households prefer physical assets could be persistent high inflation over the decades.

However, at a broader level, the reluctance of households to engage in the formal financial market shows that the institutional architecture has not worked as desired. If people are reluctant to go to a bank or a financial institution, it suggests that the system requires design changes to be able to serve the needs of an average Indian household. This will not only increase the financial well-being of households, but will also help channelize savings into productive investments. In this context, the government has done well by starting the Pradhan Mantri Jan-Dhan Yojana as well as schemes in the insurance and pension space. It is important to understand that with physical assets, households have only optimized their balance sheets in the given circumstances. Therefore, if the operating environment changes, it is possible that Indian households will adjust accordingly—maybe with some amount of hand-holding by the state.

The committee has made several sector-specific recommendations to address issues on both the asset and liability sides of the household balance sheet. For instance, to improve access to financial products, the committee has recommended end-to-end digital distribution networks, and making the know-your-customer requirement completely paperless. Better use of technology should be able to increase the access to financial products. The committee has also recommended the formation of a regulatory sandbox. This is an idea worth trying. It will allow testing of innovative financial products and monitoring of possible risks. This will help in developing innovative low-cost financial products. It will also enable regulators to adapt to innovation and technology. Financial products in India need to be more flexible so that people working in the economy's large informal sector, with irregular income, can participate. The committee has made a number of other recommendations to improve the overall market structure for different products, including the way interest rates should be set in the home loan market.

One big issue that influences the household preference for an asset class—and not just in India—is awareness. The state and other stakeholders will have to work together to improve financial awareness. However, it will not be easy to change the asset mix of Indian households and a shift will undoubtedly be a long drawn out process. The government and regulators would do well to create an enabling environment where households are able to access simple financial products, backed by a strong mechanism to redress grievances, with ease. Households will only move to financial assets in a big way if products are easily available and they trust the overall financial architecture with their savings.

Will households benefit from moving to financial assets? Tell us at views@livemint.com

Publication	Mint
Headline	"Need supply side solutions to solve the household finance problem in India"
Date	30/08/2017
Edition:	Mumbai

NEED SUPPLY SIDE SOLUTIONS TO SOLVE THE HOUSEHOLD FINANCE PROBLEM IN INDIA

EXPENSE ACCOUNT

MONIKA HALAN

To read all of Monika Halan's earlier columns, go to **www.livemint.com/expenseaccount**

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*) 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/2wiIF9O* and Bose committee 2015 *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.

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.

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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.

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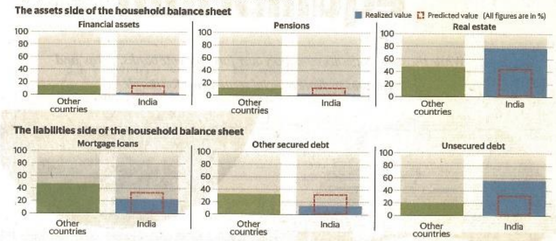
SANTOSH SHARMA/MINT

Cross-country comparison

The data below shows predicted values for the average share of assets and liabilities of Indian households. The assumption is that Indian households behave like their counterparts in other countries. In assets, the share of real estate is considerably higher, while that of pension is much lower than in other countries



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. Across-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.

Source: Report of the Household Finance Committee July 2017

Publication	Mint
Headline	"Privacy and Household Finance"
Date	30/08/2017
Edition:	Mumbai

EX MACHINA

RAHUL MATTHAN

Respond to this column at
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PRIVACY AND HOUSEHOLD FINANCE

On the very same day that the Supreme Court pronounced its landmark judgement on the fundamental right to privacy, the Reserve Bank of India (RBI), with much less fanfare, released the Report of its Committee on Household Finance. While not exactly light reading, the report is remarkable for the depth of its comparative analysis and the modern technological solutions it recommends and even if the subject matter lacks some of the visceral appeal as the Supreme Court judgement, its contents are, nonetheless, enlightening.

Much of what has been pointed out in the report will come as no surprise to us. For instance, it highlights the fact that Indians invest a disproportionate amount of wealth in physical assets like gold and real estate, and not nearly enough in pension-oriented financial assets. And that we have higher-than-normal levels of unsecured debt—loans from friends and family for the most part but also from non-institutional sources like moneylenders.

