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TOP SPEECHES

Proportionality and financial inclusion: implications for regulation and supervision

Fernando Restoy[1]
Chair, Financial Stability Institute, Bank for International Settlements

According to World Bank research, the concept of proportionality in relation to financial inclusion can be dated back to a 2011 white paper by the G20 Global Partnership for Financial Inclusion, which identified some challenges specific to each standard-setting body (SSB) and also joint challenges for all SSBs. That report also made recommendations to be considered by all SSBs to encourage financial inclusion efforts globally. The paper introduced the proportionality principle for regulation and supervision, ie the balancing of risks and benefits against costs of regulation and supervision. It acknowledged that risks and benefits are often perceived and measured differently by different stakeholders, and that the complexity of the risk and benefit assessment multiplies when the varied regulatory and supervisory standards of the SSBs are applied across the different products, services and providers that a broad financial inclusion agenda involves. It also advocated that proportionality needs to consider not just the risks of financial exclusion, but also the benefits of financial inclusion beyond the mitigation of financial exclusion risks. In this light, it argued that while these benefits may be only indirectly related to the core mandate of SSBs, they can motivate SSBs to incorporate financial inclusion considerations into their work. The idea, of course, is not to compromise SSBs' ability to deliver on their core objectives but rather to accept the principle that good regulation should also minimise any unintended adverse impact on other social policy goals. [1]

I am grateful Patrizia Baudino for her helpful comments. The views expressed are my own and do not necessarily reflect those of the BIS. 2/3 In fact, applying the principle of proportionality can help regulation to avoid negative side effects on financial inclusion. This is true for both activity-based – such as AML/CFT – and entity-based regulation – such as that for banking or insurance firms. For example, alleviating know-your-customer (KYC) requirements for basic financial products – like pure payment accounts offered to unsophisticated firms or individuals – constitutes a good example of a proportionate application of AML/CFT rules. Arguably, risks that leeway will be used to facilitate material illegal activities are clearly contained, but the potential benefits in terms of facilitating access to the financial system by the undeserved are very large. In the area of prudential regulation, rather than applying the whole set of highly sophisticated rules based on global standards to all financial institutions, imposing simplified requirements on firms that are small and run a traditional business model is generally warranted. If the simplified rules are properly defined, they could remain effective at preserving the safety and soundness of small institutions, but they would also reduce an otherwise disproportionately costly regulatory burden. To the extent those firms are often active only in specific local communities and provide financial services to agents that could have difficulties obtaining the same services from larger institutions, proportionate prudential regulation would facilitate financial inclusion. That said, the implementation of a sound proportionality regime is not an easy task, as it is subject to relevant technical and, sometimes, political challenges. For example, the principle of proportionality has been wrongly advocated to protect small – but sometimes inefficient – firms from the competition of larger – and often more efficient – players in the markets where they operate. In that regard, proportionality should be understood as a way to correct or mitigate the penalisation of small firms by disproportionately burdensome regulation. But in no way should it become an excuse to create new privileges and distortions leading to socially sub-optimal market structures. In addition, successful financial inclusion policies may sometimes entail strengthening rather than alleviating some regulatory safeguards.

For example, increasing the access of larger segments of the population to credit or payment facilities without sufficiently effective consumer protection rules could increase rather than reduce the vulnerability of some of the newly financially included individuals. Very importantly, national authorities may be reluctant to introduce a proportionate approach in their regulatory frameworks, if they perceive that this could affect their international standing. Their concern is that this approach may be perceived as less rigorous, thus tainting the jurisdiction's reputation as a safe and sound place to do business. That could lead to efforts to adopt the full package of international standards with insufficient tailoring to the specific domestic situation and needs.

To overcome those obstacles, I believe that it is very important that national authorities are provided with sufficient international guidance. That can help authorities to properly address the technical challenges when they aim at putting in place an effective proportionality regime. Moreover, the adoption of that international guidance can help to assuage the stigma problem I have just mentioned. 3/3 In that regard, all the good work that has recently been carried out by international standardsetting bodies is certainly welcome. To cite just a few such efforts: over the summer, the Basel Committee on Banking Supervision issued high-level considerations on proportionality, which provide some options for tailoring international standards to non-internationally active banks in specific jurisdictions. Moreover, for the International Association of Insurance Supervisors, the Access to Insurance Initiative has published a series of recent reports looking at proportionality in practice, drawing on case studies in individual countries. In the area of cross-border payments, the Financial Stability Board and the other SSBs and international financial institutions involved in the design of the Roadmap on improving cross-border payments, issued in 2020, continue to monitor the issue of proportionality. In particular, the 2022 progress report on implementation of the roadmap highlights the risks of financial exclusion related to the application of disproportionate AML/CFT requirements. Moreover, in that area, the Financial Action Task Force has spearheaded the global work on the unintended consequences of the application of AML/CFT guidance, as demonstrated in its dedicated report published last year. All those efforts are substantive and relevant.

I have the impression, though, that there is sometimes scope to make the existing guidance still more practical, consistent and applicable, to use the same terms as Her Majesty did a few minutes ago. To give you a recent example of where guidance can help to overcome inertia in applying a proportionate approach and to support coordination among national authorities, let me mention the statement published in April by the European Banking Authority (EBA). There, it issued guidance on the offering of banking services to Ukrainian refugees moving to the European Union. The EBA sets out how its AML/CFT guidelines would apply in this context, and how financial institutions could adapt their AML/CFT measures to provide a pragmatic and proportionate response to the compliance challenges they face. More broadly, and looking in particular at emerging market and developing economies, I feel there is a clear demand for the international regulatory community to provide clear references for effective proportionality regimes that would help them address the challenges they face in their jurisdictions while still being perceived globally as fully consistent with a sound regulatory framework. I am sure that over the course of this workshop we will hear from representatives of those SSBs, learn more details about what they have done and, more importantly, get information about their plans for further work on the matter. I very much look forward to what I am sure will be an interesting exchange of ideas among participants, speakers and chairs.

https://www.bis.org/speeches/sp221107.pdf

Fintech & Regulation

(Speech delivered by Shri T. Rabi Sankar, Deputy Governor, Reserve Bank of India December 21, 2022 - at the Business Standard Summit in Mumbai)

1. Year-ends are usually a time for introspection and 2022 clearly offers a lot of food for thought. On the bright side, humanity seems to be finally putting the horrors of Covid behi\ nd it. The rest of the story is not so bright. The specter of war and geopolitical tension has reared its head again. We were told in the late 1990s that business cycles were dead and inflation has been conquered. After the financial crisis in advanced economies, the focus shifted to deflation. When 2021 was drawing to a close the consensus among policymakers was that rising prices was a transient episode. That changed fast as inflation zoomed to multi-decade highs and was back in contention as the primary macroeconomic problem to be fixed. Rising interest rates, volatile exchange rates led by a strong Dollar and the consequent rise in debt burden has turned the narrative on its head. Inflation, it would appear, is giving a reality check to economists and policymakers alike.

2. In the much narrower world of fintech, with a much shorter history, one story- the story of cryptocurrencies, runs in parallel. We were closing 2021 with a narrative that 'Trade' (Traditional Finance) was slow, inefficient and clumsy and 'DeFi' (Decentralized Finance) and DAOs was the path forward, riding on cryptocurrencies with their blockchain technology. Crypto prices, in their own jargon, were mooning and investors were Holding. Since May 2022, cryptos have lost more than two-thirds of their value, and the ecosystem is unravelling. The technology that was designed to herald the end of Governments and regulators and intermediaries is frantically seeking to be regulated! Arthur Clarke, the science-fiction writer, said, "any sufficiently advanced technology is indistinguishable from magic." He would have perhaps used the word 'voodoo' if he were to go by the promises peddled by crypto boosters.

3. But crypto-technology, of which crypto-currencies were but one use case, is just one strand of the wider field of fintech. Financial sector has been going through a process optimization using technology throughout its history. Over the course of the 1980s and 1990s, banks in India have evolved through Advanced Ledger Positing Machines (ALPM) to Data Base Management Systems to Total Branch Automation and finally to Core Banking Solution (CBS). A logical extension of this journey, as internet and mobile phone connectivity exploded, were internet and mobile banking. As of October 2022, there were approximately 33 crore active users of mobile banking services and approximately 7.5 crore active users of internet banking services. The revolution in data storage and processing capabilities has enabled non-banks

to offer financial services such as peer-to-peer (P2P) lending, crowdfunding, alternative credit scoring, open banking etc. In the area of payments, the transformation has been particularly striking, with 24*7*365 RTGS/NEFT, UPI, digital pre-paid instruments, QR Scan & Pay, Bharat Bill Payment System (BBPS), AePS ushering in a new era of digital payments. New information technologies like cloud computing, APIs, big data and AI/ML methods will ensure that FinTech would be the dominant theme in delivery of financial services in the future.

