

**MONTHLY  
BANKING, FINANCIAL SERVICES & INSURANCE (BFSI)**

# E-Bulletin



**DEPARTMENT OF BANKING & FINANCIAL SERVICES**

**THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA**

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## TOP SPEECHES

### Remarks of Shri M. Rajeshwar Rao, Deputy Governor Panel Discussion on Climate Implications for Central Banking (Organised by the IMF and Center for Social and Economic Forum on Wednesday, July 19, 2023 at New Delhi)

Climate change poses a threat to our long-term growth and prosperity. It has potential to create shocks to monetary stability, growth, financial stability, the safety and soundness of regulated entities. Therefore, keeping in view the theme of today's discussion, in my remarks I intend to focus on the role of central banks in managing the outcomes from climate change.

A range of factors would influence how things pan out in future, including changes in climate-related policies and regulations, emergence of newer technologies, and behavioural changes in consumers. To ensure a successful transition to a sustainable future, we need a multi-faceted approach that involves governments, private sector entities, financial institutions, civil society organizations and the public.

Central banks, typically, are concerned with the questions of monetary policy and growth, of financial stability and regulation and supervision of financial system. In many countries, including India, the Central Banks are statutorily mandated to pursue a given set of objectives. This means that they should address risks and threats that impact their core mission. Climate change does pose such a risk. They must, therefore, manage outcomes which could affect the stability of the financial system and safety and soundness of the financial entities.

From a banker's perspective Climate risks can impact the macroeconomic outcomes primarily from two channels - i.e., physical risks and transition risks. While physical risks refer to direct outcomes of climatic events, such as wildfires, storms, and floods, the transition risks refer to the risks arising from the process of adjustment towards reducing the emission intensity of the economy. For example, extreme weather events such as storms or floods can disrupt production and supply chains and create shortages

of essential goods and services. This could lead to a sudden increase in prices leading to inflationary pressures. Again, in India, rising temperatures, heat waves and changing rainfall patterns can also affect crop yields resulting in higher or, at times lower prices of some of the agriculture produce. This may lead to uncertainty in their prices for both - producers and consumers. Such uncertainties can make measurement and management of inflation and anchoring of inflation expectations difficult.

Another challenge that may arise on account of physical risk dimension of climate change is increased probability of loss to banks and financial institutions. First, the operations of these financial institutions, if concentrated in a vulnerable geographical location, may be vulnerable to losses on account of climate events. Second, the assets which they have financed or taken as collateral may become unavailable or lose value due to adverse climate events. Such loans may turn non-performing, impacting bank's capacity to lend further.

The transition risks, if not managed properly, could also lead to sudden fall in asset prices of the carbon-intensive assets or increase in the risk premia, or both, making them unattractive to hold and perhaps creating larger ripples across the financial markets. On the other side, the prices of green assets may rise disproportionately creating a bubble-like situation. Further, increased demand of such assets may give rise to greenwashing concerns. Disorderly transition could create piquant situations where a sector or industry may witness credit withdrawal or restrictive cost without build-up of sufficient and viable alternatives. Such situations may become a limiting factor for production of essential commodities or increase the cost of production.



Central banks are, therefore, beginning to recognise and evaluate risks which climate change may pose to monetary policy, financial stability and regulated entities. More importantly, the risks arising from climate change transverse geographical boundaries and sectoral segmentations. Therefore, tackling climate change requires global co-ordination and co-operation. Being mindful of these challenges, international organisations such as the IMF and standard-setting bodies such as the BCBS and FSB are stepping up their work on issues relating to climate change.

At the global level, several initiatives are already underway under the aegis of the G-20. Different standard setting bodies are undertaking focused work to address the vulnerabilities arising from climate change. The Financial Stability Board (FSB) had published a “Roadmap for Addressing Financial Risks from Climate Change”, which was endorsed by the G20 in July 2021 and has since been updated. The Roadmap sets out a comprehensive and coordinated plan for addressing climate-related financial risks and covers four areas, i.e., firm-level disclosures, data, vulnerabilities, and regulatory and supervisory practices & tools.

The consequences, intensity, severity, and frequency of climate events are hard to measure and difficult to predict. The impact of these events on banks and financial institutions is even more difficult to quantify. Therefore, the first step in managing the risks to which banks and other regulated entities are exposed from climate events, is to measure the amount of exposure at risk. This is only possible if the firms adequately and transparently disclose the carbon intensity of their operations. The data related to exposure of firms, banks and financial institution to climate events is crucial for planning the transition. International Sustainability Standards Board (ISSB) has been working on designing global sustainability-related disclosures. The standards will help improve trust and confidence in sustainability disclosures in companies and also create a common language for disclosure about the effect arising from

climate-related risks and opportunities on their prospects.

The next step in this process is ensuring availability of data and identification of vulnerabilities. For this we need time consistent, transparent, standardised, and forward-looking disclosures for identification of vulnerabilities. At a firm-level, the scenario analysis and stress testing would help frame the strategies to manage the risks for individual entities. Central banks across the globe are encouraging banks and other lenders to identify such vulnerabilities. In India, we plan on issuing guidance to banks on the stress testing for climate vulnerability of their credit portfolio soon.

Further, by the virtue of their mandate for regulating and supervising the financial sector, central banks are uniquely placed to influence the behaviour of institutions within the financial system, incentivize climate-friendly investments, and support the mobilization of capital for sustainable development. Most often, central banks have used positive reinforcement and incentive structure to encourage green finance. Financial markets are also increasingly beginning to integrate climate risks and opportunities into investment decision making. The number of ESG-focused funds is increasing globally. Institutional investors are expecting their investee companies to make detailed climate-related financial disclosures, pursue net-zero goals, declare transition plans and report progress. Green bonds, climate funds, and blended finance mechanisms can attract private investment towards climate projects. However, these developments do also give rise to greenwashing concerns which may require regulatory interventions in future to ensure that what is being projected as ‘green’ is, in fact, actually ‘green’.

At the cost of repetition, let me emphasize that financing the new green ventures alone will not be enough. We would need credible transition plans for existing emitting firms without compromising their output or growth. For this to materialise, central banks can incorporate climate-related risks into their supervisory frameworks and can contribute to the development of frameworks and standards for

green finance. These frameworks can help promote transparency, standardization, and integrity in the green finance market.

Over the years, Reserve Bank, has been taking various policy measures to promote and support green finance initiatives. For example, finance to renewable energy projects have been included as a part of Priority Sector Lending (PSL) portfolio of banks. Earlier this year the Reserve Bank supported Government of India in successfully issuing sovereign green bonds (SGrBs). The proceeds of the SGrBs are intended to be deployed in public sector projects which will help in reducing the carbon intensity of the economy. The issuance of SGrBs would also help in price discovery for other financial instruments and give a fillip to development of a market for green financing ecosystem in the country.

Recognising that climate change can translate into climate-related financial risks for Regulated Entities (REs) and that it can also have broader financial stability implications, the Reserve Bank had brought out a discussion paper in July 2022 to elicit views from all the stakeholders. Based on the feedback and suggestions received, we have issued the instructions for acceptance of 'Green Deposits' while a disclosure framework on 'Climate-related Financial Risks' and guidance on Climate 'Scenario Analysis and Stress Testing' is also under works. The recently released Report on Currency and Finance, 2022-23 with the theme 'Towards a Cleaner Greener India', has examined the macro-financial implications of climate change and the possible fiscal, monetary, regulatory, and other policy options for India.

Global understanding of systemic impact of climate change on the economy and the financial system is evolving and, accordingly, the responses of central banks and supervisors around the world have also been developing. We need to undertake a large-scale capacity building effort to equip central banks, financial firms, real economy players to understand, assess and plan for the climate issues and related financial risks. Only then would they be able to innovate, make strategic decisions, mobilise capital

and build effective transition plans for achieving sustainability targets. One very important aspect of this capacity building is going to be the handholding of the smaller firms and MSMEs to make it easier for them to navigate the transition.