What is less obvious is the strong negative correlation between low levels of participation in insurance and high levels of non-institutional debt—indicating that our failure to invest in insurance products forces us to take on high cost borrowings when calamity strikes. The report has also pointed out that, while the number of elderly people in the population will grow by 75% over the next decade and a half, only a very small fraction of that cohort will actually have saved in private pension plans indicating that they are all highly susceptible to adverse shocks later in life.

For these reasons and more, the report has recommended that Indian households should re-allocate their investments away from gold and towards the financial markets and shift borrowing from non-institutional debt into institutional finance. It suggests the introduction of measures that will provide households access to quality public health services and actuarially fair insurance products to help shield them from the impact of unpredictable medical emergencies.

All this is easier said than done. There is a general lack of trust in the formal financial markets, a factor that the report correlates highly with income levels—poorer households believe that investment in financial products is the prerogative of the wealthy. Additionally, due to the perception of high transaction cost and bureaucratic complexity, Indian households generally prefer to avoid interacting with the institutional financial system.

To address these concerns, the report has recommended the creation of customized products with low marginal servicing costs that are designed to scale across the entire range of complexities that describe Indian households. It suggests that these products should be priced fairly and dispensed along with financial advice that is provided with incentives that keep the best interests of the household at the fore.

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This is where the report departs from those of previous committees. It goes into details on how we can achieve these results calling for the widespread use of modern technologies. It has actively recommended the use of fintech to build customizable, infinitely scalable solutions and has articulated a number of specific structural measures to achieve that. Central among these is the creation of a regulatory sandbox that will straddle the regulators of all four financial sectors—insurance, pensions, stock markets and banks—and will allow tech companies to test their products and regulators to assess their impact on the ecosystem in a controlled environment in which applicable regulations are temporarily relaxed.

But perhaps most relevant, particularly in the context of the Supreme Court judgement, is the emphasis the report lays on the need to enact a modern privacy law. Given its strong recommendation to use of fintech to rejuvenate the household finance sector, the report recognizes that a strong privacy law will be a necessary prerequisite. This is particularly true in the context of robo-advisory services or flow-based lending products that will, by necessity, access personal financial information in order to generate their results.

In the absence of a full-fledged privacy law, there is a clear and present danger that any fintech products that are deployed even in the controlled environs of a regulatory sandbox, could have serious repercussions on privacy. Without clearly thought through and technologically responsive guard rails that developers must apply to the products they develop, there is a risk that the unintended consequences of their products will do more harm than good. With this in mind, the report recommends the enactment of a rights-based privacy regime that imposes accountability obligations on developers and applies appropriate constraints on big data applications without imposing other burdensome compliance that will make their deployment unsustainable.

Now that the Supreme Court has instructed the Justice Srikrishna committee to come up with an appropriate law to safeguard privacy, it would be good if the committee gives due attention to this strong recommendation from RBI as to what that law should contain.

Rahul Matthan is a partner at Trilegal. Ex Machina is a column on technology, law and everything in between.

His Twitter handle is @matthan.

Publication	Mint
Headline	The precarious state of Indian household finances
Date	29/08/2017
Edition:	Mumbai

THE PRECARIOUS STATE OF INDIAN HOUSEHOLD FINANCES

CAPITAL ACCOUNT

MANAS CHAKRAVARTY

Read Manas Chakravarty's previous columns at **livemint.com/capitalaccount**

The recently submitted report of the committee on household finance shows that only 5% of the average Indian household's wealth is in financial assets. The other 95% is in physical assets—77% in real estate, 7% in durables such as vehicles, livestock and equipment and 11% in gold. That's very different from the pattern in the developed economies, where the proportion of financial assets is much higher.

The percentage shares are misleading. The average value of the main residence in the bottom quintile group (the bottom fifth) of Indian households is equal to Rs22,000. If that is the value of the main asset among the Indian poor it's a reflection, not of asset allocation preferences, but of the dire necessity of having some sort of roof above one's head. It's a reflection of abject poverty.

But the report also finds that financial assets account for a very low portion of the balance sheet of the rich. Is that because some rich people don't understand the benefits of investing in financial assets?

The survey does find that higher education is associated with a lower share of real estate, and higher shares of both pensions and financial wealth. Does that mean all that is needed to open the eyes of these people is to educate them? Not really—the idea that the rich do not know their own financial interests has a fishy smell about it.