4. Fintech is generally described as an industry that uses these technologies to make financial systems and the delivery of financial services more efficient. The rise of fintech – lending platforms, open banking, payment apps - is a major source of disruption to the banking industry. But these new business models and the transformation of existing businesses have brought new challenges for regulation. Regulators need to ensure that non-bank entities lying outside the regulatory perimeter for banks do not undermine the role of banks, raising financial stability concerns. At the same time, there is the need for these efficiency-inducing new technologies to be incentivized. Clearly, the entity based regulation of banks with its focus on health parameters like capital adequacy, leverage, liquidity or financial integrity requirements like KYC, AML/CFT requires to be adapted to the presence of fintech entities that are not subject to the same regulatory requirements. The concept of activity based regulation with the basic theme of 'same activity same regulation' has gained currency. The fundamental point is that any entity providing banking services needs to be subject to similar regulation as banks. An arrangement where regulation of non-bank fintech's are not aligned to the regulation of banks (or their subsidiaries) offering similar services will create inefficiencies and risks associated to regulatory arbitrage. Simultaneously, new risks associated with use of information technology like cyber crimes and frauds also need to be addressed if the wider population is to be encouraged to adopt digitization.

5. How do we at RBI seek to address these challenges? RBI's plays a dual role – as a developer of the financial system as well as a regulator. Its regulation is premised on three principles. First, innovation is to be encouraged. Second, innovation should be assimilated in the financial system in a non-disruptive manner. And third, the course of digitization should at every step ensure customer protection.

Encouraging Innovation

6. In the payment space RBI has played a role that is well recognized. Introduction of RTGS, NEFT, CTS have been achieved with its own initiative. Extending RTGS and NEFT to 24x7 has opened up scope for the growth and internationalization of financial markets. Setting up appropriate institutions has been another prescient move by RBI. IDRBT, set up in 1996, and focused exclusively on banking technology has led the initial stage of technology adoption in the banking system through the creation of INFINET, National Financial Switch etc. NPCI, founded in 2008, has been the pioneer in digitization of retail payments system in India, with its UPI, RuPay cards, AePS, BBPS and many other systems establishing India as the leading country in retail payment innovations. RBI came up with the guidelines on Account Aggregator as early as in 2016. With the traction that this ecosystem is witnessing, AAs are poised for bringing in the next set of innovation in the financial services segment. P2P regulations came in 2017 when the sector was relatively at the nascent stage in India. A Regulatory Sandbox framework was created in 2019 to incentivize adoption of innovative financial products or services

in a controlled environment. The Reserve Bank Innovation Hub (RBIH) was set up for collaborating with financial sector institutions, technology industry and academic institutions for exchange of ideas and development of prototypes related to financial innovations. RBI, as well as the institutions it has created hold regular competitive events like the Hackathon to provide a channel for the fintech and start-up sector to showcase innovations.

Non-Disruptive Innovation

7. No regulator has the luxury of letting innovation disrupt the financial system in the hope that market might reach its own equilibrium eventually. For instance, we cannot afford to let loose DeFi technologies on the financial institutions with virtually no understanding of how a bank-less system would operate. Apart from the unacceptable financial stability risks, this would amount to a regulator working towards its own irrelevance. It is necessary that a regulator controls the manner and pace of absorption of new technology. Allowing disruptive technology without clarity on whether the alternative is even feasible, let alone desirable, would be an unacceptable gamble. A key element for smooth absorption of new technology is to ensure a level playing field. If offering credit cards requires a banking (or similar) license, allowing a non-licensed entity to offer them would amount to undermining the banking system, as it would be placed at a competitive disadvantage. Similarly, digital payments are essentially a banking service in the sense that they involve movement of funds from one deposit account to another. Deposit accounts are a necessity, technology merely a tool; deposit accounts can be used to make payments even without technology, but not the other way round. Facilitating a non-bank to use its technology to move bank deposits would amount to creating a competitive edge for the non-bank. It may be argued that non-banks could avoid use of bank deposits by maintaining deposit like funds, say, wallets. Then non-banks would be deposit taking entities, that is, they would be effectively banks which would require a banking license. A less disruptive and more efficient mechanism is to facilitate banks to collaborate (or acquire) the new technology. Banks could also outsource or internalize the new technology. Would it disincentivize innovation? Not likely, if the non-bank technology is appropriately priced.
8. This brings us to the key issue of regulatory arbitrage. If we want to avoid the inefficiencies caused by differential regulations for similar activities, a non-bank undertaking banking functions, needs to be licensed and regulated like a bank. Without the license, it should not be allowed to undertake banking activities. This for example, is what RBI did recently when it clarified that PPIs cannot be funded out of credit lines, because it enabled an entity to undertake a licensed business without a license. That regulation clearly established the principle of 'same activity, same regulation'.
9. More generally, as long as innovations are compensated with appropriate market determined pricing, maintaining consistency in regulation would encourage innovation and enable absorption of new technology non-disruptively.

Customer Protection

10. Experience has taught us that market forces are unsuited to protect consumer interest in the absence of regulation. Whether it is the derivatives market or the LIBOR setting, unregulated markets eventually lead to outcomes that are inefficient for customers. RBI's guidelines on storage of payments data are intended to secure users' payment data. RBI's warnings on cryptocurrencies and its public stance were guided as much by policy sovereignty as by the need to protect

uninformed investors from being soaked. RBI was perhaps the first central bank to openly call for complete prohibition of cryptocurrencies in India. It is now recognized globally that a total ban is a valid policy option. It is a distinct possibility that ambiguous or equivocal stance of regulators globally has contributed to the surge in demand and valuation in crypto products in recent years. RBI's caution has perhaps contained the damage in India.

11. In the payments space, India is one of the few countries that protects users through two-factor authentication. Although now it is recognized as an innovative regulation, at the time RBI introduced it, about a decade back, there was a push-back and criticism. Similarly, the recent measures such as better customer control on card usage, shorter Turn-Around-Times for transaction failures, tokenization are all initiatives intended to protect the customer.

12. Regulation of digital lending apps is another example of regulations aimed at responsible practices and customer protection. A key innovation for financial inclusion and providing credit to entities that lack access to the traditional financial system, these apps nonetheless raised a host of business conduct issues such as unfair business practices, opaque interest rates, and unethical recovery practices. As a percentage of overall loan portfolio of banks and NBFCs, digital lending represents 0.31%2 and 0.55%, respectively in FY 2017. While still rather small, their potential needs to be realized, but in a responsible manner. RBI had earlier, in June, 2020, advised banks and NBFCs to adhere to fair practices codes and outsourcing guidelines. Given the emerging concerns, comprehensive directions were issued in September, 2022. These regulations specified the entities that were permitted to lend, transparent loan and pricing norms and fairness in treating customers.

13. In this context, an unexpected regulatory challenge has been what one might characterize as compliance-aversion. Financial entities traditionally subject to regulation understand that regulation serves the larger objective of systemic stability and development. Entities outside the financial space are still learning to adapt to a regulated environment. Consequently, their initial reaction to a regulation is objection. Ironically enough, the narrative created to justify such objection is usually customer inconvenience, even by industry bodies. The norms prescribed for recurring payments were criticized as inconvenient to customers. The norms prescribed for recurring payments were criticized as inconvenient to customers until a survey3 revealed that more than 80% of customers welcomed the move. Although to a lesser extent, similar friction is occasionally exhibited even by regulated entities as can be seen in banks' shunning of the FX Retail4 platform which would significantly improve the price for retail buyers/sellers of forex. RBI's approach to regulatory aversion is to patiently ease in regulations, giving the eco-system adequate time to adjust.

Global Coordination

14. A unique challenge for regulating fintech's is the need for global coordination. Since these services are on-line, and as in case of cryptocurrencies they span across national boundaries, effective regulation would require global coordination. Since technology by its very nature evolves faster than regulations, regulators would usually be lagging behind. A global common understanding of the risks involved and about the nature of regulation is necessary for it to be effective. The issue is further complicated by differential impact of such technology for different countries. For instance, stable coin would not pose as much of a threat to the country whose currency is used as a peg, as it would to other countries.

