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TOP SPEECHES

The Dawn of India's Age

(Inaugural address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India - May 10, 2023 - at the Indira Gandhi Institute of Development Research (IGIDR) Alumni Conference, Mumbai)

Dr. Basanta Kumar Pradhan, Director, Indira Gandhi Institute of Development Research or IGIDR, Prof Subrata Sarkar, Convenor of the Conference Committee, Faculty Members of IGIDR, Distinguished Alumni of the Institute, Ladies and Gentlemen, Namaskar and Good Afternoon!

I am deeply honoured to be invited to inaugurate the IGIDR Alumni Conference which, perhaps for the first time, brings together former students, current students and faculty under the mantle of the alma mater. Some of you are well on your way in charting life's journey in diverse fields; others prepare to commence their own tryst with the future. It is truly heartening to observe how loyally you have all responded to the IGIDR's maternal call – after all, as the Oxford Dictionary of Word Origins puts it, an alumnus is one who is nourished.

The cornerstone of building a great nation is the nurturing of its human capital. The IGIDR has groomed some of the brightest and most driven scholars in the country. Their professional successes intrinsically define the institution. Alumni are receivers and also givers. In the words of Albert Einstein, "It is every man's obligation to put back into the world at least the equivalent of what he takes out of it." While you reflect on your journey through these arches, do ponder on how you could enrich the journey of others that follow in your footsteps. I see you as rays of light illuminating the terrain you traverse while also reflecting the incandescence of the sun – your alma mater. The rich diversity of your accomplishments is our asset, worthy of emulation, with externalities to reap by those who join you today.

Taking a cue from an inspiring description of the key to success in life2, there is a tide in the affairs of nations which, taken at the flood, leads on to fortune. India is poised on the crest of a tide in its history that will take it to its full potential in securing its aspirational goals for the future of its citizens and in its role in global affairs, albeit amidst several challenges. It is in that context and spirit that I thought I will spend some time envisioning the dawn of India's age.

Demographics

According to the United Nations3, India has become the most populous country in the world this year, attesting to the flowering of the demographic dividend that set in from 2018. There is a paradigm shift in our thinking on the subject. Once considered a drag on development in the tradition of Thomas Malthus4, our large population is now regarded as an asset and an opportunity in a world in which many countries are confronting aging and even population decline. By contrast, our population is young – the median age is 28 years. Every sixth working age (15-64 years) person in the world is an Indian. The potential for boosting saving and investment that this entails considerably enhances India's emergence as the world's economic powerhouse of the future. In fact, this momentous development has been termed as 'shifting the world's centre of gravity'5 because it could be heralding a tectonic change in India's role in the global order. Moreover, India's population is expected to keep growing for the next four decades, peaking at under 1.7 billion in 2063. More than a sixth of the increase of the world's working age population between now and 2050 will be provided by India.

Already, India is the fifth largest economy of the world in terms of market exchange rates and the third largest in terms of purchasing power parity (PPP). The Organisation for Economic Cooperation and

Development (OECD) has calculated that in PPP terms, India will be the second largest economy of the world by 2048.

We must prepare for donning this responsibility. In some ways we have begun. India is upgrading physical infrastructure - roads and airports being the most visible dimensions – to world class levels. We are on the cusp of a digital payments revolution. Yet, our most formidable challenges remain: only half of the existing working age population is part of the labour force. Furthermore, India's female labour force participation is among the lowest in the world, even lower than that of low income countries. Also, India's labour productivity (GDP per hours worked) is lower than even peers in the lower middle income group of countries into which we are classified. Consequently, 16 per cent of the population lives in poverty, according to the UN. We have to change all that by creating jobs commensurate with expansion of the working age population, by skilling up the work force and providing it an institutional environment that enables work flexibility in tune with changing technologies and demand patterns. Importantly, we must enable greater female participation in the workforce by assuring the dignity of work and the sanctity of the workplace. Our population presents an exciting opportunity which can be realised only if we are successful in providing it with economic opportunity.

Diaspora

An outward reflection of India's demographic bonus is the vibrant expansion of Indian communities across the world. India has always been an open economy and international migration has been a major force defining India's economic, social and political relations with the rest of the world right from the Bronze Age in 3000 BC.

In its 2022 publication of its migrant database, the UN estimates that at 18 million6, the Indian diaspora is the largest in the world, accounting for 6.4 per cent of the total stock of international migrants (281 million) in 2020. This migration has been distributed across the world, with major destinations currently being the UAE, followed by the US. It is interesting to note too that the demographic dividend is also being seized by internal migration.

Over the years, our perceptions about the diaspora have also transformed from 'brain drain' to 'brain gain', spurred by the contributions that Indians have made in various fields in the global arena, including information technology, entrepreneurship, international politics, medicine, arts and culture, with some of them becoming Nobel laureates. It is estimated that over 90 out of 1078 founders of about 500 unicorns in the US are persons of Indian origin7. According to a recent study8, professionals in the areas of science, technology, engineering, and mathematics (STEM) play an important role in the U.S. economy by providing cutting-edge ideas and technologies that create jobs and raise living standards. Immigrants from India are the largest country of birth group, accounting for 28.9 percent of all foreign-born STEM workers.

The Indian economy has been a beneficiary of this dynamic and industrious diaspora. India currently receives the highest flow of remittances in the world at US $ 108 billion in 2022, up by 24.6 per cent from a year ago, and accounting for 3 per cent of India's GDP. Additionally, Indians residing abroad hold deposits in Indian banks cumulating to US $ 136 billion at the end of February 2023.

Going forward, labour market transformation driven by technological breakthroughs, energy transition and geoeconomics will blur the distinctions between working abroad and working in India. The demographic advantage may well equip India to reap the maximum benefits of this shift. The World Economic Forum's Future of Jobs Report, 2023 points to a global churn in labour markets – creation of 69 million jobs and a decline of 83 million jobs – led by supply chains and transportation, media, entertainment and sports industries. The churn in India's labour markets will be driven by technology-led sectors like artificial intelligence and machine learning (AI&ML), followed by data analysts and scientists. Employers in India remain among the most upbeat in terms of future talent availability, with respondents believing that the existing workforce can be upskilled to pack the pipeline and talent can be retained. A larger proportion of respondents in the Indian set are inclined to consider improving talent progression and promotion process as well as providing effective reskilling and upskilling as business practices that could improve access to talent than in the global set. As a priority, therefore, India needs to get its skilling strategy right.

Diversification

The Indian economy is undergoing a quiet but fundamental transformation encompassing all its sectors. Perhaps the most striking transformation is occurring in India's exports of services which have demonstrated pandemic-proofing, rising by above 25 per cent per annum since 2020, and providing valuable support to the viability of the external sector. While software and business services are the main drivers of this robust performance, advances in IT have not only made services more tradable but also increasingly unbundled: a single service activity in the global supply chain can now be fragmented and undertaken separately at different geographical locations. Jurisdictions have accordingly been decentralising and diversifying their supply chains to ensure business continuity. These factors have led to a new channel of IT-enabled services - large multinational corporations (MNCs) are setting up Global Capability Centres (GCCs), which are offshore offices, delivering a wide array of services across IT sector verticals.

India is home to about 40 per cent of global GCCs, and they are estimated to comprise 25 per cent of overall IT services exports. GCCs are also driving diversification, with firms in diverse sectors such as electronics, retail, automotive, banking and financial services, and hospitality, to name a few, setting up GCCs in India. GCC services include accounting, legal services, business consultancy, operations, capacity development and research. GCCs cater to high-value and knowledge-intensive projects such as data analytics, artificial intelligence/machine learning, chip design, system design, robotics and other new-age technology solutions that are high in demand in the global tech market. India is also becoming a hub for engineering R&D (ER&D) centers as leading multinationals develop their centers of excellence (CoEs) across different business domains. The National Association of Software and Service Companies (NASSCOM) estimates that India will add 500 GCCs by 2026. They are going to be hiring. India's citizens of the future should prepare for this revolution. The world is coming to our doorstep to fill world-class jobs.

Digital Revolution

India is playing a pivotal role in the ongoing fifth technological wave – the information and communication revolution9. We have emerged as the largest player in real-time payment transactions globally, with a share close to 50 per cent. The Unified Payment Interface (UPI) is the mainstay of the retail payment ecosystem, with around 9 billion transactions in April 2023 alone and this is attracting global attention. The India Stack creates a unified software platform to bring our population into the digital age. India Stack is the largest open application programming interface (API) in the world. It is being implemented in stages, starting with the introduction of the Aadhaar Universal ID numbers; the introduction of electronic Know Your Customer (eKYC) which enables paperless and rapid verification of identity details; e-Sign whereby users attach a legally valid electronic signature to a document; UPI enabling cashless payments; and most recently, DigiLocker, a platform for issuance and verification of documents and certificates. The benefits of India Stack are being widely exploited by rising mobile penetration. It is argued that India Stack could fast-track the move to digital payment systems worldwide and mark the end of cash10.

Digitalisation is also powering a revolution in the cross-border payments space. India is linking UPI with other national fast payment systems (FPS). The UPI has been linked with Singapore's PayNow in a move that is expected to make cost-effective cross-border peer-to-peer (P2P) transfers using mobile apps, and deepen trade, travel, and remittance flows between the two nations. Other link-ups are on the anvil. Within India, too, increasing interoperability across domestic payment modes is being prioritised. India is also gearing up for the launch of the digital rupee. Internationalisation of home-grown payment modes is being enabled through tie-ups with payment service providers that allow QR code-based merchant payments in Bhutan and Singapore. Leveraging the growing popularity of the UPI, this payment facility has been extended to inbound travellers from the G20 nations for effecting local merchant transactions.

Looking ahead, the future of digitalisation is bright, with total digital payments poised to jump three-fold to USD 10 trillion by 2026, wherein 2 out of 3 transactions will be through non-cash modes. The future of cross-border payments will be characterised by the setting up of dedicated payment rails for instantaneous transfers, while also ensuring digital and financial inclusion and greater harmonisation of payment regulations across borders.

Diplomacy

India's G20 Presidency is a watershed moment in our history as we seek a central role in finding pragmatic global solutions for collective well-being and promoting a sustainable and inclusive future for all. G20 brings together the world's largest economies on one platform for collective action, coordination and consensus building in our vision of Vasudhaiva Kutumbakam – One Earth – One Family – One Future.

India is prioritising a reformed multilateralism that creates a more accountable, inclusive, just, equitable and representative multipolar international system for the 21st century. Our priorities include addressing the macroeconomic implications of food and energy insecurity; climate change; strengthening Multilateral Development Banks (MBDs); debt sustainability; strengthening financial resilience through sustainable capital flows; financing inclusive, equitable and sustainable growth; leveraging digital public infrastructure; climate financing; and opportunities and risks from technological change.

On the finance track, we aim to expand the narrative beyond financial stability and financial integrity concerns to capture the cross-sectoral and macro-financial implications and risks. We are working towards strengthening financial institutions' ability to manage third-party risks and outsourcing, inter alia, arising from BigTech and FinTech, and also enhancing global cooperation to strengthen the financial sector's cyber resilience.

Going forward, the world's hopes are on building consensus to deliver a G20 Delhi Declaration that will leave an Indian footprint on the sands of time as we strive for 'human-centric globalisation' that is sensitive to the voices of the Global South.

Dynamic Federalism

Increasingly, the quality of life and the business environment in India is going to be defined by shifts in the focus of public policy that foster competitive federalism among India's states in achieving the aspirational goals of sustainable economic development. The freedom to compete allows each state to design, experiment, innovate and reform, given its unique features and challenges, while emulating best practices achieved by peers. An example of the power of competitive federalism is the drive among states to attract private investment, both domestic as well as foreign, by showcasing investment opportunities in each state. The spirit of competitiveness is being promoted at the highest policy levels. Well-performing states in the area of business reforms are recognised as Top Achievers. Similarly, Niti Aayog has developed the Export Preparedness Index to evaluate sub-national export performance11.

Moving on, the states' start-up ranking scheme has encouraged each of them to have dedicated start-up policies. Many States have also undertaken substantive legislative and administrative reforms in their labour and industrial relations to boost domestic manufacturing capacity. Today, many states have instituted processes such as single-window clearance, self-certification of compliance by enterprises, online filing for registration and returns and transparent inspection systems. The Smart Cities Mission promotes sustainable and inclusive cities12. The Ministry of Housing and Urban Affairs has launched the 'City Finance Rankings 2022' portal in March 2023 whereby urban local bodies in the country will be evaluated on the basis of 15 indicators,13 based on current financial health and improvement in financial performance over time. The sustainable development goals (SDG) India Index14 developed by the NITI Aayog, in collaboration with United Nations, is also fostering competition among states and UTs by ranking them on global developmental goals.

