August 2023

Volume 27

ASSOCHAM
Ideate · Innovate · Impact

MONTHLY
Banking, Financial Services & Insurance (BFSI)
E-Bulletin

Department of Banking & Financial Services

The Associated Chambers of Commerce and Industry of India
ASSOCHAM Corporate Office: 4th Floor, YMCA Cultural Centre and Library Building
01, Jai Singh Road, New Delhi - 110 001 | Website: www.assocham.org

Follow us on:

CONTENTS

TOP SPEECHES

"Building Blocks for a Sustainable Future: Some Reflections" (Speech by Shri Shaktikanta Das, Governor, Reserve Bank of India - Delivered at the 29th Lalit Doshi Memorial Lecture on August 23, 2023 at the Y. B. Chavan Centre, Mumbai)

The 1990s held out great promise for the industrial sector in India, following the delicencing of industries and initiation of economic reforms. In tandem, the Indian rupee was devalued to improve the competitiveness of the Indian economy. New opportunities for investment opened up, as domestic and foreign investors looked at expanding their footprints. The Bombay Club1 took some time to adjust to the new reality, but adjusted very well over a period of time. In this milieu, there was growing competition among states to attract investments on the basis of their fundamentals, supporting infrastructure, quality and availability of skilled manpower and other relevant factors.

Recognising Shri Lalit Doshi's contributions to the development and well-being of the state and the country at large, I have chosen "Building Blocks for a Sustainable Future" as the theme of my address today. Sustainable future would mean sustaining and strengthening the growth momentum of the economy without creating inflationary pressures and other macroeconomic imbalances, while remaining inclusive and climate sensitive. I would like to begin by dwelling upon the role of a central bank in economic development and highlighting the current macroeconomic context and then touch upon certain supporting pillars for a sustainable future.

Central Banks and Economic Development

A strong and dynamic central bank acts as a critical building block for a country's progress. The story of central banking goes back at least to the 17th century, when the first institution recognised as a central bank, the Swedish Riksbank, was formed in 1668. This was followed by the Bank of England in 1694.2 While Bagehot's principles of lender of last resort (LOLR) to commercial banks, war financing of governments, maintaining banking stability amidst recurrent bank failures have served as the basis for their origin, central banks were later entrusted with the tasks of banknote issuance and management of internal and external value of currency. Their role has continuously evolved over the decades, reflecting the changing political and economic landscape and now they play a critical role in macroeconomic and financial stability in modern economies.3 The price stability objective and the conduct of monetary policy gradually gained importance in an environment of high and volatile inflation globally. During the 1990s and the early 2000s, a number of central banks started focusing narrowly on the price stability objective, with the responsibility of banking and financial sector regulation shifting to separate regulatory bodies outside the central bank. The 2008 global financial crisis (GFC) led to a rethink on this separation principle and central banks are now more actively entrusted with financial stability in addition to the price stability objective. More recently, during the COVID-19 pandemic, central banks resorted to both conventional and unconventional policies as during the GFC, to safeguard their respective economies.

The framework of central banking in India, and in particular of monetary policy, has evolved around the objectives specified under the Reserve Bank of India Act, 19344. Consistent with this, the Reserve Bank's macroeconomic and monetary policy has focussed on maintaining price stability, ensuring adequate flow of credit to sustain the growth momentum, and securing financial stability. The financial stability objective is enabled by the powers vested with the Reserve Bank for regulation and supervision of the Indian financial system and its various segments, including the money, debt and foreign exchange segments and the payment and settlement system. These are augmented by critical functions like maintenance of foreign exchange reserves, issuance of bank notes and currency management, agency functions such as management of public debt, acting as banker to Government (Centre and States) and banker to the banking system. The Reserve Bank also has powers to act as the lender of last resort whenever necessary. As a full-service central bank, it also promotes financial inclusion. In all these areas, we have continuously strengthened our capabilities over the decades in tune with the transition of the Indian economy from a state-dominated system in the 1950s, 1960s and 1970s to a growing market economy from the 1990s onwards.

The process of liberalisation and globalisation of the Indian economy initiated since 1991 added several new dimensions to the responsibilities of the Reserve Bank. Along with financial sector reforms, the monetary policy framework has been fine-tuned over the years, leading to the flexible inflation targeting framework in 2016. Over the last three years, we have utilised the flexibility in the monetary policy framework to calibrate our actions to counter the adverse effects of COVID-19 and the war in Ukraine. During the COVID-19 pandemic, our monetary policy committee (MPC) reacted swiftly by reducing the policy repo rate by 115 bps cumulatively in a span of two months (March-May 2020). Along with the rate cut, we infused significant quantum of liquidity through both conventional and unconventional measures to stimulate the economy, restore confidence and revive market activity, while ensuring that our liquidity augmenting measures did not engender future fragilities.

Recognising the need for strengthening financial stability, the Reserve Bank has taken a number of initiatives to revamp regulation and supervision of Banks, NBFCs and other financial entities by developing an integrated and harmonized architecture. The supervisory approach is now geared to effectively address the root cause of vulnerabilities and identifying any build-up of potential systemic risks. We engage regularly with all regulated entities to identify incipient signs of stress and deal with them at an early stage. We have been focusing on constantly improving governance and the functions of compliance, risk management and audit in banks and other financial entities.

The Reserve Bank is leveraging data analytics and carrying out periodic off-site analysis to provide sharper analytical inputs to its on-site supervisory teams. An Early Warning Framework has been developed. A new SupTech initiative, with the name "दक्ष-DAKSH", has been launched. A College of Supervisors (CoS) has been set up to upgrade supervisory skills of the regulatory and supervisory staff. Recently, we launched a Centralised Information Management System or CIMS, which is our next generation data warehouse. Digital Payment Security Control Guidelines have been issued to address the risks in digital payment products. Guidelines for digital lending – an emerging area – have also been issued. In fact, it will not be off the mark to say that almost the entire regulatory and supervisory architecture of the financial sector has been restructured in the last 4 to 5 years.

While pursuing these reforms, the Reserve Bank has also made conscious efforts to improve systemic resilience and efficiency by maintaining external stability and building forex reserves. The development of vibrant financial markets has also been a key priority. These reforms, among other things, seek to remove market segmentation, facilitate greater access including non-residents, widen the participation base, promote innovation, and ensure customer protection. Measures have also been taken to put in place state-of-the-art market infrastructure, pilot launch of central bank digital currency (CBDC) and internationalisation of the rupee. The COVID crisis was converted into an opportunity by harnessing the best benefits of digitalisation.

Thanks to these and several other initiatives by the RBI and the banks and other financial entities, India's financial sector remains resilient and healthy. There is, however, no room for complacency. New challenges and stress points keep coming up and all stake holders have to be cognizant of emerging developments and associated risks.

Indian Economy – The Current Setting

As a backdrop to the building blocks for future growth, let me turn briefly to the current macroeconomic scenario, starting with the global environment. The global landscape is witnessing major structural changes. The process of globalisation has slowed down and is drifting from multilateralism towards bilateralism and geo-economic fragmentation. Friend-shoring and reshoring have become more pronounced. Global supply chains have been under pressure, which along with rising global commodity prices contributed to multi-decadal high inflation in 2022. The resultant aggressive monetary tightening has dampened the global growth outlook. Tight financial conditions and volatile capital flows are accentuating the impact of global slowdown on the prospects of emerging and developing economies. Headline inflation is now easing unevenly across countries but remains above the target in major economies. The pace of monetary tightening has been scaled down, but policy rates could stay higher for longer in several countries. Even as the grim prospects of hard landing have receded, global growth is likely to remain low by historical standards in the medium-term. With increasing climate change risks, the development of climate-friendly technology, new and renewable sources of energy and sustainable agricultural practices would shape our future. The pace of progress in these fronts need to be hastened.

Amidst such volatile world environment, India stands out as the emerging growth engine for the world. India's real gross domestic product (GDP) recorded a growth of 7.2 per cent in 2022-23, surpassing its pre-pandemic level by 10.1 per cent. Overall, the conditions are favourable for the growth momentum to continue and the capex cycle to gain momentum in 2023-24. Opportunities are now promising and can be utilised to propel our economy to a higher growth trajectory.

The challenge of high inflation, however, still persists and has to be effectively addressed. After reaching a low of 4.3 per cent in May 2023, headline inflation has risen to 7.4 per cent in July driven by the surge in tomato and other vegetable prices. The July print which was released after the MPC meeting was on the higher side compared to our estimates. Prices of vegetables surged by 37.3 per cent (year-on-year), led by an increase of 201.5 per cent in tomato prices. Reflecting these drivers, food group inflation more than doubled from 4.7 per cent in June to 10.6 per cent in July. On the positive side, inflation excluding food and fuel (core inflation) has softened by around 130 basis points from its recent peak in January 2023. Although it is still elevated at 4.9 per cent, this steady easing of core inflation over the last five months is indicative of the ongoing transmission of monetary policy.

Looking ahead, the spike in vegetable prices in July is starting to see a correction, led by tomato prices. New arrivals of tomatoes in mandis are already softening prices, coupled with proactive supply management in the case of onions. We expect to see an appreciable slowdown in vegetable inflation from September. Meanwhile, the prospects for kharif crops have improved, thanks to the progress of the monsoon in July, although the cumulative rainfall has again moved into the deficit territory.6 The outlook for cereal prices has accordingly brightened, supported by active supply side interventions. Sudden weather events, El Niño conditions and renewed geopolitical tensions, however, impart uncertainty to the food prices outlook. As I noted in my monetary policy statement on August 10, 2023, given the likely short-term nature of the vegetable price shocks, monetary policy can await the dissipation of the first-round effects of such shocks that may produce short-lived spikes in headline inflation. We will remain on guard to ensure that second order effects in the form of generalisation and persistence are not allowed to take hold. The frequent incidences of recurring food price shocks pose a risk to anchoring of inflation expectations, which has been underway since September 2022. We will remain watchful of this also. The role of continued and timely supply side interventions assumes criticality in limiting the severity and duration of such shocks. In these circumstances, it is necessary to be watchful of any risk to price stability and act appropriately and in time.

We remain firmly focused on aligning inflation to the target of 4.0 per cent.

Building Blocks for a Sustainable Future

Having provided a snapshot of the current context, I would now like to turn to the certain thrust areas that can propel India forward over the next 25 years. The potential is huge for India to raise its growth trajectory and improve the general well-being of the people. In this context, I would like to focus on six key areas that can provide the required growth momentum. They are (i) agriculture; (ii) manufacturing; (iii) services; (iv) demography; (v) technology; and (vi) start-ups. In all these areas, we already have certain comparative advantages which should continue to be exploited to push our growth frontier further. Let me now touch upon these areas one by one.

(i) Agriculture

Despite having only 2.4 per cent of the world's land area, India is among the top five agri-producers globally7. Indian agriculture epitomises enormous diversity with wide ranging agro-ecological areas. India is not only self-sufficient in food production but is also net exporter of foodgrains. Nevertheless, the agriculture sector in India faces challenges of productivity gaps, shifting preferences and sudden weather events. All these require heavy investments in infrastructure and innovation to modernise the sector and realise its true potential in terms of achieving higher productivity, providing more efficient access to markets and maximising farmers' income. As a nation we must find a way of carrying out the much needed agricultural reforms, especially in the area of agricultural marketing and the connected value chains. These reforms are critical not only for sustained high growth but also for farmers' income, durable price stability and to mitigate the frequency and intensity of food price shocks that we have seen in the recent months. Policies towards setting up and improving cold chains and storage facilities, mega food parks and food processing units are steps in the right direction to reduce wastage and improve value addition in the agriculture sector.

(ii) Manufacturing

The manufacturing sector plays an important role in economic growth due to its specific characteristics like economies of scale, backward and forward linkages and integration to global supply chain. Manufacturing is also one of the largest consumers of services, making the two sectors complementary to growth. Contrary to the conventional growth paradigm in which an economy transitions from agriculture to manufacturing and then to services, India has directly leapfrogged from an agrarian to a service-led economy. As a result, the share of the manufacturing sector in gross value added (GVA) has remained stagnant at around 18-19 per cent.

In the changing landscape of the manufacturing sector,8 India has the potential to capitalise on emerging areas such as aerospace and defence, low-carbon technologies, electric vehicles and semiconductors. India has initiated reforms to build manufacturing prowess in emerging areas, including electric vehicles and advancements in lithium recycling capabilities. In this regard, ongoing mining reforms to sustainably exploit available mineral resources in the country need to be fast tracked. Overall, it is vital to adopt a holistic approach to improve infrastructure, technological adoption, training and skilling of the workforce, and digital advancements.

(iii) Services

India's emergence as one of the fastest growing economies in recent decades is largely attributed to the rapid growth of its services sector. The contribution of services to gross domestic product (GDP) has been more than 60 per cent since 2014-15. India emerged as the 7th largest services exporter globally in 2022, up from 21st position in 2001. India has played a leading role in establishing global service networks and has become a global hub for information technology (IT) and business process outsourcing (BPO) services. Newer opportunities have been harnessed to improve India's participation and competitiveness in global value chains (GVCs).

Service industries like tourism, education, telecommunications, utilities and health care can generate significant employment opportunities. Activities like road transport and construction services have the highest backward and forward linkages along with high employment intensity. These services have received a boost after the introduction of GST.

