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CONTENTS

TOP SPEECHES

Future-Proofing the Indian Financial System (Inaugural Address by Shri Shaktikanta Das, Governor, Reserve Bank of India - April 27, 2023 - Delivered at the Global Conference on Financial Resilience organised by the College of Supervisors in Mumbai)

In the context of the overall impact of the COVID-19 pandemic, the war in Ukraine and the recent banking sector events in the US and Europe on the financial sector, there is now renewed focus on issues of financial resilience and stability. Regulators and Governments across the world are now looking at these aspects with greater intensity. Adequacy of the existing regulations and supervisory systems are under fresh assessment. In this background, a global conference on financial resilience is very appropriate and timely.

The financial sector in a country and the individual entities therein like banks, non-banking financial companies (NBFCs) and other entities have to be resilient at all times. They should have the inner strength to withstand even the most stressful times. So far as India is concerned, the Reserve Bank of India has significantly strengthened its regulations and supervision of banks and other regulated entities in recent years. Our approach has been to enhance the resilience as well as the robustness of the financial sector so that individual entities effectively withstand stressful situations and continue to contribute to the process of economic development of the country. In my address today, I propose to highlight the expectations of the Reserve Bank of India from the stakeholders in the Indian financial system.

In most economies, central banks act as custodians of financial stability. Central banks are also empowered to act as a lender of last resort during financial crises. This historical function of providing emergency liquidity assistance to banks and other financial market institutions necessitates that central banks keep a close watch on banks and financial markets for signs of instability, if any. Moreover, monetary policy is implemented largely through banks and financial markets. The transmission of monetary policy to the real economy depends crucially on the smooth functioning of the financial markets as well as financial intermediaries like banks and NBFCs. It is in this context that the key and complementary functions of central banks such as setting of interest rates, liquidity management, regulation and supervision over the banking and other segments of the financial sector become more pronounced. These functions work together to support economic growth by maintaining financial stability and promoting responsible behaviour among financial institutions.

Let me now specifically turn to the concept of 'resilience' which is the theme of today's conference. Systemic resilience depends both on the resilience of individual financial institutions as well as on the interdependencies among them.

A resilient future ready bank needs to be financially, operationally and organisationally resilient. To be financially resilient, a bank should have adequate capital buffers and be able to generate earnings even in times of severe macroeconomic shocks. It should also have adequate liquidity to meet its obligations in various situations. Therefore, financial resilience is closely linked to a bank's business model and strategy. The Reserve Bank has, therefore, started looking at the business models of banks more closely. Aspects or deficiencies in the business model itself can spark a crisis in due course. We have not only prescribed regulatory norms for capital adequacy and liquidity ratios, but even gone beyond to nudge banks to build up capital buffers in good times and times of plenty. We did this during the COVID-19 pandemic when there was plenty of liquidity, the interest rates were low and the full impact of the pandemic on the financial sector was still highly uncertain.

The Reserve Bank has also put in place various prudential regulatory frameworks. These include capital adequacy requirements, asset classification and provisioning requirements, dividend distribution framework and liquidity management framework. In addition, the Reserve Bank also periodically deploys macroprudential measures to address system level build-up of risks. As a consequence of the measures taken by both the Reserve Bank and the banks themselves, the Indian banking system has remained resilient and has not been affected adversely by the recent sparks of financial instability seen in some advanced economies. This also comes out clearly in our recent stress test results.

The Gross NPA ratio for the Scheduled Commercial Banks (SCBs) was 4.41 per cent at end December 2022, down from 5.8 per cent as on March 31, 2022 and 7.3 per cent as on March 31, 2021. The CRAR at 16.1 per cent at end December 2022 is also much above the minimum regulatory requirement. Macro stress tests for credit risk indicate that SCBs would be able to comply with the minimum capital requirements even under severe stress scenarios.

Nevertheless, the recent events in the banking landscape of the US and Europe suggest that risks for an individual bank could crop up from segments of its balance sheet which might have been considered relatively safer. Hence, we expect the management and Board of Directors of each bank to continually assess the financial risks and focus on building up adequate capital and liquidity buffers even beyond the regulatory minimum for continued resilience and sustainable growth.

Let me now focus on operational resilience. This would mean that a bank should be able to deliver critical services even in the face of disruptions. Cyber risks and possible cyber-attacks are on top of the list so far as such disruptions are concerned.

Cyber risk has been identified as the foremost in top ten operational risks for 2023 based on a global survey1 of financial institutions. The Bank for International Settlements (BIS), while revising the Principles for Sound Management of Operational Risk in 2021, introduced a specific principle on 'Information and Communications Technology (ICT) risk management' reflecting the importance of this risk. Robust IT and information security governance would help in increased predictability and reduction of uncertainty in operations, minimise losses from information security related incidents and enhance operational resilience. Given the extensive level of outsourcing being done by the banks and also by other regulated entities, there is even greater need for ensuring that effective policies and practices are in place in this regard. Even the G20 finance ministers and central bank governors are focusing on risks arising from third party dependencies. The RBI has taken a slew of measures in the recent years with usage of advanced analytical and surveillance tools along with techniques like phishing simulation and cyber reconnaissance exercises to push for enhanced IT and cyber security governance processes in banks and other supervised entities. In the context of the growing exposure of Regulated Entities (REs) to various risks from dependency on third-parties which provide technology and IT-enabled services, the Reserve Bank has recently on April 10, 2023 issued comprehensive guidelines on Information Technology outsourcing2 by banks, NBFCs, and other REs.

The third component of resilience for banks and other financial institutions is to be organisationally resilient so that they anticipate risks early and absorb them efficiently. Organisations must have the capacity and resilience to protect themselves from adverse incidents and shield their balance sheets. To achieve organisational resilience, REs need to continuously evolve by standardising policies, processes, organisational culture and governance. They must also be flexible enough to encourage diverse ideas and innovations within the organisation.

Pillars of Reserve Bank's Regulatory and Supervisory Strategy

An important element in our strategy of making the Indian financial system, including the banking system, future ready is the robust and enhanced regulatory and supervisory framework we have put in place in the last few years. Our present approach to regulation and supervision has been built essentially on three pillars.

First, one of our focus areas in recent years has been to strengthen governance and assurance functions within the Regulated Entities. The safety and soundness of the banking system relies critically on effective governance, so that the interest of all stakeholders, especially the depositors, are safeguarded. The essence of good governance is to build an environment of trust, transparency and accountability. Depositors, whose money represents an overwhelming part of banks' resources, keep their life savings and hard-earned money with the banks. Protection of depositors' money is, therefore, a sacred duty which has to be fulfilled through good governance. There cannot be any compromise on this. The Reserve Bank is very particular that the Regulated Entities have systems and processes that promote sound corporate governance. The assurance functions i.e. risk management, compliance and internal audits in banks are critical links between governance and business. Assurance functions assist the Board as well as the senior management in gauging whether the business operations of the bank or NBFC are being run in conformity with the policies and strategies laid down by the Board. The Reserve Bank has issued detailed guidelines for ensuring quality and independence of the governance and assurance functions. These areas are also subjected to intensive supervisory assessment.

Second, we have devoted our efforts to identifying and addressing the root causes of the vulnerabilities. Many a times, vulnerabilities arise from inappropriate business models adopted by banks and other financial entities. Over-aggressive growth strategies or mindless pursuit of bottomlines, for instance, are often a precursor to future problems. While we do not interfere with business decision making, Regulated Entities must demonstrate adequacy of internal controls and loss absorption capacity to match the risks that their business models may generate. Our approach is to flag deficiencies in this area to the senior management or to the Board of Directors of individual institutions for remedial action. We also remain engaged with external auditors and flag issues that are relevant for their role as the third line of defence. In recent times, our focus on 'root cause' has led us to mandate certain housekeeping hygiene such as automated identification of non-performing loans and provisioning, proper checks and balances in the use of Internal and Office accounts, implementation of Early Warning Systems (EWS) for preventing frauds and a host of IT and cybersecurity related controls, among others.

Third, within the Reserve Bank, we have considerably strengthened our supervisory analytics. We are increasingly employing data analytics – both macro and micro – to capture potential and emerging risks, identify outlier entities and the vulnerable large exposures of banks. Our onsite supervisors deep dive into areas red-flagged by offsite supervision teams. We are now focusing on the adoption of advanced analytical based technological solutions, including Artificial Intelligence/Machine Learning (AI and ML), for strengthening the internal supervisory processes.

We have a system of early warning signals that provide lead indications of risk build-up. Stress tests are also carried out on a continuous basis. These stress tests not only cover individual entities but also capture the system level stress.

While asset quality and capital position indicate resilience and robustness of financial institutions in the medium term, liquidity is often seen as the immediate cause of crisis. We monitor liquidity position of our entities very closely and aberrations, if any, are immediately taken up with the supervised entities for remedial measures. Thus, our whole approach to Supervision has been pro-active for minimising surprises, spotting concerns and addressing vulnerabilities early.

In essence, the unification of supervisory architecture within the Reserve Bank (i.e, combining the supervisory processes of commercial banks, NBFCs and urban cooperative banks (UCBs) into an integrated Department of Supervision); ownership-agnostic and risk-focused supervision; a shift from episodic to continuous supervision; enhanced off-site surveillance leveraging on data analytics and SupTech solutions; strengthened on-site supervision; root cause analysis of problems and identification of outlier entities; and deep-dive into vulnerable areas have been the major planks of our supervisory strategy.

The Reserve Bank has also taken several regulatory initiatives in recent years to strengthen governance, risk management, audit and compliance functions in NBFCs and UCBs. These include the new scale based regulatory framework for NBFCs issued in October 2021 and the revised regulatory framework for UCBs issued in July 2022. Even before these new regulatory frameworks were brought in, we had taken measures such as issuance of guidelines on appointment of Chief Risk Officers (CROs) and Chief Compliance Officers(CCOs) in large NBFCs; Liquidity coverage ratios for NBFCs with asset size of ₹5000 crore and above; risk-based internal audit (RBIA) norms for large NBFCs (with asset size of ₹5000 crore and above) and UCBs with asset size of ₹500 crore and above; and harmonising the guidelines on appointment of statutory auditors for NBFCs and UCBs with that of commercial banks.

