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- **Review Logistics and Distribution Costs:** The logistics and distribution costs for most manufacturing organizations range from 10% to 30% of the total costs. The review of inbound and outbound freight and warehousing operations, export and import management (goods movement), selection of proper mode of transport, selection of proper fleet for transport, logistics partners, secondary / last mile distribution of goods to end customer and related costs, impact on inventory and so can result in significant cost savings and operational efficiency.

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CONTENTS

Speeches .................................................................................................................. 10

Banking & Financial Services Activities in the Month ............................................ 15

Top Banking News .................................................................................................... 17

Select RBI Circular .................................................................................................. 20

Top NBFC’s-MFI News .............................................................................................. 27

Top Insurance News .................................................................................................. 31

Top Corporate Bond Market News ............................................................................ 34

Upcoming Programmes & Branding Opportunity .................................................. 36
Fabio Panetta: Normalising monetary policy in non-normal times

Mr Fabio Panetta, Member of the Executive Board of the European Central Bank, at a policy lecture hosted by the SAFE Policy Center at Goethe University and the Centre for Economic Policy Research (CEPR), Frankfurt am Main, 25 May 2022.

Following the acute phase of the pandemic, central banks in most advanced economies have started to withdraw stimulus as the recovery has progressed and inflationary pressures have emerged. In the jargon of central bankers, this process is often described as bringing about a “normalisation” of monetary policy.

We are not, however, in normal times.

Unlike some other advanced economies, the euro area is not facing a situation of excess domestic demand. As ECB President Christine Lagarde recently noted, “consumption and investment remain below their pre-crisis levels, and even further below their pre-crisis trends”.

Instead, the euro area is confronted with a war on its doorstep that comes on top of a series of negative supply shocks generated abroad. These shocks – above all the increase in energy prices – are creating sizeable and persistent upward pressures on near-term inflation. But by hitting real incomes, confidence and ultimately domestic demand, these shocks could derail the post-pandemic recovery.

In other words, the very shocks that have led to a surge in inflation are also depressing output. As a result, the inflation path is starting from a much higher point but the medium-term inflation outlook is characterised by high uncertainty.

In this situation, policy normalisation needs to be clearly defined, and how it is carried out needs to be carefully judged and calibrated. In my remarks today, I will outline what it means to normalize monetary policy, what implications this normalisation has for our policy instruments, and how far it should go.

For now, given the exceptional level of uncertainty we face, we should normalise our monetary policy gradually, in line with the progressive adjustment that has inspired our action in recent months.

What is normalisation?

Let me begin by defining what normalisation is, and what it is not. Normalisation occurs when the central bank adjusts its policy parameters as medium-term inflation approaches its price stability objective, so as to achieve this objective durably.

In other words, normalisation describes a situation in which monetary policy is shifting from a stance that aims to raise the inflation path – for example, by making the policy stance more expansionary – to one that aims to cement the inflation path at the target.
There are three important distinctions we need to make about normalisation.

**Normal does not mean neutral**

First, normalisation is not the same thing as a neutral policy stance, which is when monetary policy is neither accommodative nor contractionary for the economy. A neutral stance allows the central bank to stabilise inflation around its target when output is at potential and when there are no transitory shocks disrupting the inflation path.

But if we have a situation where there are shocks depressing the economic outlook, uncertainty is high and output is still below its potential level, cementing the inflation path at 2% would require a gradual withdrawal of accommodation, so that the stimulus is reduced over time but does not suddenly disappear.

**Normal does not mean theoretical**

Second, the normalisation process should not be assessed against unobservable reference points, such as the natural (or neutral) rate of interest and some optimal or “normal” size and composition of the central bank’s balance sheet in the long run. These concepts are only vague guideposts at the best of times, and they are particularly fraught with uncertainty in the current environment.

Before the pandemic, the real natural rate of interest for the euro area was estimated to range from just over 0% to less than -2%, depending on the model used. In fact, proxies of real rates are already at the higher end of that range – for instance, the one-year forward real rate nine years ahead recently increased significantly, reaching 0%.

But the natural rate of interest is particularly hard to estimate at the moment, not least because the pandemic has scrambled all the typical models used to calculate it. All we can say with confidence is that the natural rate of interest has declined significantly compared with the period before the global financial crisis and that estimates are imprecise and widely dispersed. As such, they cannot serve as an actual guide for policy.

The picture is further clouded when it comes to the “normal” size and composition of the central bank’s balance sheet. It is unlikely that the prevailing size and composition prior to the global financial crisis are still valid benchmarks – we can surmise that the optimal balance sheet is different in size and composition today. But there has so far been little empirical work in this area, so it cannot serve as an actual guide for policy either.

This uncertainty means we should think about normalisation in terms of changes in the degree of accommodation we are providing based on the medium-term inflation outlook, rather than the distance of our policy tools from their unobservable theoretical levels. So, if we were to see shocks that would lead to the medium-term inflation path being revised upwards, we would change our policy stance to reduce accommodation more rapidly – and vice versa – so as to keep inflation on target over the medium term.

**Normal does not mean conventional**

Third, normalisation does not imply adjusting unconventional instruments more rapidly than conventional ones. In the review of the ECB’s monetary policy strategy that we completed last
year, we were clear that both types of instrument are essential and permanent components of our toolkit.

What matters is finding the combination of tools to deliver the necessary policy stance in the most effective and proportionate way. In the ECB’s case, we currently have three main levers that we can, in principle, use to adjust policy.

The first is interest rates, which have a greater influence on the short and medium-term segments of the risk-free yield curve.

The second is asset purchases, which have a greater influence on the longer end of the yield curve and risk premia.

The third is the provision of liquidity through our targeted longer-term refinancing operations (TLTROs). TLTROs influence the transmission of benchmark yields to bank lending conditions, as well as overall liquidity conditions in the financial markets. This, in turn, helps to control rates at the short end of the money market and affects risk premia.

Various combinations of tools could be used to achieve the desired policy stance. For instance, if we bring net purchases to an end but continue to reinvest the stock of assets purchased, our balance sheet will keep supporting the economy through what is known as the “stock effect”, but it will no longer provide additional accommodation. In fact, for technical reasons, the degree of accommodation it provides is likely to decrease over the coming years.

So, the appropriate stance could in principle involve maintaining a constant stock of assets purchased under our asset purchase programme (APP) and pandemic emergency purchase programme (PEPP). At the same time, we would be using interest rates to adjust the degree of policy accommodation – so long as this combination of tools remains consistent with inflation stabilising at 2% over the medium term.