India's business services exports are growing rapidly, owing to its status as the preferred destination to set up Global Capability Centres (GCCs) by multinationals.9 The development and provision of services such as internet infrastructure, cloud computing, and data analytics are vital in supporting the digital transformation and growth of various industries. India is well-positioned to leverage these opportunities and cater to more skill-intensive and increasingly digitalised services.

(iv) Demography

India accounts for around 67 per cent of the global working-age population,10 and is expected to add another 183 million people to the working age over the next three decades. The median age for India is expected to be a little over 30 by 2030.11 Given this demographic advantage, India would be a significant source of human capital amidst anticipated shortage of labour supply globally, and also a thriving market capable of adapting to evolving demands for goods and services. This can lead to an improved growth differential in favour of India and increase India's relative size in the global economy. The evolving demographic profile is also expected to lead to a substantial increase in the quantum as well as quality of remittances. Over the years, there has been a gradual structural shift in Indian migrants' key destinations from largely low-skilled and informal employment in the gulf countries to a dominant share of high-skilled jobs in high-income countries. Inward remittances have scaled record peaks to reach US$ 112.5 billion in 2022-23 and accounted for around 3 per cent of GDP. Going forward, labour market transformations driven by technological breakthroughs, energy transition and geo-economics are going to be significant forces to offer cross-border benefits to India from its migrant population.

Improving the labour force participation rate, especially of women, is critical to realise our full potential.12 There is a need to invest in education, skill development, and healthcare to capitalise on our demographic advantage. Continued and greater focus on innovation and social sector infrastructure could increase labour productivity, India's potential growth and per capita income.

(v) Technology

With the world on the cusp of a technological revolution, the time is opportune for India to establish itself as a digital-economic powerhouse. Technological advancements have not only enabled virtual education, remote work, and contactless sales during the pandemic years, but also aided efficient public delivery and acted as a positive shock to overall productivity growth.13

It is important for Indian businesses to take the lead in rapidly adopting frontier technologies like artificial intelligence (AI), Internet of Things (IoT) and Big Data. Combined with the presence of a young and skilled workforce, a dynamic and nimble ecosystem and strong public digital infrastructure, this can set in motion a virtuous cycle of growth for Indian businesses. This decade has been described as India's 'Digital Decade', with the country poised to reach a US$ 1 trillion consumer internet economy by 2030.14

At the Reserve Bank, we strive to constantly improve and offer all users safe, secure, fast, convenient, accessible, and affordable e-payment options. The Reserve Bank has been at the forefront to facilitate safe and inclusive growth in the digital financial sector.15 The UPI has been recognised as the fastest growing retail payment system in the world and many countries have expressed interest in having a UPI-like platform. Together with the National Payments Corporation of India (NPCI), the Reserve Bank's initiatives in linking UPI with the fast payment systems in Singapore, Bhutan, Nepal, the UAE and several other countries demonstrate the huge potential of UPI in the years to come. The availability of RTGS on a 365x24x7 basis has helped in reducing the settlement and credit risks in the payments ecosystem. This feature was introduced in the middle of the COVID-19 pandemic.

(vi) Innovation and Start-ups

Innovation is a key driver of long-term economic growth. The recent breakthrough in Artificial Intelligence (AI), not by a BigTech company but by a start-up, i.e., OpenAI, speaks volumes about the power of start-ups in ushering in technology driven economic prosperity.16 The start-up investment outlook in India remains positive. It is encouraging that many start-ups are focused on small and medium businesses, financial inclusion, access to affordable healthcare, better education and higher earnings as their core value proposition17.

The time is now ripe for targeted development of start-ups in high-tech domains such as quantum computing, small modular reactors (SMR), AI-based defence equipment, biotechnology, rare earths extraction, battery technology, oceanography and space exploration. The start-up ecosystem that encompasses these sectors needs to be promoted to hasten the progress of the country.

Concluding Observations

Let me now conclude by saying that as India's growth narrative changes from caution and watchfulness to optimism and exuberance, it is now India's time to make a mark in the emerging global economic landscape. A recent media article aptly captures India's potential in an article titled: "The global economy needs a new powerhouse. India is stepping up".18 The need of the hour is to make concerted efforts in the areas outlined in my speech today and also a few other areas to lay the foundations of this new powerhouse - India - which is destined to grow in size, confidence and inclusiveness.

Source: https://www.rbi.org.in/Scripts/BS_ViewSpeeches.aspx

RBI & Fintech: The Road Ahead (Keynote address delivered by Deputy Governor T Rabi Sankar, Reserve Bank of India - August 7, 2023 - at the Moneycontrol India Startup Conclave in Bengaluru)

The emergence of FinTechs

FinTechs are transforming financial services across sectors, including credit, payment systems, wealth management, investment advice, insurance, financial inclusion, and even financial sector supervision. The COVID-19 pandemic has given a strong boost to digitisation - the fusion of technology and finance played a crucial role by facilitating smooth loan disbursals, robust 24x7 payment systems, uninterrupted access to financial services, and direct benefit transfers. New and innovative technologies brought by FinTechs are helping in driving down cost, refocussing products and services and improving customer reach and experience. The ongoing developments, innovations, and emergence of new technologies will significantly shape the trends in the financial world of tomorrow. As a principal regulator of the financial system and with a mandate for ensuring financial stability, the RBI is closely watching the fast evolving world of FinTechs. In fact, to provide necessary support to the nascent sector, more than a year ago, we had set up a FinTech Department to give dedicated focus to this sector and to foster innovation. I will take the opportunity today to share with you, how, we in the Reserve Bank, view the changes in the financial services space, caused by absorption of new and innovative technologies and the resulting issues like regulatory level playing field, consumer protection, innovation, and central bank digital currencies (CBDCs).

Regulation and Fintech

We believe that the fintech sector will play a crucial role in achieving objectives of greater financial inclusion, cost and time efficiency and so we play the role of someone who encourages development of this sector. One way of looking at fintech innovation is in terms of three variables – Time, Access and Data. Many innovations, in essence, enable saving time, that is, transactions to be done with speed, e.g., fast payment systems. The second element of innovation is about access, that is they take services to people who are not exposed to financial services, promoting inclusion in both senses – equity as well as formalisation of economic activity. The third element of innovation is data – using available data to create new processes and generating further data that can incentivise further innovation – think of cash-flow based lending, or using tax data for credit assessment. Increased penetration of internet, processing speed and data availability has given a huge boost to financial innovation in the last decade or so. These three elements are driving innovation in the Fintech space.

While these innovations are paradigmatic changes, financial products remain exactly what they are. There are still deposits, there is still credit or lending, and there are still investments, personal investments, personal finances, and so forth. These financial products have been in existence for a very long time. What has changed is the delivery of these products – channels of delivery, speed of delivery and price of these products. We often hear that these changes are disruptive. When we talk of disruption, we are not talking of new products but basically talking of disruption of existing institutions and processes. Conceptually therefore, a Fintech entity providing characteristic banking services like loans or payments is pretty much doing a banking activity – it just looks different. Such entities may not require a banking license but they need to be regulated similar to how such activities are regulated for a bank.

Financial services are among the most regulated industries, if not the most regulated. For good reasons as well – they are key to growth and development, they involve the use of public money and they are the conduit through which financial integrity is enforced. Fintech firms should therefore be subject to similar regulatory oversight. Regulation might lag in responding to the speed and complexity of changing processes. Eventually, however, regulatory gaps will get filled and uniformity in regulation will be ensured. Fintech firms would therefore be more stable as a long term business proposition if business strategies include regulatory compliance as a basic requirement. Innovation should not be about exploiting regulatory arbitrage. The usual complaint one hears, for example when authorities globally are clamping down on cryptocurrencies, that innovation is being stifled, is not really valid.

Undoubtedly, we see a critical role for the fintech ecosystem to act as a force multiplier as we seek to achieve our goals of financial inclusion, digitalisation and customer protection. RBI has taken several steps to create a nurturing environment to foster innovation. In 2016, we issued guidelines for Account Aggregators (AAs), recognizing their potential. In 2017, regulations were established for Peer-to-Peer (P2P) lending, even at a time when the sector was nascent in India. The regulatory sandbox framework released by the Reserve Bank in August 2019 was intended for the purpose of fostering innovation. The response to the regulatory sandbox has been encouraging to say the least. An Interoperable Regulatory Sandbox (IoRS), to facilitate testing of hybrid products/ services falling within the regulatory ambit of more than one financial regulator is in place. In November 2021, the Reserve Bank launched its first global hackathon - "HARBINGER with the theme 'Smarter Digital Payments'. The hackathon received encouraging response with 363 proposals submitted by teams from within India and from 22 other countries across the globe. As a sequel, we have also announced the second hackathon with the theme "Inclusive Digital Services".

In 2021, the Reserve Bank established its own Innovation Hub called the RBIH here in Bengaluru to support creation of an innovation ecosystem through collaboration among financial institutions, the technology industry, and academia. RBI and the Innovation Hub have commenced pilots in the states of Madhya Pradesh, Tamil Nadu, UP and Maharashtra for fully digitalized Kisan Credit Card loan, which is being disbursed in minutes. Similarly, pilot on fully digital dairy loan based on milk pouring data has commenced in Gujarat.

RBI has launched the Rupee Central Bank Digital Currency (CBDC) pilot. Currently, 10 banks are participating in the wholesale pilot and 13 banks are part of the retail pilot. Both the pilots have been going on successfully and we have been able to test various technical architecture, design choices and use cases. As on June 30th, in the retail pilot, we had crossed more than one million users and more than 262,000 merchants. The digital form of currency brings along the multiple possibilities which can bring innovation and efficiency such as features of offline, programmability, cross border transactions in current systems and may create altogether new frameworks for financial system to operate in. I believe, like in the case of UPI, we will witness a lot of innovation on this tokenised form of money in the days to come.

The RBI is mindful of the fact that innovation has potential to make finance more inclusive, the financial system more competitive and healthier, and regulation more effective and efficient. While innovation is crucial, it is necessary for these innovations to be responsible and even more beneficial if they address actual challenges faced by people in their day to day lives. It is also important for these innovations to be scalable and interoperable, allowing for expansion and providing advantages to a wider network of participants. Bearing these principles in mind, I would urge fintech players to contribute to development of the sustainability of the sector and ensure responsible digital innovations. While focus on short-term valuation gains may look attractive, creating long term value should be the basic goal. Fintech companies can prioritize several key areas, like improving customer protection, enhancing cybersecurity and resilience, effectively managing financial integrity, and robust data protection. It is also essential for every player in the fintech industry to devote sufficient attention to governance, business conduct, compliance, and risk mitigation frameworks, as these aspects are vital for long term sustainability.

I conclude by emphasizing that it is crucial for regulators, the fintech industry, and established institutions to engage in open and meaningful dialogue. This dialogue is necessary to establish a shared understanding of fintech activities, business models, and the rationale behind regulatory measures. Such collaboration among stakeholders will play a key role in ensuring effective regulation and fostering a conducive environment for FinTech innovation.

Source: https://www.rbi.org.in/Scripts/BS_ViewSpeeches.aspx

Closing Remarks by Shri Shaktikanta Das, Governor, RBI at the Seminar on Global Economy: Challenges, Opportunities and Way Forward organised by the Ministry of Finance, Government of India and the Reserve Bank of India, August 11, 2023, Mumbai

Today's seminar on Global Economy: Challenges, Opportunities, and the Way Forward, held as part of the International Financial Architecture (IFA) and Framework Working Groups (FWG) workstreams under India's G20 Presidency, including the three panel discussions have yielded rich and insightful thoughts on (i) financing development and global public goods; (ii) tackling global debt vulnerabilities; and (iii) the key risks to the global economy. All these issues are priorities under India's G20 Presidency. I take this opportunity to thank all the participants for enhancing the quality of discussions during the day.

Today, Policy makers across the world are grappling with multifarious and intertwined challenges in ensuring post-pandemic recovery in the face of elevated inflation, financial market vulnerabilities, reduced policy headroom and geopolitical tensions. In this milieu, India's G20 Presidency aims at enhancing global cooperation to face such common challenges.

This is embodied in the Presidency theme of Vasudhaiva Kutumbakam – "One Earth-One Family-One Future". This theme underlines the importance of global public goods for common prosperity of all.

Global Public Goods (GPGs) play a crucial role in shaping developmental strategies and securing human welfare across borders and generations. Financing them has become a critical issue in the wake of the COVID-19 pandemic, the highly unsettled geopolitical environment, climate change, fractures in international supply chains, and tectonic shifts in financial market conditions and global liquidity. Given the confluence of such factors, global financial stability is gaining prominence in the hierarchy of global public goods.

India's experience has shown how Digital Public Infrastructure (DPI) can be utilised for advancing financial inclusion and productivity gains through cost reductions. Our sustained engagement in the India Stack and the Unified Payments Interface (UPI), especially during the pandemic and thereafter, has filled us with the conviction that digital public infrastructure like the UPI can become a critical part of global public goods when scaled up beyond national borders.

While the UPI has been a public sector led initiative, it is not necessary that public goods can only be developed and financed by the public sector. The private sector needs to engage in the provision of GPGs not just because they create an enabling ecosystem for businesses to thrive but also because they would be a commercially viable endeavour. In this regard, it is worthwhile to build innovative design features which private investors find attractive in financing of GPGs. In the investment cascade, keeping in view the very large investment requirements, the trigger financing can come from public investment. This would help in minimizing risk and expanding market access. Subsequent financing needs can be met by the private sector. This is where international capital flows and movements assume importance. Hence, risk sharing should be an important design element in fostering private financing for global public goods. In this endeavour, Multilateral Development Banks (MDBs) could catalyse private sector investment through risk sharing mechanisms.