Evolving common understanding on the risks posed by fast mutating technology is likely to remain a major challenge.

Internationalization of Innovations

15. RBI's developmental role has prodded it to not only take many technology initiatives itself, it has also started the process of extending the global reach of India's premiere innovations. Internationalization of Indian Payment Systems is a policy objective of RBI. After successful enablement of QR Code based payments through UPI at merchant locations in Singapore, UAE and Bhutan, RBI is collaborating with Monetary Authority of Singapore to enable cross-border person to person remittances in an instant and cost-effective manner. Additionally, we have allowed to deploy a UPI-like system for Nepal. Engagements are ongoing with multiple countries for UPI QR based payments, person to person payments, and developing UPI like systems.

16. To provide a more efficient alternative to private cryptocurrencies, RBI has embarked on the journey to introduce CBDC (Digital Rupee). It is expected to work as another efficient choice along with existing payment products. Digital Rupee can facilitate transactions in locations with limited or no internet connectivity and therefore, further financial inclusion. Going forward, it can be effectively used for delivery of Government subsidies and benefits using the feature of programmability which will lead to targeted or specified use of funds. Among the various benefits of CBDC, perhaps the most important is its potential to make cross-border payments faster and cheaper. Here again, a necessary precondition is that other countries develop their own CBDCs and there is a global understanding on the need to make CBDCs interoperable (basically by linking the various CBDC systems) and develop standards for effective interfacing.

Conclusion

17. Being a regulator, as well as a central bank, RBI's regulations focus on safeguarding national interests as well as being responsive to user needs. In the area of Fintech, creating an ecosystem to incentivize and harness innovation is a prime driver of our regulatory approach. In this era of global financial markets and fintech revolution, RBI's mandate is to protect sovereignty and serve public interest. Our efforts are aimed at making regulation consultative and collaborative, and maintain policy independence.

https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR1366477FFAC0D3024F719B8C65563146EBCE.PDF

TOP BANKING NEWS

- **Reserve Bank Of India Issues Framework For Indian Banks' Foreign Biz**

  The Reserve Bank of India (RBI) has put in place a framework to allow overseas subsidiaries and branches of Indian banks and financial institutions to undertake activities not specifically permitted in the Indian domestic market. The framework also specifies the applicability of these instructions to International Financial Services Centers in India, including Gujarat International Finance Tec-City (GIFT City). While these activities may not need prior approval, they are subject to compliance with all applicable laws/ regulations and conditions stipulated by the RBI and those prescribed by the host regulator. The parent Indian bank and financial Institution shall ensure that dealing in such products is done with the prior approval from their board and, if required, the appropriate authority in the jurisdictions concerned. They must have adequate knowledge, understanding, and risk management capability for handling such products, added the RBI.

  Source: https://www.business-standard.com/article/finance/reserve-bank-of-india-issues-framework-for-indian-banks-foreign-biz-122120101314_1.html

- **E-Rupee, RBI Creates Rs 1.71 Crore Of Digital Currency For Retail Pilot**

  The pilot project for central bank digital currency (CBDC) in the retail segment went live on Thursday with the Reserve Bank of India (RBI) issuing Rs 1.71 crore to four participating banks based on their indents. The central bank has identified four banks for the first phase of the pilot — State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank — in four cities, Mumbai, New Delhi, Bengaluru and Bhubaneswar. The highest indent was received from one private sector bank. While the pilot was started with Rs 1.71 crore of digital currency, but depending on the user demand and bank's liquidity requirements, the token indent and issuances to banks will keep evolving dynamically, sources said. The central bank will be creating more digital rupee as demand from banks comes in over the next few days. "Friends have transacted between them, customers have transacted with merchants, small and big," said a banking industry official. Merchants include the street fruit vendors to the bigger one, with popular merchants such as food delivery apps will also accept digital rupee in the coming days, sources said. The target is to involve 50,000 merchants and customers in the next few days. Four more banks — Bank of Baroda, Union Bank of India, HDFC Bank and Kotak Mahindra Bank — will join the pilot and it shall be subsequently extended to Ahmedabad, Gangtok, Guwahati, Hyderabad, Indore, Kochi, Lucknow, Patna, and Shimla.

  Source: https://www.business-standard.com/article/finance/e-rupee-rbi-creates-rs-1-71-crore-of-digital-currency-for-retail-pilot-122120101215_1.html

- **SBI's Maiden Infra Bond Issue For Rs 10,000 Cr Oversubscribed 3.27 Times**

  The country's largest lender, State Bank of India, has raised Rs 10,000 crore through its maiden issue of infrastructure bonds, for funding projects in segments such as power and roads. The coupon on the 10-year paper was fixed at 7.51 per cent, or about 17 basis points above the yield on government benchmark bonds. The base issue size was Rs 5,000 crore, with a green shoe option of Rs 5,000 crore. The issue received 143 bids for over Rs 16,000 crore. Provident funds, mutual funds, insurance firms and corporations were prominent investors. The bank has a AAA credit rating from domestic agencies for the instrument. As for deployment of the money raised from these bonds, SBI has a pipeline of identified projects for which credit has been sanctioned. SBI's infrastructure loans book grew by 10.81 per cent year on year to Rs 3.67 trillion as of September 2022. Of this, exposure to the power sector was Rs 1.95 trillion and that to roads was Rs 95,614 crore. SBI Chairman Dinesh Khara said that development of infrastructure is a key priority for the country. These long-term bonds will help the bank in furthering the cause of infrastructure development. Infrastructure bonds are long-term, fully paid, redeemable and unsecured financial instruments.

Source: https://www.business-standard.com/article/finance/sbi-s-maiden-infra-bond-issue-for-rs-10-000-cr-oversubscribed-3-27-times-122120201097_1.html

- **Core Activities Of A Bank Should Not Be Outsourced, Says RBI's AK Choudhary**

In order to maintain stability in the banking system, banks' senior management and board members have to ensure that none of the core banking activities of a bank are outsourced to any third party at any point in time, said Ajay Kumar Choudhary, executive director, Reserve Bank of India (RBI). Speaking at an Indian Banking Association (IBA) event on Saturday, Choudhary said, "In line with our outsourcing guidelines, the board and senior management must ensure that at no point of time, the core activities of banks are outsourced". "While outsourcing it is very important that adequate safeguards are established to seal the situation as well as the financial stability of the banking system," he added. With fintech's providing innovative solutions, banks have increasingly turned to these players and outsourced a host of activities, especially customer services. "We are observing an increase in the outsourcing of services to the banking and finance sector. The idea is that banks should concentrate on the development and upgradation of their core banking solution in a manner to provide easy integration," said Choudhary. With increased use of technology in banking to provide seamless services, banks are collaborating with a limited pool of tech providers, which may result in a concentration risk. According to Choudhary, this may result in concentration which may turn severe. "Diversification is perhaps the easiest way to mitigate such risk and I urge all the banks and other industry participants to explore newer options when it comes to adopting technology."

Source: https://www.business-standard.com/article/finance/core-activities-of-a-bank-should-not-be-outsourced-says-rbi-s-ak-choudhary-122120300385_1.html

- **Mix Of PSBs Aided In Boosting Customer Services, Creating Strong Banks, MoS**

The amalgamation of public sector banks has helped in improving customer services and creating strong banks, Minister of State for Commerce and Industry Som Parkash said on Wednesday. In a written reply to a question in the Lok Sabha, the minister said the objective of amalgamation of the banks was to facilitate consolidation among PSBs to create "strong and competitive banks" capable of achieving economies of scale and realization of synergy benefits with wider product and service offering to customers. "As a result of this effort, customers of amalgamated banks received access to increased number of branches and ATMs from which they can now avail banking services. Customers have also received access to a larger bouquet of products and services," he said. The amalgamation also enhanced their lending capacity for loans of a larger size and has also enabled banks to open/reorganize, controlling offices and processing centers, equipping them for better customer serving, Parkash added. He was replying to the question of whether consolidation of public sector banks has impacted positively in ease of doing business.

