

E-Bulletin



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INDUSTRY ARTICLE IN THE MONTH

ESG & Indian Businesses

Environmental, Social, and Governance (ESG) has gained significant importance for businesses worldwide, including in India. The growing emphasis on ESG is driven by multiple factors, such as access to green capital, stakeholders' expectations, regulatory requirements, impact on valuations, operational efficiency and consumer demand. The preservation of environment poses the most pressing challenge of our time due to increasing carbon emissions, rising temperatures, melting glaciers, generation of massive e-waste and non-degradable materials. India has committed to net-zero emissions by 2070, a goal aligned with the Paris Agreement. Due to these developments, most responsible corporates have developed a ESG strategy and action plan with well-defined goals. The measures include a substantial shift towards renewable energy, recycling of waste, effluent treatment plants and afforestation.

Key Factors Driving ESG Initiatives

1. Regulatory Compliance

- **Government Policies:** The Indian government has been increasingly focusing on sustainability and corporate responsibility. The Companies Act, 2013 mandates certain companies to spend on Corporate Social Responsibility (CSR) activities, and SEBI (Securities and Exchange Board of India) has introduced guidelines for Business Responsibility and Sustainability Reporting (BRSR).
- **Environmental Regulations:** India has stringent environmental laws, and businesses are under pressure to reduce their carbon footprint, manage waste, and use resources efficiently. Non-compliance can lead to penalties and damage to reputation.

2. Access to Capital & Better Valuation

- **Investor Expectations:** Global and domestic investors are increasingly incorporating ESG criteria into their investment decisions. Indian companies with strong ESG performance are likely to attract more investment, including from ESG-focused funds.
- **Lower Cost of Capital:** Companies with good ESG ratings may benefit from lower borrowing costs, as lenders perceive them to be lower risk.

3. Reputation and Brand Value

- **Consumer Awareness:** Indian consumers, especially the younger generation, are becoming more conscious of the social and environmental impact of their purchases. Companies with strong ESG credentials can build trust and brand loyalty.
- **Global Standards:** For Indian companies looking to expand internationally, aligning with global ESG standards can enhance their reputation and ease entry into foreign markets.

4. Operational Efficiency

- **Resource Management:** Adopting sustainable practices can lead to cost savings through efficient use of energy, water, and raw materials. For instance, renewable energy adoption can reduce dependency on fossil fuels and lower energy costs.
- **Risk Management:** ESG helps in identifying and managing risks related to environmental impact, social issues, and governance. This proactive approach can prevent disruptions and ensure long-term business sustainability.

Creating an effective ESG strategy and plan involves a comprehensive approach that integrates sustainability and responsible business practices into the core

operations and decision-making processes of an organization. Certain key elements are:

Key Elements of ESG Strategy & Plan

1. Leadership and Governance

- **Tone at the Top & Board Oversight:** Establish a dedicated ESG committee within the board of directors to oversee ESG strategy, policies, and performance and Assign senior executives with clear accountability for ESG initiatives, ensuring alignment with corporate strategy.
- **Policies and Codes of Conduct:** Develop and implement ESG-related policies, such as environmental policies, human rights policies, anti-corruption codes, and diversity and inclusion policies.

2. Environmental Strategy

- **Climate Change Mitigation:** Develop a plan to reduce greenhouse gas emissions, including setting science-based targets for carbon neutrality and investing in renewable energy sources.
- **Resource Efficiency:** Implement initiatives to improve energy efficiency, water conservation, and waste management across operations.
- **Sustainable Sourcing:** Ensure that raw materials and products are sourced responsibly,

minimizing environmental impact and promoting sustainability throughout the supply chain.

- **Biodiversity and Ecosystems:** Develop strategies to protect and restore natural habitats and ecosystems affected by business activities.

3. Social Strategy

- Human Rights and Labor Practices, Diversity, Equity, and Inclusion (DEI).

4. Governance Strategy

- Ethical Business Practices
- Corporate Governance, Compliance and Risk Management

6. ESG Performance Metrics and Reporting

Conclusion

A effective ESG strategy and plan requires a holistic approach that integrates environmental, social, and governance considerations into the core business model. By addressing these key elements, companies can not only enhance their ESG performance but also drive long-term sustainability, resilience, and value creation. The ESG journey for every corporate is unique and a customized strategy and plan is necessary to create lasting value.



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TOP SPEECHES

Current Issues in the Indian Banking and Financial Sector

(Inaugural Address by Shri Shaktikanta Das, Governor, Reserve Bank of India - July 19, 2024 - at the Financial Express Modern BFSI Summit, Mumbai)

I am happy to be back at the Financial Express Modern BFSI Summit. I remember having participated in the June 2022 edition of this summit where I had spoken on 'Disruptions & Opportunities in the Financial Sector'. The macroeconomic conditions back then were very different and challenging to say the least, as we were grappling with overlapping shocks from the war in Ukraine and the surge in inflation at a time when the world was still recovering from the Covid-19 pandemic. Since then, we have come a long way. Amidst global challenges and uncertainties, India stands out as a fast growing major economy with stronger macroeconomic fundamentals and a healthy and resilient financial sector.

The theme for today's summit "Decoding Inclusive Growth" aptly captures our combined aspirations for high growth with inclusiveness during the next decade and beyond. The financial sector is a key enabler for the realisation of this aspiration. With India's strong macroeconomic configuration, favorable demographics and significant pace of digitalisation, the Indian financial sector is poised to scale new heights. The recent annual financial results of banks and NBFCs indicate that the financial system remains sound and resilient.¹ Further, macro stress tests² done by the Reserve Bank reveal that the banking sector will continue to remain resilient even under stress scenarios.

In terms of market dynamics, the financial landscape in India is undergoing a structural transformation, driven by factors like innovations in technology, financial deepening, and changing savings and investment patterns, etc. Each of these shifts has a bearing on how financial entities carry out their business and adapt to the emerging risks.

New and emerging technologies have reshaped the financial services industry by bringing in innovative

solutions and personalised products. The demand-side factors such as rising customer expectations for digital services and the supply-side factors relating to regulatory support and emergence of Fintechs have converged to deliver a frictionless customer experience. The Reserve Bank has also been actively fostering innovation by envisaging mechanisms like the United Payment Interface (UPI), regulatory sandbox, co-lending models, account aggregator framework, etc. With the synergies provided by mobile phone penetration, internet availability, reoriented payment systems and the multitude of customer data points, lending institutions as well as financial markets have been able to leverage upon such mechanisms to amplify their reach to the target segments and also carry forward the agenda of a more inclusive financial sector.

Overall, there has been a transformation in the banking and financial landscape in the last decade driven by technological innovations, changing consumer preferences and emergence of alternative business models. While these have fostered competition and collaboration, they also have implications for consumer trust and regulatory oversight. Such structural changes also create opportunities as well as challenges. Financial institutions like banks, NBFCs and others need to carefully assess the impact of these changes on their business models, resilience and sustainability.

As Walter Bagehot said: "Adventure is the life of commerce, but caution,...is the life of banking"³. These words are relevant even today. As I have stressed in various fora, good times often sow the seeds of complacency and vulnerability. In my address today, I would like to present my perspective on some of the contemporary issues and emerging risks that banks and other financial entities need to address. There are nine issues which I wish to highlight.

I. Loan and Deposit growth

Let me first touch upon the current divergence between loan and deposit growth rates. It goes without saying that there will always be some gap between the two, but credit growth should not run ahead of deposit growth by miles. More so, when banks are required to maintain CRR, SLR, LCR, etc. It is, of course, recognised that almost every loan creates a new deposit in the borrower's name or adds to his or her account balance. In other words, money begets money in the banking system. But the fundamental point is that there has to be a reasonable balance between credit and deposit growth.

As I just mentioned, deposit mobilisation has been lagging credit growth for some time now. This may potentially expose the system to structural liquidity issues. While there could be a debate regarding 'deposits funding loans' vis-à-vis 'loans funding deposits', the current regulatory concern stems from the fact that there could be structural changes happening which banks need to recognise and, accordingly, devise their strategies. Households and consumers who traditionally leaned on banks for parking or investing their savings are increasingly turning to capital markets and other financial intermediaries. While bank deposits continue to remain dominant as a percentage of financial assets owned by households, their share has been declining with households increasingly allocating their savings to mutual funds, insurance funds and pension funds. To be precise, households are increasingly turning to other avenues for deploying their savings instead of banks.

