

SABYASACHI RAY

‘Drop In Bank Finance Will Hit SMEs Badly’

In an exclusive email interview with Solitaire, the Gem & Jewellery Export Promotion Council's executive director, SABYASACHI RAY, shares his views on a range of hot-button topics including shrinking bank finance, the importance of MyKYC Bank, self-regulation, CSR and more.



SABYASACHI RAY
GJEPC Executive Director

The Indian gem and jewellery industry has attracted some unscrupulous players, whose actions have tarnished the whole sector's reputation, thereby denting consumer confidence in jewellery to some extent. What is GJEPC's strategy for dealing with this critical issue and keeping out unsavoury elements?

I think it is wrong to blame the entire industry for the wrongdoings of a few people. The recent incident of fraud, which resulted due to collusion between some players from the sector and an employee of a particular bank branch, could have happened in any industry. One needs to understand that the same happened outside the set rules and regulations of the bank as stipulated and financial instruments were used, which the industry does not use as a practice.

However, the Council was quick to react when the issue became public, and took a slew of measures to instil confidence in the bankers servicing the gem and jewellery industry and also implemented systemic changes, which will help bankers to prevent such incidents in the future.

The Council released a White Paper during a recent banking summit 'Diamond & Jewellery Financing' attended by the commerce ministry and leading banks and financial institutions like SBI, Central Bank of India, IndusInd Bank, ECGC, etc. The White Paper by the GJEPC had a host of suggestions and measures to bring in more transparency. For instance, it was suggested that the Council will provide critical data on trade at regular intervals, which will help the bankers to better analyse and assess the industry scenario; the Council will organise webinars, conferences, open-house discussions and actively participate through platforms like TED Talk, to give an insight about the trade to all its stakeholders

and help in solving trade-related problems pertaining to banking, GST, RBI guidelines, ECGC matters, etc.; the Council will also make it obligatory for all its members to register under MyKYC Bank for better information dissemination of individual companies for the banks.

What were the circumstances that prompted the GJEPC to conceptualise MyKYC Bank? How does MyKYC Bank tie in with the Council's objectives for greater transparency and ethical business practices?

The compliance requirements on the gems and jewellery sector have been increasing over the last 10-15 years and are being driven by the Financial Action Task Force (FATF) guidelines. The nature of the products makes it susceptible to being used for money laundering purposes. Typically, such persons are not part of the industry but only use the product as a conduit. In India, the Prevention of Money Laundering Act (PMLA) was modified in late 2012 and it brought the industry under its ambit, wherein the industry was expected to carry out due diligence on the lines of banks. That was not practical for the industry, especially as there are quite a few players who are small and medium-scale enterprises. Hence a common platform, i.e. the MyKYC Bank was conceived and created.

The platform aims to make the process of KYC sharing and availability seamless, not just in India, but globally, which, in turn, will aid exports from India. This transparency will go a long way in helping the business and encouraging ethical business practices.

The stated goal of GJEPC's MyKYC Bank project is to identify "genuine" companies and their compliance risks. However, MyKYC Bank is limited in its ability to determine a company's transaction risks and credit-worthiness. Is the Council's think tank working towards addressing these two issues?

The primary objective of the MyKYC Bank platform is to establish the identity and easy sharing of KYC information among industry participants. It is unique in the fact that only members of trade bodies which have signed up with MyKYC Bank are allowed to register on the platform. All trade bodies coming onto the platform of MyKYC Bank are expected to have a code of conduct in place.

The platform is in the process of strengthening its Advisory Council as well as the disciplinary action-taking processes. These ensure that only genuine companies are allowed onto the platform and, in the event of any serious lapses, action can be initiated on the companies using the trade body they are affiliated to. In serious cases, this could mean that the business of the defaulting company is affected. This helps address the "genuine" company issue

and the compliance risk.

