

Headline: NSE's Dr. R H Patil Memorial Lecture by Nobel Laureate Prof Robert Engle

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Business Standard

Undercapitalisation risk for PSBs: Robert Engle

SACHIN P MAMPATTA

Mumbai, 26 November

Noble Prize-winning economist Robert Engle said a number of Indian financial institutions may require significant additional capital in the event of a financial shock. Most of these are state-owned banks.

He was speaking at the National Stock Exchange's Dr R H Patil Memorial Lecture 2019 in Mumbai on Tuesday. Engle won the Prize in 2003 for his work on a concept called autoregressive conditional heteroskedasticity (ARCH). His work helps researchers and analysts for asset pricing and as a tool to measure portfolio risk. He won the prize with Clive W. J. Granger of the University of California at San Diego.

The issue of undercapitalisation could be dealt with through the new bankruptcy code, which could help recovery of capital and have the same effect as recapitalising them, he said. The sale of bad loans could also be an effective way to raise capital, according to him.

"That's another strategy," he said, though the market for such distressed loans would also have to be developed, he indicated.



The issue of undercapitalisation could be dealt with through the new bankruptcy code, which could help recovery of capital and have the same effect as recapitalising them

A lot of the volatility in markets may be because of geopolitical risk, suggested Engle, speaking about another area of his research. Many indicators suggest this risk is high. This is also the view going by commentary in the media. But the markets don't seem to reflect it, he

pointed out. This is in contrast to the measure of financial risk, as measured by the undercapitalisation of financial institutions, which is extremely high across many key markets and in Asia, in particular.

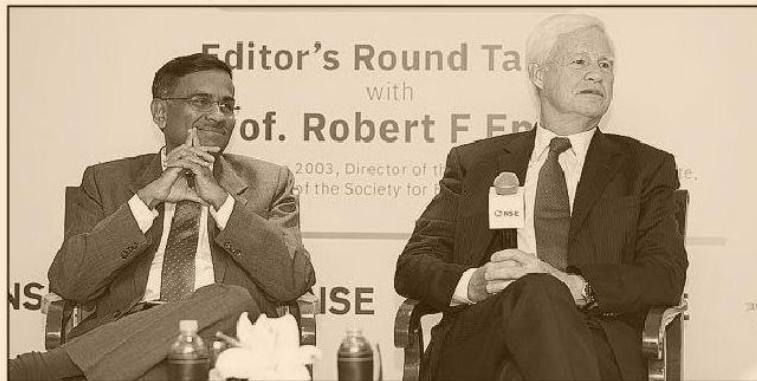
His work has previously highlighted a tendency to focus on short-term risks in financial risk management.

"Financial risk management has generally focused on short-term risks rather than long-term risks, and arguably this was an important component of the recent financial crisis," he said "Long-Term Skewness and Systemic Risk", published in the Journal of Financial Econometrics in 2011. The paper suggested that "short- and long-run risk can be separately measured". Failure to pay attention to long-term risk may have explained the financial crisis as investors and institutions increased leverage and allocated capital to illiquid assets such as subprime Collateralized Debt Obligation (CDOs) since both strategies involved low short-term risk.

Engle works as director of the NYU Stern Volatility Institute. He is also the co-founding president of the non-profit Society for Financial Econometrics (SoFiE).

NSE's Dr. R H Patil Memorial Lecture by Nobel Laureate Prof Robert Engle

The National Stock Exchange (NSE), as part of its Silver Jubilee celebrations, invited Prof Robert Engle, a Nobel Laureate in Economics, as the Keynote Speaker for this year's Dr. R H Patil Memorial Lecture. By aggregating SRISK (systematic risk) across a country's economy, Robert Engle, a Nobel Prize winner at NYU, believes one can estimate the relationship between projected capital shortfalls and the likelihood of a financial crisis. His work shines a spotlight on the interconnected nature of the economy,



reminding investors that potential danger is rarely isolated in a single country. Indeed, the risk of a domestic financial crisis depends, in large part, on the financial position of the rest of the world. "Our approach is motivated by the observation that excessive credit growth, a main cause of financial crises, is reflected in the undercapitalization of the financial sector," his study said.



Dr. R H Patil
Memorial Lecture
2019

Editor's Round Table
with
Prof. Robert F Engle

2003, Director of the
of the Society for Financial Economics

NSI NYU STERN

Sharing ideas

Vikram Limaye (left), managing director & CEO of National Stock Exchange, and Robert Engle, Nobel Prize-winning economist and director of the NYU Stern Volatility Institute, at Dr RH Patil Memorial Lecture in Mumbai on Tuesday

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approach is motivated by the observation that excessive credit growth, a main cause of financial crises, is reflected in the undercapitalization of the financial sector," his study said. Speaking on the occasion, Mr. Vikram Limaye, MD & CEO, NSE, said "We are very fortunate and honored to have with us Prof Robert Engle as our key note speaker for this year's Dr. R H Patil Memorial lecture given the issues facing the Indian financial services landscape, and the importance of risk management as a focus area for banking and capital markets players'.

