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INDUSTRY ARTICLE IN THE MONTH

Accelerating GST Refunds: A Guide for Businesses

GST refunds play a critical role in promoting exports and maintaining liquidity for businesses. Exporters, by bringing valuable foreign exchange into the country, bolster the economy. Therefore, smooth and timely processing of GST refunds is not just essential for the business community but also for sustaining economic momentum.

The Importance of Efficient GST Refunds

The GST refund method allows taxpayers to reclaim taxes or input tax credit (ITC) initially paid but entitled for credit and refunds under GST legislation. Refund processing delays can affect cash flow, interfere with working capital, and block funds—all of which can be especially difficult for exporters.

Categories of GST Refunds

GST refunds can be broadly categorized based on the nature of the transaction or specific circumstances under which the refund is claimed. Businesses must understand these categories to ensure compliance and timely application:

1. **Refund of Unutilized Input Tax Credit (ITC):**
    - o Applicable for zero-rated supplies (exports or supplies to SEZs without payment of IGST).
    - o ITC accumulated due to the inverted duty structure, where the GST rate on inputs exceeds that on output supplies.
    - o Refunds under this category require adherence to the prescribed formula in Rule 89(4) of the GST Rules and exclude ITC on capital goods.
2. **Refund of IGST Paid on Exports:**
    - o Businesses exporting goods/services with payment of IGST can claim automatic refunds processed via Customs (ICEGATE).
    - o Exporters must ensure alignment between shipping bill data and GST returns to avoid discrepancies.
3. **Erroneous or Excess Payment of GST:**
    - o Refunds can be claimed for taxes paid inadvertently or in excess. This includes cases where taxes were charged at higher rates than applicable.
4. **Balance in the Electronic Cash Ledger:**
    - o Refunds for unutilized balances in the cash ledger, typically arising from excess tax payments or unused advance deposits.
5. **Refund for Deemed Exports:**
    - o Supplies categorized as deemed exports (e.g., supplies under specific notifications) allow suppliers or recipients to claim refunds based on eligibility.
6. **Refund Arising from Appeal or Court Orders:**
    - o Refunds sanctioned due to favorable appellate or judicial orders must be applied for with detailed documentation, including the order copy.
7. **Others:**
    - o Refunds in cases like supplies to UN bodies, embassies, or multilateral financial institutions, where GST is exempt under special provisions.

Each refund type has unique documentation requirements and filing procedures, making it essential for businesses to follow specific guidelines.

Filing Refund Within the Relevant Date

The GST law mandates that refund applications be filed within two years from the "relevant date." The term "relevant date" varies depending on the nature of the refund claim:

- For exports of goods with payment of IGST, the relevant date is the date of shipping bill filing.
- For exports of goods without payment of IGST, it is the date of receipt of payment.
- For exports of services, it is the date of receipt of payment in convertible foreign exchange or issuance of an invoice, whichever is later.
- For refunds of unutilized ITC, the relevant date is the end of the financial year in which the ITC accumulates.
- For refunds due to excess tax payments, the relevant date is the date of payment.
- For refunds arising from appeal or court orders, it is the date of the appellate or judicial decision.

Adhering to these timelines is critical, as refund applications filed beyond the prescribed period are liable to be rejected. Taxpayers must carefully ascertain the applicable relevant date and plan their applications accordingly to avoid disputes and ensure smooth processing.

Digital Process for GST Refunds: Hassle Free?

GST refunds are processed online to minimize officer interaction. From filing the application to receiving the sanction order, every step is managed digitally. While efforts are underway to make the system entirely electronic, challenges persist.

To apply for a refund:

1. Log in to the GST portal and navigate to Services > Refunds > Application for Refund.
2. Select the type of refund, the applicable period, and upload required documents.
3. Submit the application using a Digital Signature Certificate (DSC) or One-Time Password (OTP).

Upon submission, the system generates an Application Reference Number (ARN), which is crucial for tracking the refund application throughout its lifecycle.

Despite automation, businesses often face delays, such as:

- Late acknowledgments or deficiency memos.
- Mismatch in input tax credits due to non-compliances by the vendors.
- Lack of documentation to demonstrate receipt in convertible foreign exchange.
- Physical inspections or additional documentation requests.
- Hesitancy in issuing provisional refunds, which obstructs cash flow.
- Show Cause Notices are being issued sometimes by department officers due to paucity of time and to request any additional documentation.
- Lack of business understanding by tax authorities. It is sometimes difficult for a business person to explain the nature of work performed to the GST refund authorities and this may sometimes delay refund process.

Under GST law, 90% of eligible refunds should be disbursed provisionally within seven days of acknowledgment. However, in practice, delays are common, requiring businesses to follow up persistently.

Preparedness for Expediting GST Refunds

Considering the cash flow impact of GST refunds, it is of utmost urgency for stakeholders to obtain refunds in timely manner. The following tips will help you expedite the processing of GST refunds:

- Prepare Documentation: Keep accurate and complete records, such as export invoices, ITC registers, Foreign Inward Remittance Certificates (FIRC), and Letters of Undertaking (LUT);
- Prepare a formal business understanding note duly vetted by a tax consultant which can be submitted to department authorities at the time of refund verification.
- Respond Promptly: Address any deficiencies or questions from the department promptly;

- Track Status Regularly: Use the tracking tools on the GST portal to keep an eye on the status of your application;
- Claim Interest: If refunds are delayed past the statutory deadlines, think about claiming interest at 18% annually for the period of delay.
- Engage suitable tax advisors or persons in your organisation who are well versed in substantive provisions of GST law.

Conclusion

While the GST refund process is designed to be seamless, businesses must stay proactive to overcome hurdles. By ensuring proper compliance, maintaining robust documentation, and leveraging the provisions of the law, companies can minimize delays and secure their rightful refunds efficiently. GST refunds also require a deep understanding of substantive provisions of GST laws and regulations, especially those related to procedural aspects of refunds.

By adopting these best practices, businesses can better navigate the GST landscape and focus on growth and expansion.

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TOP SPEECHES

Rajeshwar Rao: Strengthening the Insolvency and Bankruptcy Code (IBC) Framework for Effective Resolution

Inaugural address by Mr Rajeshwar Rao, Deputy Governor of the Reserve Bank of India, at the International Conclave, jointly organised by the Insolvency and Bankruptcy Board of India (IBBI) and INSOL India, New Delhi, 7 December 2024.

Good Morning Ladies and Gentlemen.

At the outset, I would like to thank Shri Ravi Mital, Chairperson, Insolvency and Bankruptcy Board of India for inviting me to this international conclave on the theme 'Insolvency Resolution: Evolution & Global Perspective' being held in collaboration with INSOL India. A confluence in the thought processes of policy makers, practitioners and academicians would perhaps help to shape an objective assessment of the resolution & insolvency regime in the country. This should then enable us to chart out a future path for the resolution processes to make it more effective and efficient.

Today, let me begin by reflecting on the role of Insolvency and Bankruptcy Code (IBC) in cleaning up of banks' balance sheets and on the possible ways we could further leverage its potential for the key stakeholders from our perspective, viz. the financial creditors. The present insolvency and bankruptcy regime in India was the outcome of the suggestions made by the Bankruptcy Law Reforms Committee headed by Dr. T K Viswanathan. The Committee's recommendations for the new insolvency and bankruptcy resolution system were based on a few core principles namely (i) facilitating the assessment of viability of the enterprise at an early stage; (ii) enabling symmetry of information between creditors and debtors;(iii) ensuring a time-bound process to better preserve economic value; (iv) respecting the rights of all creditors, with clarity on priority; and (v) ensuring finality of outcomes.

The outcome of the action on these recommendations was the Insolvency and Bankruptcy Code (IBC) of 2016. The code and its related ecosystem have continued to evolve since then, effectively advancing the principles mentioned above. However, its implementation being a function of the broader ecosystem in which it operates, the code has faced various criticisms in its relatively short existence, particularly regarding delays in meeting timelines and unsatisfactory recovery rates, partly due to the misaligned incentives amongst the stakeholders. While several amendments have been made to the IBC since its introduction to address some of these concerns, challenges persist.