On their part, banks have sought to fill the credit-deposit gap by increasing their reliance on other sources like short term borrowings, Certificates of Deposit, etc. This increases their sensitivity to interest rate movements and poses challenges to liquidity risk management. The shift in deposit preferences from current account and savings account (CASA) deposits⁴ has various implications which banks need to keep in mind. With credit growth remaining strong, banks need to continuously focus on improving and refining their credit underwriting standards and pricing of risks.

II. Management of Liquidity and Interest Rate Risks

The 2023 banking crises in certain advanced jurisdictions have brought to focus the risks to banking stability from certain business models and their inherent vulnerabilities.

These incidents have also triggered debates and rethink at the global level⁵ about design and calibration of the Basel III liquidity standards, deposit insurance and resolution tools. Hence, it is imperative that our banks put in place prudent liquidity management measures proactively. It has to be borne in mind that incorrect valuation of liquid assets can give a false sense of short-term liquidity resiliency, which is not desirable. The Reserve Bank, on its part, is reviewing the Liquidity Coverage Ratio (LCR) framework to address the emerging issues. This will be done after detailed public and stakeholder consultations.

Interest rate risk is inherent to the business of banking. Last year's banking crises in certain countries have also shown the importance of managing Interest Rate Risk in the banking book⁶. The books of banks are highly sensitive to interest rate fluctuations. It goes without saying that banks need to manage their interest rate risk exposures using processes and systems commensurate with their business models, risk profile, earnings and capital levels, complexity, and scope of operations.

III. Cybersecurity and IT related risks

In an era of increasing technological footprint and rapid digitalisation, it is critical that due emphasis is placed on managing cybersecurity and IT risks. Globally, there are growing incidences of cyber attacks on the IT systems of banks and financial institutions. This necessitates highest level of vigil and strengthening of the IT systems by banks and other financial institutions. The Reserve Bank's supervisory assessments continue to stress on the importance of improving Information Technology governance arrangements; making the technology systems, processes and infrastructure more resilient; and mitigating third-party risks. Banks and other financial entities need to continuously invest

in technology while also developing the right kind of capabilities to successfully tackle these challenges.

IV. Digital Frauds

Another area of concern is the rise in digital frauds. Though many of such frauds are due to various social engineering attacks on customers, there is also a rapid increase in use of mule bank accounts to perpetrate such frauds. This exposes the banks not only to serious financial and operational risks but also to reputational risks. Banks, therefore, need to strengthen their customer onboarding and transaction monitoring systems to monitor unscrupulous activities, including suspicious and unusual transactions. This also requires effective co-ordination with the Law Enforcement Agencies so that the concerns occurring at a systemic level are detected and curbed in time.

The Reserve Bank is working with banks and Law Enforcement Agencies to strengthen transaction monitoring systems and ensure sharing of best practices for control of mule accounts and prevention of digital frauds. I would again impress upon banks to ensure that necessary measures are taken, including for customer education and awareness, to maintain public confidence in use of digital banking channels.

V. Third Party Risks

In the current business environment, it has become necessary for banks and other financial institutions to outsource certain functions to third parties. While doing so, it is necessary to exercise strong oversight and monitoring of such outsourced activities. Regulations clearly provide that outsourcing of any activity by a regulated entity does not diminish its own obligations. Banks and NBFCs also need to consider whether cost optimisation strategies are leading to over-dependence on third-party vendors even for critical functions without commensurate oversight. We have seen a few instances of this and have dealt with it. Strong governance and oversight mechanisms with regard to third party relationships for both IT and non-IT services are essential components of resilience for any financial institution. The protocol with the outsourced agency should clearly define the

roles and responsibilities of both the parties in such relationships. The Reserve Bank has already issued guidelines on IT outsourcing⁷ and draft directions on managing risks and code of conduct in outsourcing of financial services⁸.

VI. Issues in unsecured retail credit

The rise in share of retail portfolio within overall bank credit is a recent system-wide trend. As you may be aware, the Reserve Bank has taken certain pre-emptive measures in November, 2023 to ensure that growth in these segments does not lead to potentially excessive risk build-up. These measures appear to have led to a certain degree of moderation in the targeted segments, as observed in our recent Financial Stability Report. It needs to be emphasised that the delinquency levels and leverage in small ticket consumer loans warrant enhanced vigil. Matters such as fixing limits on unsecured exposures are left to the Boards of banks and NBFCs. It has, however, been observed by our supervisory teams that some entities have fixed very high ceilings, even where they already have a high exposure. While it is not our intention to be prescriptive on such matters, banks and NBFCs are expected to show prudence and avoid exuberance.

VII. Conduct related issues

Fair conduct is not just a regulatory requirement; it is a core business requirement. I am emphasising on this issue of fair conduct because conduct risks may arise even when the going is good, as it prevails now. Conduct risk needs to be seen together with risk culture. Fair conduct and practices foster consumer confidence and public trust in financial institutions and strengthen their stability. The Reserve Bank has issued regulations from time to time to ensure fair and responsible conduct by the regulated entities. In the recent past, guidelines have been issued on Key Facts Statement (KFS); penal charges in loan accounts; reset of floating interest rate in EMI based personal loans; and release of movable or immovable property documents on repayment or settlement of loan accounts. We still come across instances of regulatory entities resorting to high-handed recovery

practices; framing non-transparent loan contracts with inadequate disclosures of important terms or non-disclosure of charges; levying excessive interest rates, especially in micro finance loans, etc. Let me emphasise that overall there has been considerable improvement in governance, quality of assurance functions and adherence to fair conduct guidelines in recent years. The concerns I have highlighted here pertain to some of the Regulated Entities of the Reserve Bank. These are not system-wide issues but are essentially outlier cases.

Critical issues relating to conduct sometimes get sidestepped in the pursuit of short-term gains. For instance, charging of very high interest rates by certain regulated entities for micro finance loans is not in order. I would like to reiterate what I said in my monetary policy statement on June 7, 2024: regulated entities should use their regulatory freedom responsibly to maintain fair and transparent pricing of small value loans. Unfair or usurious practices under micro finance loans would compel us to have a re-look at the revised regulatory framework for microfinance loans issued in March 2022.

VIII. Transition Financing

Climate change poses a growing threat to economic growth, and it needs immediate and sustained action on all fronts. Recent extreme weather events globally and in India such as heat waves, droughts, floods and wildfires are stark reminders that we have to take decisive actions.

The Reserve Bank has initiated steps to address the risks posed by climate change to the financial system. Since we commenced this journey, several initiatives have been undertaken, which inter alia include issuance of framework for Sovereign Green Bonds; acceptance of green deposits; and issuance of draft disclosure framework for climate-related financial risks⁹. Going forward, our overarching approach would be to consider 'sustainability aspects' as a focal point of the entire credit ecosystem. The onus of spearheading sustainability initiatives will, however, reside with the regulated entities eventually. These entities have a

crucial role to play in climate action by taking steps to provide climate finance. They need to explore innovative transition financing models. At the same time, they should also be mindful of associated risks and greenwashing concerns. In addition, the regulated entities may undertake "transition planning"¹⁰ to prepare for risks and potential changes in business models of their borrowers who may undertake such transition.

IX. Private credit markets

Private credit as a preferred alternative mode of capital mobilisation is growing rapidly. It is emerging as an attractive investment avenue for investors with high-risk appetite. While these markets may carry economic benefits by providing a greater pool of financing outside of the regulated financial markets and institutions, and their risks appear contained at present, it is important to bear in mind that vulnerabilities and interconnectedness in these markets can amplify negative shocks and pose financial stability concerns. We continue to remain watchful of such developments and would welcome ideas and thoughts in this regard.