Recent fault lines in global cooperation have led to underprovisioning of global public goods and erosion of economic welfare. Absence of seamless access to COVID-19 vaccines is a case in point. Similarly, the lack of timely financial support and creditor cooperation can explain, even if partly, the rising debt stress in some developing economies. High and unsustainable debt levels have severely constrained many countries, limiting their fiscal capacity. While the G20-led initiatives such as the Common Framework (CF) for debt treatment and the Debt Service Suspension Initiative (DSSI) have been discussed intensely, significant progress beyond these have to be achieved. I would like to make three specific suggestions in this context.

First, it is essential that Debt Sustainability Analysis (DSA) for countries is realistic on growth and fiscal projections are fully founded on accurate and comprehensive debt data. A global debt data-sharing platform can help in this regard. Establishing such a platform could be very challenging and may take several years. In the interregnum, therefore, we may examine the possibility of constructing suitable proxies for debt flows. Such proxies may be derived from data on capital flows and locational banking statistics from sources such as the Institute of International Finance (IIF) and the Bank for International Settlements (BIS). Second, a multilateral debt relief program providing targeted assistance to low-income countries with high debt levels needs to be considered on a priority basis. This initiative can be designed with a clear focus on utilisation of debt relief for sustainable development projects and poverty reduction efforts. To this end, instruments such as debt-for-development swaps1 and green debt relief programs2 could be employed.

Third, the crucial role of the International Monetary Fund (IMF) and the World Bank in addressing global debt vulnerabilities cannot be overstated. These institutions are at the centre of international monetary and financial system. Hence it is incumbent upon them to do more for countries in debt distress. At present, the IMF's precautionary programmes such as the Precautionary Lending Line are available for countries with sound macro-fundamentals; however, there is little reason for countries with strong macro-fundamentals to seek Precautionary Lines. Further, Stand-By Arrangements (SBAs) are offered for countries with a balance of payments crisis; but SBAs come with performance benchmarks, and the attendant stigma. This is an important issue, as the recent experience shows how the perceived stigma of and/or lack of access to IMF programmes can cause countries to seek support from other lenders rather than the IMF, with debt sustainability consequences. It may be helpful if programs can be designed with less conditionality for countries with macro-fundamentals that are not sound but reasonably resilient, if they are not marred by balance of payments stress.

The key point I am trying to stress is that corrective measures, including financing, should be put in place in a timely, non-stigmatised and more open access basis. For this purpose, a bigger and stronger IMF that is capable of managing the levels of country risk assumes crucial importance. Since the IMF's support is linked to the quota size of countries, the 16th general review of quotas and its attendant requirements, including governance reform, need to be completed expeditiously. Besides enhancing the legitimacy of the IMF in its oversight of the international monetary and financial system, this will increase traction for the IMF's policy advice. We must not allow the burden of debt to stifle the potential for global growth.

In this connection, the panel discussion on key risks to global growth, namely, inflation, financial stability and climate change, assumes topical relevance. Even as the global economic outlook is marred by risks to the downside, long-term structural challenges such as climate change must be addressed, through supply of adequate and affordable financing for green transition. We must, however, be mindful of the potential financial stability implications of green transition. The transition efforts must address both the physical and transition risks of climate change. Smooth and orderly green transition is necessary to avoid disruptions to economic activity and loss of growth potential. While the investment needs for smooth green transition are large, the actual financial flows to green projects 6 are highly skewed and are, by and large, concentrated in Advanced Economies. There is an urgent need to enhance green capital flows to EMDEs. As noted by the IMF in the recent Global Financial Stability Report, the green flows to EMDEs are curtailed by inadequate supply of green rated investment projects. While green flows today are dependent on ESG ratings, recent research shows that these ESG ratings do not adequately reflect financial and non-financial materialities of these investments. Therefore, there is a need to ensure that "green ratings" reflect the actual environmental impact of the projects so as to avoid green-washing A crucial aspect of this effort is ensuring private financing for climate transition efforts through globally comparable and transparent disclosure norms and taxonomy of green activities. The International Sustainability Standards Board (ISSB) is actively working on these aspects. 14. While efforts are underway to improve and deepen green financing, it is equally critical to fortify regulatory frameworks that enable the implementation of climate taxonomy across jurisdictions, prevent greenwashing and facilitate sufficient green capital inflows to EMDEs. A comprehensive and collaborative approach involving governments, private sector entities, financial institutions, civil society organizations, and the general public is essential for ensuing a successful transition to a sustainable future.

Souces: https://www.rbi.org.in/Scripts/BS_ViewSpeeches.aspx

BANKING, FINANCIAL SERVICES & INSURANCE (BFSI) ACTIVITIES IN THE MONTH

ASSOCHAM 6th National Summit & Awards on Corporate Bond Market

The bond market needs to be standalone and growing on its own to de-risk the banking system, Ashwani Bhatia, Whole Time Member, SEBI

Mumbai, 3rd August, 2023: The momentum towards the goal of overall economic growth in the country can be only achieved through focus on all-inclusive growth through enhanced capital formation, accelerated infrastructure development and large-scale asset monetization, the role of debt markets or corporate bond markets to finance this growth gets accentuated, said **Shri Ashwani Bhatia, Whole Time Member, Securities and Exchange Board of India (SEBI)** at ASSOCHAM 6th National Summit & Awards Corporate Bond Market in Mumbai.

"Banks can't do this alone, equity markets can't do it alone. We need the debt markets. For the past few years, debt markets have emerged as an alternative to the banking sector, but only for top-rate firms. There is need for mobilization of funds from the corporate foreign market as it provides alternative sources of finance and supplements the banking system to meet the requirements of the corporate sector to raise long-term investments. This technique acts as a stable source of finance when the equity market is volatile, loss of funds is suitably tailored, asset and liability profiles and at the same time reduce the risk of immaturity. Globally, bond markets are institutional in nature," **Shri Bhatia said.**

"Typically, buy and hold investors rule this market. It is not dependent on them. Development of corporate bond needs sustained participation of long-term institutional investors across the credit and maturity curves. The bond market needs to be standalone and growing on its own and ultimately de-risk the banking system. This I guess is very important for us as regulators. If this market develops, it actually de-risks the banking system because it takes away creditors away from that area. Intermediaries that support the capital market like the venture trustees and CRAs or credit rating agencies provide the necessary market infrastructure and are the bulwark of the success of the market. CERI has been taking steps to regulate interest to ensure that it provides necessary support CERI has been taking steps to regulate interest to ensure that it provides necessary support to participants", **he added.**

Innovation has been a driving force in the corporate bond market, with regulators like SEBI and RBI pushing for progress. Electronic debt-building platforms and price discovery mechanisms have been introduced, and mutual funds and other regulated entities are encouraged to participate actively. Such initiatives are crucial to creating a robust bond market that fosters growth and stability.

Let us embrace these principles of innovation, simplicity, and global access to build a bond market that empowers our economy, strengthens infrastructure projects, and paves the way for a prosperous future," said **Shri Ajay Tyagi, Former Chairman, Securities and Exchange Board of India (SEBI).**

"Innovation, simplicity, and global access are the keys to unlocking the true potential of the bond market and as we aspire to elevate the bond market to the same stature as equities, we must address its underdeveloped and illiquid segments. A liquid and deep bond market is a prerequisite for our journey towards becoming the third-largest economy by 2028 and a developed country by 2047. The importance of a vibrant bond market becomes evident when we consider financing infrastructure development. Banks alone cannot handle infra financing, and relying solely on budgetary allocations is not sustainable. To overcome these challenges, we need a well-regulated and developed bond market that caters to a broader range of issuers and ratings," **Shri Tyagi added.**

Echoing a similar view, **Shri C S Setty, MD, SBI,** said, "We are the largest investor in corporate bond market and also the largest issuer in bond market. On Monday we approached our 15-year infrastructure bonds and the tighter spread in the 15-year curve. What is interesting is that while the issue size was 5+5 the response was immense almost all 21,000-25,000 crore worth bids received which shows that for quality bond there is enough demand in the market. As a commercial banker we always have an existential problem in as far as bond market is concerned for instance SBI runs a book of about Rs 15 trillion of which Rs 1.7 trillion is corporate bond. What we are doing as a commercial banker is that we are engaging with a corporate in a holistic manner as Corporate access to the funding is always by way of loans because banks are more comfortable lending by way of term loans."

Shri Varun Sridhar, CEO, Paytm Money, said, "Consumers understand the power of simplicity. They do not want complication. 'Mutual Funds sahi hai, Bonds aur sahi hai' After 10 years this could very likely be a reality considering this is the decade for bonds. It is very likely that if we are able to make the purchase of corporate bonds a very simple, safe and transparent process, 100 million bond investors in the next 10 years does not seem a distant reality."

Bonds need to be broken down into Rs10 face value and introduction of Bond SIPs is something that can be looked at to encourage maximum retail participation and help investors create bond baskets. Having an organisation similar to AMFI for Mutual Funds could be looked into for developing corporate bond markets in India. India is a country of many languages so the common man's language should be the equity/bond market language.

These are interesting times and India is at the cusp of exponential growth and it is here that the corporate bond market becomes prominently relevant. Traditionally bank based financing has been critical for infrastructure financing which has its own drawbacks. Therefore, the need of the hour is market based financing to promote macro financial stability. "In order to promote and maximise retail participation, making things simple for Gen Z similar to an e-comm transaction is very important. A segregated structure in Demat accounts makes it extremely simple for a retail investor to invest and eventually leads to refinancialisation of markets. Coupled with the efforts taken by SEBI and RBI, corporate bond markets can be made simple, unified, objective and fair for the individual investor," said **Shri Nehal Vora, MD & CEO, CDSL.**

TOP BANKING NEWS

- **RBI imposes monetary penalty on 4 co-operative banks. Details here**

  The Reserve Bank of India (RBI) has imposed monetary penalties on four co-operative banks for deficiencies in regulatory compliance. These banks are Shri Vinayak Sahakari Bank, Shreeji Bhatia Cooperative Bank, Mizoram Urban Cooperative Development Bank and Vita Urban Co-operative Bank. The Reserve Bank imposed a monetary penalty of ₹1.50 lakh on Vita Urban Co-operative Bank Ltd., Vita, Maharashtra (the bank) for contravention of provisions of certain banking norms and directions issued by the apex bank on 'Maintenance of Deposit Accounts'. The bank had not transferred the eligible amount to Depositor Education and Awareness Fund (DEAF) and had not conducted annual review of inoperative accounts

  The Mizoram Urban Cooperative Development Bank Limited, Aizawl (the bank) was also penalised of ₹20,000 on for non-compliance with specific directions issued by the apex bank under Supervisory Action Framework (SAF) and certain provision of 'RBI's KYC directions. The bank had granted fresh loans and advances carrying risk weights of more than 100% in violation of specific directions issued under SAF and failed to put in place a system of periodic review of risk categorisation of accounts.

  The apex bank further imposed a monetary penalty of ₹1.00 lakh on Shreeji Bhatia Cooperative Bank Ltd., Mumbai (the bank) for non-compliance with specific directions issued by RBI under the Supervisory Action Framework (SAF) and RBI's KYC directions. The bank had incurred capital expenditure without prior approval of RBI in violation of SAF directions and had not conducted periodic review of risk categorization of its existing customers.

  The Reserve Bank also imposed a monetary penalty of ₹1.50 lakh on Shri Vinayak Sahakari Bank Ltd, Ahmedabad (Gujarat) for contravention of direction issued by RBI on 'Placement of Deposits with Other Banks by Primary (Urban) Co-operative Banks (UCBs)'. The bank had breached prudential inter-bank (counterparty) exposure limit.

  The actions of Reserve Bank was based on deficiencies in regulatory compliance and not intended to pronounce upon the validity of any transaction or agreement entered into by the banks with its customers.

  Source: https://www.livemint.com/industry/banking/rbi-imposes-monetary-penalty-on-4-co-operative-banks-details-here-11691496595791.html

- **New RBI rules to regulate penal charges on loans to come into effect from next year. Seven things to know**

  The Reserve Bank of India (RBI) has issued instructions for penal charges in loan accounts to ensure transparency in the disclosure of penal charges and interest rates in loan accounts. The guidelines with respect to penal charges in loan accounts will be effective from January 1, 2024.

  "Under the extant guidelines, lending institutions have the operational autonomy to formulate Board approved policy for levy of penal rates of interest," RBI said in a notification on Fair Lending Practice - Penal Charges in Loan Accounts.

  It has been observed that many Regulated Entities (REs) use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned, the central bank added

  The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest, the central bank said.

  RBI has issued the following instructions

  1) Penalty, if charged, for non-compliance of material terms and conditions of the loan

contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.

2) The REs shall not introduce any additional component to the rate of interest and ensure compliance with these guidelines in both letter and spirit.
3) The REs shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.
4) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of the loan contract without being discriminatory within a particular loan/product category.
5) The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
6) The quantum and reason for penal charges shall be clearly disclosed by REs to the customers in the loan agreement and most important terms & conditions/Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.