As our states compete for a place in the sun, they will nurture business growth, put in place the best physical and social infrastructure and provide us with improved basic amenities, clean energy, and better health and societal outcomes. Along with foreign investment bringing in new technologies and ideas, we are moving into a national ethos of wider consumer choices and a better standard of living.

Decarbonisation

Climate change is manifesting itself at an alarming scale and pace globally. Extreme weather events are becoming more frequent and intense, inflicting increasing damage on human lives and the environment, globally and in India. The intensifying concern now is that climate change is heavily influenced by human activity. In fact, the period from the mid-20th century has been defined as the "Anthropocene" epoch, marking a significant impact on earth's climate due to the increased use of fossil fuels.

India and other developing economies are highly vulnerable to climate change due to their limited capabilities in climate science and technology and insufficient funding for adaptation and mitigation. The relative costs of transitioning to a greener path are higher for them than for the advanced economies; undertaking the transition can even push them several places down the development ladder. From the developing world, India has emerged as a leading voice on global climate action that is mindful of climate equity and justice considerations.

India has taken numerous policy initiatives in this direction. In 2015, India submitted its Nationally Determined Commitments (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC) with targets up to 2030. At COP26 in 202115, India updated its NDCs, which now represent the framework for its transition to cleaner energy for the period from 2021 to 2030. It has committed to the five-fold strategy of panchamrit, which include raising its non-fossil-fuels-based energy capacity to 500 GW by 2030; raising 50 per cent of its energy requirements from renewable sources; and reducing the carbon intensity of its GDP by 45 per cent by 2030. India aims to achieve the net zero target by 2070. For achieving this target, it has released long-term low emission development strategies (LT-LEDS) at the COP27 summit.

India has co-founded the International Solar Alliance (ISA) with France in 2016 and announced a National Hydrogen Mission to increase the dependency on green energy. The Mission LiFE, i.e., Lifestyle for the Environment, launched in 2022, is now a global movement to connect the powers of the people for the protection of the earth.

The RBI too is engaged in managing climate risks. In April 2021, it joined the Network for Greening the Financial System (NGFS) to benefit from and contribute to the best practices in climate risk management and green finance. Apart from including renewables as part of the priority sector credit for banks, the RBI has recently issued sovereign green bonds, and released the framework for mobilisation of green deposits. At the frontline of research on the subject, the RBI has on May 3, 2023 released the Report on Currency and Finance, 2022-23 with the theme "Towards a Cleaner Greener India". The Report has examined the macro-financial implications of climate change and the possible fiscal, monetary, regulatory and other policy options for India.

In the words of Victor Hugo who is considered to be one of the greatest French writers of all time, "Nothing else in the world...not all the armies...is so powerful as an idea whose time has come." India's time has come and we must seize it. There are formidable trials and challenges ahead, but they can be overcome if we exploit the comparative advantages. I have spoken of some of the defining dimensions favouring India's leap into the future. We need to hone them into the cutting edge that will make this dream possible.

Concluding Remarks

As you prepare to step out into a fast-changing world, always cherish the unbreakable bond that you have with your alma mater. In this context, your homage should first go to your teachers, the faculty of the IGIDR, who nurtured you with commitment, dedication and sincerity. Our teachers do not just impart knowledge; they awaken in us the desire to be lifelong learners. To quote Swami Vivekananda, "the guru is the means of self-realisation". I commend the entire faculty, present and past, for shaping the lives of the future of India and for being the soul of the institution that has groomed them to be worthy citizens of our nation and of the world.

As you embark on your journey, always believe that you are capable of achieving greatness. Your successful completion of your educational programme at the IGIDR is the first testimony of that power and passion in you. Do not be afraid to dream big. Go out into the world with the knowledge that anything is possible if you are willing to put your shoulder to the wheel and push. In your journey, you will encounter failure, but failure is not the opposite of success; it is an opportunity to learn and grow, and not give up on your dreams. Success is not something that happens overnight. It is the result of consistent effort, hard work, and dedication. So, make it a habit to seek excellence in everything you do. In the words of the famous philosopher and historian Will Durant, "Excellence is not an act but a habit. The things you do the most are the things you will do best." The future is in your hands. You have the power to shape your own destiny and create a life that is meaningful and fulfilling, while making a positive impact on the world. So, go out there with your head held high, tirelessly striving towards perfection.

Wherever you are and in whatever you do, I wish you every success.

Source: https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1363

'Governance in Banks: Driving Sustainable Growth and Stability'

(Inaugural Address by Shri Shaktikanta Das, Governor at the Conference of Directors of Banks organised by the Reserve Bank of India for Public Sector Banks on May 22, 2023 in New Delhi and Private Sector Banks on May 29, 2023 in Mumbai)

I am very happy to be here in this maiden Conference of the Directors in the Boards of Banks organised by the Reserve Bank of India. At the outset, I would like to acknowledge the key role played by the Banks in the process of economic development of our country. Over the years and especially in the recent period, Banks have been able to maintain financial and operational resilience in the face of extreme stress originating from the COVID-19 pandemic, the continuing war in Europe and the banking sector crisis in certain advanced economies (AEs).

Today our banking sector stands out as strong and stable with CRAR at 16.1 per cent, Gross NPA at 4.41 per cent, Net NPA at 1.16 per cent and Provision Coverage Ratio at 73.20 per cent at the end of December 2022. It is in times such as these that complacency may set in. We have to bear in mind that risks often get overlooked or forgotten when things are going well. Therefore, Boards of Directors of Banks and their senior management should maintain constant vigil on external risks and build-up of internal vulnerabilities, if any.

In the last few years, the Reserve Bank has significantly strengthened regulation and supervision of the entire financial sector. We have issued guidelines on governance in banks and also rationalised the regulatory architecture for Banks, NBFCs (including MFIs) and UCBs. Our supervisory approach and methods have become much stronger and deeper. Our priority is protection of depositors' money and ensuring a robust financial sector for the country to progress. As you are aware, banks do their business primarily with depositors' money and it is, therefore, the responsibility of Boards of Directors and Managements of Banks to keep the interest of depositors uppermost in their mind.

I would like to take this opportunity to convey our expectations from the Boards of Directors of banks and explain the multi-dimensional responsibility of individual directors1. My colleagues in the Reserve Bank and I also intend to have first-hand feedback from you on how to ensure that the Indian banking system remains resilient and future ready even in the face of risks and uncertainties. The entire effort has to be collaborative between the Bank Boards and the Reserve Bank. Let me now specifically dwell upon our expectations from Bank Boards one by one.

I. Governance and Stability

A robust governance structure is the first and the most important requirement for ensuring stability of a bank as well as sustainable financial performance. According to the Basel Committee on Banking Supervision (BCBS)2, "the quality of governance and management is probably the single most important element in the successful operation of a financial institution". Similarly, a study conducted by the Reserve Bank researchers3, based on comprehensive econometric analysis, has shown that bank stability is strongly predicated upon the governance structure in the banking system.

With this objective in mind, the Reserve Bank has issued guidelines4 listing out seven critical themes which need to be discussed in the Board meetings. These themes are business strategy, financial reports and their integrity, risk, compliance, customer protection, financial inclusion and human resources. The Reserve Bank has also issued guidelines5 on appointment of chairperson and conduct of meetings of the board; composition of important committees of the board; age, tenure and remuneration of directors; and appointment of the whole-time directors (WTDs). It is, however, a matter of concern that despite these guidelines on corporate governance, we have come across gaps in governance of certain banks, with the potential to cause some degree of volatility in the banking sector. While these gaps have been mitigated, it is necessary that Boards and the managements do not allow such gaps to creep in. We have been engaging with some of you on these issues at the individual level, but I thought it would be more effective if we engage with all the Directors together. It is the joint responsibility of the Chairman of the Board and the Directors, both whole time as well as non-executive or part time Directors, to ensure robust governance in banks.

II. Ensuring requisite qualification and expertise in the Board

The Banking Regulation Act prescribes certain qualifications for appointment as Directors in the Board of Banks. Additionally, the Reserve Bank has issued guidelines on the 'Fit and Proper' criteria for the Directors. The objective is that Board members should have requisite expertise and demonstrate competence and integrity. For this, it is of utmost importance that the Directors keep themselves updated with material changes in the bank's internal environment as well as the external factors that have a bearing on the bank. A balanced combination of skills, diversity and expertise commensurate with the size, complexity and risk profile of a bank is what will drive it towards sustainable resilience. These skills should be enhanced by ongoing orientation programmes for the Directors. Directors must exercise care, prudence and diligence in the discharge of their functions. Duty of loyalty implies an undivided and unselfish loyalty to the Bank and demands that there shall be no conflict between duty and self-interest6.

III. Objective and Independent Board

Individual Directors should not have any conflict of interest which may hamper their objectivity and independence. It is the responsibility of the Board to ensure that policies are in place to identify potential conflicts of interest and deal with them. In this respect, it is necessary that 'independent' directors are truly independent; that is, independent not only of the management but also of controlling shareholders while discharging their duties. They have to always remember that their loyalty is to the bank and no one else. Directors should keep watch on actual or potential related party transactions. They are expected to ask pertinent questions and obtain the required information from the management before taking decisions. I am not advocating any confrontation, but only stressing the need for the required level of alertness among all directors.

IV. Role of Chairperson, Board Committees and Managing Director/Chief Executive Officer

The role of Chairperson is akin to the captain of a ship. For the chairperson to be able to navigate the Board discussions and functions in the right direction, he/she should possess the requisite experience, competencies and personal qualities. Chairpersons should encourage open and honest discussions which, at times, can be critical of the proposals recommended by the management. Fostering an environment where dissenting views can be freely expressed and discussed is what will ensure objectivity – an absolute necessity for long-term sustainable performance of a bank.

The MD & CEO is expected to function under the overall supervision, direction and guidance of the Board and at the same time, maintain independence in performance of duties. At times, however, we have noticed the dominance of CEOs in Board discussions and decision making. It has been seen in such cases that Boards are not asserting themselves. We would not like this type of situation to develop. At the same time, there should not be a situation where the CEO is inhibited from doing his duties. Directors and CEOs should, therefore, foster an atmosphere of free and fair discussions in Board Meetings.

V. Tone from the Top; Corporate Culture and Value System

The larger purpose of the Board is to provide clear and consistent direction to the banks. The focus areas for any Board should be that of approving and overseeing implementation of the Bank's corporate values, policies and strategic objectives. Setting the correct tone at the top is a primary step in building a conducive corporate and risk culture as well as ethical behaviour among the rank and file. It is the responsibility of the Board to ensure that the processes and systems in the bank facilitate effective decision-making and good governance, which should also percolate down within the Bank. These are not abstract concepts. These are necessities which would help in building public trust and confidence on Banks.

The importance of public trust in the banking system, as exemplified in the recent bank failures in the United States, also needs to be appreciated. This was a classic case wherein public trust in certain banks evaporated suddenly. Further, in this digital age, it took only a few hours to transfer billions of dollars held as deposits in a bank to other institutions, leading to a severe liquidity crisis. The monitoring of information appearing in various media, including social media, has therefore become very important for any bank. In fact, such cases have been observed in India, too, in a few Banks in the past. We had to advise the CEOs to interact with the media immediately to set out the facts correctly. There have been instances when the Reserve Bank had to issue press statements to assuage concerns and prevent potential panic. In this kind of milieu, it is upon the Banks and their Boards to assiduously build sound corporate culture and value system within the organisation.

VI. Quality of Information

Our supervisory assessments have revealed that, sometimes, the information being put up to the Board was laden with gaps and material inaccuracies. Further, the agenda notes which the Boards were reviewing did not capture all the relevant information which made their review either ineffective or partially effective. We have come across instances of agenda papers not being circulated well in advance. There were also instances of only power point presentations being circulated as agenda notes. These power point presentations are like a guided tour, and Directors should clearly look beyond a guided tour.

It is the responsibility of the Senior Management to provide material information to the Board in a timely, accurate and understandable manner so that the Boards can take informed decisions. Care should be taken to avoid voluminous notes and information overwhelming the Directors with superfluous data. On the other hand, the Board also has a responsibility to seek as much relevant information as required for it to satisfactorily reach a decision.

VII. Effective oversight of Senior Management

Senior Managements in banks like any other corporate entity are accountable for implementing the Board decisions and ensuring that the risks assumed by the bank are within the risk appetite approved by the Board. An effective Board of Directors also evaluates the performance and compensation of the Senior Management.

A compensation structure which does not distinguish between prudent risk taking and excessive risk taking often results in a culture of indifference towards risk taking. Banks need to rethink their internal accountability structures to ensure that prudent risk taking is rewarded and imprudent decisions are discouraged.

Employees cannot be rewarded for increasing short-term profits without adequate recognition of the risks and long-term consequences. In this regard, the Reserve Bank has issued guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff of private sector banks. The underlying idea is that the compensation structure should promote long-term performance and be in line with the bank's business and risk strategy, objectives, values and incorporate measures to prevent conflicts of interest.