Conclusion

In conclusion, I would like to emphasise that banks and financial institutions have a critical role in taking India to the next phase of economic growth. Regulated Entities of the Reserve Bank like Banks and NBFCs are well positioned in terms of capital, asset quality and profitability to contribute to the economic acceleration. Embracing technology and innovation, while remaining focused on governance and risk management, can ensure sustained capacity and resilience of the financial sector and enable it to meet the needs of our growing economy. While much has been achieved, there is still more to accomplish.

With these words, I thank the organisers for giving me this opportunity and wish the Summit all success.

Thank You.

Source - https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1447

Speech by Ms Michelle W Bowman, Member of the Board of Governors of the Federal Reserve System, at a Fed Listens event on "Exploring Challenges Facing the Childcare Industry, Working Parents, and Employers", Chicago, Illinois, 10 July 2024.

Thank you, Austan, for the warm welcome. It is really a pleasure to join you in Chicago for this year's Fed Listens event.¹ When we started Fed Listens back in 2019, the initiative was part of a broad, comprehensive review of the decision making framework we use to pursue our monetary policy goals of maximum employment and price stability. In the years that followed, we have met with people from across the country and from a wide variety of backgrounds and experiences to learn about how the economy has been recovering from the COVID experience.

Each Fed Listens event created a wonderful opportunity to take a step back, to ask questions of those who are directly impacted by our policies and the prevailing economic conditions, and then really listen to their feedback. I am extremely proud that Fed Listens has grown and developed into an ongoing venue for the Federal Reserve Board and the Reserve Banks to foster an ongoing conversation and discussion with those who are directly experiencing current economic conditions.

As many of you may recall, at last year's Fed Listens event here in Chicago, we discussed youth employment and joining the labor force following the pandemic, which were especially inspiring. So, in that spirit, today is not only a wonderful opportunity to continue this important conversation in the Seventh District, but also an opportunity to dig deeper into issues that affect local families through the childcare industry, working parents, and employers.

Austan and I enjoyed getting to know our panelists better earlier today, and I am looking forward to learning more about their experiences through the upcoming panels and discussions. I am also very pleased to welcome our audience—both in person and those tuning in online. I view Fed Listens as an excellent example of Board and System convenings that enable us to gain important insights about economic conditions by engaging directly with those experiencing the economy.

As you all know, Fed officials and economists review a vast amount of economic data on a regular basis. Discussions like those we will engage in today provide color and context to supplement the other economic data we monitor. Your perspectives help us gain deeper insights into how we are meeting our dual mandate of maintaining maximum employment and stable prices.

A better understanding of a wide variety of this type of data, from the considerations families face in making spending decisions (including the costs of childcare) to factors weighed by business owners in applying for loans and offering benefits to help attract top talent, all provide better insight into our data collection. These conversations help us to gain perspective on how Americans in different areas of the country are faring. Some of the issues discussed today may be unique to the Seventh District, but certainly many of these themes and dynamics are present throughout the country and across all 12 Federal Reserve Districts. Seeking out local perspectives is one of the great advantages of the Federal Reserve System's regional structure and of the Fed Listens structure in particular.

Earlier, I had the pleasure to meet each of the panelists you'll hear from today. Their varied experiences and backgrounds across sectors lay an important foundation for today's discussion. We hope that our attendees will also join in to share your own observations as you experience these issues in your own lives, businesses, and communities. Your perspective will help to inform our work as policymakers with the responsibility to promote a strong and vibrant economy for all Americans.

So with that, I would like to say, thank you again, Austan, and especially to recognize your entire Chicago Fed team for hosting this Fed Listens event today and for the opportunity to be part of this discussion.

Without further ado, I am delighted to get our conversation started by turning things over to Robin Newberger, who is a policy advisor here at the Chicago Fed.

TOP BANKING NEWS

- **RBI governor Das urges bankers to step up efforts against mule accounts**

Mule accounts are bank accounts that serve as conduits in money-laundering process, receiving funds from illicit activities and then transferring them to other destinations.

Reserve Bank of India governor Shaktikanta Das on Wednesday urged heads of select public and private sector banks to step up efforts against mule accounts and asked them to intensify efforts to curb digital frauds.

In a meeting with the bank chiefs, which was also attended by RBI deputy governors M. Rajeshwar Rao and Swaminathan J., Das emphasized the need for lenders to ensure robust cybersecurity controls and asked them to effectively manage third-party risks. He also highlighted the importance of further strengthening the governance standards, risk management practices and compliance culture in banks.

In its previous meeting with banks in February this year, the RBI had asked them to continue to maintain vigil around build-up of risks, if any. It also highlighted the issues relating to business model viability, outlier growth in personal loans, adherence to co-lending guidelines and bank exposure to NBFC sector, among other things

Source: <https://www.livemint.com/industry/banking/rbi-governor-das-urges-bankers-to-step-up-efforts-against-mule-accounts-11720015245829.html>

- **RBI asks lenders to hear out loan defaulters before tagging accounts as 'fraud'; check revised norms**

The Reserve Bank of India has asked financial institutions to give borrowers adequate time before they are classified as fraudulent accounts.

The Reserve Bank of India (RBI) on Monday, July

15, asked banks and other financial institutions to give defaulting borrowers adequate time before they are classified as "fraud accounts".

The banks now have to issue show-cause notices to fraudulent account holders which will have the full details of the fraud, said the RBI in a release. The central bank statement also said a reasonable time of "not less than 21 days" should be given to defaulters to respond to the show-cause notice.

The change in the current rule comes after the Supreme Court of India marked in a judgement in March 2023 that banks cannot independently declare a bank account as fraud without giving the chance to the account holder to present its case. The principles of natural justice that are to be followed by the regulated entities demand that the borrowers must be presented with a notice which allows them to explain the conclusion of the audit report and they are to be allowed to represent themselves in front of the regulated entities. This should happen before an account is classified as a fraud account under the master directions of the RBI. According to the RBI guidelines, the board of financial institutions must review their fraud risk management policy once every three years. The banks are also required to set up a special committee from the board that allows them to monitor and take follow-up action on fraud cases.

The new amendment of the master directions mandates the banks to have a framework for Early Warning Signals (EWS) and flag the fraud accounts which are under suspicion of the bank for one or more reasons in case of potential fraud. This will come under the overall risk management policy.

In addition to the said guidelines, the RBI has mandated banks to strengthen their EWS system by recognising suitable potential indicators of fraud.

These directions have now been made applicable

to Regional Rural Banks, Rural Cooperative Banks and Housing Finance Companies as well, with the intent of promoting better fraud risk management systems and frameworks in such REs, according to the RBI statement.

Source <https://www.livemint.com/industry/banking/rbi-asks-lenders-to-hear-out-loan-defaulters-before-tagging-accounts-as-fraud-check-revised-norms-11721050426040.html>

- **Digitalisation can expose consumers to impulsive spending, data breaches: RBI report**

In the Report on Currency and Finance (RCF) for 2023-24, released on Monday, the RBI said digitalisation-induced changes in the behaviour of consumers and financial intermediaries can have implications for monetary policy.

While digitalisation improves accessibility and convenience of financial services, it can expose consumers to impulsive spending, herd behaviour and data breaches, the Reserve Bank of India (RBI) said in a report.

In the Report on Currency and Finance (RCF) for 2023-24, released on Monday, the RBI said digitalisation-induced changes in the behaviour of consumers and financial intermediaries can have implications for monetary policy.

Digitalisation can also create a more complex and interconnected financial system with implications for financial stability.

"While improving accessibility and convenience of financial services for customers, digitalisation raises concerns related to impulsive spending, herd behaviour and data security," the report said.

Digital platforms enable quick dissemination of financial trends and choices, allowing information about investments, spending habits, and financial products to spread rapidly across social networks, it said.

When customers observe large groups engaging in certain financial activities, such as mass buying or

selling of stocks during a market frenzy, they are more likely to follow the crowd.

Similarly, driven by herd behaviour, depositors may withdraw their money from banks, leading to potential bank runs or failures, the survey said.

In terms of data breaches, the survey said that the average cost of data breaches in India stood at \$2.18 million in 2023, a 28 per cent increase since 2020 albeit less than the global average cost of data breach. The most common attacks in India are phishing (22 per cent), followed by stolen or compromised credentials (16 per cent), the report said.