The new rules would be applicable to all banking entities regulated by the RBI, including all commercial banks, co-operative banks, NBFCs, housing finance companies, and All India Financial Institutions like EXIM Bank, NABARD, NHB, SIDBI, and NaBFID. These instructions shall, however, not apply to Credit Cards, External Commercial Borrowings, Trade Credits, and Structured Obligations which are covered under product-specific directions., the RBI said.

Source: https://www.livemint.com/industry/banking/new-rbi-rules-to-regulate-penal-charges-on-loans-to-come-into-effect-from-next-year-seven-things-to-know-11692331237309.html

- **Finance minister asks regional rural banks to focus on flagship schemes**

Finance minister Nirmala Sitharaman on Friday said that Regional Rural Banks (RRBs) should continue their focus on flagship schemes of the Central government such as PMJJBY, PMSBY, PM SVANidhi, Atal Pension Yojana, PM Jan Dhan Yojana, PM Mudra Yojana, KCC, KCC Animal Husbandry & Fisheries, and aim for their saturation.

Chairing a review meeting with chairpersons and senior officials of RRBs from the southern region in Chennai, Sitharaman said that RRBs and sponsor banks should improve their current and savings account (CASA) ratio.

Sitharaman also highlighted the CD ratio, gross NPAs, and provision coverage ratio (PCR) of RRBs.

The meeting was attended by secretary, Department of Financial Services (DFS), senior RBI officials and senior finance department officials of Tamil Nadu, Andhra Pradesh, Telangana, Kerala, Puducherry and Karnataka.

"The Union Finance Minister stated that better adoption of technology, Loan Management System and Core Banking System should be done in a time-bound manner in the #RRBs of the Southern region," the finance ministry said in a tweet after the meeting.

The finance minister also said that RRBs should focus on increasing digitally active customers in line with the government's effort to move towards greater digitalisation.

The minister added that the sponsor banks should map RRBs with MSME clusters and improve their presence in these clusters, while devising innovative products for serve MSMEs in a better way.

Source: https://www.livemint.com/industry/banking/finance-minister-asks-regional-rural-banks-to-focus-on-flagship-schemes-11691157907561.html

- **HDFC Bank launches India's first co-brand hotel credit card with Marriott Bonvoy. Know about the benefits**

  To make international travelling more lucrative, HDFC Bank tied up with Marriott International to launch India's first co-branded credit card. The 'Marriott Bonvoy HDFC Bank Credit Card' will run on Diners Club, which is a part of the Discover Global Network.

  The co-branded credit-card aims to become one of the most rewarding travel cards in India. Users can avail the benefits offered by both the brands with this credit card. They will also get benefits such as priority late checkout, exclusive member rates, Marriott Bonvoy bonus points and much more.

  "We are excited to launch our first Marriott Bonvoy co-branded credit card in India, following successful launches in Japan and South Korea," highlighted Ms. Ranju Alex, Area Vice-President, South Asia, Marriott International.

  "We are pleased to introduce India's first co-branded hotel credit card in partnership with Marriott Bonvoy. This collaboration reflects our commitment to providing innovative financial solutions that cater to the evolving needs of our customers. As the leading card issuer in the country, we are excited about this new offering and believe this partnership will revolutionise the way our customers engage with the hospitality industry, enhancing their journeys and creating lasting memories," commented Parag Rao, Country Head.

  What are the benefits of Marriott Bonvoy HDFC Bank Credit Card

  Card-holders can earn Marriott Bonvoy points on eligible spending. Later, these points can be redeemed by participating hotels across the Marriott Bonvoy portfolio – from free nights and upgrades within the unrivalled 31-brand portfolio, once-in-a-lifetime experiences through Marriott Bonvoy Moments, to bringing the hotel experience home with signature branded products from Marriott Bonvoy Boutiques, among others. These points can also be transferred to nearly 40 airlines across the globe.

  Annual spend based milestone benefits:

  - One Free Night award worth up to 15,000 points to be redeemed for a one-night stay at participating Marriott Bonvoy hotels.
  - Marriott Bonvoy Silver Elite status and 10 Elite Night credits to accelerate cardholders' journey with Marriott Bonvoy upon successful sign-up.
  - Earn up to 3 additional Free Night awards upon meeting spending thresholds.

  Additional benefits

  - Card holders can earn Marriott Bonvoy points for every Rs150 spent.
  - They can add 8 Marriott Bonvoy points on eligible purchases at hotels participating in Marriott Bonvoy.
  - Users can add four Marriott Bonvoy points on eligible purchases across travel, dining and entertainment.
  - Two Marriott Bonvoy points will be given on all other eligible purchases.
  - Users will have complimentary access to over 1,000 airport lounges across the globe.
  - 12 complimentary access to domestic lounges each year.
  - There will be 12 complimentary access to international lounges each year.
  - Users will also get the access to participating golf courses globally, up to 2 times per quarter.
  - Insurance against loss or delayed baggage, loss of passport, ticket as well as missed connection to be covered by HDFC Bank.

  Source: https://www.livemint.com/industry/banking/hdfc-bank-launches-indias-first-co-brand-hotel-credit-card-with-marriott-bonvoy-know-about-the-benefits-11692948434279.html

- **Union Bank of India Fixed Deposit Interest Rates**

  Union Bank of India offers FD interest rates of 3.00-7.00% p.a. to the general public and 3.50-7.50%

p.a. to senior citizens on tenures ranging from 7 days to 10 years. The interest rate on Union Bank of India Tax Saving FDs is 6.70% p.a. for the general public and 7.20% p.a. for senior citizen depositors for tenures of 5 to 10 years.

Meanwhile, the state-owned Union Bank of India on Wednesday presented a dividend cheque of ₹1,712 crore for 2022-23.

It is the highest dividend Union Bank of India has given in any financial year, the bank said in a statement.

Union Bank of India managing director A Manimekhalai handed over the dividend cheque to Finance Minister Nirmala Sitharaman in the presence of Joint Secretary (Banking) Sameer Shukla.

Union Bank of India begins probe into RCom loan, seeks firm's response

The Union Bank of India has started an examination of a loan sanctioned to Reliance Communications (RCom) from the angle of fraudulent practice and has sought the company's response, according to a regulatory filing.

The company is undergoing an insolvency resolution process after it failed to clear vendor dues and other debt.

"Company has received a letter from Union Bank of India, with the subject 'Examination of irregularities observed in the Loan Ac 495806390002088 and 495806390002240 from the fraud angle, as per the guidelines of Reserve Bank of India', asking to submit the company's response or reply on the said irregularities as pointed out by Forensic Auditor," RCom said in a filing.

Source: https://www.livemint.com/industry/banking/this-bank-announces-a-100-waiver-of-processing-charges-for-home-and-auto-loans-for-these-customers-11692493376133.html

- **New RBI rules to regulate penal charges on loans to come into effect from next year. Seven things to know**

The Reserve Bank of India (RBI) has issued instructions for penal charges in loan accounts to ensure transparency in the disclosure of penal charges and interest rates in loan accounts. The guidelines with respect to penal charges in loan accounts will be effective from January 1, 2024.

"Under the extant guidelines, lending institutions have the operational autonomy to formulate Board approved policy for levy of penal rates of interest," RBI said in a notification on Fair Lending Practice - Penal Charges in Loan Accounts.

It has been observed that many Regulated Entities (REs) use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned, the central bank added

The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest, the central bank said.

RBI has issued the following instructions

1) Penalty, if charged, for non-compliance of material terms and conditions of the loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
2) The REs shall not introduce any additional component to the rate of interest and ensure compliance with these guidelines in both letter and spirit.
3) The REs shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.
4) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of

the loan contract without being discriminatory within a particular loan/product category.

5) The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

6) The quantum and reason for penal charges shall be clearly disclosed by REs to the customers in the loan agreement and most important terms & conditions/Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.

7) Whenever reminders for non-compliance of material terms and conditions of the loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

These instructions shall come into effect from January 1, 2024. REs may carry out appropriate revisions in their policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to the new penal charges regime shall be ensured on the next review or renewal date or six months from the effective date of this circular, whichever is earlier.

The new rules would be applicable to all banking entities regulated by the RBI, including all commercial banks, co-operative banks, NBFCs, housing finance companies, and All India Financial Institutions like EXIM Bank, NABARD, NHB, SIDBI, and NaBFID. These instructions shall, however, not apply to Credit Cards, External Commercial Borrowings, Trade Credits, and Structured Obligations which are covered under product-specific directions., the RBI said.

Source: https://www.livemint.com/industry/banking/new-rbi-rules-to-regulate-penal-charges-on-loans-to-come-into-effect-from-next-year-seven-things-to-know-11692331237309.html

- **Despite RBI status quo on interest rates, Bank of Baroda hikes MCLR; loan EMIs to increase**

One of the leading public sector lenders, Bank of Baroda (BoB) has hiked its benchmark lending rates by 5 basis points (bps) on various tenures. The new rates will come into effect from August 12th. The hike in the MCLR by the Bank of Baroda comes just a day after the RBI announced a status quo on the repo rate.

With the latest hike, EMIs on term loans linked to the respective benchmark rates will likely go up as well. The rise in MCLR will impact corporate borrowers. Retail lending, which includes housing, personal credit, and SMEs, is predominantly linked to external benchmarks such as policy repo rates.

With effect from August 12, the bank's Marginal Cost of Funds Based Lending Rate (MCLR) for overnight will be 7.95%. .BoB imposes 8.20%, 8.30%, and 8.40% MCLR on one-month, three-month, and six-month respectively. The bank's 1-year MCLR will be 8.65% effective tomorrow (12 August)

Bank of Baroda hikes MCLR from 12 August

Overnight MCLR 7.95

1 Month MCLR 8.20

3 Month MCLR 8.30

6 Month MCLR 8.40

1 Year MCLR 8.65

What is MCLR

In general terms, MCLR is the minimum interest rate that banks require to charge for a specific loan.

If the interest rate on the loan rises, EMIs will also increase unless the bank reduces its mark-ups/ margins on loans. As a result, borrowers will now have to shell out more to pay their EMIs for loans that are linked to MCLR. For existing borrowers with their loans linked to MCLR, the hike will impact their EMIs when their loan reset date arrives.

HDFC Bank too hiked benchmark MCLR by 15 basis points (bps) on select tenures with effect from 7 August. ICICI Bank, Punjab National Bank, and Bank of India have revised their marginal cost-based lending rate (MCLR) on loans effective 1 August 2023.

In line with expectations, the Reserve Bank of India (RBI) decided to keep interest rates unchanged for a third straight meeting but signalled tighter policy if food prices drive inflation higher. The MPC members have decided to keep the policy rate unchanged at 6.5 per cent, RBI Governor Shaktikanta Das announced on 10 August.

Source: https://www.livemint.com/industry/banking/despite-rbi-status-quo-on-interest-rates-bank-of-baroda-hikes-mclr-loan-emis-to-increase-11691732360571.html

- **Banks' dividend payout to hit 7-year high: S&P Global**

The aggregate dividend payout by the Indian banks to shareholders in fiscal year 2023-2024 will increase to its highest level in at least seven years, said a report from S&P Global Market Intelligence.

The growth in dividend payout will be on the back of strong business metrics and healthy credit growth, said the report.

Axis Bank, Bandhan Bank and AU Small Finance Bank will lead dividend payout increases in the next few years, Tusharika Aggarwal, a dividend forecasting research analyst at S&P Global Market Intelligence said in the report released on Thursday.'

According to the S&P Global report, banks will likely account for 13% of the aggregate dividend payout across all sectors in the fiscal year 2024 ending March 31, up from 12% and 9% in the previous two financial years.

On accelerating credit growth and shrinking bad loans, banks had reported strong profits last fiscal year and in the first quarter of the current fiscal year.

According to Aggarwal, India's brisk economic activity will likely sustain high credit growth, resulting in excellent earnings forecasts for banks.

An S&P Global report had earlier this month projected India's economy to double to $6.7 trillion by 2031, from $3.4 trillion currently.

On August 17, Fitch Ratings had said that the operating environment for Indian lenders has strengthened as economic risks associated with the Covid-19 pandemic have ebbed.

"India was badly affected by the pandemic, but the associated risks have now receded," the rating agency had said in a report.

"Indian banks' loan growth over FY23 reached 15.4%, the highest since FY13. We believe this partly reflected pent-up credit demand following the pandemic, amid improved capacity for growth, especially among private-sector banks, as well as strong nominal GDP growth. We expect some normalisation in FY24, although credit demand has remained robust in 1QFY24," it had said.

Fitch affirmed the sovereign rating at 'BBB-/Stable' in May and it currently forecasts real GDP growth to average 6.4% annually in the three years to March 2026.

Source: https://www.livemint.com/industry/banking/banks-dividend-payout-to-hit-7-year-high-s-p-global-11692879498668.html

- **Nirmala Sitharaman urges regional rural banks to remove PMJDY duplications, facilitate apple storage**

Finance Minister Nirmala Sitharaman on Wednesday urged Regional Rural Banks (RRBs) to remove duplication of Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts and facilitate storage facility for apple growers in Jammu & Kashmir and Himachal Pradesh.

At a review meeting of the RRBs of the Northern region in the capital, Sitharaman said that banks should map RRBs with MSME (micro, small & medium enterprise) clusters and put greater thrust on increasing the network of rural branches in cluster areas identified by the Ministry of Micro, Small & Medium Enterprises.