VIII. Business Model and Conduct

Business models of Banks are expected to be robust and prudent. In this context, Boards need to pay specific attention to the asset liability management (ALM) in the Banks, as suboptimal ALM can lead to serious liquidity risks and destabilising effects on the Bank itself. The recent developments in the banking sector in the USA bear ample testimony to this. These developments in the USA have also demonstrated that aggressive growth strategies with disproportionate or excessive focus on the bottom lines and/or market capitalisation often leads to build up of vulnerabilities. Banks should exercise caution and prudence in their growth strategies, pricing of products and portfolio composition. Over-aggressive growth, under-pricing or over-pricing of products both on the credit and deposit sides, concentration or lack of adequate diversification in deposit/credit profile can expose the banks to higher risks and vulnerabilities. From time to time, the Reserve Bank has engaged with certain banks on the need to make suitable adjustments in their business strategies where it was observed that over-aggressive growth in certain business segments (be it in credit/ deposits) were creating avoidable vulnerabilities. Problems or risks can come from one corner of the balance sheet which might appear insignificant in the beginning. Let me emphatically state that the Reserve Bank does not interfere in commercial decision making of the banks, but only gives them a nudge to address potential risks and vulnerabilities. It is expected of banks that they put in place robust risk management policies and practices to address the risks associated with their business model/strategy.

Another area of focus for the Board should be the adoption of fair practices and customer protection, including in the context of growing digital lending. Quick and effective redress of customers grievances reflect the efficacy of a bank's overall functioning.

Here, I would like to mention that we have also issued guidelines regarding outsourcing of functions to third-party agencies. The arrangements with these third-party agencies should be very clear, specific and well-defined. In outsourcing of critical functions, including technology services, if an incident occurs, the banks cannot shift the blame to the third parties because the primary responsibility of ensuring operational resilience is on the banks and not on the third parties. Therefore, it is for the banks to have suitable arrangements and agreements in place with the service providers to ensure that they function according to the policies and expectations of the individual banks.

IX. Integrity and Transparency of Financial Statements

One of the critical areas where the role of Directors is very significant is in ensuring the integrity of financial statements published by the bank. We have come across instances where so called smart accounting methods were adopted to artificially boost the financial performance of the bank.

During the course of our supervisory process, certain instances of using innovative ways to conceal the real status of stressed loans have also come to our notice. To mention a few, such methods include bringing two lenders together to evergreen each other's loans by sale and buyback of loans or debt instruments; good borrowers being persuaded to enter into structured deals with a stressed borrower to conceal the stress; use of Internal or Office accounts to adjust borrower's repayment obligations; renewal of loans or disbursement of new / additional loans to the stressed borrower or related entities closer to the repayment date of the earlier loans; and similar other methods. We have also come across a few examples where one method of evergreening, after being pointed out by the regulator, was replaced by another method. Such practices beg the question as to whose interest such smart methods serve. I have mentioned these instances to sensitise all of you to keep a watch on such practices.

The Board of Directors, especially the Audit Committee of the Board (ACB), should bestow close attention on the accounting policies followed by the banks and implement preventive controls to preclude smart or aggressive accounting practices. The Board or the ACB should engage with the Statutory Central Auditors of the bank to ensure that their financial reporting is transparent and prudent.

X. Independence of Assurance Functions; risk management, compliance and internal audit

Under the 'three lines of defence' model, Management and business functions form the first line while risk management and compliance form the second line. Internal Audit forms the third line of defence. The assurance functions – risk management, compliance and internal audit – collectively assist the Board as well as the management to gauge whether the business operations of the bank are being run in conformity with the policies and strategies laid down by the Board. RBI has issued detailed guidelines for ensuring quality and independence of governance and assurance functions. The Board as well as the Risk and Audit committees of the Board should ensure that risk management, compliance and internal audit functions have adequate independence and stature within the organisation to function effectively.

It is important that the Assurance functionaries have a right of direct access to the Board of Directors or its committees. Moreover, the assurance functionaries should have the independence to constructively challenge the business functions for establishing a strong compliance and risk culture. The assurance functions should also be at the same pedestal as the business functions. The Reserve Bank has issued detailed guidelines in this regard for ensuring quality and independence of the assurance functions. Banks may also subject their assurance functions for independent external evaluation, so that there is an added layer of confidence to all the stakeholders.

Conclusion

Let me now conclude. On behalf of the Reserve Bank, I have enumerated a 10-point charter in my address today. The safety and soundness of the banking system relies critically on effective corporate governance which helps to build an environment of trust, long-term stability and business integrity of banks. Governance frameworks can be pictured as a complex mesh of nuts and bolts holding the financial pillars of capital, assets, deposits and investments in place and keeping the structure of the bank upright. Raising financial resources would not be a constraint for banks with robust governance frameworks as they can command a governance premium. This premium in turn will be driven by quality of leadership at the top.

As a Regulator and Supervisor, the Reserve Bank has taken several measures to ensure sound corporate governance in banks. The Banks themselves have taken steps to face the recent headwinds and exhibited remarkable resilience. The leadership and governance in banks have played a vital role in the nation's journey so far and we believe that together we can drive a growth which is sustainable and a financial system which is resilient, stable and inclusive.

Source: https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1364

Governance in Banks: Driving Sustainable Growth and Stability

(Speech delivered by Shri M K Jain, Deputy Governor, Reserve Bank of India at the Conference of Directors of Banks organised by the Reserve Bank of India for Public Sector Banks on May 22, 2023 in New Delhi and Private Sector Banks on May 29, 2023 in Mumbai)

Governor, Deputy Governor Shri M R Rao, colleagues from the RBI and distinguished directors of banks.

Good morning. It is indeed an honour to be here to discuss a topic of utmost importance: Governance in Banks – Driving Sustainable Growth and Stability. You are seasoned professionals with expertise in your domains. Today, I intend to share some insights from my experience both as a practitioner as well as supervisor.

We had three key objectives in mind for holding this conference. These are:

(i) The Governor emphasized the strength, stability, and resilience of the banking system, achieved through collective efforts of the Government, RBI, and the banks. While progress has been made, addressing downside risks is vital for India's journey towards becoming a developed economy. Banks are needed to mobilise savings, promote financial inclusion, facilitate job creation by supporting MSMEs, among others. We would like to highlight the importance of strong governance and leadership which are crucial for long-term health of the sector.

(ii) Secondly, the RBI has taken several initiatives in the recent past for strengthening its supervisory processes. This conference gives an opportunity to provide an overview of these initiatives and share some of the supervisory insights.

(iii) Thirdly, there has been an increasing focus on data analytics as a powerful tool for assessing both idiosyncratic as well as systemic risks in banks. By leveraging large volumes of data and advanced analytics techniques, it is possible to gain deeper insights into risk profiles of banks and identify potential vulnerabilities. The intention is to brief you on these initiatives so that banks can leverage on their own data analytic capabilities to make data-driven risk management decisions, improve risk assessment accuracy, and enhance their ability to anticipate risks.

Challenges

In the past decade, the banking sector has overcome numerous challenges. However, complacency is not an option, as banks now face a dynamic environment arising from technological disruptions, cybersecurity threats, evolving customer expectations, global headwinds, and the need to attract and retain talent. Among these challenges, three areas require particular attention which I shall briefly elaborate.

(a) Firstly, technology risk: The ongoing Fintech revolution in banking is bringing a disruptive paradigm shift in the banking services. Banking services are now being bundled with other financial and non-financial services and giving consumers the convenience of accessing the full spectrum of financial products. Indeed, the pace of technological changes is so rapid that banks will have to transform like technology companies continuously innovating and investing in technological upgradations. The risks of cyber-attacks, data breaches, and operational failures have also increased.

(b) Secondly, business risk. As the recent examples of some international bank failures have demonstrated, banks get into trouble due to fundamentally flawed business models. Sometimes banks follow inherently risky strategies with the confidence that their bank has mitigating controls. However, their assumptions may not hold true either due to internal control failure or due to exogenous factors. The Board plays a vital role in independently assessing the business model and its attendant risks. It is important for banks to carefully assess their own unique circumstances and capabilities, conduct thorough analysis, and tailor their strategies accordingly. While it can be valuable to learn from the experiences of other banks, adopting their strategies without considering the specific context and requirements of the organization may lead to unfavourable outcomes. Therefore, Boards should be cognizant of their business model and its potential downsides, both in near term and in future.

(c) Thirdly, there is operational risk due to various factors such as high attrition, lack of succession planning, skilling of staff, outsourcing, etc.

i. Attrition and high employee turnover lead to loss of institutional knowledge, disruption in services and increased recruitment costs. Similarly, lack of succession planning, particularly for critical roles, can pose significant operational risks.

ii. Ensuring that employees have the necessary skills and knowledge is imperative to adapt to new technologies and business practices.

iii. Risks also emanate from outsourcing, including potential loss of control over critical operations, data security breaches, and increased dependency on third-party providers.

iv. Banks also need to be careful about process risks where errors, inefficiencies or breakdowns in operational processes can lead to financial losses, compliance failures or customer dissatisfaction.

Operational risks stemming from ethical issues at the operating level can also have significant repercussions for banks, including reputational damage, legal and regulatory consequences, erosion of customer trust, and adverse financial impacts.

Role of the Board

The evolving nature of risks faced by the banking system necessitates the building up of organizational resilience to adapt to the changing landscape and stay prepared for future risks. Good governance is at the core of organisational resilience and effective Boards are the starting point of good governance. While good corporate governance is essential for all institutions, the governance structure and processes of the banks are expected to be even more robust as banks and financial institutions are different from other business entities in many ways.

i. Firstly, banks are allowed to raise substantial amounts of uncollateralized deposits. Unlike other corporates, shareholders only provide 3 to 4 per cent of the funds in banks and the predominant suppliers of finance are depositors.

ii. Secondly, banks perform the function of liquidity and maturity transformation which makes their business inherently risky.

Such high leverage and maturity mismatch between assets and liabilities cannot be sustained unless banks gain the trust of the depositors. Hence, the governance structures and practices in the banks should prioritise depositors' interest and maintaining their trust.

Effective governance requires a competent and independent Board effectively overseeing the management by asking the right questions, formulating appropriate strategies keeping in mind the risk appetite as well as establishing proper policies and procedures.

I would urge Boards to actively engage in risk oversight, pursue a robust risk management framework, monitor key risks, challenge management on risk-related matters, and ensure the implementation of appropriate risk mitigation measures to protect the bank's interests and stakeholders.

Another aspect that Boards must lay due emphasis on is compliance. Compliance in letter and spirit is critical for banks to maintain the integrity of the financial system and to promote ethical behaviour. Banks must ensure that their actions are compliant with the intended purpose and principles of a law or regulation, and not just the literal or technical interpretation. Compliance with the spirit of the law is essential for banks to maintain their reputation, build trust with customers, and promote ethical behaviour.

Finally, it is important for banks to keep sustainability in mind. This means taking a long-term view of the business and considering the impact of decisions on the bank's financial health, reputation, and broader societal and environmental factors in future.

Role of Supervision

On its part, the Reserve Bank has initiated a series of steps to enhance the soundness of the financial system by adopting a holistic approach towards addressing the growing complexities and inter-connectedness, and to deal effectively with the potential systemic risks.

In the past five years, there has been a significant strengthening of the Reserve Bank's supervisory systems and shifting from an entity-based approach to a more thematic and activity-based approach. Structural changes have been implemented to enhance agility, flexibility, and specialization. A unified and harmonized supervisory approach has been adopted for commercial banks, NBFCs, and urban cooperative banks (UCBs), with a greater focus on identifying the root causes of vulnerabilities.

The Reserve Bank has deployed a wide array of tools to enhance the effectiveness of Supervisory frameworks. These include an Early Warning System, Stress Testing models, Vulnerability Assessments, Cyber Key Risk Indicators, conduct of Phishing and Cyber Reconnaissance exercises, targeted evaluation of compliance with KYC/AML norms, Micro-Data Analytics to analyse granular data, among others. We are also in the process of adopting the use of Advanced Analytics, Artificial Intelligence and Machine Learning on Supervisory Data for even better insights into operations of supervised entities.

Supervisors often detect serious issues such as non-compliance, divergences from IRACP norms, and gaps in internal controls and IT systems during their limited time at the bank. However, it is reported that these concerns frequently surprise Directors when presented in Risk Assessment and Off-site analytical reports. Boards should reflect on why critical deficiencies go unnoticed despite having access to relevant data and assessments, and work on building internal capabilities to identify and address such issues at an early stage.

Sometimes supervision is viewed as intrusive. Let me clarify that supervision is neither designed to be intrusive or punitive nor are supervisors the risk managers of supervised entities. It should be appreciated that supervision is only the fifth line of defence in banking, as it serves as an additional layer of oversight beyond the traditional three lines of defence model (business operations, risk management and compliance, and internal audit) and the fourth line of defence (external audit). Supervision is forced to step in only when these lines fail.