Source: https://www.business-standard.com/article/finance/mix-of-psbs-aided-in-boosting-customer-services-creating-strong-banks-mos-122120700812_1.html

- **Not All Banks May opt To Sell Products Of 27 Insurers, Say Experts**

Not all corporate insurance agents - banks and others - may sign up soon to distribute products of 27 insurers - nine each in life, general and health- said experts. Even when the Insurance Regulatory and Development Authority of India (IRDAI) had allowed the corporate agents to tie up with three insurers in each segment, not many had opted for that. "The nine tie ups in each sector were recently prescribed. We have distribution tie-ups with three life insurers and two general insurers," S.Krishnan, Managing Director and CEO, Tamilnad Mercanti le Bank Ltd (TMB) said. The TMB has signed up as a corporate agent for Bajaj Allianz Life Insurance Company Ltd on Friday. "Not all banks have three insurance tie ups even now," said Tarun Chugh, Managing Director and CEO, Bajaj Allianz Life when asked as to why not totally open up the distribution network. Insurers are happy with the opening up of the distribution network as they need not shell out huge sums as a sign-in bonus to banks as corporate agents. Earlier, when the banks were allowed to distribute products of only one insurer, the insurance companies paid a sign-up bonus to the banks under various heads, industry officials not wanting to be quoted had told IANS. For the life insurer's banks with their wide branch network and acting as corporate agents bring in sizable volume of business.

Source:https://www.business-standard.com/article/finance/not-all-banks-may-opt-to-sell-products-of-27-insurers-say-experts-122121000148_1.html

- **Banks Need To Scale Up Investments In Technology, Says RBI's MK Jain**

Reserve Bank of India (RBI) deputy governor MK Jain has said that banks' legacy core banking system (CBS), developed in the pre-mobile era, is perhaps not well suited to make swift changes in product design, computation capabilities and API integration, among others. According to him, these entities need to scale up their investment in technology to keep up with the changing times. During a speech at the National Institute for Banking Studies and Corporate Management (NIBSCOM), Jain said that banks and financial institutions (FIs) should foster continuous innovation. In a technology-led dynamic environment, the financial sector will have to anticipate and prepare for requirements, he said. According to Jain, technology is revolutionizing the financial services industry and bringing a disruptive paradigm shift in the delivery of banking services. As technology companies have entered the financial space, banking services are being bundled onto platforms and delivered through mobiles. This is resulting in consumers having the convenience of accessing financial products across the entire spectrum of banking, capital markets, insurance and pension as well as non-financial products directly through their mobile phones.

Source: https://www.business-standard.com/article/finance/banks-need-to-scale-up-investments-in-technology-says-rbi-s-mk-jain-122120900360_1.html

- **RBI Imposes Penalty On 13 Cooperative Banks For Breaching Regulatory Norms**

The Reserve Bank of India on Monday announced penalties on 13 cooperative banks for contravention of various regulatory norms. The penalties range between Rs 50,000 and Rs 4 lakh. The maximum penalty of Rs 4 lakh has been imposed on Shri Kanyaka Nagari Sahakari Bank, Chandrapur, and Rs 2.50 lakh fine on The Vaidyanath Urban Co-operative Bank, Beed. A penalty of Rs 2 lakh each has been slapped on Wai Urban Co-operative Bank, Satara and Indore Premier Co-operative Bank, Indore. For contravention of various norms, a penalty of Rs 1.50 lakh each has been imposed on Patan Nagarik Sahakari Bank, Patan and The Tura Urban Cooperative Bank, Meghalaya. The other banks on which have penalties been imposed are: Nagrik Sahakari Bank Maryadit, Jagdalpur; Jijau Commercial Co-operative Bank, Amravati; Eastern & North-East Frontier Railway Co-op Bank, Kolkata; Jila Sahakari Kendriya Bank Maryadit, Chhatarpur; Nagrik Sahakari Bank Maryadit, Raigarh; Jila Sahakari Kendriya Bank Maryadit, Bilaspur; and Jila Sahakari Kendriya Bank Maryadit, Shahdol. In each case, the RBI said penalties are based on the deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the banks with their customers.

Source: https://www.business-standard.com/article/finance/rbi-imposes-penalty-on-13-cooperative-banks-for-breaching-regulatory-norms-122121201195_1.html

- **Digital Lending Apps, RBI Received 13,000 Complaints Against Banks, NBFCs**

The Reserve Bank of India (RBI) has received about 13,000 complaints against banks and non-banking finance companies (NBFCs) about their digital lending applications and harassment by recovery agents. The grievances were filed under the banking regulator's integrated ombudsman scheme of 2021 during the past 19 months (April 2021-November 2022), said Bhagwat Karad, Minister of State, Ministry of Finance, in a written response to Parliament. "According to RBI, during the period April 1, 2021 to November 30, 2022, as many as 12,903 complaints have been received against banks and NBFCs pertaining to digital lending applications/apps and against recovery agents/harassment by recovery agents under the Integrated Ombudsman Scheme of RBI," the minister said. RBI had launched the integrated ombudsman scheme in 2021, under which complaints against banks and NBFCs about their digital lending apps could be lodged. The ombudsman has the power to pass an award for any consequential loss suffered by complainants up to Rs 20 lakh, and an additional sum of up to Rs 1 lakh for the loss of the complainant's time, expenses incurred and for harassment/mental anguish suffered. During the pandemic, a spate of incidents had come to the fore, about borrowers being harassed by digital lending players.

Source: https://www.business-standard.com/article/finance/digital-lending-apps-rbi-received-13-000-complaints-against-banks-nbfcs-122121200895_1.html

- **Banks Wrote Off NPAs Over 10 Trillion In Last Five Financial Years**

Banks have written off bad loans worth Rs 10,09,511 crore during the last five financial years, finance minister Nirmala Sitharaman informed Parliament on Tuesday. The non-performing assets (NPAs), including those in respect of which full provisioning has been made on completion of four years, are removed from the balance sheet of the bank concerned by way of write-off, she said in a reply to Rajya Sabha. "Banks write off NPAs as part of their regular exercise to clean up their balance sheet, avail tax benefit and optimise capital, in accordance with RBI guidelines and policy approved by their boards. As per inputs received from RBI, Scheduled Commercial Banks (SCBs) wrote off an amount of Rs 10,09,511 crore during the last five financial years," she said. As borrowers of written-off loans continue to be liable for repayment and the process of recovery of dues from the borrower in written-off loan accounts continues, write-off does not benefit the borrower, she said. Banks continue to pursue recovery actions initiated in written-off accounts through various recovery mechanisms available, such as filing of a suit in civil courts or in Debts Recovery Tribunals, filing of cases under the Insolvency and Bankruptcy Code, 2016 and through sale of non-performing assets. SCBs have recovered an aggregate amount of Rs 6,59,596 crore, including recovery of Rs 1,32,036 crore from written-off loan accounts during the last five financial years, she said. In cases where it is prima facie found that officials are responsible for the lapses of non-compliance with the laid down systems and procedures or misconduct or non-adherence to the due-diligence norms, action is initiated against the erring officials under the board-approved staff accountability policy, she said.

Source: https://www.business-standard.com/article/finance/banks-wrote-off-npas-over-10-trillion-in-last-five-financial-years-fm-122121300636_1.html

- **Reserve Bank of India Removes Informal NDF Restrictions on Banks**

The Indian central bank has lifted the informal restrictions on rupee non-deliverable forward trades it had placed on local banks in October, four bankers told Reuters. All banks are now back to building positions in this segment, said one of the bankers with a private sector lender. The bankers declined to be named as they are not authorized to speak to media. bU.S. Federal Reserve's less hawkish outlook, allowing the RBI to remove the restrictions. The RBI, now, does not think that banks exploiting any mis-pricing between the two markets pose a threat to the rupee, another trader at a private sector bank said. The dollar's decline and the relatively stable outlook has helped RBI, the trader said. The dollar index is hovering around 105, down 8.5% from year-to-date highs. The 2-year Treasury yield is down 52 basis points from its peak. The Fed is expected to deliver a smaller 50 basis points rate increase this week after four back-to-back hikes by three-quarters of a percentage point.