The report said that digitalisation can impact inflation and output dynamics, and monetary policy transmission in diverse manners and the overall impact could vary over time given the fast pace of developments.

The monetary policy impact could be dampened if digitalisation leads to shifting of credit supply from banks to less-regulated / unregulated nonbanks, or by offsetting reductions in bank deposits

"In this environment, central banks would need to incorporate digitalisation aspects comprehensively into their models for the continued efficacy of monetary policy and the achievement of their price and financial stability goals," the report said.

The RBI has been undertaking proactive policy measures to harness the benefits of digitalisation while mitigating the emerging risks of digitisation in the financial sector.

The report, however, said that digitalisation can provide a strong boost to India's external trade in goods and services, given the country's relative comparative advantage in modern services exports, which are not conditional upon the geographical proximity of the trading partners.

Digitalisation in international payment systems has the potential to reduce the cost of receiving remittances, thereby leading to higher remittances and income or savings for the recipients.

Earlier this month, the RBI joined Project Nexus, a multilateral international initiative to enable instant cross-border retail payments by interlinking domestic Fast Payments System (FPS). As part of the project, the country's Unified Payments Interface (UPI) and FPSs of Malaysia, the Philippines, Singapore and Thailand will be interlinked through Nexus.

Last year, the country's real-time retail payment system Unified Payments Interface (UPI) and its equivalent network in Singapore PayNow got integrated, to enable faster remittances between the two countries at a competitive rate. The RBI and the Central Bank of UAE (CBUAE) had also signed a memorandum of understanding (MoU) for cooperation for interlinking UPI of India with Instant Payment Platform (IPP) of UAE.

The RBI's report further said that cross-border digital trade policies would play a crucial role in harnessing new opportunities, building trust, and facilitating coordination on regulatory aspects like data security and cybersecurity. The internationalisation of the rupee is also progressing backed by a comprehensive and integrated policy approach, it said.

The report said that the UPI has seen a tenfold increase in volume over the past four years, increasing from 12.5 billion transactions in 2019-20 to 131 billion transactions in 2023-24 – 80 per cent of all digital payment volumes. Currently, the UPI is recording nearly 14 billion transactions a month, buoyed by 424 million unique users in June 2024.

Source: <https://indianexpress.com/article/business/banking-and-finance/digitalisation-can-expose-consumers-to-impulsive-spending-data-breaches-rbi-report-9483531/>

- **Reserve Bank of India releases PCA framework for urban cooperative banks**

The Reserve Bank of India (RBI) on Friday issued a Prompt Corrective Action (PCA) framework to

take timely steps for improvement of weak Urban Cooperative Banks (UCBs).

The PCA framework for UCBs will replace the existing Supervisory Action Framework (SAF) and come into effect from April 01, 2025.

RBI in a statement said the norms to invoke framework for weak UCB are Capital Adequacy Ratio (CAR) up to 250 basis below the required CAR, net non-performing assets (NPAs) above 6.0 per cent but below 9.0 per cent and incurring losses during two consecutive years.

The breach of any risk threshold may result in invocation of PCA, RBI said.

The new framework will be applicable to UCBs with deposits above Rs 100 crore.

Urban Co-operative Banks have been categorised into four tiers.

The tier 1 consists of UCBs with deposits up to Rs 100 crore, tier 2 are those with deposits above Rs 100 crore and less than Rs 1,000 crore. The tier 3 will consist of UCBs with deposits above Rs 1,000 crore and less than Rs 10,000 crore and tier 4 would have UCBs with deposits above Rs 10,000 crore.

The revised framework is expected to give more focus on the larger UCBs that require intensive monitoring by optimal utilisation of supervisory resources, RBI said in a statement.

Tier 1 UCBs have been excluded from the PCA framework for the present. However, they shall continue to be subjected to enhanced monitoring under the existing supervisory framework, RBI said.

The regulator said a bank will generally be placed under PCA Framework based on the Reported and Audited Annual Financial Results and the ongoing Supervisory Assessment. However, RBI may impose PCA on any bank during the course of a year in case the circumstances warrant.

RBI said the revised framework seeks to provide flexibility to design entity specific supervisory action plans based on the assessment of risks on a case-by-case basis.

The hard-coded limit of Rs 25,000 for restrictions on capital expenditure by UCBs under SAF has been dispensed with.

The revised framework enables the Supervisors to decide the limit depending upon their assessment of each entity.

The exit from PCA and withdrawal of Restrictions under PCA will be considered if no breaches in risk thresholds in any parameters are observed as per four successive quarterly financial statements.

Source: https://www.business-standard.com/industry/banking/reserve-bank-of-india-releases-pca-framework-for-urban-cooperative-banks-124072601273_1.html

- **RBI drafts liquidity norms, adding buffers for electronic fund transfers**

The Reserve Bank of India (RBI) on Thursday released draft guidelines proposing banks to assign additional liquidity buffers for accounts having internet and mobile banking (IMB) facilities to stave off any risks during times of stress.

The draft guidelines follow an announcement by Governor Shaktikanta Das in the April policy review, given the high usage of technological tools in banking that can lead to moving of funds without physically queuing up at bank branches.

"While increased usage of technology has facilitated the ability to make instantaneous bank transfers and withdrawals, it has also led to a concomitant increase in risks, requiring proactive management," the draft circular amending the 2014-issued guidelines on Basel-III Framework on Liquidity Standards' Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards," said.

The draft suggests banks shall assign an additional 5 per cent run-off factor for retail deposits, which are enabled with IMB facilities, wherein stable retail deposits enabled with IMB shall have 10 per cent run-off factor and less stable deposits enabled with IMB shall have 15 per cent run-off factor, the draft said.

It added that unsecured wholesale funding provided by non-financial small business customers shall be treated in accordance with the treatment of retail deposits.

The draft also says if a deposit hitherto excluded from LCR computation like a non-callable fixed deposit, is contractually pledged as collateral to a bank to secure a credit facility or loan, such deposit shall be treated as callable for LCR purposes.

Apart from this, it proposes that 'level 1' high quality liquid assets in the form of government securities shall be valued at an amount not greater than their current market value, adjusted for applicable haircuts in line with the margin requirements under the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF), it said.

The circular will be applicable to all commercial banks, excluding payments banks, regional rural banks, and local area banks, it said, adding that it will be applicable from April 1, 2025.

Comments on the draft circular from the public are invited by August 31, it said.

Source: https://www.business-standard.com/industry/banking/rbi-drafts-liquidity-norms-adding-buffers-for-electronic-fund-transfers-124072501424_1.html

- **No plans to allow business houses to promote banks: RBI Governor Das**

Governor Shaktikanta Das on Friday said the Reserve Bank does not have any plan to allow business houses to promote banks at present.

Allowing corporate houses to promote banks exposes one to conflict of interest risks and

related-party transactions, Das said, speaking at an event organised by the Financial Express here.

"At this point, there is no thinking in that direction," Das said, replying to a specific query on whether there is any consideration to allow business houses.

The RBI had disqualified a long list of conglomerates from floating a lender in the last round of licensing around a decade ago.

The issue was revived again in 2020, with a Reserve Bank of India (RBI) working group supporting it, given the potential to get the capital for helping meet the country's growth aspirations.

Underlining that banks are different from other businesses, he said experience worldover has shown potential conflicts of interest and issues relating to related-party transactions, if business houses are allowed.

India also had business houses engaged in banking fray, Das said, speaking about the time before bank nationalisation in the late 1960s.

"Experience world over has shown that it will be very difficult to monitor or to regulate and prevent related-party transactions. The risks involved are very high," Das said.

He said, while the economy needs the resources to grow, we do not necessarily require more banks to achieve the aspirations.

"What India needs is not proliferation in the number of banks, India needs sound banks, healthy banks, well governed banks which we feel will be able to mobilise savings throughout the country through technology and meet the credit requirements," he said.

Das said that licensing of universal banks has been made on tap and added that applications are welcome.

Das said that the private credit space is growing rapidly and emerging as an attractive investment

avenue for those with high risk appetite at present, and added the RBI is monitoring developments there.