Another point to note is that we all are in the same boat and action of any one entity will have consequences for all. Therefore, global co-operation and collective efforts are very important. An important factor in finding a solution to manage the climate risk is that it needs to account for emission contributions of countries in the past. When we measure the per capita emission instead of absolute emission or consider consumption-based emissions instead of production-based emissions, the high-income countries stand out for their contribution in global CO<sub>2</sub> emissions. Unfortunately, it is also a reality that, while we all face the fury of the climate change, middle and lower income countries bear a disproportionate share of the costs in terms of loss in production capacity, property damage & wealth loss and impact on general health and well-being. Any solution, therefore, must factor the cumulative carbon space used by countries.

On ground, implementation of various climate finance commitments from advanced economies has been far from satisfactory and the gap between what is being done and what needs to be done is only growing. As against the amount of US\$ 100 billion pledged by advanced economies, only US\$ 83.3 billion has been provided in 2020, an increase of just 4 per cent from 2019. This trend needs to reverse.

To conclude, dealing with climate change is going to be a long haul for all of us. There are going to be situations and circumstances when other issues and concerns may come into focus and get prioritized, but we should not lose sight of long-term goal of planned and coordinated efforts to deal with the impacts of climate change. The earlier we all act, the better the outcome.

*Source: [https://rbi.org.in/Scripts/BS\\_SpeechesView.aspx?id=1376](https://rbi.org.in/Scripts/BS_SpeechesView.aspx?id=1376)*

## RBI & Fintech: The Road Ahead (Keynote address delivered by Deputy Governor T Rabi Sankar, Reserve Bank of India - July 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 disbursements, 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://rbi.org.in/Scripts/BS\\_SpeechesView.aspx?id=1375](https://rbi.org.in/Scripts/BS_SpeechesView.aspx?id=1375)*

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Further, increased demand of such assets may give rise to greenwashing concerns. Disorderly transition could create piquant situations where a sector or industry may witness credit withdrawal or restrictive cost without build-up of sufficient and viable alternatives. Such situations may become a limiting factor for production of essential commodities or increase the cost of production.

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assess and plan for the climate issues and related financial risks. Only then would they be able to innovate, make strategic decisions, mobilise capital and build effective transition plans for achieving sustainability targets. One very important aspect of this capacity building is going to be the handholding of the smaller firms and MSMEs to make it easier for them to navigate the transition.

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Sources: [https://rbi.org.in/Scripts/BS\\_SpeechesView.aspx?id=1376](https://rbi.org.in/Scripts/BS_SpeechesView.aspx?id=1376)

## TOP BANKING NEWS

- **RBI seeks to give customers choice of card network**

The Reserve Bank Wednesday asked banks and non-bank financial company (NBFCs) to issue credit, debit and prepaid cards on multiple networks to give customers the freedom to choose. The changes will be effective October 1. The draft circular mandates card issuers (banks/non-banks) to issue cards on more than one card-network along with providing customers the facility to choose any one among the multiple card networks. This option can be exercised by customers either at the time of issue or at any subsequent time. The banking regulator has also proposed to restraint the card issuers from entering into agreements that limit their ability to tie-up with other card-network.

“On a review, it is observed that arrangements existing between card networks and card issuers (banks and non-banks) are not conducive to the availability of choice for customers,” the Reserve Bank said in a draft circular seeking comments.

The card issuers will not enter into any arrangement or agreement with card networks that restrain them from availing the services of other card networks, the RBI said in the circular.

The card issuers will issue cards across more than one card network, the RBI circular added.

Card issuers and card networks shall ensure to adhere to the existing agreements at the time of amendment or renewal thereof and fresh agreements executed from the date of the circular.

These changes will be effective October 1 and stakeholder feedback is invited by Aug. 4, the RBI said.

Networks of American Express, Diners Club International, Mastercard, Visa and homegrown RuPay provide services to customers in India, but the provider is usually predetermined by the bank depending on the card issued.

Source: <https://www.livemint.com/industry/banking/rbi-seeks-to-give-customers-choice-of-card-network-11688570190428.html>

- **A look at banking presence and PM Modi’s financial inclusion efforts**

Let’s set the basic rules in motion before we start the arguments about the lack of banking facilities in the hinterlands. The Reserve Bank of India has announced that Regional Rural Banks would be given more freedom to mobilise resources and to deploy them within their geographical boundaries.

The RBI has highlighted that important forces boosting socio-economic growth are the financial activity of the banking industry. Rural development also means transformation of the rural population. It is a strategic move, in line with the government’s aim to double farmers’ income.

But is that happening? The answer is ‘No’ because banks, except State Bank of India, have hardly ventured into rural India because banks, except State Bank of India, have hardly ventured into rural India because of reasons ranging from poor connectivity to lack of business growth.

Bankers say villagers are more keen on investing in real estate and commodities like gold and silver than putting cash in banks.

This imbalance in the rural credit system must end. Banks must be encouraged to open branches in villages. By providing financial services to rural areas, banks facilitate the growth of small businesses and spur economic development.

The shortage of bank branches and ATMs across the hinterland could hold back PM Narendra Modi’s financial inclusion efforts.

In 2014, Modi had set a target to open a bank account for every household to ensure welfare funds flow directly to the poor, while improving access to credit and insurance programmes. He pushed policies that helped bring 310 million



people into the formal banking system in just four years, according to the World Bank.

Claims of banks that they are penetrating the hinterland are not matching with their records. These services are often slow to reach the rural population. The government has been making efforts to rope in banking correspondents in rural areas. As of FY22, there were 1.32 million banking correspondents compared with 1.13 million in FY21 and 730,000 in FY20.

The finance ministry said last October that it plans to raise the number of female banking correspondents by a third of the total by 2027. This is a great move because women are considered better managers of household finances. The department of financial services is trying to raise the number of banking correspondents from less than 10% to over 30% in the next three years.

Source: <https://economictimes.indiatimes.com/industry/banking/finance/banking/a-look-at-banking-presence-and-pm-modis-financial-inclusion-efforts/articleshow/102255601.cms>

- **RBI permits banks to open vostro accounts from 22 countries for trade in rupee**

The Reserve Bank has permitted 20 banks operating in the country to open 92 Special Rupee Vostro Accounts (SRVAs) of partner banks from 22 countries as part of efforts to promote bilateral trade in local currencies, the government said on Wednesday. In a written reply to Lok Sabha, Minister of State for Commerce and Industry Som Parkash also informed that an MoU has been signed between the Reserve Bank of India (RBI) and the Central Bank of UAE on July 15.

This would enable exporters and importers to invoice and pay in their respective domestic currencies enabling the development of a bilateral foreign exchange market.

As on July 23, 20 banks in India have been permitted to open SRVAs of partner banks from 22 countries, including Bangladesh, Belarus, Botswana, Fiji, Germany, Guyana and Israel.

Other countries are Kazakhstan, Kenya, Malaysia, Maldives, Mauritius, Myanmar, New Zealand, Oman, Russia, Seychelles, Singapore, Sri Lanka, Tanzania, Uganda, and United Kingdom.

Meanwhile, Minister of State for Commerce and Industry Anupriya Patel said India's exports rose by 36.6 per cent during the last five years from USD 330.07 billion in 2018-19 to USD 450.95 billion in 2022-23.

Other countries are Kazakhstan, Kenya, Malaysia, Maldives, Mauritius, Myanmar, New Zealand, Oman, Russia, Seychelles, Singapore, Sri Lanka, Tanzania, Uganda, and United Kingdom.

Meanwhile, Minister of State for Commerce and Industry Anupriya Patel said India's exports rose by 36.6 per cent during the last five years from USD 330.07 billion in 2018-19 to USD 450.95 billion in 2022-23.

India's imports rose by 38.8 per cent during the last five years from USD 514.07 billion in 2018-19 to USD 714.04 billion in 2022-23.

She also informed that most of the goods imported from China are capital goods, intermediate goods and raw materials and are used for meeting the demand of fast expanding sectors like electronics, telecom and power in India.

Source: <https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-permits-banks-to-open-vostro-accounts-from-22-countries-for-trade-in-rupee/articleshow/102144580.cms>

- **Directed banks to "sensitively" deal with loan collections, says Nirmala Sitharaman in Lok Sabha**

Acknowledging that she has received complaints of merciless loan collections by some banks, Union Finance Minister Nirmala Sitharaman informed Parliament on Monday that instructions were given to banks, asking them to deal with sensitivity.

