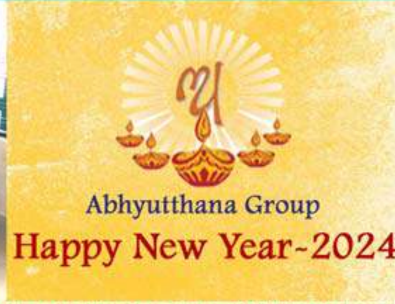
Newsletter



ODISHA FINANCIAL LITERACY FORUM (A WING OF ABHYUTTHANA FINANCIAL LEARNING CENTRE)

ABHYUTTHANA FOUNDATION CHARITABLE TRUST

SEBI AUTHORISED INVESTOR ASSOCIATION

News Letter : Issue No 21 Bhubaneswar Sept-Dec- 2023

ABHYUTTHANA FLASH

MEMORANDUM OF UNDERSTANDING WITH SRI SRI UNIVERSITY, CUTTACK

The Trust is privileged to execute a Memorandum of Understanding (MOU) with Sri Sri University, deemed to be university under University Grants Commission Act, 1956 , headquartered at Sri Sri Vihar, Cuttack on 9 November 2023 in the divine presence of His Holiness Gurudev Sri Sri Ravi Shankar a global humanitarian and thought leader.

The objective of MOU is to conduct financial Literacy programs for students and start ups in the University once in a month; to conduct special programs on Digital Transactions, Cyber Risks .

In the MOU signing ceremony , 15 MOUs were executed in the divine presence and blessings of GurudevSri Sri Ravishankar Ji. From SSU, Ms RajitaKulkarni , President, Prof B R Sharma, Vice Chancellor , Dr Deepa Vinay , Executive Registrar and Dr R N Satpathy , Dean and Professor of Faculty of Emerging Technologies and from AFCT, D Mishra, Chairman, Siladitya Choudhury, Vice Chairman and Debaraja Mishra, the Administrator and Resource Person were present.

Web: www.aflcfinlit.org
Twitter : @abhyutthana1/@dasarathimishr1

RBI's MONETARYPOLICY: 6 December 2023

Significant announcements

Enhancing UPI transaction limit for Specified Categories

The transaction limit for UPI is capped at 1 lakh, except a few categories like Capital Markets (AMC, Broking, Mutual Funds, etc.), Collections (Credit card payments, Loan re-payments, EMI), Insurance etc. where the transaction limit is 2 lakh. In December 2021, the transaction limit for UPI payments for Retail Direct Scheme and for IPO subscriptions was increased to 5 lakh.To encourage the use of UPI for medical and educational services, it isdecided to enhance the limit for payments to hospitals and educational institutions from 1 lakh to 5 lakh per transaction.

Establishment of Cloud Facility for the Financial Sector in India

Banks and financial entities are maintaining an ever-increasing volume of data. Many of them are utilising various public and private cloud facilities for this purpose. The Reserve Bank is working on establishing a cloud facility for the financial sector in India. The proposed facility would enhance the security, integrity and privacy of financial sector data. It is also expected to facilitate scalability and business continuity. The cloud facility will be set up and initially operated by Indian Financial Technology & Allied Services (IFTAS), a wholly-owned subsidiary of RBI. Eventually, the cloud facility will be transferred to a separate entity owned by the financial sector participants. This cloud facility is intended to be rolled out in a calibrated fashion in the medium term.

Setting up of Fintech Repository

To ensure a resilient FinTech sector and promote best practices, regulators and stakeholders need to have relevant and timely information on FinTech entities, including the nature of their activities. FinTechs are using emerging technologies like Distributed Ledger Technology (DLT), Artificial Intelligence / Machine Learning (AI / ML), and so on. For better understanding of the developments in the FinTech ecosystem with an objective to appropriately support the sector, it is proposed to set-up a Repository for capturing essential information about FinTechs, encompassing their activities, products, technology stack, financial information etc. FinTechs would be encouraged to provide relevant information voluntarily to the Repository which will aid in designing appropriate policy approaches. The Repository will be operationalised by the Reserve Bank Innovation Hub in April 2024 or earlier.

(Extract from the Monetary Policy, RBI : dated 6.12.2023)

EQUITIES, MUTUAL FUNDS,& BOND: A TAX PERSPECTIVE

ADHARLAL K B CHAND; IRS (Retd)

Human being since time immemorial has always been bugged about uncertainty of future, and prepare himself for rainy days by way of saving out of his current income every month.Same behavior can also be seen in animal world too. The proportion of income saved may vary from person to person depending on the profession he (or she) is engaged. For salaried (including retirees) persons whose income comes only once a month, and outgoings are regular throughout the month, the expediency for prudent financial management is more than one who is engaged either in a business or profession, and for whom incoming and outgoing of fund is frequent and unlimited throughout the month. Hence lesser need for financial planning.