Importance of Effective Internal and External Audits

I would now like to touch upon the criticality of effective internal and external audits for financial institutions. It is no secret that stability and growth of an economy and financial markets are dependent upon trust among stakeholders. To be future ready, banks and financial institutions need to earn the trust of their current as well as prospective customers. One cannot take the 'trust' for granted. With greater openness of the economy and faster transmission of information and capital flows on account of advent of technology, it has become even more necessary to ensure credibility and confidence in the system.

Towards this cause, a robust assurance mechanism by way of internal audit is essential to provide independent evaluation and assurance to the stakeholders that the operations of a Regulated Entity are being performed in accordance with the prescribed policies and procedures. Statutory auditors also play a vital role in maintaining market confidence on audited financial statements. In banking industry, this public role is particularly relevant for financial stability, given that banks hold public deposits. Audit quality is key to the effectiveness of such public role. For these reasons, the Reserve Bank as the supervisor has a keen interest in the functioning of statutory auditors of the Regulated Entities. Wherever necessary, we engage with the external statutory auditors on issues of critical nature in individual banks and financial entities.

We have recently revised the guidelines for statutory branch audits of Public Sector Banks (PSBs) according to which a minimum of 70% of credit exposure of a bank is required to be covered. From FY 2023-24 onwards, the Board of Directors of PSBs will decide on the coverage of branch audit and selection of branches. While doing so, the Boards are required to keep in mind the specific characteristics of individual banks like the bank's business and risk profile, geographical spread, degree of centralisation of processes, etc. We expect the Boards of banks to exercise the highest level of diligence while deciding on these issues. As regards statutory branch audit of Private Sector Banks (PVBs), we are doing a fresh assessment of the quality and coverage of such audits.

Skill and capacity building in the Reserve Bank

In the Reserve Bank we attach a lot of importance to skill building and capacity development of our employees. We have been strengthening the Department of Supervision both in number and quality. This is important as effective supervision requires specialised skills and mature judgement. In this context, we expect the College of Supervisors to keep on improving its training methodologies, adopt more case study-based teaching, have more practical sessions in its training programmes, and develop objective assessment of the impact of its training interventions. The feedback received from trainees may be used to improve programme content and fill the gaps identified. The training programmes may also strike a balance between teaching hard technical skills and promoting soft skills such as leadership, decision making, time management and conflict resolution.

The rapid developments and innovations in the financial system, especially in the areas of fintech and digital products pose new opportunities as well as risks. These may affect financial intermediation, payment systems, cyber security and consumer protection. We have to continue monitoring and assessing the implications of these emerging trends, while also developing our own capabilities and frameworks to effectively respond to these challenges.

In recent times, we have seen a proliferation of digital lending by NBFCs, FinTechs and loan apps. Such lending also brought with it certain challenges, especially with regard to fair practices and consumer protection. To address these challenges, the Reserve Bank has laid down comprehensive guidelines for digital lending in September 2022. These guidelines aim to ensure that lending activities are conducted by the REs and their partners such as Loan Service Providers (LSPs) in a prudent, fair, transparent and responsible manner.

Conclusion

To sum up, the Reserve Bank remains committed to future-proofing the Indian financial system and provide the required support for sustainable growth. I am confident that this Global Conference on Financial Resilience organised by the College of Supervisors with participation of experts from India and abroad will add considerable value to the body of knowledge in the area of resilient financial systems. I have been informed that many research papers on identified themes have been received and select papers have been made part of the maiden issue of the Journal of Financial Resilience, which was released today. I am sure the deliberations during the Conference would provide a lot of food for thought and bring new perspectives on the evolution of financial regulation and supervision.

Source: vhttps://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1362

Financial Sector as an Enabler for Developed India (Keynote Address by Shri M. Rajeshwar Rao, Depu- ty Governor, Reserve Bank of India at the 31st Annual Management Convention of Thrissur Management Association)

Financial Sector as an Enabler for Developed India (Keynote Address by Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India - March 22, 2023 - at the 31st Annual Management Convention of Thrissur Management Association)

As Socrates once said, “The only true wisdom is in knowing you know nothing.” Little did we know, three years back, that we would face one of the greatest challenges of our lifetime - a pandemic that would upend our daily lives and force us to navigate through unknown, unforeseen, and unanticipated turbulences. As we complete a tad over three years after the onset of the pandemic it might be an opportune moment to reminisce about the challenges and responses to the COVID times as well as stocktake some of the lessons learnt.

What comes to mind in the first place is that the uncertainty and upheavals seen during the last three years has been a first for this living generation. To dwell on the experiences, challenges and responses, let me begin by focussing on the global economic recovery post pandemic as well as in our country and thereafter, briefly, outline my views on the changes that pandemic brought in the financial world and what this transformation means for the Indian growth story going forward.

Restoration and Revitalization of the Economy

The stress induced by Covid was different from any other stress the world has seen before. The pandemic spread rapidly and affected almost every country in the world. For financial regulators, it was an out-of-syllabus situation as the economic stress this time was not caused by underlying economic imbalances or financial market failures, but by a public health crisis. This made it a unique shock, as it impacted both the supply and demand sides of the economy, affecting both production and consumption. The impact was such that global GDP contracted by 3.5%2 in 2020. India's GDP contracted by 5.8%3 in the financial year 2020-21, making it the worst economic contraction in country's history. The recession was highly synchronized — more than 90 per cent of economies, even higher than the proportion of about 85 per cent of countries in recession at the height of the Great Depression of 1930-324, witnessed a recession.

The Governments and Central Banks around the world responded with unprecedented fiscal and monetary policy measures, both conventional and unconventional, to support individuals, businesses, and financial markets. This included massive stimulus packages, quantitative easing, and other measures to sustain credit flows and economic activity. As per IMF estimates, by mid-2021, global economic stimulus in response to Covid reached $16 trillion including additional government spending, revenue foregone and liquidity measures5, which amounts to close to 20% of global GDP.

To combat the impact of the COVID-19 pandemic and to revive economic growth, India announced a special economic and comprehensive package amounting to about Rs. 27.1 lakh crore – more than 13 per cent of India's GDP6. The Government's actions were complemented through various measures deployed by the Reserve Bank within days of Covid being declared as a pandemic by WHO. The repo rate was reduced cumulatively by 115 bps (between March and May 2020) and CRR was reduced by 1 percentage point on March 27, 2020, for one year to ease immediate liquidity constraints. To further augment systemic liquidity long-term repo operations (LTROs) and targeted long-term repo operations (TLTROs) were undertaken.

A calibrated set of regulatory measures were also announced to provide relief from the pandemic. These measures included moratorium on term loans for six months, deferment of interest on working capital facilities sanctioned in the form of cash credit/overdraft, easing of working capital financing, etc.

The measures taken by the Government and the RBI helped cushion the economy from the adverse effects of the pandemic and also demonstrated our commitment to support the businesses and individuals during the turbulence. The RBI's measures to provide liquidity support to the economy helped ease the funding constraints faced by financial markets and enabled them to continue their operations and meet their financial obligations, thereby supporting economic activity. The government's push for providing relief to weaker sections and hardest hit sectors of the economy ensured that their immediate concerns were addressed. The following year, i.e., in FY22, the Indian economy started to recover despite the Omicron wave of January 2022. Consequently, output in FY22 went past its pre-pandemic level in FY207, with the Indian economy staging an impressive recovery.

Just as India and the world were expecting to recover from the pandemic, the geo-political upheavals in Europe exacerbated existing pandemic related stress disrupting the commodities markets in particular. The turmoil led to increased prices and volatility in fuel, food grains, fertilizers, natural gas and metal prices, leading to a worldwide surge in inflation. The impact on commodities market can be gauged from the fact that the year-on-year growth in the prices as of March 2022, was 400% for natural gas, 250% for coal, 76% for crude, 30% for food and approximately 120% for fertilizers8. These increased prices led to multi-decade high inflation in many advanced economies. The inflation reached 10% in Euro Area, Germany, and UK9. In India also, inflation reached 7.8% in April 2022, before easing to 5.7% in December 202210.

Central Banks across economies led by US Fed Reserve responded with synchronised policy rate hikes to curb high inflation. Since May 2022, US has hiked policy rates by 450 bps, while UK and the EU have increased rates by 300 bps.

The conflict in Europe necessitated a revision in expectations for economic growth and inflation in FY23. Despite the downward revision, the growth estimate for FY23 for India is higher than for almost all major economies. IMF estimates India to be one of the top two fast-growing significant economies in 2022. Despite protracted global headwinds and tighter monetary conditions, India is still expected to display a healthy growth and it is a testament to India's underlying economic resilience and of our ability to recoup, renew and re-energise the growth drivers of the economy.

The first advance estimates (FAE) released by the National Statistical Office (NSO) on January 6, 2023, placed India's real gross domestic product (GDP) growth at 7.0 per cent year-on-year (y-o-y) for 2022- 23, driven by private consumption and investment. Bank credit growth (y-o-y) stood at 16.8 per cent in December 2022 as compared with 8.4 per cent a year ago. Aggregate deposits increased by 10.3 per cent (y-o-y) in December 2022 as compared with 9.6 per cent a year ago, led by 13.2 per cent growth in term deposits11. The government has continued on the path of fiscal consolidation in the Union Budget 2023-24 by reprioritising expenditure mix. The fiscal deficit is estimated to be 6.4% for the current fiscal and is likely to fall to 5.9% in the next fiscal. Tax revenues have remained buoyant with monthly GST collections crossing ₹1.5 lakh crore in January 202312.

This makes India the fastest-growing economy in the world and today we are referred to as 'bright spot on a dark horizon'. To conclude the first part of my talk, I would say that, indeed, amidst the challenges and uncertainties prevailing over the past three years, Indian economy and financial system has shown remarkable resilience and strength.

New horizons, Partnerships and Priorities

Moving on, let me focus on the transformative journey of Indian banking sector during past few years and specially during COVID period and how it is poised for supporting the Indian growth story.