Source: https://www.business-standard.com/article/finance/reserve-bank-of-india-removes-informal-ndf-restrictions-on-banks-report-122121300479_1.html

- **Bank Credit Grows 17.5% In A Fortnight; Deposits Up 10%, RBI Data**

Bank credit grew by 17.5 per cent year-on-year (YoY) to Rs 131.06 trillion in the fortnight ended December 2, reflecting the continuation of firm demand for loans in the economy, latest Reserve Bank of India (RBI) data showed. Deposit mobilization increased 9.9 per cent YoY to Rs 175.24 trillion during the period, a healthy rise from 9.6 per cent a fortnight ago, the latest data showed. Deposit growth is picking up gradually as banks have begun to pass on the rate hikes done by the RBI.As the system liquidity is shrinking, banks have become more aggressive to garner deposits to fund the high credit growth in the economy. The swift pace of growth in bank credit alongside slower deposit growth has exerted pressure on banks to mobilize funds, with lenders raising deposit rates as well as turning to debt capital markets an masse over the past few months to raise money. Earlier this week, banks made a beeline to raise deposit rates as major private lenders such as HDFC Bank, ICICI Bank, Axis Bank, and Kotak Mahindra Bank raised interest rates on their deposits. IDFC First Bank, Equitas Small Finance Bank, and AU Small Finance Bank also announced revised deposit rates over the past few days, with analysts saying that rates were finally moving in line with the RBI's policy rate hikes. Country's largest lender State Bank of India (SBI) raised deposit rates by 15-100 basis points, the maximum increase being for bulk deposits. Having said that, the critical 1–3-year deposit rates have been increased by 50-65 bps by SBI.

Source: https://www.business-standard.com/article/finance/bank-credit-grows-at-17-5-deposits-jump-9-9-shows-rbi-data-122121601030_1.html

SELECT RBI CIRCULARS DECEMBER 2022

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2022-2023/158 CO.DPSS.OVRST. No.S1619/06-08-005/2022-2023	26.12.2022	Department of Payment and Settlement Systems	Central Payments Fraud Information Registry – Migration of Reporting to DAKSH	The Chairman / Managing Director / Chief Executive Officer Banks, Non-bank Payment System Operators (PSOs) and Credit Card issuing Non-Banking Financial Companies (NBFCs)
RBI/2022-2023/157 FIDD.CO.LBS. BC.No.14/02.08.001/ 2022-23	20.12.2022	Financial Inclusion and Development Department	Formation of new district in the State of Assam – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned
RBI/2022-2023/156 IDMD.CDD.No.S2581/ 14.04.050/ 2022-23	16.12.2022	Internal Debt Management Department	Sovereign Gold Bond (SGB) Scheme 2022-23	Scheduled Commercial Banks (as per the list attached), Designated Post Offices (as per the list attached) Stock Holding Corporation of India Ltd. National Stock Exchange of India Ltd, Bombay Stock Exchange Ltd. Clearing Corporation of India Ltd.
RBI/2022-2023/155 DOR.ACC.REC. No.91/21.04.018/ 2022-23	13.12.2022	Department of Regulation	Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 - Disclosure of material items	All commercial banks
RBI/2022-2023/154 DoR.FIN.REC.90/ 20.16.056/ 2022-23	13.12.2022	Department of Regulation	Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures	All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks All-India Financial Institutions (Exim Bank, NABARD, NHB, SIDBI and NaBFID) All Non-Banking Financial Companies (including Housing Finance Companies) All Credit Information Companies

RBI/2022-2023/153 A. P. (DIR Series) Circular No. 21	12.12.2022	Financial Markets Regulation Department	Master Direction – Foreign Exchange Management (Hedging of Commodity Price Risk and Freight Risk in Overseas Markets) Directions, 2022	All Authorised Dealer Category – I Banks
RBI/2022-2023/152 A. P. (DIR Series) Circular No. 20	12.12.2022	Financial Markets Regulation Department	Hedging of Commodity Price Risk and Freight Risk in Overseas Markets	All Authorised Dealer Category – I Banks
RBI/2022-2023/151 A. P. (DIR Series) Circular No. 19	12.12.2022	Financial Markets Regulation Department	Hedging of Gold Price Risk in Overseas Markets	All Authorised Dealer Category – I Banks
RBI/2022-2023/150 DOR.MRG.REC.89/ 21.04.141/ 2022-23	08.12.2022	Department of Regulation	Review of SLR holdings in HTM category	All Commercial Banks
RBI/2022-2023/149 REF.No.MPD.BC.396/ 07.01.279/2022-23	07.12.2022	Monetary Policy Department	Standing Liquidity Facility for Primary Dealers	Standing Liquidity Facility for Primary Dealers
RBI/2022-2023/148 DOR.RET.REC.88/ 12.01.001/ 2022-23	07.12.2022	Department of Regulation	Change in Bank Rate	All Banks
RBI/2022-2023/147 FMOD.MAOG.No.148/ 01.01.001/2022-23	07.12.2022	Financial Markets Operation Department	Liquidity Adjustment Facility- Change in rates	All Liquidity Adjustment Facility (LAF) participants
RBI/2022-2023/146 DOR.CAP.REC.No.86/ 09.18.201/2022-23	01.12.2022	Department of Regulation	Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy	All Primary (Urban) Co-operative Banks
RBI/2022-2023/145 DOR.MRG.REC.87/00-00-020/2022-23	01.12.2022	Department of Regulation	Operations of subsidiaries and branches of Indian banks and All India Financial Institutions (AIFIs) in foreign jurisdictions and in International Financial Services Centers (IFSCs) - Compliance with statutory/regulatory norms	All banks regulated by the Reserve Bank (excluding co-operative banks, Regional Rural Banks and Local Area Banks) and All India Financial Institutions (AIFIs)

RBI/2022-2023/144 DOR.REG.No.84/ 07.01.000/2022-23	01.12.2022	Department of Regulation	Revised Regulatory Framework - Categorization of Urban Co-operative Banks (UCBs) for Regulatory Purposes	All Primary (Urban) Co-operative Banks
RBI/2022-2023/143 DOR.REG.No.85/ 07.01.000/2022-23	01.12.2022	Department of Regulation	Review of norms for classification of Urban Co-operative Banks (UCBs) as Financially Sound and Well Managed (FSWM)	All Primary (Urban) Co-operative Banks
RBI/2022-2023/142 FMRD.FMSD.06/ 03.07.25/2022-23	01.12.2022	Financial Markets Regulation	Notification of Significant Benchmark	All the Financial Benchmark Administrators

STATISTICAL SUPPLEMENT – RBI

Date : Dec 23, 2022					
Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
(₹ Crore)					
Item	**2021**	**2022**		**Variation**	
	Dec. 17	**Dec. 9**	**Dec. 16**	**Week**	**Year**
	1	**2**	**3**	**4**	**5**
4 Loans and Advances					
4.1 Central Government	-	-	-	-	-
4.2 State Governments	13574	17351	12052	-5299	-1522

** Data are provisional.*

2. Foreign Exchange Reserves								
Item	**As on December 16, 2022**		**Variation over**					
			Week		**End-March 2022**		**Year**	
	₹ Cr.	**US$ Mn.**	₹ Cr.	**US$ Mn.**	₹ Cr.	**US$ Mn.**	₹ Cr.	**US$ Mn.**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1 Total Reserves	4669753	563499	28951	-571	70935	-43811	-166244	-72169
1.1 Foreign Currency Assets#	4140448	499624	25718	-500	45883	-41099	-212780	-72591
1.2 Gold	336282	40579	1188	-150	14069	-1972	38190	1396
1.3 SDRs	150669	18181	1704	75	7617	-710	5443	-908
1.4 Reserve Position in the IMF	42354	5114	342	4	3366	-29	2903	-65

** 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 Dec. 2, 2022**	**Variation over**				
		Fortnight	**Financial year so far**		**Year-on-year**	
			2021-22	**2022-23**	**2021**	**2022**
	1	**2**	**3**	**4**	**5**	**6**
2 Liabilities to Others						
2.1 Aggregate Deposits	17524172	226819	838654	1058859	1369080	1572006
2.1a Growth (per cent)		1.3	5.5	6.4	9.4	9.9
2.1.1 Demand	2089273	38409	6941	16527	276042	221140
2.1.2 Time	15434899	188410	831713	1042332	1093037	1350866
2.2 Borrowings	440857	-34004	17849	166263	9237	178984
2.3 Other Demand and Time Liabilities	722180	12408	-38414	81332	15777	103987
7 Bank Credit*	13106653	158840	311695	1215339	760585	1947671
7.1a Growth (per cent)		1.2	2.9	10.2	7.3	17.5
7a.1 Food Credit	51619	-621	25183	-3391	-9475	-34818
7a.2 Non-food credit	13055034	159461	286512	1218730	770061	1982489