Preparing for the Future

Before, I conclude, let me dwell upon the road ahead. The future of banking is expected to be shaped by advancements in technology leading to greater business and process automation, changing customer expectations, and evolving regulatory landscapes.

To prepare for the future, Indian banks will need to focus on digital transformation, enhance customer experience, adopt innovative technologies such as AI and blockchain, invest in cybersecurity measures, look for opportunities to derive synergistic benefits through collaboration with other players as well as upskilling their workforce to meet the demands of the digital era. Additionally, they will need to prioritize risk management, regulatory compliance, and sustainability to ensure long-term resilience and competitiveness in the evolving banking landscape.

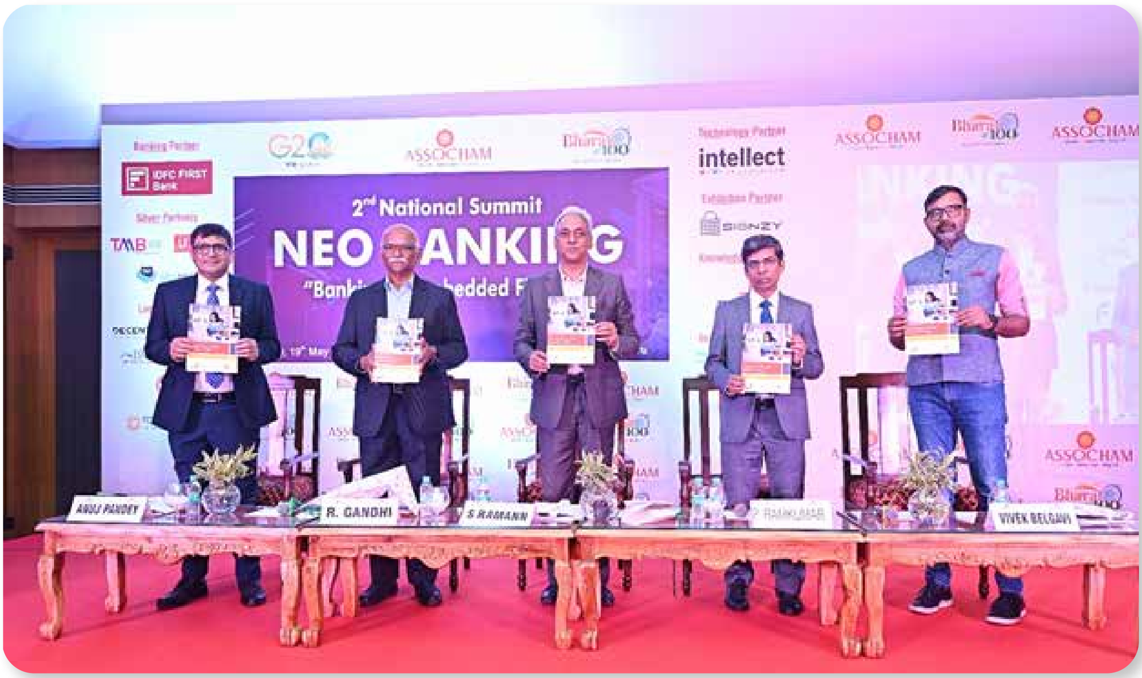
Conclusion

In conclusion, I would like to reiterate that the role of the Board of Directors in ensuring sustainable growth and stability of the banking sector cannot be overstated. As custodians of the interests of various stakeholders, including depositors, shareholders, regulators, and the wider society, Boards must adopt a proactive and strategic approach. Effective risk management, governance, and compliance practices are essential in safeguarding the bank's reputation, financial stability, and long-term viability. Moreover, the Board must ensure that the bank's business model, strategy, and operations are sustainable and create long-term value for all stakeholders. Finally, the Board must remain vigilant, adaptive, and continuously assess the bank's performance, risks, and opportunities, and take timely and informed decisions. I urge all Board members to embrace these principles to drive the bank towards sustainable growth and stability, while safeguarding the interests of depositors and maintaining the stability and integrity of the banking system all the time.

Source - https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1365

Programmes held in May

ASSOCHAM 2nd National Summit on Neo-Banking



Embedded Finance is set to Revolutionise the Banking Industry: Shri R. Gandhi, Former Deputy Governor, Reserve Bank of India

Bengaluru, 19th May 2023: Embedded finance is set to revolutionise the banking industry, but it will not replace traditional banking and financial services, stated **Shri R. Gandhi, Former Deputy Governor of the Reserve Bank of India,** during his keynote address at the 2nd National Summit on Neo Banks. The national summit theme of "Banking on Embedded Finance" was organised by the Associated Chambers of Commerce and Industry of India (ASSOCHAM).

The event's Chief Guest, **Shri R. Gandhi,** spoke on the concept of embedded finance, which involves the seamless integration of financial services with non-banking companies. "Embedded finance provides tremendous opportunities for innovation and expansion, but these ventures must be supported by banks, insurance companies, or brokerage firms," he said. To create a robust and regulated environment, the former Deputy Governor underlined the importance of coordination and cooperation among non-banks and financial institutions. He expressed confidence in embedded finance's capacity to broaden the spectrum of financial services and suit clients' increasing needs.

Shri Gandhi also underlined the importance of addressing the one-sided character of banking services, in which clients confront limited negotiating leverage and rising expenses. "Market reactions have resulted in the emergence of non-banking entities challenging traditional financial institutions' dominance. Non-banks have effectively entered different industries, such as automobiles and ATMs, carving out their own niche alongside regular banks. These non-banking businesses have used technology to disrupt the financial sector and provide specialist services that supplement bank offerings", said Shri R. Gandhi.

While appreciating fintech start-ups' tremendous potential, **Shri R. Gandhi** emphasised that a complete disintermediation of banks is not feasible due to their extensive product portfolios and complex services. The significance of collaboration between fintech firms and traditional financial institutions in order to capitalise on their respective capabilities."

In terms of legislation, Shri R. Gandhi highlighted India's regulatory strategy, which prioritises extensive control of all financial services companies. He also stressed the need of risk management in the financial sector, as well as the need for rules to protect customers' interests and preserve the financial system's stability.

Shri S Ramann, CMD of Small Industries Development Bank of India (SIDBI), highlighted various critical aspects in his address regarding India's development beginning April 19, 2021. He remarked that there is a need for technology-driven disruption in the financial sector, particularly in delivering credit at a lower cost. The gap that still persists in access to bank loans, with the majority of the population dependent on microfinance organisations (MFIs) and money lenders. The significance of neo banking, claiming that it fills the void left by traditional banks in providing loans to individuals and small enterprises in remote places."

Shri Ramann highlighted the importance of incorporating microinsurance into loans to manage situations that can divert funds away from their intended purposes. He also explained the potential of technology, in expediting loan processing and risk assessment by using the GST data and digital scoring, The development of a solid infrastructure to assist the unserved segment, with the goal of bringing a significant number of companies onto the ODM registration platform."

Shri Ramann acknowledged the progress made in digitising the lending process but emphasised the need for continued collaboration and sharing of ideas to solve challenges and propel the country's development.

TOP BANKING NEWS

- **RBI, Sebi refuse to budge as ESMA deadline passes**

India's financial sector regulators led by the Reserve Bank of India (RBI) are learnt to have refused to give the European Securities and Market Authority (ESMA) supervisory powers over Indian clearing corporations (CCs) servicing European banks, even as the April 30 deadline set by the European market regulator passed.

"The question of yielding to a foreign regulator doesn't arise," a senior Indian policymaker, who did not wish to be identified, told FE.

Besides RBI, the Securities and Exchange Board of India (Sebi) and the International Financial Services Centres Authority (IFSCA) also supervise some CCs in India.

ESMA had asked the Indian regulators to sign an agreement giving it the power to monitor and supervise six Indian CCs, which the European Union (EU) market regulator recognised as Third Country Central Counterparty (TC-CCP) in European Union.

Under the European Market Infrastructure Regulation (EMIR), a CCP not established in the European Union may provide clearing services to clearing members or trading venues established in the European Union only if it is recognised by ESMA.

After the global financial crisis in 2008, EMIR was implemented in 2012 to enhance transparency and mitigate risks in the derivatives market.

Source: https://www.financialexpress.com/industry/banking-finance/rbi-sebi-refuse-to-budge-as-esma-deadline-passes/3070659/

- **RBI's balance sheet grows 2.5% to Rs 63.45 lakh crore in FY23**

The balance sheet of the RBI plays a critical role in the functioning of the country's economy, largely reflecting the activities carried out in pursuance of its currency issue function as well as monetary policy and reserve management objectives. The size of the Reserve Bank's balance sheet increased by 2.5 per cent for the year ended on March 31 to about Rs 63.45 lakh crore on higher income, as per the central bank's annual report released on Tuesday.

The balance sheet of the RBI plays a critical role in the functioning of the country's economy, largely reflecting the activities carried out in pursuance of its currency issue function as well as monetary policy and reserve management objectives.

"The size of the balance sheet increased by Rs 1,54,453.97 crore, i.e., 2.50 per cent from Rs 61,90,302.27 crore as on March 31, 2022 to Rs 63,44,756.24 crore as on March 31, 2023," the report said.

While income for the year increased by 47.06 per cent, the expenditure increased by 14.05 percent.

The year ended with an overall surplus of Rs 87,416.22 crore as against Rs 30,307.45 crore in the previous year, resulting in an increase of 188.43 per cent.

The RBI transfers the surplus as dividend to the central government.

"The increase on the asset side was due to rise in foreign investments, gold, and loans and advances by 2.31 per cent, 15.30 per cent and 38.33 per cent, respectively," the RBI said.

On the liability side, the expansion was due to increase in notes issued, revaluation accounts and other liabilities by 7.81 per cent, 20.50 per cent and 79.07 per cent, respectively.

RBI further said domestic assets constituted 27.69 per cent while the foreign currency assets and gold (including gold deposit and gold held in India) constituted 72.31 per cent of total assets as on March 31, 2023 as against 28.22 per cent and 71.78 per cent, respectively, as on March 31, 2022.

A provision of about Rs 1.31 lakh crore was made and transferred to Contingency Fund (CF). No provision was made towards Asset Development Fund (ADF).

The central bank spent Rs 4,682.80 crore on printing of currency notes during 2022-23, marginally lower than Rs 4,984.80 crore in the preceding year.

As on March 31, 2023, total gold held by the Reserve Bank was 794.63 metric tonnes as compared to 760.42 metric tonnes as on March 31, 2022.

The increase, the RBI said, is on account of addition of 34.21 metric tonnes of gold during the year.

The value of gold (including gold deposit) held as asset of Banking Department increased by 17.20 per cent from Rs 1,96,864.38 crore as on March 31, 2022 to Rs 2,30,733.95 crore as on March 31, 2023, the RBI said.

Source: https://indianexpress.com/article/business/banking-and-finance/rbi-annual-report-balance-sheet-grows-fy23-8636753/

- **Withdrawal of Rs 2,000 notes part of currency management, impact to be 'marginal'**

Pointing out that there is enough supply of lower-denomination notes for exchange purposes even after the withdrawal of Rs 2,000 notes, Shaktikanta Das underlined that there is no reason to rush to banks.

Stating that the withdrawal of Rs 2,000 denomination banknotes is part of currency management, Reserve Bank of India (RBI) Governor Shaktikanta Das said they expect most of the notes to return to the banking system. Das said the withdrawal will have a "marginal impact" on the economy.

The RBI governor added that there is enough supply of lower-denomination notes for exchange purposes even after the withdrawal of Rs 2,000 notes. "We have more than adequate quantity of notes available, already printed, in the system. Not just with the RBI but also with currency chests with the banks," he said.

When asked if the Rs 1,000 note will be re-introduced, he said there is no such proposal as of now. He underlined that the Rs 2,000 note will continue to be legal tender and with people having a four-month window to deposit the notes, there is no reason to rush to banks immediately.

Das pointed out that the September 30 deadline has been announced so that people take it seriously. "If we keep it open-ended, it may not be taken seriously… This is part of RBI's currency management operations."

The RBI on Friday announced the withdrawal of Rs 2,000 banknotes, with a September 30 deadline for people to deposit and exchange these notes.

The RBI governor said existing rules for cash-to-cash exchange transactions or cash deposits will continue to remain as it is. "These 2,000 notes were primarily issued to quickly replenish the system (after demonetisation), that purpose has been met," he said.

"RBI will be sensitive to the requirements and adequacies of people, there may be people outside India who may require time to exchange, we will look into all the issues and resolve them," Das added. On the security features of the notes, the governor said none of them has been breached in the "new Mahatma Gandhi series notes".