The last decade has witnessed significant penetration of banking in the country. Under Pradhan Mantri Jan Dhan Yojana (PMJDY), 48.20 crore beneficiary accounts have been opened so far with outstanding balance of ₹1.89 lakh crore in these accounts13. As of June 2022, there are more than 1.6 lakh bank branches translating to approximately 15 branches per 1 lakh of population. This is further complemented by a network of 2.17 lakh ATMs14, out of which 47 per cent are in rural and semi-urban areas. Additionally, there are close to 32 lakh Banking Correspondents (BCs) engaged by banks15 providing last mile access. As of 2021, 78 per cent of Indian adults (population with 15 years or more of age) had a bank account as compared to 53 per cent in 201416. Banking services have been made accessible to every village within a 5 km radius in 25 states and 7 Union Territories covering 99.94 per cent of villages17.

This has been supplemented by a few important developments which got a fillip during covid. **The first noteworthy development is the increasing use of technology in finance.** Technology in finance has been an important enabler that has empowered us to create a more inclusive and efficient financial ecosystem. Banks have been innovating and enhancing the quality and reach of their services using technological solutions for some time now. However, this got accelerated during the COVID period when mobility became a challenge and technology came to the rescue for fulfilling all our banking needs. The demands placed by the circumstances compelled banks and financial institutions to rethink their business processes and review their strategies. The Reserve Bank also facilitated banks and financial institutions in this journey by issuing appropriate guidelines such as use of Video KYC. However, all this was made possible through the giant strides taken by our country in building a public digital infrastructure with India

Stack coupled with JanDhan – Aadhar – Mobile, the so-called JAM trinity, Account Aggregator framework and other digital initiatives, it enabled a decisive entry of the country into a digital finance era. What makes India Stack unique is the scale, public accessibility and the comprehensiveness that has helped in making a building a more inclusive digital economy.

The second important development to my mind during this period was the emergence of new partnerships between FinTech companies and banks. Banks are seen leveraging technological partnerships with FinTechs in various ways to provide better products and better serve their customers. In this partnership, FinTechs can contribute their technology expertise, while banks bring their domain expertise. By leveraging technologies such as chatbots, mobile apps, and personalized digital solutions, banks can provide customers with more convenient and seamless banking experiences. This collaboration allows banks to enhance their digital capabilities and meet the expectations of tech-savvy customers.

All of us have realised or experienced that in the post pandemic world, digital lending has grown exponentially including in India leading to both an increase in scale and velocity of credit. However, at the same time it has also given rise to a host of business conduct issues. This poses a regulatory dilemma as the Regulator then needs to play a balancing act in weighing the benefits brought in by innovative business models on one side and emerging business conduct and regulatory concerns on the other side. An attempt has been made by the Reserve Bank to address this issue through issuing principle-based guidelines on digital lending.

The third important development was the reinforcement of our focus regarding the importance of inclusiveness. The desperate times reminded us that even a small help at an appropriate time could make a world of difference to the person in need. Therefore, the Reserve Bank has accelerated its efforts towards building an inclusive financial system where access to financial services is not limited to a basic bank account, but everyone has access to formal channels of credit and they are able to use their banking account to make digital payments to everyone, everywhere, every time. This audience must be aware about the fact that today India's payment systems are among the best in the world with our real time fast retail payment system, UPI, enabling transactions of about Rs. 12 lakh crore per month in value and almost 26 crore transactions in daily volume.

The next thing which can revolutionise the credit markets is the credit decisions which are informed by availability of financial as well as alternate data. By leveraging data analytics, financial institutions are able to gain insights into customer behaviour, market trends, and emerging risks, enabling them to make more informed credit decisions. Data-driven finance is not just about collecting and analysing information; it's about using that information to drive innovation, create value for customers, and build sustainable, resilient financial models to the benefit of the system. To enable responsible use of data, RBI has introduced the Account Aggregator framework which enable customers to control their data and provide permission for it to be shared with third-party service providers, for provision of various financial products and services seamlessly. It is expected that AA framework would accelerate the development of alternative lending models such as cash flow- based lending and marketplace lending or what we popularly known as peer-to-peer lending. This would enable small businesses, including street vendors that may not have traditional collateral, to secure a loan. As technology continues to advance, we expect more innovative models to emerge that leverage data, automation, and artificial intelligence to transform the lending landscape.

A Fourth development post pandemic, is the reminder to us, the regulators, to keep the financial stability as the prime point of focus. The COVID shock, termed as 'The Great Lockdown18' by the IMF, put all stress testing models and business continuity plans to test. It also reminded us that the financial system is vulnerable to shocks arising in any sector, external as well as internal, and it is an imperative for us to take steps to ensure financial stability. For modern economies, financial stability is not just a goal, it's a necessity - for when it falters, the ripple effects can bring down even the mightiest to their knees. The 2008 financial crisis was a stark reminder that financial stability isn't just an ideal, it's a prerequisite for a well-functioning economy.

Banks are the backbone of the financial system, and they play a significant role in ensuring financial stability. For this reason, the banks are required to comply with the prudential regulations issued by the Reserve Bank and are required to maintain sufficient capital buffers to absorb losses. The other crucial element of financial stability is robust governance. Robust governance is the cornerstone of stability and prosperity of any organisation, safeguarding the integrity and ensuring that all decisions are taken in the best interest of stakeholders.

Recognising this, the Reserve Bank has always placed greater importance on governance and has taken several measures to strengthen the same in banks. The Reserve Bank's guidelines now require banks to have a diverse and independent board of directors, with a mix of executive and non-executive directors with certain minimum qualifications and experience. The oversight from Board of Directors must be supported by robust risk management, audit and compliance functions.

Future Challenges and Opportunities

Although, we have come a long way in our quest for providing banking for all, there is still a long path to traverse. The huge gap in availability and utilisation of financial services by the urban and rural India is one such challenge. This gives us an immense opportunity as the objective of financial inclusion is not just about giving access to thrift and credit, it's about empowering individuals to realise their true potential and contribute to a thriving economy.

Financial inclusion needs to be redefined by developing bespoke products and services that are best suited to different strata of the society depending upon their income level. This shall include innovative solutions that make it easier for people to not only access basic but also to use a variety of financial services. Towards this end and to enable easy, adequate, and customized credit, the Reserve Bank has made provisions for differentiated banking license. These are niche banks which can help plug the gap in meeting specialised needs for banking products and services across a wider and diverse spectrum.

Another, critical issue in India's credit market has been the consistent gap between the demand and supply of credit to Micro Small and Medium Enterprises (MSMEs). The Micro, Small and Medium Enterprises (MSME) sector contributes around 30% to India's GDP, 45% to its manufacturing output, and 48% to exports. This has to be seen as an area of opportunity by the banks and other financial institutions.

Another emerging area of focus is making finance available for transitioning to a low carbon economy. All of us are now cognisant of the global challenge that climate change poses to our planet and its impact which is reverberating across the world. If we fail to take timely action, the consequences will be irreversible. The Indian Government has already committed to reduce the total projected carbon emissions from now till 2030 by one billion tonnes, reduce carbon intensity of the economy by more than 45 per cent by 2030, and achieve 'Net Zero' emissions by the year 2070. As a central bank, we also have a responsibility to promote sustainable economic growth which includes transition to a low-carbon economy.

Banks can play an essential role in financing the transition to a low-carbon economy by channelising finance to sustainable and green projects as well as by developing new financial products that incentivise green initiatives. Our actions will set the course not only for the future of the planet but also determine the kind of environment which we bequeath our future generations.

For a regulator in a developing country, given the high rate of technology adoption, keeping pace with market innovations is always a challenge. Regulating such a dynamic financial sector can be very aptly described as "Just when we thought we knew all the answers, someone changed the questions". But it is our firm belief that for the customers to enjoy the fruits of financial innovation, it has to be sustainable and within the realm of a sound regulatory framework. Keeping this in mind, we have followed a nuanced and consultative approach with an aim to responsible innovation, while nudging the industry to adopt sustainable business practices.

Concluding thoughts

It is important for us to be cognizant of the fact that the bedrock of a strong and resilient financial system is the trust that the people repose in it. The trust element is not only created just by the individual institutions but by the collective actions of the entities operating in the financial system. We expect firms to be responsible for their actions and of the actions of the service providers engaged by them and demonstrate accountability for same. Compliance with applicable regulations and ensuring customer-centricity are two non-negotiable principles for entities functioning in the financial sector and the same must flow from the top.

To conclude, I would like to emphasize that the banking sector has been instrumental in India's growth story, and it is crucial that banks continue to innovate and adapt to changing times to meet the evolving needs of the economy. As India continues to march forward, the banking sector must, as hitherto, continue to be a key contributor to the country's growth story. As always, we at RBI will be working closely to ensure that the banking sector and other stakeholders can help build a stronger, more inclusive, and sustainable future for India.

Thank you.

Source: https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1359

TOP BANKING NEWS

- **RBI monitoring banks' business models more closely, says governor Shaktikanta Das**

  The Reserve Bank of India (RBI) has started to monitor the business models of banks more closely, said RBI governor Shaktikanta Das on Thursday, while speaking at the Global Conference on Financial Resilience.

  The recent stress tests revealed that the Indian banks were efficient and will be able to maintain capital adequacy above minimum requirement even in situation of severe distress.

  The RBI has put in place various frameworks to monitor the banks and has also deployed macroprudential measures to assess system level buildup of risks, highlighted Das in his speech.

  While talking about the recent events in banking landscape in US and Europe, he said, the banks and other financial institutions need to be organizationally resilient. "The organisations must have capacity to protect themselves from adverse incidents."

  "We expect banks and managements to continually assess financial risks and build buffers beyond minimum regulatory requirement," he added.

  During his speech, the RBI governor also mentioned that Indian banking system has remained resilient and has not been impacted adversely by the global events.

  He, however, said that financial sector surprises can come from anywhere at a time when participants world over are adopting unconventional policies, and urged the stakeholders to be watchful.

  The Ministry of Finance in its monthly review report had also stated that India's banking system is considerably less prone to collapses similar to that of a few banks in the US and Europe.

  "A discussion of what caused the collapses overseas is beyond our remit but we will confine to restating the factors that make the Indian banking system considerably less prone to such developments in the near-to-medium term future," said the report.

  Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-closely-monitoring-banks-business-models-says-governor-shaktikanta-das/articleshow/99805930.cms

- **Indian banks unlikely to go SVB, Credit Suisse way as they can swim good in troubled waters**

  The bank failures in the world's largest economy and in Europe following the pandemic and war-induced tightening cycle posed a lot to brood over for policymakers on the vulnerability of financial systems. The concerns were particularly true for emerging market economies, who may have to struggle with fiscal packages to calm markets.

  Swiss financial regulator FINMA recently said the recovery and resolution plans of two of Switzerland's five systematically important banks are insufficient.

  However, banking system in Asia's third-largest economy has considerably less chances to face such incidents, the finance ministry said in a report.

  "While incidents like those mentioned above are bound to happen in a rapid tightening cycle amid an uncertain economic environment, an analysis of the Indian banking system reveals that Indian banks appear well-placed to handle any stress emanating from the current tightening cycle," the ministry said in its monthly economic review. "The importance accorded to system-wide financial stability has its origins in the aftermath of the 2007-08 global financial crisis. The macro-and micro-prudential measures in recent years by the RBI and the government have culminated in the enhancement of risk absorption capacity, thereby improving the banking system's stability."

  Banks face interest rate risk when the country's policy rates increase rapidly in a short span of time. This spelled trouble for the two regional US banks - Silicon Valley Bank and the First Republic Bank. Since March 2022, the Federal Reserve aggressively raised rates by 4.5 percentage points to tame galloping inflation rate. Subsequently, the yield on debt soared at a commensurate rate.

Source : https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-banks-unlikely-to-go-svb-credit-suisse-way-for-it-can-swim-good-amid-troubled-waters/articleshow/99758176.cms

- **RBI harmonises provisioning norms for urban cooperative banks**

The Reserve Bank on Monday harmonised the provisioning norms for standard assets applicable to all categories of urban cooperative banks (UCBs). In December last year, the RBI had categorised UCBs into four tiers -- tier 1, 2, 3 and 4 -- for regulatory purposes. Prior to that, such banks fell only in tier 1 and tier 2 categories.

"On a review, it has been decided to harmonise the provisioning norms for standard assets applicable to all categories of UCBs, irrespective of their tier in the revised framework," the central bank said in a circular.

Direct advances to agriculture and SME sectors which are standard, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis to all categories of UCBs under the revised framework.

Advances to commercial real estate (CRE) sector which are standard shall attract a uniform provisioning requirement of 1 per cent of the funded outstanding on a portfolio basis.

In case of Commercial Real Estate-Residential Housing Sector (CRE-RH) and all other loans and advances, the provisioning requirements would be 0.75 per cent and 0.4 per cent, respectively.

RBI has categorised all unit UCBs and salary earners' UCBs (irrespective of deposit size), and all other UCBs having deposits up to Rs 100 crore in tier 1.

In tier 2, it has placed UCBs with deposits more than Rs 100 crore and up to Rs 1,000 crore. Tier 3 will cover banks with deposits more than Rs 1,000 crore and up to Rs 10,000 crore.

Source : https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-harmonises-provisioning-norms-for-urban-cooperative-banks/articleshow/99737659.cms

- **RBI cautions banks on unsecured lending as risks loom: Sources**

India's central bank has cautioned lenders at meetings held over at least the past three months about the growing risk of delinquencies on unsecured loans amid rising interest rates and high inflation, four banking sources said.

Unsecured loans – mostly personal loans and credit cards – do not carry any collateral and therefore pose higher risk. Indian banks have been growing their unsecured lending portfolio as the pandemic-induced stress began to ease.

Banks' outstanding receipts on credit cards stood at 1.87 trillion rupees ($22.77 billion) as on Jan. 27, up from 1.53 trillion rupees from a year earlier, as per the latest data from the Reserve Bank of India (RBI).

"Risks in unsecured lending has been on the RBI's radar," said a senior official at a private bank. "The RBI has privately been cautioning banks regarding such risks, asking them to tighten underwriting practices."

The bankers did not wish to be identified because they were not authorised to speak to the media. As per latest data available from credit information provider CIBIL and published by the RBI, as of end-September 2022, delinquency levels in aggregate consumer credit across all product categories stood at 4.3% for state-run banks and 1.5% for private banks compared to 4.8% and 2.4%, respectively, a year ago.

The RBI, according to bankers, is concerned that the sharp rise in interest rates could trigger defaults and pose more risk. The RBI did not reply to an email requesting comment.

Source : https://economictimes.indiatimes.com/industry/banking/finance/banking/reserve-bank-cautions-banks-on-unsecured-lending-as-risks-loom-sources/articleshow/99664997.cms

- **Indian banks wary of parking funds with RBI following liquidity swings, traders say**

Indian banks may shy away from parking large sums in the central bank's 14-day variable rate reverse repo, which acted as a major reason for elevated rates through the week amid volatile liquidity, traders said.

Liquidity in the banking system, which was in deficit till March-end, swung to a surplus of around 2.7 trillion rupees ($32.87 billion) at the beginning of this month, but a rise in cash in circulation as well as credit pickup led to a rapid decline in liquidity to a surplus of 1.35 trillion rupees.

Traders say that even this liquidity is concentrated with a few large banks. "When banks had parked large amounts on April 6, the liquidity picture was completely different, but then there were credit outflows and currency leakages, resulting in pressure on banks to borrow at higher rates," a senior treasury official from a state-run bank said.

"Apart from the top two to three large state-run and private banks, most were either neutral or caught short in their liquidity management process," the trader said.

Subscription to the Reserve Bank of India's variable rate reverse repo (VRRR) earlier on Friday was less than half, despite a sharp cut in quantum of funds, a trend that is expected to persist.

Banks parked only 205 billion rupees at the reverse repo, even as the central bank cut down the quantum to 500 billion rupees from 2 trillion rupees on April 6. Banks had parked 1.24 trillion rupees at the time.

The funding mismatch forced most banks to borrow overnight funds at above the repo rate through the week. The weighted average call rate as well as TREPS rate was above 6.55%.

Over the last few days, rates have probably been elevated due to skewed liquidity distribution in the VRRR window, said Upasna Bhardwaj, chief economist at Kotak Mahindra Bank.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-banks-wary-of-parking-funds-with-rbi-following-liquidity-swings-traders/articleshow/99664639.cms

- **Investing in mutual funds in India: why 2023 is the year to take action**

Mutual funds have become an increasingly popular investment option for Indians in recent years. With the market experiencing significant growth and changes in the past few years, choosing the right mutual fund has become crucial to maximise returns on investment. In this article, we will discuss some key factors to consider while selecting mutual funds in India in 2023.

Identify your investment goals:

The first step in selecting mutual funds is to identify your investment goals. Whether you are investing for short-term or long-term goals, such as retirement, children's education, or buying a house, your investment goals should align with the fund's investment objective. For example, if your goal is to generate income, you should opt for income-oriented funds such as debt funds. If your goal is wealth creation over a long period, you may consider equity-oriented funds.

It is important to note that your investment goals may change over time, and you may need to modify your investment strategy accordingly. You should review your investment goals periodically and make necessary adjustments to your mutual fund portfolio.

Moreover, you should also consider your risk tolerance while selecting mutual funds. You should invest in funds that match your risk profile and align with your investment goals. If you have a low-risk tolerance, investing in debt funds may be a better option compared to equity funds.

Assess the fund's past performance:

Before investing in a mutual fund, it is important to review its past performance. You should consider the fund's returns over the last few years and compare it to its benchmark and other similar funds. While past performance is not a guarantee of future returns, it can give you an idea of the fund manager's investment strategy and how well it has worked in the past.

You should also consider the consistency of the fund's performance over different market cycles. Funds that have delivered consistent returns over the long-term are generally preferred over those that have fluctuated widely. It is also important to note that the performance of the fund should be evaluated in the context of the market conditions prevailing at the time.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/investing-in-mutual-funds-in-india-why-2023-is-the-year-to-take-action/articleshow/99467632.cms

- **Retail loan securitisation rises 56% to Rs 1.76 lakh cr in FY23**

Retail loan securitisations jumped a robust 56 per cent to Rs 1.76 lakh crore in the just concluded fiscal 2023, while that of wholesale rose to around Rs 6,600 crore, coming out of the pandemic blues finally, says a report. The secondary market for standard retail assets has seen a robust growth of 56 per cent in FY23, reflecting the resilient retail asset pools in the secondary market as well as the preference of banks to grow their retail assets to meet priority sector lending requirements, according to a Care Ratings analysis.

Such robust growth was possible as bank lending to NBFCs grew 32 per cent and there is a positive correlation between interest rate and relative premium for PSL assets. Both these factors augur well for securitisation market, the agency said.

"We expect the market to continue to grow but at a moderate pace in FY24," senior directors Sanjay Agarwal and Vineet Jain said in a note.

The total volume, including direct assignment transactions, rose to Rs 176,000 crore from around Rs 1,13,000 crore in FY22, led by direct assignments which constituted around 61 per cent of the total securitisation market with pass-through certificates (PTCs) making up the remaining volume.

The credit quality of retail assets remained resilient, and the total credit growth of banks increased by just over 15 per cent, while bank credit to NBFCs grew by more than twice that rate.

The two main drivers of growth for the securitisation market continue to be the priority sector lending requirement and the need to expand the retail asset book.

The robust growth also shows that the regulatory changes in December 2022 did not have any material impact on the overall volumes except that securitisation volume by fintech lenders were negatively impacted in the second half of the fiscal.

With new originators from universal banks-up 30 per cent, small finance banks, NBFCs and HFCs coming to the market, driven by higher demand for retail assets.

DA transactions dominated the market volume and mortgage-backed securitisation transactions comprised the lion's share of it with 50 per cent. Asset-backed securitisation and microfinance loans constituted around 31 per cent and 19 per cent of the volumes, respectively.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/retail-loan-securitisation-rises-56-to-rs-1-76-lakh-cr-in-fy23/articleshow/99385624.cms

- **Banks should have adequate capital buffers, liquidity: Shaktikanta Das**

Macro stress tests conducted for ascertaining the credit risk on the loan books of banks' show that lenders will stay compliant with minimum capital regulatory norms, even in the case of extreme stress in the system, Reserve Bank of India (RBI) governor Shaktikanta Das said on Thursday. According to RBI norms, banks must maintain a minimum capital adequacy ratio of at least 9% or above.

