**Transcript of Dr. M.S. Sahoo's speech at webinar on "Digitalisation of India's Mortgage Lending and Valuation Process", organised by Valocity on 19th August, 2021**

I thank Valocity and my dear friend, Mr. R. V. Verma, for extending this opportunity to me to join you all in this webinar on "Digitalisation of India's Mortgage Lending and Valuation Process".

At the outset, I must disclose that that I am neither a valuer, nor a lender, nor a techie, nor even a property owner. However, I do have significant stake in these matters as a technology enthusiast and an indirect stakeholder.

In the context of today's webinar, I perceive that technology is making notable difference in three spheres of mortgage lending, namely, automation of loan contracts, digitalisation of records of ownership of property, and assistance in valuations. I shall deal with all these briefly, along with the progress in development of valuation profession in the country, followed by a cautionary note to avoid any potential abuse of technology.

India has a track record of establishing digital platforms and executing digital transactions through them. Twenty-five years ago, much before the advanced jurisdictions could think of, India ushered in dematerialisation of securities. The law and technology joined hands to automate the securities contracts completely - they standardised the securities and contracts thereon, dematerialised them, and enabled their execution online. This dawned the new phase of growth and efficiency of securities markets.

Similarly, the Indian insolvency law envisages setting up of an Information Utility, which is unique in the world, as an electronic repository of all financial information, including loans and related agreements, to aid in commencement and closure of insolvency processes, faster. Preparation, preservation, and servicing of paper-based loan documents is not only costly and inefficient, but also susceptible to theft, forgery, and mutilation. Automation (standardisation, dematerialisation, and electronic execution) of loan agreements would make the process of contracting efficient, protect interests of stakeholders, and facilitate seamless insolvency proceedings. This would kick-off efficiencies on a scale similar to that achieved in securities market through automation. The IBBI has been championing automation of loan contracts. A beginning has been made whereby the Information Utility, National e-Governance Services Limited, facilitates digital execution of loan agreements, enabling execution of contracts instantaneously and obviating the need for physical presence. The Secondary Loan Market Association, a self-regulatory body, has been set up recently by banks, to specify standard documents and covenants for loans, and to ensure standardisation of practices to promote secondary market for corporate loans. I am sure, mortgage lending would benefit immensely from these ongoing digitalisation initiatives.

The second element of mortgage lending is the dispute over title of property. The lack of clear title documents to establish ownership of property limits the ability of valuers to make accurate valuation, of the lenders to extend loans against the security of such property, and of the owner to use the property as an asset. This problem assumes acute proportion for villagers who face difficulty in obtaining collateral based loans from the banks despite owning land, for want of proper documentation. Hon'ble Prime Minister of India highlighted this concern on this Independence Day (15th August, 2021), when he referred to the Svamitva Yojana launched in April, 2020, to address this situation. This Yojana is employing the latest Drone Surveying technology and Continuously Operating Reference Station (CORS) technology for capturing images and mapping every village, and every house and every land parcel therein. The data and property records of village lands are being digitalized and uploaded online. With this, not only the disputes related to land in the villages are ending, but also a system is being created for the rural people to monetize their property for accessing loans from the banks. Hon'ble Prime Minister anticipated that the lands of villagers would now be the foundation for development rather than disputes, with this initiative.

The third element of mortgage lending is valuation of the underlying property. A market economy needs valuations of assets/liabilities of the entities to facilitate a variety of transactions. For example, the corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016 (Code) envisages estimation of fair value and liquidation value of the assets of the corporate debtor. These values serve as reference for evaluation of choices, including liquidation, and selection of the choice that decides the fate of the corporate debtor, and consequently of the stakeholders. A wrong valuation may liquidate an otherwise viable company, which may be disastrous for an economy. Some experts attribute the surge in NPAs in the banking sector, to faulty valuation of properties mortgaged to lenders. Considering its vital role, the valuation profession, which provides authentic valuations to serve as reference for evaluation of choices and decision making, has emerged as an important institution in a market economy.

The Code read with Rules and Regulations made thereunder has assigned the task of valuation to Registered Valuers (RVs), which as such did not exist when the Code came into force. As an interim arrangement, a framework has been created under the Companies Act, 2013, enabling IBBI to groom the valuation profession. The IBBI registers and regulates RVs. It conducts entry valuation examination for three asset classes, namely, land & building, plant & machinery, and securities or financial assets. It has made available extensive study material to help candidates appearing for these examinations. Some of these study materials are used by many valuer organisations across the world. Registrations are granted through an online process and examinations are conducted online.