Role of IBC in cleaning up of bank balance sheets

As you are aware, asset quality position of the banking system has shown a remarkable improvement over the past few years – specifically, the gross NPAs of the scheduled commercial banks have declined from the peak of 11.2% in March 2018 to 2.8% in March 20241. A good part of that reduction is attributable to resolution processes enabled under IBC. If an overall assessment of IBC is made, it shows a significant level of traction as a resolution mechanism. As of September 2024, 8,002 cases2 have been admitted into the Corporate Insolvency Resolution Process (CIRP) and approximately 75% of these cases were closed through resolution, withdrawal, review, settlement, or liquidation. Of the closed cases, 56% were either resolved, settled, or withdrawn. In a positive trend, the ratio of resolutions to liquidations has risen from 21% in 2017-18 to 61% in 2023-24. In addition to facilitating resolution outcomes, the IBC has also been effectively used by both financial and operational creditors to encourage borrowers to repay their debts. By March 2024, 28,818 cases involving an outstanding default amount of ₹10.22 lakh crore were withdrawn prior to admission.

In terms of the powers vested under newly inserted Section 35AA of the Banking Regulation Act, RBI had issued directions to banks in 2017 in respect of 41 entities, which accounted for more than 35% of the banking system NPAs at that point, for filing CIRP applications. So far, resolution plan has been approved in the case of 17 borrowers3, orders of liquidation have been issued in the case of 12 borrowers, settlement was reached by lenders with 2 borrowers; and in 4 cases the lenders have assigned their exposures to ARCs. The aggregate realisation for financial creditors from the 17 resolved cases has been around 50% of admitted claims and 190% of liquidation value.

Financial creditors are now actively leveraging the Code for resolution of stressed assets. As of September 2024, around 633 corporate debtors, where insolvency application was initiated by financial creditors, have been successfully resolved under IBC, yielding an average realization of 30.09% of admitted claims. Further, CIRP applications filed by financial creditors in 702 corporate debtor accounts have been either resolved through appeal/review/settlement or withdrawn under section 12A. Similarly, liquidation orders have been passed in respect of 1224 corporate debtors.

Moreover, the operationalisation of section 227 of the code in 2019 empowered Reserve Bank to leverage the IBC mechanism for resolution of Financial Service Providers (FSPs). Reserve Bank has used this avenue for initiating insolvency proceedings against four FSPs so far and all of them have been successfully resolved as on date. Evidentially, IBC seems to have played a significant role in cleaning up the bank balance sheets.

Although the IBC has proven to be a valuable tool for creditors, its full potential has been realized only to a limited extent. Let me elaborate on some of the factors that have constrained its effectiveness to give a clearer understanding of why the IBC's potential has not been fully harnessed.

(i) Delay in initiation

Time and Timing are both crucial for the effectiveness of the resolution process. While delays within the IBC process have been widely discussed, an equally important issue is the delay in initiating the IBC process itself. The IBC grants all creditors the right to initiate the CIRP upon default. However, in practice, the average time taken by financial creditors from the date of default to the filing of the CIRP is often several months. A significant amount of value is lost during this period, which ultimately impacts the recovery outcome. In this context, the role of financial creditors is vital-they must take prompt action to prevent further value erosion.

While IBC has gained prominence of late, we need to realise that it is just one amongst the host of mechanisms available for creditors to resolve financial stress. There are other statutory mechanisms for enforcing security, as well as out-of-court workout options for resolution, each with its own role and limitations. From a regulatory perspective, the Reserve Bank remains neutral regarding the mechanisms chosen by lenders, as long as the actions are initiated in a timely manner so as to facilitate the prompt resolution of financial distress.

(ii) Efficacy of out of court workouts

The real success of a formal insolvency framework lies in its role as a deterrent than based on its actual use. It is out of court workout procedures that need to work as the primary instruments of resolution, albeit under the shadow of the formal insolvency framework. In the Indian context, the RBI's Prudential Framework on Resolution of Stressed Assets provides a viable out of court workout mechanism. This Prudential Framework provides a broad principle-based regime for early recognition of stress and time-bound resolution by the lenders. However, the efficacy of this mechanism has been constrained on account of several factors, including issues with coordination among lenders. What is therefore required is a mechanism to bridge the principle-based resolution approach under out of court workout with that of the statutory umbrella of

IBC so that a resolution initiated out of court can be transitioned and get implemented under IBC.

Recognising this requirement, the Pre-Pack Insolvency Resolution Process (PPIRP/pre-pack) was introduced in 2021, aimed at resolution of micro, small and medium sector enterprises (MSMEs), as an alternative to a regular CIRP. The Pre-pack was envisaged to be a panacea for MSMEs as it had all the ingredients to make a successful resolution recipe: debtor in possession, cost-effective, quicker resolution timelines and base resolution plan prepared by the MSME itself. Under the pre-pack arrangement, the MSMEs and creditors have to reach a prior agreement to resolve, before formally entering into pre-pack insolvency process. Despite all the advantages, only ten applications have been admitted under PPIRP so far, out of which one was withdrawn, and resolution plans has been approved in five cases.

The IBBI had established an Expert Committee, which submitted its report in May 2023 on the Creditor-led Resolution Approach under the Insolvency and Bankruptcy Code, 2016. The report suggests converting the current fast-track process under the IBC into a 'creditor-led' and 'out-of-court' insolvency resolution process, similar to the PPIRP, but with key modifications to address challenges observed in the adoption of PPIRP. A suitable framework could be adopted in this regard that would be aligned with the intended objectives without undermining the essence of the IBC.

(iii) Role of Committee of Creditors (CoC)

The IBC assigns a central role to the Committee of Creditors (CoC) in the CIRP. However, this is an area where significant improvements are needed. There have been instances where the CoC's performance has been found lacking in several aspects. These include disproportionate prioritization of individual creditors' interests over the collective interest of the group; disagreements among CoC members on approving a resolution plan due to concerns over undervaluation or perceived lack of viability; disagreements on the distribution of proceeds even when a resolution plan is agreed upon; non-participation in CoC meetings and lack of effective engagement, coordination, or information exchange among members. Instances have been noted regarding insufficient skill sets in areas like corporate finance, legislation, and industry knowledge; and, lastly, the nomination of financial creditors to the CoC are entrusted with responsibilities that far exceed their actual authority.

It is in the larger interest of the creditors that the issues relating to the conduct of the CoC are addressed by the members themselves without waiting for regulatory prescriptions or fiats. However, it is a fact that when incentives are not perfectly aligned, deviations from best practices become the norm. Therefore, we need an enforceable code of conduct for the CoC. Obviously, it would not be possible for the sectoral regulators to enforce this given the diverse set of financial creditors. Ideally, the IBBI, which is the designated regulator under the IBC, should have the powers to enforce norms around the conduct of all stakeholders under the IBC process.

(iv) Role of the Resolution Professional

Another key stakeholder under the IBC ecosystem is the Resolution Professional (RP) whose expertise and proficiency materially impacts the outcome of the resolution process. The resolution professional should have thorough knowledge of the industry, the business environment, laws in force and should also be adept at financial analysis and management of distressed firms. The aspect of management is very critical here as the RP takes control of the distressed corporate debtor and virtually discharges the duty of the MD/CEO, based on the advice of the CoC. Any shortcomings in the selection and in the action of the RP would be a significant impediment in the process. The code implicitly and explicitly casts lot of operational responsibilities on the RP ranging from collation of claims to finding prospective resolution applicants to providing material inputs to CoC for finalising the resolution plan. However, in many instances, the RP do not enjoy the cooperation of other stakeholders, which impairs the ability of the

RP to discharge its duties satisfactorily. It is heartening to note that that IBBI has taken steps to facilitate the training of RPs through the continuing professional education (CPE) programs, trainings, workshops, webinars, and seminars. These steps together with better enforcement of conduct related regulations would go a long way in addressing these issues.

(v) Incentivising resolution professionals

Regulations can set the boundaries for an activity but cannot cover every detail. While regulations have helped create an ecosystem for Resolution Professionals (RPs), their compensation should be determined by the market based on commercial considerations. RPs step in after all attempts to resolve the issue by the debtor and creditors fail, and they take on the important task of managing the debtor's affairs. Managing a corporate debtor under insolvency proceedings requires specialized skills. The market should develop compensation structures for RPs that are tied to the outcomes of the resolution process. This would address the principal-agent issue and align the RP's goals with the CoC, maximizing value for both parties. It would also attract experienced professionals, benefiting the system as a whole.

Way Forward

It has been nearly eight years since the introduction of the code and several large cases have been successfully resolved under the code. Quality data is being generated, out of the insolvency process, which could be used in future as inputs for credit underwriting as well as valuation.

The IBC eco-system would not be complete if it cannot provide a feedback loop to the real economy through a review of experience in resolution or liquidation. A detailed study of enterprises placed under the insolvency process can provide valuable insights if we compile data from such cases. Currently such data is not compiled systematically and is disaggregated, mostly concentrated with individuals based on their experience and exposure. If this data is collected and institutionalised through a structured process, it can give us valuable insights and precedents on how to proceed in complex cases. Such data therefore needs to be gathered in a structured manner so that it can be disseminated for the benefit of all stakeholders involved.