Sitharaman emphasised on increasing penetration under the PM Mudra Yojana (PMMY) and stated that a roadmap must be prepared for completing the designated activities in a time-bound manner.

During the review meeting, the finance minister also directed RRBs to upgrade their digital capabilities.

Sitharaman directed the managing director and chief executive of Punjab National Bank (PNB) to ensure that all RRBs acquire digital onboarding capability by 1 November 2023.

Source: https://www.livemint.com/industry/banking/nirmala-sitharaman-urges-regional-rural-banks-to-remove-pmjdy-duplications-facilitate-apple-storage-11693409567986.html

- **Axis Bank launches 'Infinity Savings Account' with zero domestic transaction fees. Benefits, other details here**

Axis Bank, one of the largest private sector banks in India today announced the launch of a first-of-its-kind new savings account variant – 'Infinity Savings Account' to cater to digitally savvy customers who are frequent adopters of subscription-based models. This innovative savings account offers Axis Bank's customers exclusive privileges, such as waived Average Monthly Balance (AMB) requirement, complimentary debit cards, and waiver of all the domestic charges against a small monthly recurring fee of ₹150 or annual fee of Rs1650

"We have been continuously working on innovation-led models to re-define the role we can play in the life of our customers, by elevating digital banking to new domains of customer engagement. By incorporating the principles of subscription-based models, we aim to provide our customers with a transformative banking experience, aligning with the evolving preferences and expectations of today's consumers," Ravi Narayanan - Group Executive & Head – Branch Banking, Retail Liabilities and Products, Axis Bank, said.

Customers can now choose to subscribe to the savings account and not worry about fees charged for services or maintaining minimum balances. This unique offering echoes our belief that banking should be effortless, flexible, and address the evolving needs of the customers, he added The new variant is introduced with the aim of revolutionizing the banking experience. The customers can open the account in a completely digital manner through the Video KYC process. With its unique proposition, the Bank offers two subscription-based flexible plans - Monthly and Annual. The monthly plan is charged at Rs150 (inclusive of GST) and has a minimum subscription period of 6 months. After the initial 6 months, the plan continues on a 30-day cycle, with Rs150 deducted every 30 days. The annual plan is charged at Rs1650 (inclusive of GST) and offers Infinity benefits for 360 days. The plan is automatically renewed after this period.

This innovative banking product is designed for customers seeking a worry-free banking experience by eliminating all domestic charges, ensuring transparent banking at its finest.

Axis Bank 'Infinity Savings Account' benefits

- No Minimum Balance Maintenance Required
- No charges on any domestic transactional fees
- Free Debit Card & unlimited ATM withdrawals
- No charges on chequebook usage or transactions/withdrawals above limits
- End-to-end digital account opening on leap.axisbank.com

Source: https://www.livemint.com/industry/banking/axis-bank-launches-infinity-savings-account-with-zero-domestic-transaction-fees-benefits-other-details-here-11693287127031.html

SELECT RBI CIRCULARS AUGUST 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2023-2024/57 CO.DPSS.POLC. No.S526/02-14-003/2023-24	24.8.2023	Department of Payment and Settlement Systems	Enhancing transaction limits for Small Value Digital Payments in Offline Mode	The Chairman/Managing Director/Chief Executive Officer Authorised Payment System Operators and Participants (Banks and Non-banks)
RBI/2023-2024/56 DOR.AML. REC.33/14.06.001/ 2023-24	18.8.2023	Department of Regulation	Implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005: Designated List (Amendments)	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2023-2024/55 DOR.MCS. REC.32/01.01.003/ 2023-24	18.8.2023	Department of Regulation	Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans	All Scheduled Commercial Banks Regional Rural Banks Primary (Urban) Co-operative Banks State Co-operative Banks and District Central Co-operative Banks Non-Banking Financial Companies (including Housing Finance Companies)
RBI/2023-2024/54 DoR.SIG.FIN. REC.31/03.10.001/ 2023-24	18.8.2023	Department of Regulation	Review of Regulatory Framework for IDF-NBFCs	All Infrastructure Debt Fund-NBFCs (IDF-NBFCs)
RBI/2023-2024/53 DoR.MCS. REC.28/01.01.001/ 2023-24	18.8.2023	Department of Regulation	Fair Lending Practice - Penal Charges in Loan Accounts	All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, excluding Payments Banks) All Primary (Urban) Co-operative Banks All NBFCs (including HFCs) and All India Financial Institutions (EXIM Bank, NABARD, NHB, SIDBI and NaBFID)
RBI/2023-2024/52 DOR.RET. REC.29/12.01.001/ 2023-24	10.8.2023	Department of Regulation	Reserve Bank of India Act, 1934 - Section 42(1A) - Requirement for maintaining additional CRR	The Chairperson / CEOs of all Scheduled Commercial Banks/ Regional Rural Banks/All Scheduled Primary (Urban) Co-operative Banks/All Scheduled State Co-operative Banks

STATISTICAL SUPPLEMENT – RBI

August 2023					
Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
(₹ Crore)					
Item	2022	2023		Variation	
	Aug. 19	Aug. 11	Aug. 18	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	0	0	0	0	0
4.2 State Governments	7689	14255	15343	1088	7654

** Data are provisional*

2. Foreign Exchange Reserves*

Item	As on August 18, 2023		Variation over					
			Week		End-March 2023		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	4943746	594888	-44617	-7273	189482	16439	444102	30835
1.1 Foreign Currency Assets #	4386111	527786	-40936	-6613	196979	18095	387734	26571
1.2 Gold	364196	43824	-3121	-515	-7303	-1376	45786	3910
1.3 SDRs	151292	18205	-508	-119	128	-187	7800	218
1.4 Reserve Position in the IMF	42147	5072	-51	-25	-322	-93	2782	137

** 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 Currency swap arrangements.

3. Scheduled Commercial Banks - Business in India

(₹ Crore)

Item	Outstanding as on Aug. 11, 2023	Variation over				
		Fortnight	Financial year so far		Year-on-year	
			2022-23	2023-24	2022	2023
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	19236395	69142	483365	1192481	1376378	2287717
	(19087913)			(1043999)		(2139235)
2.1a Growth (per cent)		0.4	2.9	6.6	8.8	13.5
				(5.8)		(12.6)
2.1.1 Demand	2180551	-77421	-96937	120	179061	204741
2.1.2 Time	17055844	146563	580302	1192361	1197317	2082976
2.2 Borrowings	797380	13038	202716	352051	237621	320070
2.3 Other Demand and Time Liabilities	857469	36696	17352	67818	93736	199269
7 Bank Credit*	14875630	73532	534404	1200395	1646867	2449912
	(14272334)			(597098)		(1846615)
7.1a Growth (per cent)		0.5	4.5	8.8	15.3	19.7
				(4.4)		(14.9)
7a.1 Food Credit	19930	-906	-22914	24	-39915	-12167
7a.2 Non-food credit	14855700	74438	557318	1200370	1686782	2462079

** Bank credit growth and related variations from December 3, 2021 to November 18, 2022 are adjusted for past reporting errors by select scheduled commercial banks (SCBs).*

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									
	2023	Fortnight	Financial Year so far		Year-on-Year				Year-on-Year			
					2022-23		2023-24		2022		2023	
	Mar. 31	Aug. 11	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	22343760	23330256	70461	0.3	542118	2.6	986496	4.4	1628545	8.4	2294409	10.9
		(23478738)	(68483)	(0.3)			(1134978)	(5.1)			(2442891)	(11.6)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3276436	3215047	-856	0.0	56434	1.9	-61389	-1.9	237756	8.3	122924	4.0
1.2 Demand Deposits with Banks	2320598	2320661	-77417	-3.2	-96465	-4.4	63	0.0	184756	9.6	204134	9.6
1.3 Time Deposits with Banks	16668966	17722717	148026	0.8	583644	3.8	1053751	6.3	1194983	8.2	1952469	12.4
		(17871199)	(146048)	(0.8)			(1202233)	(7.2)			(2100950)	(13.3)
1.4 'Other' Deposits with Reserve Bank	77761	71831	708	1.0	-1495	-2.6	-5930	-7.6	11050	24.1	14883	26.1
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7165533	7355365	130487	1.8	36137	0.6	189833	2.6	417654	6.9	841599	12.9
		(7468028)	(130583)	(1.8)			(302496)	(4.2)			(954262)	(14.6)
2.1.1 Reserve Bank	1451126	1252188	55103		-310483		-198937		-48313		112074	
2.1.2 Other Banks	5714407	6103177	75384	1.3	346620	6.9	388770	6.8	465967	9.5	729524	13.6
		(6215840)	(75480)	(1.2)			(501433)	(8.8)			(842187)	(15.7)
2.2 Bank Credit to Commercial Sector	14429636	15010309	79728	0.5	549195	4.4	580673	4.0	1674402	14.6	1844594	14.0
		(15613606)	(72745)	(0.5)			(1183970)	(8.2)			(2447891)	(18.6)
2.2.1 Reserve Bank	26549	4113	-1031		9239		-22436		17112		-21697	
2.2.2 Other Banks	14403087	15006196	80759	0.5	539956	4.3	603109	4.2	1657291	14.4	1866291	14.2
		(15609493)	(73776)	(0.5)			(1206406)	(8.4)			(2469588)	(18.8)

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
Aug. 14, 2023	-	-	-	-	50624	52274	758	-	-	-892
Aug. 15, 2023	-	-	-	-	490	3568	-	-	-	-3078
Aug. 16, 2023	-	-	-	-	932	37361	-	-	-	-36429
Aug. 17, 2023	-	-	-	-	14143	95539	213	-	-	-81183
Aug. 18, 2023	-	-	-	-	32620	52079	43	-	-	-19416
Aug. 19, 2023	-	-	-	-	3449	15053	-	-	-	-11604
Aug. 20, 2023	-	-	-	-	130	3959	-	-	-	-3829

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://dbie.rbi.org.in

Ajit Prasad
Director (Communications)

Press Release: 2023-2024/815

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

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **RBI Governor meets top NBFC heads on unsecured loans, high bank borrowings**

Banks' exposure to NBFCs has risen 35.1 per cent on-year to ₹14.2 lakh crore as of June 2023, as per latest RBI data Reserve Bank of India and the top NBFCs and HFCs (housing finance companies) of the country discussed issues such as unsecured retail loans and increasing reliance on bank borrowings in a meeting held on Friday.

The discussions between Governor Shaktikanta Das and MD and CEOs of Upper Layer NBFCs and HCs, and select government NBFCs, entailed diversifying the resources for these lenders to contain the increasing reliance on bank borrowings, and risks associated with high credit growth in the unsecured retail segment.

Banks' exposure to NBFCs has risen 35.1 per cent on-year to ₹14.2 lakh crore as of June 2023, as per latest RBI data. In turn, NBFCs' share in overall bank credit increased to 9.9 per cent from 8.5 per cent a year ago. This has raised concerns regarding the rise in banks' indirect exposure to the unsecured segment which has been driving growth for NBFCs.

While appreciating the improved financial health and operational resilience of NBFCs and HFCs, Das advised that they need to remain alert "to avoid any complacency during good times". He also highlighted the need for strengthening governance standards and assurance mechanisms with respect to Compliance, Risk management and Internal audits.

Other issues discussed were upgradation of IT systems and cyber security, strengthening provisioning covers, monitoring of stressed exposures and slippages, liquidity and asset-liability management, and reasonableness and transparency in credit pricing.

The NBFCs and HFCs involved constitute nearly 50 per cent of the total assets of NBFCs including HFCs, RBI said. Deputy Governors M. Rajeshwar Rao and Swaminathan J., NHB MD S. K. Hota, and a few senior RBI officials were also part of the discussions.

Source: https://www.thehindubusinessline.com/money-and-banking/rbi-governor-meets-top-nbfc-heads-on-unsecured-loans-high-bank-borrowings/article67235448.ece

- **For many fintechs, NBFC tag may be elusive**

Lack of profitable growth, large ownership by international investors and complex shareholding patterns of these investors themselves are a few of the major issues causing fintech lenders to lose out on a licence to operate as non-bank finance companies (NBFCs).

An NBFC licence would allow fintechs to offer loans from their own books, thereby build an asset base. Without this licence, they remain confined as marketplaces to source loans for banks and other NBFCs

"The RBI wants to give the lending licence to profitable and clean companies, but many fintechs do not meet both criteria," said a senior banker in the know of things.

After the Reserve Bank of India blocked the attempts of OneCard and Uni to get the NBFC licence, another neo-banking fintech, Fi, too is understood to have failed to get the permit recently.

Emailed queries to Fi founder Sujith Narayanan remained unanswered at press time Friday.

Industry insiders ET spoke with pointed out that after Cred, BharatPe and Jupiter got NBFC licences, many fintechs were hopeful of getting one too. But the regulator has "returned" a bunch of applications recently, indicating that it will not free up licences easily.

Data from the Reserve Bank of India show that in FY2021-22, only 44 new NBFC applications were granted. In the previous two years, the numbers were 55 and 116.

The regulator is also scrutinising the companies closely. The Mint newspaper wrote on Friday that the RBI rejected Cred's application to increase its stake in Kunal Shah-promoted NBFC Newtap Technologies. Shah is also the promoter of Cred.

Challenges for fintechs

Most of the fintechs are lossmaking, which is a major criteria considered by the regulator before giving out a licence, the banker cited earlier said.