Be that as it may, one's propensity to save for future can be made more attractive if such 'scarce fund' is so deployed as to provide multiple benefits like: **Safety**, **Liquidity** at the time of need, and '**growth**' in value over time as a bonus. To meet these triple laudable objectives, various 'Financial Instruments' have evolved over time. Three such 'financial instruments' that are widely known and popular are: EQUITIEs, MUTUAL FUND, and BOND- each with specific characteristics and features and suiting manifold human needs. The short introduction to all these is primarily directed keeping in view their respective 'income-tax' implication- that as has been assigned to me. My endeavour will be to make it as simple and intelligible as possible.

EQUITIES: the concept of equities in simple term denotes: "Partial ownership' of a Public Limited Company. The extent of ownership is limited to the amount of 'shares' one holds at a particular time. Benefits are manifold like Regular dividend income that the company management declares to be distributed to all shareholders; issue of 'Bonus' shares (as and when it happens), regular trading in the stock exchange that will yield profit (or loss sometime), and capital appreciation if sold at appropriate time.

MUTUAL FUND: As against investing in shares of a public limited company, one may choose to invest his resource in 'Mutual Fund': a common fund built with investors' money that the management chooses to invest, earn income there from, and share the net profit with the 'Unit Holders' after adjustment of expenses incurred. Such 'dividend' can be

predetermined like annually, or half-yearly, or quarterly or even monthly. Some MFs offer long term investment too. Since most such MF units are regularly traded in the Stock exchange, one can trade and earn profit there from. Finally on redemption one ends up in making a sure gain depending on the difference in price of investment and redemption.

BOND: Bonds are a little different to the extent they are primarily long term investment with steady and pre-determined flow of income as one chooses at the time of investment. They are also traded on the bourse, and one can redeem them in case of any exigency. A few of them issued by the RBI, or specific Public Sector Units are declared to be 'tax-free'. They are mostly 'Debt-oriented'- implying the fund is invested in 'Debt instruments' with normally lower rate, yet steady, of interest.

INCOME-TAX IMPLICATION:

The concept of 'INCOME' under Indian Income Tax Act-1961 is a complex one. For our limited purpose, we may concentrate on 'types of income' that may accrue from these financial instruments, and respective tax implication.

First comes **income from EQUITIES.**As already stated earlier, income from investment in equities can be by way of Dividend, Bonus shares, and Redemption/sale price.Income as Dividend was fully exempt from income tax from 1998 till 31st March 2020. Any dividend earned thereafter became fully taxable as per respective marginal rate of taxation. Second: Bonus Shares: By definition it refers to Shares allotted by the company to existing shareholders either in lieu of or in conjunction with regular dividend in a year: free of cost. Hence 'Cost of acquisition' of such shares becomes Zero. And on sale thereof entire sale proceeds will be treated as Capital Gains and fully taxable. Finally; On sale of the equity shares, the difference between 'sale Consideration', and 'Cost of Acquisition' becomes taxable as Capital gains. Here a couple of new concepts creep in.

SHORT TERM and LONG TERM Capital Gains. Equities of 'Quoted' companies' if held for a period of one year or less, then they are called "Short Term" capital assets. And those of 'Unquoted' companies must be held for two years to be treated as ST Capital asset.Any other type of equity will be treated as "LONG TERM' capital asset. Tax implication is that an ST Capital asset yielding any gain will be taxed at 15%, whereas an LT Capital asset on sale yielding any gain will be called LTCG, and be taxed at higher 20% if "Capital Gains Index" is availed of. Otherwise rate of taxation becomes 10%. But for equities of 'unquoted' companies, holding period is longer at 24 months and more and rate of LTCG is 20%.

Next comes **MUTUAL FUND UNITS**: These are primarily of two types: 'Equity Oriented', and otherwise. Equity oriented MFs are those whose at least 65% of funds are invested in Equities, and rest in Debts and other modes of investments. For them holding period is short at

one year, and rate of tax for ST gain is 15%. For the other type, holding period is two years. As regards dividend, rules for taxation are same as that for equities- that is fully taxable. Finally unlike equities, there is nothing like issue of 'Bonus units' by any MF company.

Finally **BONDS:** These are mostly debt-oriented financial instruments yielding steady and pre-determined return during entire period of holding.And for 'quoted' bonds, capital gain can be earned on their redemption. While annual pre-determined return is fully taxed at appropriate rate, capital gains out of redemption becomes taxable depending on 'period of holding'- that is at least two years for Long Term Capital gains.

ADDENDUM: A few words on similar mode of saving/investment like Deposits in Post Office: Savings, Term Deposits, Senior Citizen Savings Scheme, National Savings Certificates etc. Normally these investment outlets intended to include hitherto 'unbanked' section of society and central government sponsored schemes carry higher rate of return than those offered by commercial banks.

Income tax deduction under **sections: 80 TTA and 80 TTB: Sec 80 TTA** introduced since 01/4/2013 (Assessment year 2013-14) allows deduction not exceeding Rs.10000 for all individuals and HUFs in respect of any interest on SAVINGS DEPOSITs only. Interest on FDs/TDs are outside the purview of this provision. This limit has of late been raised to 40000 per year. The new Sec **80TTB** (introduced since 01/4/2019, i.e Assessment year 2019-20 and onwards) has allowed to SENIOR CITIZENS only a higher deduction not exceeding Rs. 50000 per year on interest on both SAVINGS and TERM DEPOSITS too.