"While risks appear to be contained at present, it is important to bear in mind that vulnerabilities and interconnectedness in these markets can amplify negative shocks and pose financial stability concerns," he said.

Source: https://www.business-standard.com/finance/news/no-plans-to-allow-business-houses-to-promote-banks-rbi-governor-das-124071900573_1.html

SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2024-2025/57 DOR.CAP.REC. No.30/09.18.201/ 2024-25	30.7.2024	Department of Regulation	Guidelines on treatment of Dividend Equalisation Fund (DEF)- Primary (Urban) Co-operative Banks (UCBs)	All Primary (Urban) Co-operative Bank
RBI/2024-2025/56 FMRD.FMID. No.03/14.01.006/ 2024-25	29.7.2024	Financial Markets Regulation Department	'Fully Accessible Route' for Investment by Non-residents in Government Securities – Exclusion of new issuances in 14-year and 30-year tenor securities	All participants in Government Securities market
RBI/2024-2025/55 DOS.CO.PPG.SEC. No.8/11.01.005/ 2024-25	26.7.2024	Department of Supervision	Prompt Corrective Action (PCA) Framework for Primary (Urban) Co-operative Banks (UCBs)	All Primary (Urban) Co-operative Banks
RBI/2024-2025/54 DOR.CRE. REC.29/07.10.002/ 2024-25	25.7.2024	Department of Regulation	Bank Finance against Shares and Debentures	All Primary (Urban) Co-operative Banks
RBI/2024-2025/53 DOR.CRE. REC.28/07.10.002/ 2024-25	25.7.2024	Department of Regulation	Small Value Loans – Primary (Urban) Co-operative Banks (UCBs)	All Primary (Urban) Co-operative Banks
RBI/2024-2025/52 CO.DPSS.POLC. No.S415/ 02.27.019/2024-25	24.7.2024	Department of Payment and Settlement Systems	Domestic Money Transfer – Review of Framework	The Chairman / Managing Director / Chief Executive Officer Authorised Payment System Operators / Participants (Banks and Non-banks)
RBI/2024-2025/51 DoS.CO.PPG/ SEC.4/11.01.005/ 2024-25	12.7.2024	Department of Supervision	Withdrawal of Circulars – Internal Review	All Scheduled Commercial Banks All Foreign Banks

RBI/2024-2025/50 DOR.STR. REC.26/21.06.008/ 2024-25	10.7.2024	Department of Regulation	Basel III Capital Regulations - Eligible Credit Rating Agencies (ECAI)	All Scheduled Commercial Banks (including Small Finance Banks) (excluding Local Area Banks, Payments Banks and Regional Rural Banks)
RBI/2024-2025/49 A.P. (DIR Series) Circular No. 15	10.7.2024	Foreign Exchange Department	Remittances to International Financial Services Centres (IFSCs) under the Liberalised Remittance Scheme (LRS)	All Authorised Persons
RBI/2024-2025/48 A.P. (DIR Series) Circular No. 14	08.7.2024	Foreign Exchange Department	Export-Import Bank of India's GOI-supported Line of Credit of USD 2.50 mn to the Government of Co- operative Republic of Guyana, for installation of Solar Photo Voltaic Power Plant at Cheddi Jagan International Airport	All Category – I Authorised Dealer Banks
RBI/2024-2025/47 A.P. (DIR Series) Circular No.13	03.7.2024	Foreign Exchange Department	Release of foreign exchange for Miscellaneous Remittances	All Authorised Dealers in Foreign Exchange
RBI/2024-2025/46 A.P. (DIR Series) Circular No.12	03.7.2024	Foreign Exchange Department	Online submission of Form A2: Removal of limits on amount of remittance	All Authorised Dealers in Foreign Exchange

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	
	Jul. 21	Jul. 12	Jul. 19	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	0	0	0	0	0
4.2 State Governments	12928	16359	19805	3446	6877
* Data are provisional; difference, if any, is due to rounding off.					

2. Foreign Exchange Reserves*								
Item	As on July 19, 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	5612521	670857	41900	4003	221265	24438	637090	63822
1.1 Foreign Currency Assets #	4919732	588048	28959	2578	157888	17098	512193	50296
1.2 Gold	501909	59992	11864	1329	62590	7318	128048	14379
1.3 SDRs	152323	18207	1028	95	1100	75	909	-267
1.4 Reserve Position in the IMF	38556	4610	50	0	-312	-52	-4059	-586
* 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 Jul. 12, 2024	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2023-24	2024-25	2023	2024
			3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	21177216	-108604	986863	701990	2220776	2146440
	(21090509)		(832868)		(2066781)	(2213727)
2.1a Growth (Per cent)		-0.5	5.5	3.4	13.2	11.3
			(4.6)		(12.3)	(11.7)
2.1.1 Demand	2390991	-210686	996	-52862	225578	209565
2.1.2 Time	18786225	102082	985867	754852	1995198	1936875
2.2 Borrowings	883946	119485	342443	106004	456437	96174
2.3 Other Demand and Time Liabilities	889740	-39830	13229	-47688	167808	86860
7 Bank Credit	16812421	-69755	1071094	380257	2465344	2066092
	(16317876)		(457583)		(1851834)	(2185057)
7.1a Growth (Per cent)		-0.4	7.8	2.3	20.1	14.0
			(3.3)		(15.1)	(15.5)
7a.1 Food Credit	30263	-3641	4398	7182	-11625	5959
7a.2 Non-food Credit	16782159	-66114	1066696	373075	2476969	2060133

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.

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			
	Mar. 31	Jul. 12			2023-24		2024-25		2023		2024	
			Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	24831384	25613962	-87877	-0.3	799926	3.6	782578	3.2	2232790	10.7	2470276	10.7
	(24939627)	(25700669)	(-90567)	(-0.4)			(761043)	(3.1)			(2402988)	(10.3)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Pub-lic	3410042	3468429	22568	0.7	-39764	-1.2	58387	1.7	131537	4.2	231758	7.2
1.2 Demand Deposits with Banks	2586888	2534238	-211999	-7.7	910	0.0	-52650	-2.0	226427	10.8	212730	9.2
1.3 Time De-posits with Banks	18739918	19519324	105349	0.5	841923	5.1	779406	4.2	1857400	11.9	2008435	11.5
	(18848160)	(19606031)	(102659)	(0.5)			(757871)	(4.0)			(1941148)	(11.0)
1.4 'Other' Deposits with Reserve Bank	94536	91971	-3795	-4.0	-3143	-4.0	-2565	-2.7	17426	30.5	17352	23.3
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Gov-ernment	7512016	7637898	213757	2.9	84705	1.2	125882	1.7	829915	12.9	387660	5.3
	(7603571)	(7703246)	(213761)	(2.9)			(99675)	(1.3)			(340540)	(4.6)
2.1.1 Reserve Bank	1193213	1081536	55395		-206212		-111676		113978		-163378	
2.1.2 Other Banks	6318803	6556362	158362	2.5	290917	5.1	237559	3.8	715938	13.5	551038	9.2
	(6410358)	(6621710)	(158366)	(2.5)			(211352)	(3.3)			(503918)	(8.2)
2.2 Bank Cred-it to Commer-cial Sector	16672145	17081935	-62975	-0.4	441121	3.1	409790	2.5	1842958	14.1	2211179	14.9
	(17202832)	(17576480)	(-68660)	(-0.4)			(373649)	(2.2)			(2092213)	(13.5)
2.2.1 Reserve Bank	14406	11107	185		-22505		-3299		-29035		7063	
2.2.2 Other Banks	16657739	17070828	-63160	-0.4	463625	3.2	413089	2.5	1871993	14.4	2204116	14.8
	(17188425)	(17565373)	(-68845)	(-0.4)			(376948)	(2.2)			(2085151)	(13.5)

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		8	9	
Jul. 15, 2024	-	-	-	37220	1854	52129	-	640	-	-88135
Jul. 16, 2024	-	-	-	25009	6251	60632	-	820	-	-80210
Jul. 17, 2024	-	-	-	-	4688	46819	-	-	-	-42131
Jul. 18, 2024	-	-	-	45360	7927	43465	-974	335	-	-82207
Jul. 19, 2024	-	-	-	33705	1276	72071	975	940	20	-104445
Jul. 20, 2024	-	-	-	-	504	41100	-	-	-	-40596
Jul. 21, 2024	-	-	-	-	83	32270	-	-	-	-32187
SDF: Standing Deposit Facility; MSF: Marginal Standing Facility.										