Overall, this way of defining normalisation is consistent with our inflation-targeting framework. It is not about targeting unobservable natural settings for our instruments, or about preferring some tools over others. Rather, it is about using an efficient mix of instruments to achieve the policy stance that effectively cements inflation at 2% over the medium term.

Source: https://www.bis.org/review/r220531a.htm
Rajeshwar Rao: Resolution of stressed assets and the Insolvency and Bankruptcy Code

Mr Rajeshwar Rao, Deputy Governor of the Reserve Bank of India, at the International Research Conference on Insolvency and Bankruptcy held at the Indian Institute Of Management Ahmedabad, Ahmedabad, 6 May 2022.

At the outset, let me express my gratitude to the organisers for inviting me to deliver the keynote address in this conference. This conference quite appropriately focuses on one of the most important facets of a robust financial system – resolution of stressed assets. It would not be an understatement if I were to say that India has been witnessing a paradigm shift in the regulatory architecture concerning resolution of stressed assets over the past few years. The Insolvency and Bankruptcy Code has had profound impact on the creditor-debtor relationship in India. It’s been a bit more than five years since the provisions related to corporate insolvency resolution process (CIRP) under the Code were notified and implemented, and it provides a window for stock taking of the progress achieved so far and the expectations about the future.

Insolvency and its resolution

For any lender, the credit risk i.e., the possibility of not receiving the timely repayment of the contracted amount or of the counterparty not honouring its obligations in respect of the credit contract, constitutes a significant risk which need to be covered by maintaining adequate capital and risk provisions. In principle, a borrower defaults when he is either unable to pay his creditors because of inadequate cash flows from his business or the market value of his assets falls below the value of his liabilities which hinders his capability to liquidate his assets and pay off creditors to ensure that no default takes place. In such a situation, the borrower is said to have become insolvent. Unfortunately, in real-world situations, it is not easy to ascertain whether a borrower has become insolvent till the time a default occurs. Mostly, by then, the marketable value of the assets of the borrower would have already fallen below its liabilities. As liabilities of the borrower are the assets of the lender, the inability of the borrower to pay its liabilities will reduce the value of the assets of the lender thereby impacting their ability to repay their creditors, which primarily includes depositors in the case of banks. This is the main reason why RBI is interested in timely resolution of stressed assets by the regulated entities. Even where the lender is not a bank, the interconnectedness of the financial system would lead to second order effects that would adversely impact the financial system.

Once a borrower becomes insolvent, the natural instinct of creditors is to cut their losses by rushing for the biggest possible piece of the remaining pie of marketable assets of the concerned borrower. However, we also need to bear in mind the fact that a state of insolvency...
does not mean that the future prospects of the borrower are non-existent – in many cases a judicious rebalancing of debt would suffice to bring it back on track – unless the financial stress is extremely acute. Almost always, a going concern should be more valuable to a creditor than a liquidated company. It is in this context that a comprehensive insolvency resolution legislation assumes importance.

As such, an efficient insolvency legislation should be premised on following five pillars:

It should prioritise going concern status over liquidation. It should force the creditors to come together and work out a resolution plan that tries to preserve the value by looking at the options to keep the company as a going concern. It should ensure a time bound resolution so that value deterioration for the creditors of an insolvent exposure is arrested. It must provide claw back of questionable transactions that may have contributed to the financial stress of the defaulting borrower.

Finally, an effective resolution regime should protect the majority from the minority by forcing a cramdown if the majority decision covers a predefined threshold of approval. In addition to the above five principles, the resolution framework should also distinguish between various classes of financial creditors based on the quality of security available to them since the initial pricing of the credit instrument may have factored in the availability of security, and the lender stands to lose if such security is not reckoned while assessing the share in resolution value. In the absence of such an accommodation, creditors are likely to demand higher compensation for credit risks that they are taking, thereby increasing the overall credit costs in the economy.

While any resolution framework should prioritise preserving the value of the firm, at the same time, “going concern over liquidation” cannot be an absolute preference. In case of borrowers deploying unproductive or outdated factors of production, liquidation can help unlock the value stuck in such ventures and then be recycled to aid more efficient and productive ventures. In the absence of “ease of exit”, overall production capacity in an economy will be held hostage to inefficient business ventures and prevent the economy from reaching to its potential. Thus, an effective insolvency legislation should not shy away from liquidating ventures when they are perceived to be costlier to the society and that it would be more beneficial to unlock the value for redeployment.

Source: https://www.bis.org/review/r220509d.htm
BANKING, FINANCIAL SERVICES & INSURANCE (BFSI) ACTIVITIES IN THE MONTH

ASSOCHAM 5th National Summit & Awards on Corporate Bond Market
Thursday, 12th May 2022 Hotel, Four Seasons, Mumbai

Eminent Panellists:

- Shri Ananta Barua, Whole-time, member, Securities and Exchange Board of India
- Shri Pradeep Ramakrishnan, General Manager, Securities and Exchange Board of India (SEBI)
- Ms. Nipa Sheth, Chairperson, ASSOCHAM National Council for Corporate Bond Market and Founder & MD, TRUST group
- Ms. Aditi Mittal, Co-Chair, ASSOCHAM National council for Corporate Bond Market and Director, A.K Capital Services Ltd.
- Shri Ashish Kumar Chauhan, MD & CEO, Bombay Stock Exchange.
- Shri P. R. Jaishankar, Managing Director, India Infrastructure Finance Company Ltd
- Shri Subrat Udgata, Senior Vice President, IDBI Trusteeship Services Ltd
- Shri Vijay Krishnamurthy, Head - Fixed Income, BSE India & many more...

Key Takeaways:

In sync with the rising global investor interest in sustainable development, India’s green bond issuance is expected to reach new milestones in 2022, following an exceptionally strong 2021 which saw financing of USD 6.11 billion through these instruments, in the first 11 months of the year, an ASSOCHAM study has pointed out.

"2021 was the strongest year since green bonds from the country were first issued in 2015. India will need USD 10.103 trillion by 2070 to be carbon neutral, " the ASSOCHAM study stated, adding that the green bonds have emerged amongst the most prominent financial vehicles catering to climate action specifically for projects requiring long-term finances.

It said long-term investors including pension and insurance funds now prefer bonds which invest in green assets. Worldwide, labelled green bond issuance amounted to USD 167.6 billion, led by the United States (followed by PRC), France, Germany and the Netherlands.

"We expect bond markets in India to witness further deepening by inclusion in global indices and allowance to diversify investment opportunities," ASSOCHAM
Secretary General Mr Deepak Sood said.
He said India has been amongst the world champions to follow the path of environment-friendly development.