The governor said for a bank to be financially resilient, it should have adequate capital buffers and be able to generate earnings even in times of severe macroeconomic shocks. Banks should also have adequate liquidity to meet its obligations in various situations.

"The Reserve Bank has, therefore, started looking at the business models of banks more closely. Aspects or deficiencies in the business model itself can spark a crisis in due course. We have not only prescribed regulatory norms for capital adequacy and liquidity ratios, but even gone beyond to nudge banks to build up capital buffers in good times and times of plenty," Das said at the global conference on financial resilience.

He said the RBI did this during the pandemic when there was plenty of liquidity, interest rates were low and the full impact of Covid on the financial sector was highly uncertain.

Banks' asset quality continued its improving trajectory, with average gross non-performing asset ratio falling to 4.41% as on December 31, from 5.8% as on March 31, 2022, and 7.3% as on March 31, 2021, Das said. Banks' capital adequacy ratio, at 16.1% as of December-end, was also much above the minimum regulatory requirement.

Source: https://www.financialexpress.com/industry/banking-finance/banks-should-have-adequate-capital-buffers-liquidity-shaktikanta-das/3066008/

- **Co-lending volumes may hit Rs 1 trillion in FY24**

Banks and non-banking finance companies (NBFCs) could sign co-lending deals worth Rs 1 trillion in the current financial year, after public sector banks alone declared a co-lending portfolio of Rs 25,414 crore for FY23.

"The total co-lending portfolio declared by PSBs for FY23 was Rs 25,414 crore. The segment saw about 18 partnerships in H2FY23. In fact, Yubi Co.Lend accounts for at least eight of those partnerships, including banks, NBFCs and other FIs like SBI, Axis Bank, Karnataka Bank, Axio, Lendingkart and UGro Capital, among others," said Irfan Mohammed, chief business officer at Yubi. "We record around 1,00,000 daily average transactions on our platform. Keeping these metrics in mind, the co-lending segment is expected to grow by 3x-4x in FY24 to the tune of Rs 1 trillion."

Co-lending refers to partnerships between two lenders, typically a bank and a non-bank, to offer loans to economically weaker sections or borrowers under the priority sector lending programme. Under the model, 20% of the credit risk by way of direct exposure is on the NBFC's book till maturity, while the balance is on the bank's books.

Growth drivers

Rajesh Sharma, managing director at Capri Global Capital, said the NBFC has entered into co-lending alliances with State Bank of India (SBI), Union Bank of India and Punjab & Sind Bank for MSME loans. For affordable housing segment, the NBFC has entered into co-lending pacts with SBI, Punjab & Sind Bank and UCO Bank.

"We started FY23 with a target of achieving a co-lending portfolio of Rs 600-700 crore from Rs 120 crore in FY22. We have already achieved Rs 500-crore target as of Q3FY23. We started co-lending for affordable housing loans in Q3FY23. We certainly aim to achieve a higher growth than in FY23." he said.

Dhrubashish Bhattacharya, head of MSME banking at Bank of Baroda, said the recent hike in lending rates has made funds costlier for NBFCs. "Co-lending, wherein banks can take up to 80% of exposure at a lower cost, has paved the way for NBFCs to increase their exposure as well as serve customers with better risk profile by offering a lower rate of interest. Further, through co-lending, banks can now venture into new product segments and leverage NBFCs' expertise on digital cash flow algorithm-based assessments," Bhattacharya said.

Source: https://www.financialexpress.com/industry/banking-finance/co-lending-volumes-may-hit-rs-1-trillion-in-fy24/3051085/

- **RBI's UPI move may boost innovation**

Reserve Bank of India's (RBI) latest move to enable Unified Payments Interface (UPI) payments from pre-sanctioned credit lines will pave the way for more innovation in credit products, say experts. These include various types of secured and unsecured products for the under-banked segment.

"Basically, we will be able to link secured and unsecured products to UPI and we can use it as a point of sale terminal. Also, buy-now, pay-later-like model with a pre-approved credit line can be made available to customers. It is a good thing for innovation," Mihir Gandhi, partner – payments transformation, PwC India, said.

In its monetary policy statement on Thursday, the RBI proposed that the UPI network be enabled to facilitate payments financed by credit from banks. The central bank said it will shortly issue separate directions on this.

The latest move adds to the array of regulatory measures aimed at enhancing the adoption of UPI. Recently, the central bank permitted RuPay credit cards to be linked with UPI.

"I think banks is the first step, but they should also make it open to NBFCs going forward. Secondly, there is an opportunity for non-RuPay credit card networks to work with banks and offer credit lines that can be linked to UPI," Gandhi said.

The emergence of UPI as among the most-preferred payment platforms has made it conducive for credit disbursal, say experts.

Transactions on the UPI platform rose 60% year- on-year to a record 8.7 billion in March, the latest data from the National Payments Corporation of India showed. In terms of value, payments on the platform rose 46% y-o-y to Rs 14.05 trillion.

A recent report by financial wellness platform CASHe showed that UPI was the second-most preferred method to repay loans after the National Automated Clearing House (NACH).

Around 84% of CASHe's customers prefer to take a credit line instead of personal loans and buy-now, pay-later. Satchetised loans of less than Rs 10,000 are preferred by 49% of its customers.

Source: https://www.financialexpress.com/industry/banking-finance/rbis-upi-move-may-boost-innovation/3038453/

SELECT RBI CIRCULARS MARCH 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2023-2024/24 DOR.AML.REC.111/ 14.01.001/2023-24	28.4.2023	Department of Regulation	Amendment to the Master Direction (MD) on KYC	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2023-2024/23 DOR.AML.REC.107/ 14.06.001/2023-24	27.4.2023	Department of Regulation	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of two entries	The Chairpersons/CEOs of all the Regulated Entities
RBI/2023-2024/22 FIDD.CO.LBS.BC.No.5/ 02.08.001/2023-24	26.4.2023	Financial Inclusion and Development Department	Merger of Districts in the state of Assam – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks concerned
RBI/2023-2024/21 A.P. (DIR Series) Circular No.03	26.4.2023	Foreign Exchange Department	Remittances to International Financial Services Centres (IFSCs) under the Liberalised Remittance Scheme (LRS)	All Category-I Authorised Dealer Banks
RBI/2023-2024/20 FIDD.GSSD.CO.BC.No.07/ 09.01.003/2023-24	26.4.2023	Financial Inclusion and Development Department	Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)	The Chairman/Managing Director & CEO Public Sector Banks, Private Sector Banks (including Small Finance Banks)
RBI/2023-2024/19 FIDD.MSME & NFS. BC. No.06/ 06.02.31/2023-24	25.4.2023	Financial Inclusion and Development Department	General Credit Card (GCC) Facility – Review	The Chairman/Managing Director/ Chief Executive Officer Scheduled Commercial Banks (excluding Payments Banks) and Scheduled Urban Co-operative Banks
RBI/2023-2024/18 DOR.STR.REC.12/ 21.04.048/2023-24	24.4.2023	Department of Regulation	Provisioning for standard assets by primary (Urban) co-operative banks – revised norms under four-tiered regulatory framework	All Primary (Urban) Co-operative Banks
RBI/2023-2024/17 DOR.CAP.REC.11/ 09.18.201/2023-24	20.4.2023	Department of Regulation	Master Circular- Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks (UCBs)	All Primary (Urban) Co-operative Banks
RBI/2023-2024/16 A.P. (DIR Series) Circular No. 02	12.4.2023	Foreign Exchange Department	Authorised Dealers Category-II - Online submission of Form A2	All Authorised Dealers in Foreign Exchange

RBI/2023-2024/15 DOR.CRE.REC.No.9/ 07.10.002/2023-24	11.4.2023	Department of Regulation	Master Circular - Housing Finance for UCBs	All Primary (Urban) Co-operative Banks
RBI/2023-2024/14 DOR.SFG.REC.10/ 30.01.021/2023-24	11.4.2023	Department of Regulation	Framework for acceptance of Green Deposits	All Scheduled Commercial Banks including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks) All Deposit taking Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs)
RBI/2023-2024/13 A.P. (DIR Series) Circular No.01	06.4.2023	Foreign Exchange Department	APConnect - Online application for Full Fledged Money Changers and non-bank Authorised Dealers Category-II	Full Fledged Money Changers, non-bank Authorised Dealers Category II
RBI/2023-2024/12 DOR.SIG.FIN.REC 8/26.03.001/2023-24	03.4.2023	Department of Regulation	Master Circular - Asset Reconstruction Companies	All Asset Reconstruction Companies
RBI/2023-2024/11 FIDD.CO.LBS.BC.No.04/ 02.01.001/2023-24	03.4.2023	Financial Inclusion and Development Department	Master Circular – Lead Bank Scheme	The Chairman/ Managing Director/ Chief Executive Officer SLBC/ UTLBC Convenor Banks / Lead Banks
RBI/2023-2024/10 DGBA.GBD.No.S3/ 31.02.007/2023-24	03.4.2023	Department of Government and Bank Accounts	Master Circular - Disbursement of Government Pension by Agency Banks	All Agency Banks
RBI/2023-2024/09 DOR.CRE.REC.No.07/ 21.04.172/2023-24	03.4.2023	Department of Regulation	Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)	All Scheduled Commercial Banks (excluding RRBs)
RBI/2023-2024/08 DOR.CRE.REC.No.06/ 08.12.001/2023-24	03.4.2023	Department of Regulation	Master Circular – Housing Finance	All Scheduled Commercial Banks (excluding RRBs)
RBI/2023-2024/07 CO.DGBA.GBD.No.S1/ 31-12-010/2023-2024	01.4.2023	Department of Government and Bank Accounts	Master Circular on Conduct of Government Business by Agency Banks - Payment of Agency Commission	All Agency Banks
RBI/2023-2024/06 DOR.STR.REC.3/ 21.04.048/2023-24	01.4.2023	Department of Regulation	Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances	All Commercial Banks (excluding RRBs)