"I have heard complaints how very mercilessly the paying back has been followed by some banks whether they are public sector banks or private sector banks," Sitharaman said in Lok Sabha during the Question Hour.

“The government has through the RBI also instruct(ed) such banks (that) such harsh steps should not be taken and they should approach this whole matter with humanity and sensitivity in mind. That instruction has been sent to everyone, be it private or public,” she added.

Dhairyasheel Mane, Eknath Shinde-led Shiv Sena MP from Hatkanangle in Maharashtra, raised the question on exorbitant interest rates on loans by some banks.

He asked the government what has it done to deal with such banks or whether it will direct them not to charge interest rates arbitrarily.

On the interest rates, MoS Finance Bhagwat Kishanrao Karad, who also comes from Maharashtra, participated in the Question Hour. Karad said the government doesn’t interfere on rate of interest at which banks provide loans.

The MoS said it is the Board of a bank or its officials which take decision about interest rates. In the same breath, he also added that PM Modi-led government has introduced various schemes through which common people can get loans at relatively cheaper rate and in the process can stay away from the clutches of Sahukars (moneylenders).

Source : <https://economictimes.indiatimes.com/industry/banking/finance/banking/directed-banks-to-sensitively-deal-with-loan-collections-says-nirmala-sitharaman-in-lok-sabha/articleshow/102082524.cms>

- **Banks face stiff competition from mutual funds in mobilizing capital**

Bank deposits grew by Rs 11.16 lakh crore to Rs 191.6 lakh crore during the quarter ended June 2023. Of this, time deposits (fixed deposits) showed a growth of just 5.3 per cent to Rs 167.11 lakh crore despite the withdrawal of Rs 2,000 notes and the tax liability on debt funds.

Banks are facing severe competition from mutual funds (MFs) in mobilising funds from the public. The growth in assets under management (AUM) of mutual funds was higher at 12.6 per cent

during the quarter ended June 2023 while banks reported a growth of 6.2 per cent in deposits when compared with March 2023 data.

Bank deposits grew by Rs 11.16 lakh crore to Rs 191.6 lakh crore during the quarter ended June 2023. Of this, time deposits (fixed deposits) showed a growth of just 5.3 per cent to Rs 167.11 lakh crore despite the withdrawal of Rs 2,000 notes and the tax liability on debt funds. Banks also hiked interest rates on deposits following the rise in Repo rate by the Reserve Bank of India, giving more returns to depositors. Banks Like HDFC offer 7.10 per cent on deposits for a tenure of 15 months.

However, mutual fund AUM rose by Rs 4.97 lakh crore to Rs 44.39 lakh crore during the June quarter. Income funds assets rose by 14 per cent, or Rs 1.65 lakh crore, to Rs 13.47 lakh crore and growth funds AUM jumped by 14.9 per cent to Rs 17.43 lakh crore, according to data compiled by Bank of Baroda. The benchmark Senses rose by over 5,700 points during the June quarter, boosting the inflows into mutual fund schemes and returns on various schemes.

Source: <https://indianexpress.com/article/business/banking-and-finance/banks-face-stiff-competition-from-mutual-funds-in-mobilising-capital-8842752/>

- **Reserve Bank calls on more lenders to offer digital rupee**

The Reserve Bank of India (RBI) has called on a wider set of lenders to take part in pilot programmes using the central bank digital currency (CBDC) as it tries to increase transactions, three bankers told Reuters on Wednesday.

Nearly two dozen central banks across emerging and advanced economies are expected to have digital currencies in circulation by the end of the decade, the Bank for International Settlements (BIS) found in a survey, published on Monday.

Last year, the RBI began trials using CBDCs, termed e-rupees, in both the wholesale and retail markets.

Currently, large state-owned and private lenders, including State Bank of India, Bank of Baroda, ICICI

Bank, HDFC Bank, Kotak Mahindra Bank and Yes Bank, are among those participating in the pilot project.

“The RBI has asked smaller banks to either tie up with fintech players or develop their systems to start CBDC pilots this year,” said the technology head of a state-owned bank, who attended the meeting with RBI officials on Tuesday.

“We will now have to float tenders to get interested fintech partners on board and evaluate the costs involved. This process is expected to take about four-five months.”

The bankers did not wish to be named as they were not authorised to speak to the media.

The RBI aims to reach a target of one million CBDC transactions per day by the end of this year, RBI deputy governor T Rabi Sankar said on Tuesday.

There were 1.3 million customers and 0.3 million merchants, who used CBDC as of June 2023, he said, “By getting more banks to participate in the pilots, the RBI wants to see if there are any glitches in implementation and conduct pilots on a large user base,” said another banker with a state-owned bank.

Source: <https://indianexpress.com/article/business/banking-and-finance/reserve-bank-calls-on-more-lenders-offer-digital-rupee-8829671/>

- **Targeting 1 mn CBDC transactions per day by end 2023: RBI Deputy Governor T Rabi Sankar**

The Reserve Bank of India (RBI) is aiming to scale up the number of central bank digital currency (CBDC) transactions to one million per day by the end of 2023, Deputy Governor T Rabi Sankar said on Tuesday.

Currently, around 5,000-10,000 transactions are being done per day using retail CBDC (e₹-R) – the pilot for which was launched by the RBI in December last year.

Speaking at an event organised by the Indian Banks’ Association (IBA), Sankar said the RBI will soon begin interoperability of CBDC with unified payments interface (UPI).

“We will take advantage of the UPI network to increase transactions in CBDC. There will be one QR code and you can swipe the QR code using the CBDC app. If the merchant has a CBDC account, the payment will settle in the CBDC wallet. If the merchant does not have a CBDC account, then there will be an option to make payment using UPI,” Sankar said.

At present there are 1.3 million customers and 0.3 million merchants using retail digital Rupee. There are 13 banks offering retail CBDC.

Sankar said all these 13 banks have partially rolled out interoperability where the QR code can be scanned using the CBDC app. By the end of this month, these lenders will offer full interoperability to CBDC customers for using UPI to make payments.

The RBI will also onboard the remaining 20-25 banks to offer interoperability to CBDC customers but it might take a little more time, he said.

Source: <https://indianexpress.com/article/business/banking-and-finance/targeting-1-mn-cbdc-transactions-per-day-by-end-2023-rbi-deputy-governor-t-rabi-sankar-8828209/>

- **Banking system liquidity improves to over Rs 2 Lk cr as deposit of Rs 2000 notes surge**

With large amounts of the Rs 2,000 denomination notes being deposited in banks and an increase in government spending, the surplus liquidity in the banking system has crossed Rs 2 lakh crore mark.

On July 4, the excess liquidity, as reflected by the amount of money absorbed by the Reserve Bank of India (RBI), stood at Rs 2.3 lakh crore- highest in one month. The central bank absorbed Rs 2.22 lakh crore of surplus liquidity on July 3, RBI data showed.

The RBI recently said that Rs 2.72 lakh crore, or 76 per cent of Rs 2,000 banknotes in circulation as on May 19, 2023 have returned to the banking system as at end-June. Of the total amount of Rs 2,000 banknotes received as on June 30, about 87 per cent were in the form of deposits and the

remaining around 13 per cent were exchanged into other denomination banknotes, the RBI said. The surplus in liquidity recovered to Rs 1.26 lakh crore on June 30. The RBI sucked out on an average Rs 1.8 lakh crore daily of excess liquidity from the banking system between June 30 and July 4, the RBI data showed.

The RBI has been conducting variable rate reverse repo (VRRR) auctions of various tenors to absorb excess liquidity from the banking system.

In the two-day VRRR auction conducted on Wednesday, banks parked Rs 87,870 crore with the RBI as against the notified amount of Rs 1 lakh crore.

Source: <https://indianexpress.com/article/business/banking-and-finance/banking-system-liquidity-improves-to-over-rs-2-lk-cr-as-deposit-of-rs-2000-notes-surge-8779591/>

- **RBI rejects three applications for small finance bank licenses**

The Reserve Bank of India (RBI) on Tuesday rejected applications received from Cosmea Financial Holdings, West End Housing Finance and Akhil Kumar Gupta to start small finance banks in the private sector.