Leveraging Data

There are few key areas that could be explored further to improve the overall resolution ecosystem. First, a better understanding of the reasons behind defaults-whether this is on account of the general economic environment, specific industry challenges, or professional mismanagement. This perspective can help to tailor appropriate solutions. Second, addressing the delay resulting from lack of cooperation by some corporate debtors in the insolvency process, such as delay in submitting information, withholding valuable details, using litigation to stall progress, or creating indirect obstacles to discourage potential resolution applicants, is crucial. Finally, examining valuation, including insights on how collateral types affect realization versus valuation, the impact of time on recovery, and the relationship between resolution timelines and valuation outcomes, could provide us with information which can help us to improve the process. Perhaps better valuation at the time of appraisal is the key. Often the disparity in valuation between the appraisal and the resolution stages is indicative of over exuberance in valuation and possible lack of appropriate due diligence.

-and Technology

With the rise of technology, the payment ecosystem has undergone significant transformation. Fintech service providers are using technology to gain insights into consumer behaviour through the vast payment data generated. Some progress has been made in using technology for loan underwriting, particularly for small borrowers and MSMEs, through cash flow-based models. The next step should be for banks and other stakeholders to use technology to help resolve issues with stressed borrowers. The technology should focus on several key areas like predicting defaults before they happen based on the borrower's data, enabling early corrective action; analysing both structured and unstructured data to identify related party or preferential transactions, saving resources for lenders and resolution professionals; automating routine tasks in post-disbursement credit monitoring, freeing up time for lenders to focus on more complex issues; and reading legal documents and contracts to provide valuable insights for the CoC and resolution applicants when valuing the corporate debtor. As technology and its application evolves on these fronts, there could be significant reduction in effort involved as well as costs associated with the resolution.

Conclusion

I would like to close my remarks with few parting thoughts! It is possible that bankruptcy or liquidation proceedings may be the only way for the company to revive and start afresh. We should, however, look to restructuring and revival of units as the first option and enable it in a quick and time bound manner. There are valuable assets vesting within an enterprise that we as a nation can ill afford to run doing even though as creditors the liquidation process appears as the safer and risk free option. For this it may be necessary to create an ecosystem that encourages revival of the enterprises. While IBC 2016 remains a landmark legislation, that has fundamentally altered the landscape of corporate practices in the country, the onus is on us to ensure that collectively, we harness the potential of the code to create a thriving ecosystem which enables value preservation.

In our journey to improve the resolution frameworks, let us not only look at the perceived obstacles or the roadblocks but also look back at the path we have traversed so far and the learning's along the way. We need to think of measures which can make the code an effective option for unlocking economic value of an enterprise even as we ensure strict enforcement of the provisions of the code in case of recalcitrant or unscrupulous borrowers. The last decade has been a journey of learning, improvements, and growth for all of us who are stakeholders in this process as Regulators, financial institutions or as borrowers. This Conclave should bring out fresh insights as to how to unlock the potential of the Code which will serve to strengthen the financial system, so that it plays its role in fostering a robust growth for our nation.

Thank you and Namaskar.

Source -https://www.bis.org/review/r241218g.htm

Gabriel Makhlouf: Protecting Consumers

Remarks by Mr Gabriel Makhlouf, Governor of the Central Bank of Ireland, at the publication of the OECD review of the Central Bank of Ireland's consumer protection supervisory functions, Dublin, 16 December 2024.

Thank you and welcome to this special event to mark the publication of the OECD's report on the Central Bank's financial consumer protection role.

This is the first review of its kind by the OECD and, given our shared commitment to financial consumer protection, we at the Central Bank are very pleased to be a pioneer in this work with you. We put ourselves forward for this review as we welcome the opportunity for our work to be assessed against global standards by an independent, objective third party. And we are very conscious of the OECD's central role in establishing the global standards through the G20/ OECD High-Level Principles on Financial Consumer Protection.

Consumer protection is at the heart of everything we do in the Central Bank, aligned to our constant and predominant aim being the welfare of the people as a whole. Over the last decade, we have, alongside other public institutions, played a significant role in strengthening the consumer protection framework in

Ireland, to ensure that our system and protections are in line with those global standards.

While this strengthening of the framework has improved supports and outcomes for consumers, we also recognise the importance of ensuring that the framework – like all frameworks – continues to adapt and evolve so that it remains fit for purpose and future-ready.

The challenges and risks facing us are clear. The global economy is fragmenting and countries across the globe are undergoing significant economic transitions – in demography, in technology, in climate – while also experiencing a period of unprecedented innovation. Consumers are adapting and in the face of a changing ecosystem, central banks, regulators, and businesses have to adapt, evolve and transform as well. The value provided by the OECD, given their knowledge of how countries and regulators across the globe are facing into these challenges, is clear.

For our part, we are changing how we work and ensuring our frameworks reflect an increasingly digital world. As the financial services sector evolves, so too must our approach to supervision and regulation to ensure it remains fit for purpose. This need to adapt, evolve and transform is at the core of our Strategy.

A key element of this is the work we are finalising on our review of the Consumer Protection Code to ensure it is future-ready. As I have said before, "the Code is a cornerstone of consumer protection in financial services in Ireland, establishing a set of rules and expectations for how firms should treat their customers and has allowed the Central Bank to intervene to protect consumers." The changes we have proposed build on the existing Code, reflecting the provision of financial services in a digital world.

We have had very active and important engagement with stakeholders on the Code, with feedback coming through from across industry, civil society and other government agencies and regulators, as well as from the Minister for Finance. The feedback we have received has been broadly positive with many stakeholders welcoming the proposals.

We are aiming to publish the revised Code early in the New Year. When implemented, consumers will benefit from a package of protections that reflect how they are accessing financial services today. Regulated firms will benefit from a clearer articulation of their Code obligations.

As you know, we are also making changes to our supervisory model, which we will begin to implement in January. The new model remains risk-based, but is evolving to deliver a more integrated approach drawing on all elements of our mandate (consumer and investor protection, safety and soundness, financial stability and integrity of the system).

This enhanced approach is based on accumulated experience, on insight, on best practice and is built for a faster moving and more complex financial services sector. Firms will hear one consistent voice from the Bank, with more coordinated messaging and more streamlined demands across the full span of our regulatory and supervisory mandate.

We will promote a more open and transparent supervisory approach. To enable and implement our new supervisory framework we need the right operational approach and organisational structure. We are moving to an organisational structure where our regulatory and supervisory directorates will have teams responsible for integrated supervision across all our regulatory outcomes.

Importantly, our supervisory model will place consumer protection at the heart of day-to-day supervision. It will position us better as an organisation to meet our objectives to ensure consumers of financial services are protected in this changing financial landscape, as highlighted by the OECD report.

This is why this review by the OECD is so important, as it provides us with recommendations and insights that will support our ambition to transform and will be incorporated into our transformed supervisory approach.

The OECD's assessment that the Central Bank is operating in line with the High Level Principles is very positive. We also welcome the recommendations on how we can further enhance our approach, in particular the insights on international best practice and peer comparisons, which we will consider carefully. I very much welcome the OECD's focus on how we can further strengthen the way in which we engage with and listen to consumers, the way in which we provide them with information, and ultimately how we measure our effectiveness in terms of outcomes.

We know that engaging with consumers, listening to them and hearing their views and perspectives will also support an important part of our vision, to build and maintain trust in the Central Bank. We know that trust is fundamental to allow central banks and other public institutions to be effective. Without the trust of the public that it serves, an institution will struggle to function and I especially welcome that the OECD has recognised this link in many of its recommendations.

The implementation of the OECD recommendations will sit alongside our new regulatory and supervisory framework and the new Consumer Protection Code and ensure regulated firms are operating under a modernised set of rules and approaches as we face into the challenges of a changing global economy.

Let me conclude with three particular thank yous.

First, to the various organisations and representative groups that met with the OECD and provided important insights and perspectives to inform and support the review team's analysis. It is good to see so many of you here. We value and appreciate your contributions, not just to this review but throughout our broader engagements and discussions.

Second, to the OECD and its review team for carrying out this important piece of work. It reinforces our commitment to continuous improvement and our openness to learning.

And third, to Derville Rowland, Colm Kincaid and everyone involved in consumer protection at the Central Bank for ensuring we continue to deliver on our constant and predominant aim in a rapidly-changing world.