RBI/2023-2024/05 DoR.STR.REC.4/ 09.27.000/2023-24	01.4.2023	Department of Regulation	Master Circular - Guarantees, Co-Acceptances & Letters of Credit - UCBs	The Managing Director / Chief Executive Officers All Primary (Urban) Co-operative Banks
RBI/2023-2024/04 DOR.STR.REC.5/ 13.07.010/2023-24	01.4.2023	Department of Regulation	Master Circular - Guarantees and Co-acceptances	All Scheduled Commercial Banks (excluding Payments Banks and RRBs)
RBI/2023-2024/03 FIDD.CO.FID.BC.No.1/ 12.01.033/2023-24	01.4.2023	Financial Inclusion and Development Department	Master Circular on SHG-Bank Linkage Programme	The Chairman/ Managing Director/ Chief Executive Officer All Scheduled Commercial Banks
RBI/2023-2024/02 FIDD.GSSD.BC.No.02/ 09.10.001/2023-24	01.4.2023	Financial Inclusion and Development Department	Master Circular on Credit Facilities to Minority Communities	The Chairman/Managing Director/Chief Executive Officer All Scheduled Commercial Banks (excluding RRBs and Foreign Banks with less than 20 branches)
RBI/2023-2024/01 FIDD.CO.GSSD.BC.No.03/ 09.09.001/2023-24	01.4.2023	Financial Inclusion and Development Department	Master Circular - Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs)	The Chairman / Managing Director / Chief Executive Officer All Scheduled Commercial Banks (including Small Finance Banks)

STATISTICAL SUPPLEMENT – RBI

Date : April, 2023

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract

1. Reserve Bank of India - Liabilities and Assets*

(₹ Crore)

Item	2022	2023		Variation	
	Mar. 18	Mar. 10	Mar. 17	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	0	114380	3145	-111235	3145
4.2 State Governments	2698	10259	3146	-7112	448

** Data are provisional*

2. Foreign Exchange Reserves*

Item	As on April 21, 2023		Variation over					
			Week		End-March 2023		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	4797026	584248	-3344	-2164	42761	5799	204628	-16175
1.1 Foreign Currency Assets #	4224244	514489	-4878	-2146	35111	4798	140326	-19444
1.2 Gold	378926	46151	940	-24	7427	951	51806	3383
1.3 SDRs	151329	18431	613	19	165	39	8592	-230
1.4 Reserve Position in the IMF	42526	5176	-20	-14	58	11	3903	116

** 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 Apr. 7, 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	18450493	406579	275952	406579	1529802	1709228
2.1a Growth (per cent)		2.3	1.7	2.3	10.1	10.2
2.1.1 Demand	2212993	32563	-45488	32563	284384	185735
2.1.2 Time	16237499	374016	321440	374016	1245418	1523493
2.2 Borrowings	501067	55738	5110	55738	36707	221363
2.3 Other Demand and Time Liabilities	790176	525	-21375	525	52019	170703
7 Bank Credit*	13845677	170442	74559	170442	1181376	1879804
7.1a Growth (per cent)		1.2	0.6	1.2	11.0	15.7
7a.1 Food Credit	20963	1058	-15176	1058	-9865	-18872
7a.2 Non-food credit	13824714	169384	89735	169384	1191240	1898675

**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	Apr. 7	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	22333227	22779807	446580	2.0	212486	1.0	446580	2.0	1725800	9.1	2073591	10.0
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3278334	3300388	22054	0.7	-68487	-2.3	22054	0.7	180274	6.5	333186	11.2
1.2 Demand Deposits with Banks	2320598	2354809	34212	1.5	-44393	-2.0	34212	1.5	290749	15.5	186211	8.6
1.3 Time Deposits with Banks	16668966	17053197	384231	2.3	326011	2.1	384231	2.3	1243269	8.7	1540581	9.9
1.4 'Other' Deposits with Reserve Bank	65330	71413	6083	9.3	-644	-1.1	6083	9.3	11508	24.9	13613	23.6
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	6916058	7370025	453967	6.6	37961	0.6	453967	6.6	429617	7.1	854434	13.1
2.1.1 Reserve Bank	1201651	1546810	345159		11166		345159		215720		85047	
2.1.2 Other Banks	5714407	5823215	108808	1.9	26795	0.5	108808	1.9	213897	4.4	769387	15.2
2.2 Bank Credit to Commercial Sector	14423483	14595459	171976	1.2	80593	0.6	171976	1.2	1191492	10.4	1898345	15.0
2.2.1 Reserve Bank	20396	20390	-6	0	-2805		-6		5094		6624	
2.2.2 Other Banks	14403087	14575069	171982	1.2	83398	0.7	171982	1.2	1186397	10.3	1891721	14.9

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
Apr. 17, 2023	–	–	–	–	3654	97890	–	–	–	-94236
Apr. 18, 2023	–	–	–	–	980	102964	657	–	–	-101327
Apr. 19, 2023	–	–	–	–	866	88710	2001	–	–	-85843
Apr. 20, 2023	–	–	–	–	10178	60185	–	–	–	-50007
Apr. 21, 2023	–	–	–	20480	16945	81556	458	–	–	-84633
Apr. 22, 2023	–	–	–	–	145	4314	–	–	–	-4169
Apr. 23, 2023	–	–	–	–	40	4083	–	–	–	-4043

SDF: Standing Deposit Facility; MSF: Marginal Standing Facility

Source:- https://www.rbi.org.in/Scripts/BS_ViewWssExtractdetails.aspx?id=55587

TOP NBFC & 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/

- **Banks' credit to NBFCs gallops at 30% for 6 months in a row**

Bank credit to the non-banking finance companies (NBFC) sector has registered a year-on-year (YoY) growth of over 30% in each of the past six months, the latest Reserve Bank of India (RBI) data showed.

According to the data, while banks' non-food credit grew 15.9% YoY to Rs 134.1 trillion in February, credit to NBFCs rose 32.4% to Rs 13.09 trillion during the same period. Data show that banks' credit to NBFCs started growing by upwards of 30% since September 2022, registering a 35.5% Y-o-Y growth in December and 31% rise in January. Lending to NBFCs now constitutes 10.5% of overall non-food credit outstanding, according to a research report by ICICI Securities.

Officials at NBFCs said the rise in banks' loans to non-bank lenders is primarily driven by their need to meet priority sector lending targets. "…The RBI has come up with guidelines on co-origination and co-lending by banks. This has come as a big relief as well as a bright opportunity for banks to meet their priority sector targets. Banks have quickly adapted these guidelines and formulated policies to join hands with NBFCs, resulting in 30%-plus growth in lending to NBFCs," said Jugal Mantri, executive director and chief executive officer at Anand Rathi Global Finance. Umesh Revankar, executive vice-chairman at Shriram Finance, told FE that banks have also become a "little too large" now. He said the retail strength of lenders reduces when they become large sized, and they incline to focus on wholesale loans.

"Banks have become a little too large now...When your size becomes large, your retail strength comes down, you tend to do more of wholesale lending rather than retail lending. Even though they want to do retail, they do not have the infrastructure to do it," Revankar said, adding that banks' credit growth to the NBFC sector will likely outpace the non-food credit growth and remain upwards of 20% in the current fiscal.

Krishnan Sitaraman, senior director and deputy chief rating officer at CRISIL, said there is also a partial impact of th base effect playing out in the February credit growth figures. "A little bit of that 30% (credit growth)-plus is also a base effect. If you look one year back, credit growth to NBFCs was not that significant. NBFCs also benefitted from the rebound in economy and their credit growth has also touched double-digits in FY23 and is expected to improve in FY24 as well. So, NBFCs' demand from the banking sector has gone up," Sitaraman said.

Source : https://www.financialexpress.com/industry/banking-finance/banks-credit-to-nbfcs-gallops-at-30-for-6-months-in-a-row/3034113/

- **NBFC loan growth to stay strong despite funding challenges**

The loan growth of NBFCs (non-banking financial companies) is expected to sustain in 2023-24 (April-March) despite challenges over funding. NBFCs are tapping into various routes like selling assets through loan pools and entering into co-lending partnerships to meet their funding needs, said bankers.

"We do not see any challenge. We have been doing securitisation from the beginning. There is always a big demand for our assets," Umesh Revankar, executive vice chairman, Shriram Finance, said.

In recent times, several non-bank lenders have seen a rise in their borrowing costs as the central bank looking to remove excess liquidity from the financial system.

Non-bank lenders have become increasingly reliant on banks for their funding needs, with banks' exposure to the segment rising to Rs 13.1 trillion in February from Rs 3.9 trillion in 2016-17 (April-March).

Currently, the exposure of non-bank lenders to banks and the capital market is over 70%, according to credit rating agency India Ratings and Research.

Going ahead, funding is likely to become more expensive and restricted for non-bank lenders as banks realign their pricing as well as funds allocation to factor in increased cost of funds and constraints of their balance sheets, said experts.

Nevertheless, non-bank lenders are not too bothered about the possible rise in borrowing costs due to the wide range of funding avenues available at their disposal.

"In the event that the cost of borrowing increases further from its already high level for NBFCs, we will consider raising foreign debt. Raising debt in India under such circumstances may not be viable, and tapping into international sources could provide more cost-effective financing options," Parry Singh, founder and chief executive officer, Red Fort Capital, said.

Source: https://www.financialexpress.com/industry/banking-finance/nbfc-loan-growth-to-stay-strong-despite-funding-challenges/3047659/

- **Liquidity woes: KKR to shut realty NBFC**

US-based investor KKR is winding down its real estate-focused non-banking financial company (NBFC) it floated along with Singaporean sovereign fund GIC in the country in 2015, said sources in the know.

"KKR could not scale up the real estate book in the recent years in the aftermath of NBFC liquidity crunch and they are planning to focus on equity investments now," said sources in the know.

Sources said that KKR also tried to bring in investors for its real estate NBFC – KKR India Asset Finance (KIAFL) – but it could not do it due to unknown reasons. A mail sent to KKR's public relations agency did not elicit any response.

NBFCs faced severe liquidity crunch after mutual funds stopped refinancing the their loans immediately after the IL&FS defaults in 2018.

The KKR's NBFC is said to have a loan book of Rs 4,000 crore and has lent to developers like Lodha group, Runwal group, Signature Global, among others, in the past.