**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									
	2022	Fort-night	Financial Year so far		Year-on-Year				Year-on-Year			
					2021-22		2022-23		2021		2022	
	Mar. 31	Dec. 2	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	20493729	21616563	216641	1.0	972684	5.2	1122834	5.5	1663976	9.2	1799301	9.1
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3035689	3088344	-5274	-0.2	124385	4.5	52655	1.7	198362	7.4	212130	7.4
1.2 Demand Deposits with Banks	2212992	2230411	38351	1.7	11988	0.6	17419	0.8	293477	17.1	223303	11.1
1.3 Time Deposits with Banks	15186605	16232577	189044	1.2	835426	5.9	1045973	6.9	1165781	8.5	1346873	9.0
1.4 'Other' Deposits with Reserve Bank	58444	65231	-5479	-7.7	884	1.9	6786	11.6	6356	15.2	16996	35.2
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	6477629	6738911	126149	1.9	436161	7.5	261282	4.0	461587	7.9	452375	7.2
2.1.1 Reserve Bank	1450596	1318497	92450		210260		-132099		217950		8551	
2.1.2 Other Banks	5027033	5420414	33699	0.6	225901	4.8	393381	7.8	243637	5.1	443824	8.9
2.2 Bank Credit to Commercial Sector	12616520	13845746	166379	1.2	197103	1.7	1229226	9.7	810171	7.3	1980176	16.7
2.2.1 Reserve Bank	16571	19799	5138		-6642		3229		-8809		17732	
2.2.2 Other Banks	12599950	13825947	161240	1.2	203745	1.7	1225997	9.7	818979	7.3	1962444	16.5

5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Dec. 12, 2022	–	–	–	–	35	204788	–	370	–	-205123
Dec. 13, 2022	–	–	–	–	2969	208870	–	135	–	-206036
Dec. 14, 2022	–	–	–	–	215	177306	–	1285	–	-178376
Dec. 15, 2022	–	–	–	–	39	162303	565	1360	–	-163059
Dec. 16, 2022	–	–	–	13453	21103	65736	3000	–	–	-55086
Dec. 17, 2022	–	–	–	–	930	17563	–	–	–	-16633
Dec. 18, 2022	–	–	–	–	5	2432	–	–	–	-2427

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

TOP NBFC & MICRO FINANCE INSTITUTIONS NEWS

- **Manappuram Finance plans to raise funds via debt offering**

The Kerala-based gold NBFC on Tuesday (27 December 2022) announced that its board may consider raising funds through debt securities in January 2023.

Manappuram Finance said that it is considering various options for raising funds through borrowings including by the way of issuance of various debt securities in onshore/ offshore securities market by public issue, on private placement basis or through issuing commercial papers.

Based on the prevailing market conditions, the NBFC's board may consider and approve issuances of debt securities during the month of January 2023. The proposal is subject to such terms and conditions including the issue price of debt securities, as the board/respective committee may deem fit.

Manappuram Finance is one of India's leading gold loan NBFCs. The NBFC's consolidated net profit rose 10.4% to Rs 408.35 crore on 10.3% increase in total income to Rs 1,714.12 crore in Q2 FY23 over Q2 FY22.

Source: https://www.business-standard.com/article/news-cm/manappuram-finance-plans-to-raise-funds-via-debt-offering-122122700283_1.html

- **Hinduja Group ups its bid to Rs 9,500 crore to acquire debt-ridden Reliance Capital**

Hinduja Group, promoter of IndusInd Bank, on Friday made an attempt to revise upward its bid for taking over debt-ridden Relinace Capital to Rs 9,500 crore with upfront cash outgo of Rs 8,800 crore, sources said. The group had made an offer of Rs 8,110 crore in the auction that was held on December 21, sources said.

Mail sent to Hinduja Group did not elicit response till filing of the story.Earlier this week, the Ahmedabad-based Torrent group emerged the highest bidder by putting a bid of Rs 8,640 crore to acquire Anil Ambani group's NBFC entity.

However, sources said, Hinduja's attempt to change its bid after the e-auction was not permitted under the challenge mechanism. This is the first time ever that a re-auction has been conducted under Insolvency and Bankruptcy Code (IBC).

Source: https://economictimes.indiatimes.com/industry/banking/finance/hinduja-group-ups-its-bid-to-rs-9500-crore-to-acquire-debt-ridden-reliance-capital/articleshow/96463614.cms

- **Focus on governance, business conduct, data protection: RBI governor to fintechs**

Reserve Bank of India (RBI) governor Shaktikanta Das advised fintechs to pay close attention to governance, business conduct, data protection, customer centricity, regulatory compliance, and risk mitigation frameworks.

At a meeting with select fintech firm, Das reiterated that the RBI would continue to adopt a participative and consultative approach to facilitate innovations in the financial sector.

The meeting was also attended by MK Jain, RBI's deputy governor, and a few other ..

Highlighting the importance of fintech initiatives and startups in India, Das said: "They are playing a transformative role in the financial system through digital innovations and innovative means of delivery of financial services."

He asked the participants for their inputs and suggestions to enhance and deepen the role of fintech firms in India's financial ecosystem.

- **MOSL sees 25% upside in this NBFC stock that has gained 50% in last one year**

Domestic brokerage house Motilal Oswal has initiated coverage on financial firm Poonawalla

Fincorp with a 'buy' call and a target price of ₹350, implying a potential upside of 25 percent from its current market price of ₹280. This comes on the back of recent credit rating upgrades, robust asset quality, significant improvement in liability franchise and a strong outlook.

The stock has risen nearly 50 percent in the last 1 year from its 52-week low of ₹192, hit on December 27, 2021. It has also given consistent returns in the last 10 years, up 250 percent from ₹80 in December 2012.

Poonawalla Fincorp (PFL) is an NBFC that focuses on consumer and small business finance via products like personal loans, loans to professionals, business loans, SME loans, etc. It operates across 21 states with a lean branch network and standalone AUM of ₹13,200 crore as of Sep'22. This NBFC is the erstwhile Magma Fincorp wherein consequent to a capital raise of ₹3,500 crore in May'21, the Poonawalla Group acquired a controlling stake in the company.

Source: https://mintgenie.livemint.com/news/markets/mosl-sees-25-upside-in-this-nbfc-stock-that-has-gained-50-in-last-one-year-151672126330130

- **Voluntary Surrender of CoR by NBFCs (including HFCs) for cancellation**

The Reserve Bank receives requests from NBFCs (including HFCs) seeking to surrender the Certificate of Registration (CoR) voluntarily on account of ceasing to carry out the business of Non-Banking Financial Institution or Housing Finance Institution / conversion to unregistered Core Investment Company / amalgamation or merger with other entity etc. In order to streamline the process of voluntary cancellation of CoR, the Reserve Bank today has uploaded the application form and checklist of documents to be submitted by the NBFCs/HFCs.

The applicant NBFCs may furnish the application enclosing the documents mentioned therein, to the Regional Office of the RBI under whose jurisdiction the NBFC is registered; however, the NBFCs falling under the jurisdiction of Mumbai Region, should apply to the Chief General Manager-in-Charge, Department of Supervision, Central Office, Reserve Bank of India, Centre I, World Trade Centre, Mumbai-400 005. The applicant HFCs may furnish the application along with documents through the National Housing Bank, Core 5-A, India Habitat Centre, Lodhi Road, New Delhi- 110003.

It may be noted that, mere submission of application with documents by a company cannot be treated as cancellation of CoR. The NBFC/HFC needs to continue adhering to the guidelines/instructions issued by the RBI/NHB/other competent authority etc., and also continue submitting requisite regulatory/ supervisory returns etc., as applicable, until the CoR is cancelled and the decision is communicated by the Reserve Bank to the entity concerned.

- **Fintech firms stay bullish despite stiff RBI norms**

The Reserve Bank of India's (RBI's) 2022 guidelines on digital lending may cause some disruption for now, but they are expected to provide more clarity to fintech companies. "I believe that most of the changes on the regulatory side have been fairly positive," co-founder and chief executive officer, Razorpay, Harshil Mathur said, adding that it may cause some disruption in the short term, but "I think in the long term, they are good for customers and good for the eco-system".

In September, the central bank released the guidelines with an aim to paint a bright-line as far as the activities of digital lenders are concerned

In July, RBI governor Shaktikanta Das said that digital lenders must operate under the licences granted to them rather than engaging in activities without permission. Das' statement followed multiple news reports of harassment, blackmailing and other illegal practices by digital lending companies.

Source: https://www.financialexpress.com/industry/banking-finance/fintech-firms-stay-bullish-despite-stiff-rbi-norms/2931169/

- **What is in store for Fintech users in 2023?**

Out of the 100 unicorns in India, 21 are from Fintech. Next 100 unicorns, 31 are expected to be from fintech. Due to the Covid-19 outbreak and ensuing lockdowns, India has the largest percentage of fintech adopters in the world (87 per cent vs. 64 per cent globally).