The report is sceptical, pointing out that higher education is correlated with employment in the formal sector—with fewer opportunities for tax evasion, and more exposure to formal financial markets. In particular, says the report, richer households may find it easier to place illicit earnings or engage in tax evasion by investing in real estate, thereby avoiding the scrutiny associated with investments in the formal financial sector. The role of real estate as a swamp to cover up black money is behind the affection of the rich for investment in the sector.

How does asset allocation play out over the life cycle of the average Indian household? The largest fraction of the wealth of young households in India is in the form of durable goods and gold. Why gold? Lack of trust in financial institutions is a big reason. As they approach retirement, more household wealth is held in land and housing, in marked contrast to the developed nations, where people have a nest egg of financial savings to fall back upon after retirement.

The report points out Indian households are exceptional, as India is the only country in which mortgages account for an increasing share of total liabilities as people approach retirement age, leaving them exposed to repayment risk even in old age. What's more, over the coming decade and a half, the elderly cohort is expected to grow by 75% and the financing of health expenses and consumption during retirement is expected to leave older households particularly vulnerable to adverse shocks.

Strangely, the high share of real estate in household portfolios is not accompanied by an equivalent share of mortgages in total household debt. In fact, 56% of household debt is unsecured, reflecting high reliance on non-institutional sources such as moneylenders. Moreover, the major reasons for households getting into debt are loss of crops and livestock, medical emergencies, and the effects of natural disasters. Half the households count on help from family, friends and moneylenders to tide over these emergencies. For medical expenses, 69% of households draw upon informal sources of funding, 26% of which are loans from moneylenders. This clearly points to the precarious financial situation of the majority of Indian households.

The main three risks that households face (i.e. the loss of crops and livestock, major medical emergencies, and damage to physical assets due to natural disasters) are all insurable. So why don't households buy insurance? The report says the main reason is not lack of awareness, but affordability.

The committee points out that allocating a larger proportion of savings to financial instruments will raise returns for households and recommends a number of excellent measures for improving financial inclusion. The government's crackdown on the real estate sector and on black money is already seeing a flood of money into the financial markets.

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Although financial inclusion is a buzzword now, there's nothing new about it. The Indian state has, through the expansion of the state-owned banks, been practising financial inclusion for decades. I recall the head of a public sector bank boasting that the public sector banks were responsible for the rise of the Indian middle class, with their expansion of lending to small businesses and to rural India.

With modern technology, the costs of financial inclusion have fallen dramatically, enabling a reaching out to the poor. The fact remains, though, that there must be adequate income in the first place before people can save and allocate savings to financial assets.

Here are some facts the report brings out: only 65% of Indian households in which the household head is younger than 35 years of age hold any financial assets; only 55% of the poorest households hold any financial assets; only a quarter of households are able to deal with emergency expenses by drawing upon accumulated wealth; very low-income households wish to save nearly 65% of their annual income in an effort to repay past loans.

All these facts reflect the very low levels of income and savings for most households in India. This column has earlier pointed out that the income of almost 70% of farm households is less than their consumption expenditure, according to the government's own data. How can they be expected to save anything?

In short, while the effort to improve financial inclusion is welcome, we must not forget the primary responsibility for providing jobs and social security lies with the government.

Manas Chakravarty looks at trends and issues in the financial markets. Respond to this column at manas.c@livemint.com.

Publication	The Hindu Business Line
Headline	Saving the saver
Date	29/08/2017
Edition:	Mumbai

THE HINDU BusinessLine
TUESDAY, AUGUST 29, 2017

Saving the saver

A new study has found deep-rooted cultural reasons for Indian savers' avoidance of financial products, but it isn't easy to address them

The small, 20-basis point increase in Indian households' allocation to financial savings has been widely celebrated in the last two years as a structural shift. Such celebration, however, may have been premature going by the findings of an expert committee on household finances commissioned by the RBI. The committee, chaired by Tarun Ramadorai, unearths deep-rooted cultural and structural causes for why Indian households across the spectrum avoid financial products and sit on unproductive physical assets. The findings call for a reboot in the current policy approach towards savings and investment products.