SET-OFF and CARRY-FORWARD of CAPITAL LOSS: Another significant aspect in respect of taxability of Capital Gains is: How to deal with any Short Term or Long Term Capital Loss ? Any SHORT TERM Capital Loss can be set off against any other Short Term or Long Term Capital Gain for that year. But Long Term Capital Loss will be set off only against any other Long Term Capital Gain fot that year.. Finally any 'unadjusted' Capital Loss- is it Short Term or Long Term- will be allowed to be CARRIED FORWARD for set-off against any ST or LT Capital Gains in the next following assessment year. Maximum number of years for which such loss can be carried forward is eight years counting from the year when the loss was first calculated. (Sec:74 of I T Act).

(The author is a former Chief Commissioner of Income Tax; views are personal)

TALKING BANKING TO TEENS

Subash Chandra Misra

When we were in school, we had not seen a cheque and did not know the difference between a cheque and a bank draft. Neither will the next generation of students after 2050 know the difference between a cheque and a bank draft. By that time possibly cheques and drafts will perhaps remain in history books and not in banking. They will also not know what is a Mail Transfer or a telegraphic transfer which once upon a time were bread and butter of banking. Banking is progressing at a rapid pace along with the development of technology. Keeping in view the fact that money, banking and finance are essential to everybody's life, the entire world has realized the need to teach the younger generation basics of banking and finance.

In India only 27% of the population is financially literate whereas the number is 67% in UK and 57% in USA. The financial literacy rate is much lower in sub Saharan Africa where the general literacy rate is about 10%. In a 2019 survey of about 30,000 college students from more than 440 Institutions across the USA, only 53% said they felt comfortable to manage their money. Considering the fact that the development of a nation is linked to the level of financial literacy, the Organization for Economic Co-operation and Development (OECD) started an inter-governmental project in 2003 with the objective of providing ways to improve financial education and literacy standards worldwide. In March 2008, the OECD launched the International Gateway for Financial Education, which aims to serve as a clearinghouse for financial education programmes and established an International Network on Financial Education (INFE), to share experiences, and develop policy. As per United Nations, financial literacy is one of the critical enablers to achieve almost 50% of the sustainable goals of the UNO. On similar lines G 20 nations have also identified the

financial literacy and financial inclusion as the flagship issues under the G 20 presidency of India.

Money and finance affect every area of our life and in most of the developing nations though children get exposed to money and its utility from an early age, they do not get the exposure to relevant areas of financial literacy like how to save and invest savings for bad days. The sooner children understand these concepts, the better, especially if they come from backgrounds with families who don't prioritize financial literacy. Over time, financial illiteracy can lead to problems like poor spending habits, unmanageable debt and falling prey to money lenders. It is difficult to unlearn negative habits than to learn good habits in time. A study in USA revealed that 53% financially literate individuals spend less than their income and have some savings and 65% have set aside a three months emergency fund.

While financial literacy includes literacy for all ages of people, teaching finance to school students at an early age is twice as important as teaching the elderly as the knowledge of the younger generation will have impact over a longer period of time in development of the nation. One report of Forbes mentions that over 60% of Americans and over 41% of Americans earning between $150,000-200,000 which is a reasonably good level of earning, live from paycheck to paycheck for lack of good financial education. Credit cards and students loans are at an all time high in USA. Therefore, 17 states of the USA have decided to teach banking and finance to students in school level and except four states which do not consider it necessary to offer financial education course in school, all the remaining states are at different stages of offering financial education to students. According to OECD/INFE International survey of Adult Financial Literacy 2020, half of the adult population of European Union does not have good understanding of financial concepts. Accordingly, the European Commission and the OECD are working together to develop joint financial competence frameworks for adults and for children. While financial education is compulsory in schools in countries like Denmark, Czech Republic, Croatia, Finland, Germany (3 of 16 states), Poland, Greece and Iceland, it is not compulsory in Austria, Azerbaijan, Cyprus, France, Hungary, Ireland, Italy, Latvia and Netherlands. In UK while financial education is not compulsory at primary school level, the school syllabus includes some learning about money. However, in secondary school level, financial education is a part of

the curriculum. This aims to prepare students to manage their money well and plan for future financial needs. The curriculum covers the functions and uses of money, day-today money management, budgeting and managing risk, income and expenditure, availing credit and managing debt, insurance, savings, pensions, comparing financial products and services. Their strategy includes a national goal of imparting a meaningful financial education to 2 million more children across UK by 2030. In India, the RBI has taken up the task of financial education at school level quite seriously. It has started a specific department to promote financial education. RBI, in coordination with SEBI, IRDAI and PFRDA has drawn the first National strategy for Financial Education (2013-18) and the second one from 2020-25 to strengthen financial literacy efforts in the country. While targeting all age groups from children to senior citizens in the strategy, it includes a 5C approach (Content, Capacity, Community, Communication and Collaboration) to further the cause of financial literacy in the country. RBI and other agencies have also brought out several literature for children to promote financial literacy. State Governments have been requested to include financial education in the school level curriculum. Several non-Government organizations have also been roped in to organize camps in rural and semi-urban areas to spread financial literacy. The National centre for Financial Education set up by RBI, SEBI, IRDAI and PFRDA at Navi Mumbai has a programme for students from Class Vi to X to impart financial education. The program is based on two pillars; education and awareness and aims to establish a sustainable financial literacy campaign that will empower an entire generation. It also runs a programme for teachers, one for graduates and one for adults to impart financial education.