Last year, Yesh Nadkarni, managing director & CEO of KKR's India real estate lending business, quit to join Piramal Enterprises as chief executive officer of wholesale lending in Piramal Capital & Housing Finance (PCHFL).

Many finance companies such as Edelweiss and Indiabulls sold their real estate loans to global investors like Oaktree and SSG Capital to derisk their books, and reduce the risky developer loans. Piramal group took over stressed lender DHFL.

Source: https://www.financialexpress.com/industry/banking-finance/liquidity-woes-kkr-to-shut-realty-nbfc/3059286/

- **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 Significance of a Phygital Model to Achieve Last Mile Insurance Penetration**

  India, with its vast population and diverse cultural and geographical backgrounds, faces significant challenges when it comes to insurance penetration. Despite the government's efforts to extend insurance coverage to remote areas, there are still large gaps in access to insurance. According to a report by the Insurance Regulatory and Development Authority of India (IRDAI), the penetration of life insurance in India was only 4.2% in 2022, while the non-life insurance penetration was even lower at 1%. This lack of coverage leaves millions of Indians vulnerable to financial risks and uncertainty. However, there is a growing trend in the insurance industry that is addressing this issue – the phygital model. The term "phygital" is derived from the combination of "physical" and "digital." The phygital model combines the convenience of digital platforms with the personal touch of physical interactions to create a hybrid experience for customers. By leveraging technology and physical infrastructure, insurers can provide insurance coverage to even the most remote areas of the country. The phygital model is significant for insurance penetration in India because it overcomes the challenges posed by traditional insurance models. In the past, insurers relied solely on agents and branch networks to sell their products. However, this approach had limitations in terms of reach and accessibility. The cost of setting up branches and training agents in remote areas was often too high, making it difficult to extend insurance coverage to these areas. Additionally, customers in remote areas had limited access to physical offices, making it challenging to purchase insurance or seek assistance. The phygital model addresses these issues by using digital platforms to reach customers in remote areas and physical offices or agents to provide personalized assistance. With the widespread adoption of smartphones and internet connectivity, digital platforms have become a powerful tool to engage customers and offer them convenient access to insurance products. Customers can compare products, get quotes, and purchase insurance policies from the comfort of their own homes. This convenience is especially important for customers in remote areas who may not have easy access to physical offices or face challenges in transportation. Furthermore, physical offices or agents play a crucial role in the phygital model by providing personalized assistance to customers. They can help customers understand the intricacies of insurance products, clarify doubts, and guide them through the application and claims process. This human touch adds a sense of trust and reliability, which is particularly important in an industry where customers often seek expert advice and reassurance. Another advantage of the phygital model is that it allows insurers to collect and analyse data on customer behavior and preferences. With digital platforms, insurers can gather valuable insights into customer demographics, preferences, and buying behavior. This data can be used to develop more targeted and relevant insurance products. For example, insurers can use data on customer demographics and buying behavior to design products that are tailored to specific customer segments. This approach increases the relevance of insurance products and can lead to higher customer satisfaction. In recent years, several insurance companies in India have adopted the phygital model to improve their reach and penetration. Customers can buy insurance policies from the comfort of their homes, while still having access to physical offices and agents in remote areas. In conclusion, the phygital model presents a promising solution to India's insurance penetration challenges. By leveraging technology and physical infrastructure, insurers can extend coverage to remote areas and provide a convenient, personalized experience for customers.

Source: https://timesofindia.indiatimes.com/blogs/voices/the-significance-of-a-phygital-model-to-achieve-last-mile-insurance-penetration/

- **Navigating Health Insurance Claims, Cashless and Reimbursement**

With the increasing costs of medical treatments in India, it is vital to understand the importance of health insurance in reducing financial strain. However, misconceptions and claim-related challenges often discourage individuals from investing in insurance. By familiarizing themselves with the claim process, different types of claims, and network hospitals, people can minimize last-minute complications and make informed choices for their financial well-being. A cashless claim is a type of health insurance claim where the insurance company directly settles the payment with the hospital, eliminating the need for policyholders to pay upfront. This type of claim is applicable for both planned and emergency hospitalizations. However, it is essential to note that ashless claims can only be availed at network hospitals, which are hospitals that have tie-ups with the insurance company. Each health insurance company has a network of hospitals where cashless claims can be made. These hospitals are usually listed on the insurance company's official website and can also be obtained from intermediaries or insurance agents. For planned hospitalization, policyholders must inform the insurer about the hospital admission 48 to 72 hours in advance. In the case of emergency hospitalization, there is no need to provide prior information to the insurer, but it must be communicated within 24 hours of admission. When purchasing a health insurance policy, selecting an insurer with an extensive network of hospitals is advisable. This ensures easy access to network hospitals and seamless cashless treatment. Star Health and Allied Insurance Co Ltd. is a notable insurer with a vast network of over 14,000+ hospitals nationwide, offering quality healthcare to policyholders. In addition, it's worth mentioning that cashless hospitalization is also available for group health insurance policies. In situations where treatment is received at non-network hospitals due to specific circumstances or lack of awareness, policyholders can still make claims through reimbursement. In reimbursement claims, individuals initially pay the hospital bills themselves and then submit the necessary documents, including proof of hospital bills, to the insurer for reimbursement. It is crucial to note that cashless treatment facilities are not available at non-network hospitals. Before getting admitted, policyholders should check the network hospitals in and around their locality to avoid any last-minute hassles or claim rejections. To ensure a successful reimbursement claim, policyholders must submit all necessary documents as requested by the insurer, including proof of hospital bills and any additional requirements specified in the policy. Understanding the process and types of health insurance claims is vital for managing medical expenses effectively. Cashless claims provide a convenient and hassle-free experience when treated at network hospitals, while reimbursement claims offer coverage for treatments received at non-network hospitals. By staying informed about the network hospitals, notifying the insurer promptly, and providing accurate documentation, individuals can confidently navigate the health insurance claim process, safeguarding their financial well-being in the face of medical emergencies or planned treatments.

Source: https://www.outlookindia.com/business/navigating-health-insurance-claims-cashless-and-reimbursement--news-288624

- **Odisha Government To Provide Free Crop Insurance To Farmers For 3 Years**

The Odisha government on Monday announced that it will provide free crop insurance to all farmers in the state for the next three years. Cooperation Minister Atanu Sabyasachi Nayak made the announcement after a review of his department by

Chief Minister Naveen Patnaik. "The Cooperation Department would bear the premium of the insurance from the 2023 Kharif season to the 2025-26 Rabi season. Odisha is the first state in the country to provide free crop insurance to farmers," he said. He said the department has been providing short terms agriculture loans to the farmers at low interest rates. As promised during the elections, the state government has increased the interest-free loan cap from Rs 50,000 to Rs 1 lakh. Under the scheme, more than 7 lakh small and marginal farmers have been provided loans, amounting to Rs 16,683.57 crore during the 2022-23 financial year, Nayak said.

Source: https://www.business-standard.com/india-news/odisha-government-to-provide-free-crop-insurance-to-farmers-for-3-years-123052201211_1.html

- **IRDAI Vision 2027, Insurers Team Up To Expand Insurance In AP**

As part of the insurance regulator's vision to promote spread of insurance through State-specific plans, all major life and non-life insurers have agreed to work together in Andhra Pradesh. This decision was arrived at a meeting of representatives of industry, state government and the regulator at a meeting held in Visakhapatnam on Friday. The Insurance Regulatory and Development Authority of India (IRDAI) has allotted states and union territories to every insurer to increase insurance penetration in India and take insurance to every nook and corner of the country. This decision is in line with the IRDAI Vision 2047 plan aimed at providing 'Insurance for all' by 2047 – the centenary year of India's Independence. Under the initiative, Universal Sompo General Insurance Company, Star Health and Allied Insurance Company Limited, and Aegon Life Insurance Company Limited have been allocated the state of Andhra Pradesh, to operate as the lead insurers. The objective of today's meeting in Vishakhapatnam was to foster collaboration among companies and develop actionable plans to increase insurance penetration with support from Andhra Pradesh government.

"This is a significant step towards fostering a culture of insurance in Andhra Pradesh. We look forward to working collaboratively to tackle any challenges that may come our way and providing effective solutions to make Andhra Pradesh a fully insured state," Sharad Mathur, MD & CEO, Universal Sompo said. Satishwar B., MD and CEO, Aegon Life Insurance Company, said, "Aegon Life is committed to creating a financially secure future for every Indian household, with a special focus on Andhra Pradesh's diverse communities." Anand Roy, MD & CEO of Star Health and Allied Insurance Company said the aim was to increase awareness on health insurance in Andhra Pradesh. The insurers agreed to work cohesively – among other things to work towards enhancing motor insurance coverage, providing innovative health insurance covers, and affordable life insurance solutions to the citizens, according to a release.

Source: https://www.thehindubusinessline.com/money-and-banking/irdai-vision-2027-insurers-team-up-to-expand-insurance-in-ap/article66870386.ece

- **SEBI Bats for Participation of NBFCs, MFs, Insurance Firms in Corporate Bond Market**

The Securities and Exchange Board of India (Sebi) has taken out a consultation paper outlining a novel 'client model' where entities like corporates, NBFCs, insurance companies, and mutual funds can directly participate in tri-party repo transactions in the corporate bond market. Before we unpack what exactly is a tri-party repo, we need to understand the scope of a repo agreement. A repo agreement is a short-term secured loan where one of the parties to the transaction agrees to sell the securities to the other party, and agrees to repurchase the securities later at a higher price. In such a transaction, the securities serve as collaterals. The difference between the initial price paid on the securities and the price at which the securities are repurchased is deemed to be the interest paid on the loan, in other words, known as the repo rate. An easier way to understand the repo agreement is to think of banks and NBFCs tapping the repo market for funds. Banks and NBFCs own a lot of securities which can be parked with other entities in the money market to raise funds. The transaction is a two-way street, in which the banks and NBFCs can borrow at competitive interest rates, whereas organisations flush with cash can earn interest on the money lent.