As part of an integration effort of the country’s financial priorities into measurable metrics, the Bombay Stock Exchange has launched two such indices: S&P BSE Greenex and the S&P BSE Carbonex. The Greenex comprises top 25 stocks having minimum carbon footprint along with market capitalization and turnover from the BSE 100. It assesses the energy efficiency of firms.

The BSE Carbonex is a thematic index which measures companies’ ability to address climate change risk and opportunity. The index is based on the S&P BSE 100, with the constituent weights modified in accordance with the companies’ relative carbon performance as measured by the level of their greenhouse gas emissions and carbon policies.

Product innovation in bond markets has helped in bridging the funding gap. “We have seen a lot of vibrancy in several new structures like Infrastructure Investment Trusts (InvITs), Coobligor Structures, Covered Bonds, Hybrid Annuity Model (HAM), Sustainability Linked Bonds, Green Bonds, Partially Guaranteed Bonds, Masala Bonds and Foreign Currency Bonds”, the study noted.

Overall, India’s total bond markets of all types provided a capital of Rs 3.04 trillion during the last 16 months starting January’21 to finance infrastructure assets. The strong characteristics of the underlying structures, strengthening regulatory and legal frameworks provide an additional impetus. Further deepening of the bonds markets in India would allow the investors to pump in money in line with their investment requirement for the likes of endowment funds, insurance, pension companies. This would also resolve the issues faced by the banks to free up their capital to reinvest in under construction projects.

Overall, the Government and market regulator SEBI have been proactive in easing the InvIT route for investors. The last Budget had incorporated easing of InvITs/REITs guidelines. With InvIT’s, small investors can take a small portion of the large Indian infrastructure pie. Since the units of InvIT’s are listed on the stock exchanges, they also provide liquidity to investors.
TOP BANKING NEWS

- A few old private sector banks may look like convenient acquisition targets. But that may not be easy

Apple trees have blossomed in the green valleys of Kashmir. Pale rays of the morning sun falling on pink buds, moist soil and cool winds blowing down the Shivalik Ranges forecast a good crop of Kashmiri apples. Over the next six months, if the weather remains favourable, the trees would weigh down with blushing apples. If the apple growers of Kashmir pluck a bumper harvest this year, the credit team of the Jammu & Kashmir Bank (J&K Bank) can claim to have played a


- Indian Bank unveils digital broking solution

Public sector Indian Bank has unveiled digital broking solution -- E-Broking -- allowing customers to open a demat and trading account facility, in line with the digitalisation mission of the bank, an official said on Saturday. The launch of digital broking solution ‘E-Broking’ was a strategic step towards complete digitalisation of its offerings to customers, a bank statement said.

“E-Broking, an instant and paper-less demat and trading account opening is integrated in the bank’s mobile banking application.


- HDFC Bank carves out rural banking as separate vertical

Largest private sector lender HDFC Bank (NSE -0.35 %) on Thursday announced that it has carved out rural banking as a separate vertical and will be opening 1,060 branches in mofussil areas and semi-urban pockets as part of the increased focus in FY23. Earlier, rural banking was a part of the wider retail branch banking vertical, and the bank has appointed Anil Bhavnani, who has been working with it for 19 years, to head the newly-carved rural banking vertical, according to a statement.


- IDBI Bank divests entire 19.18 pc stake in ARCIL

IDBI Bank (NSE -1.35 %) on Wednesday said it has divested its entire stake of over 19 per cent in ARCIL to Avenue India Resurgence Pte. The lender, however, did not disclose the deal value.

“IDBI Bank has sold its entire holding of 6,23,23,800 fully paid-up equity shares constituting 19.18 per cent of the total equity share capital of Asset Reconstruction
Company (India) Ltd. (ARCIL) on May 18, 2022 to Avenue India Resurgence Pte. Ltd," IDBI Bank said in a regulatory filing.


● SBI keen to sell stressed power, other loans
State Bank of India NSE -0.23 % (SBI) is seeking buyers for its distressed loans, and about a third of these are to the power sector. Some of these accounts include the Ruia-promoted Essar Power Gujarat, Anil Ambani’s Vidarbha Industries Power, KSK Mahanadi Power and Meenakshi Energy, three people aware of the development told ET. SBI NSE -0.23 % circulated a list of 168 accounts among asset reconstruction companies and distressed-loan buyers last week.

These accounts totaled unpaid liabilities of Rs 31,363 crore, sources said. SBI did not respond to ET’s queries. Inordinate delays in debt resolution of the distressed companies in bankruptcy courts and a nudge from the government to provide additional loans to already distressed power companies have encouraged lenders to look at exit options.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/sbi-keen-to-sell-stressed-power-other-loans/articleshow/91729253.cms

● Bank of Maharashtra tops PSU lenders chart in loan growth in FY22
State-owned Bank of Maharashtra (BoM) has emerged as the top performer among public sector lenders in terms of loan and deposit growth in percentage terms during 2021-22. The Pune-headquartered lender recorded a 26 per cent increase in gross advances at Rs 1,35,240 crore at the end of March 2022, according to the BoM data.

It was followed by State Bank of India and Union Bank of India with 10.27 per cent and 9.66 per cent growth, respectively. However, in absolute terms, aggregate loans of SBI were nearly 18 times higher at Rs 24,06,761 crore while Union Bank of India’s five times higher at Rs 6,99,269 crore compared to that of BoM’s at the end of fourth quarter.


● HDFC Bank merger with HDFC takes Apr deal volume to record high of USD 46.3 bn: Report
The USD 40 billion merger between HDFC Bank and parent HDFC, the biggest ever deal in the country, took the overall deal volumes in April 2022 to a record high of USD 46.3 billion, a report by a consultancy firm said on Thursday.

The same number had stood at USD 12.91 billion in the year-ago period and USD 8.7 billion in 2020, the report by Grant Thornton Bharat said, making it clear that there are clouds of uncertainty in the deals landscape for the near-term. “While the geopolitical concerns and rising global inflation could likely cloud the near-term growth prospects, various domestic macro factors such as tax revenue growth, improvement in consumption and industrial high frequency indicators, etc. remain supportive of the economic growth and positive news for deal making,” its partner Shanthi Vijetha said.
Govt on course on PSU bank privatisation: Sources

The government is on course with the privatisation of two public sector banks (PSBs) and will take appropriate steps in the coming months, sources said.