Source: https://www.bis.org/review/r241218h.htm

TOP BANKING NEWS

- **Big banks, business groups sue US Federal Reserve over annual stress tests**

  Major banks and business groups sued the Federal Reserve on Tuesday, alleging the US central bank's annual "stress tests" of Wall Street firms violate the law.

  The lawsuit filed in US District Court in Columbus, Ohio, claims the Fed's practice of determining how big banks perform against hypothetical economic turmoil, and assigning capital requirements accordingly, do not follow proper administrative procedure. Plaintiffs included the Bank Policy Institute, the US Chamber of Commerce and the American Bank Association.

  The lawsuit marks the latest example of the banking industry growing bolder and challenging in court their regulators' powers, particularly in the wake of recent Supreme Court rulings placing fresh restrictions on administrative authority.

  In June, the Supreme Court dealt a major blow to such power by overturning a 1984 precedent that granted deference to government agencies in interpreting laws they administer. The so-called "Chevron doctrine" had called for judges to defer to reasonable federal agency interpretations of US laws deemed to be ambiguous.

  While the 2010 Dodd-Frank law passed following the global financial crisis broadly requires the Fed to test banks' balance sheets, the capital adequacy analysis the Fed performs as part of tests, or the resulting capital it directs lenders to set aside, are not mandated by law.

  Specifically, the groups are calling for the Fed to make public and subject to feedback the now-confidential models they regulators use to gauge bank performance, as well as details of the annual scenarios they create to test for weaknesses. The groups said they did not want to kill the stress testing program, which provides an annual bill of health to the nation's biggest firms, but argue the process needs to be more transparent and responsive to public feedback.

  On Monday, the Fed announced plans to pursue similar changes ahead of the 2025 exams, citing recent legal developments, but the industry opted to proceed with its lawsuit. A Fed spokesperson declined to comment on the lawsuit on Tuesday.

  "The opaque nature of these tests undermines their value for providing meaningful insights into bank resilience," Rob Nichols, president and CEO of the American Bankers Association, said in a statement.

  "We remain hopeful the Fed will address long-standing issues with the stress tests, but this litigation preserves our ability to seek legal remedies if the Fed falls short." These tests, which banks have complained for years are opaque and subjective, are a central piece of the US regulatory bank-capital structure. The Fed has long resisted calls to completely open up the testing process, due to concerns that it could make it easier for banks to clear the exams.

  How banks perform on the test informs how much capital they must set aside to meet their obligations and also dictate the scope of dividend payouts and stock buybacks.

  Source: https://www.business-standard.com/world-news/major-banks-planning-to-sue-us-fed-over-annual-stress-tests-report-124122401122_1.html

- **99% of Tripura villages now have banking access within 5 km: CM Saha**

  Tripura Chief Minister Manik Saha on Saturday said that over 99% of villages in the state have banking access within a five-kilometre radius, and a total of 10 lakh 83 thousand bank accounts have already been opened under the PM-Jan Dhan Yojana.

  The event was also attended by Union Home Minister Amit Shah, Union Minister of DoNER Jyotiraditya Scindia, Union MoS Sukanta

Majumder, and Arunachal Pradesh Chief Minister Pema Khandu.

While addressing the North East Bankers Conclave, Saha highlighted the significant progress made in expanding banking access in Tripura, with over 99% of villages having banking access within a 5-kilometer radius.

"It is a privilege to address this platform that underscores the pivotal role of financial institutions in catalyzing economic transformation. Over 99% of our villages in Tripura have banking access within a five-kilometre radius. A total of 10 lakh 83 thousand bank accounts have already been opened under the PM-Jan Dhan Yojana, with deposits of Rs 617 crore.

Saha announced that the average deposit in PM-Jan Dhan accounts in the state stands at Rs 5,702 per account, surpassing the national average of Rs 4,357.

"The average deposit in PM-Jan Dhan accounts is Rs 5,702 per account, against the national average of Rs 4,357. The state government is trying to achieve 100% financial inclusion through flagship schemes like PM Suraksha Bima Yojana, PM Jeevan Jyoti Bima Yojana, Atal Yojana, Mudra Yojana, and Sukanya Samriddhi Yojana," he said.

CM Saha stated that Tripura has achieved complete financial inclusion, with every village in the state now having access to a banking touchpoint or outlet, in line with the National Strategy for Financial Inclusion guidelines.

"Every district and block has ATM facilities. The State Level Banking Committee of Tripura has received the Award of Excellence since the financial year 2021-22 under the Atal Pension Yojana scheme. In our state, several financial literacy centres are running to scale up to cover all 58 blocks. A total of 2,800 business correspondents are playing an important role in increasing financial inclusion in the state by facilitating banking services at very low costs. Banks have made commendable efforts in priority sectors by lending to agriculture loans and MSME credits, which have seen notable growth," said Saha.

He also mentioned that all banks and micro-financial institutions are participating in providing Mudra loans to unemployed youths in the state.

"Credit-Deposit Ratio is the most important criterion for the economic development of the state. The state government has set a target under Lakshya 2047 to increase the CD ratio to 80%," he said.

Earlier in the day, Saha attended the 72nd Plenary Session of the North Eastern Council and the North East Space Application Centre Society meeting chaired by Union Home Minister Amit Shah, Union Minister of DoNER Jyotiraditya Scindia, and Union MoS Sukanta Majumder. In the meeting, Chief Ministers and Governors of all the northeastern states were present.

Source: https://www.business-standard.com/india-news/99-of-tripura-villages-now-have-banking-access-within-5-km-cm-saha-124122200027_1.html

- **Indian Banks' Profitability Soars with Low NPAs and Strong Credit Growth**

Public sector banks (PSBs) reported a 25% rise in net profit in H1 2024-25, aided by improved asset quality, reduced NPAs (3.12% in Sep 2024), and strong credit growth. With a CRAR of 15.43%, PSBs are well-positioned for growth.

Indian public sector banks (PSBs) have reported strong profitability, with a 25% increase in net profit in H1 2024-25, totaling Rs 85,520 crore, compared to Rs 68,500 crore in H1 2023-24. This upward trajectory is expected to continue, driving PSB profits beyond the Rs 1.5 trillion mark for FY25. Key factors contributing to this growth include low NPAs, robust credit growth, and a solid capital adequacy ratio.

Strong Financial Performance and Profitability Growth

PSBs recorded their highest-ever net profit of Rs 1.41 trillion in FY24, driven by improvements in asset quality, healthy capital ratios, and increasing returns on assets. The Gross NPA ratio has seen a sharp decline to 3.12% in September 2024 from a peak of 14.58% in March 2018, reflecting effective measures to address banking sector stress.

Improved Capital Health and Resilience

The Capital to Risk (Weighted) Assets Ratio (CRAR) of PSBs has significantly improved to 15.43% in September 2024, surpassing the Reserve Bank of India's (RBI) minimum requirement of 11.5%. This indicates strengthened financial health and positions PSBs to better support economic growth. The implementation of the 4Rs—Recognition, Recapitalization, Resolution, and Reform—since 2015 has been instrumental in this recovery.

Digital Fraud Concerns and Measures to Tackle It

Despite the positive financial trends, banks face challenges with digital fraud, with customers losing Rs 11,333 crore to cybercrime in 2024. Prime Minister Narendra Modi highlighted the risks of digital scams and urged citizens to exercise caution. In response, the RBI has been collaborating with banks and law enforcement agencies (LEAs) to enhance transaction monitoring systems and prevent frauds. The RBI is also piloting the AI/ML model MuleHunter.AITM to combat fraudulent activities.

Key Takeaways

- PSBs' net profit in H1 2024-25 rose by 25%, driven by lower NPAs and strong credit growth.
- The capital adequacy ratio (CRAR) of PSBs stands at a healthy 15.43%.
- The decline in NPAs from 14.58% in 2018 to 3.12% in 2024 showcases the success of targeted reforms.
- The RBI is focused on strengthening fraud prevention systems, with new AI-based models to curb digital scams.