Though the MyKYC Bank platform has the ability, it currently does not capture any transaction data, and this automatically means that it cannot help in addressing transaction risks or credit risks. The GJEPC is in dialogue with the banks and insurers to discuss various options which are used globally to address some of these issues. Based on the discussions, the Council might propose solutions to address their concerns about information and transparency. We have seen that in the past, though efforts were made by the GJEPC on these lines, the banks themselves were not forthcoming to share information. We believe that this mindset of the banks has changed.

GJEPC has proposed formation of a think tank, consisting of a few leading bankers, a few industry participants, insurers and the government, who can meet and formulate guidelines to frame policies for the sector by the banks. The availability of finance remains a concern, especially to the smaller and medium-sized units, which unfortunately get affected the most by any adverse action taken by the banks in terms of financing the sector.

Following the recent banking seminar, has the situation eased with regard to availability of bank finance? Are banks reasonably satisfied with the self-regulatory KYC initiative before disbursing loans?

The situation has gone from bad to worse with new and sometimes impractical regulations being applied by the banking sector on the industry. If you keep aside the frauds out of the non-performing assets (NPAs), this industry has minuscule NPAs happening from regular industry activities.

We understand that there is a 10% cut on finance that has been extended by the banks to the industry in recent times after the unfortunate incidents. This will affect exports directly. In addition to commissioning MyKYC Bank, we are working with the bankers to explain to them and create the institutional interface between the bankers and the industry, which we hope will take care of the situation.

» SPOTLIGHT

We are also in talks with ECGC for recognising the good work done due to the introduction of MyKYC Bank and restart extending Whole Turnover Policy cover to exporters from the gems and jewellery industry.

Until recently, 1,450 companies were registered with MyKYC Bank and 627 were under process. What are the current figures?

Currently about 1,720 members are registered on the platform, with applications of more than 500 members under process.

What according to you are the other self-regulatory measures that the industry members should put into practice?

In our industry, where products are not always homogeneous, self-regulation is the key as it takes time to develop an understanding of our products in the sector, procedures or the intricacies of the trade. However, self-regulation should only be used to streamline procedures and make the trade a responsible one. It should not be used to substitute the function of the government, which is enforcement.

Another issue is that though self-regulation will be sensitive to the world order that is evolving and the requirements of consumers, at the same time it should take care of sovereignty issues of the country where it's applied. In other words, self-regulation can only be in specific areas and under the auspices of the law of the land.

In the past, the GJEPC as an organisation has been very successful in implementing self-regulation in specific areas where the Indian Government has stipulated it, for instance, the issuance of KP certificates, the Registration Cum Membership Certificate (RCMC) certificate, deciding on which diamond mining companies will be eligible to get unlimited foreign exchange advance, permission to take precious goods abroad for exhibition, etc.

The MyKYC Bank initiative, constituted to drive self-regulation in the industry under the amended PMLA in line with FATF guidelines, will be another step in this direction. From a governmental perspective, areas of trade which are difficult to understand and manage for outsiders are good candidates for self-regulation. We are considering devising a methodology to extend self-regulation in areas such as valuation of goods, etc., and suggest the same to the government to increase transparency and ease of doing business for the industry in India.

Do you think the adoption of advanced technology like cryptocurrency and blockchain, with its foolproof peer-validated mechanism, could lead to greater financial transparency in the gem and jewellery industry?

These are very early stages to comment on these issues.

However in the current world, adoption of evolving technology can always give an edge to business for ensuring compliance and transparency.

What we understand is that the blockchain technology is being adopted by a number of concerns in the sector as a way and means to achieve supply chain due-diligence. However, we also hope that such measures would not act as an impediment in doing business seamlessly for small players in the industry and involve additional costs for them.

The Council may also think about creating blockchain platforms for its members and the industry at large. We have already got offers for collaborative efforts from diamond trade associations of other countries.

Your thoughts on the Tracr blockchain pilot programme developed by De Beers that traces diamonds from the mine to cutter and polisher through to the jewellery retailer. Is the GJEPC studying this initiative? Do you think something similar could be implemented industry-wide to further strengthen KP compliances?