In the Union Budget for 2021-22, the government announced its intent to take up the privatisation of two PSBs in the year and approved a policy of strategic disinvestment of public sector enterprises. According to sources, the government is committed to the privatisation of two public sector banks and it is on course.

Besides, sources also said the divestment of BPCL is also on the card and fresh bids will be invited. The government had to cancel the sale as only a single bidder was left in the fray, sources said.

Primary co-op banks can lend up to Rs 10 lakh for repair of dwelling units: RBI

Reserve Bank of India (RBI) on Tuesday said primary cooperative banks can now extend loans of up to Rs 10 lakh to individuals for repair or alterations of their dwelling units in metropolitan centres. The ceiling on loans by such banks to individuals for carrying out repairs/additions/alterations to their dwelling units was revised upwards to Rs 2 lakh in rural and semi-urban areas and Rs 5 lakh in urban areas in September 2013.

“The ceiling on such loans is now revised to Rs 10 lakh in metropolitan centres (those centres with population of 10 lakh and above) and Rs 6 lakh in other centres,” RBI said in a circular addressed to primary (urban) co-operative banks.

RBI imposes Rs 45 lakh penalty on MUFG Bank

Reserve Bank of India (RBI) on Friday said a penalty of Rs 45 lakh has been imposed on Japan-based MUFG Bank for non-compliance with the directions on ‘time-bound implementation and strengthening of SWIFT-related operational controls’. An examination of the compliance position of the bank revealed non-compliances with respect to certain directions.

It was found that the bank failed to put in place Straight Through Processing (STP) between Core Banking System (CBS)/accounting system and SWIFT messaging system for transactions creating non-funded exposure/exposure with financial implications, within the time limit of April 30, 2018, according to a RBI release.

RBI also said the penalty is based on the deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.
<table>
<thead>
<tr>
<th>Circular Number</th>
<th>Date of Issue</th>
<th>Department</th>
<th>Subject</th>
<th>Meant For</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBI/2022-2023/60</td>
<td>31.5.2022</td>
<td>Department of Regulation</td>
<td>Interest Equalization Scheme (IES) on Pre and Post Shipment Rupee Export Credit - Extension</td>
<td>All Scheduled Commercial Banks (excluding RRBs), Small Finance Banks, Primary (Urban) Cooperative Banks &amp; State Cooperative Banks (scheduled banks having AD category-I license), and Exim Bank</td>
</tr>
<tr>
<td>RBI/2022-2023/59</td>
<td>30.5.2022</td>
<td>Department of Regulation</td>
<td>Implementation of Section 51A of UAPA, 1967: Updates to UNSC’s 1267/1989 ISIL (Da’esh) &amp; Al-Qaida Sanctions List: Amendment in 6 entries (individuals)</td>
<td>The Chairpersons/ CEOs of all the Regulated Entities</td>
</tr>
<tr>
<td>RBI/2022-2023/58</td>
<td>26.5.2022</td>
<td>Department of Payment and Settlement Systems</td>
<td>Bharat Bill Payment System – Amendment to guidelines</td>
<td>The Chairman and Managing Director / Chief Executive Officer NPCI Bharat BillPay Ltd. / Bharat Bill Payment System Providers / Participants and prospective Bharat Bill Payment Operating Units</td>
</tr>
<tr>
<td>RBI/2022-2023/57</td>
<td>25.5.2022</td>
<td>Foreign Exchange Department</td>
<td>Guidelines on import of gold by Qualified Jewellers as notified by – The International Financial Services Centers Authority (IFSCA)</td>
<td>All Category-I Authorised Dealer Banks</td>
</tr>
<tr>
<td>RBI/2022-2023/56</td>
<td>24.5.2022</td>
<td>Department of Regulation</td>
<td>Housing Finance – Loans for repairs/additions/alterations - Enhancement of limits</td>
<td>All Primary (Urban) Co-operative Banks</td>
</tr>
<tr>
<td>RBI/2022-2023/55</td>
<td>19.5.2022</td>
<td>Department of Regulation</td>
<td>Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 - Reporting of reverse repos with Reserve Bank on the bank’s balance sheet</td>
<td>All commercial banks</td>
</tr>
<tr>
<td>RBI/2022-2023/54</td>
<td>19.5.2022</td>
<td>Department of Payment and Settlement Systems</td>
<td>Interoperable Card-less Cash Withdrawal (ICCW) at ATMs</td>
<td>The Chairman and Managing Director / Chief Executive Officer Scheduled Commercial Banks including RRBs / Urban Co-operative Banks / State Co-operative Banks / District Central Co-operative Banks / Payment Banks / Small Finance Banks / National Payments Corporation of India (NPCI) / ATM Networks / White Label ATM Operators (WL AoPs)</td>
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<td></td>
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<tr>
<td>RBI/2022-2023/52</td>
<td>19.5.2022</td>
<td>Financial Inclusion and Development Department</td>
<td>New Definition of Micro, Small and Medium Enterprises - Clarification</td>
<td>The Chairman/ Managing Director/Chief Executive Officer All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks /All-India Financial Institutions/ All Non-Banking Financial Companies</td>
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<td></td>
</tr>
<tr>
<td>RBI/2022-2023/51</td>
<td>18.5.2022</td>
<td>Financial Inclusion and Development Department</td>
<td>Kisan Credit Card Scheme - Eligibility criteria for farmers engaged in fisheries/ aquaculture</td>
<td>The Chairman/Managing Director/Chief Executive Officer All Scheduled Commercial Banks (including Small Finance Banks and excluding Regional Rural Banks)</td>
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<tr>
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<td>RBI/2022-2023/50</td>
<td>13.5.2022</td>
<td>Financial Inclusion and Development Department</td>
<td>Lending by Commercial Banks to NBFCs and Small Finance Banks (SFBs) to NBFC-MFIs, for the purpose of on-lending to priority sectors</td>
<td>The Chairman/ Managing Director/Chief Executive Officer All Scheduled Commercial Banks (Including Small Finance Banks) (Excluding Regional Rural Banks, Urban Co-operative Banks and Local Area Banks)</td>
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<td>FIDD.CO.Plan.BC.No.5/04.09.01/2022-23</td>
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<td>Financial Inclusion and Development Department</td>
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<td>Department of Regulation</td>
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<td>RBI/2022-2023/47</td>
<td>05.5.2022</td>
<td>Foreign Exchange Department</td>
<td>Exim Bank’s Government of India supported additional Line of Credit (LoC) of USD 190 million to the SBM (Mauritius) Infrastructure Development Company Ltd.</td>
<td>All Category – I Authorised Dealer Banks</td>
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<td>A.P. (DIR Series) Circular No.02</td>
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<td>Department of Regulation</td>
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<td>RBI/2022-2023/45 DOR.RET.REC.32/</td>
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<td>Department of Regulation</td>
<td>Change in Bank Rate</td>
<td>All Banks</td>
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<td>Standing Liquidity Facility for Primary Dealers</td>
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<td>07.01.279/2022-23</td>
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<td>RBI/2022-2023/43 DOR.LEG.REC.No.35/</td>
<td>04.5.2022</td>
<td>Department of Regulation</td>
<td>ASBA designated branches to remain open for public on May 8, 2022 (Sunday) to facilitate processing of applications for LIC IPO</td>
<td>All Scheduled Commercial Banks</td>
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<td>09.07.005/2022-23</td>
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<td>Liquidity Adjustment Facility-Change in rates</td>
<td>All Liquidity Adjustment Facility (LAF) participants</td>
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<td>RBI/2022-2023/41 FMRO.DIRD.01/</td>
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<td>Financial Markets Regulation Department</td>
<td>Regulations Review Authority (RRA 2.0) – Interim Recommendations – Withdrawal of Circulars</td>
<td>All Eligible Market Participants</td>
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<td>RBI/2022-2023/40 DCM (Admin) No.</td>
<td>02.5.2022</td>
<td>Department of Currency Management</td>
<td>Regulations Review Authority (RRA 2.0) – Interim Recommendations – Withdrawal of Circulars</td>
<td>All Banks having Currency Chests</td>
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<td>Department of Regulation</td>
<td>Regulations Review Authority (RRA 2.0) – Interim Recommendations – Withdrawal of Circulars</td>
<td>All Scheduled Commercial Banks</td>
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<td>2022-23</td>
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<td>All Payments Banks All Small Finance Banks All Local Area Banks All Authorized Dealers All Primary (Urban) Co-operative Banks</td>
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<td>RBI/2022-2023/38 DoS.CO.PPG./SEC.02/</td>
<td>02.5.2022</td>
<td>Department of Supervision</td>
<td>Regulations Review Authority (RRA 2.0) – Interim Recommendations – Withdrawal of Circulars</td>
<td>The Registrar of Cooperative Societies (All States/ Union Territories) All Primary (Urban) Cooperative Banks</td>
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<td>11.01.005/2022-23</td>
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<td>RBI/2022-2023/37 DOR.FIN.REC.No.30/</td>
<td>02.5.2022</td>
<td>Department of Regulation</td>
<td>Review of Minimum Investment Grade Credit Ratings for Deposits of NBFCs</td>
<td>All Deposit taking NBFCs (including deposit taking HFCs)</td>
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<td>03.10.001/2022-23</td>
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### Weekly Statistical Supplement – Extract