All the three entities had applied to the RBI for setting up small finance banks in 2021 under the guidelines for on-tap licensing of small finance banks.

The RBI, in a release, said that based on the assessment of the applications, the three entities were 'not found suitable for granting of in-principle approval to set up a small finance bank'.

In May last year, the RBI had rejected two applications received from VSoft Technologies Pvt and Calicut City Service Co-operative Bank Ltd for setting up small finance banks.

The RBI had received a total of seven applications for setting up small finance banks under the guidelines for 'on-tap' license.

The other two other applicants are from Dvara Kshetriya Gramin Financial Services Pvt Ltd and Tally Solutions Private Ltd.

RBI said the remaining applications are under examination. In May 2022, the RBI did not grant in-principle approval to four entities that had applied to set up universal banks under the guidelines for on-tap licensing.

Source: <https://indianexpress.com/article/business/banking-and-finance/rbi-small-finance-bank-licenses-private-sector-akhil-kumar-gupta-8752219/>

- **Banks to start reporting on new CIMS: RBI Governor**

Reserve Bank of India (RBI) Governor Shaktikanta Das on Friday launched the Centralised Information Management System (CIMS), the central bank's next generation data warehouse.

"The new system (CIMS) is starting with reporting by scheduled commercial banks and will be gradually extended to urban cooperative banks (UCBs) and non-banking financial companies (NBFCs)," Das said after the launch of the new system.

He said the CIMS uses state-of-the-art technology to manage Big Data and will serve as a platform for power users to carry out data mining and analysis. Parekh announces retirement: 'Time to hang up boots'

Source: <https://indianexpress.com/article/business/banking-and-finance/banks-to-start-reporting-on-new-cims-rbi-governor-8695140/>



## SELECT RBI CIRCULARS JULY 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2023-2024/51 DOR.CRE.REC. No.27/07.10.002/ 2023-24	25.7.2023	Department of Regulation	Master Circular - Management of Advances - UCBs	All Primary (Urban) Co-operative Banks
RBI/2023-2024/50 DOR.AML. REC.26/14.06.001/ 2023-24	24.7.2023	Department of Regulation	Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 02 Entries	The Chairpersons/CEOs of all the Regulated Entities
RBI/2023-2024/49 DoR.RET. REC.25/12.07.160/ 2023-24	18.7.2023	Department of Regulation	Inclusion of "NongHyup Bank" in the Second Schedule of the Reserve Bank of India Act, 1934	All Banks
RBI/2023-2024/48 DOR.AML. REC.24/14.06.001/ 2023-24	04.7.2023	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/2023-2024/47 DOR. AML. REC.23/14.06.001/ 2023-24	04.7.2023	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 (Consolidated)	The Chairpersons/CEOs of all the Regulated Entities

## STATISTICAL SUPPLEMENT – RBI

Date : July 28, 2023

### Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract

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

(₹ Crore)

Item	2022		2023		Variation	
	July 22	July 21	July 14	July 21	Week	Year
	1	2	3	3	4	5
4 Loans and Advances						
4.1 Central Government	0	0	0	0	0	0
4.2 State Governments	12688	17596	12928	12928	-4668	240

\* Data are provisional

#### 2. Foreign Exchange Reserves\*

Item	As on July 21, 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	4975431	607035	-28586	-1987	221166	28586	406628	35475
1.1 Foreign Currency Assets #	4407539	537752	-30751	-2414	218407	28061	329722	27616
1.2 Gold	373862	45614	2497	417	2362	414	66096	7112
1.3 SDRs	151414	18474	-464	-11	250	82	7827	511
1.4 Reserve Position in the IMF	42616	5196	132	21	147	30	2983	236

\* 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 July 14, 2023	Variation over				
		Fortnight	Financial year so far		Year-on-year	
			2022-23	2023-24	2022	2023
		1	2	3	4	5
2 Liabilities to Others						
2.1 Aggregate Deposits	19030038	-124565	344688	986124	1295694	2220037
	(18876043)	(-278560)		(832129)		(2066042)
2.1a Growth (per cent)		-0.7	2.1	5.5	8.4	13.2
		(-1.5)		(4.6)		(12.3)
2.1.1 Demand	2180691	-266780	-116898	260	107664	224842
2.1.2 Time	16849347	142215	461586	985864	1188029	1995194
2.2 Borrowings	821950	346945	56741	376620	81568	490614
2.3 Other Demand and Time Liabilities	913390	85742	-5776	123738	92820	278318
7 Bank Credit*	14764404	372709	389671	1089168	1512175	2483419
	(14044069)	(-347626)		(368834)		(1763084)
7.1a Growth (per cent)		2.6	3.3	8.0	14.0	20.2
		(-2.4)		(2.7)		(14.4)
7a.1 Food Credit	24304	-3603	-19082	4398	-49742	-11625
7a.2 Non-food credit	14740100	376311	408753	1084770	1561918	2495044

\* 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 Mar. 31	Fortnight Jul. 14	Financial Year so far		Year-on-Year				Year-on-Year			
					2022-23		2023-24		2022		2023	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1	2	3	4	5	6	7	8	9	10	11	12	
M3	22343760	23142932	-280429	-1.2	417167	2.0	799171	3.6	1534507	7.9	2232036	10.7
		(23296927)	(-126434)	(-0.5)			(953166)	(4.3)			(2386031)	(11.4)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3276436	3236656	2020	0.1	69445	2.3	-39780	-1.2	230512	8.0	131522	4.2
1.2 Demand Deposits with Banks	2320598	2320772	-268024	-10.4	-117911	-5.3	174	0.0	110961	5.6	225691	10.8
1.3 Time Deposits with Banks	16668966	17510885	-10363	-0.1	466884	3.1	841920	5.1	1185757	8.2	1857397	11.9
		(17664880)	(143632)	(0.8)			(995915)	(6.0)			(2011392)	(12.8)
1.4 'Other' Deposits with Reserve Bank	77761	74618	-4062	-5.2	-1252	-2.1	-3143	-4.0	7277	14.6	17426	30.5
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7165533	7250369	60028	0.8	-57307	-0.9	84836	1.2	371322	6.1	830046	12.9
		(7362837)	(172496)	(2.4)			(197304)	(2.8)			(942515)	(14.7)
2.1.1 Reserve Bank	1451126	1244914	24663	-	-319660	-	-206212	-	33160	-	113978	-
2.1.2 Other Banks	5714407	6005455	35365	0.6	262353	5.2	291048	5.1	338162	6.8	716069	13.5
		(6117923)	(147833)	(2.5)			(403516)	(7.1)			(828537)	(15.7)
2.2 Bank Credit to Commercial Sector	14429636	14782007	-349373	-2.3	411278	3.3	352371	2.4	1544989	13.5	1754208	13.5
		(15502341)	(370961)	(2.5)							(2474543)	(19.0)
2.2.1 Reserve Bank	26549	4044	-1339	-	16509	-	-22505	-	23446	-	-29035	-
2.2.2 Other Banks	14403087	14777963	-348035	-2.3	394770	3.1	374875	2.6	1521543	13.3	1783243	13.7
		(15498297)	(372300)	(2.5)			(1095210)	(7.6)			(2503578)	(19.3)



### 5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Out-right)		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	
July 17, 2023	-	-	-	-	1256	91080	-	-	-	-89824
July 18, 2023	-	-	-	-	1148	80680	-241	-	-	-79773
July 19, 2023	-	-	-	-	1207	66194	-	-	-	-64987
July 20, 2023	-	-	-	-	1131	70189	-	10	10	-69058
July 21, 2023	-	-	-	-	2375	62325	667	-	-	-59283
July 22, 2023	-	-	-	-	95	7390	-	-	-	-7295
July 23, 2023	-	-	-	-	93	8830	-	-	-	-8737

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

## TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **With \$20 billion weapon, Mukesh Ambani just disrupted NBFC hierarchy:**

Billionaire Mukesh Ambani, the king of disruption, is at it once again. Just when Bajaj Finance became India's most valued NBFC following a \$40 billion reverse merger of HDFC with HDFC Bank, Reliance Industries (RIL) has already fired a \$20 billion salvo to change the pecking order in the world of shadow lenders.