Source: https://indianexpress.com/article/business/banking-and-finance/rbi-decision-withdraw-rs-2000-notes-part-of-currency-management-operations-8622297/

- **RBI approves Rs 87,416 crore dividend payout to Centre for FY23**

The Reserve Bank on Friday approved Rs 87,416 crore dividend payout to the central government for 2022-23, nearly triple of what it paid in the previous year. The Reserve Bank on Friday approved Rs 87,416 crore dividend payout to the central government for 2022-23, nearly triple of what it paid in the previous year. The dividend payout was Rs 30,307 crore for accounting year 2021-22. The decision was taken at the 602nd meeting of the Central Board of Directors of

Reserve Bank of India held under the chairmanship of Governor Shaktikanta Das "The board approved the transfer of Rs 87,416 crore as surplus to the central government for accounting year 2022-23, while deciding to keep the Contingency Risk Buffer at 6 per cent," RBI said in a statement. The board also reviewed the global and domestic economic situation and associated challenges, including the impact of current global geopolitical developmentsThe board also discussed the working of RBI during 2022-23 and approved the annual report and accounts of the central bank for the year.

Source: https://indianexpress.com/article/business/banking-and-finance/rbi-dividend-payout-india-government-fy23-8618501/

- **Double-digit rise in top banks' loans**

Large banks, including State Bank of India (SBI), HDFC Bank, ICICI Bank, Bank of Baroda, and Punjab National Bank (PNB), have posted 13-19% year-on-year (y-o-y) rise in their advances during Q4FY23, boosting their net interest income (NII) and bottom-line growth, data compiled by FE showed.

While SBI's advances rose 16% y-o-y to Rs 32.69 trillion as of March-end, HDFC Bank's grew 17% to Rs 16 trillion. PNB's total advances grew 13% y-o-y to Rs 8.84 trillion. ICICI Bank and Bank of Baroda, meanwhile, posted 19% y-o-y growth in advances each during Q4, at Rs 10.19 trillion and Rs 9.69 trillion, respectively.

The growth in SBI's loan book was primarily led by retail personal loans, which grew 17.6% y-o-y to Rs 11.79 trillion, while corporate loans grew 12.5% y-o-y to Rs 9.79 trillion. Retail advances boosted HDFC Bank's loan growth as well, increasing from Rs 5.31 trillion in Q4FY22 to Rs 6.34 trillion in Q4FY23. Personal, auto, and home loans formed the largest part of the bank's retail advances.

"Credit growth has continued... in double digits and has been broad-based across sectors in FY23. During FY23, all scheduled commercial banks' credit grew 19% y-o-y, as against 9.6% y-o-y in FY22," said SBI chairman Dinesh Khara in a post-Q4 earnings call on Thursday. "In the Budget for FY24, several steps have been taken to push up capital investment in the country, which will eventually boost the credit demand. We expect credit demand to continue in FY24, although some moderation may happen here and there," he added.

During FY24, SBI is aiming for an on-year loan growth between 12-14%, Khara said, adding that the growth in advances will be backed by retail loans, small and medium enterprises (SME), and the expectation of more traction in the large corporate segment, and renewable energy and allied sectors. "When it comes to corporates, about Rs 1.75 trillion worth of proposals are in the pipeline. Also, when we look at the proposals which we have already sanctioned and are awaiting disbursements, even that amount is Rs 7 trillion to Rs 8 trillion. So all said and done, about Rs 10.5 trillion worth of proposals are either in the pipeline or they have already been sanctioned," Khara said.

Sanjay Agarwal, senior director at CareEdge Ratings, shared similar views, saying higher credit growth in FY23 was partially due to pent-up demand after the pandemic. "The biggest trend is that credit cost is pretty robust in the banking system and expected to remain lower in FY24, and credit quality is robust," he said.

Source: https://www.financialexpress.com/industry/banking-finance/double-digit-rise-in-top-banks-loans/3096393/

- **Federal Bank eyes up to $486 million fundraising-**

Federal Bank Ltd plans to raise as much as 40 billion rupees ($486 million) in the next few months to support its expansion.

The fundraising could be via debt or equity, or a combination of the two, with the final structure still under consideration, the bank's Chief Executive Officer Shyam Srinivasan said in an interview. The capital will fund growth as Federal Bank pushes further into retail banking with plans to open about 100 branches this year, and seeks to buy a microfinance company, he added.

The bank expects to grow its balance sheet by 18% to 20% this year, consistent with gains in previous years, Srinivasan said, adding he intends to focus on unsecured retail and commercial loans. The planned fundraising, which has gotten approval from shareholders, may be at one go or in several tranches, he said.

In India, where deposit growth has lagged the surge in credit demand, banks have been competing fiercely for this cheaper source of funding by raising rates and rolling out more products. Federal Bank has tapped the Indian diaspora, especially from the Middle East, and its relationships with fintech partners to increase its depositor growth, according to Srinivasan.

Fintech Growth

About a fifth of $90 billion of remittances from Indians who live and work overseas were routed through the bank last year, with 10% of that amount remaining at the lender as deposits, Srinivasan said. Kerala-based Federal Bank wants to expand its services to include wealth management, he added.

Its fintech partners has also accelerated growth. "Our branches bring in 4,000 accounts daily while our fintech partnerships bring in 12,000 to 13,000 customers a day," Srinivasan said.

Source: https://www.financialexpress.com/industry/banking-finance/federal-bank-eyes-up-to-486-million-fundraising/3095246/

- **UPI Lite needs more push from banks**

These are early days for UPI Lite – the platform launched by the Reserve Bank of India (RBI) in September to enable real-time, low-value transactions up to Rs 200.

While most transactions that happen in India come under its purview and it is beneficial to both banks and customers, the expansion of its user base has been gradual.

A circular released by the National Payments Corporation of India (NPCI) showed that around 75% of the total volume of retail transactions in India are below Rs 100 in terms of value while around 40-50% of overall UPI transactions are below Rs 200.

Currently, UPI Lite comprises a mere 2-3% of total UPI transactions. UPI transactions rose 43% year-on-year (y-o-y) to a record Rs 14.1 trillion in value terms during April.

IndusInd Bank consumer banking and marketing head Soumitra Sen believes that banks, payment service providers and the NPCI will have to drive its adoption through widespread customer and merchant awareness campaigns.

Initially, eight banks adopted the UPI Lite feature. These were Canara Bank, HDFC Bank, Indian Bank, Kotak Mahindra Bank, Punjab National Bank, State Bank of India, Union Bank of India and Utkarsh Small Finance Bank.

Since then, Axis Bank, Paytm Payments Bank, and Central Bank of India have also adopted UPI Lite at a time when the core infrastructure of several lenders has been burdened by a steady flow of digital transactions.

In May, PhonePe, one of the popular digital payments platforms, incorporated the UPI Lite feature in its platform. The new feature allows users to make small-value transactions without entering a personal identification number (PIN).

"UPI Lite, by design, is for low-value transactions that require customers to deposit up to a total limit of Rs 2,000 in their on-device wallet, which requires additional steps for setup. But we expect customer awareness to improve with time," says Deepak Sharma, chief digital officer at Kotak Mahindra Bank.

Through UPI Lite, users can make and receive payments in near offline mode. Here, payments can be made in offline mode, whereas credits into the account will be received online.

The upper limit of UPI Lite payment is Rs 200 and users need not enter their personal identification number for these transactions. The total limit of UPI Lite balance for an on-device wallet is Rs 2,000.

"In case of UPI Lite, transactions hit the wallet and do not come into core systems. Because of this, the transaction is much faster and banks see a lesser load on their system," says Sanjeev Moghe, president and head of cards and payments services, Axis Bank.

"The benefits of UPI Lite for customers are that transactions are much faster and the success rate is higher. It remains to be seen how many take to it." Also, UPI Lite transactions do not appear in the bank statement of customers, hence it prevents their bank statements from overcrowding, say experts.

"Since September 2022, we have seen almost <0.5% of digital transactions via UPI Lite, which has reduced the load of core banking," says Sharma.

The NPCI is expected to enable UPI Lite transactions in complete offline mode. Utkarsh Small Finance Bank managing director and chief executive officer believes that UPI Lite will see traction from senior citizens and non-digitally savvy customers due to the security and near-offline payment feature it offers.

Additionally, UPI Lite may also present an opportunity for banks to boost their revenue.

Source: https://www.financialexpress.com/industry/banking-finance/upi-lite-needs-more-push-from-banks/3105081/

- **HDFC Bank merger in 4-5 weeks; bank's margin to drop, say analysts**

The HDFC-HDFC Bank Ltd merger is just 4-5 weeks away and would result in lower net interest margin (NIM) for the lender this year, brokerages said on Thursday, a day after the management met analysts. The bank expects NIM – a key profitability measure – to fall to 3.7%-3.8% in 2023-24 from 4.1% a year ago due to the merger, Nomura analysts wrote in a report.

However, lower credit costs and operating leverage will largely offset the impact, Nomura said, citing the management, which was represented by HDFC Bank CEO Sashidhar Jagdishan. The Reserve Bank of India had in April given selective regulatory relief to HDFC Bank to smooth out the merger.

HDFC Bank's management told analysts that the bank expects to maintain post-merger return on assets of 1.9% to 2.1% for 2023-24, as compared with 2.1% in the last financial year, as per a Macquarie note. Post the merger, deposit mobilisation will continue to be a key area of focus for the bank.

At the meet, the management reiterated its plans to add over 1,500 branches every year for the next 4-5 years, as per analyst reports. A significant chunk of these will be in rural and semi-urban areas. The bank remains confident about growing its deposits at 1.5-2x of industry growth going forward, while credit growth is seen close to the 5-year average of 19.5%, the management told analysts.

HDFC Bank is expecting corporate banking to compound at a steady pace, the management said, according to a Jefferies report. The bank is looking at this space as an opportunity to leverage corporate relationships for deposits, transaction banking, among others, it said.

Source: https://www.financialexpress.com/industry/banking-finance/hdfc-bank-merger-in-4-5-weeks-banks-margin-to-drop-say-analysts/3101610/

- **Kiwi: Revolutionising credit with UPI and RuPay cards**

In a bustling fintech landscape, a newly launched startup named Kiwi is making waves by transforming how credit cards are issued and utilised.

With its innovative utilisation of 'Credit on UPI', a new feature introduced by the National Payments Corporation of India (NPCI), Kiwi aims to provide Indians with seamless access to credit using the famed UPI ecosystem.

By partnering with banks to issue RuPay Cards, Kiwi has become one of the first apps to offer customers the opportunity to experience 'Credit on UPI', and it has set an ambitious goal to become the leading issuer of RuPay credit cards by 2026.

Co-founded by esteemed fintech experts and banking industry veterans Siddharth Mehta, Mohit Bedi, and Anup Agrawal, Kiwi is tailored to cater to India's urban millennials, specifically those aged 25 to 45 who either already possess credit cards or are eligible for them. With a vision to enable transaction credit access for 100 million users, the company is poised to tap into a vast market. India's burgeoning Buy Now Pay Later (BNPL) market, estimated to be worth $3-3.5 billion today, has the potential to grow to an astounding $45-50 billion by 2026, according to consultancy firm RedSeer. Furthermore, the number of BNPL users in India could soar to 80-100 million by 2026 from the current estimate of 10-15 million

Mohit Bedi, co-founder of Kiwi, said that it is exclusively banking on virtual credit cards as the only issuance mode to grow its user base quickly, rather than depending on plastic cards.

"Banks usually take 7 to 10 days to perform underwriting to final KYC to issue a credit card. We want to change this issuance timeline and bring it down to mere minutes. Kiwi will use video KYC to complete the document verification and use Aadhaar biometric to authenticate users. With Kiwi, we aim to issue virtual credit cards in 30 minutes automatically linked to the app to make payments to merchants," added Bedi.