#### 1. Reserve Bank of India - Liabilities and Assets*

<table>
<thead>
<tr>
<th>Item</th>
<th>2021</th>
<th>2022</th>
<th>Variation</th>
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<tr>
<td></td>
<td>May 21</td>
<td>May 13</td>
<td>May 20</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4 Loans and Advances</td>
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<tr>
<td>4.1 Central Government</td>
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<tr>
<td>4.2 State Governments</td>
<td>2656</td>
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* Data are provisional.

#### 2. Foreign Exchange Reserves

<table>
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<tr>
<th>Item</th>
<th>As on May 20, 2022</th>
<th>Variation over</th>
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<tr>
<td></td>
<td>1</td>
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<tr>
<td>1 Total Reserves</td>
<td>4638067</td>
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<tr>
<td>1.1 Foreign Currency Assets</td>
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<td>533378</td>
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<td>1.2 Gold</td>
<td>316885</td>
<td>40823</td>
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<tr>
<td>1.3 SDRs</td>
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<td>1.4 Reserve Position in the IMF</td>
<td>38806</td>
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* Difference, if any, is due to rounding off
### 3. Scheduled Commercial Banks - Business in India

<table>
<thead>
<tr>
<th>Item</th>
<th>Outstanding as on May 6, 2022</th>
<th>Variation over Financial year so far</th>
<th>Year-on-year</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2021-22</td>
<td>2022-23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2 Liabilities to Others</td>
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<tr>
<td>2.1 Aggregate Deposits</td>
<td>16695425</td>
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<tr>
<td>2.1a Growth (Per cent)</td>
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<td>0.4</td>
<td>0.7</td>
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<tr>
<td>2.1.1 Demand</td>
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<td>22048</td>
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<td>2.1.2 Time</td>
<td>14678608</td>
<td>49887</td>
<td>244858</td>
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<td>2.2 Borrowings</td>
<td>282993</td>
<td>3179</td>
<td>-5136</td>
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<td>2.3 Other Demand and Time Liabilities</td>
<td>631174</td>
<td>21046</td>
<td>-78530</td>
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<td>7 Bank Credit*</td>
<td>12046398</td>
<td>90054</td>
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<tr>
<td>7.1a Growth (Per cent)</td>
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<td>0.8</td>
<td>-0.7</td>
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<tr>
<td>7a.1 Food Credit</td>
<td>55487</td>
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<td>7a.2 Non-food credit</td>
<td>11990911</td>
<td>77119</td>
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*Bank credit growth and related variations for all fortnights since December 3, 2021 are adjusted for past reporting errors by select scheduled commercial banks (SCBs).*
## 4. Money Stock: Components and Sources

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<tr>
<th>Item</th>
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<td>2022 Fortnight</td>
<td>Financial Year so far</td>
<td>Year-on-Year</td>
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<td>Mar. 25</td>
<td>May 6</td>
<td>Amount</td>
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<td>M3</td>
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<td>1 Components (1.1.+1.2+1.3+1.4)</td>
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<td>1.1 Currency with the Public</td>
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<td>1.2 Demand Deposits with Banks</td>
<td>2212992</td>
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<td>1.3 Time Deposits with Banks</td>
<td>15186605</td>
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<td>49175</td>
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<td>1.4 'Other' Deposits with Reserve Bank</td>
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<td>2 Sources (2.1+2.2+2.3+2.4-2.5)</td>
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<td>2.1 Net Bank Credit to Government</td>
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<td>2.1.1 Reserve Bank</td>
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<td>2.1.2 Other Banks</td>
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<td>2.2 Bank Credit to Commercial Sector</td>
<td>12610042</td>
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<td>2.2.1 Reserve Bank</td>
<td>10092</td>
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<td>2.2.2 Other Banks</td>
<td>12599950</td>
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### 5. Liquidity Operations By RBI