Drawing on proprietary research, past NSSO surveys and interactions with industry, the committee offers three headline insights on savings behaviour. One, Indians have a globally high 95 per cent of their wealth parked in physical assets (77 per cent in property, 7 per cent in durables and 11 per cent in gold), with only 5 per cent in financial products. This does not materially change with affluence or age. Therefore, as the working age population burgeons over the next decade, the committee warns that policymakers should budget for even higher demand for both housing and gold. Two, focused as they are on property investments, very few Indians are investing towards retirement, with 77 per cent of the households failing to plan for pension. As most people lean on their children post-retirement, the report warns of a looming pension crisis with the elderly cohort expanding by 75 per cent in the next 15 years. Three, even with vastly improved access to financial products under the PM Jan Dhan Yojana, Jeevan Jyoti Yojana and the Atal Pension Yojana, savers shy away from financial products due to the high transaction costs, their own unpredictable income streams and lack of trust. Most households lean on informal sources for emergency loans at high costs. The report offers a battery of solutions: an Aadhaar-based unified eKYC for easy onboarding, no-frills general insurance, easier terms for gold monetisation and reverse mortgage, unified regulation, use of technology for financial advice and removal of tax breaks on property investments, to name a few.

While these recommendations are eminently sensible, their implementation is unlikely to prove easy. For instance, a unified KYC and a common demat account across stocks, mutual funds and insurance has been hanging fire for many years now, with financial firms unwilling to share their databases. The idea of an umbrella financial regulator has been gathering dust as individual regulators have been reluctant to cede turf. Financial firms, on their part, seem quite content to cater to affluent, repeat customers, rather than tap the bottom of the pyramid. Poor internet connectivity and low digital literacy have proven impediments to going paperless. But then, identifying the problem is half the solution, and this report acquaints policymakers with the real reasons why Indians find financial products daunting.

Publication	The Times of India
Headline	PAN card for all gold transactions proposed
Date	27/08/2017
Edition:	Chennai

PAN card for all gold transactions proposed

Surojit.Gupta@timesgroup.com

New Delhi: 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 that are above ₹2 lakh and has supported the daily cash limits against the sale of gold to curb tax evasion.

In order to prevent PAN requirements driving gold transactions underground, the committee has recommended that all gold transactions should 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 committee said.

The panel was set up to look at various facets of household finance in India on the recommendations of the sub-committee of the Financial Stability and Development Council (FSDC-SC) meeting last year.

The panel chaired by Tarun Ramadorai, professor of financial economics, Imperial College, London, had representation from all the financial sector regulators, the Reserve Bank of India (RBI), the Securities and Exchange Board of India (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 relative to those observed in 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.

The panel has recommended a variant of gold bonds currently in operation be introduced, which have default inheritance features.

Push for Aadhaar-enabled e-KYC for digi transactions

New Delhi: Aadhaar-enabled electronic know your customer (KYC) process should be "firmly established" as the acceptable KYC, a panel with representatives from all financial sector regulators has proposed. "The committee recommends that Aadhaar-enabled eKYC (which is a paperless Know Your Customer (KYC) process, where the subscriber can authorise the UIDAI electronically, through Aadhaar authentication to provide a digital identity document to the requesting entity be firmly established as the acceptable KYC standard," the report of the household finance committee said.

"Currently, this process is sufficient to complete KYC norms for most basic financial accounts, and telecom SIM issuance (amongst others)," said the panel which was set up to look at various facets of household finance in India on the recommendations of the sub -committee of the Financial Stability and Development Council (FSDC-SC) meeting last year. TNN

Publication	The Times of India
Headline	PAN may soon be a must for buying gold
Date	27/08/2017
Edition:	Hyderabad

PAN may soon be a must for buying gold

Surojit.Gupta
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Publication	The Times of India
Headline	Panel wants to make PAN card must for buying gold
Date	27/08/2017
Edition:	Bangalore, Delhi, Lucknow

Panel wants to make PAN card must for buying gold

Surojit.Gupta@timesgroup.com

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CURBING EVASION

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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."

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Publication	The Times of India
Headline	Panel proposes PAN card for all gold transactions
Date	27/08/2017
Edition:	Kochi

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Surojit.Gupta@timesgroup.com

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▶**Key is tax sops, P 9**

'Tax sops key in financial planning'

▶Continued from P 1

The report said, "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."

"We also note here that tax incentives are an extremely strong feature of the Indian environment which appear to "nudge" investors in the direction of particular financial decisions, often in ways which cannot be explained by pure financial optimisation motives."

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

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Publication	The Times of India
Headline	Panel for PAN link to all gold buys
Date	27/08/2017
Edition:	Kolkata

Panel for PAN link to all gold buys

Seeks Cash Limits To Plug Tax Evasion

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"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," it said.