Following a demerger from incubator RIL, Jio Financial Services (JFSL) has already occupied the No.2 slot in the list of India's largest NBFCs by market capitalisation at Rs 1.66 lakh crore or about \$20.3 billion.

Bajaj Finance now has a market cap of Rs 4.6 lakh crore. Upon listing on stock exchanges, JFSL will take over the No.2 slot ahead of Cholamandalam Investment and Finance which is presently the second-largest NBFC with an m-cap of Rs 96,000 crore.

JFSL will now be bigger than Bajaj Holdings & Investment, which is a holding company, SBI Cards, Shriram Finance, Muthoot Finance and even fintech payments platform Paytm.

Ambani's new chocolate boy is now the 32nd most valued company in India, bigger than giants like Tata Steel, Coal India, HDFC Life and SBI Life.

The value of JFSL was derived in a special pre-open session today in shares of RIL. The stock's pre-listing price came out to be Rs 261.85 per share.

### What is Ambani's gameplan for JFSL?

By bringing ex-ICICI executives KV Kamath and Hitesh Sethi along with daughter Isha Ambani, the billionaire has his dream team already in place to disrupt NBFCs by adopting a digital-first approach. With regulatory licenses for the key businesses already in place, Ambani is eyeing the lending business but will also incubate other financial services verticals such as insurance,

payments, digital broking and asset management. The new initiatives will come not just through the organic route but can also come via joint-venture partnerships as well as inorganic opportunities.

*Source: <https://economictimes.indiatimes.com/markets/stocks/news/with-20-billion-weapon-mukesh-ambani-just-disrupted-nbfc-hierarchy/articleshow/101982803.cms>*

- **NBFCs may report stable margins in Q1 on lower cost of funds, high-yield lending: Experts:**

Non-banking finance companies will likely report stable net interest margins in the April-June quarter, backed by lower cost of funds and an improvement in business on high-yielding loans, experts said.

Net interest margin is the difference between interest income generated by NBFCs from borrowers and the amount of interest paid to their lenders.

The overall cost of funds for NBFCs fell after the Reserve Bank of India paused rate increases in April. The yield on government securities, especially the 10-year benchmark bond yield, eased more than 25 basis points (bps) between April and June and fell below 7 percent. One basis point is one-hundredth of a percentage point.

"Margins should stay stable as lending yields for NBFCs have been improving on account of higher yields in newer loans as well as an increasing mix of high-yielding product segments," Emkay Global said in a research report on July 8.

Sadaf Sayeed, chief executive officer of Muthoot Microfin, said with credit growth bringing in economies of scale and asset quality improving, NBFCs would be able to easily maintain margins.

HP Singh, chairman and MD of Satin Creditcare Network, said backed by effective management of funding sources and the ability to pass on higher interest rates to borrowers.

Bajaj Finance said in its investor presentation for FY23 that there will be gradual moderation in margins in FY24 and there was no impact despite rate hikes by the RBI.

“Given strong ALM (asset-liability management) and diversified balance sheet profile, there was no impact of interest rate hikes on NIM in FY23. We expect gradual moderation in margins in FY24,” Bajaj Finance said in the presentation.

Source: <https://www.moneycontrol.com/news/business/nbfc-may-report-stable-margins-in-q1-on-lower-cost-of-funds-high-yield-lending-experts-10933431.html>

- **Global financial architecture needs to be alerted to suit requirement:**

Global financial architecture needs to be alerted to meet the requirement of emerging nations like India, Brazil and South Africa as they are the global growth drivers, India’s G20 Sherpa Amitabh Kant said on Saturday.

The flow of resources has to be directed towards emerging countries as 80 per cent of global growth is going to be contributed by these economies, he said.

Sharing data, Kant said, the share of developed nations in global GDP was 60 per cent while developing countries contributed 22 per cent in 2008 when G20 was formed.

At present, he said, the share of developed economies has come down to 48 per cent while that of emerging nations has increased to 37 per cent.

So, it indicates that growth in future is going to come from developing markets, he said, adding, “this would require financing and the international financial architecture will have to be adequately tuned to ensure that resources flow from the developed world to the emerging markets and not vice versa as is happening right now.”

There are different estimates of what kind of resources required, he said, adding, “for instance, the International Energy Agency talks about requiring USD 4.5 trillion for the energy transition. N K Singh and Larry Summers’s report talked about USD 3 trillion. But if you look at both the advanced

economies and emerging markets, there’s a requirement for both SDG and of climate action to the tune of 5-6 trillion.”

It’s important to understand that if you’re transiting to a clean economy, that is providing your business opportunity of almost USD 90 trillion, he said.

Secondly, he said, the world is not short of resources as almost USD 350 trillion are available globally for investments and 150 trillion is available from pension funds and institutional investors at present.

Source: [https://www.business-standard.com/finance/news/global-financial-architecture-needs-to-be-alerted-to-suit-requirement-kant-123072900588\\_1.html](https://www.business-standard.com/finance/news/global-financial-architecture-needs-to-be-alerted-to-suit-requirement-kant-123072900588_1.html)

- **India’s own ‘global lion’**

The merger of the HDFC twins, effective July 1, 2023, has created the fourth largest bank in the world with a market capitalisation of Rs 14.37 trillion (\$175 billion). Understandably, it has generated considerable interest in the media, corporate, and banking circles in India as well as abroad. A moment of pride for India, as finally, we have a Global Systemically Important Bank (G-SIB), a ‘global lion’. This merger has the potential to influence the financial services industry in several ways. Apart from heightened competition, expected compression of interest rates and margins, changes in valuation and so on, it can act as a major trigger for further mergers and acquisitions in the financial sector space as other banks and NBFCs would strive to maintain/consolidate their positions. As of now, all attention is focussed on the mega size of the merged entity; market capitalisation, assets and liabilities, and potential growth. Reportedly, the bank expects to double its balance sheet every 4 years.

However, the merger signifies much more. From an economic-financial policy-regulatory perspective, it heralds immense significance. Given the size and magnitude of business and the combined operations of two differentially regulated businesses (housing finance/NBFC and banking), it could generate profound changes in

the business models of financial sector players through competition, mergers as well as co-option. That would necessitate major policy-regulatory changes, the trajectory of which depends on the interplay of non-linear factors.

For decades, NBFCs have been playing a significant role in financial intermediation by complementing and competing with banks. NBFCs, even at the top end of the spectrum, had enjoyed greater operational flexibility due to less stringent regulatory provisions as compared to banks. They were thereby able to provide services to niche sectors. Such regulatory arbitrage had also been a major reason for their mushrooming. Given their increasing size, complexity of operations, and interconnectedness, with resulting concerns on systemic stability, RBI has been trying to 'align' the regulations of NBFCs with those of banks. RBI underscored such concerns in its financial stability report of 2019, acknowledging that failure of large NBFCs can disrupt the financial system seriously, since many of them have huge exposure to banks as borrowing from banks is the main source of their funds. On October 22, 2021, to reduce the regulatory arbitrage between banks and non-banks, RBI issued a Scale Based Regulatory Framework (SBRF) for NBFCs; putting them into four baskets on the basis of asset size, business activities, systemic importance, and risk. NBFCs in the top layer have been subject to similar regulations as banks such as on capital norms, liquidity coverage ratios, asset quality norms, norms for non-performing assets, and so on.

Source: <https://www.financialexpress.com/opinion/indias-own-global-lion/3180372/>

- **Strong loan growth to propel NBFC earnings in Q1: Analysts**

Non-banking financial companies will likely post a strong earnings performance in the June quarter due to strong credit growth and improved asset quality, according to analysts.

"In sharp contrast to the otherwise weaker trends in the first quarter of any typical fiscal year, we anticipate the disbursement momentum to remain

buoyant and asset quality to remain largely stable in April-June," Motilal Oswal Financial Services said in a pre-earnings report.

The brokerage added that the strong new business volumes in the quarter under review were fuelled by a healthy demand for vehicle finance, mortgages, personal loans, business loans and even gold loans.

Broadly, the brokerage expects the net profit of NBFCs to rise 29% year-on-year(y-o-y) and net interest income to rise 19% y-o-y in the June quarter.