ETBFSI

China slowdown to continue; Digital currency to stay here; India is at no risk: Nobel Laureate Robert Engle

Prof. Robert Engle, Nobel Laureate in Economics, believes that digital currency is here to stay. He believes that slowdown needs to be dealt with. He agrees to legacy loans being a problem in India but doesn't see any systemic risk attached to them.

Amol Dethe | 28 November 2019



While financial regulators from around the world are evaluating the possibilities of digital currencies, Prof. Robert Engle, said that the digital currency is going to stay here. He believes that central banks should manage digital currency.

“Cash is not going to be the ultimate medium of exchange. We are not going to carry gold bricks, which we used to do. I am not a fan of blockchain, but I think Digital currencies need to be managed by central banks,” said Engle.

He added that he is not a fan of the getting the currency out of the central banks but digital currency is going to stay here.

There are more than 2000 digital currencies traded in the world. Russia has already declared that bitcoin is not illegal, and Malaysia and many countries have set up crypto exchanges, too. But there are countries, including India, who are not in favour of digital currency and financial regulators are not very clear about taking a firm decision on this.

China Slowdown

Chinese economy is slowing down, the impact of a trade war, and the fall in exports is strongly visible.

Prof. Engle stated, “The Chinese capital markets suggests that the financial sector is very undercapitalised in China, because these are state owned enterprises with obligations to other state owned enterprises, and because they are so big, the problem relative to the size of the capital markets in China is not actually more extreme than it was in the past because the markets have grown as well.”

Engle also said that the system in China is not as freely flexible as that of a western market.

“This is going to be to an immediate collapse like we saw in the financial crisis and is more likely it leads to a slowing down of the Chinese Economy, which is a problem that I think needs to be dealt with,” he added.

Engle sees an issue with the huge loans disbursed by banks.

The banking system in China has a lot of legacy loans to state and local, to state-owned enterprises and municipal and local governments that are not performing. They are being reissued and so forth over time which is actually one of the explanations why the growth rate in China is slowing,”

No systematic risk in India

Legacy loans are a crisis in India, too. Most of the public sector banks are struggling to recover what they lent and NBFCs have also added oil to the fuel. But Engle doesn't see this as a financial risk.

“In India, policies are in place which is designed to reduce these legacy loans by allowing more streamlined bankruptcies and for non-performing loans in businesses,” he said.

From Engle's point of view, this is a policy issue that needs to be dealt with and to some extent it is being dealt with.

Engle noted that looking at the total systemic risk measures for India, it is kind of in the middle of other countries. “It is not particularly high; there is actually one bank which seems to dominate this measure in terms of the capital that will be needed to withstand another financial crisis. On the basis of the number, it is not clear that India has a near term financial crisis.”

Prof Robert Engle won the Nobel in Economics in 2003 and he runs the Volatility and Risk Institute at New York University and as a part of that they publish on the internet a website called V-Lab, which stands for Volatility Laboratory. V-Lab is available freely for anybody around the world.

<https://bfsi.economictimes.indiatimes.com/news/policy/china-slowdown-to-continue-digital-currency-to-stay-here-india-is-at-no-risk-nobel-laureate-robert-engle/72271161>

Bloomberg Quint

Red Tape, Judicial Delays Hurting NPA Resolution, Says Nobel Winner Robert Engle

PTI|26 November 2019

American economist and Noble laureate Robert Engle on Tuesday said red tape and endless judicial processes make it difficult for banks to deal with the bad loans problem.

However, he lauded the Reserve Bank of India for pushing bankruptcy reforms to increase the speed and fairness of the resolution processes and also forced lenders to send defaulting borrowers to bankruptcy courts.

“But excessive red tape and interminable judicial schedules make it difficult for banks to deal with non-performing loans,” Engle said delivering the RH Patil memorial lecture organised by the NSE.

Referring to the Essar Steel case, he said the courts blocked restructuring of the company, striking a body blow against the bankruptcy reforms.

However, in recent Supreme Court judgement rejecting the NCLAT ruling is a welcome change.

“Much remains to be done to reduce the backlog of non-performing loans,” he said.

The Economics Noble was awarded to him along with Clive Granger in 2003 for their research on the concept of autoregressive conditional heteroskedasticity and for inventing methods to analyse economic time series with time-varying volatility.