Summary of the news

Key Points	Details
Why in News	Public sector banks (PSBs) reported a 25% rise in net profit to ₹85,520 crore in H1 FY25, aided by low NPAs, credit growth, and robust CRAR. Gross NPA ratio fell to 3.12% in Sep 2024. Digital fraud remains a challenge, with losses of ₹11,333 crore in 2024.
Net Profit (PSBs)	₹85,520 crore in H1 FY25 (up 25% from ₹68,500 crore in H1 FY23).
Gross NPA Ratio (PSBs)	3.12% in September 2024 (down from 14.58% in March 2018).
Highest Aggregate Net Profit	₹1.41 trillion in FY24.
Capital to Risk-Weighted Assets Ratio (CRAR)	15.43% for PSBs in Sep 2024 (RBI minimum requirement: 11.5%).
Return on Assets (RoA)	1.4% in FY24.
Return on Equity (RoE)	14.6% in FY24.
Dividend by PSBs	₹61,964 crore in the last three years.
Digital Fraud Losses	₹11,333 crore in 2024, prompting RBI to introduce MuleHunter.AITM to curb fraud.
RBI's 4Rs Strategy	Recognition, Recapitalization, Resolution, and Reform.
Year-on-Year Credit Growth (SCBs)	12.4% as of November 15, 2024.
Year-on-Year Deposit Growth (SCBs)	11.6% as of November 15, 2024.
Reserve Bank's Initiative	Asset Quality Review (AQR) in 2015 for transparent recognition of NPAs.
Global and National Ranking Impacts	Enhanced banking stability positions India closer to achieving a twin balance sheet advantage.
Prime Minister's Statement	PM Modi urged caution against digital frauds and promoted the "stop, think, take action" mantra.

Source: https://currentaffairs.adda247.com/indian-banks-profitability-soars-with-low-npas-and-strong-credit-growth/

SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2024-2025/100 DOR.STR.REC.54/21.04.048/2024-25	31.12.2024	Department of Regulation	Government Debt Relief Schemes (DRS)	All Commercial Banks (including Regional Rural Banks and Local Area Banks) All Primary (Urban) Co-operative Banks All State Cooperative Banks & Central Cooperative Banks All Non-Banking Financial Companies (including Housing Finance Compa-nies) All All-India Financial Institutions
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12760				
RBI/2024-2025/99 CO.DPSS.RPPD. No.S987/04.03.001/2024-25	30.12.2024	Department of Payment and Set-tle-ment Sys-tems	Introduction of beneficiary bank account name look-up facility for Re-al Time Gross Settlement (RTGS) and National Elec-tronic Funds Transfer (NEFT) Sys-tems	The Chair-man / Man-ag-ing Direc-tor / Chief Executive Officer of Banks par-ticipating in RTGS and NEFT sys-tems
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12759				
RBI/2024-2025/98 FMRD.FMD.No.08/02.03.185/2024-25	27.12.2024	Financial Markets Regulation Depart-ment	Reporting Platform for trans-actions undertaken to hedge price risk of gold	All Authorised Dealer Category-I Banks
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12757				
RBI/2024-2025/97 CO.DPSS.POLC.No.S972/02-14-006/2024-25	27.12.2024	Department of Payment and Set-tlement Systems	Unified Payments Interface (UPI) access for Prepaid Payment Instruments (PPIs) through third-party appli-cations	All Prepaid Payment Instrument Issuers (Banks and Non-banks), National Payments Corporation of India (NPCI) and System Participants
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12756				
RBI/2024-2025/96 FIDD.CO.FSD. BC.No.10/05.05.010/2024-25	06.12.2024	Financial Inclusion and Development Department	Credit Flow to Agriculture – Collateral free agricultural loans	The Chairman / Managing Director / Chief Executive Officer All Scheduled Commercial Banks (includ-ing Regional Rural Banks and Small Finance Banks) All State Co-operative Banks and District Central Co-operative Banks
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12755				

RBI/2024-2025/95 DoR.RET.REC.52/12.01.001/2024-25	06.12.2024	Department of Regulation	Maintenance of Cash Reserve Ratio (CRR)	All Banks
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12754				
RBI/2024-2025/94 DoR.SPE.REC.No.51/13.03.00/2024-2025	06.12.2024	Department of Regulation	Interest Rates on Foreign Currency (Non-resident) Accounts (Banks) [FCNR(B)] Deposits	All Scheduled Commercial Banks (including Regional Rural Banks) All Small Finance Banks All Local Area Banks All Payments Banks All Primary (Urban) Co-operative Banks/ DCCBs /State Cooperative Banks
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12753				
RBI/2024-2025/93 CO.DPSS.POLC.No.S908/02-14-003/2024-25	04.12.2024	Department of Payment and Settlement Systems	Amendment to Framework for Facilitating Small Value Digital Payments in Offline Mode	The Chairman / Managing Director / Chief Executive Officer Authorised Payment System Operators and Participants (Banks and Non-banks)
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12752				
RBI/2024-2025/92 DOR.AML.REC.50/14.06.001/2024-25	04.12.2024	Department of Regula-tion	Implementa-tion of Sec-tion 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanc-tions List: Amendments in 03 Entries	The Chair-persons/ CEOs of all the Regu-lat-ed Entities
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12751				
RBI/2024-2025/91 DoS.CO.PPG.SEC.12/11.01.005/2024-25	02.12.2024	Department of Supervision	Inoperative Accounts / Unclaimed Deposits in banks	The Chairman / Managing Director / Chief Executive Officer All Commercial Banks (excluding Regional Rural banks)
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12750				

Source- https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx

STATISTICAL SUPPLEMENT – RBI

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
					(₹ Crore)
Item	2023	2024		Variation	
	Dec. 22	Dec. 13	Dec. 20	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	-	0	0	0	0
4.2 State Governments	2294	28744	19820	-8924	17526

** Data are provisional; difference, if any, is due to rounding off.*

2. Foreign Exchange Reserves*								
Item	As on December 20, 2024		Variation over					
			Week		End-March 2024		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	5478951	644391	-57543	-8478	87695	-2028	320056	23949
1.1 Foreign Curren-cy Assets #	4732163	556562	-38612	-6014	-29682	-14388	161129	6815
1.2 Gold	558837	65726	-18295	-2330	119518	13052	164099	18252
1.3 SDRs	152069	17885	-548	-112	845	-247	-314	-442
1.4 Reserve Position in the IMF	35882	4217	-87	-23	-2987	-445	-4858	-677

** Difference, if any, is due to rounding off.*

 # Excludes (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC and ACU currency swap arrangements.

3. Scheduled Commercial Banks - Business in India

(₹ Crore)

Item	Outstanding as on Dec. 13, 2024	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2023-24	2024-25	2023	2024
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	22067718	50252	1747643	1592491	2437177	2276161
	(21999902)		(1623672)		(2313207)	(2332316)
2.1a Growth (Per cent)		0.2	9.7	7.8	14.0	11.5
			(9.0)		(13.3)	(11.9)
2.1.1 Demand	2603709	26920	139073	159856	287072	284206
2.1.2 Time	19464009	23332	1608570	1432636	2150106	1991956
2.2 Borrowings	908079	-42944	316663	130136	300195	146087
2.3 Other De-mand and Time Liabilities	1157301	135627	244909	219873	278223	122740
7 Bank Credit	17587669	78713	2104245	1155505	2625038	1808189
	(17142168)		(1528839)		(2049632)	(1938094)
7.1a Growth (Per cent)		0.4	15.4	7.0	20.0	11.5
			(11.2)		(15.6)	(12.7)
7a.1 Food Credit	52307	1053	22594	29226	-12075	9807
7a.2 Non-food Credit	17535362	77661	2081651	1126279	2637112	1798382

1. Data since July 14, 2023 include the impact of the merger of a non-bank with a bank.
2. Figures in parentheses exclude the impact of the merger.

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4. Money Stock: Components and Sources

(₹ Crore)

Item	Outstanding as on		Variation over									
	2024	Fortnight	Financial Year so far		Year-on-Year				Year-on-Year			
					2023-24		2024-25		2023		2024	
	Mar. 31	Dec. 13	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	24831618	26522266	74035	0.3	1624580	7.3	1690648	6.8	2483822	11.6	2553925	10.7
	(24939860)	(26590081)	(72690)	(0.3)			(1650220)	(6.6)			(2497770)	(10.4)
1 Compo-nents (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3410276	3476238	32021	0.9	-4795	-0.1	65962	1.9	143946	4.6	204597	6.3
1.2 Demand Deposits with Banks	2586888	2744780	26144	1.0	141644	6.1	157892	6.1	288959	13.3	282538	11.5
1.3 Time De-posits with Banks	18739918	20202003	19619	0.1	1490397	8.9	1462085	7.8	2039968	12.7	2042641	11.2
	(18848160)	(20269818)	(18274)	(0.1)			(1421658)	(7.5)			(1986485)	(10.9)
1.4 'Other' Deposits with Reserve Bank	94536	99244	-3748	-3.6	-2666	-3.4	4708	5.0	10950	17.1	24149	32.2
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7512016	8048578	13163	0.2	110208	1.5	536562	7.1	750609	11.5	772837	10.6
	(7603571)	(8099444)	(12811)	(0.2)			(495873)	(6.5)			(722898)	(9.8)
2.1.1 Re-serve Bank	1193213	1239095	-3250		-337787		45882		15382		125756	
2.1.2 Other Banks	6318803	6809483	16414	0.2	447995	7.8	490680	7.8	735227	13.5	647081	10.5
	(6410358)	(6860349)	(16062)	(0.2)			(449991)	(7.0)			(597142)	(9.5)
2.2 Bank Credit to Commercial Sector	16672145	17901757	66489	0.4	1520304	10.5	1229611	7.4	2061071	14.8	1951816	12.2
	(17202832)	(18347258)	(55976)	(0.3)			(1144426)	(6.7)			(1821912)	(11.0)
2.2.1 Re-serve Bank	14406	10271	-192		-21318		-4135		-9052		5041	
2.2.2 Other Banks	16657739	17891485	66681	0.4	1541623	10.7	1233746	7.4	2070122	14.9	1946776	12.2
	(17188426)	(18336986)	(56168)	(0.3)			(1148561)	(6.7)			(1816871)	(11.0)

Note: Figures in parentheses include the impact of merger of a non-bank with a bank.