While high interest rates had previously dented the demand for home loans, analysts say that this negative impact has now waned. Also, gold loan NBFCs have been aided the recent rise in gold prices and reduced aggression from banks.

"April-June earnings growth momentum on a sequential basis for HFC-NBFC MFIs is likely to be better due to continuous benefit of upward re-pricing in asset portfolio and benefits arising from operating leverage," ICICI Securities said in a report.

The brokerage expects the assets under management of housing financiers to rise at over 2% quarter-on-quarter (q-o-q), and of key microfinance companies to rise 4-5% q-o-q.

"Considering fixed rate book with average maturity of 18 months, a series of rate hikes in H1FY23 must support asset yields and also NIMs of NBFC-MFIs in Q1FY24E," ICICI Securities said.

A key talking point in the June quarter results will be net interest margins. Here, analysts say that the impact will be segment specific.

While the net interest margin of gold loan companies and home loan companies are expected to remain intact, vehicle financiers are likely to see a compression in April-June due to liability re-pricing and the consequent increase in their cost of funds.

Source: <https://www.financialexpress.com/industry/banking-finance/strong-loan-growth-to-propel-nbfc-earnings-in-q1-analysts/3167613/>



## TOP INSURANCE NEWS

- **Looking for the right insurance policy for your car? Here's a list of important things to consider:**

Before purchasing your dream car, it's important to know the latest advancements in the world of auto insurance. Some of these features can minimise your insurance premium and provide better coverage.

Selecting the right auto insurance policy is essential for protecting your vehicle. The insurance industry is dynamic and ever-evolving, it's important to keep up with the latest advancements and modifications before making a purchase. Staying up-to-date is important to avoid missing out on new features that could minimise your insurance premium and provide better coverage. There are various new elements to ponder while selecting a car insurance policy, ensuring you make an informed decision and get the best value for your money.

### Telematics-based motor insurance covers

The Insurance Regulatory and Development Authority of India (IRDAI) has authorised general insurance companies to introduce telematics-based motor insurance covers, such as 'Pay as You Drive' and 'Pay How You Drive'. These innovative options fall under the umbrella of Own Damage Car Insurance and leverage advanced technology to assess your premium, based on your driving behaviour.

- **Pay As You Drive:** Traditionally, the cost of insurance was the same for both high-mileage and low-mileage vehicles. But now, with 'pay as you drive' policies, customers can pay a premium based on their actual usage. The usage-based insurance approach promotes fairness and rewards responsible driving habits. Car owners who cover longer distances can expect higher premiums, while those who drive less can enjoy lower premiums.

- **Pay How You Drive:** This feature takes into

account your driving style and behaviour. Insurers analyse factors such as speed, acceleration, braking, and adherence to traffic rules. Risky drivers with a history of tickets and accidents will be charged a higher premium compared to safer drivers with clean records. This personalised approach encourages individuals to adopt safe driving practices and provides incentives for maintaining a good driving record.

### Floater Policy

Earlier, it was required to have a separate insurance policy for each vehicle you owned. However, the arrival of the 'Floater Policy' offers a more convenient option for individuals with multiple vehicles. This single policy covers all the vehicles you own, reducing administrative hassles and potentially increasing coverage. While the cost may be slightly higher than a typical policy, it is still more affordable than purchasing separate policies for each vehicle. The floater policy provides flexibility and streamlines the insurance process for owners of multiple vehicles. By considering these new elements while choosing a car insurance policy, you can benefit from the latest advancements and innovations in the insurance industry. These measures provide flexibility and convenience and incentivise safe driving practices. Insurance companies encourage responsible driving habits by directly linking premium costs to vehicle usage and driving behaviour and reward individuals who pose lower risks. This shift from generalised policies to personalised, usage-based insurance reflects a growing emphasis on fairness and accuracy in determining premiums.

When comparing insurance policies, take the time to thoroughly understand the terms and conditions, coverage limits, deductibles, and any additional features or riders available. Assess your driving habits, needs, and budget to determine which policy aligns best with your requirements. Utilise online tools and resources provided

by insurance companies to obtain quotes and compare premiums from multiple insurers. Additionally, consider seeking recommendations from friends, family, or trusted advisors who have had positive experiences with specific insurance providers.

In summary, choosing a suitable car insurance policy involves staying informed about recent developments in insurance plans. The introduction of telematics-based motor insurance covers, such as 'Pay as You Drive' and 'Pay How You Drive' offers usage-based premiums that promote fairness and encourage safe driving habits. Furthermore, the floater policy provides a convenient option for owners of multiple vehicles. By considering these new elements, carefully comparing policies, and prioritising safe driving practices, you can choose a car insurance policy that offers comprehensive coverage, suits your needs, and provides peace of mind on the road.

Source: <https://www.moneycontrol.com/news/business/personal-finance/looking-for-the-right-insurance-policy-for-your-car-heres-a-list-of-important-things-to-consider-11045711.html>

- **LIC launches Jeevan Kiran, a return-of-premium term life insurance policy:**

Under the policy, policyholders will get back the total premium, if they survive the term, they paid under the policy not including any extra premium, rider premium or taxes paid. The Life Insurance Corporation of India (LIC) has announced the launch of Jeevan Kiran, a new non-linked, non-participating life insurance policy that 'returns' the premiums paid by policyholders at maturity.

In simple terms, policyholders will, if they survive the term, get back the total premium they paid under the policy, not including any extra premium, rider premium or taxes paid in case of death during the policy tenure, the basic sum assured, an amount equal to seven times the annual premium or 105 percent of total premiums paid until then, whichever is higher, will be handed out to the policyholders' dependents in the case of single premium plans, nominees will receive the

basic sum assured or 125 percent of the single premium, whichever is higher.

Policyholders have the option to receive the maturity benefit over a period of five years, in a staggered manner. They can choose this option for the death benefit payable to their nominees as well.

The minimum sum assured under the policy, which comes with tenures of 10-40 years, is Rs 15 lakh. The minimum instalment will be Rs 3,000 under the regular premium option and Rs 30,000 under the single premium variant.

Premiums for smokers and non-smokers will vary, with the former having to pay higher premiums. Those who refuse to undergo medical check-ups will be charged the premiums applicable to smokers.

The policy can be purchased by individuals in the age group of 18-65 years.

The policy comes with two optional covers that bolster the basic protection provided by the base policy - Accidental Death & Disability Benefit Rider and Accident Benefit Rider.

### **Money control's take**

A simple, standard-term plan that pays out the sum assured in case of the policyholder's death is a must in every individual's portfolio. Such policies are pure risk covers where the policyholder does not get any amount as maturity proceeds at the end of the tenure.

Return-of-premium plans are designed for individuals who feel that premiums paid under pure-term plans 'get wasted'. However, return-of-premium plans are costlier than regular-term policies. You would be better off investing the additional amount in other, better-yielding equity or debt avenues instead.

Source: <https://www.moneycontrol.com/news/business/personal-finance/lic-launches-jeevan-kiran-a-return-of-premium-term-life-insurance-policy-11043651.html>

- **Insurance Bill 2023 unlikely to be taken up during Monsoon Session:**

The insurance sector may have to wait further for major reforms in the segment. The Insurance Bill

2023, considered as a pathbreaking Bill, is unlikely to be passed anytime soon as the Government is not expected to table it in the ongoing monsoon session of the Parliament which is functioning the last few days, sources said.

This means major reforms proposals like composite license, differential capital, reduction in solvency norms, issuing captive license, change in investment regulations, one-time registration for intermediaries' and allowing insurers to distribute other financial products, earlier announced by the government for seeking public comments, will remain shelved.

The proposed amendments suggest that the minimum paid-up capital can be different and specified by IRDAI considering the size and scale of operations, class or subclass of insurance business and the category or type of insurer. This means the paid-up capital required to start general, life or standalone health insurance business at Rs. 100 crore and for reinsurance business Rs 200 crore will go.

There is a proposal that an applicant may apply for a composite license enabling any type of insurance business. This means an insurer can do both life and non-life business with a composite licence. A composite licence will allow insurers to undertake life and health insurance via a single entity.

A captive insurance company would have enabled a business group to set up an inhouse wholly-owned subsidiary insurer to provide risk mitigation services for its parent company or related entities.