Source: https://www.moneycontrol.com/news/business/markets/sebi-bats-for-participation-of- nbfcs-mfs-insurance-firms-in-corporate-bond-market-10627081.html

- **Insurance Industry's Gross Direct Premium To Cross Rs 3 Lakh Crore By FY25**

The insurance industry is expected to net gross direct premium income (GDPI) of about Rs 3 lakh crore by FY25 as against Rs 2.4 lakh crore at the end of March 2023, a report said. Private insurers' combined ratio is likely to improve and Return of Equity (RoE) is expected at 11.2-12.8 per cent in FY2024 and 12.5-13.9 per cent in FY2025, ICRA said in a report. Most PSU insurers are expected to witness high combined ratio resulting in net losses, though it will be lower compared to last few years, it said. Moreover, it said, the capital requirement of three PSU general insurers (excluding New India) is estimated at a sizeable Rs 172-175 billion to meet solvency of 1.50 times as of March 2024, assuming 100 per cent forbearance from the regulator. The industry's GDPI grew a sharp 17.2 per cent year- on-year (YoY) in 2022-23 to Rs 2.4 lakh crore with the resumption of economic activity after the waning of Covid-19 infections. In absolute terms, the report said, the incremental growth in the GDPI was at an all-time high of Rs 35,000 crore in FY2023 (higher than Rs 20,000 crore in FY2022 and Rs 7,000 crore in FY2021). The health segment witnessed the sharpest growth, accounting for ~48-50 per cent of the incremental GDPI in FY2023, driven by rising awareness regarding health insurance. The motor segment, which was subdued due to the pandemic-related lockdowns, also picked up pace, it said. The net claims ratio improved with the normalisation of health claims, partially offset by higher claims in the motor segment with increased vehicle movement, post the pandemic, it said. Although the claims ratio improved, the underwriting losses of public sector insurers increased because of wage revision and payment of associated arrears, it said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/insurance-industrys-gross-direct-premium-to-cross-rs-3-lakh-crore-by-fy25-icra/articleshow/100253515.cms

- **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.bqprime.com/business/irdai-revives-plan-for-one-stop-insurance-portal-launch-in-three-months-bq-exclusive

TOP CORPORATE BOND MARKET NEWS

- **Bond buyers see the 'best bang for buck' in EMs as hiking cycles end**

With inflation easing around the world and many central banks nearing the end of their interest rate hikes, a growing chorus of investors say the best place for bond buyers to juice returns is in emerging markets.

The asset class stands to benefit from benchmark rates that are higher - and inflation rates that in some cases are lower - than in the US. In Latin America, central banks acted quicker than the Federal Reserve when price pressures started bubbling up, ultimately tightening more.

Now, with the Fed expected to cease raising rates soon and pivot to easing later in the year, the US dollar is sliding, paving the way for central bankers in the region to follow suit. That sets up a potential windfall for investors holding local-currency bonds.

"A structural allocation to local markets is one of the best ways to express your view in Latin America as the dollar weakens," said Mauro Favini, a senior portfolio manager at Vanguard Group who helps oversee the firm's $2.5 billion Emerging Markets Bond Fund.

"Once the Fed starts cutting, it allows Latin American central banks to follow as there is less risk of local-currency depreciation as the dollar falls," he added. "There is much more scope for capital appreciation in Latin American bonds than the US."

Consumer prices have started to fall significantly across emerging markets in recent months, with March data showing annual inflation hitting a 13-month low of 6%, compared to 6.9% in February, according to a provisional estimate from Capital Economics.

For some of Latin America's largest countries, cooling inflation is the result of decisions to move early and aggressively to raise rates.

Source: https://economictimes.indiatimes.com/ markets/bonds/bond-buyers-see-the-best- bang-for-buck-in-ems-as-hiking-cycles-end/articleshow/99543604.cms

- **India bond yields seen little changed before RBI minutes**

Indian government bond yields are expected to trade largely flat in the early session on Thursday, as traders await minutes from the Reserve Bank of India's policy meeting due later in the day. The 10-year benchmark 7.26% 2032 bond yield is expected to be in the 7.20% to 7.25% range, after closing at 7.2251% in the previous session, a trader with a private bank said.

There is absolutely no trigger for yields to move in either direction, and hence they have been unable to break 7.20% on the downside and par level on the upside since the last couple of weeks, the trader said. The minutes from the Monetary Policy Committee meeting will come after market hours and will provide clarity on the central bank's stance on interest rates.

The RBI surprised markets earlier this month by maintaining the status quo on policy rates, against a widely expected 25 basis point hike. A dip in inflation has cemented bets that the central bank will now maintain a prolonged pause.

India's retail inflation for March was at 5.66%, falling below the RBI's upper tolerance level of 6% for the first time in 2023 and the lowest since December 2021.Traders also said that bond yields are not falling due to selling pressure from state-run banks as they continue to book profits. These banks are likely to wait for government bond prices to drop before rebuilding positions.

Banks have been offloading notes over the past month to book profits, following a price rally led by hopes of a policy pivot by local and U.S. central banks, traders said. Meanwhile, the 10-year U.S. yield continues to trade around 3.60% levels as odds of a rate hike by the Federal Reserve on May 3 have risen to around 86%. The current target range is 4.75%-5.00%, up from near zero in March 2022.

Source: https://www.financialexpress.com/market/india-bond-yields-seen-little-changed-before-rbi-minutes/3054821/

- **Foreigners snap up $2 billion of India's index-eligible debt**

Foreign buying of India's index-eligible, high-yielding government bonds crossed $2 billion this year, coinciding with a survey that showed more global investors favoring debt from the South Asian nation be added to JPMorgan Chase & Co.'s benchmark emerging markets index. Overseas investors have bought 172.5 billion rupees ($2.1 billion) of so-called Fully Accessible Route (FAR) bonds, with them being net buyers in every month so far this year. The buying eclipsed the purchases in the whole of 2022 which was at 159 billion rupees.

The increased exposure by foreigners comes as India's central bank unexpectedly paused on its tightening cycle this month with bond investors betting that interest rates in Asia's third-largest economy have probably peaked. That positive sentiment is likely to get a fillip from the JP Morgan survey. Support for adding Indian government bonds designated under FAR in JPMorgan's most widely-tracked gauge for emerging market government debt rose to 60% in the survey carried out in March. That was up from 50% the previous year, analysts including Gloria Kim, managing director and global head for index research at the firm, wrote in a note last week.

"Survey respondents expressed a preference for first half 2024 at the earliest for index inclusion with a ten-month phase-in period," the analysts wrote. The survey makes no immediate change to India's status and the country remains on watch for index inclusion. The result of the consultations for a possible inclusion are due in the third quarter of 2023, it said. JPMorgan's survey follows FTSE Russell's decision in March to keep India on watch for its emerging markets government bond index.

Source: https://www.financialexpress.com/market/foreigners-snap-up-2-billion-of-indias-index-eligible-debt/3052471/

- **India bond yields may rise tracking US peers, RBI pause to support**

Indian government bond yields are expected to rise marginally in the early session on Monday, tracking a rise in U.S. yields. Underlying sentiment also remains positive, after the Reserve Bank of India surprised the market with a status quo on its policy rate on Thursday. Indian markets were shut on Friday.

The 10-year benchmark 7.26% 2032 bond yield is expected to be in the 7.21% to 7.27% range, after closing at 7.2120% on Thursday. There should be some correction in yields at the open to factor in the latest moves from U.S. Treasuries, a trader said. "Still, par levels for the benchmark should act as a strong upside for the time being."

U.S. yields rose on Friday, after data showed the U.S. economy maintained a strong pace of hiring in March, as non-farm payrolls increased by 236,000 jobs last month, while data for February was revised higher to show 326,000 jobs were added instead of 311,000 as previously reported. Economists polled by Reuters had forecast non-farm payrolls rising 239,000 in March, and the data has raised odds of a rate hike by the U.S. Federal Reserve in May to over 70%.

On Thursday, the RBI held its key repo rate steady on Thursday at 6.50% after six consecutive hikes, saying it was closely monitoring the impact of recent global financial turbulence on the economy. Most market participants now expect a prolonged pause, even though RBI Governor Shaktikanta said that the central bank stood ready to act against inflation if conditions warranted, and the decision was "a pause and not a pivot."

Goldman Sachs expects the retail inflation to come in below 6% for the rest of the year, and now expects the RBI to remain on hold till end of 2023, while maintaining tight banking system liquidity. It expects two repo rate cuts of 25 bps each in January-March and April-June.

Source: https://www.financialexpress.com/market/india-bond-yields-may-rise-tracking-us-peers-rbi-pause-to-support/3040464/

- **RBI needs to take more steps to improve the demand for government securities**

As the Reserve Bank of India (RBI) recalibrates its monetary policy to give precedence to inflation-control over growth, the large government borrowing scheduled for this fiscal year can be cause for a headache. The additional liquidity created by the large supply of sovereign bonds that will flood the market this fiscal year due to the Central and state government borrowing can stoke inflation, if not managed well. While some of the measures announced in the monetary policy will help towards this end, the central bank needs to take further steps to ensure that there is enough demand for the government securities slated for issuance this fiscal year. The RBI is clearly aware of the situation, and this is reflected in its stated intention to withdraw accommodative stance in a gradual and calibrated manner over several years. The move to suck excess liquidity has, in fact, already begun with ₹5 lakh crore already withdrawn from the system with the lapse of some facilities. The humungous government borrowing will apply upward pressure on bond yields and take interest rates in the economy higher while also increasing the borrowing cost for the government.

Some measures in the monetary policy can help assuage the pressure on the government bond market. The increase in the existing Held To Maturity limit for securities eligible for Statutory Liquidity Ratio from 22 per cent to 23 per cent of net demand and time liabilities and extending this dispensation to securities acquired this fiscal year too, can stop banks from selling these securities, if yields increase further. The move to introduce Standard Deposit Facility at 3.75 per cent where banks can lend to RBI without receiving government bonds as collateral can also enhance the demand for government securities. The G-secs received by banks when parking their funds in the reverse repo window qualifies as SLR securities. If banks move to the SDF window due to higher rates, they will have to buy bonds from the market to meet their SLR requirement. Improvement in credit demand – which is showing signs of awakening from its slumber with 9.6 per cent growth in the first week of April – can also help reduce the liquidity surplus a little.

Source: https://www.thehindubusinessline.com/opinion/editorial/bruising-bonds/article65309172.ece

Department of Banking & Financial Services Upcoming Programme

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