I have already mentioned that the Council welcomes all industry-driven efforts which will benefit the industry at large in future. However, looking at the fact that the GJEPC also looks after all forms of precious goods like gemstones, diamonds, jewellery, etc., it is extremely important for it to integrate all players under one platform which serves all, especially small players in remote corners, rather than serving one vertical or select few players.

De Beers has given us and to leading players from the industry a presentation about how they are developing their blockchain programme. We are, of course, studying their programme and trying to understand the benefits and shortcomings vis-a-vis the Indian industry scenario.

In the KP sessions, too, presentations on blockchain had been given to its members, and right at this moment discussions are on to understand how KP can benefit from such technological means.

The AWDC recently unveiled an automated diamond polishing system that can polish stones up to 20 times faster than by hand. Are you worried?

Worldwide disruptions in business processes

have become the norm and our sector also cannot avoid the same. Definitely, the Indian diamond industry, which is the largest diamond cutting and polishing industry in the world, has reasons to get concerned with this development. But till now, the industry has always embraced innovation and technology to expand its business, and hence the employment in the industry has always grown through the years.

The industry is also aware that they are in the business of creating value and hence the intervention of human brain to achieve excellence in creating value through diligence, hard work, design and innovation will always be there.

We as the Council and the industry at large will continue to reskill the workers to adapt to situations and adopt new technologies. However, these are very early days. We will have to wait and watch how the companies adopt or use this automated diamond polishing machine, as this will be available to the public in September; only then can we come up with a strategy.

The numerous Corporate Social Responsibility (CSR) activities of the Indian gem and jewellery industry are not publicised enough. What according to you is the best way to ensure that this reaches a wider audience and sends a strong message that the industry is giving back to society?

According to Indian beliefs, social work is an activity which a person needs to do as part of his or her religion and such acts should not be publicised as it loses sanctity and may cause a hindrance in achieving 'moksha'.

Hence the gem and jewellery industry, which has been involved in large-scale philanthropic and charitable activities, particularly in the field of education and health, never chose to report these good deeds or sought any publicity. And this was long before CSR became mandatory and also a buzzword.

Some of the CSR activities undertaken by the industry are:

- The industry had responded to national calamities and emergency situations with great promptness. When an earthquake devastated Gujarat in 2006, GJEPC initiated the setting up of the Gem & Jewellery National Relief Foundation (GJNRF) with the support of other trade bodies.
- GJNRF, which did commendable work by providing relief measures for the earthquake affected victims, went on to also provide relief to those who had been affected by the Kargil War; victims, or families of victims, of the bomb blasts that shook the diamond and jewellery hubs of Opera House and Zaveri Bazaar in Mumbai, and the flood victims of Orissa. More recently, it has come

forward to provide relief to the families of the victims of the Uri massacre.

- In 2014, the GJEPC formed Jewellers of Hope, an annual event which raises funds from the Indian gems and jewellery industry to provide aid to deserving charities or NGOs for their social welfare projects.
- The Council has made significant contribution towards causes of girl child education, sanitation, tribal education and cancer patients. It has also been associated with Make-A-Wish Foundation, Nanhi Kali, Girl Rising, Swades Foundation, and Friends for Tribal Society.

In my opinion, the industry and the Council will keep on doing good work for society and will help the needy. With the advent of social media and the consciousness around CSR by the public at large, we need to make the public aware of the good deeds of the industry. We will use social media to promote and drive awareness of the CSR work by the industry and at the same time, have more such activities undertaken by the industry players.

Anything else you may wish to add.

For long, India has been considered as a follower of norms and procedures in terms of regulation, governance and principles of sustainable governance. We have been practising it for thousands of years, only the same was not well-documented and propagated in a right way.

We have achieved global leadership in the manufacture and trade of diamonds, coloured gemstones and some forms of jewellery. That experience should be used to also frame rules in the areas of governance which the world can follow.

MyKYC Bank, Common Facility Centre, Special Notified Zone for trading of rough diamonds or the workers' health insurance schemes are some examples of how innovative means can be the right way to drive regulation and sustainability in business side by side. We are ready to share our experience with the world to drive value in the business globally as we live today in a very well-connected world. ■