While teaching banking to students, the basic things that needs to be covered are (a) how to open a bank account (b) paying bills on time (c) creating and managing a household budget (d) how credit works and how to improve credit score (e) using debt responsibly (f) saving for retirement (g) comparing financial products and selecting the best option to suit one's needs. Hopefully, our efforts will bear fruit and the next generation will be able to manage their finances better.

The author is a Retired Chief General Manager of Reserve Bank of India, Mumbai.

Workshop on Financial Literacy in Loyola Odia School, Bhubaneswar on 28 September 2023

The Trust organised a workshop on Financial Literacy in Loyola Odia School, (Loyola School Campus) , Bhubaneswar on 28 September 2023. 122 Students of Class VIII to X and 6 teachers/ other staff participated. At the beginning, Fr Ajit Kumar Bahala, Head Master of the School welcomed the guests and participants.

D Mishra, Managing Trustee and S Choudhury, former GM RBI explained the significance of savings, investments from an early stage of life and financial planning for the future. The students were sensitised to basics of banking and digital transactions. Rudimentary concepts viz. compounding of interest, inflation were discussed.

As most of the students did not have bank accounts, the speakers advised them to open Saving Bank account soon. The students hail from a nearby slum area with marginal financial condition. For them savings in a small way would be very useful.

Investor Awareness Programme under the aegis of SEBI-IPEF in the PG Department of Commerce, Utkal University, Bhubaneswar : 7 October 2023

The Trust, successfully conducted an Investor Awareness Programme under the aegis of SEBI in the PG Department of Commerce, Utkal University, Bhubaneswar on 7 October 2023. (3.00 PM 4.30 PM) for students and staff.105 students from PG Department of Commerce and MBA Department participated. The topic of the Seminar was **Securities Market in Digital Way.**

B N Sahu, Executive Director, SEBI graced the occasion as the Chief Guest and inaugurated the Seminar. andArunSahoo , Mint Box LLP and BishnuCh Dash from RBI were speakers.

At the outset Prof (Dr) R K Swain welcomed the Guests and the participants and Shri D Mishra gave a brief introduction of the speakers.

Mr Sahu, ED , SEBI made a presentation on " Overview of Securities Market and Mutual Funds in India. He explained the structure of Indian Securities Market, structure of Mutual Funds, SIP and ETFs.

Mr Sahoo, Managing Partner, MintBox Advisory LLP made a presentation on " Investment Vehicle". He explained Asset Allocation among Debt, Equity, Gold and REIT and explained CAGR and inflation.

Mr Dash, from RBI Bhubaneswar discussed about the challenges of cyber risks and how the customers to tackle it.

The presentations of the speakers generated good amount of response as reflected in the Q A session.Saswat Panda, Student Representative proposed vote of thanks.

INVESTOR AWARENESS PROGRAMME
Under the Aegis of SEBI-IPEF

Vill : CHANDOL Dt Kendrapara

The Investor Association organised an Investor Awareness Programme under the aegis of SEBI-IPEF in the village Chandol Dt Kendraparaon 13 October 2023 (11.30 AM -1.00 PM) for the villagers, SHG beneficiaries.

The topic of discussion was Securities Market- investment opportunities for common mass, Mutual Funds, SIP. There was discussion of basics of banking, practices in digital banking.

The speakers of the workshop were :SudhansuSekhar Seth, Manager SEBI Eastern Regional Office . P K Swain , former Senior Manager, State Bank of India.

Seth gave a brief overview of the securities market, role of SEBI as regulator, Investment opportunities for the SHG beneficiaries,

Swain, the Resource Person of the IA spoke about saving products in banks. Nominationfacilities. He then explained digital transactions and customer liability for unauthorised banking transactions.

Manager, Odisha Gramya Bank was a special invitee spoke about the loan sanction and recovery process.In all 52 persons participated.

Investor Awareness and Education Program in Institute of Professional Studies and Research (IPSAR), Cuttack

The Trust organised an Investor Awareness and Education Program in Institute of Professional Studies and Research (IPSAR) - a Management Institute , Cuttack on 10 October 2023 for the student of BBA and BCA.

The speakers of the workshop were: Shri Vikash SS, General Manager, Securities & Exchange Board of India and Shri Dhaneswar Sahoo, former CGM, Punjab National bank .

Shri Raj Kishore Dash of IPSAR welcomed the participants and guests. Shri D Mishra, Managing Trustee set the tone of the workshop by mentioning the objective of Investor Education; then he introduced the guests.

Shri Vikash gave an overview of the securities market. He explained investment opportunities for the students in the securities market. He explained Mutual funds, SIP and ETF-their structure and market practice and role of SEBI as regulator.

Shri Dhaneswar Sahoo, the Resource Person of the Trust spoke about saving products offered by the banks. He then explained digital transactions and customer liability for unauthorised banking transactions.