5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Dec. 16, 2024	-	-	75775	-	24824	76241	-	-	-	24358
Dec. 17, 2024	-	-	73193	-	295	90072	-	-	-	-16584
Dec. 18, 2024	-	-	-	-	1734	61125	-1439	-	-	-60830
Dec. 19, 2024	-	-	-	-	3280	52003	1016	-	-	-47707
Dec. 20, 2024	-	-	150004	-	4838	64844	674	-	-	90672
Dec. 21, 2024	-	-	-	-	13552	50583	-	-	-	-37031
Dec. 22, 2024	-	-	-	-	11972	46614	-	-	-	-34642

SDF: Standing Deposit Facility; MSF: Marginal Standing Facility.

The above information can be accessed on Internet at https://wss.rbi.org.in/.

The concepts and methodologies for WSS are available in Handbook on WSS (https://rbi.org.in/scripts/PublicationsView.aspx?id=15762).

Time series data are available at https://data.rbi.org.in

Source: https://www.rbi.org.in/scripts/BS_ViewWssExtractdetails.aspx?id=59397

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **NBFCs top growth rate in micro-finance at 27.6% Y-o-Y by Sept-end FY25**

Non-banking financial companies (NBFCs) clocked the highest growth rate in the micro-finance business at 27.6 per cent year-on-year at September-end FY25 followed by banks at 10.6 per cent. NBFCs-microfinance institutions (or NBFCs-MFI which are dedicated to the business) came in at 9.2 per cent while that of small finance declined by 5.6 per cent. The portfolio-at-risk 31-180 days-past-due has shown a deterioration across all entity types in comparison during the same time period, according to Micro Finance Industry Network (MFIN) in the 51st issue of "Micrometer".

The micro-finance business has come under stress of late and MFIN – the self-regulatory organisation for the sector) has released guidelines for its members to help strengthen underwriting of loans. These guidelines pertain to a more accurate assessment of the monthly repayment obligations of the borrowers.

Source: https://www.business-standard.com/finance/news/nbfcs-top-growth-rate-in-micro-finance-at-27-6-y-o-y-by-sept-end-fy25-124121300588_1.html

- **RBI wary of Fintech companies' vehicle loan drive**

Mumbai: The proliferation of fintech players in the light commercial vehicles and two-wheelers financing space has caught the eye of the regulator. The Reserve Bank of India (RBI) has red-flagged the aggressive onboarding of customers during its interactions with the industry, as the practice simultaneously hurts financial discipline of borrowers and balance sheets of the lenders.

Officials in the know said that the regulator's worry stems from the fact that some fintech companies are tapping first-time buyers of used vehicles and the driver-cum-owner segments-the most vulnerable to unsustainable borrowing

At the end of June 2025, fintech lenders had disbursed total loans valuing ₹37,676 crore as per data with Fintech Association for Consumer Empowerment (FACE), an RBI-recognised self-regulatory organisation in the fintech sector. Sources within the industry say that less than 10% of this was towards used vehicles and first-time buyers. "In frequent interactions with fintech players the regulator has red-flagged vulnerabilities in financing first-time buyers of used vehicles, who remain vulnerable on the asset quality front," said one of the officials in the know.

In August this year, the regulator had also said that some banks and non-banking financial companies were not following norms on top-up loans pertaining to the "loan to value" (LTV) ratio and the monitoring of the end use of funds.

These fintech lenders were also providing support to existing borrowers in the form of top-up loans for purposes such as tyre replacement, insurance purchase, filling up fuel, working capital needs, as well for consumption purposes.

"Excessive loan-to-value ratios and top-up loans have witnessed a downward trend, especially in the used car segment after the increase in delinquency and the warning issued by the regulator a few months ago," said another person. In October this year, the regulator had directed Sachin Bansal's Navi Finserv, Asirvad Micro Finance, Arohan Financial Services and

DMI Finance to cease and desist from sanction and disbursal of loans. The RBI cited material supervisory concerns related to loan pricing practices. The ban on Navi was lifted last week.

The MFI and fintech industry have been grappling with the issue of customers having more than four loans with a total outstanding of more than ₹2 lakh. In the June 2024 edition of Financial Stability Report, the RBI raised the red flag on high delinquency levels of fintech lenders.

"NBFC-fintech lenders have the highest share in sanctioned and outstanding amounts; they also have the second highest delinquency levels, only below that of small finance banks," the RBI had said speaking about personal loans below ₹50,000.

The banking regulator went on to state that vintage delinquency, which is a measure of slippage, remained relatively high in personal loans at 8.2%.

"Little more than a half of the borrowers in this segment have three live loans at the time of origination and more than one-third of the borrowers have availed more than three loans in the last six months," the regulator had stated in the report.

Source: https://economictimes.indiatimes.com/industry/banking/finance/rbi-wary-of-fintech-companies-vehicle-loan-drive/articleshow/116264956.cms

- **NBFC advances to personal loans, MFIs to reduce says CRISIL Ratings**

Asset quality metrics are weakening in the past few quarters in some segments. This has necessitated a recalibration of growth strategies, especially in unsecured loans and microfinance

Unsecured loans given by Non Banking Finance Companies (NBFCs) and credit to microfinance segments, accounting for 23% of the overall NBFC Asset Under Management (AUM) are expected to be impacted the most in the current and next fiscals according to CRISIL Ratings' outlook on the sector. Krishnan Sitaraman, Chief Ratings Officer, CRISIL Ratings said, "Recent regulatory pronouncements have brought to the fore the criticality of compliance — both in letter and spirit — and operational risk management." "Additionally, asset quality metrics are weakening in the past few quarters in some segments. This has necessitated a recalibration of growth strategies, especially in unsecured loans and microfinance," he said. Unsecured lending reported rapid growth in the past three fiscals at a CAGR of 45% and has become the third-largest component of the overall NBFC AUM. But that pace is seen moderating to 15-16% in this and next fiscals.

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Why is RBI keeping an eye on gold loans? | Explained

The microfinance segment is facing asset quality headwinds, so its growth is expected to be muted this fiscal, with a cautious recovery pencilled in for next fiscal. That compares with 25% growth last fiscal, the rating agency said. As per the outlook of CRISIL Ratings the growth in AUM of NBFCs is expected to moderate to 15-17% in the current and next fiscals, a 600-800 basis points (bps) decline from a strong 23% growth seen last fiscal, as they navigate the dynamics of the evolving operating and regulatory environments and recalibrate strategies, While the expected growth will still be above the decadal average of 14% (fiscal 2014-2024), it will moderate from that seen in fiscal 2024 on account of three factors. Firstly, rising concerns around household indebtedness and asset quality risks will have a bearing on growth strategies in specific retail asset segments such as microfinance and unsecured loans. Second, regulatory compliance requirements have intensified with focus sharpening on customer protection, pricing disclosures and operational compliance which will necessitate process recalibration. And third, the access to diversified funding sources, a crucial determinant of growth, especially given the slowdown in bank lending to NBFCs, will differ across NBFCs, it said. AUM growth of NBFCs in the two largest traditional segments — home and vehicle loans (45% of NBFC AUM) — will continue to be driven by fundamentals with limited impact of the above factors. "Home loans are expected to maintain steady CAGR3 of 13-14%. Policy initiatives, such as the re-introduction of the Interest Subsidy Scheme, will provide impetus. Housing finance companies (HFCs) focused on the affordable segment (₹25 lakh loan ticket size) are likely to grow faster at CAGR of 22-23%," it said. "Growth in vehicle finance is estimated to moderate but remain healthy at CAGR of 15-16%. While unit sales growth of new vehicles will be lower, the shift to higher-value vehicles and continued focus on used assets should provide an offset and support overall AUM growth," it added. This sector which had been heavily dependent on banks to access funding has diversified the sources even though bank lending to NBFCs has remained in the range of ₹13-13.5 lakh crore since November 2023 when regulatory risk weights were raised. Ajit Velonie, Senior Director, CRISIL Ratings said, "Our study shows most of the large NBFCs, especially the parent-backed ones, have tapped alternative funding sources such as capital market instruments, foreign currency borrowings and securitisation over the last three quarters." "For the rest, the ability to continue tapping such sources at an optimal cost remains crucial to growth," he added.