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<th>Date</th>
<th>Liquidity Adjustment Facility</th>
<th>SDF*</th>
<th>MSF</th>
<th>Standing Liquidity Facilities</th>
<th>OMO (Outright)</th>
<th>Net Injection (+)/ Absorption (-) (1+3+ 6+7+9 2-4-5-8)</th>
<th>Targeted Long Term Repo Operations#</th>
<th>Special Long Term Repo Operations for Small Finance Banks</th>
<th>Special Reverse RepoE</th>
<th>Net Injection (+)/ Absorption (-) (1+3+5+ 6+9+10+ 11+12+2- 4-7-8-13)</th>
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TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **Macro challenges of micro lenders**
  In 2011, when the Reserve Bank of India (RBI) freed the savings bank interest rates, a few private banks rushed to raise the rate to woo customers. Over a decade later, when India’s banking regulator freed the lending rates for micro loans last month, some micro lenders did the same, rushing to raise their loan rates on Day One. In the first instance, the consumers got the benefit while the banks, over a period of time, grabbed a bigger pie of the savings deposits. In the second case, the consumers are at the receiving end as they have to pay more to get micro loans.

  *Source: https://www.business-standard.com/article/opinion/macro-challenges-of-micro-lenders-122050100920_1.html*

- **Road sector needs a dedicated NBFC: Nitin Gadkari**
  He also mooted the idea of a dedicated NBFC for the infrastructure sector. The need for a dedicated non-banking financial company (NBFC) for the road sector should be addressed at the earliest, said Nitin Gadkari, Road Transport and Highways Minister. He also mooted the idea of a dedicated NBFC for the infrastructure sector.

  *Source: https://www.thehindubusinessline.com/economy/logistics/road-sector-needs-a-dedicated-nbfc-nitin-gadkari/article65335548.ece*

- **RBI cancels registration of 5 NBFCs due to irregular lending practices**
  The CoR of the (five) NBFCs have been cancelled on account of violation of RBI guidelines on outsourcing and Fair Practices Code in their digital lending operations undertaken through third party apps which was considered detrimental to public interest,” the RBI said. It further said these companies were also not complying with the extant regulations pertaining to charging of excessive interest and had resorted to undue harassment of customers for loan recovery purposes.

  *Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-cancels-registration-of-5-nbfcs-due-to-irregular-lending-practices/articleshow/91793748.cms*

- **RBI’s red flag for NBFCs: Shadow banks face tighter supervision**
  The Reserve Bank of India (RBI) intends to tighten the supervisory architecture for non-banking financial companies (NBFCs) in view of the systemic risks emerging from their size and interconnectedness. “Higher risk appetite of NBFCs has...contributed over time to their size, complexity, and interconnectedness, thus, making some of the entities systemically significant that pose potential threat to financial stability,” the RBI said in its annual report for FY22. “The balance sheet of NBFCs expanded in 2021-22, but asset quality in the sector deteriorated,” the report observed.
Fintech-NBFC ties can boost inclusion

Reserve Bank of India (RBI) on Friday permitted banks, including small finance banks, to continue providing credit facility to NBFCs for the purpose of on-lending to certain priority sectors. The facility of lending by commercial banks to NBFCs and lending by Small Finance Banks (SFBs) to NBFC-MFIs, for the purpose of on-lending to certain priority sectors, was available till March 31, 2022.

Bank credit to NBFCs, including HFCs, for on-lending will be allowed up to an overall limit of 5 per cent of an individual bank’s total priority sector lending in the case of commercial banks. In the case of SFBs, credit to NBFC-MFIs (Non-Banking Financial Company – Micro Finance Institutions) and other MFIs (Societies, Trusts, etc) which are members of RBI recognised ‘Self-Regulatory Organisation’ of the sector, will be allowed up to an overall limit of 10 per cent of an individual bank’s total priority sector lending.

Microfinance lenders see 800 bps decline in stressed assets in six months

Stressed assets of microfinance institutions, comprising loans overdue by more than 30 days, and loans under restructuring, are estimated to have declined 800 basis points (bps) to 14% as of March, after peaking to 22% in September 2021, Crisil Ratings Ltd said.

Yet, the metric remains well above the pre-pandemic level of over 30 portfolio at risk (PAR) at 3%, it said. The term 30+ PAR denotes loans where repayments are overdue by more than 30 days. The reduction in stressed assets, along with improved collection efficiencies, mark a recovery in the asset quality of NBFC-MFIs, supported by economic revival, limited impact of the Omicron variant, and acclimatisation to the post-pandemic new normal, the statement said.

RBI-constituted panel to review customer service standards in banks, NBFCs

The RBI on Monday said it has set up a committee to evaluate the efficacy, adequacy and quality of customer service in banks, NBFCs, and other entities regulated by it. The six-member committee headed by former RBI deputy governor B P Kanungo has been asked to submit a report within three months from the date of its first meeting, the central bank said in a statement.

“Evaluate the efficacy, adequacy and quality of customer service in entities regulated by RBI vis-a-vis the existing RBI guidelines on customer service and identify gaps, if any,” is one of the terms of reference given to the panel. It will also review the emerging and evolving needs of the customer service.
landscape, especially in the context of evolving digital/electronic financial products and distribution landscape and suggest suitable regulatory measures.


- **NBFC-MFI sector stressed assets drops 800 bps to 14% in March**

Stressed assets of non-banking financial companies-microfinance institutions (NBFC-MFIs) has declined to around 14% as of March 2022 on account of improved economy and increased collections, Crisil Ratings said in a report. The current stressed assets of NBFC-MFI, which include loans that were unpaid for more than 30 days, declined by 800 basis points in March from 22% in September 2021. However, the stressed assets are significantly higher than the pre-pandemic levels of 3%.


- **RBI reduces net-worth requirement for non-bank Bharat Bill Payment units to Rs 25 crore**

The RBI on Thursday eased norms for non-bank entities to set up Bharat Bill Payment operating units by reducing the net-worth requirement to Rs 25 crore, with a view to encourage more players in the segment. At present, a net worth of Rs 100 crore is required to obtain authorization for a non-bank BBPOU (Bharat Bill Payment Operating Units).

Bharat Bill Payment System (BBPS) is an interoperable platform for bill payments and the scope and coverage of BBPS extends to all categories of billers who raise recurring bills. “….the minimum net-worth requirement for non-bank Bharat Bill Payment Operating Units (BBPOUs) stands reduced to Rs 25 crore,” the Reserve Bank of India said in a circular.