"The regulator usually does not reject an application; it mostly returns the licence with additional queries," said another senior banker in the know.

But if an application is returned, chances are low that it will clear the second time, he added.

The RBI is not in favour of lice ..

licence shopping. There are 9,640 NBFCs in the country, a major chunk of whom are lying dormant. Fintechs are looking for such dormant NBFCs and are trying to acquire them. The RBI is not clearing such deals.

ET wrote on August 16 that OneCard was looking to acquire an NBFC, but the application has not gone through

The thinking in the RBI is that if an NBFC has not been operational, it should rather close down and return the licence instead of looking for a strategic buyer.

Another aspect that the regulator is checking is to find out the "ultimate beneficiary". Most of these fintechs are backed by large venture firms. These firms have complex structures where finding out the ultimate source of the capital is a big challenge. The RBI is not keen on such applications, ET has learnt.

"The RBI is asking for details of the limited partners, the ultimate investors in the fund and if they are using any of the suspicious funding routes through tax havens then they will further stay away from granting a licence," one of the bankers said.

Source: https://economictimes.indiatimes.com/tech/startups/rbi-hardens-stance-on-fintechs-nbfc-applications/articleshow/102842278.cms?from=mdr

- **NBFC Moneyboxx Finance crosses Rs 400 cr AUM; targets doubling it this FY**

Loans for micro entrepreneurs: NBFC Moneyboxx Finance, which lends to micro entrepreneurs in Tier-III and beyond towns, has crossed Rs 400 crore in assets under management (AUM) in July 2023. The company said it added 11 branches in the current financial year so far, taking its branch network to 72 branches across six states as of July 31, 2023. The NBFC also added four new lenders viz., HDFC Bank, Federal Bank, Fincare Small Finance Bank and Protium Finance in the current financial year. It is supported by 27 lenders overall including eight banks, large NBFCs, and impact funds.

Moreover, the company has co-lending and business corresponding partnerships in place with various lenders.

"We see tremendous growth opportunity in Rs 1-10 lakh business loan segment given the huge credit gap for micro enterprises and the presence of very few focused players in this segment. We have a proven business model to service this segment with robust underwriting practices and one of the best asset quality metrics in the industry (90+ PAR at 0.59 per cent of AUM on Mar'23)," said Mayur Modi, Co-founder, Moneyboxx Finance in a statement.

With the aim of driving financial inclusion in rural and semi-urban India, Modi said the company aims to reach an AUM of over Rs 800 crore and 100 branches by FY24 with support from lenders, lending partnerships, and planned capital raise.

Moneyboxx Finance customers include underserved micro entrepreneurs in important and essential segments such as livestock, kirana, retail traders, micro-manufacturers. The unsecured and secured loans extended range from Rs 70,000 to Rs 10 lakh for up to 84-month tenure.

Meanwhile, the credit outstanding to the MSME sector by scheduled commercial banks in the financial year 2022-23 jumped by 12.3 per cent to Rs 22.6 lakh crore from Rs 20.11 lakh crore in FY22, according to the data shared by Bhanu Pratap Singh Verma, Minister of State in the MSME Ministry in a written reply to a question in the Rajya Sabha.

The amount outstanding in FY21 and FY20 stood at Rs 17.83 lakh crore and Rs 16.13 lakh crore respectively. During the five-year period, the credit outstanding to the MSME sector grew by 49.6 per cent from Rs 15.10 lakh crore during FY19.

Source: https://www.financialexpress.com/business/sme-nbfc-moneyboxxfinance-crosses-rs-400-cr-in-aum-targets-doubling-it-this-fiscal-3198621/

- **Small, mid-sized NBFCs may woo private equity investors**

More small and mid-sized non-banking financial companies (NBFCs) are expected to be of interest to private equity firms due to their strong loan growth and improved asset quality.

"We expect both strategic and private equity investors to invest in the NBFC sector, especially in emerging and mid-size NBFCs," said Ajit Velonie, senior director, Crisil Ratings.

Velonie attributed this to the fact that NBFCs have focussed on bolstering liquidity, capital and provisioning buffers to reinforce their balance sheets in the recent year. This, in addition to a rebound in economic activity, has put the sector in a relatively stronger position now to capitalise on growth opportunities.

Non-bank lenders have seen higher private equity involvement in recent years. In July, TPG affiliate Perseus acquired a controlling stake in Poonawalla Housing Finance for Rs 3,004 crore. The housing finance company's assets under management stood at around Rs 5,600 crore as of September 2022, when the deal was signed.

In recent years, the likes of TPG have also invested in companies like Five Star Business Finance, Kraybee Services, and Fibe.India

The Reserve Bank of India (RBI) has imposed barriers to acquiring controlling stakes in banks, and this makes non-bank lenders a conducive investment bets for private equity firms, say experts. RBI has capped long-term non-promoter shareholding for banks at 10% for natural persons and non-financial entities whereas, the cap for financial entities stands at 15% of the paid-up voting equity share capital.

"Apart from regulatory issues, a key driver of investments in the sector is the organic growth and scale that the sector is showing across segments that it operates in," Fali Hodiwalla, Partner – Financial Services Consulting, EY India said.

Further, Hodiwalla noted that the valuations of some of the largest NBFCs in India exceed several banks, and this is attractive to private equity investors. It also helps that these non-bank lenders have been able to manage liquidity in an efficient manner.

While private equity investors have typically preferred businesses that do secured lending, new-age lenders that operate in the unsecured space have also received a fair share of investments in recent times, say experts.

"When private equity comes in, the ball game changes to profitability. It is not venture capital money. As the money comes in, businesses are meant to focus on scale, very high growth, and profitability," says Akshay Mehrotra, co-founder and chief executive officer, Fibe.India.

"This means that listing exits are going to be possible for these private equity firms and they have to be demonstrated in that manner," he added.

Vivriti Capital chief risk officer Hemang Mehta stated that funds with a three-to-ten-year outlook are interested in profitable companies with sound management and a good track record.

While around 90 NBFCs have surrendered their licences in the first half of 2023, experts are confident that the segment will continue to see an inflow of private equity investments given that credit demand is expected to remain robust.

"While small and mid-sized NBFCs play a pivotal role in India's financial inclusion initiatives and appeal to strategic investors looking for positive social impact, proper oversight and regulation are essential to maintain the sector's stability and integrity," Rohit Arora, chief executive and co-founder, Biz2Credit, said.

In fact, non-bank lenders that focus on strengthening their business models and upholding asset quality will be favoured by investors.

Source: https://www.financialexpress.com/business/banking-finance-small-mid-sized-nbfcs-may-woo-private-equity-investors-3197235/

- **Maintaining 'Customer Centricity' – A priority for NBFCs**

With consumers, whether individuals or businesses, looking for consistently high standards of excellence when dealing with financial lenders; NBFCs need to upgrade their services across all customer touchpoints and deliver uniform experiences across online as well as offline channels With competition at an all-time high, the NBFC sector needs to adopt a customer-centric focus by accelerating digital transformation and introducing tailored products that can fulfil the ever-evolving credit needs of India's underserved population

While non-banking financial companies (NBFCs) emerged as an alternative to traditional banks in December 1964, these financial institutions have been increasingly fulfilling the underserved financial needs of individuals and businesses in 21st-century India. In fact, their role in providing credit to micro, small & medium enterprises (MSMEs) and low-income households has been especially important in boosting overall economic development. However, with increasing competition from FinTech lenders who are ushering in new levels of customer convenience, the need to better understand customer preferences and expectations has never assumed greater importance for the NBFC sector. Let us look at why maintaining customer centricity is the top-most priority for NBFCs in the country and how they can facilitate the same through technological adoption and have a consistent focus on improving service delivery standards.

Improving customer experience levels with an MSME focus

Even though the MSME sector contributes to more than 29% of India's gross domestic product (GDP) and accounts for more than 50% of the country's exports, traditional financial institutions have been wary of providing MSMEs with loans to fund their business expansion needs. This has been largely due to the perception of higher credit risk on MSME and SME loans, contributed in no small measure by the limited or inadequate credit history of these enterprises. That said, with the Indian government launching several schemes to improve credit access to MSMEs and SMEs, these businesses are increasingly tapping into the formal credit market to serve their credit needs.

With greater digital adoption and improving financial literacy levels amongst entrepreneurs in the MSME sector, NBFCs ought to understand their needs and provide bespoke products and services that are attuned to their credit requirements. Offering innovative financial solutions for purposes like rooftop solar finance, machine finance and loans against used machines with quick processing and disbursement times has become the need of the hour. Moreover, NBFCs need to continue their pioneering approach towards using technology to provide hassle-free solutions. This coupled with an extensive branch network and last-mile connectivity will ensure true customer centricity. This approach towards mitigating the various financial challenges faced by the MSME sector through personalized solutions will ultimately bode well for NBFCs looking to capitalize on the Indian growth story.

Integrating advanced technologies to improve operational performance

In order to achieve customer centricity and fulfil the ever-increasing credit appetite of India's burgeoning MSME sector, NBFCs will have to adopt business and operational models that are powered by advanced technologies. Important among them are artificial intelligence (AI), machine learning (ML), robotic process automation (RPA) and big data analytics; helping them to automate manual processes, streamline operations and replace traditional risk assessment strategies with data-driven credit risk models. Not only do these technologies help increase operational efficiencies and reduce turnaround times, but also support NBFCs in tapping into new markets and customer groups with relative ease.

Source: https://www.financialexpress.com/business/sme-maintaining-customer-centricity-a-priority-for-nbfcs-3223905/

TOP INSURANCE NEWS

- **Life insurers retain higher risks as global reinsurers shy away from India post Covid**

  Despite the post-Covid-19 recovery, global reinsurers have remained concerned about higher risk exposure in India. Several reinsurers have made the decision to discontinue writing group term business due to the higher mortality experienced during Covid-19. Consequently, insurance companies are now compelled to retain group term insurance business entirely in their books. The challenges posed by reinsurers have prompted insurers to reassess their risk management strategies, and as a result retention limit for life insurers has increased up to 30 per cent compared to the previous pre-Covid limit of 10 per cent.

  "In recent times, the insurance industry has experienced a significant surge in claims, with almost all insurers receiving approximately three times more claims compared to previous years. To mitigate the burden of mortality risk, insurance companies had reinsured their term insurance business with low retention cover, placing a considerable portion of the risk on reinsurance companies. As a consequence, nearly all life insurers have incurred cumulative losses to reinsurers. This situation has prompted an increase in reinsurance premium rates by 30 per cent to 40 per cent in India," explained Rushabh Gandhi, Deputy Chief Executive Officer at IndiaFirst Life Insurance.

  Retention limit is the maximum amount of risk retained by an insurer. Beyond that, the insurer passes on the risk to a reinsurer, which provides insurance cover to large insurance companies to safeguard them against substantial losses. In India, foreign players underwrite a large share of life insurance business.

  "Indians have operated with relatively low retention compared to their peers globally. Only 10-15% of the risk was retained by insurers until COVID. Reinsurers have been working towards increasing the insurer's retention. COVID provided the market an opportunity to correct this and we see the change come about radically. Retentions have increased from 10-15% to up to 40%," said Nymphea Batra, CEO, Guy Carpenter India, a division of Marsh India Insurance Brokers.

  Post the pandemic, reinsurance companies in India are tightening underwriting practices, revisiting non-medical limits, and increasing term insurance rates. Some companies increased their retention to ease out the increase of mortality premiums demanded by most of the reinsurance companies to remain competitive.

  "The Covid-19 pandemic has presented several challenges for both insurers and reinsurers, especially for the term category. While there has been added pressure on reinsurers due to an unexpected surge in claims, the demand for term insurance has increased as more people understood why financial protection is important. There has been some correction in term premium rates, and the exact increase in premiums may vary from company to company, depending on their individual circumstances and the extent of business conducted with their reinsurers. To address this challenge, insurers and reinsurers are engaging in discussions to find a balanced approach to future risk management," said Anup Seth, Chief Distribution Officer, Edelweiss Tokio Life Insurance

  At present, the mortality experience seems to be improving across Indian insurance firms, but there is still an element of the unknown in terms of long-term mortality trends in the post-Covid era. "Due to this ambiguity, reinsurers are evaluating their pricing approach and retention strategy to remain competitive and recover part of the losses made in the past. Reinsurance companies are also reserving for the possibility of a similar long-term unforeseen calamity of mass impact as a risk mitigation strategy," said Gandhi.

Any hike in premium rates imposed by reinsurers eventually impacts policyholders. Instead of raising term insurance rates in tune with the reinsurance rates, some life insurers have adopted the strategy of a higher retention limit to keep term insurance rates stable for a while.

"We may witness a slight relaxation in underwriting controls, which will be gradual in nature. However, at present, the negotiation opportunity of the insurers in terms of pricing has reduced significantly. They have resorted to adapting to a higher retention limit agreement with the reinsurers to have a better risk-sharing arrangement," said Gandhi.

"As a risk management strategy, most life insurers enter into reinsurance agreements. These contracts are of a long-term nature, and the pricing is based on the mortality experience. Short-term volatility has relatively less impact on reinsurance rates for such contracts. However, we believe that for short-term insurance contracts, there is a case for normalization of reinsurance rates to pre-Covid-19 levels. Reinsurers are actively monitoring the short and long-term mortality trends compared to the pricing," Souvik Jash, Appointed Actuary, ICICI Prudential Life Insurance had told Business Today.