According to a NewsVoir analysis, the fintech market is anticipated to rise by $150 billion by 2023 as a result of the influx of new companies and foreign investment. Wealthtech, insurancetech, and fintech are among the industries that have been influenced by substantial regulatory reforms implemented by the RBI, IRDA, and AMFI. The RBI's new launch of the eRupee is a major development for the legacy wallet market.

New products centred around the eRupee, the growth of digital escrow accounts, the continuation of NEO banking development, and the continuous dominance of the fintech industry are a few major trends to keep an eye on. India is now the nation with the lowest internet costs, the fastest internet speed, and the highest mobile device usage. Indians may purchase and sell virtually anything with just a few clicks.

We expect regulatory reforms to be more onerous in terms of compliance and transaction security. Fighting fraud in online transactions is a top priority for the RBI and other organisations.

Source: https://www.financialexpress.com/money/what-is-in-store-for-fintech-users-in-2023/2928616/

TOP INSURANCE NEWS

- **HC pans IRDAI for calling disabled "sub-standard lives", says they can't be denied health cover**

  Observing that the right to life includes the right to health, the Delhi High Court has directed the insurance regulator to call a meeting of all insurance companies to design health insurance schemes for people with disabilities and introduce them preferably within two months.

  The court also asked the Insurance Regulatory and Development Authority of India (IRDAI) to take immediate steps to modify the terminology "sub-standard lives" in their regulations to ensure that such "unacceptable terminology" is not used while referring to persons with disabilities.

  "It is the settled position in law that the Right to Life includes the right to health and healthcare is an integral part of the same... The Rights of Persons with Disabilities Act 2016 leaves no ambiguity as far as the entitlement of persons with disabilities for insurance. A perusal of Sections 3, 25 and 26 makes it clear that person with disabilities cannot be discriminated against as far as healthcare and other connected aspects are concerned," said the court in a recent order.

  Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/hc-pans-irdai-for-calling-disabled-sub-standard-lives-says-they-cant-be-denied-health-cover/articleshow/96256767.cms

- **Consider discount on policy renewal for those with 3 doses of COVID-19 vaccine: Irdai to insurers**

  New Delhi: Amid a surge in coronavirus cases in several countries, regulator Irdai has asked insurers to consider giving discount on renewal of general and health insurance policies to policyholders who have taken three shots of COVID-19 vaccine. The Insurance Regulatory and Development Authority of India (Irdai) has also asked both life and non-life insurance companies to settle COVID-related claims at the earliest and reduce paper work, sources said.

  During a meeting to create awareness about COVID-19 last week, sources said, the regulator also stressed that insurers should offer incentives to policyholders on getting RT-PCR tests done through their wellness network.

  It asked insurers to encourage COVID-appropriate behaviour through the social media outreach.

  With regard to overseas travel insurance, Irdai asked underwriters of such policies to spread information about COVID testing requirements of various countries.

  The regulator also urged insurers to ensure that empanelled hospitals are prohibited from taking deposit for COVID-19 hospitalisation, sources said, adding, some of the hospitals indulged in asking for deposit for COVID treatment during the first and second wave despite having cashless policy.

  Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/consider-discount-on-policy-renewal-for-those-with-3-doses-of-covid-19-vaccine-irdai-to-insurers/articleshow/96545123.cms

- **HC pans IRDAI for calling disabled "sub-standard lives", says they can't be denied health cover**

  Observing that the right to life includes the right to health, the Delhi High Court has directed the insurance regulator to call a meeting of all insurance companies to design health insurance schemes for people with disabilities and introduce them preferably within two months.

The court also asked the Insurance Regulatory and Development Authority of India (IRDAI) to take immediate steps to modify the terminology "sub-standard lives" in their regulations to ensure that such "unacceptable terminology" is not used while referring to persons with disabilities.

Justice Pratibha M Singh said people with disabilities are entitled to health insurance cover and cannot be discriminated against.

"It is the settled position in law that the Right to Life includes the right to health and healthcare is an integral part of the same... The Rights of Persons with Disabilities Act 2016 leaves no ambiguity as far as the entitlement of persons with disabilities for insurance. A perusal of Sections 3, 25 and 26 makes it clear that person with disabilities cannot be discriminated against as far as healthcare and other connected aspects are concerned," said the court in a recent order.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/hc-pans-irdai-for-calling-disabled-sub-standard-lives-says-they-cant-be-denied-health-cover/articleshow/96256767.cms

- **Wider choice: Irdai proposes 3 years insurance cover for cars & 5 years for two-wheelers**

In its bid to give wider choice to customers, insurance regulator Irdai on Wednesday proposed to introduce an insurance cover of three years for cars and five years for two-wheelers. The Insurance Regulatory and Development Authority of India (Irdai) has floated a draft on 'Long-Term Motor Products covering both Motor Third Party Insurance and Own Damage Insurance'.

The draft proposes to permit all general insurers to offer 3-year insurance policy in respect of private cars and 5-year for two-wheelers, co-terminus with motor third party liability cover.

The premium for the entire term of the policy coverage would be collected at the time of sale of insurance.

The pricing, as per the draft, would be based on sound actuarial principles, including claims experience, and long-term discount.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/wider-choice-irdai-proposes-3-years-insurance-cover-for-cars-5-years-for-two-wheelers/articleshow/96064426.cms

- **Irdai annual report for 2021-22: Premium for traditional products sees double-digit growth**

Life insurance premium for unit-linked products (ULIPs) witnessed a gradual growth for the last three financial years, while premium for traditional products grew in double digits in the previous fiscal.

Traditional products registered a growth of 10.15% year-on-year in 2021-22, with premium of Rs 5.92 trillion, compared with Rs 5.38 trillion in 2020-21. ULIPs grew 10.24% YoY, with premium rising from Rs 0.91 trillion in 2020-21 to Rs 1 trillion in 2021-22. The share of unit-linked products in total premium was 14.48% in the previous fiscal, Irdai's annual report for 2021-22 showed.

"Life insurance segment constitutes 77% of total life insurance premium, followed by pension and annuity segments together about 22% in 2021-22," said the report, issued on Thursday. Life, pension and the variable segment recorded growth of 10.70%, 13.38% and 34.66%, respectively, while the annuity and health segments witnessed decline of 11.83% and 2.68%, respectively, during the last financial year.

Source: https://www.financialexpress.com/money/insurance/irdai-annual-report-for-2021-22-premium-for-traditional-products-sees-double-digit-growth/2923860/

- **Burning cost rates for fire insurance not to be embedded: Irdai**

  Insurance regulator Irdai has asked non-life insurance companies and reinsurers to ensure that broad-occupancy market average burning costs rates for fire and engineering risks, published by the Insurance Information Bureau of India (IIB), are not embedded as "minimum rates" within reinsurance treaty agreements applying to the Indian market for the risks commencing from the next financial year.

  "The authority has observed that reinsurance treaty agreements in many instances include, as a precondition or prescription, the requirement to apply the IIB published broad-occupancy market average burning costs, as minimum risk rates," the Insurance Regulatory and Development Authority of India (Irdai) said in a circular.

  Source: https://www.financialexpress.com/money/insurance/burning-cost-rates-for-fire-insurance-not-to-be-embedded-irdai/2921179/

- **Irdai proposes long-term motor insurance policies.**

  The Insurance Regulatory and Development Authority of India (Irdai) has proposed allowing all general insurers to offer long-term motor insurance policies to allow policyholders a wider choice.

  The regulator proposed a three-year policy in respect of private cars co-terminus with motor third party liability cover and a five-year policy in respect of two-wheelers co-terminus with motor third party liability cover.

  As per the draft, Irdai said, "Pricing of long-term policies is to be made based on sound actuarial principles considering all the relevant aspects of rating including claims experience, lower anti-selection, reduced policy administration and acquisition costs given higher renewal rates, long-term discount, expected NCB level by the end of the policy period and applicable government taxes etc. The Pricing of add-on and optional covers may likewise consider the cost efficiencies of policy administration."

  The insurer should collect the premium for the entire term of the policy at the time of the sale of insurance. But the premium for the year shall only be recognised as income, and the insurer should treat the remaining amount as a premium deposit or advance premium.

  All long-term policies would have standard conditions relating to cancellation/refund of premium.