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **NBFCs may see slowdown in Q1 disbursements**

A slowdown in key segments like automobile and microfinance, and elevated competition from banks in secured segments like mortgage loans will weigh on the overall loan growth. Non-banking financial companies (NBFCs) are likely to witness a slowdown in disbursements during the April-June period due to prolonged electoral activity and extreme heatwave-linked disruptions. However, the long-term outlook on the sector remains positive, say analysts.

"Q1 being a seasonally-weak quarter and factoring in some uncertainties around the monsoon and slowdown in CV sales, we expect the growth in disbursements to be muted across the NBFC pack," brokerage firm Emkay Global Financial Services said in a report.

Nomura, too, is expecting a moderation in disbursement growth in the first quarter of the current financial year owing to a slowdown in unsecured loans amid increased regulatory oversight. Further, a slowdown in key segments like automobile and microfinance, and elevated competition from banks in secured segments like mortgage loans will weigh on the overall loan growth. Among marquee lenders, disbursements of Mahindra and Mahindra Financial Services rose 5% year-on-year (YoY) to Rs 12,730 crore in April-June, provisional data from the company showed. Bajaj Finance booked nearly 11 million new loans in April-June, up 10% YoY.

The cost of borrowing for NBFCs remained elevated in the reporting quarter as banks have hiked their marginal cost of funds-based lending rates (MCLR). This prevented an expansion in the net interest margin for NBFCs, say analysts. However, fixed-rate lenders like vehicle finance companies, which increased lending rates in

the previous quarter, have started seeing some improvement in their net interest margins.

"At the sectoral level, we expect the NIM to remain flat for vehicle financiers and anticipate NIM compression for HFCs (except PNBHF) and MFIs," Motilal Oswal Financial Services said in a report. The brokerage said April is typically a weak month for mortgage financiers.

On the other hand, gold loan companies and diversified financiers are expected to deliver a stronger loan growth, say analysts.

"While overall industry loan growth is expected to be below par; few large NBFCs may report good growth numbers. We expect affordable housing finance companies and large retail NBFCs to outperform the peers," Ajit Kabi, equity research analyst (institutional, banks and NBFCs), LKP Securities.

Rural-focused NBFCs like microfinance companies may see an uptick in credit costs due to announcement of the loan waiver scheme in some states. However, analysts are confident that the asset quality for most players would remain stable, led by strong customer selection and tightening of the credit underwriting policy.

"With interest rate-cut prospects getting pushed to Q4FY25, the possibility of an improvement in NIM may also get deferred. But, a stable asset quality-led benign credit cost should lead to profitable growth," Emkay Global said.

Overall, analysts are positive on Shriram Finance, Bajaj Finance, L&T Finance, U GRO Capital and PNB Housing Finance.

Source: <https://www.financialexpress.com/business/banking-finance-nbfc-may-see-slowdown-in-q1-disbursements-3547702/>

- **RBI cautions micro lenders, NBFCs against high, 'usurious' interest rates**

RBI governor Shaktikanta Das said that the central bank has found instances of some microfinance institutions and NBFCs charging high interest rates on small-value loans.

The Reserve Bank of India (RBI) on Friday said it has come across instances of micro lenders and non-bank financiers charging high, 'usurious' interest rates on small-value loans, reminding them to judiciously use their pricing power.

The regulator reiterated that customer protection is one of its top priorities.

This comes two years after the regulator removed pricing caps from MFI (microfinance institution) loans, instead relying on these lenders to have policies that are approved by their boards. In March 2022, RBI said banks, non-banks and micro lenders must have a policy on pricing of microfinance loans. While such internal policies were mandated to include a ceiling on the interest rate and all other charges on microfinance loans, the cap would no longer be decided by RBI.

Friday's observations are not without warning. The March 2022 circular cited earlier had specified that "interest rates and other charges or fees on microfinance loans should not be usurious" and would be subjected to RBI scrutiny.

Fair Lending

"In general, we have observed that guidelines on Key Facts Statement (KFS) are followed, but a few regulated entities still charge fees, etc. that are not specified or disclosed in the KFS," RBI governor Shaktikanta Das said in a statement on Friday, on a day the central bank's monetary policy committee kept the repo rate unchanged at 6.5%. "It has also been observed in some microfinance institutions and NBFCs that the interest rates on small-value loans are high and appear to be usurious."

A key fact statement shows borrowers the true cost of their debt and, as per RBI, should include

details of the annual percentage rate, and recovery mechanism, among others. Das cautioned that the regulatory freedom enjoyed by the lenders in pricing of loans should be used judiciously. "The Reserve Bank continues its constructive engagements with such financial entities to safeguard the interest of customers and ensure overall financial stability."

"Interest rates of banks, non-bank lenders and microfinance institutions are completely deregulated and RBI's guideline is that rates must be fair and transparent," Das said at a post-policy press conference.

He said that it is not the entire system that is at fault, but there are some outliers where the regulator has seen such instances. "Wherever we have noticed this, our supervision department is directly in touch with them. We are asking these entities on what basis they are charging such interest rates and are sensitising them so that their rates are fair."

Expert Views

Industry experts said that the cost of lending is dependent upon the cost of funds being raised by microfinance lenders.

Jiji Mammen, executive director and chief executive of MFI industry body Sa-Dhan, said that the organisation has been keeping a close watch on the issue of pricing. "As we understand, the loan pricing is linked to their cost of borrowing and wherever the MFIs are able to access cheaper funds, they are able to lend at comfortable levels. We have been making efforts to create a dedicated mechanism for raising affordable funding for all MFIs," said Mammen.

He added that smaller MFIs often depend on NBFC for funds, which cost them more and this translates to higher lending rate. Gross loan portfolio of all micro lenders – including banks and MFIs – was at ₹3.9 trillion as on 31 December, as per data from Sa-Dhan, up 21% from the same period last year.

Others saw RBI's warning as an extension of the central bank's push to safeguard customer interests. Suresh Ganapathy, managing director and head of financial services research at Macquarie Capital, said in an email to clients that clearly customer protection is on top of RBI's mind. "If fintechs or anyone for that matter feel that they can get away by exploiting the loopholes and being less transparent – watch out, the regulator will come down heavily on you," said Ganapathy.

Source: <https://www.livemint.com/industry/banking/rbi-cautions-micro-lenders-nbfc-against-high-usurious-interest-rates-11717757612013.html>

- **NBFCs may see 60-100 bps rise in cost of funds, pressure on Q1 margins as bank turn funds tap dry**

Non-banking financial companies (NBFC) are expected to see 60-100 basis points (bps) rise in their cost of funds (CoF) for the first quarter of the current financial year as banks shy away from funding them, industry experts said.

Sanjay Agarwal, senior director for BFSI at CareEdge, highlighted that the borrowing channels for NBFCs are getting expensive resulting in a rise in CoF. "We expect around 60-100 bps jump in the CoF of the NBFCs as the borrowing channel from banks is expected to remain tight," he said.

Ratings agency ICRA in a report in March had highlighted that bank lending to NBFCs have moderated and may see some continuation due to the increased risk weights and exposure reaching sectoral limits.

In November 2023, the Reserve Bank of India (RBI) hiked risk weight by 25 percent where it (risk weight) was below 100 percent, signalling the concerns about high pace of bank lending to NBFCs.

The RBI's sectoral credit data for May 2024 showed that the bank lending to NBFCs grew moderately at 16 percent from 27 percent a year back.

RBI Governor Shaktikanta Das on June 20 said

timely action on unsecured loans has moderated the growth of such loans. "We thought it is better to act in advance and slow down the credit growth in these segments," he said at the second global conference on financial resilience organised by the College of Supervisors in Mumbai.