The program was attended by 115 students and other staff of the institute.

BUILDING A 'CULTURE OF ETHICS' WITHIN ORGANIZATIONS

Manas Mohanty
Former Managing Director, Bharatiya Reserve Bank Note MudranPvtb Ltd

The author had the opportunity to address the officers of Bank Note Paper Mill on the importance of building a 'Culture of Ethics' within organizations. He emphasized three key pillars: Awareness, Boldness, and Culture.

Awareness (A): It starts with daily self-reflection on our behavior and conduct. Spiritual awareness helps us understand our actions, fostering qualities like patience, perseverance, and purity of purpose. Looking at one's life in the context of extended space and time can keep one rooted.

Boldness (B): Being courageous enough to say 'No' when faced with unethical actions is crucial. ' To remind ourselves of the difficult choices life offers is a test of our character. Integrity is not meant for weaklings.' Lack of self-respect and self-confidence can lead one on the wrong path. 'A Yes man is a dangerous man', as Field Marshall Sam Maneckshaw used to say.

Culture (C): Organizational culture is vital. Stress-free cultures built on trust and collaboration, guided by values like Connectedness, Courage, Cosmology, Care, Compassion, and Commitment, can combat corruption. Organisation culture is the most important element. (Ref: Sri Sri Ravi Shankar , 'Management Mantra').
Indira Nooyi wisely said, "To improve the organization, you have to improve yourself."

Remember, building mental prototypes and encouraging employees to take ownership of moral development can strengthen ethical foundations within the organization. This can be achieved through continuous learning.

Ultimately, it's about creating a culture where integrity thrives, enabling us to make the right choices, even in difficult situations.

The session was highly interactive and case studies were used to discuss the nuances of corrupt practices.

During the 13th Amendment of US Constitution to abolish slavery, the role of Abraham Lincoln is a case in question . Lincoln had argued, "I am the President of United States, clothed in immense power and I expect you to procure those votes." And votes he procured.

There was a very lively discussion with the participants whether such vote for cash can be counted as an act of corruption. The house was divided through majority hailed Lincoln.

COP 28

Suresh Chandra Sarangi

It would be a repetition to say that **Climate change is the greatest monster that affects mankind and the disastrous consequences are beyond anybody's comprehension. Naomi Campbell narrates it all** in her book "It Changes everything". To offset the onward journey of the calamitous effect of climate change the world leaders recently met at Dubai, United Arab Emirates, to discuss threadbare the conclusive, coordinated and collective efforts to be initiated to confront climate change in its entirety. This is actually a conference of parties, the final decision making body responsible for monitoring and reviewing of the implementation of the United Nations Framework Convention on climate change. More than 197 nations of the world come together to debate, decide and formulate the policy to take out our planet from the vagaries of climate change. It is the supreme governing body that has a final say on how to tackle the pace of climate change.

The Paris agreement was a landmark convention that decided conclusively regarding steps to initiate to deter the onward march of climate change. But the mercurial president of USA ,Donald Trump subsequently threw the baby of Paris agreement with the bath water. In 2021, climate convention popularly known as COP 26, held in Glasgow, Scotland, United Kingdom, reviewed the progress made to arrest the speed of climate change with a goal for keeping the global temperature at maximum 2 degree Celsius above the the pre-industrial level.

In COP 26 four major decisions were arrived at, like, accelerating the phasing out of coal, curtailing deforestation, speeding up of change to electric vehicles and encouraging investment in renewables. The major outcome of COP 27 was to provide loss and damage funding, to vulnerable countries, five year work program to climate technology solutions, urgently scaling up mitigation expectation and implementation, with governments being requested to revisit and strengthen 2030 targets. The COP 28 , which was held in Dubai, in the United Arab Emirates was quite historic in the sense that it re-wrote the policies to save the planet. The four pillars of COP 28, was fast-tracking a just, orderly, and equitable energy transition; fixing climate finance, focusing on people, lives and livelihoods, and underpinning everything. The task is gigantic and let us try to understand its consequences and make critical assessment of the effectiveness of the outcome.

The COP 28 event, with a whooping 97000 participants/ delegates appears to be more a wishful thinking to many, is actually a defining moment in human history . A review of the progress gives sub optimal view, as it is revealed that the sum and substances of so many conferences are locked as platitudes, without any material gain, since emissions from fossil fuel are still on increase, that would speed up climate change. Small island nations

require a loss damage fund and others wanted intensification of efforts. This, no doubt, underscore COP's crucial role in addressing the cataclysmic climate change. It is, therefore,realized that decarbonization has not moved in a positive direction . One of the prime and substantive goal of COP 28 should have been maintenance of remission reduction and setting carbon offset standards. It is a fact that COP convention is not all sound and fury, rather a stable framework has been built that review the progress, with building of awareness amongst nations,leading to gradual decarbonization of nations.