Source: https://www.financialexpress.com/industry/banking-finance/kiwi-revolutionising-credit-with-upi-and-rupay-cards/3099407/

SELECT RBI CIRCULARS MAY 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2023-2024/33 DCM(Plg) No.S-239/ 10.27.00/2023-24	22.5.2023	Department of Currency Management	₹2000 Denomination Banknotes – Withdrawal from Circulation; Will continue as Legal Tender	The Chairman / Managing Director/ Chief Executive Officer All Banks
RBI/2023-2024/32 DCM(Plg) No.S-236/ 10.27.00/2023-24	19.5.2023	Department of Currency Management	₹2000 Denomination Banknotes – Withdrawal from Circulation; Will continue as Legal Tender	The Chairman / Managing Director/ Chief Executive Officer All Banks
RBI/2023-2024/31 DOR.CAP.REC.15/ 21.06.201/2023-24	12.5.2023	Department of Regulation	Master Circular – Basel III Capital Regulations	All Scheduled Commercial Banks (Excluding Small Finance Banks, Payments Banks and Regional Rural Banks)
RBI/2023-2024/30 CO.FMRD.DIRD.01/ 14.02.001/2023-24	12.5.2023	Financial Markets Regulation Department	LIBOR Transition	The Chief Executive Officer/ Chairman/ Managing Director, All Commercial and Co-operative Banks / All India Financial Institutions / Non-Banking Financial Companies including Housing Finance Companies and Standalone Primary Dealers
RBI/2023-2024/29 A.P. (DIR Series) Circular No. 04	09.5.2023	Foreign Exchange Department	Levy of charges on forex prepaid cards/store value cards/travel cards, etc.	All Authorised Persons
RBI/2023-2024/28 FIDD.CO.LBS.BC.No.8/ 02.08.001/2023-24	09.5.2023	Financial Inclusion and Development Department	Formation of new district in the State of Arunachal Pradesh – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned

RBI/2023-2024/27 FIDD.MSME & NFS.BC.No. 09/ 06.02.31/2023-24	09.5.2023	Financial Inclusion and Development Department	Formalisation of Informal Micro Enterprises on Udyam Assist Platform	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
RBI/2023-2024/26 DOR.STR.REC.14/ 21.04.048/2023-24	08.5.2023	Department of Regulation	Master Circular - Income Recognition, Asset Classification, Provisioning and Other Related Matters - UCBs	The Chief Executive Officers All Primary (Urban) Co-operative Banks
RBI/2023-2024/25 DOR.AML.REC.13/ 14.01.001/2023-24	04.5.2023	Department of Regulation	Amendment to the Master Direction (MD) on KYC – Instructions on Wire Transfer	The Chairpersons/ CEOs of all the Regulated Entities

STATISTICAL SUPPLEMENT – RBI

Date : May 26, 2023					
Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
(' Crore)					
Item	**2022**	**2023**		**Variation**	
	May 20	**May 12**	**May 19**	**Week**	**Year**
	1	**2**	**3**	**4**	**5**
4 Loans and Advances					
4.1 Central Government	0	0	0	0	0
4.2 State Governments	8504	12451	12194	-257	3690

** Data are provisional*

2. Foreign Exchange Reserves*								
Item	**As on May 19, 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	4905462	593477	-20659	-6052	151198	15027	267395	-4033
1.1 Foreign Currency Assets #	4338981	524945	-12549	-4654	149849	15253	198703	-8434
1.2 Gold	373000	45127	-7870	-1227	1500	-74	56115	4304
1.3 SDRs	151059	18276	-230	-137	-105	-116	8961	-30
1.4 Reserve Position in the IMF	42422	5130	-9	-35	-47	-36	3616	128

** 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 May 5, 2023	Variation over				
		Fortnight	Financial year so far		Year-on-year	
			2022-23	2023-24	2022	2023
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	18435082	123278	230548	391168	1478893	1739221
2.1a Growth (per cent)		0.7	1.4	2.2	9.7	10.4
2.1.1 Demand	2177922	39566	-55252	-2509	297705	160427
2.1.2 Time	16257160	83712	285800	393677	1181188	1578794
2.2 Borrowings	480874	22358	9132	35545	44838	197148
2.3 Other Demand and Time Liabilities	829901	89018	-8433	40250	54337	197486
7 Bank Credit*	13904993	45598	149405	229757	1274646	1864273
7.1a Growth (per cent)		0.3	1.3	1.7	11.8	15.5
7a.1 Food Credit	33185	11893	477	13279	-29607	-22302
7a.2 Non-food credit	13871808	33706	148928	216478	1304253	1886576

**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).*

4. Money Stock: Components and Sources

(‘ Crore)

Item	Outstanding as on		Variation over									
	2023	Fortnight	Financial Year so far		Year-on-Year				Year-on-Year			
					2022-23		2023-24		2022		2023	
	Mar. 24	May 5	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	22333227	22822674	139421	0.6	317737	1.6	489447	2.2	1771398	9.3	2011208	9.7
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3278334	3366188	19642	0.6	86481	2.8	87854	2.7	283986	10.0	244017	7.8
1.2 Demand Deposits with Banks	2320598	2317904	36800	1.6	-54480	-2.5	-2694	–0.1	303390	16.4	159392	7.4
1.3 Time Deposits with Banks	16668966	17070367	83071	0.5	288208	1.9	401402	2.4	1176945	8.2	1595555	10.3
1.4 ‘Other’ Deposits with Reserve Bank	65330	68215	-93	-0.1	-2472	-4.2	2885	4.4	7076	14.5	12244	21.9
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	6916058	7228346	62800	0.9	-76758	-1.2	312288	4.5	389495	6.5	827475	12.9
2.1.1 Reserve Bank	1201651	1404199	-15901		-180321		202548		116874		133923	
2.1.2 Other Banks	5714407	5824148	78700	1.4	103563	2.1	109741	1.9	272621	5.6	693552	13.5
2.2 Bank Credit to Commercial Sector	14423483	14660777	49248	0.3	146851	1.2	237293	1.6	1278935	11.1	1897405	14.9
2.2.1 Reserve Bank	20396	22198	406		-8796		1802		1798		14423	
2.2.2 Other Banks	14403087	14638579	48842	0.3	155647	1.2	235492	1.6	1277137	11.1	1882982	14.8

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	9	10
May 15, 2023	–	–	–	–	17221	71206	–	–	–	-53985
May 16, 2023	–	–	–	–	18172	81446	–	–	–	-63274
May 17, 2023	–	–	–	–	930	90564	–	–	–	-89634
May 18, 2023	–	–	–	–	906	96262	7	–	–	-95349
May 19, 2023	–	–	46790	–	3326	115515	–322	–	–	-65721
May 20, 2023	–	–	–	–	112	40496	–	–	–	-40384
May 21, 2023	–	–	–	–	49	3627	–	–	–	-3578

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

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **NBFC-MFI Fusion Micro Finance sees 17x growth in FY23 PAT; GNPAs improve to 3.46%**

Credit and finance for MSMEs: Non-banking financial company Fusion Micro Finance, which lends micro credit to women entrepreneurs in rural and semi-urban areas, has reported over 17x year-on-year (YoY) growth in its profit after tax (PAT) for the financial year 2022-23. The net profit jumped from Rs 21.7 crore in FY22 to Rs 387.1 crore in FY23 – the highest since the company's inception in 2010 — with loan disbursements growing 39 per cent YoY from Rs 6179.7 crore to Rs 8,596.1 crore during the said period.

As per its audited financial results for FY23, the company's assets under management (AUM) grew 37 per cent from Rs 6,785.9 crore in FY22 to Rs 9,296.2 crore in FY23. Fusion Micro Finance said its borrower base also increased by 29.7 per cent to 35.3 lakh across 1086 branches in FY23 from 27.2 lakh across 934 branches in FY22.

The total income for the company stood at Rs 1,799.9 crore in FY23, up 49 per cent from Rs 1,201.3 crore in FY22 while its cost-to-income ratio also bettered to 38.44 per cent in FY23 from 44.27 per cent in FY22. The ratio shows a company's costs as a proportion of its income and hence helps ascertain how efficiently an organisation is operating.

"FY23 has been a milestone year for the company as we successfully got listed and have demonstrated strong performance consistently across all operational and financial metrics, said Devesh Sachdev, Managing Director and CEO, Fusion Micro Finance.

"We have achieved these results due to our focused strategy of geographical diversification, building an extensive network, investing in human capital, technology, sound risk management and building for the future."

In terms of asset quality, the company's gross NPA ratio of the total advances improved to 3.46 per cent in FY23 from 5.71 per cent in FY22 while the net NPA ratio also improved to 0.87 per cent from 1.64 per cent. Net NPA is essentially the amount left after deducting the doubtful and unpaid debts called provisions from the gross NPA of a company.

Source: https://www.financialexpress.com/industry/sme/msme-fin-nbfc-mfi-fusion-micro-finance-sees-17x-growth-in-fy23-pat-gnpas-improve-to-3-46/3098565/

- **MSME lender NeoGrowth's AUM grows to over Rs 1,800 crore in FY23; loans disbursed up 30% by value**

Digital lending non-banking financial company focused on MSMEs NeoGrowth has reported growth in its assets under management (AUM) to Rs 1,850 crore for the financial year 2022-23 from Rs 1,550 crore in FY22. In terms of disbursements, the company disbursed loans amounting to nearly Rs 1,900 crore in FY23, up by 30 per cent from the previous fiscal. Around 30 per cent of the loans were towards supply chain finance designed for vendors, manufacturers, suppliers or service providers who serve large corporates and around 70 per cent were into retail finance for customer-facing businesses.

Moreover, the company's total income grew from Rs 360 crore in FY22 to Rs 380 crore in FY23. The net margin also grew by 7-8 per cent.

"In H1 of FY23, there was no (AUM) growth as we were in the process of optimising our portfolio amid a lingering impact of Covid and also we were in between a fundraising process but in the second half of the financial year, we grew by 40 per cent. Quarter on quarter, we grew by 12 per cent," Arun Nayyar, Managing Director & CEO, NeoGrowth told FE Aspire.

The portfolio, said Nayyar, also improved towards the end of FY23. The company's gross non-performing assets (GNPAs) ratio improved from around 12 per cent at the financial year's beginning to 4 per cent by the end of the year while its net NPA ratio was 2.2 per cent.

"The overall asset quality has completely changed as Covid impact has waned. We are comfortable with that (NPA) number as we are serving SMEs with collateral-free loans. If we lend at a lesser risk cost, we would exclude a large population of SMEs we want to serve. Our overall income is around 25 per cent on the business we do, so we have risk absorption capacity," said Nayyar.

NeoGrowth's repeat customers or renewals had a 45 per cent share of its business. The company expects 40 per cent AUM growth in FY24 along with adding around 10,000 new customers. It has so far served over 1.5 lakh MSMEs. Moreover, it also expects to enter into the co-lending model in the second half of the current financial year.

The company has so far raised $188.9 million as per Crunchbase data from Omidyar Network, Lightrock, Khosla Impact, Accion Frontier Inclusion Fund – Quona Capital, IIFL Seed Ventures Fund, WestBridge, FMO, etc.

Source: https://www.financialexpress.com/industry/sme/msme-fin-msme-lender-neogrowths-aum-grows-to-over-rs-1800-crore-in-fy23-loans-disbursed-up-30-by-value/3097201/

- **More digital lenders may seek NBFC tag as Google tightens Play Store norms**

More digital lenders are expected to land up on the Reserve Bank of India's doorstep to ask for an NBFC registration certificate as the Google's policies for hosting lending applications on its Play Store will tighten further, say experts.

In April, Google updated its personal loans policy that said access to the smartphone's storage, contacts, location history, phone numbers, photographs or videos will now be restricted to the applications that offer personal loans. The new policy will take effect from May 31.

"Google Play Store's tightening of rules for digital lending applications will push more lending service providers to apply for an NBFC licence. This will increase compliance costs for these digital lenders," said Nageen Kommu, founder and chief executive officer, Digitap.AI.

"We may also see a trend where the larger fintechs look to acquire NBFCs," he added.

Additionally, the applications need to clearly disclose important information about their loans, including minimum and maximum periods of repayment, interest rates and other charges.

Earlier, Google had revised its Play Store development programme policy for financial services applications, wherein applications are required to complete a declaration form confirming that they are licensed by the Reserve Bank of India (RBI) to provide personal loans and submit a copy of the licence. Alternatively, these applications must confirm that they only provide a platform to facilitate money lending by licensed lenders.

Recently, Google has disclosed that it has removed more than 3,500 personal loan applications in 2022 from the Play Store for flouting norms.

Source: https://www.financialexpress.com/money/more-digital-lenders-may-seek-nbfc-tag-as-google-tightens-play-store-norms/3070658/

- **Account aggregator transactions soar as lenders disburse Rs 6K cr**

The account aggregators (AA) ecosystem is seeing increased adoption from various financial services players, and lenders including banks and non-banking finance companies (NBFCs) have disbursed Rs 6,000 crore of loans through AA-based underwriting, according to a report published on May 25 by Kotak Institutional Equities.

"Industry participants have started realising benefits of the framework (AA) with implementation of use cases across several retail product segments and remain optimistic about it gaining further traction over the next few years," the report said.

Some banks and NBFCs have implemented AA-based processes for several retail product segments and are positive about the mechanism as it leads to a better customer experience and faster turnaround time for loans, reduction in drop-off rates, lower instances of frauds, lower costs and more comprehensive borrower data for underwriting loans, the report said

"Our business loan journey has seen an improvement across the board – the process has become much more convenient for our customers. Today close to 15%-20% of our customers are using this flow," said Mehekka Oberoi, strategy lead, CEO's office at IIFL.