Source: https://www.businesstoday.in/personal-finance/insurance/story/life-insurers-retain-higher-risks-as-global-reinsurers-shy-away-from-india-post-covid-392605-2023-08-03

- **Irdai approves amendments to boost Indian reinsurance sector, cuts capital for FRBs to Rs 50 Crore. Here's what it means-**

This regulatory overhaul strategically positions India as a vital global reinsurance hub. The Insurance Regulatory and Development Authority of India (Irdai) recently approved amendments to reinsurance regulations to promote a favourable business environment and attract more reinsurers to set up operations in India.

The principal objective of these adjustments is to harmonise and streamline existing regulations that apply to all players in the insurance market, including Indian insurers, Indian reinsurers, Foreign Reinsurance Branches (FRBs), and International Financial Services Centre Insurance Offices (IIOs). This regulatory overhaul strategically positions India as a vital global reinsurance hub.

Sharad Mathur, MD and CEO of Universal Sompo General Insurance said, "The strategic harmonization of regulations and simplification of compliance intricacies create an environment primed for growth while also attracting reinsurers to our nation. This transformative progression resonates harmoniously with our unwavering commitment to innovation and customer-centricity. We are poised to significantly accelerate the insurance sector's growth by embracing these progressive shifts, fortifying India's stance in the global reinsurance arena."

Enhancing Indian reinsurers: Several significant changes have been made, which include a reduction of the minimum capital requirement for FRBs from Rs 100 Crore to Rs 50 Crore, streamlining the order of preference from six to four levels, and simplifying reinsurance programs.

According to experts, the decrease in the capital requirement for overseas reinsurers will lead to a rise in the number of reinsurers operating within India. This will amplify market diversity and enrich India's reinsurance landscape. Salil Das, Director of Reinsurance Alliance Insurance Brokers, said, "This has been a longstanding request from reinsurers, questioning the necessity of committing substantial capital when they already have backing from their headquarters. With an increased presence of reinsurers in the market, the market is expected to grow, and the reinsurance capacity will expand. As a result, domestic insurance companies will find it easier to manage and utilize excess resources within the country rather than relying heavily on the international market (reinsurers)."

Thus, this represents a positive indication of India's reinsurance market's progress. "The insurance sector is likely to experience growth over time, as reinsurance companies may introduce fresh products and distribution methods that will support the sector's further expansion," Das said.

However, a flip side to this positive scenario is that with the influx of more players in the market, there arises the possibility of creating direct channels between insurance companies and reinsurers, bypassing reinsurance brokers. "One notable drawback for the reinsurance brokerage sector is that with a larger pool of participants in the market, there's a higher likelihood of insurance companies directly engaging with reinsurers," explained Das.

India as a global reinsurance hub: According to the Irdai circular, "A critical aspect of these amendments is their alignment with the broader goal of positioning India as a global reinsurance hub. By working in tandem with the International Financial Services Centres Authority (IFSCA), IRDAI aims to cultivate an environment conducive to the growth of reinsurance activities, both within and outside the conventional Indian market."

The regulatory framework for IIOs has been aligned with IFSCA regulations with the intent to remove dual compliance, thereby promoting a seamless integration of these entities into the larger financial ecosystem. The revised Order of Preference for IIOs, coupled with simplified regulations and improved placement alongside FRBs, fosters a more competitive environment, per the circular.

Experts say this move will undoubtedly enhance market reach due to the innovative offerings introduced by reinsurers, thus giving insurance companies more opportunities to distribute these offerings in the market effectively.

Overall, the amendments introduced by IRDAI mark a significant step forward for the Indian reinsurance landscape. These changes will reflect regulatory intent to establish India as a leading global reinsurance hub by simplifying regulations, enhancing competitiveness and aligning with global trends. Besides, the insurance sector will be on the brink of accelerated growth, increased international recognition and a more robust ecosystem.

Source: https://www.businesstoday.in/personal-finance/insurance/story/irdai-approves-amendments-to-boost-indian-reinsurers-cuts-capital-for-frbs-to-rs-50-crore-heres-what-it-means-395578-2023-08-25

- **Insurtech firm Plum finds a healthcare paradox: Only 2% of senior citizens have health insurance in India**

The senior citizen cohort is expected to surge to around 194 million by 2031.

Plum, an insurtech platform that offers an array of insurance solutions ranging from group health to business insurance to over 3,500 companies, has highlighted a significant deficit in health insurance coverage among senior citizens in India. The insurtech start-up has noted that an alarming 98 per cent of the country's elderly demographic lacks health insurance coverage.

India, a country with a population exceeding 1.3 billion, is home to 138 million senior citizens, as per the latest Census records. Future projections have estimated that this figure will surge to around 194 million elderly individuals by 2031, only further accentuating the urgent requirement for insurance.

There has been a steady demand from employees around the need for coverage for the elderly, and one way to approach this is through super top-ups (in addition to increased parental coverage).

Plum surveyed around 300 customers and learned the following:

- 29 per cent of employees feel that the organisation-sponsored health insurance is inadequate in terms of the sum insured
- 13 per cent of employees availed super top-up as organisation-sponsored insurance doesn't cover parents and family

Abhishek Poddar, co-founder and CEO of Plum, said, "In the face of the silent crisis gripping our senior citizens, Plum is committed to confronting this challenge head-on. The 98 per cent of uninsured senior citizens is a stark reminder of the vulnerabilities they face. It will always be our endeavour to innovate and come up with solutions that simplify access and availability of health insurance towards the underinsured. Our goal is to contribute to the larger vision of 'Insurance for All by 2047', ensuring that every individual, regardless of their age or circumstances, can access the protection they deserve."

Plum recently launched its super top-up health insurance with multiple benefits: portability despite one leaving the organisation, other benefits ranging from tax advantages to cost-effectiveness, etc. These plans assure a holistic approach to health security, making them a prudent choice for families and individuals.

As health insurance firms move ahead to bridge the gap in insurance coverage, Plum is dedicated to reshaping the narrative surrounding senior citizens' care and health security.

The insurtech sector, with its blend of cutting-edge technology and innovation, holds the potential to revolutionise the scenario. However, there is an imminent need for collective participation from all stakeholders, including companies, insurance providers, and the government, to make holistic, inclusive insurance coverage a reality for India's senior citizens.

Sources- https://www.businesstoday.in/personal-finance/insurance/story/insurtech-firm-plum-finds-a-healthcare-paradox-only-2-of-senior-citizens-have-health-insurance-in-india-395622-2023-08-25

- **Jio Financial to enter insurance, plans global tie-ups**

Jio Financial Services Ltd (JFSL) is set to launch a slew of insurance products, possibly in partnership with global companies, Reliance Industries Ltd (RIL) chairman and managing director Mukesh Ambani said on Monday.

"JFSL will enter the insurance segment to offer simple, yet smart, life-, general- and health-insurance products through a seamless digital interface, potentially partnering with global players," Ambani said at RIL's virtual annual general meeting.

Although Jio Financial has been seen as a disruptor in the financial-services space given Reliance Jio Infocomm Ltd's runaway success in telecom, many believe it wouldn't be easy to replicate that success in insurance and other financial-sector products. That is because the financial-services space is more tightly regulated and established entities such as banks, non-banks and insurance firms have built their businesses over years.

Still, Jio's entry could lead to greater penetration of insurance in India. Insurance penetration, or the ratio of total insurance premiums to gross domestic product (GDP), in the country rose from 2.7% around the turn of the millennium to 4.2% in 2020, and remained the same in 2021, according to the Economic Survey 2022-23.

The company, Ambani said, will use predictive data analytics to co-create contextual products with partners. Last October, RIL announced the demerger of its financial-services business. As part of the demerger, each RIL shareholder received shares in Jio Financial on a 1:1 basis in July.

So far, Jio has tied up with BlackRock, the US manager of $11 trillion in assets for an asset management venture in India

"JFSL has been conceptualized to fill a critical gap in the financial-services needs of a large section of the Indian economy, mainly in the informal and underserved sectors in rural, semi-urban, and urban areas," said Ambani.

He said for tens of thousands of small businesses, merchants, and self-employed entrepreneurs, the ease of doing business must mean ease in borrowing, investments, and payment solutions. Jio Financial, he said, plans to democratize financial services for 1.42 billion Indians, giving them access to simple, affordable, innovative, and intuitive products and services. "In payments, JFSL will consolidate its payments infrastructure with a ubiquitous offering for both consumers and merchants, further driving digital payment adoption for India," he said.

Ambani said Jio Financial products will not just compete with current industry benchmarks but also explore features such as blockchain-based platforms and central bank digital currency (CBDC).

"They will adhere to the highest standards of security, regulatory norms, and ensure protection of customer transaction data at all times," he said.

RIL has capitalized Jio Financial with a net worth of ₹1.2 trillion to create one of the world's highest capitalized financial-service platforms at inception, he said, adding that it has a strong board, led by veteran banker K.V. Kamath.

"A highly motivated leadership team is being built with a combination of financial industry experts and young leaders who are eager to take on big challenges," Ambani said.

Source: https://www.livemint.com/companies/jio-financial-to-enter-insurance-plans-global-tieups-11693247734718.html

- **ICICI Prudential Life Insurance launches ICICI Pru GIFT Pro. Seven things to know about new income plan**

ICICI Prudential Life Insurance has launched an innovative income plan, ICICI Pru GIFT Pro, which provides customers the option to receive either a year-on-year increasing income or a constant regular income. In addition, the life cover component of this non-participating savings product ensures the family has financial security.

"We are excited to introduce ICICI Pru GIFT Pro, a long-term savings product with built-in flexibilities Page 2 of 2 that will allow customers to adjust the product to suit their unique needs, thereby enabling them to better prepare for and achieve life goals. Besides the life cover component in the product provides financial security to the family. ICICI Pru GIFT Pro has been designed to empower customers to receive income as per their financial needs. Significantly, the product will also enable customers to decide the time and quantum of lump sum funds they want, to ensure the fruition of their financial goals," Amit Palta, Chief Distribution Officer, ICICI Prudential Life Insurance said.

This feature-packed product provides customers with a comprehensive long-term financial savings solution. We believe it offers a perfect blend of financial protection and income with maximum flexibility to tailor the plan to suit one's needs, he added.

ICICI Pru GIFT Pro: Key things to know

1) ICICI Pru GIFT Pro allows customers to customise the product to their unique needs by providing a choice of income benefits and premium payment terms, among other flexibilities.
2) Along with assured long-term income, ICICI Pru GIFT Pro offers customers the option to receive a lump sum benefit.
3) Customers have the flexibility to choose any amount up to 100% of the premiums paid as a lump sum benefit and also select the timing of receiving the benefit.
4) This feature-rich product also ensures the nominee will continue to receive the income in case of the demise of the policyholder during the income period.
5) ICICI Pru GIFT Pro effectively provides customers with the flexibility to meet both short and long-term income needs.
6) ICICI Pru GIFT Pro provides a range of premium payment terms from 5 to 12 years, letting customers save as per their convenience and goal timeline.
7) Also from the 8th year onwards, they can start receiving income for as long as 30 years.

Source: https://www.livemint.com/insurance/news/icici-prudential-life-insurance-launches-icici-pru-gift-pro-seven-things-to-know-about-new-income-plan-11693460372761.html

- **Will Bharat NCAP programme be a game-changer in lowering car insurance premiums?**

Insurers may consider the Bharat NCAP ratings as a reference in determining premium costs, acknowledging that safer vehicles pose fewer risks

The Bharat New Car Assessment Programme

(Bharat NCAP or BNCAP) is India's first indigenous programme for testing and evaluating automobile crash safety. This initiative marks a significant step towards aligning the Indian automotive industry with global safety benchmarks. While this puts India on the map as one of a select few nations worldwide, along with the US, China, Japan, and South Korea, to have a structured car safety evaluation process, will this also impact car insurance premiums? This programme is slated to start from October 1.

Animesh Das, Chief Underwriting Officer, ACKO, says, "The introduction of Bharat NCAP will make it easier and cheaper for OEM stands for Original Equipment Manufacturers (OEMs) to get their new launches tested and certified. This will have an increase in awareness among consumers and competition among OEMs to design safer cars. Overall, the ecosystem will see more cars eyeing a better Bharat NCAP rating as it will become one of the selling points for an already competitive market. Eventually, this will lead to a reduction in the frequency and severity of accidents and will also start reflecting in the accident data of insurers, potentially leading to more affordable insurance for all."

Will Bharat NCAP help in lowering car insurance premiums? For a comprehensive understanding, let's first comprehend the correlation between vehicle safety and insurance premiums. Insurance premiums are typically determined by the perceived risk associated with a car. Hence, if a vehicle is deemed more likely to be in an accident or be costly to repair, the insurance premiums will be higher. On the other hand, if a car possesses advanced safety features reducing its likelihood of being in an accident, then the insurance premium would be comparably lower.

So, where does Bharat NCAP fit into this scenario? Providing safety ratings for cars could potentially influence car insurance premiums. A vehicle with a high Bharat NCAP safety rating could be deemed less likely to be involved in an accident, leading to lower premiums. This would incentivize manufacturers to build safer cars and consumers to buy them.