The transition to electric vehicles has made a big stride.The International Energy Agency, remarks that the world's fossil fuel consumption may go down by the year 2030. One of the most important outcome of the summit was the loss and damage fund, to be backed by richer nations, which shall remain crucial in mitigating the vulnerable countries suffering, as well as the existential menace. This is treated as a step towards addressing climate -induced human rights issues. This fund would support the vulnerable countries who suffer the wrath of climate change, despite they being low carbon emission countries, having less carbon footprints. It is necessary to mention here that the wealthier nations whose uncontrolled industrialization have made the planet to bear the brunt of industrial activities, leading to uncontrolled global warming, rising sea level, changing weather patterns, droughts affecting lives and livelihood, wiping identities of races, and the cultural and social traditions of many a people in the world. This will ensure speeding up rescue and rehabilitation. This is, no doubt, a case for human rights, justice and equity. For the first time, climate change and human rights are closely interlinked.

A peep into the entire issue of climate related risk is man's shortsightedness in understanding the harmony between industrial growth and environmental concerns. Development, as a process must be based on sustainability of the planet and should be complementary to each other. It is gratifying that the world leaders, of late, have encroached the meaning of not encroaching upon the rights of the future generations as the Earth belongs to past, present and future. So,mankind has at last understood the meaning of how to choose our future, andby not compromising with the resources and our living planet's survival.

One of the concern during the course of global stocktake was that climate action has remained in the buffer zone without making much stride to meet the requirements of the Paris agreement. There was a fervent appeal for minimizing fossilconsumption, by finding away suitable green energy alternatives, failing which, it may be too late to save the planet and its people who may very soon face an existential crisis. The scalel magnitude of the challenge and the threat as well as risk it poses would be of threatening consequences. One thing comes out of this decision that the world needs a transition to alternative models of energy by the year, 2050, to make net zero emission a reality.

One of the very gainful and positive outcome of the conference was that countries of the world must accelerate their investment in zero emissions and climate resilient economic development. The developing countries must focus more on this transition and therefore, there arises a need to mobilize trillions of dollars to effectually cut the green house gas emission. One of the most important aspect dealt with was adaptation with resilience. It appears a glimmer of hope in climate transition is taking a firm shape. It seems the Earth is down but not out and the ultimate clarion call to save our green planet has received a strong reckoning and momentous appeal.

In an age of consumerism, it remains pertinent to mention that wasteful expenditure and unplanned development has to be curtailed in a firm footing to find out the balance between man and nature. The global warming has created some irreparable damage, but all is not lost and keen interest to a safe transition may be a last ray of hope. The environmental issues must go side by side as our fresh water sources are contaminated and marine lives are upset with chemicals effluent and plastics. Now, it is right time for transition and adaptation for mitigation of climate change. Recycling of resources would be a vital game changer. The west takes a tirade at India and China because of their new found economic status and label them as villain of the peace, without understanding that they have the primary responsibility for almost 150 years, in destroying the climate in the name of rapid industrialization.

The timing of COP 28 has been in tune with release of it's first official report card. It shows that bold decisions, stricter implementation and quicker transition may pave the way to hold global warming 1.5 degree Celsius above the preindustrial level. Innovation in technology is the key and transition to use of EV vehicles, with sustainable development and containment of wasteful expenditure may help for a strong climate movement limited action, climate funding and helping the disaster affected victim nation may pave the way to keep this hot ,flat and crowded planet to ensure a new lease of life for the planet. Finally COP 28 is a potential game changer, and not changing alone the rule of the game would be enough, rather, delivery with execution of the rules of the game.

(The author is a former General Manager, Bank of India. The views are personal.)

BARENDRA KUMAR BHOI

Don't revert to old pension system

UNSUSTAINABLE. Fiscally, it would be disastrous for States. The huge pension outgo will choke productive capex

Leaders of several Opposition-ruled States — Rajasthan, Chhattisgarh, Jharkhand, Punjab and Himachal Pradesh — have announced that they would revert to the old pension system (OPS). As a part of fiscal prudence, the OPS was replaced by the National Pension System (NPS) for all Central Government employees in 2004. All State governments, except West Bengal and Tamil Nadu, implemented the NPS for State government employees during 2003-13 (see Table).

The pension reform was inevitable for several reasons. First, the OPS is a defined benefit (DB) scheme where a retired employee is entitled to receive a guaranteed pension, roughly equal to half of his last salary, which is paid from the current revenues of the government(s). As the OPS is unfunded (pay-as-you-go), pension expenditure is typically a burden on the exchequer.

Second, the pension burden would increase exponentially as the average global life expectancy, according to the United Nations, is projected to rise from 72.9 years in 2022 to 77.2 years by 2050. Moreover, the share of the global population aged 65 years or above is expected to increase from 10 per cent to 16 per cent during the same period. As the OPS is unsustainable, several countries have shifted from defined benefit (unfunded) pension schemes to defined contribution (funded) pension schemes.

Third, as State governments' committed expenditure under OPS would surge, discretionary expenditures, particularly capital expenditure, would shrink given their commitment to the FRBM Act.

Fourth, the intergeneration equity would be impaired as current taxpayers would continue to pay the OPS retirees on a perpetual basis.

Fifth, the social security argument in favour of OPS is weak as retired government employees constitute hardly 3.5 per cent of the workforce and they are relatively better off compared to the vulnerable section of the workforce engaged in the unorganised sector for whom social security is paramount.