Account Aggregator is a type of RBI-regulated entity that helps individuals securely and digitally access and share information from one financial institution they have an account with, to any other regulated financial institution in the AA network. User data cannot be shared without the consent of the individual. AA is different from Aadhar EKYCs and credit bureaus like CIBIL as the AA network allows sharing of transaction data or bank statements from savings deposits and current accounts.

Source: https://www.financialexpress.com/industry/banking-finance/account-aggregator-transactions-soar-as-lenders-disburse-rs-6k-cr/3102244/

- **RBI's pause on rate hike to reduce pressure on NIMs of NBFCs, says industry experts**

The recent pause by the Reserve Bank of India (RBI) on rate hike is expected to reduce pressure on the net interest margins of the non-banking finance companies (NBFC) going ahead, says experts. This is because, as per experts, the cost of funds is unlikely to increase till the next policy, so NBFCs will get some relief. Hence, pressure on NIMs is easing with a pause.

NBFC have been under pressure in the last few months and its strain was felt on the net interest margins due to rising borrowing cost after the RBI's move to hike the repo rate to fight against inflation.

Net interest margins (NIM) is the difference between the interest income generated by NBFCs and the amount of interest paid out to their lenders.

The RBI hiked 250 basis points since May to fight against the high inflation, which was hovering over upper tolerance band of the central bank in most months of 2022. "The RBI's stance in April MPC meeting to pause the rate hike has come as a sigh of relief to the NBFCs to reduce pressure on NIMs, otherwise they would have been required to revisit their stance on rate hikes with competition and demand being key sensitivities," said Rohan Juneja - Managing Director & CEO - TruCap Finance Limited.

"The pause may mean an extended pause which will ease off some pressure on the cost of funds," said Ravi Subramanian, MD & CEO, Shriram Housing Finance.

Source: https://www.moneycontrol.com/news/business/rbis-pause-on-rate-hike-to-reduce-pressure-on-nims-of-nbfcs-says-industry-experts-10396791.html

- **NBFCs' assets under management expected to grow by 13-14% in FY23-24: CRISIL Ratings**

The assets under management (AUM) of non-banking finance companies (NBFCs) are expected to grow by 13-14% in the financial year 2023-2024 to reach Rs 34 lakh crore, according to a release by CRISIL Ratings.

The anticipated growth comes after a period of single-digit growth over the last three fiscal years until March 2022.

In a report, the ratings agency stated that the increase in AUM is likely to be fueled by multiple tailwinds, including an improvement in economic activity, stronger balance sheet buffers, and receding asset quality concerns.

As of March 2020, the AUM of NBFCs was Rs. 24.6 lakh crore, which increased to Rs. 25.1 lakh crore in March 2021 and approximately Rs. 27 lakh crore in March 2022, as per the CRISIL report.

The ratings agency added that the growth is expected to be relatively broad-based across the retail segments.

Further, there will be risks to be watch out for such as intense competition from banks, especially in the traditional retail segments, such as home loans and new vehicle finance.

While, the increase in borrowing cost for NBFCs due to rate hike by the central bank limited the competitiveness in some asset classes.

For home loans, the biggest segment comprising 40-45 percent of the NBFC AUM, structural factors driving end-user housing demand are intact despite the rising real estate prices and interest rates, ratings agency said.

"That should drive 13-15 percent growth in the AUM for this segment in fiscal 2024," CRISIL said.

Further, due to competition from the banks due to rising interest rate scenario, housing finance companies may keep losing market share, especially in the urban and the formal salaried segments.

These companies are expected to increase their foothold in the affordable housing space non-urban housing finance segments to enhance volumes.

Source: https://www.moneycontrol.com/news/business/nbfcs-assets-under-management-expected-to-grow-by-13-14-in-fy23-24-crisil-ratings-10360431.html

TOP INSURANCE NEWS

- **The premiums paid towards a term insurance:**

  Policy are eligible for tax deductions under Section 80C of the Income Tax Act. Additionally, the death benefit paid to the beneficiaries is tax-free under Section 10(10D).

  Term insurance provides a two-fold advantage. It is both the most affordable and offers the highest sum insured. As a pure protection policy, it pays out a lump sum to the policyholder's family in the event of their death. Terms plans do not have any investment component such as those found in unit-linked, guaranteed, or traditional plans.

  A notable aspect of term insurance is that it can be up to 30 per cent less expensive for women. This is primarily due to the fact that women generally have a longer life expectancy than men. "Indian females' life expectancy is on average 2.5 per cent higher than their male counterparts. This means the longer a person lives, the better it is for insurance companies as the risk and the probability to make a claim is lower. So, with higher life expectancy, women can get term insurance at a lower premium than men of the same age. On average, term insurance turns out to be 15 per cent cheaper for women than men," says Rhishabh Garg, Head - Term Life Insurance, Policybazaar.com

  The premiums paid towards a term insurance policy are eligible for tax deductions under Section 80C of the Income Tax Act. Additionally, the death benefit paid to the beneficiaries is tax-free under Section 10(10D). "Working women can also maximise tax savings under Section 80C for a deduction of up to Rs 1.5 lakh. In a post-covid world, having term insurance is the best investment women can make to secure the future of their family. Even then, women make up a tiny portion of the total insured people in the country. With the new kinds of term plans available for both working and non-working women, there is no reason why women should not buy term insurance," says Garg.

  Term insurance policies generally have lower premiums compared to other types of life insurance policies. This makes it a cost-effective option for those who want to ensure financial protection for their loved ones. Term plans come with various tenures, ranging from 5 to 30 years or more.

  During the peak of Covid-19 young and old population was getting severely infected, throwing decades-old mortality estimates of life insurers under the bus. This led to a sharp rise in the premium rates of term insurance plans. However, now that we are returning to normal life post-covid, claim ratios of life insurers have stabilised, which means no sharp increase in premium rates are expected this year.

  Source: https://www.businesstoday.in/personal-finance/insurance/story/term-insurance-is-upto-30-cheaper-for-women-here-is-why-380137-2023-05-05

- **Fake insurance policies are on the rise in India; here's how you can be aware**

  It becomes crucial for policy buyers to be more vigilant at the time of making payments when buying insurance policies, especially small ticket size covers such as motor insurance.

  Innocent policy buyers easily fall prey to insurance fraud and only realise it when making a claim. Today, the menace of fake insurance policies is not only subjected to urban or rural areas but across the country. With the increasing digitisation, even insurers feel the heat of fraud and cannot pre-empt fraudulent incidents. Hence it becomes crucial for policy buyers to be more vigilant at the time of making payments when buying insurance policies, especially small ticket size covers such as motor insurance.

Challenges: One of the biggest challenges is dealing with data protection, privacy issues, and information sharing among insurers. Insurers encounter several instances when the policyholder's documents get tampered with. Typically, the miscreants collect higher premiums from policyholders and provide them with a forged policy document. They easily alter policy documents using software and pass them on as original documents.

Vivek Chaturvedi, CMO and Head of Direct Sales at Go Digit General Insurance said, "In a written reply in July 2019, the Ministry of Finance informed Rajya Sabha that fake motor policies to the tune of over Rs 50 crore were issued in FY19. Overall, instances of fraud are often seen more in motor insurance. These frauds are also done in small volumes at multiple places, often making it hard to catch the culprits."

What to do if you get a fake policy: If the policy issued to you is fake, taking legal action might be your only recourse. One can approach the right law enforcement authorities to file a complaint depending on how you got defrauded. You could register a complaint with the cyber cell if you were cheated online or through phone calls. Rakesh Goyal, Director of Probus Insurance Broker, said, "A fake policy has no value, and the policyholder needs to buy a new one from the authorised agent. There will be a monetary loss, as the amount paid cannot be returned, and they must also pay for the new policy. Having said that, policyholders can lodge a complaint with the cyber cell or a police complaint regarding the fraud."

How to be aware: If you are buying a policy through an agent or broker, ask for identification proving they are authorised to sell the insurance policy of a particular insurer, and directly verify their registration and identification details with the insurance company.

You should not make cash payments or transfer monies directly to the agent's account. In case of any suspicion, you can contact the insurer directly to verify the authenticity. "Luring customers through huge discounts could also be a red flag and a sign to conduct a thorough check before making any payment. Many insurers also have a policy genuineness check feature to check the authenticity of the policy," said Chaturvedi.

In the case of motor insurance, a policyholder can also check whether their policy is genuine on the VAHAN portal, the national vehicle registry run by the Ministry of Road Transport and Highways. **However, you must do all checks before making the payment.**

Source: https://www.businesstoday.in/personal-finance/insurance/story/fake-insurance-policies-are-on-the-rise-in-india-heres-how-you-can-be-aware-383246-2023-05-29

- **RBI Annual Report 2022-23: Less than 50% of deposits with banks are insured**

With interest rates as high as 7 per cent, small investors tend to invest their money in fixed deposits, especially when small banks are offering interest rates upto 9 per cent. To protect these small investors The Deposit Insurance and Credit Guarantee Corporation (DICGC), which is fully owned by the Reserve Bank of India (RBI), offers deposit insurance of Rs 5 lakh per depositor for each bank.

Under the scheme, a sum of upto Rs 5 lakh, including the principal and interest amount, is paid to the depositor in the event of the bank being unable to fulfil its commitment due to liquidation or cancellation of the banking licence. However, the question arises if it is sufficient to cover total deposits held by banks. According to the latest RBI annual report 2022-23, as of March 31, 2023, the number of fully protected accounts amounted to 294.5 crore, which accounted for 98.1 per cent of the total number of accounts (300.1 crore). However, in terms of the insured deposit amount, it totalled Rs 83,89,470 crore, representing 46.3 per cent of the assessable deposits amounting to Rs 1,81,14,550 crore.

As per the requirements, an insured bank must submit its claim within 45 days of the imposition of AID (All Inclusive Directions). Following this, the DICGC is responsible for verifying the claims within 30 days and making payments to the depositors within the subsequent 15 days. The DICGC Act does not provide any provision for extending these fixed timelines for either the insured bank or the DICGC.

However, according to the RBI's annual report, there have been instances where certain Urban Cooperative Banks (UCBs) have failed to submit the list of depositors' claims within the statutory timeline of 45 days. This situation poses a constraint for the DICGC as it cannot make payouts to eligible depositors of those banks until the claim list is submitted.

Source: https://www.businesstoday.in/personal-finance/insurance/story/rbi-annual-report-2022-23-less-than-50-of-deposits-with-banks-are-insured-heres-what-it-means-383439-2023-05-30

- **IRDAI proposes amendments in Insurance Act, recommends perpetual licenses for intermediaries:**

It would enable the entry of new players in the form of regional players, small players, captive players, specialised players and even composite licenses. Soon intermediaries or distributors may not have to renew their license or registration after every three years as they can get one-time registration or license from the regulator, the Insurance Regulatory and Development Authority of India (IRDAI).

Debasish Panda, Chairperson, IRDAI at the CII Annual Session 2023, said, "We have sent some proposals to the government for amendments to Insurance Act, and we have recommended that currently the intermediaries or the distributors are required to come and renew their license or the registration after every three years. So we have requested that the change we made is that it is not required to come in every three years. One-time registration or perpetual license, and if somebody does anything miss, then you can always take action by revoking their license. So there is no need. It is an unnecessary compliance burden and takes away a lot of the regulator's time without much value addition." Besides, the chairperson also said that the amendments to Insurance Act would actually enable the entry of new players in the form of micro players. It would enable the entry of new players in the form of regional players, small players, captive players, specialised players and even composite licenses. "By doing this kind of differentiation, we will be able to cater to the different geographies and the different strata of the population."

He also said that if one looks at the banking side, typically, they have differentiated different types of banks so that they are focused on trying to address the needs of that particular geography or population. So if this happens, differential capital requirements will be recommended to new players.

The last recommendation Chairperson made is how insurance companies can offer value-added services along with insurance products. Currently, the statute doesn't permit them to do so. For instance, if the insurer sells a health policy and provides you with a Yoga membership or a health club membership along with the insurance policy, then millennials will get on to buy such policies. "I would believe that the young millennial would be more keen to go for such a product rather than buying a vanilla product like health insurance coverage. Insurers can offer nursing services to the parents of the person living far away from where he/she is working," said Irdai Chairperson Debasish Panda.

The regulator also suggests that the amendments can come on a fee-based model as it may require much capital for insurers to make changes in their products and services. The regulator believes these value-added services will create a lot of interest among millennials to buy insurance products and services.

Source: https://www.businesstoday.in/personal-finance/insurance/story/irdai-proposes-amendments-in-insurance-act-recommends-perpetual-licenses-for-intermediaries-382815-2023-05-25

- **Bima Sugam will bring positive change-more clarity needed as platform develops:**

  It will take time because setting up a marketplace is not a simple process. So, my suggestion would be that Bima Sugam should come in phases probably,' says an expert about the industry's UPI-like moment. The Insurance Regulatory and Development Authority of India (IRDAI) will soon roll out Bima Sugam, an online marketplace for buying and selling of insurance policies, which could be a UPI-like (united payment interface) moment for the industry, IRDAI chairman Debasish Panda said at the CII Annual Session 2023.