There were earlier indications that the government will table the Insurance Bill 2023 in the monsoon session of the Parliament, a major move that would have deepened the insurance sector. Earlier, the government had decided repeal. The Insurance Act 1938' by passing 'Insurance Bill 2023' in the Parliament. The Department of Financial Services (DFS) had extensively worked on preparing the 'Insurance Bill 2023' in the last few weeks with the hope that it may be tabled in the monsoon session.

The Union government is likely to discuss a total of 31 bills in the current packed Parliament session, but 'Insurance Bill 2023' for which the government has earlier sought approval of the Union Cabinet, is not included in the list.

Insurance regulator IRDAI is now pushing to implement two high tech projects – Health Claims Exchange and Bima Sugam – to deepen insurance penetration and simplify the claim procedures. The exchange platform will digitize and simplify the process of filing health insurance claims. Bima Sugam is an online market where all insurance requirements, including those for life, health, and general insurance (including motor and travel) will be met.

The government now wants that the entire legal code of the country should remain purely Indian and existing laws made by a legislature of the pre-Constitution era should be replaced with laws made by the legislature which is in place post-independence. The government had already dropped its earlier plans to amend the IRDAI Act 1999 that would have ensured major reforms for the Indian insurance sector.

The government decided to repeal the 'Insurance Act 1938' as it has undergone many changes since its inception and has become cumbersome and complex for common people. Moreover, the legislative move to replace the 'Insurance Act 1938' is in the line with the government's ongoing overall exercises involving review of all pre-Independence Acts from the point of view of their utility and relevance, sources said.

Sources- <https://indianexpress.com/article/insurance/insurance-bill-2023-unlikely-to-be-taken-up-during-monsoon-session-8868409/>

- **North India floods: IRDAI asks insurance companies to fast track claims-**

Insurers will have to appoint nodal claim officers, set up district-level claim desks and minimise documentation requirements.

IRDAI has asked general insurance companies to expedite North India floods-related claim settlements.

The Insurance Regulatory and Development Authority of India (IRDAI) has asked general insurance companies and standalone health insurers to expedite processing of claims related to floods in Himachal Pradesh, Punjab, Haryana and Delhi.

They will have to activate 24x7 helplines to respond to claim intimations and launch awareness campaigns to highlight the actions taken. Even during earlier instances of natural calamities, the IRDAI has issued such advisories to insurance companies. More recently, it had asked insurers to expedite and simplify claim settlement processes after the Odisha train tragedy in June 2023.

In case of specific districts that are likely to report a large number of claims, insurers will have to assign a district claims service head. They will also have to publish the names and contact details of such officials on their websites.

“Special claim desks at district level with adequate delegated claim settlement teams are recommended to be set up in affected areas to facilitate claims speedy processing and settlements including release of on-account, interim payments to assist early reinstatement of property/ businesses,” the IRDAI circular to insurance companies said

These companies will have to nominate a senior official to act as nodal claims officer to oversee investigators, surveyors and loss adjustors involved in claim settlement and keep the state’s chief secretary in the loop. “It needs to be ensured that all claims are surveyed immediately and claim payments or on account payments are disbursed at the earliest,” the insurance regulator said.

Insurance companies should encourage policyholders to use the digital modes of communication to initiate claims and file the required documents to process the claims. Likewise, insurance companies, too, should make efforts to ensure that digital facilities should use to assess claims. Insurers should ask policyholders to furnish only those documents that are necessary

to ensure that the submission process does not delay the settlement.

The IRDAI will monitor the claim settlement process across insurers. They will have to update the insurance regulator on a weekly basis regarding claims received, settled and rejected, besides claims where interim payments have been made. They will have to send such reports for several segments including fire, motor, health, marine-cargo, crop insurance, Pradhan Mantri Suraksha Bima Yojana (PMSBY), shopkeepers’ insurance and so on.

*Source: <https://www.moneycontrol.com/news/business/personal-finance/north-india-floods-irdai-asks-insurance-companies-to-fast-track-claims-10974311.html>*

- **Majority of insurance-buyers find products & processes to be complex: Policy bazaar study.**

Affordability and complex clauses constitute key barriers to health insurance purchase, while higher premiums and desire to ‘invest’ in return-generating products impeded life insurance purchase decisions, a survey conducted by online insurance broking firm Policy bazaar has found

A majority of insurance buyers find it difficult to understand life and health insurance terms and conditions, which remains a key barrier to making their purchases.

Close to 53 percent of prospective policyholders found insurance products and processes difficult to decipher and hence dropped out, a recent study conducted by online insurance broking firm Policybazaar has found.

“This indicates a clear need for education in the category along with simpler, more affordable options. The earlier this education starts, the easier it will be to hit the message home,” the study noted.

### **Affordability a key hurdle to wider insurance coverage**

Affordability was another chief barrier, with more than 40 percent of respondents citing high premiums as the key reason for not purchasing life

and health insurance policies. The Policybazaar study polled 1,651 respondents for health insurance-related insights and 1,676 respondents for life insurance insights across 27 cities in India. The hesitancy to go through with their purchase decision is despite greater awareness around life and health insurance, particularly post the Covid-19 pandemic.

### Older age groups more conscious of the need for health insurance

Nearly 73 percent of those polled said health insurance was important, with this realisation being higher (73-75 percent) in older age groups. Even among those in the 23-27 year age bracket, which is relatively less prone to ailments, 65 percent of respondents recognised the importance of health insurance.

For those who did not purchase health insurance, affordability was a major impediment. Close to 43 percent cited higher premiums as one of the key reasons for not going ahead with health policy purchases and close to one-third attributed it to a lack of sufficient funds. Unaffordable premium was also cited as the top reason for not renewing policies.

Of those who went ahead with buying health insurance plans, a large majority (88 percent) were influenced by external triggers. According to the survey, people are more likely to consider buying insurance when a friend or family member recommends it to them (56 percent) or an agent reached out to them (51 percent). Fear induced by watching someone known to get hospitalised (38 percent) and starting a family (32 percent) were the other top triggers for considering a purchase.

### Claim rejection a top concern

Health insurance policyholders often feel cheated if their insurance company rejects their hospitalization claim or makes a part payment. While this could result in policyholders choosing not to renew their policy.

“While the promise of better claim support at the time of purchase affects people’s choice of

channel, the actual experience of claim decides whether they will continue to stay covered under a health insurance policy... a majority (of those admitted) admitted to having been overwhelmed with the paperwork, or with the insurer raising too many queries,” says the Policybazaar report.

Not being aware of policy terms and conditions (exclusions, waiting periods or sub-limits) was one of the top reasons for claim rejection.

### Higher premiums, lack of sufficient funds hinder life insurance purchases

The awareness around the need for life insurance was high at 85 percent. A higher premium was the most common reason for not buying life insurance policies, with 40 percent of the respondents saying so. Another 34 percent said they did not have sufficient funds to make purchases, as per the survey.

While 31 percent said they did not feel any sense of urgency to buy life insurance for another 28 percent of the respondents the process seemed like too much of a hassle.

Source: <https://www.moneycontrol.com/news/business/personal-finance/majority-of-insurance-buyers-find-products-processes-to-be-complex-policybazaar-study-10916671.html>

- **Insurance Bill 2023 unlikely to be taken up during Monsoon Session:**

A captive insurance company would have enabled a business group to set up an inhouse wholly-owned subsidiary insurer to provide risk mitigation services for its parent company or related entities.

The insurance sector may have to wait further for major reforms in the segment. The Insurance Bill 2023, considered as a pathbreaking Bill, is unlikely to be passed anytime soon as the Government is not expected to table it in the ongoing monsoon session of the Parliament which is functioning the last few days, sources said.

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The Union government is likely to discuss a total of 31 bills in the current packed Parliament session, but 'Insurance Bill 2023' for which the government has earlier sought approval of the Union Cabinet, is not included in the list.

Some of the Bills which are listed for discussion in the Parliament are: The Digital Personal Data Protection Bill, 2023, the National Dental Commission Bill, 2023, the Drugs, Medical Devices, and Cosmetics Bill, 2023, the Registration of Births

and Deaths (Amendment) Bill, 2023, the National Nursing and Midwifery Commission Bill, 2023, the Forest (Conservation) Amendment Bill, 2023, the Biological Diversity (Amendment) Bill, 2022 and the Mediation Bill, 2021.