Sixth, if the pension is a differed wage, it should ideally form a corpus outside the Budget under defined contribution by the employer and employees. This would grow during the tenure of the service and pension can be given to the retirees from the corpus fund without undue burden on the Budget. The NPS is essentially based on this principle.

Initially, the contribution of the employer was 10 per cent of the basic salary and DA with matching contributions by the employees. Since April 1, 2019, the Central Government's contribution to the pension fund under NPS was enhanced to 14 per cent without a corresponding increase in employees' contribution. Although State governments have accepted the enhanced contribution, implementation is pending in most States.

Adoption of NPS by State governments

Year of adoption	Name of the State (Date of Adoption)
2003	Himachal Pradesh (May 15, 2003)
2004	Punjab (Jan 1, 2004); Rajasthan (Jan 1, 2004); Andhra Pradesh (Sept 1, 2004); Chhattisgarh (Nov 1, 2004); Jharkhand (Dec 1, 2004)
2005	Madhya Pradesh (Jan 1, 2005); Manipur (Jan 1, 2005); Odisha (Feb 1, 2005); Assam (Feb 1, 2005); Gujarat (April 1, 2005); Uttar Pradesh (April 1, 2005); Goa (Aug 5, 2005); Bihar (Sept 1, 2005); Uttarakhand (Oct 1, 2005); Maharashtra (Nov 1, 2005)
2006	Haryana (Jan 1, 2006); Karnataka (April 1, 2006); Sikkim (April 1, 2006)
2008	Arunachal Pradesh (Jan 1, 2008)
2010	Jammu & Kashmir (Jan 1, 2010); Nagaland (Jan 1, 2010); Meghalaya (April 1, 2010); Mizoram (Sept 1, 2010)
2013	Kerala (April 1, 2013)

Source: National Pension System Trust

FISCAL PRUDENCE

The NPS is essentially a defined contribution pension scheme where the burden of pension is prudently shared between the employer and employees during the period of service without any guaranteed benefit after retirement. Nevertheless, retirees are entitled to pension benefits based on the growth of the pension fund. They can also withdraw a lumpsum at the time of retirement, similar to the commutation benefit under the OPS. The balance amount is converted into an annuity for pension purposes by a third party.

There is a lot of uncertainties about the size of retirement benefit under NPS as State government guarantee is no longer available. The retirement benefit may be elastic based on economic cycles. Moreover, the investment risk of the pension fund shall be borne by the employees. These concerns need to be addressed through market-driven solutions.

Globally, pension funds are offering multiple products based on the requirements of retirees. In India too, several pension products are available with a separate regulator for pension funds. There can be several hybrid-type pension schemes, which can combine both defined contribution and defined benefit — consisting of a minimum guaranteed pension and a variable component based on return. Similarly, pension products based on the pooling of retirees under collective defined contribution (CDC) can resolve the longevity risk.

Intergeneration equity would be impaired as current taxpayers would continue to pay the old pension system retirees on a perpetual basis.

As of now, both OPS and NPS are operating in India. Most of the NPS members are still in service. During the next 10-15 years, while retirees under OPS would gradually dwindle the retirees under NPS would increase. While the pension liability of the government(s) under OPS would diminish their contribution under NPS would increase.

According to a recent study by RBI, States' contribution to NPS may rise from the current level of about 0.1 per cent of GDP to 0.2 per cent by 2039. On the contrary, if all States revert to the OPS, they can save the employer's contribution for a short while, but the pension liability under OPS would surpass the savings they make by 2040. Thereafter, States' pension liability would grow phenomenally and 'the fiscal cost of OPS could be as high as 4.5 times that of NPS with additional burden reaching 0.9 per cent of GDP annually by 2060'.

In absolute terms, States' pension outgo would increase from ₹4 trillion in 2022-23 to more than ₹18 trillion beyond 2050, which is unsustainable. Therefore, States reverting to OPS is certainly a step backwards — a recipe for fiscal disaster in the medium term.

The writer is currently RBI Chair Professor at Utkal University and former Principal Adviser and Head of the Monetary Policy Department, RBI. Views are personal

SIGNIFICANT ANNOUNCEMENTS IN THE RBI'S MONETARYPOLICY: 6 DECEMBER 2023

i) Enhancing UPI transaction limit for Specified Categories

Unified Payments Interface or UPI continues to grow in popularity. The transaction limit for UPI is capped at 1 lakh, except a few categories like Capital Markets (AMC, Broking, Mutual Funds, etc.), Collections (Credit card payments, Loan re-payments, EMI), Insurance etc. where the transaction limit is 2 lakh. In December 2021, the transaction limit for UPI payments for Retail Direct Scheme and for IPO subscriptions was increased to 5 lakh.To encourage the use of UPI for medical and educational services, it is decided to enhance the limit for payments to hospitals and educational institutions from 1 lakh to 5 lakh per transaction.

ii) e-Mandates for recurring online transactions – Enhancement of limit for specified categories

The framework for processing of e-mandates for recurring transactions was introduced in August 2019 to balance the safety and security of digital transactions with customer convenience. The limits for execution of e-mandates without Additional Factor of Authentication (AFA) currently stands at 15,000/- (last updated in June 2022).