- **Muthoot Finance Q4 PAT falls to Rs 1,006 crore**

Muthoot Finance on Thursday posted a marginal decline in its consolidated net profit for the quarter ended March 31, 2022 to Rs 1,006 crore, from Rs 1,024 crore a year ago, on account of a decline in revenue from operations.

The Kochi-based NBFC’s consolidated revenue from operations fell almost 4% on year to Rs 2,917 crore in the quarter under review. The decline in the top line was due to drop in home and vehicle finance loans. The company also witnessed a decline because of lending operating in Sri Lanka getting affected. Loan assets in home finance declined 14% on year to Rs 1,470 crore while vehicle finance loans declined 44% on year to Rs 207 crore. Sri Lanka lending operations fell 13% to Rs 446 crore in the March quarter.

Source: https://www.financialexpress.com/industry/banking-finance/muthoot-finance-q4-pat-falls-to-rs-1006-crore/2539402/
Upbeat on growth prospects, Lulu Financial Holdings to expand NBFC business in India

Bullish on growth prospects, Abu-Dhabi headquartered Lulu Financial Holdings is expanding its NBFC business in India by initially focusing on organic growth and is targeting to have a loan book size of Rs 100 crore by the end of March next year, according to a top company official. Lulu Financial Holdings, which is mainly into financial services, has investments in the Indian sub-continent, GCC (Gulf Cooperation Council) and APAC (Asia Pacific) regions.

In India, the company owns the NBFC — Lulu Financial Services (India) Private Ltd — and Lulu Forex Private Ltd, India. The NBFC (Non-Banking Financial Company) started operations last year and is in the process of expanding its business starting from the South, Lulu Financial Holdings Managing Director Adeeb Ahamed said.

TOP INSURANCE NEWS

- **IRDAI Panel Suggests ‘Micro Insurance’ Modules For Low-Income Group, Small Businesses**
  A committee appointed by regulator IRDAI has suggested over a dozen low-cost ‘micro insurance’ modules with a view to expand protection plans for uncovered population and small businesses. The committee has suggested that the insurers should be allowed to adopt a modular approach using various permutations and combinations for Combi MI (Micro Insurance) products.
  

- **PMJJBY: IRDAI eases capital requirement to attract insurers**
  This move will enable life insurers to offer more policies under the scheme, and provide financial security to the bottom of the pyramid of the Indian population through life insurance, Irdai said in a statement. After the recent hike in the premium rate, the Insurance Regulatory and Development Authority of India (Irdai) on Friday relaxed capital requirement norms significantly for insurers to encourage their participation in the government’s flagship programme Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).
  

- **Insurance companies can now launch new products without IRDAI approval**
  So far, insurance companies were required to obtain prior approval from IRDAI to launch new insurance products. Insurance companies can now launch insurance products without obtaining any prior approval from the Insurance Regulatory and Development Authority of India (IRDAI). IRDAI, which is tasked with regulating and licensing the insurance industry, on Wednesday announced to extend the ‘Use and File’ procedure for all the health insurance products and almost all the general insurance products.
  

- **IRDAI likely to propose allowing life insurers to sell health insurance**
  The Insurance Regulatory and Development Authority (IRDAI) committee is likely to propose allowing life insurers to sell health insurance. The committee is likely to seek a nod for the distribution and manufacture of health insurance. The committee has cited improved penetration, and global practice to support the move. Presently, life insurers sell only fixed benefit health plans and not indemnity products. As per IRDAI, 75 percent of people pay for medical expenses from their pockets.
  
· IRCTC pulls up Bajaj Allianz and Liberty General Insurance for data privacy issues

Indian Railway Catering and Tourism Corporation has taken down temporarily the services of Bajaj Allianz and Liberty General Insurance from its platform after noticing a vulnerability on the insurers’ websites that put the personal data of passengers at risk. By virtue of its status as a Railway Public Sector Undertaking (PSU), IRCTC has a monopoly over train ticket booking in the country. The insurance companies provide travel insurance to passengers that book their train and flight tickets through IRCTC. The e-ticketing major books nearly 1.2 million train tickets a day.


· IDBI Bank to sell remaining 25% stake in Ageas Federal Life Insurance

Ageas is the first foreign investor to use the enhanced FDI cap in insurance sector; transaction for ₹580.2 crore. IDBI Bank has signed a share purchase agreement with Ageas Insurance International to sell its 25 per cent stake in Ageas Federal Life Insurance for ₹580.2 crore. Post the stake sale, Ageas will own 74 per cent stake in private sector Ageas Federal Life Insurance. It will be the first foreign investor to use the enhanced foreign direct investment cap of 74 per cent for the insurance sector.


· Tata AIG General Insurance launches Tata AIG Criti-Medicare health policy

Tata AIG General Insurance Company Limited has announced the launch of Tata AIG Criti-Medicare, a health insurance plan offering coverage for up to 100 critical illnesses and hospital cash benefits. Looking at the high probability of falling into the trap of lifestyle diseases today and the hardship individuals undergo, Tata AIG General Insurance has conceptualised and launched Tata AIG Criti-Medicare to offer extensive financial protection in times of unexpected and serious medical ailments, it said.

Criti-Medicare offers various coverages under four sections—critical illness, cancer 360 degree indemnity, hospital cash, wellinsurance benefit (optional). It offers two plans—Smart Century Premier Plan (100 Critical Illness) and Smart Half Century Plan (50 Critical Illness), which pay a lump sum amount if the insured person is diagnosed with any of the listed critical illnesses.


· Max Life launches Sustainable Equity Fund with Ulips

Max Life Insurance Company Ltd. has announced the launch of Max Life Sustainable Equity Fund, a pure-equity ESG fund to encourage investments in companies that focus on environmental, social, and governance factors. With this launch, Max Life aims to strengthen its commitment to help build a sustainable business ecosystem and integrating ESG compliance into its investment framework, the company said in
a statement. The Max Life Sustainable Equity Fund responds to the growing demand for responsible investment and will allow customers to invest in firms that maintain appropriate ESG scores. Linked to the Nifty ESG 100 Index, this actively managed fund promotes ESG principles focusing on stocks that form part of benchmark ESG indices and investing in companies with high ESG scores, as per the firm.


- LIC makes Rs 42,000 crore equity gains in FY22

Life Insurance Corp of India (LIC), the largest local investor in the stock market made Rs 42,000 crore of gains in the fiscal ended March 2022 up from Rs 36,000 crore in the previous year riding on a sharp rise in the local equities market.

The gains translate to a 17% rise over the fiscal ended March 2021 just below the 19% year on year growth recorded by the Nifty50 index during the period. Managing director Raj Kumar said that the government-controlled life insurer will match the profitability of its private sector counterparts in the next five years.