Publication	The Times of India
Headline	Plan to make PAN card must for all transactions in gold
Date	27/08/2017
Edition:	Bhopal, Chandigarh, Delhi

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"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.

Publication	The Times of India
Headline	Proposal to make PAN card must for buying gold
Date	27/08/2017
Edition:	Ahmedabad

Proposal to make PAN card must for buying gold

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New Delhi: 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.

Representation purpose only

UNDER SCANNER: Panel has recommended that all gold transactions be registered using an electronic registry

"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 sub-committee 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 Irda and the Pension Fund Regulatory and Development Authority (PFRDA).

Publication	The Times of India
Headline	Proposal to make PAN must for buying gold
Date	27/08/2017
Edition:	Pune

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CURBING EVASION

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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."

"We also note here that tax incentives are an extremely strong feature of the Indian environment which appear to "nudge" investors in the direction of particular financial decisions, often in ways which cannot be explained by pure financial optimisation motives," the report said.

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.

Publication	The Hindu
Headline	'Indians tend to borrow later in life'
Date	25/08/2017
Edition:	Delhi

'Indians tend to borrow later in life'

Households' finance landscape shows near total absence of pension wealth

SPECIAL CORRESPONDENT
MUMBAI

Risky step: High cost debt may get households trapped in a long cycle of interest repayments. ▪GETTY IMAGES/ISTOCK

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.

Publication	Business Standard
Headline	RBI seeks rights-based data privacy in household finance
Date	26/08/2017
Edition:	Delhi

RBI seeks rights-based data privacy in household finance

PRESS TRUST OF INDIA
Mumbai, 25 August

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 said on Friday.

The household finance committee was set up, following discussions in a sub-committee of Financial Stability and Development Council on April 26 past year. The RBI published the report hours after the Supreme Court gave its judgment 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.

"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.

Publication	Mint
Headline	Linking of bank loans to repo rate is in the works
Date	28/08/2017
Edition:	Bangalore, Chennai, Delhi, Kolkata, Mumbai

'Linking of bank loans to repo rate is in the works'

BY GOPIKA GOPAKUMAR
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MUMBAI

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:

Tarun Ramadorai, chairman of a RBI constituted committee on household finances.

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.

mint INTERVIEW

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) Bhave 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.

Publication	The Hindu Business Line
Headline	'Households should have a set of readily available financial products'
Date	25/08/2017
Edition:	Mumbai, Delhi

'Households should have a set of readily available financial products'

OUR BUREAU

Mumbai, August 24

In order to effectively harness the benefits of the formal financial markets, Indian households should have a minimum set of readily available financial products — assets, insurance, liabilities, savings, and easily annuitising land and homes, according to the RBI's 'Report of the Household Finance Committee'.

The products could be made readily available, either automatically "seeded" at the point of Pradhan Mantri Jan-Dhan Yojana (PMJDY) account opening (or added later to PMJDY accounts as a default but "opt-out" option), or automatically pre-qualifying households to be able to access all of them at the point of e-KYC for any one of them.

"While households will have access to the essential minimum 'kit' of assets by default, we should require either or both of explicit opt-ins and mandatory education... of all households before they access more complex products.

"...products not on this list could have 'speed breakers' associated with their take-up and widespread distribution.

In order to move investments towards financial assets, the committee advocated removal of the tax exemption for income from house property

This is not to inhibit households from portfolio optimisation, but rather to permit an opportunity for households to reflect before taking decisions to participate and use more complex products," said the committee, chaired by Tarun Ramadorai of Imperial College, London. In order to move investments towards financial assets, the committee advocated removal of the tax exemption for income from house property.

It also recommended that the tax exemption which provides for deductions on the capital gains made on the sale of residential property not be tied specifically to re-investment in the property sector. This should allow households that wish to sell real estate and move the proceeds into financial assets, greater incentives to do so. Given that legitimate collateralised lenders refuse to lend to small borrowers — leading to a greater reliance on non-institutional sources of debt such as moneylenders — the committee felt the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) provisions be made applicable to smaller loan sizes in an attempt to bring "underground" collateralised lending into the mainstream..

Digital applications

Given that over the coming decade and a half, the elderly cohort is expected to grow 75 per cent and only a small fraction of this cohort has saved in private pension plans, the committee suggested the pensions regulator issue regulations to enable fully digital end-to-end applications for pension products and also authorise Aadhaar-enabled enrolment for the process.