The number of e-mandates registered currently stands at 8.5 crore, processing nearly 2800 crores of transactions per month. The system has stabilised, but in categories such as subscription to mutual funds, payment of insurance premium and credit card bill payments, where the transaction sizes are more than 15,000, a need to enhance the limit has been expressed as adoption has been lagging.

It was , therefore, proposed to exempt the requirement of AFA for transactions up to 1 lakh for the following categories, viz., subscription to mutual funds, payment of insurance premium and payments of credit card bills. The other existing requirements such as pre- and post-transaction notifications, opt-out facility for user, etc. shall continue to apply to these transactions. The revised circular will be issued shortly.

iii) Establishment of Cloud Facility for the Financial Sector in India

Banks and financial entities are maintaining an ever-increasing volume of data. Many of them are utilising various public and private cloud facilities for this purpose. The Reserve Bank is working on establishing a cloud facility for the financial sector in India. The proposed facility would enhance the security, integrity and privacy of financial sector data. It is also expected to facilitate scalability and business continuity. The cloud facility will be set up and initially operated by Indian Financial Technology & Allied Services (IFTAS), a wholly-owned subsidiary of RBI. Eventually, the cloud facility will be transferred to a separate entity

owned by the financial sector participants. This cloud facility is intended to be rolled out in a calibrated fashion in the medium term.

iv) Setting up of Fintech Repository

To ensure a resilient FinTech sector and promote best practices, regulators and stakeholders need to have relevant and timely information on FinTech entities, including the nature of their activities. FinTechs are using emerging technologies like Distributed Ledger Technology (DLT), Artificial Intelligence / Machine Learning (AI / ML), and so on. For better understanding of the developments in the FinTech ecosystem with an objective to appropriately support the sector, it is proposed to set-up a Repository for capturing essential information about FinTechs, encompassing their activities, products, technology stack, financial information etc. FinTechs would be encouraged to provide relevant information voluntarily to the Repository which will aid in designing appropriate policy approaches. The Repository will be operationalised by the Reserve Bank Innovation Hub in April 2024 or earlier.

(Extract from the Monetary Policy, RBI : dated 6.12.2023)

TRANSFORMATION

Three Decades of India's Financial and Banking Sector Reforms(1991-2021)
Updated version released on 24 October 2023
Comments/ Reviews

Mr Mishra's book is a good addition to the literature on post-reform Indian financial system whose robustment and resilience remains critical to strong, sustained and inclusive economic growth of the country.

Harun R Khan, Former Deputy Governor, Reserve Bank of India

The book has lucidly covered various policy measures taken and would add value to the work being done by researchers on the topic and useful to students of finance.

M Rajeshwar Rao, Deputy Governor, Reserve Bank of India

Transformation superbly captures at one place the changes in the India's financial sector from 1990s. The crucial and facilitating role played by the RBI is well documented.

G Padmanabhan, former Executive Director, Reserve Bank of India

and Chairman of Bank of India

While Transformation provides valuable insights into the achievements of the reforms, it highlights the positive outcomes, such as improved financial stability and increased financial inclusion, which has contributed to the growth if India's banking sector.

BlueInk Review, USA

The 27 chapters are short, and evenly spaced, reader friendly. A highly recommended book for anyone with a casual or deep interest in Indian banking and finance in recent years.

G Sreekumar, Freelance writer, Columnist and former central banker

Transformation This book indeed gloriously maps India's financial Sector reforms under most critical situation like Global Financial crisis and COVID Pandemic. The insights are powerful and people with deep interest into India's financial sector reform should be proud owner of this book. More pertinently, this book should find a place into the shelves of students appearing in civil services, banking and other examination.

Suresh Chandra Sarangi, Former General Manager, Bank of India

BOOK RELEASE

The book -Transformation (revised and updated) was released by Shri Harun R Khan former Deputy Governor, RBI in a special function at Toshali Sands (on 17 December 2023)

Mr Mishra's book is a good addition to the literature on post-reform Indian financial system whose robustness and resilience remains critical to strong, sustained and inclusive economic growth of the country.

Harun R Khan
Former Deputy Governor, Reserve Bank of India

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Deputy Governor, Reserve Bank of India

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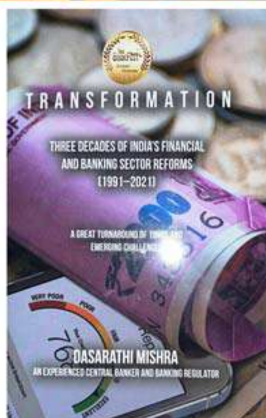
Dasarathi Mishra, a former senior officer of Reserve Bank of India has three decades of service in the central bank; is endowed with rich experience and expertise in regulation of banking, credit information companies, international banking, foreign exchange business and non-banking financial companies.

Mr Mishra has exposure to several international training programmes/ seminars: in Bank for International Settlements, Federal Reserve Bank of San Francisco and Wolfsburg Seminar on KYC; attended IMF Spring Meeting and Civil Society Organisation Meeting of the World Bank, representing the NGO he has promoted for spreading financial literacy and investor awareness.



Readers' Corner

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