The remaining funding that NBFCs got from banks resulted in higher CoF for them as banks raised their marginal CoF-based lending rates (MCLR). For example, HDFC Bank raised its MCLR-based rates by 10 bps in July 2024 and public sector lender Bank of Baroda (BoB) by 5 bps.

The shadow banks have since started borrowing at higher costs from other avenues such as capital markets, which is jacking up the costs.

The net interest margin (NIM) of the NBFCs, too, may come under pressure, according to experts. "Margins will continue to compress on account of the increase in the CoF, portfolio mix shifting towards home loans, and the company pursuing growth in higher ticket size loans," Axis Securities said in a report.

Disbursements to fall

The shadow banks are likely to experience a decline in loan disbursements during the April-June quarter due to extended electoral activities and disruptions caused by severe heat waves.

Emkay Global Financial Services, a brokerage firm, noted in a report that the first quarter typically sees subdued activity, compounded by uncertainties surrounding the monsoon and a slowdown in commercial vehicle sales. As a result, growth in loan disbursements across the NBFC sector is expected to be limited.

Nomura also anticipates a slowdown in growth of loan disbursements during the first quarter of the current financial year, attributed to reduced demand for unsecured loans amid heightened regulatory scrutiny.

Provisional numbers released by some of the top NBFCs showed a strong year-on-year (YoY) growth.

Disbursements of Mahindra and Mahindra Financial Services rose 5 percent YoY to Rs 12,730 crore in April-June and Bajaj Finance reported nearly 11 million fresh loans in the April-June period, rising 10 percent on-year.

"AUM and disbursement growth should pick up from the next quarter, but given the base effect, the growth is likely to be moderate versus previous year," the Emkay report highlighted.

Stable asset quality

Though the non-bank lenders are expecting a rise in their CoF alongside some contraction in the NIM, their asset quality is expected to remain stable.

"Asset quality is expected to remain broadly stable during the quarter," Axis Securities said in a report. "Asset quality for most players would remain stable, led by superior customer selection and tightening of credit underwriting policy," seconded the Emkay report.

Source- <https://www.moneycontrol.com/news/business/nbfcs-may-see-60-100-bps-rise-in-cost-of-funds-pressure-on-q1-margins-as-bank-turn-funds-tap-dry-12766896.html>

- **Microfinance industry loan portfolio will rise to Rs 4.24 lakh crore by March-end: MFIN CEO Alok Misra**

The total loan portfolio of the microfinance industry is likely to grow to Rs 4.24 lakh crore by the end of the current financial year, said Microfinance Institutions of India (MFIN) CEO and Director Alok Misra, in an exclusive interview with Moneycontrol.

Microfinance loans are small amounts of credit given to low-income individuals or groups with less access to formal financial services.

"In lending terms, microfinance companies, as of December, 2023, had reached a portfolio of around Rs 4 lakh crore. On a Y-o-Y basis, we will see roughly around 20-25 percent growth," Misra said.

"I feel the portfolio will stabilise around Rs 4.20 lakh crore to Rs 4.24 lakh crore by March-end," he added.

According to the MFIN Micrometer report for Q2FY24, India's microfinance loan portfolio stood at Rs 3,76,110 crore as of September 30, 2023.

In 2023, the microfinance loan portfolio increased by 22 percent to Rs 3.48 lakh crore, according to a report by MFIN. The gross loan portfolio stood at Rs 2.85 lakh crore as on March 31, 2022.

The number of unique borrowers in this segment saw an uptick to 7.1 crore as on September 30, 2023 from 6.6 crore as on March 31, 2023. Similarly, loan accounts increased to 13.9 crore as on September 30, 2023, from 13 crore at the end of the last financial year, according to MFIN data.

On the new clients addition front, Misra said the industry will add 75 lakh to 80 lakh clients. During 2022-23, the microfinance industry added 80 lakh new women clients.

NBFCs lead

So far, NBFC-MFIs have the largest share in lending in this sector.

In 2023, Of the total microloans outstanding, the largest share was held by 91 NBFC-MFIs, amounting to Rs 1,47,829 crore.

This was followed by banks, with Rs 1,18,846 crore; small finance banks: Rs 73,118 crore; and NBFCs: Rs 34,369 crore.

The portfolio of NBFC-MFIs increased by 33.9 percent, banks by 4.7 percent, SFBs by 46.2 percent, and NBFCs by 44.6 percent between September 2022, and September 2023.

Portfolio at risk

Misra said there is an improvement in the portfolio at risk so far in this financial year and the metric may improve further.

"The repayment graph is also coming back to pre-pandemic levels," he added.

Portfolio at Risk (PAR) measures the percentage of microfinance loans outstanding in a lender's total loan portfolio that are at risk of default. Usually, these are overdue by 30 days or more.

As of March 31, 2023, PAR 31-60 days stood at 0.45 percent; 61-90 days stood at 0.55 percent; 91-180 days stood at 0.96 percent.

Further, the 180 days and above PAR stood at 8.56 percent of the total lending book.

Misra said the 180-day and above PAR is the covid remnant, which has already been written off and provided for by institutions.

Microfinance, digital lending overlap

Microfinance Institutions Network has written to the Reserve Bank of India (RBI) for a review of the overlap in microfinance and digital lending.

"We have already written to the RBI and recently we raised this issue with the regulator. So far, we have not received any communication from the RBI," Misra said.

MFIN wants the RBI to ensure that fintech lenders comply with microfinance regulations, as failing to do so would lead to weak underwriting and customer protection. Further, it wants the data to be reported to the microfinance bureau and not the retail credit bureau, and the central bank to review fintech lenders' interest rates and recovery practices.

Source- <https://www.moneycontrol.com/news/business/microfinance-industry-loan-portfolio-will-rise-to-rs-4-24-lakh-crore-by-march-end-mfin-ceo-alok-misra-12328581.html>

TOP INSURANCE NEWS

- **FM Sitharaman praises Life Insurance Corporation while sharing these IRDAI findings**

Union Finance Minister Nirmala Sitharaman presented the Economic Survey 2023-2024 in the Lok Sabha, highlighting key aspects of India's economic landscape. Concurrently, the Annual Report of IRDAI for FY23-24 underscored substantial challenges in the insurance sector. Notably, over two lakh complaints were lodged via the centralised grievance portal, with a significant portion targeting life insurers for unfair business practices, excluding the Life Insurance Corporation of India. "Product misselling is too rampant to be dismissed as an aberration of a few overenthusiastic sales personnel. The same can be said of the insurance industry as well. Prompt and reasonable settlement of insurance claims and a lower rejection rate are necessary to increase insurance penetration. Acknowledging misselling and misrepresentation and compensating for consequential losses is a good business practice enjoined upon stockbroking, fund management, banking and insurance firms," the document noted. The Union government tabled the Economic Survey 2023-24 in Parliament. The Economic Survey document, prepared by the Economic Division of the Department of Economic Affairs in the Ministry of Finance and formulated under the supervision of the chief economic adviser, gives insights into the state of the economy and various indicators of 2023-24 (April-March) and some outlook for the current year. With this upcoming budget presentation, Finance Minister Nirmala Sitharaman will surpass the record set by former Prime Minister Morarji Desai, who presented five annual budgets and one interim budget between 1959 and 1964 as finance minister. Sitharaman's upcoming budget speech will be her seventh.

Source: <https://www.livemint.com/insurance/news/economic-survey-2024-fm-sitharaman-praises-life-insurance-corporation-while-sharing-these-irdai-findings-11721635323930.html>

- **Centre may review FDI cap in defence, insurance sectors: Report**

Current rules allow 100 percent FDI in the defence sector and this review comes amid India seeing FDI flows becoming stagnate.

The government plans to review caps on foreign direct investment (FDI) in defence, insurance and plantations and it may also look at the processes that can be eased to streamline the regime, The Economic Times reported.

As the government seeks to move more manufacturing in the strategic sector to India, the department for promotion of industry and internal trade is looking at how investment norms for defence can be made more attractive, the report added.

Moneycontrol couldn't independently verify the report.

Current rules allow 100 percent FDI in the defence sector and this review comes amid India seeing FDI flows becoming stagnate.

