

A Workshop on Market Monitoring and Market Disciplining of Credit Institutions: Perspectives for the Regulator

Financial Systems Design Initiative - Dvara Research

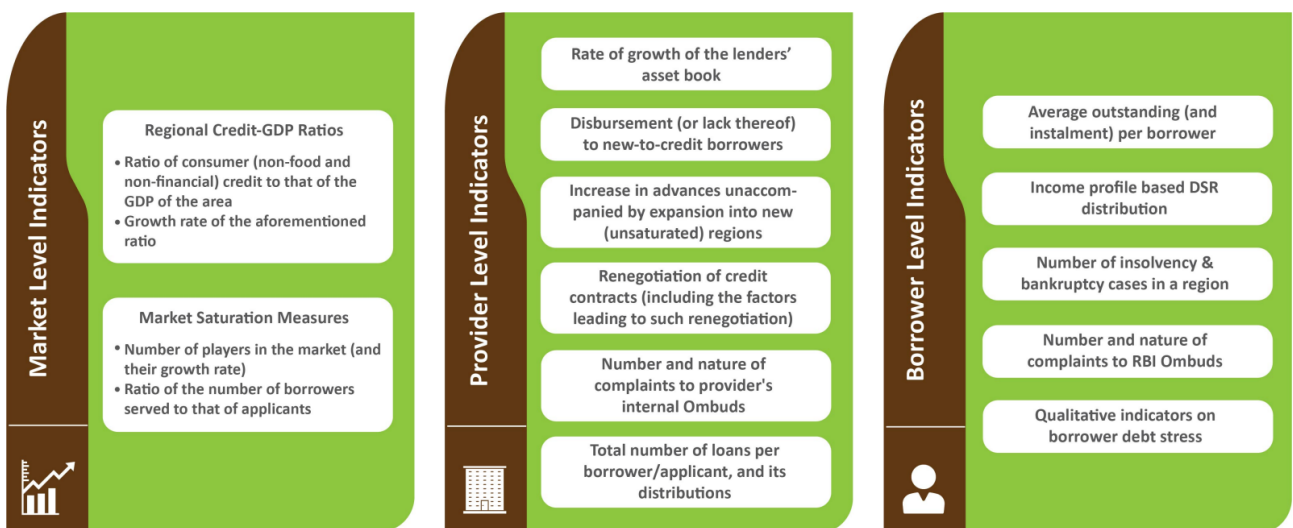
2:30 PM - 2:35 PM	Opening Remarks	Indradeep Ghosh , Executive Director, Dvara Research
Theme - 1		
2:35 PM - 3:00 PM	Stage-setting Presentation A Framework for Detecting Over-Indebtedness and Monitoring Credit Markets - What and Why	Dwijaraj Bhattacharya , Senior Research Associate, Dvara Research
3:00 PM - 4:30 PM	Panel Discussion & Moderated Audience Q & A What is the Role of the Regulator in Monitoring and Responding to Over-Indebtedness?	Panellists N.S. Viswanathan , Ex-Deputy Governor, RBI Jorge Mogrovejo* , Deputy Superintendent, Banking, Insurance and Private Pension fund Authority, Peru Gabriel Davel , CEO, Centre for Credit Market Development & Innovation, South Africa Moderated by Anantha Nageswaran , Part-time Member of the Economic Advisory Council to the Prime Minister, India
4:30 PM - 4:40 PM	Break	
Theme - 2		
4:40 PM - 5:00 PM	Stage-setting Presentation An Assessment of Banks' and NBFCs' public disclosure requirements against BCBS Transparency Framework	Madhu Srinivas , Senior Research Associate, Dvara Research
5:00 PM - 6:30 PM	Panel Discussion & Moderated Audience Q & A Supporting Market Participants in Market Disciplining: Improving Public Disclosures	Panellists Harsh Vardhan , Executive-in-Residence, Center for Financial Studies & Adjunct Faculty, SPJIMR Sankaran Naren , ED & CIO, ICICI Prudential AMC Nandini Vijayaraghavan , Head of Research, Korea Development Bank Nirajan Chipalkatti , Chair & Professor, Accounting Department, Seattle University Moderated by Ananth Narayan , Associate Professor, SPJIMR
6:30 PM - 6:35 PM	Closing Remarks	Deepti George , Deputy ED & Head of Strategy, Dvara Research

*will participate via pre-recorded video due to irreconcilable time zone differences

Background

Credit markets play a crucial role in sustaining the economic growth and development of a country. In the context of individuals, access to credit enables them and their households to improve financial well-being and consequently, leads to better economic welfare outcomes for the entire society. However, the growth of credit must be appropriate considering the underlying macroeconomic, institutional and borrower-level conditions. Excessive amounts of debt can diminish any developmental gains and are likely to adversely impact outcomes for both the financial system and the borrower. Healthy development of the credit market requires regular and adequate monitoring by the regulator. Such a credit market monitoring can help the regulator discharge its dual mandate of ensuring systemic stability and consumer protection. We discuss two specific ways of doing this for India.

One is in which the Reserve Bank of India (RBI) monitors India’s credit markets through regular off-site reporting and on-site inspections of regulated entities. However, the formats for off-site reporting that are currently deployed by the RBI for both banks and NBFCs are inadequate to shed light on the health of the credit markets in a useful, comprehensive and granular manner. Also, these formats are not able to capture the extent of indebtedness in the population on a frequency that is useful enough. Therefore, in a report by Dvara Research, titled “Detecting Over-Indebtedness while Monitoring Credit Markets in India,” we propose a ‘Framework’ through which the RBI can simultaneously monitor Indian credit markets and detect the degree of over-indebtedness in the market so that any emerging risks can be detected and dealt with promptly. For this, the RBI needs to first have visibility over several indicators, at a market-, provider-, and borrower-level.



Monitoring and Detection-Component Indicators of the Framework

When the component indicators of the Framework are captured at an appropriate level of geographic granularity (for instance, at the district level) the data can be used to assess regional heating of credit markets as well. A borrower segment-level granularity would help the regulator identify incipient borrower distress. Therefore, this Framework would help RBI to improve the quality of data required to monitor and assess the build-up of risks in the credit market.

If one were to consider operationalising this Framework, the additional data required by the component indicators of the Framework can be collected by requiring these to be reported in regular supervisory returns from reporting entities.

Two, the enhanced reporting framework (which includes public disclosures as well as non-public regulatory disclosures) can also be used to increase transparency for the financial markets that supply capital to the banking system. As any failure to adequately monitor credit markets can have adverse consequences on the financial system, with an improved set of public disclosures by financial institutions, the role of market participants gains importance. Better information about the risks faced by financial institutions (partially captured by the provider-level indicators given above, but also those made available through financial statements and entity-level public disclosures mandated by RBI, the Securities and Exchange Board of India (SEBI) and those that come through the Institute of Chartered Accountants of India (ICAI) – can enable the market participants to effectively enforce market discipline on financial institutions. The influence exercised by market participants over financial institutions to discipline their actions can complement regulatory and supervisory measures to monitor credit markets.

This workshop aims to gather the views of various stakeholders such as the regulator, practitioners, and researchers, to understand two related themes, one, of the feasibility of operationalising the Framework to improve credit market monitoring and two, of improving the quality of public disclosures pertaining to financial position and risk of financial institutions in India.