A trained statistician, he currently is the director of the NYU Stern Volatility Institute and is the co-founding president of the Society for Financial Econometrics, a global non-profit housed at the New York University.

He said modern bankruptcy laws are like a “hospital for distressed companies. They get relief from debt and a chance to reorganise. If they are successful, they can emerge as new health competition.”

He said rather than rollover existing loans, it is often better to make new more profitable loans and let the old loans default. “There is a recovery value which may exceed the costs of extending new credit.”

From a social point of view, it is sensible to close unproductive businesses and support new better firms with lots of growth potential and employment opportunities, he said.

Engle further said in economies such as India’s and China’s, where many financial institutions are state-owned, pressure for an undercapitalised institution to deleverage, is reduced as it can expect financial help in a downturn.

However, an under-capitalised state-owned financial firm will be reluctant to make new loans which would expand the asset base and increase the possibility of needing more capital and appearing incompetent in managing money and risk, he said.

NSE managing director Vikram Limaye said to achieve sustainable high growth, it is critical to expedite market development and capital formation and noted that though the equity market is relatively well developed, penetration is still low relative to emerging market averages.

<https://www.google.co.in/amp/s/www.bloombergquint.com/amp/economy-finance/red-tape-judicial-delays-hurting-npa-resolution-nobel-laureate>

Business Standard

Risk of undercapitalisation for state-owned institutions: Nobel winner

Sachin Mampatta|26 November 2019

Noble-prize winning economist Robert Engle said that a number Indian financial institutions may require significant additional capital in the event of a financial shock.

The majority of financial institutions that show such signs of the need for additional capital were state-owned banks, he said in a talk in Mumbai on Tuesday.

He was speaking at the Dr R H Patil Memorial Lecture 2019 in Mumbai on Tuesday. Engle won the prize in 2003 for his work on a concept called autoregressive conditional heteroskedasticity (ARCH). His work helps researchers and analysts for asset pricing and also as a tool to measure portfolio risk. He won the prize with Clive W J Granger of the University of California at San Diego.

The issue of undercapitalisation could be dealt with through the new bankruptcy code which could help recovery of capital, and have the same effect as recapitalising them, he said. The sale of bad loans could also be an effective way to raise capital, according to him.

"That's another strategy," he said, though the market for such distressed loans would also have to be developed, he indicated.

A lot of the volatility in markets may be because of geopolitical risk, suggested Engle, speaking about another area of his research. Many indicators suggest that this risk is high. This is also the view going by commentary in the media. But the markets don't seem to reflect it, he pointed out. This is in contrast to the measure of financial risk as measured by the undercapitalisation of financial institutions, which is extremely high across many key markets and in Asia in particular.

His work has previously highlighted a tendency to focus on short-term risks in financial risk management.

Financial risk management are generally focused on short-term risks rather than long-term risks, and arguably this was an important component of the recent financial crisis, he said in 'Long-Term Skewness and Systemic Risk', published in the Journal of Financial Econometrics in 2011. The paper suggested that 'short- and long-run risk can be separately measured'. Failure to pay attention to long-term risk may have explained the financial crisis as investors and institutions increased leverage and allocated capital to illiquid assets such as subprime Collateralized Debt Obligation (CDOs) since both strategies involved low short-term risk. Engle currently works as Director of the NYU Stern Volatility Institute. He is also the Co-Founding President of the non-profit Society for Financial Econometrics (SoFIE).

https://www.google.co.in/amp/s/wap.business-standard.com/article-amp/economy-policy/risk-of-undercapitalisation-for-state-owned-institutions-nobel-winner-119112601394_1.html

Hindu Business Line

India doesn't face any near-term financial crisis, says Nobel Laureate Robert Engle

Venkatesh Ganesan | 26 November 2019

The world markets have been in a lower risk zone for the past decade or so and while digital currency adoption will increase, systems like block chain won't see widespread adoption, according to Professor Robert Engle of the New York University. Engle, awarded the economics Nobel Prize winner in 2003, for his work on econometrics, which uses mathematical and statistical analysis to forecast trends, was talking to journalists at the R H Patil Memorial Lecture by NSE. For example, his work is used as stress test for banks in the developed markets, with publicly available data. "The world has been in a low volatility state for a decade," he said. There have been patches such as 9/11, Brexit, Trump election etc. which have impacted the markets but by and large volatility has been low, he said.

India, not a high risk zone

Engle believes that India, despite the increase in non-performing loans and stressed assets, is not in high risk zone. "From the data I think India's total systemic risk is not particularly high -it is in the middle," he said. He stated that measures taken by the government such as allowing more streamlined bankruptcy, non-performing loans identification are steps in the right direction.