  "We are working with insurance councils to create a UPI-like moment for the insurance industry. The conceptual framework is in place. The execution will start soon," he said. Not only enable buying and selling of insurance policies but Bima Sugam will also facilitate in settlement of claims.

  Another expert also raised the question that the difference in pricing may require removal of the Section 41 of the Insurance Act 1938 which prohibits reducing the premium in lieu of remuneration. "On Bima Sugam all the products of all insurers will be available without the addition of any distribution cost, which means the present premium rates are expected to reduce by 20 per cent, which is the present distribution cost. It is also proposed that if any customer wish to avail the services of any distribution channel the additional cost of 1/10 of the current cost say 10 per cent on motor will be added in the premium," said Sudhir Kumar Jain, an insurance professional.

  Raising the viewpoint of the consumer Bejon Kumar Misra founder of Consumer Online Foundation said, "The government wants that, we must have products/ pricing of the large number of insurance providers available in the country similar to Brokers, Agents, Technology Platforms, and Aggregators. We can have a choice and then we can have increased penetration. As you all know, India is very low in rank in insurance density cover and we have to go to the next higher level

  Source: https://www.businesstoday.in/personal-finance/insurance/story/insurance-experts-seek-clarity-from-irdai-on-bima-sugam-as-ownership-pricing-and-intermediary-role-remain-unresolved-383053-2023-05-26

- **IRDAI directs insurers to cover surrogacy expenses under health insurance policy:**

  IRDAI has directed all insurers to comply with the two Acts with immediate effect and ensure that suitable products are made available A health insurance policy will now cover surrogacy expenses for families who due to medical conditions are unable to start a family. This is because the Insurance Regulatory and Development Authority of India (IRDAI) has directed all insurers to comply with the Surrogacy Act, 2012 and ART (Assisted Reproductive Technology) Act, 2021.

  "Surrogacy is a medical option for those families or individuals who due to medical conditions are unable to conceive on their own and are unable to start a family. The circular by IRDAI is a welcome move to provide cover for such families and truly fulfil their dream of having children, especially now with medical advancement in the domain. This inclusive step will provide these individuals access to quality medical care," said Bhaskar Nerurkar, Head – Health Administration Team, Bajaj Allianz General Insurance.

  IRDAI has directed all insurers to comply with the two Acts with immediate effect and ensure that suitable products are made available.

  Section 4 (iii)(a)(III) of Surrogacy (Regulation) Act, 2021 states an insurance coverage of such amount and in such manner as may be prescribed in favour of the surrogate mother for a period of thirty-six months covering postpartum delivery complications from an insurance company or an agent recognised by the IRDAI; (b) the surrogate mother is in possession.

Rule 5 of Surrogacy (Regulation) Rules, 2022 states (1) The intending woman or couple shall purchase a general health insurance coverage in favour of surrogate mother for a period of thirty six months from an insurance company or an agent recognized by the IRDAI for an amount which is sufficient enough to cover all expenses for all complications arising out of pregnancy and also covering post-partum delivery complications.

Section 22(1)(b) of ART Act, 2021 states as under: An insurance coverage of such amount as may be prescribed for a period of twelve months in favour of the oocyte donor by the commissioning couple or woman from an insurance company or an agent recognised by the IRDAI.

Source: https://www.businesstoday.in/personal-finance/insurance/story/irdai-directs-insurers-to-cover-surrogacy-expenses-under-health-insurance-policy-381382-2023-05-15

- **IRDAI Revives Plan For One-Stop Insurance Portal; Launch In Three Months:**

India's insurance regulator has revived its plan for Bima Sugam, a 'one-stop insurance portal', according to two people in the know of the matter. It was decided at a closed-door meeting on Thursday that the portal will be up and running by Aug. 1, according to the first person quoted above. Both spoke on the condition of anonymity as the information in not public yet. The move is in line with the regulator's plans for digital transformation and easing entry for newer players by creating a level-playing field to sell and service insurance policies online. Debasish Panda, chairman of the Insurance Regulatory and Development Authority of India, had said in October 2022 that Bima Sugam will be a one-stop shop for sales, service, and claims. He had called it a potential "gamechanger". Discussions at the meeting held on Thursday included the formation of committees to execute various tasks related to the portal, the appointment of a consultant for the formation of an independent legal unit, entity, or company to house Bima Sugam, the people quoted earlier said. Discussions were also held around products and structures on the portal, and the hiring and appointment of a board of directors for the company and other personnel, they said.

Source: https://www.businesstoday.in/personal-finance/insurance/story/irdai-directs-insurers-to-cover-surrogacy-expenses-under-health-insurance-policy-381382-2023-05-15

TOP CORPORATE BOND MARKET NEWS

- **Sebi mandates additional disclosure requirement for issuers of transition bonds-**

  To facilitate transparency and informed decision-making among the investors, markets regulator Sebi on Friday mandated additional requirements for the issuance and listing of transition bonds. The move is also aimed at ensuring that the funds raised through transition bonds are not being misallocated, the Securities and Exchange Board of India (Sebi) said in a circular.

  Transition bond is one of the sub-categories of 'green debt security'. These bonds are generally used for raising funds for transitioning to a more sustainable form of operations in line with India's intended nationally determined contributions.

  In its circular, Sebi said that an issuer wishing to issue transition bonds will have to make additional disclosures in the offer document for public issues or private placements of such transition bonds.

  To differentiate transition bonds from other categories of green debt security, the issuer of transition bonds will have to use a denotation 'GB-T'. Such denotation would be disclosed in the offer documents on the cover page and in the type of instrument field in the term sheet.

  The transition plan should contain the details of interim targets, along with an indicative timeline for achieving the targets. The interim targets should also reflect the indicative figure regarding how much emissions the issuer is envisaging to reduce.

  Among others, the transition plan should have information about the brief of the project implementation strategy and details regarding the usage of technology for the project implementation and mechanism to oversee the utilisation of the funds raised through transition bonds and the implementation of the transition plan.

  Issuers can also form a committee to oversee the implementation and ensure the timely completion of the defined targets.

  With regards to disclosure in the centralised database for corporate bonds, Sebi said that an issuer will have to disclose the denotation in the centralised database for corporate bonds by filling in the denotation --GB-T. The depositories will update this denotation as a prefix in the "instrument details" field in the centralised database for corporate bonds

  In case of disclosure to stock exchanges, in case of a revision in the transition plan, Sebi said that an issuer of transition bonds, during the year, will have to disclose the revised transition plan along with an explanation for any such revision to the already disclosed plan; if applicable.

  Also, issuers will have to disclose the transition plan along with a brief on the progress of the implementation of the transition plan in the annual report

  Source: https://economictimes.indiatimes.com/markets/bonds/sebi-mandates-additional-disclosure-requirement-for-issuers-of-transition-bonds/articleshow/100017736.cms

- **Nabard, SBI Cards may seek up to Rs 5,800 cr via bond issues-**

  The National Bank for Agricultural and Rural Development (Nabard) is likely to issue three-year bonds worth up to ₹5,000 crore this week. Nabard's bond sale is likely to include a base size of ₹2,000 crore and a greenshoe option of ₹3,000 crore, sources aware of the development said. The maturity of the bonds is likely on August 31, 2026.

  Separately, SBI Cards and Payment Services is likely to conclude sales of five-year bonds worth around ₹800 crore next week. The bonds, rated AAA by CRISIL and ICRA, may bear a rate of interest of 7.85%, sources said.

  On April 21, Nabard issued securities worth ₹4,922 crore maturing in July 2026. The coupon for Nabard bonds was set at 7.56%.

Nabard bonds are often considered as pricing reference points in the corporate debt market.

On Tuesday, the most liquid three-year central government security ended trading at 6.96% yield. Sovereign bond yields are the benchmarks used by other entities to determine borrowing costs.

Source: https://economictimes.indiatimes.com/markets/bonds/nabard-sbi-cards-may-seek-up-to-rs-5800-cr-via-bond-issues/articleshow/100115128.cms

- **HDFC, PFC plan debt raise of up to Rs 6,500 cr-**

Mortgage financier Housing Development Finance Corp is likely to issue 10-year bonds that will include a three-year put option with a base size of ₹3,500 crore in the coming days, sources said.

HDFC's bonds may see the coupon, or the rate of interest paid, being set around 7.65%, sources said.

Meanwhile, the state-run Power Finance Corporation is likely to sell up to ₹3,000 crore worth of three-year bonds on May 18. PFC's bond sale has a base size of ₹500 crore and a greenshoe option worth ₹ 2,500 crore, sources said. The bonds will mature on May 22, 2026.

Separately, PFC's subsidiary REC on Tuesday concluded a sale of ₹2,000 crore worth of bonds maturing in March 2032 at a rate of interest of 7.38%, sources said. REC also sold ₹2,000 crore worth of bonds maturing in March 2030 at a rate of interest of 7.40%.

Fundraising for corporates through the debt capital market route has become cheaper following a sharp decline in government bond yields since early April.

Source: https://economictimes.indiatimes.com/markets/bonds/hdfc-pfc-plan-debt-raise-of-up-to-rs-6500-cr/articleshow/100289181.cms

- **NHB, IRFC plan bond sales to raise up to Rs 4,500 crore-**

National Housing Bank (NHB) and Indian Railway Finance Corporation (IRFC) are likely to tap debt capital markets this week to issue bonds worth a total of up to ₹4,500 crore.

NHB is set to issue three-year non-convertible debentures (NCD) maturing in July 2026 with a base size of ₹500 crore with a green shoe option of ₹1,500 crore, sources aware of the development said. Bidding for the bonds will likely take place on

Meanwhile, IRFC's bond sale, which is likely to happen on the same day, has a base size of ₹500 crore and a green shoe option of ₹2,000 crore. IRFC is likely to issue three-year NCDs maturing in October 2026.

Issuances of bonds by firms have become cheaper over the last month due to a sharp decline in government bond yields, which are the pricing benchmarks for corporate debt.

Short-term bond yields in particular, have witnessed a sharp decline of late, due to improved liquidity conditions in the banking system. A large part of corporate borrowing is in the three-year maturity bracket.

Source: https://economictimes.indiatimes.com/markets/bonds/nhb-irfc-plan-bond-sales-to-raise-up-to-rs-4500-crore/articleshow/100432083.cms

- **Indian NBFCs double fundraising via bonds in five days as bank rate gap widens-**

Indian non-banking financial companies (NBFC) have raised around 100 billion rupees ($1.21 billion) via bonds in the past five days, double that of the preceding work week, with more such issues likely as interest rates in the debt market remain low, five bankers said. Lower interest rates for such organisations typically help bring down lending rates, which in turn can push demand up.

"There is a rate arbitrage, which the NBFCs will look to utilise between MCLR-linked bank loans and short-term capital market instruments, as short-end yields are edging lower," said Nachiket Naik, head of corporate lending at Arka Fincap, a Mumbai-based NBFC. The Refinitiv benchmark three-year yield for AAA-rated companies is around 7.45%, down 30 basis points this fiscal year, as compared to the benchmark three-year marginal cost of lending rate for State Bank of India that stands at 8.70%.

The spread between lending rates and yields further rose as the latter eased after banking system liquidity improved. Large borrowers over the last week include State-run IRFC, which raised 25 billion rupees and NHB which raised 20 billion rupees via over three-year bonds. Institutions coming to market soon include HDFC, which aims to raise up to 100 billion rupees via two-year bonds, LIC Housing Finance which plans to raise 15 billion rupees through five-year bonds this week and NABARD which will raise 50 billion rupees. Here are the details of some of the bond issues completed, as well as planned, as reported by Reuters.

However, banks, on the other hand, have still not fully passed on the 250-bps rate hike and we may see some uptick in rates on the bank lending side," said Sachinn Joshi, group chief financial officer at L&T Finance, that last week raised 3.92 billion rupees via bonds. Alongside the interest rate advantage, appetite for corporate debt is also seen improving as the central bank's recent move to withdraw currency notes of 2,000 rupee denomination is expected to boost liquidity and aid shorter tenor yields. "The increased liquidity is expected to boost savings and investments. Consequently, it is quite possible that a significant portion of the re-entered notes may end up being invested in mutual funds," said G. Pradeepkumar, CEO at Union Asset Management.

Source: https://economictimes.indiatimes.com/markets/bonds/indian-nbfcs-double-fundraising-via-bonds-in-five-days-as-bank-rate-gap-widens/articleshow/100638005.cms

Department of Banking & Financial Services Upcoming Programme

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ASSOCHAM 6th National Summit & Awards Corporate Bond Market 2023	3rd August 2023

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