  Source: https://www.livemint.com/insurance/news/irdai-proposes-long-term-motor-insurance-policies-check-details-11670480459512.html

TOP CORPORATE BOND MARKET NEWS

- **SBI to raise Rs 10,000 cr via AT-1 bonds**

  State Bank of India (SBI) on Wednesday said it will raise Rs 10,000 crore through fresh additional tier-1 (AT-1) bonds up to FY24. The bank's board has approved the fund-raising proposal, the lender said in a notification to the exchanges. The bank's capital adequacy ratio stood at 13.51% as of September 30, higher by 16 basis points (bps) Y-o-Y. The bank in July had said it would raise Rs 7,000 crore through AT-1 bonds and Rs 4,000 crore of tier-2 capital in FY23. Earlier, the bank had raised Rs 10,000 crore through its first issue of infrastructure bonds. The bank will provide finance to infrastructure projects and affordable housing scheme through the funds raised through these bonds. Other than SBI, Bank of Baroda and ICICI Bank have raised funds through infrastructure bonds.

  Source: https://www.financialexpress.com/market/sbi-to-raise-rs-10000-cr-via-at-1-bonds/2913552/

- **Sebi mulls fresh CDS play for MFs as it seeks to boost corporate bond mkts**

  The Securities and Exchange Board of India (Sebi) is mulling a fresh framework to allow mutual fund (MF) participation in credit default swaps (CDS), a move part of a series of actions planned by the regulator to develop the corporate bond market in the country.

  The market regulator has formed a working group to identify lacunae in the framework introduced over a decade ago, which had failed to take off. The terms of reference of the committee include suggesting big-scale changes aimed at facilitating risk mitigation and investments in lower-rated corporate bonds, said people in the know.

  In November 2012, Sebi had allowed MFs to participate in the CDS market but only as buyers. Also, the framework had conservative positional caps. Due to these and some other limitations, volumes in the CDS market did not pick up.

  Mutual funds were allowed to participate only as protection buyers, which means they could use the mechanism only to hedge their credit risk. They were not permitted to sell protection which restricted them from entering short positions in CDS contracts.

  CDS allows an investor to offset its credit risk with another investor who is willing to reimburse in case the borrower or the issuer of the bond defaults. It facilitates swapping the risk of default through a derivative contract. Experts say equity as a class has a vibrant derivative market and a similar infrastructure is needed for corporate bonds.

  Source: https://www.business-standard.com/article/markets/sebi-mulls-fresh-cds-play-for-mfs-as-it-seeks-to-boost-corporate-bond-mkts-122122800536_1.html

- **Rising interest rates to mute bond issuance this fiscal, says report**

  Corporate bond issuance is likely to remain muted witnessing 4-5 per cent growth this fiscal to touch Rs 41.42 lakh crore on rising coupon rates, despite the drawdown more than doubling in the second quarter, a report said.

  Bond sales more than doubled to Rs 2.1 lakh crore in the second quarter from the first quarter, when it was at a multi-year quarterly low of Rs 1 lakh crore, as banks issued bonds worth an all-time high of Rs 53,900 crore, and NBFCs, traditionally largest players in the market, issuing securities worth Rs 1.1 lakh crore in Q2, according to an analysis by Icra Ratings.

  Non-banking lenders have remained the largest issuers of bonds with a share of 47 per cent in the first half, followed by corporates and banks at 33 and 20 per cent, respectively, down from 50, 40 and 10 per cent, respectively from H1FY22, according to the report.

Thanks to bumper sales in Q2, the overall bond issuances rose to Rs 3.3 lakh crore in the first half, and the agency expects Rs 3.7-4.2 lakh crore sales in H2 FY23, marginally higher than the year-ago period, taking the volume of outstanding bonds to Rs 41-42 lakh crore by March 2023. However, this translates into a muted on-year growth of just 4-5 per cent, net of redemptions, with the incremental issuance rising by Rs 7-7.5 lakh crore, up from Rs 6.8 lakh crore in FY22.

Source: https://www.business-standard.com/article/finance/rising-interest-rates-to-mute-bond-issuance-this-fiscal-says-report-122111300495_1.html

- **Indian short-end corporate bond issuances surge as yields fall**

Indian companies, especially shadow lenders, may continue to flock to the corporate bond market in the near term to raise funds following a decline in yields, analysts said on Tuesday.

"Yields have corrected sharply as views regarding interest rates have changed, and before the next policy meeting, issuers are rushing to lock funding at lower costs," said Ajay Manglunia, managing director and head of Investment Grade Group at JM Financial.

"Yields have corrected sharply as views regarding interest rates have changed, and before the next policy meeting, issuers are rushing to lock funding at lower costs," said Ajay Manglunia, managing director and head of Investment Grade Group at JM Financial.

Non-banking financial companies (NBFCs) Housing Development Finance Corp (HDFC.NS), Sundaram Finance (SNFN.NS), Aditya Birla Finance, HDB Financial Services aim to raise over 125 billion Indian rupees ($1.54 billion) by issuing two-year to five-year bonds this week.

Source: https://www.reuters.com/markets/rates-bonds/indian-short-end-corporate-bond-issuances-surge-yields-fall-2022-11-16/

- **Bharti Telecom plans to tap bond market to raise Rs 7,000 crore**

India's Bharti Telecom is planning to tap the bond market after a year's gap, with the company looking to raise as much as 70 billion Indian rupees ($858.32 million) through shorter-tenor bonds, according to a term sheet seen by Reuters on Thursday.

The telecom operator, which holds a stake in Bharti Airtel, plans to raise funds in three tranches and has invited bids from investors on Friday, three merchant bankers also confirmed.

"There is a fear of corporate bond yields rising further as the market expects the spread between corporate bonds and government bonds to start widening now," said Venkatakrishnan Srinivasan, founder and managing partner at debt advisory firm Rockfort Fincap.

"Hence, most companies are rushing to lock in fixed-rate instruments."

Source: https://www.business-standard.com/article/companies/bharti-telecom-plans-to-tap-bond-market-to-raise-rs-7-000-crore-122111701356_1.html

- **HDFC, IOC and four more to issue bonds today to raise Rs 9,200 crore**

About six companies are planning to raise Rs 9,200 crore through corporate bonds on November 23, money market dealers said.

These six include Housing Development Finance Corp (HDFC), Indian Oil Corporation (IOC) and Rural Electrification Corp (REC).

Of the total amount, REC is aiming at Rs 4,000 crore, which includes Rs 3,500 crore in greenshoe through bonds maturing in 180 months. Bidding for REC's bonds will take place on the National Stock Exchange bidding platform.

IOC has set a target of Rs 2,500 crore, including Rs 1,500 crore in greenshoe through five-year bonds.

According to market participants, HDFC's bonds have a fixed coupon of 7.79 percent, HDFC Credila Financial Services has fixed coupon of 8.17 percent, and ICICI Home Finance Co Ltd has 7.95 percent fixed coupon on their bonds.

Bidding for all these bonds will take place on the bidding platforms of the NSE and the BSE.

Source: https://www.moneycontrol.com/news/business/hdfc-ioc-and-four-more-to-issue-bonds-tomorrow-to-raise-rs-9200-crore-9579341.html

- **Banks rush to raise funds via corporate bonds as credit demand picks up**

Indian banks have been rushing to raise funds in the last few days through corporate bonds as demand for credit has soared. The move is also aimed at locking in lower rates, dealers said.

"Banks are rushing to raise funds with available options due to increasing growth opportunities. There is huge peer competition amongst banks to raise funds through FDs and rates are increasing there too. Only bonds are still trading within a range for the last few months, with attractive pricing for top credit-rated banks," said Venkatakrishnan Srinivasan, Founder and Managing Partner of debt advisory firm Rockfort Fincap.

The yields on corporate bonds have eased over the last few days tracking the fall in yields on government securities (G-Secs). The 10-year corporate bonds that were trading at 7.65-7.68 percent on November 14, have now eased to 7.50-7.55 percent.

Currently, yield on the 10-year benchmark 7.26 percent-2032 government bonds is at 7.2685 percent.

Source: https://www.moneycontrol.com/news/business/banks-rush-to-raise-funds-via-corporate-bonds-as-credit-demand-picks-up-9614641.html

Department of Banking & Financial Services Upcoming Programme

ASSOCHAM Shadow Union Budget Discussion	January 2023
ASSOCHAM 9th Annual Summit on Non-Banking Finance Companies and Infrastructure Financing	10th February 2023
ASSOCHAM 5th National Summit Asset Reconstruction Companies	23rd February 2023

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