While India does not have a near term financial crisis, he said that ever greening of loans could result in problems later.

Chinese economy slowdown

So, in the global financial system what should we be concerned about? China is going through some pain and this is evident from its economy slowing down. "Converting from export to consumption-based economy is a complicated process and this complication is also due to trade war tensions, the situation in Hong Kong" he said.

Even though Chinese capital markets are much undercapitalised (as a vast majority of them are state owned), the problem has not reached an extreme situation. However, Engle is of the opinion that the stressed assets, legacy loans to state owned enterprises and municipal governments will play out slowly and would eventually lead to problems. This is due to the fact that these loans don't get reissued.

This will slow down China but policy makers won't let it happen and they will feed economy with debt, he stated.

When asked about newer forms of currencies such as crypto currencies, Engel pointed out that while digital payment will gather pace over time, he was not convinced whether block chain and other currencies not regulated by government authorities will become mainstream. He also said that information from social media and climate change does move the markets.

<https://www.google.co.in/amp/s/www.thehindubusinessline.com/economy/india-doesnt-face-near-term-financial-crisis-says-nobel-laureate-robert-engle/article30088283.ece/amp/>

Outlook India

Nobel Laureate Robert Engle to deliver R.H. Patil Memorial Lecture

IANS|26 November 2019

National Stock Exchange of India on Tuesday said that as part of its Silver Jubilee celebrations, Nobel Laureate in Economics Robert Engle will deliver this year's "Dr. R.H. Patil Memorial Lecture".

According to NSE's MD & CEO Vikram Limaye: "We are very fortunate and honoured to have with us Prof Robert Engle as our key note speaker for this year's Dr. R H Patil Memorial lecture given the issues facing the Indian financial services landscape, and the importance of risk management as a focus area for banking and capital markets players."

Engle won the Nobel Prize in 2003 for his research on the concept of autoregressive conditional heteroskedasticity (ARCH).

He is presently the Director of the NYU Stern Volatility Institute and is the Co-Founding President of the Society for Financial Econometrics (SoFiE), a global non-profit organization housed at NYU.

The lecture is organised in the honour of NSE's founding Managing Director R.H. Patil.

<https://www.google.co.in/amp/s/www.outlookindia.com/newsscroll/amp/nobel-laureate-robert-engle-to-deliver-rh-patil-memorial-lecture/1671632>

Bloomberg Quint

India's Systemic Risk Remains Range Bound, Says Nobel Laureate Robert Engle

Pallavi Nahata|27 November 2019

Systemic risk across India's financial institutions has remained range bound despite recent attempts to improve the level of capitalisation across the country's state-owned banks, according to Nobel Laureate Robert Engle.

India's systemic risk has remained at the same level for about eight to nine years and hasn't improved or deteriorated, Engle said while delivering the annual RH Patil Memorial Lecture organised by the National Stock Exchange on Tuesday.

When ranked relative to other developing and developed economies, India features somewhere in the middle in terms of risk, according to Engle's research. China, Japan and the United States rank among major economies with high SRISK.

Systemic risk or 'SRISK' is a measure of the under-capitalisation of financial institutions estimated from a stress test computed by the NYU Stern Volatility Institute. Engle is director of the institute. By aggregating SRISK across a country's economy, Engle believes one can estimate the relationship between projected capital shortfalls and the likelihood of a financial crisis.

SRISK is interpreted as the amount of capital that a financial firm would need to continue to function normally if there is a global stock market decline of 40 percent over the next six months.

The bulk of the SRISK for India is embedded in State Bank of India, said Engle. The bank, however, is government-owned and is therefore not seen at risk of failure. This holds true for a large part of the Indian banking system.

In economies like India and China, where many financial institutions are state-owned, the pressure for an under-capitalised financial firm to deleverage is reduced as it can expect financial help in a downturn, explained Engle. However, this under-capitalisation may still be contributing to the risk in the Indian economy and the financial system, he added.

Bankruptcy reforms may be one part of the solution, Engle said.

The Indian government pushed through bankruptcy reforms and recently the Supreme Court rejected a lower court ruling, allowing the bankruptcy procedures to continue. However, excessive red tape and interminable judicial schedules make it difficult for banks to deal with non-performing loans. The decision in the recent Essar Steel case is important in this regard, Engle said.

Still, much remains to be done to reduce the backlog of bad loans at India's banks, according to Engle.

The Indian banking system has the highest level of bad loans across major economies. Gross non-performing assets stood at 9.1 percent of total banking system assets as of March 31, 2019, according to data from the Reserve Bank of India.

<https://www.bloombergquint.com/economy/indias-systemic-risk-remains-range-bound-says-nobel-laureate-robert-engle>