Source: https://www.thehindu.com/business/nbfc-advances-to-personal-loans-mfis-to-reduce-says-crisil-ratings/article68937619.ece

TOP INSURANCE NEWS

- **Insurance penetration in India dips to 2.8% despite premium growth: Irdai**

The annual report of Insurance Regulatory and Development Authority of India (Irdai) has reported a worrying dip in insurance penetration, which fell to 2.8 per cent in the 2023-24 financial year, down from 3.7 per cent the previous year. This marks the second consecutive decline in penetration, a measure of premiums as a percentage of the gross domestic product (GDP), despite a 6 per cent increase in premium collections by life insurers, the Irdai 2023-24 annual report showed.

India's insurance penetration lower than global average

India's insurance penetration remains significantly lower than the global average of 7 per cent, which rose from 6.8 per cent in 2022. Insurance penetration in India peaked at 4.2 per cent during the pandemic in 2021-22 but has since declined.

The Irdai report highlighted that low penetration reflects a lack of widespread insurance coverage, a pressing concern in a rapidly developing economy with rising risks and vulnerabilities.

Rs 11.19 trillion in premium income

Total premiums across all insurance categories reached Rs 11.19 trillion, Irdai said. Of this, life insurers in India recorded a premium income of Rs 8.30 trillion in 2023-24, registering a growth rate of 6.06 per cent. General insurance premiums made Rs 1.73 trillion and health insurance premiums Rs 1.17 trillion. Health insurance numbers include personal accident and travel insurance cover.

Rs 7.66 trillion paid in claims

In terms of claims settlement, insurers paid out Rs 7.66 trillion, with life insurance accounting for 70.22 per cent of net premium at Rs 5.77 trillion. Health insurers processed 26.9 million claims, paying Rs 88,101 crore, with an average claim amount of Rs 31,086.

Insurance density below global average

Insurance density, which measures per capita premium, grew marginally to $95 in 2023-24 from $92 the previous year. However, it remains far behind the global average of $889.

Life insurance density remained stable at $70, while non-life insurance density increased to $25 from $22 last year.

Additionally, private sector insurers outperformed public sector players, recording a 15 per cent growth in premiums compared to 0.23 per cent for public sector life insurers.

GST on insurance premiums

The Standing Committee on Finance, chaired by Jayant Sinha, had recommended reducing the goods and services tax (GST) rate on term and health insurance products to alleviate the premium burden, which discourages many from purchasing policies.

The committee also emphasised the need for mass awareness campaigns to educate the public about the importance of insurance and its benefits.

Media reports ahead of the GST Council meeting had anticipated the lowering of GST on insurance premiums at least for senior citizens. However, the council decided to defer its decisions on the matter.

Irdai forecasts 3 per cent growth in premiums

Despite the decline in penetration, the Irdai remains optimistic about growth in specific segments like health insurance, forecasting a 3 per cent real-term growth in premiums for

2024. However, the regulator warned that rising wages and healthcare costs could keep health insurance pricing elevated.

Source https://www.business-standard.com/finance/insurance/irdai-annual-report-2023-24-insurance-penetration-decline-124122500470_1.html

- **Non-life insurers' profit in green in FY24 after 2 straight years of losses**

After two successive years of reporting losses, the non-life insurance industry has turned profitable in FY24.

The aggregate net profit of the non-life insurance industry, which includes general insurers, standalone health insurers, and specialised PSU insurers, stood at Rs 10,119 crore in FY24. This compares to a net loss of Rs 2,566 crore in FY23 and a net loss of Rs 2,857 crore in FY22, according to the Insurance Regulatory and Development Authority's (Irdai) annual report for FY24.

While state-owned general insurance companies reported a profit of Rs 157 crore, the profit after tax (PAT) for private sector general insurers stood at Rs 5,983 crore; The PAT of specialised insurers was Rs 3,063 crore; and the standalone health insurers' reported a net profit of Rs 915 crore.

The underwriting losses of non-life insurers narrowed to Rs 28,555 crore in FY24, a 12.93 per cent year-on-year (Y-o-Y) drop from Rs 32,797 crore in FY23.

The public sector insurers' underwriting losses constituted 66 per cent of non-life industry losses amounting to Rs 18,862 crore and the remaining by private sector insurers stood at Rs 10,758 crore.

Separately, standalone insurers reported an increase in underwriting losses in FY24 at Rs 723 crore compared to underwriting losses of Rs 529 crore in FY23.

The investment income of non-life insurers sets off their underwriting losses.

The underwriting profit of specialised insurers increased to Rs 1,788 crore in FY24 from Rs 1,747 crore in FY23.

According to the annual report, in FY24, the non-life insurance industry underwrote a total direct premium of Rs 2.9 trillion in India, registering a growth of 12.76 per cent from the previous year.

During the same period, these insurers collectively incurred claims to the tune of Rs 1.72 trillion, an increase of 15.39 per cent over the same period last year.

Meanwhile, the investment income of all non-life insurers during FY24 stood at Rs 44,129 crore, up 13.62 per cent from FY23.

Meanwhile, the net profit of life insurance companies rose by 10.79 per cent in FY24 at Rs 47,407 crore compared to Rs 42,788 crore in FY23.

Public sector life insurer Life Insurance Corporation of India (LIC) reported an increase in profits by 11.75 per cent Y-o-Y to Rs 40,675.79 crore. Private sector life insurers together reported an increase in profit by 5.32 per cent to Rs 6,731.49 crore in FY24.

The life insurers earned premiums to the tune of Rs 8.3 trillion, registering 6.06 per cent growth over FY23.

While the private sector life insurers clocked a growth of 15.05 per cent in premium, Life Insurance Corporation (LIC) recorded a growth of 0.23 per cent in premium.

Renewal premium contributed to 54.41 per cent of the total premium underwritten by life insurers in FY24. The balance 45.59 per cent was contributed by the new business premium.

The growth in new business premium was 1.93 per cent compared to renewal business at 9.79 per cent.

According to the report, non-linked products contributed Rs 7.08 trillion, which is 85.36

per cent of total premium. The share of linked premium stood at 14.64 per cent.

Business from traditional products grew by 4.56 per cent and the same for linked products was 15.73 per cent.

Meanwhile, the life insurance industry paid total benefits of Rs 5.77 trillion in FY24 which constitutes 70.22 per cent of the net premium.

The benefits paid on account of surrenders / withdrawals increased by 15.29 per cent to Rs 2.29 trillion in FY24 of which LIC accounted for 58.36 per cent.

Life insurers paid Rs 28,868 crore in death claims in FY24 in individual business, and Rs 19,644 crore in group business.

Source: https://www.business-standard.com/finance/insurance/non-life-insurers-profit-in-green-in-fy24-after-2-straight-years-of-losses-124122300969_1.html

- **Banca cap may impact banks' net profit by 1-2%, says IIFL Securities**

If bancassurance caps are introduced by the Insurance Regulatory and Development Authority of India (Irdai) to curb mis-selling, it could potentially shave off 15-30 per cent of bank's fee income that they earn by selling insurance and have a bearing on their net profit by 1-2 per cent, said IIFL Securities note on Friday.

The firm added that major banks such as Axis Bank, Kotak Mahindra Bank, State Bank of India, and HDFC Bank could be among the most impacted lenders.

"…banks' bancassurance income pool of $1.7 billion is growing at 25 per cent compounded annual growth rate (CAGR) in the last three years, with higher contribution to revenue for private banks. Our analysis shows banks' banca fee income can decline by 15-30 per cent and profit after tax (PAT) can be impacted by 1-2 per cent if banca caps are introduced, but the actual impact can be mitigated if there is a phased implementation," the report mentioned.

Bancassurance has generated more than Rs 14,500 crore commission income for the banking sector in India, representing 2 per cent of their total revenue in financial year 2024 (FY24).

Contribution of bancassurance to banks' overall fee income and total revenue is higher for private banks at 10 per cent and 2 per cent respectively, versus 7 per cent and 1 per cent for state-owned banks, the report said, adding that despite most private banks following an open architecture policy, the salience of banca income is higher for them because they continue to remain a dominant distribution channel for their insurance subsidiaries.