Das says, "The introduction of BNCAP will make road transportation safer than before. As the accident data starts to build with the insurer, many will see a reduction in the frequency and severity of accidents. This will lead to insurers eventually passing on the benefit to the customers in the form of lower premiums. However, we don't see any preferential premium pricing system happening right away as the relevant data points in terms of reduction in accidents are not available. However, we expect that a better Bharat NCAP-rated car will be safer than its peer group and it is to the insurers' benefit to acquire more of such cars through offering more competitive premiums."

Moreover, Bharat NCAP's rigorous endurance testing methods, which evaluate the car's structural performance and the overall protective capacity of its safety features in the event of a head-on collision, help insurers accurately determine the risk associated with each car model. This precise assessment can also inform and adjust premium calculations.

Das said, "We believe that cars with better ratings will have a lower risk of accidents, and hence, such customers will be sought after by the insurers. To achieve this, some insurers might launch new policies that attract more customers with high Bharat NCAP ratings, but we will have to see how the whole thing pans out."

However, it is imperative to note that this possible correlation between Bharat NCAP ratings and car insurance premiums may not be straightforward. Several factors, including driving history, geographic location, and age of drivers, significantly influence insurance premiums. However, it is reasonable to expect some impact as safety is a crucial factor for Bharat NCAP and insurance companies.

Source: https://www.businesstoday.in/personal-finance/insurance/story/will-bharat-ncap-programme-be-a-game-changer-in-lowering-car-insurance-premiums-396050-2023-08-29

TOP CORPORATE BOND MARKET NEWS

- **India corporate bond issuance on track to hit record highs this fiscal year: Bankers**

Indian corporates could raise record funds through bond issuances this year as they take advantage of attractive interest rates, four merchant bankers said on Tuesday.

"We see consistent supply for the rest of the year with overall supply surpassing last year's record number," said Arnab Choudhury - executive vice president and group head of debt capital markets, SBI Capital Markets.

Indian companies raised 8.17 trillion rupees in FY23, an increase of 29% over FY22, data from information service provider Prime Database showed.

In the months of April to July, firms raised 3.51 trillion rupees via bonds, of which fundraising in July was the lowest at 539 billion rupees. Bankers said the dip was an anomaly.

Expectations of a hawkish U.S. Federal Reserve pushed up U.S. yields, the effects rippling across emerging markets like India. That made issuers stay on the sidelines until rates stabilise, these bankers said.

Abhijit Roy, chief executive officer at GoldenPi, an online bond portal expects issuance to cross 9 trillion rupees in the current year, with major focus remaining on fundraising via shorter duration bonds.

With interest rates expected to remain stable at least till March, bankers are betting issuers will avoid delaying their fundraising plans and keep tapping the debt market.

While Jamnagar Utilities and IREDA are scheduled to raise funds on Wednesday, other lenders like Bank of India and Bank of Maharashtra are also likely to line up. State-run firms like PFC and REC could tap the market after the policy, bankers said.

Reuters benchmark AAA-rated corporate bond yields for three-year is around 7.70%, while State Bank of India's three-year marginal cost of lending rate (MCLR) stands at 8.15%.

SBI Caps' Choudhury said companies that had raised funds via external commercial borrowings last year will shift to local markets as yields have risen.

"The next five to six months should be a busy period...Loan markets are not attractive right now because MCLR rates have moved up, and hence highly rated issuers will continue to come to bond market."

Sujata Guhathakurta, president-debt capital market and infrastructure financing at Kotak Mahindra Bank said corporates would raise debt for refinancing and capex purposes as the current flat yield curve would ensure short-term and long-term money at almost similar levels for higher-rated firms.

Source: https://economictimes.indiatimes.com/markets/stocks/news/india-corp-bond-issuance-on-track-to-hit-record-highs-this-fiscal-year-bankers/articleshow/102527280.cms?from=mdr

- **Yields on 10-year corporate bonds, SDL ease as liquidity conditions improve-**

Yields on corporate bonds and state development loans (SDL) maturing in 10 years eased this week after the liquidity condition in the banking system improved and yields on government securities softened.

Since the start of this week, yield on these instruments fell by 5-10 basis points (bps), compared to last week. One basis point is one hundredth of a percentage point.

"The weighted average cut-off of the state government securities dipped to 7.42 percent in the auction held on August 29, from 7.48 percent in the last weekly auction, following the softening in the yields of Government of India Securities (G-Sec) across tenors," ratings agency ICRA said in a report.

Mataprasad Pandey, Vice President of Arete Capital Service, said G-Sec bond yields have fallen in response to easing US Treasury yields.

The yields on these instruments fell, after it saw an upward movement of around 10-15 bps after the liquidity in the banking system tightened due to outflows on account of Incremental Cash Reserve Ratio (I-CRR) and Goods and Service Tax (GST) payments.

Source: https://www.moneycontrol.com/news/business/yield-on-10-year-corporate-bonds-sdl-ease-as-liquidity-conditions-improve-11283481.html

- **How Sebi's new initiative will smoothen issuance of corporate bonds-**

When I started out as a young investment banker in 1992, an important conversation in the capital markets was about the need to develop the corporate bond market. Unfortunately, 3 decades later, the conversation continues. Several efforts have been put in by many concerned but it remains a large work-in-progress item. Areas of improvement include secondary market trading and primary issuances by corporates.

The latest introduction by SEBI of a simplified process for the primary issuance of bonds by corporates could be quite helpful. Unlike equity issuances, bond issues are more frequent and very time and cost-sensitive. Private placement is the right approach for these kinds of issuances. The new process of SEBI which is called primary issuance on a private placement basis under the "GID/ KID" guideline for issuance of bonds by corporates on a private placement basis is a good attempt in this regard.

In the late 1990s when several Indian Financial Institutions such as IDBI, ICICI and IFCI started relying on capital markets for resource mobilisation, they needed to issue bonds to the public which required filing of the prospectus for each issuance. To facilitate this, SEBI at that time had introduced a mechanism called an Umbrella prospectus or a Shelf Prospectus. The current attempt of GID/ KID guidelines is based on a similar concept.

Under the GID/ KID concept, a corporate issuer can issue bonds on a private placement basis by filing one comprehensive information memorandum called General Information Document (GID). Once a GID is filed with the Stock Exchange, the corporate is free to issue multiple tranches as per their requirements under the same document. These tranches can be issued at short notice depending on the market situation. These tranches can be issued just by issuing a brief document called Key Information Document (KID). The idea is fantastic as it will make corporate bond issuance much smoother.

First, it would be useful to also implement the GID/ KID concept for a retail public issue that doesn't restrict the number of investors. Given that a debt issue is rated by rating agencies, thereby indicating the health of an issuer, the risk is low. Second, the face value of the bonds issued under these guidelines should be reduced to a more affordable investment size for retail investors. Now via electronic means, one can practically issue a bond for just Re 1/-. Today, some of the mutual find units too are of very low amount. Third, the regulations should facilitate that the administrative cost are kept low. Every small cost impacts the yield to investors and therefore the administrative and distribution costs should be minimized with effective use of technology. Overall the GID/KID concept should replace the Shelf Prospectus mechanism.

But one must acknowledge that the GID/ KID concept is innovative and a good start in the private placement space. Introducing it for public issuances can help enhance mass participation in the bond markets.

Source: https://economictimes.indiatimes.com/markets/bonds/how-sebis-new-initiative-will-smoothen-issuance-of-corporate-bonds/articleshow/102466794.cms

- **'BRICS bank' aims to issue first Indian rupee bond by October-**

The development bank founded by the so-called BRICS countries is planning to issue its first Indian rupee bond by October, its chief operating officer said on Monday, as the lender comes under pressure to raise and lend more in local currencies.

The New Development Bank (NDB) issued its first rand bond in South Africa last week and could consider local currency issuance in members Brazil, Russia and United Arab Emirates, Vladimir Kazbekov told a press briefing ahead of the BRICS Summit in Johannesburg on Aug. 22-24.

Founded in 2015, the NDB is the most concrete achievement of the BRICS countries - Brazil, Russia, India, China and South Africa - as they bid to turn the bloc into a counterweight to the west. However, its already slow pace of lending has been further hampered by sanctions against Russia.

"We're going to tap (the) Indian market - rupees - maybe by October in India," Kazbekov said.

"Now we start thinking seriously... to use one member country's currency to finance projects with that currency in another member. Let's say, a project in South Africa to be financed in CNY (Chinese yuan), not with USD (U.S. dollar)," he said.

Kazbekov declined to give a target size for the Indian rupee bond program, which Reuters had previously reported was in the process of being set up.

Chief Financial Officer Leslie Maasdorp told Reuters then that the bank aims to increase local currency lending, most of which has so far been in the Chinese yuan, from about 22% to 30% by 2026, but that there were limits to de-dollarisation.

The NDB is also ready to fulfil a commitment made two years ago to provide $3 billion of financing for South Africa's "Just Transition" from mostly coal power to renewable energy, Kazbekov said.

"The commitment is still there, but no projects. That's why we are trying to find projects," he said.

Source: https://economictimes.indiatimes.com/markets/bonds/brics-bank-aims-to-issue-first-indian-rupee-bond-by-october/articleshow/102922756.cms

- **EM funding gets creative as dollar bonds dry up-**

At the BRICS summit in Johannesburg this week, a key item on the agenda was reducing dollar dependence across emerging markets. In bond sales, it's already happening.

The sale of dollar bonds from developing countries sunk to the lowest since 2021 in August as global yields spiked to multi-year highs and 15 emerging nations traded at distressed levels. Only $1.4 billion has been raised in emerging debt this month, compared with $4.5 billion in August 2022 and average monthly sales of $15.4 billion this year.

The upshot of the collapse is that alternative borrowing instruments are becoming more mainstream in emerging and frontier markets, attracting more investors pursuing priorities such as environmental, social and governance targets. The lower supply of plain-vanilla bonds also tends to support prices for the debt that investors already hold.

"If demand is greater than supply that tends to be good for bonds," said Philip Fielding, co-head of emerging markets at Mackay Shields UK. "In many cases it makes sense to be invested and then switch into a cheap new issue rather than wait."

Tighter global monetary conditions are pushing both borrowers and investors to seek alternative funding routes such as loan syndication, conservation-linked securities and local-currency bonds. Such instruments can ease governments' costs of borrowing while minimizing currency risk and uncertainty over refinancing.

For some, shifting away from the dollar also has a geopolitical motivation.

"The latest BRICS headlines point even more in the direction of new countries willing to form alternatives from the standard Western blocs," said Sergey Goncharov, a money manager at

Vontobel Asset Management in New York. “As EM countries issue less debt, they instead pivot towards alternatives — regional lenders, supranational banks, local markets.”

The stalling of China’s economic recovery and a spike in Treasury yields to the highest levels since before the global financial crisis have also helped fuel the search for alternative funding. Bahrain’s $1 billion sale of dollar bonds in July is the only non-investment grade deal so far in the quarter. Beyond smaller sales by investment-grade issuers, activity has almost ground to a halt.

“For higher-rated issuers who can wait to issue, they would rather issue later to have a better chance of borrowing cheaper,” said Reza Karim, an investment manager at Jupiter Asset Management in London. “For some of the high-yield issuers, the rate is too high and the access to capital markets is also limited.”

Partly due to the dearth of new sales, the average yield on emerging-market sovereign debt has eased recently to 8.26% as of Friday, after hitting a nine-month high of 8.43% when China’s economic troubles sparked a selloff.

“Less supply would be positive from a technical standpoint, especially if the issuers are going to the loan market,” said Uday Patnaik, London-based head of emerging-market fixed income at Legal & General Investment Management. “The problem would be if the issuer could not find alternative funding sources.”

Source: https://economictimes.indiatimes.com/markets/bonds/em-funding-gets-creative-as-dollar-bonds-dry-up/articleshow/103113849.cms

Department of Banking & Financial Services Upcoming Programme

ASSOCHAM 8th National Summit on Insolvency & Bankruptcy Code and Valuation	16th September 2023
ASSOCHAM 18th Annual Summit & Awards on Banking & Financial Sector Lending	19th October 2023

BRANDING OPPORTUNITY (ANNUAL CHARGE FOR 12 EDITION)	
Back Cover	Rs 1 Lakh/-+ GST
Inside Back Cover	Rs. 90,000/- +GST
Middle Page (Left Side)	Rs. 80,000/- +GST
Middle Page (Right Side)	Rs. 80,000/- +GST
Any Other Page	Rs. 75,000/- +GST

For Branding and speaker opportunities:

Mr. Kushagra Joshi
Deputy Director
Mobile: 8447365357
Email: kushagra.joshi@assocham.com

Mr Ayush Singh
Executive
Mobile: 9871330042
Email: ayush.singh@assocham.com

Further Details Please Contact:

Dr Rajesh Singh
Additional Director & HOD
(Department of Banking & Financial Services)
Mobile: 9871204880 | Email: rajesh.singh@assocham.com

CORPORATE OFFICE:

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

4th Floor, YMCA Cultural Centre and Library Building, 01, Jai Singh Road, New Delhi – 110001

Website: https://www.assocham.org/

Follow Us On:-

https://www.linkedin.com/company/assochamforindia | https://twitter.com/ASSOCHAM4India | https://www.instagram.com/assocham/?igshid=ccqr05l89fkt | https://www.facebook.com/ASSOCHAM4Ind | https://www.youtube.com/channel/UCL3mhKqDyERa1dTEXL3uP_Q