For insurance sector, FDI in a general or life insurance company is capped at 74 percent, while 100 percent FDI is allowed in insurance intermediaries. The review is on the cards even as there is sufficient competition in the sector, and a majority of life insurance companies are now profitable, the report stated.

In March this year, Financial Services Secretary Vivek Joshi said the insurance sector received close to Rs 54,000 crore as FDI in the last nine years on the back of further liberalisation of overseas capital flow norms by the government.

Officials told ET this review was meant to ensure smooth flows and the idea was also to ensure that

timelines involving inter-ministerial processes were adhered to. The total FDI, which includes equity inflows, reinvested earnings and other capital -- declined marginally by one percent to \$70.95 billion during 2023-24 from \$71.35 billion in 2022-23

Sources- <https://www.moneycontrol.com/news/business/centre-may-review-fdi-cap-in-defence-insurance-sectors-report-12764106.html>

- **What Union Budget 2024-25 means for the economy and the insurance sector**

Living up to the mercury of excitement, Finance Minister Nirmala Sitharaman in her budget speech outlined nine priorities that are likely to generate ample opportunities in India's journey towards a 'Viksit Bharat' (developed India).

After the huge dividend payout by the Reserve Bank of India (RBI) and amid the K-shaped recovery after COVID-19 and the return of the Narendra Modi government for the third straight term, some announcements to boost consumption and also to support the rural economy were expected.

Given this backdrop, the government's resolve to stick to the fiscal consolidation path and to be judicious with the expenditure is commendable. The full Budget on July 23 focussed on fiscal consolidation by lowering the fiscal deficit further to 4.9 percent of the GDP against 5.1 percent presented in the Interim Budget on February 1, with a focus on infrastructure investments and inclusive development.

The big question heading into the Budget was on how the government would use the revenue windfall of around Rs 1.2 trillion that it received as dividend from the RBI. The government has been prudent here and has partially used this fund to reduce the fiscal deficit while the rest has been used to boost revenue expenditure largely through higher grants and aid to states and through the new employment incentive schemes and for skill development.

Measures to boost job creation

A solid labour market is vital to structurally improve demand and consumption. Here, the government has outlined its roadmap for creating 4.1 crore jobs over the next five years with an outlay of Rs 2 trillion, which would set the stage for sustainable economic growth and job creation. This, along with tweaks to income tax slabs and increase in standard deduction is likely to support consumption at the margin. However, there has been no increase in allocation for rural housing scheme compared to the Interim Budget even as urban housing scheme has seen modestly higher allocation.

With an objective to simplify and rationalise tax structure and to improve financial vigilance, the government revamped the capital gains tax regime, across both short term and long-term holdings. Some notable changes are an increase in shorter-term capital gains from 15 percent to 20 percent on listed equities and increase in the long-term capital gains tax from 10 percent to 12.5 percent, excluding the surcharge, for listed equities and some other financial assets.

Real estate also saw some changes. While long-term capital gains taxes were reduced from 20 percent to 12.5 percent, the inflation indexation was done away with. Finally, the Securities and Transaction Tax (STT) was increased given the surge in the Futures and Options (F&O) volumes seen in recent months.

Tax tweaks to help insurance agents and policyholders

Rationalisation of tax deducted at source (TDS) from 5 percent to 2 percent for payment of insurance commission to individual agents will ensure additional income in the hands of such individuals for payments made by the insurers. TDS reduction to 2 percent for payment of bonus or proceeds made on life insurance policies upon maturity will also ensure higher payout for individual policyholders.

The proposed abolition of the angel tax marks a significant milestone for domestic companies, which have faced both legal and practical challenges under these contentious provisions. This is a big step towards enhancing tax certainty and enhancing the startup ecosystem.

Also read: TDS on life insurance payouts reduced from 5% to 2% from October 1

MSMEs are at the cornerstone of the government's initiative of 'Viksit Bharat'. The Budget addressed funding requirements of MSME sector by doubling the limit of 'Mudra loans' from Rs 1 million to Rs 2 million. A credit guarantee scheme was also launched for MSMEs in the manufacturing sector, which will operate on pooling of credit risks of such MSMEs. Further, the finance minister also announced setting up of a 'Critical Mineral Mission' for domestic production, recycling of critical minerals, and overseas acquisition of critical mineral assets.

Agriculture in focus

Agriculture was the other big focus of the budget. Government proposed a Rs 1.52-trillion outlay for agriculture and related sectors this year to boost sustainable farming practices and to implement digital public infrastructure in agriculture.

Overall, the Union Budget FY25 presents a balanced approach to fostering economic growth while maintaining fiscal prudence. The government has stepped up measures to boost formal sector employment for youth by EPFO contributions, employment incentives and support in internships. From an investment perspective, the focus on infrastructure, technology, sustainable development, skill development and ease of doing business steers India on the path of sustained growth.

This would lay the foundation and give a blueprint to transform the economy over the next 25 years—from India at 75 to 'Viksit Bharat' at 100.

Source <https://www.moneycontrol.com/news/business/personal-finance/what-union-budget-2024-25-means-for-the-economy-and-the-insurance-sector-12777572.html>

TOP CORPORATE BOND MARKET NEWS

- **Face value reduction on corporate bonds sets to increase retail participation**

The Securities and Exchange Board of India (SEBI) lowering the minimum face value criterion on corporate bonds on July 3 will increase retail participation.

The market watchdog had reduced the minimum investment amount to Rs 10,000, from a steep Rs 1 lakh. This limit had itself been slashed from a huge Rs 10 lakh previously.

According to Gopal Tripathi, head of treasury, Jana Small Finance Bank, this will lead to an increase in the number of retail investors in the corporate bond market. This higher level of participation could mean lower yields on these instruments, money market experts told Moneycontrol.

"Lower face value will also help increase trading volume and, hence, enhance the liquidity in the market," said Nikhil Aggarwal, founder and CEO of Grip Invest, an alternative investment platform.

SEBI had said in a release that companies may issue debt security or non-convertible redeemable preference shares on private placement basis with a face value of Rs 10,000 each. It added that issuers must appoint at least one merchant banker for the issue.

Already, the advent of online bond trading platforms had pushed retail participation higher, with growth pegged at an annual 60 percent to 70 percent by some market observers, though on a small base.

V. Ramachandra Reddy, head, treasury, Karur Vysya Bank, said SEBI's move will bring down companies' borrowing costs and reduce their dependence on banks.

In December 2023, Reserve Bank of India deputy governor J Swaminathan had pointed to the growing links between banks and non-banking

financial companies (NBFCs), which was evident in the sharp surge in loan growth.

"There is fear of interconnectedness as bank loans to NBFCs have been growing at 30 percent," Swaminathan said at a banking conclave in Mumbai.

The central bank increased the risk weight on the exposure of scheduled commercial banks (SCBs) to NBFCs by 25 percent, which led to an increase in the cost of borrowing.

Expected easing yields

SEBI's move, which will funnel more investors into the bond market, will push up demand and, consequently, bond prices. While money market experts see some moderation in yields (bond prices and yields move in opposite directions) they do not see a precipitate fall.

"While not immediate, over time, yields should see a contraction," Aggarwal of Grip Invest said.

In the last one month, yields on the corporate bonds in the secondary market eased around 5-10 basis points (bps), tracking the easing yield on the government securities, falling inflation and inflows from foreign portfolio investors, experts said.

The yield on AAA-rated corporate bonds maturing in three years was trading at 7.7592 percent on July 2, compared to 7.7614 percent on June 4, according to Bloomberg data.

Further, AAA-rated five-year corporate bonds were trading at 7.6921 percent yield on July 2, versus 7.7409 percent on June 4, the data showed.

The yield on 10-year bonds eased to 7.4883 percent on July 2, from 7.5814 percent on June 4.

Source: <https://www.moneycontrol.com/news/business/face-value-reduction-on-corporate-bonds-sets-to-increase-retail-participation-12762206.html>

Department of Banking & Financial Services Upcoming Programme

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19 th Annual Summit & Awards on Banking & Financial Sector Lending Companies	October 2024

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