Additionally, in a separate report, IIFL Securities cautioned that any bancassurance caps that Irdai would likely introduce could impair the insurance industry's ability to sell insurance, unless it comes with a long enough glide path of 3-5 years, which gives them enough time to build alternate distribution channels.

"…mis-selling may not be limited to just the banca channel (and could be prevailing in agency too), in which case, these caps may not fully resolve the issue and may be difficult to implement, as seen in the UPI payment market share as well," said IIFL Securities note.

According to the report, among insurers the most impacted would be SBI Life Insurance, Max Life Insurance, HDFC Life Insurance, ICICI Prudential Life Insurance.

Around one-third of individual life insurance business is sourced via banca distribution channel. While the banca share for private insurers is higher at 53 per cent relative to 3 per cent for public sector insurers.

Reports suggested that Irdai is likely to bring in regulations to limit the overdependence of life insurance companies on their parent banks for business sources through bank channels.

Bancassurance is a partnership between banks and insurance companies to sell insurance products through bank branches. In October 2023, Irdai formed a task force to review the existing bancassurance framework and improve its efficiency amid complaints of mis-selling or forced selling of policies.

Recently, both the finance minister and the Irdai chairman expressed concerns about mis-selling or forced selling of insurance products via banks and stressed the need to restore customer confidence in the system while urging lenders to focus on their core banking services.

In FY23, around 50 per cent of customer grievances against private Insurers (20 per cent for overall industry) were for unfair business practices. However, this constituted a meagre Rs 0.1 per cent of new policies sold, the report said.

Source: https://www.business-standard.com/finance/insurance/banca-cap-may-impact-banks-net-profit-by-1-2-says-iifl-securities-124122000849_1.html

TOP CORPORATE BOND MARKET NEWS

- **Need active participation of pension, mutual funds in corp bond market: SBI**

State Bank of India chairman C S Setty on Wednesday called for active participation by mutual funds and pension funds in the corporate bond market.

"I am sure that a lot of corporates would like to issue bonds. I believe that if household/ corporate savings are finding ways into these three investment categories, it is important that insurance and mutual funds also actively participate in the corporate bond market. I don't see that kind of participation actively coming in," Setty said.

He said the pension/ mutual funds are making investments in AAA-rated bonds and this is not going to help deepen the corporate bond market.

Setty said the corporate bond market has to come into financing of infrastructure as well as balance sheet funding of corporates.

He said the investments are happening not only in equity but also in mutual funds, pension funds and insurance funds.

"We have been debating on depth of the corporate bond market for many years. We could not achieve that depth," Setty said, adding that SBI is the largest issuer of corporate bond and has issued Rs 50,000 crore worth of bonds this year.

Source: https://www.business-standard.com/industry/banking/need-active-participation-of-pension-mutual-funds-in-corp-bond-market-sbi-124121100784_1.html

- **Corporate bond issuances touch all-time high of over Rs 10 lakh crore so far in 2024**

The yield on corporate bonds has declined by around 43 basis points so far in 2024, tracking the easing yield on government securities, prompting more issuers to tap the market and raise funds at better rates.

Fundraising through corporate bonds has surged to a record high of Rs 10.11 lakh crore so far in 2024, driven by factors such as low interest rates, increased issuances by non-banking finance companies (NBFCs), and infrastructure bond issuances by banks.

ccording to the data compiled from Prime Database, over Rs 6 lakh crore, or 60 percent of the total corporate bond issuances so far this year, was raised by NBFCs, which tapped the route after the Reserve Bank of India (RBI) raised risk weights on bank loans to them.

“Diversified borrowings by AAA state-owned entities, reduction in the yield on corporate bonds tracking easing G-sec yield, and infrastructure bond issuances by banks helped increase the bond issuances in 2024,” said Venkatakrishnan Srinivasan, founder and managing partner of Rockfort Fincap LLP.

Further, institutional investors, including insurance companies, pension funds and mutual funds, actively sought long-duration assets amid the declining interest rate environment. This led to over 30 issuances of Rs 5,000-10,000 crore in single tranches, showcasing robust demand for high-quality corporate debt, experts said.

Rise in NBFCs issuances post risk weights

Better rates for fundraising

he yields on corporate bonds have declined by around 43 basis points (bps) so far in 2024, tracking the easing yield on the government securities, prompting more issuers to tap the market and raise funds at better rates.

Usually, whenever the yield on government securities falls, the yield on the other debt instruments such as corporate bonds and state development loans gets adjusted accordingly because G-sec is considered the benchmark for all other rates in the bond market.

G-sec yields eased in 2024 despite no rate cut by the central bank in 2024. Experts said the major reduction in yield took place due to heavy demand from foreign investors, especially for securities present in JP Morgan's global bond index. The 10-year benchmark bond yield fell around 44 basis points so far in 2024.

Further, factors such as stable macroeconomics and benign global interest rate scenario also helped yields cool off.

Srinivasan said as G-Sec yields dropped, AAA corporate bond yields followed suit, compressing spreads and making it an opportune time for corporates to raise debt at historically low rates.

According to the Bloomberg data, yield on AAA rated corporate bonds maturing in three years fell 28 bps, five years by 30 bps, and 10-year by 43 bps.

The falling yield environment benefited top-tier issuers the most, as investor appetite concentrated on AAA-rated papers.

Risk premiums remained high for lower-rated issuers, but even these segments saw some decline in yields due to improved liquidity, risk sentiment and online bond platform providers marketing lower rated bonds, experts said.

Source: https://www.moneycontrol.com/news/business/corporate-bond-issuances-touch-all-time-high-of-over-rs-10-lakh-crore-so-far-in-2024-12891058.html

- **Investors pump over Rs 11K crore in corporate bond funds in 3 months**

Inflows into corporate bond funds have risen to multi-year highs in recent months with the risk-reward dynamics of AAA-rated corporate bonds improving significantly vis-a-vis government securities (g-secs), especially in the near term.

The inflows into corporate bond funds jumped sharply in September 2024 to a multi-year high of Rs 5,039 crore. Investors poured in another Rs 4,644 crore in October. Including around Rs 2,200 crore estimated inflows in November, the three month tally rises to Rs 11,883 crore.

According to experts, the higher yields offered by corporate bonds and the rally in g-sec having already run most of its course makes a case for corporate bond funds, especially for investors having a short-to-medium investment horizon.

"It makes sense to be in corporate bonds right now, especially for those who have a shorter investment horizon. While the rate cuts may benefit g-secs more, corporate bonds have the 'spread' advantage. The yield being offered by AAA corporate bonds is around 50 bps higher," said Joydeep Sen, corporate trainer (financial markets) and author.

The yield on a 5-year g-sec has come down from 7.14 per cent at the start of 2024 to 6.66 per cent now. In the same period, the 5-year corporate bond benchmark yield has increased from 7.47 per cent to 7.8 per cent.

"In the last few months, the sovereign curve has reset lower mainly due to substantial flows which have come in post India's inclusion in the global bond indices. However, similar flows were not seen in corporate bonds. In addition, quantum of supply of the corporate bonds continued on account of refinancing issuances as well as usual requirement on account of credit growth. This has resulted in widening of the spreads to more than the average spread seen in last few years especially in AAA-rated segment," said Prashant Pimple, CIO -Fixed Income, Baroda BNP Paribas Mutual Fund.

Amount raised via corporate bonds in the first half of the financial year (FY) 2025 rose 6 per cent to Rs 4.98 trillion compared to Rs 4.7 trillion during the same time last year.

According to Jalpan Shah- Head Fixed Income at Trust MF, the improvement in banking liquidity and the expected rate cuts are likely to benefit corporate bond investors.

"In the current scenario where growth impulses are weaker while inflation is likely to trend lower in the coming months, the MPC is likely to reduce interest rates over the next year and infuse durable liquidity into the banking system, the corporate bond fund category is likely to benefit. This is why we have seen strong inflows in the corporate bond funds category," he said.

In 2024, debt funds with higher g-sec allocation have topped the returns chart. Excluding credit risk funds, long duration funds lead the returns chart with average return of 12.4 per cent in the one-year period.

Long duration funds largely invest in g-sec and state development loans (SDLs).Gilt funds have also delivered double digit returns in the one-year period. Corporate bond funds have given 8.76 per cent return on an average.

Source: https://www.business-standard.com/markets/stock-market-news/investors-pump-over-rs-11k-crore-in-corporate-bond-funds-in-3-months-124120901053_1.html

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