Among sector-specific proposals, the panel said to help easy comparison of loans, banks should quote loans to customers using the RBI repo rate (the interest rate at which banks borrow short-term funds from the central bank) rather than based on their own marginal cost of funds-based lending rates (MCLR). Further, all banks should use the same reset period — one month. The panel is of the view that households should be allowed the choice to shop for the best annuity plan, and recommended segregating annuity investment from insurance investment. It also believes there should be increased transparency in the Indian annuity market in terms of expenses, commissions, annual fees and surrender charges, which could reduce payouts to households. Moreover, a more focussed regulatory mechanism will benefit the market.

The proposals were made in the backdrop of: a large fraction of the wealth of households being in the form of physical assets (particularly, gold and real estate); households tend to borrow later in life and are more likely to reach retirement age with positive debt balances; debt taken from non-institutional sources; and low levels of insurance penetration (life and non-life).

Publication	The Telegraph
Headline	Repo cue for home loan
Date	25/08/2017
Edition:	Mumbai, Calcutta

Repo cue for home loan

OUR BUREAU

Calcutta, Aug. 25: A committee formed to study the different facets of household finance in India has recommended the use of the repo rate and not the MCLR while fixing interest rates to help borrowers compare the home loans of different banks.

The Household Finance Committee was formed after discussions in the Financial Stability and Development Council in April. It was chaired by Tarun Ramadorai, professor of financial economics, Imperial College of London, and had representations from the RBI, Sebi, IRDA and PFRDA.

"Banks should quote loans to customers using the RBI repo rate rather than their own MCLR. To facilitate the 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 plus spread as opposed to the MCLR spread," the report said.

Explaining its recommendation, the report said the repo rate (6 per cent at present) did not vary across banks unlike the marginal cost of funds based lending rates (MCLR) of banks..

KEY PROPOSALS

- Link home loan rates to repo rate instead of MCLR to facilitate comparison
- Fixed reset period for floating interest rate loans
- Delivery of essential financial products through government programmes such as PMJDY
- Provision of separating financial advise from product distribution to avoid conflict of interest

The committee has further suggested that banks should set a fixed reset period for one month for floating loans.

At present, the MCLR applicable on the date of the first disbursement remains in force till the next reset date, irrespective of the changes in the policy rate. For instance, if the reset period is 1 year and the repo rate comes down within 6 months, the loan rate will not change till the reset period is complete.

Senior bankers, however, said the MCLR rates, which take into consideration the efficiency level of a bank, offered lenders the scope to price their loans competitively. Since April last year, banks have moved to the MCLR system, which takes into account several key factors such as cost of borrowing, return on networth and operating costs.

Physical vs financial

The report noted that a large fraction of wealth of Indian households is in physical assets such as gold and real estate. However, despite high holdings in real estate, mortgage penetration is low in early life and subsequently rises as households age. This trend of Indian households borrowing later in life differs from other countries.

"If households in the middle-third of gold holdings distribution re-allocated a quarter of their existing gold holdings to financial assets, on an average they could earn an amount equivalent to 0.8 per cent of their annual income per year," the report said.

For households in the top third of the gold holdings distribution, the annual income from re-allocating a quarter of their holdings to financial assets is 3.4 per cent.

The report also proposed the creation of a regulatory sandbox with easier rules to allow regulators to collect empirical evidence leading to better policy solutions.

Publication	Daily Post
Headline	RBI panel seeks rights-based data privacy in household finance
Date	26/08/2017
Edition:	Delhi

RBI panel seeks rights-based data privacy in household finance

MUMBAI: 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 Friday.

"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. PTI

HIGHLIGHT

- 'The panel was set up following discussions in a sub- committee of Financial Stability and Development Council on April 26 last year'
- Continued lack of clear privacy regulations presents an ever-increasing risk to personal privacy.

Publication	The Pioneer
Headline	RBI panel for right based privacy framework in household finance
Date	26/08/2017
Edition:	Delhi

RBI panel for rights-based privacy framework in household finance

PTI ■ MUMBAI

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"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.

Broadcast

Publication	CNBC Awaaz
Headline	Mr. Tarun Ramadorai - Chairman, Household Finances Committee
Date	19/09/2017 - 7:10 pm

Publication	CNBC TV18
Headline	Is India Moving to Financial Assets? | Tarun Ramadorai Interview
Date	23/09/2017 – 10:30 am