- Bajaj Allianz Life Insurance declares bonus worth Rs 1,070 crore in FY22

Bajaj Allianz Life Insurance on Thursday said it has declared a bonus of Rs 1,070 crore for its policyholders in the fiscal ended March 2022. The company has announced the bonus for the 21st consecutive year.

The life insurer said those having participating policies which are in-force for the full sum assured as of March 31, 2022, and for which they are paying the premiums regularly, are eligible for the bonus. A participating life insurance policy allows policyholders to participate in the profits of the company in the form of dividend or bonus.


- Paytm forms joint venture general insurance firm; to invest Rs 950 crore in 10 years

Digital financial services firm One97 Communications NSE -1.44 %, which operates under Paytm brand, on Saturday said it has formed a joint venture general insurance company in which it has committed to invest Rs 950 crore over a period of 10 years.

The proposal to set up joint venture firm Paytm General Insurance Limited (PGIL) was approved by the board on May 20, the company said in a regulatory filing. Initially, One97 Communications (OCL) will hold a 49 per cent stake in PGIL while the rest of the 51 per cent stake is to be owned by OCL’s managing director Vijay Shekhar Sharma owned and controlled company VSS Holding Private Limited (VHPL).

TOP CORPORATE BOND MARKET NEWS

- **Bond yield shoots up; another interest rate hike likely in June**
  
  Bond yields shot up on Wednesday after the Reserve Bank of India (RBI) increased the repo rate by 40 bps to 4.4 per cent by calling an out-of-turn meeting of the monetary policy committee (MPC). The yield on the 10-year government bond jumped 26 bps to close the day at 7.38 per cent while yields on the 3-year and 5-year bonds went up by 39 bps and 31 bps, respectively. Yields could go up further as the central bank is seen to hike interest rates again in the scheduled policy review meeting in June.
  

- **RBI moots priority access to capital for PSBs with better asset quality**
  
  The Reserve Bank of India (RBI) on Friday suggested setting up of a mechanism that incentivizes public sector banks with better asset quality performance by allowing them priority access to capital. Absence of market discipline, implicit government guarantees, and repeated and unconditional recapitalization of public sector banks could pose a moral hazard problem in them, RBI said. The government has infused ₹2.9 trillion in the last five years in PSBs, including the recapitalization of ₹4,600 crore in 2021-22, helping state-owned lenders improve their capital adequacy to 14.3% by December 2021.
  
  Source: https://www.livemint.com/industry/banking/rbi-moots-priority-access-to-capital-for-psbs-with-better-asset-quality-11651232375349.html

- **Bond Startups Boom in India Selling Retail Clients on High Yield**
  
  At least 10 new financial technology platforms have sprung up during the pandemic with the aim of grabbing a share of the $1.9 trillion market for bank time deposits. They promise much higher interest rates through putting money into company debt, and allow for minimum investments that can be as low as 10,000 rupees ($131). The firms are riding on efforts by the Reserve Bank of India to encourage retail investment in the nation’s sovereign debt as it grapples with the government’s record borrowing plan. The risks, of course, are larger for investors who chose to venture into corporate bonds, especially as the new platforms are relatively lightly regulated.
  

- **Bond Market: Bond Market Now A Two-Way Street**
  
  The Centre’s decision to slash motor-fuel taxes appears to have split India’s bond markets down the middle, with yields on the curve’s short end falling on expectations of moderate policy rate increases and tenured debt yielding higher in anticipation of elevated North Block borrowings.

  “The excise cut has allayed apprehensions of sharper rate hikes,” said Parul Mittal Sinha, head of financial markets, India,
Standard Chartered Bank. “This has brought down the shorter-end yield curve across the bond market. At the same time, concerns over higher fiscal deficit are keeping the long-end yields elevated.”

This trend may continue unless the bond market is convinced about North Block’s ability to garner higher revenues despite the cut in fuel taxes.

To be sure, New Delhi’s borrowing is expected to increase by more than ₹1 lakh crore on account of likely higher fertiliser subsidies, Government bonds maturing in the next two to five years yielded 4-7 basis points lower, Bloomberg data showed. By contrast, the 10-year benchmark yield rose up to six basis points through the day but closed at 7.39% Monday, versus 7.36% Friday. One basis point is 0.01%. Bond yields and prices have an inverse relationship.

Source: https://economictimes.indiatimes.com/market/bonds/bond-market-now-a-two-way-street/articleshow/91754275.cms

- **Banks to stop collateral-free intra-day funding to brokers**

Banks are being told by the regulator to end the decades-long practice of financing stock brokers during the day without collaterals.

Intra-day funding, better known as ‘daylight exposure’ in banking parlance, is a crucial facility that enables brokers to tide over a few hours gap pending receipt of money from stock buyers, or in furnishing derivatives trade margin in the morning or paying for spot trades by institutions in case of mismatches.

The Reserve Bank of India (RBI) has recently communicated to four large private sector banks that such intra-day credits have to be backed by a minimum margin of 50% in the form of fixed deposits and marketable securities, two senior bankers told ET. Thus, a broker drawing ₹500 crore as intra-day fund must give collaterals of at least ₹250 crore to the lending bank.


- **RBI report calls for guarantee mechanism to boost bond market**

A credit enhancement mechanism offering a partial or full guarantee on corporate bonds could temper the risk perception and help revive the Indian bond market that remains shallow without much liquidity, a central bank research report has said.

Development of a vibrant corporate bond market in India remains crucial for meeting the financing requirement of corporates and the infrastructure sector and thereby achieving India’s growth aspiration. This even as a specialised lending institution for infrastructure is coming up. The new institution should do the right balancing act of making profits and meeting social needs.

Foreign portfolio investor (FPI) investment limits are underutilised due to liquidity considerations. The proposed institutional framework to provide liquidity to mutual funds and other participating institutional investors in the corporate bond market, particularly during times of stress, may instil confidence among market participants.

## Department of Banking & Financial Services Upcoming Programme

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSOCHAM Shadow Monetary Policy Committee</td>
<td>3rd June 2022</td>
</tr>
<tr>
<td>ASSOCHAM 3rd National Summit on Trade Finance For Inclusive Growth</td>
<td>22nd July 2022</td>
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<tr>
<td>ASSOCHAM 17th Annual Summit &amp; Awards on Banking &amp; Financial Sector Lending</td>
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<tr>
<td>ASSOCHAM 14th Global Insurance Summit &amp; Awards</td>
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