Let me make it amply clear that the present arrangement is applicable only for valuations conducted under the provisions of the Companies Act, 2013 and the Code. It does not cover valuation of property for mortgage lending. However, to take the profession to the next level, a Committee of Experts has recommended the enactment of the Valuers Act, to provide for establishment of a National Institute of Valuers to steer regulation and development of valuation profession.

The valuation of an asset is an *estimate* of its worth, arrived at after factoring in multiple parameters, externalities, and assumptions. This may not be the actual value of that asset and the market may discover a completely different price for that asset. Different valuers may arrive at different estimates of value for the same asset at a given point of time. This may be possible when the purposes of valuation are different. However, such variance is observed even when the purposes are the same. This may be because of lack of uniform approach to valuation. It is quite natural for the valuers to adopt different approaches. However, if every valuer gives a markedly different value for the same asset in the same circumstance, by using a different approach, a customer may be worse off with the valuation and the valuer who has arrived at the right valuation, may find it difficult to defend his position. The market may question the ability of the valuers and the integrity of the valuation process. Accountability and liability of the valuers may be severely restricted. Such a situation is not in the interest of the market where various crucial economic and commercial decisions are taken based on the valuation reports. It is, therefore, necessary to have uniformity in approach to valuation to reduce the scope of deviations between the valuation reports of different valuers. This is ensured through specification of standards, which the valuers must apply while conducting valuations. The committee to advise on valuation matters has submitted its recommendations on asset class specific valuation standards. Thus, a comprehensive institutional framework along with the valuation standards is in the offing.

Presently, the IBBI acts as principal regulator while Registered Valuers Organizations (RVOs) act as front-line regulators, for the registered valuers' ecosystem. The profession is being nurtured with extreme care. There is a strict vigil on the conduct of valuers, as much as on the market for valuation services. We, as regulators, promote use of technology, as I mentioned, for automation of loan contracts, digitalisation of property records, technological tools to assist in valuation, but we do have some concerns too.

Many valuers make extensive use of technology, such as drones and Automated Valuation Models (AVMs), to assist them in valuations. We encourage the use of technology to assist the valuers in conducting robust valuations, but not to replace them, particularly in view of the prevailing scepticism about the efficacy of AVMs even for uncomplicated valuations or to create any competition concerns at marketplace, either in market for mortgages or in valuation services. I am sure that the efficacy of AVMs will improve in times to come, and most probably we would replace AVMs by newer tools using Artificial Intelligence. But we cannot hold the technology or the provider of such technology liable for faulty valuations, nor can we license them as valuers. Therefore, we would like to build capacity of valuers on a continuous basis to use technology and their upgrades that assist in valuation. The quality control and integrity of valuation, including client-professional confidentiality, must remain responsibility of the valuer, under the oversight of the regulator and the RVO. The technology provider must not compete with valuers, or RVOs, and must not have access to any confidential information in valuations. Valuers must abide by the valuation standards. They may have standard formats for valuation reports, but they must not have standard application of mind. If application of mind is limited by technological protocols, the market may stop distinguishing high quality service from low quality service, leading to casualty of professional excellence and that may be the end of the profession.

Secondly, we would not appreciate if any dominant or monopolist technology provider abuses its dominance. It should be fair to everyone, charge a fair and reasonable price, and supply the technology on impartial terms to whosoever is willing to pay for it. Its pricing should not create entry barriers, which could be considered anti-competitive, as it may amount to control of price which is not permissible in a market economy. The technology provider should also not regulate quantity. Technology should not be used to create closed user groups (CUGs) with a limited number of users. It should not create a two-sided market, with a set of valuers on one side and a set of clients on the other side. This will limit the choice of clients to a set of valuers and vice versa. To expand the choices, every valuer and every client would join as many CUGs as are in existence. This is in contrast to an all-India competitive market for valuation services where there are thousands of suppliers of valuation services as well as thousands of users of valuation services, where no one has control either over price or quantity. The client and the valuer must meet in an open market - no one should have the ability to channel either demand for or supply of valuation services to a particular source. In a market economy, no one should have control either over price or quantity. If a technology provider attempts to control either quantity or price, that is, supply or demand, they will not only invite competition scrutiny but also a regulatory framework. I am alerting this, as there are instances of technology providers abusing their dominant position at marketplace and inviting competition scrutiny. Subject to these two caveats, we welcome and promote use of technology.

I thank Valocity once again for providing me this opportunity to be part of this webinar.

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