The enacting of the Insurance Act 2023' by repealing the Insurance Act 1938 will be a simple exercise as it doesn't involve any complex changes.

The government decided to repeal the 'Insurance Act 1938' as it has undergone many changes since its inception and has become cumbersome and complex for common people. Moreover, the legislative move to replace the 'Insurance Act 1938' is in the line with the government's ongoing overall exercises involving review of all pre-Independence Acts from the point of view of their utility and relevance, sources said.

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Source: <https://indianexpress.com/article/insurance/insurance-bill-2023-unlikely-to-be-taken-up-during-monsoon-session-8868409/>

## TOP CORPORATE BOND MARKET NEWS

- **India should push to add its bonds to global indexes: RBI report**

India should take steps to include its debt in global bond indexes, allow banking services in rupee outside the country, and review taxes on masala bonds as measures to push for more international use of its currency, according to a report released by the Reserve Bank of India.

“INR has potential to become an international currency as India is one of the fastest growing countries and has shown remarkable resilience even in the face of headwinds,” the group led by Ratho wrote in the report “The higher usage of INR in invoicing and settlement of international trade, as well as in capital account transactions, will give INR a progressively international presence.”

The central bank has allowed 17 banks to settle trade in rupees in 18 countries and 65 vostro accounts have been opened for the purpose, RBI Governor Shaktikanta Das said in May. India’s initial attempts at settling trade with Russia in rupees for crude have floundered with pile up of the currency in banks.

Integrating Indian payments systems with other countries and facilitating the launch of BIS investment pools in rupees are some of the other recommendations, in the report. It also suggested a review of taxation issues in financial markets to harmonize the tax regimes of India and other financial markets.

“INR may ascend to a level where it would be widely used and preferred by other economies as a ‘vehicle currency’,” according to the report. “In the long run, efforts should be made for the inclusion of INR in IMF’s SDR basket.”

Source: <https://economictimes.indiatimes.com/markets/bonds/india-should-push-to-add-its-bonds-to-global-indexes-rbi-report/articleshow/101522986.cms>

- **Unlocking full potential of green bonds in India**

In recent years, sustainable finance has gained significant traction to combat climate change and promote environment friendly initiatives. However, mobilizing large amounts through banks may not

suffice the need which stems from the need for creative alternatives to traditional forms of finance

One prominent tool in this space is the issuance of green bonds, which can provide capital for projects that have positive environmental or climate benefits. While green bond issuance has seen remarkable growth globally, India, despite its vast potential, has raised next to negligible amounts through these thematic bonds

Globally many governments are turning to such bonds to raise funding for critical investment needs. The thematic bond market started in 2008 with the issuance of the first labelled green bond by the World Bank.

The global market for sustainable finance has registered considerable growth since 2014 mainly led by the issuance of green bonds. As per the data published (Climate Bonds Initiative, November 2022), cumulative green bond issuances as on September 30, 2022, have surpassed US\$ 2.0 trillion, which includes sovereign green bonds (SGrBs) issued by 26 sovereigns aggregating to US\$ 230.9 billion. European nations are the major issuers of SGrBs with 5-year and 10-year tenors being the preferred tenors of issuance.

India has just picked up these thematic bonds in the past couple of years, with the Government of India making a debut on Jan 25, 2023, just a day ahead of the country’s 74th Republic Day with a sovereign green bond issue. The Indian government raised ₹80 billion worth of 10-year and 5-year green bonds. Another tranche of ₹80 billion of 10-year and 5-year green bonds, to be referred to as “SGrB” in Indian markets, were offered on Feb 9, 2023.

Source: <https://economictimes.indiatimes.com/markets/bonds/unlocking-full-potential-of-green-bonds-in-india/articleshow/101541808.cms>

- **Bonds on the brink reward EM investors:-**

Investors who stuck with bonds from countries that defaulted or are on the brink are betting the double-digit returns they’ve posted over the past month are just the start of a rally.

JPMorgan's Pierre-Yves Bareaux, who oversees \$50 billion in emerging-market debt, says he's never seen so much value unlocked from distressed and defaulted government notes this late in a Federal Reserve interest-rate hiking cycle.

Similarly, UBS Asset Management's Shamaila Khan says there are more opportunities now than she has seen in her two decade-long career.

The gains come as the nations reach milestones that, in some cases, were years in the making. Zambia, which defaulted in 2020, struck an agreement in June with bilateral creditors led by China to restructure \$6.3 billion of debt.

A week later, Pakistan announced a \$3 billion deal with the IMF, while Sri Lanka said it would revamp nearly \$20 billion of local bills and bonds.

Source: <https://economictimes.indiatimes.com/markets/bonds/bonds-on-the-brink-reward-em-investors/articleshow/101621835.cms>

- **Adani group in talks to raise \$1.8 billion from India bond sales**

Billionaire Gautam Adani's conglomerate plans to tap India's bond market to raise up to Rs 150 billion (\$1.8 billion) this financial year as it gears up local-currency debt sales since damaging allegations were made by a short seller earlier this year, according to people familiar with the matter.

The notes would likely be sold in small Rs 5 billion to Rs 10 billion lots of listed and unlisted bonds to meet capital expenditure requirements, said the people, who asked not to be identified because the plans are private.

Adani Ports and Special Economic Zone Ltd., Adani Electricity Mumbai Ltd., Mumbai International Airport Ltd., Navi Mumbai International Airport Ltd. and flagship Adani Enterprises Ltd. are among the group's firms that may issue first, the people said.

The plans will likely gather steam in two months and the amount eventually raised could be double the initial size, one of the people said. However, the deliberations are still progressing and have not yet been finalized, according to the people. An Adani spokesperson didn't immediately respond to a request for comment.

Adani's plans are aimed at shoring up investor confidence after months of damage control following Hindenburg Research's January report detailing alleged years-long corporate malfeasance, which sent the group's stocks and bonds tumbling. The conglomerate has denied the US short seller's accusations and Adani Enterprises earlier this month raised 12.5 billion rupees through a sale of Indian bonds.

The tycoon's group is also in talks with Barclays Plc, Deutsche Bank AG and Standard Chartered Plc to borrow between \$600 million and \$750 million to refinance debt taken on to finance its purchase of Ambuja Cements Ltd., Bloomberg News reported last week. Separately, Adani New Industries Ltd. has raised \$394 million through a trade finance facility from Barclays and Deutsche Bank for a solar module project.

Source: <https://economictimes.indiatimes.com/markets/bonds/adani-group-in-talks-to-raise-1-8-billion-from-india-bond-sales/articleshow/102284040.cms>

- **Power Grid board approves raising Rs 5,700 cr via bonds in FY24-**

New Delhi, Power Grid Corporation's board has approved a proposal to raise up to Rs 5,700 crore through issuance of bonds on private placement basis in multiple tranches in 2023-24. The fund raised will be used to part finance its capex requirement, for providing inter corporate loans to wholly-owned subsidiaries/JVs and for general corporate purposes.

This will be done by securitization of cashflows of 4 operational SPVs (special purpose vehicles) viz. POWERGRID Bhuj Transmission, POWERGRID Khetri Transmission System, POWERGRID Medinipur Jeerat Transmission System and POWERGRID Varanasi Transmission System up to March, 2034.

The company is raising Rs 500 crore in the first tranche with a green shoe option of (additional) Rs 1,400 crore.

Source: <https://economictimes.indiatimes.com/jobs/mid-career/complete-guide-to-digital-marketing/articleshow/102197903.cms>

## Department of Banking & Financial Services Upcoming Programme

ASSOCHAM 6 <sup>th</sup> National Summit & Awards on Corporate Bond Market	3 <sup>rd</sup> August 2023
ASSOCHAM Bi-Monthly Shadow Monetary Policy Committee Meeting	4 <sup>th</sup> August 2023
ASSOCHAM 8 <sup>th</sup> National summit on Insolvency & Bankruptcy code and Valuation	16 <sup>th</sup> September 2023

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