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Financial markets in India: In pursuit of stability and development

(Keynote Address by Shri Shaktikanta Das, Governor, Reserve Bank of India - January 27, 2023 - at the 22nd FIMMDA-PDAI Annual Conference, Dubai)

It is my pleasure to be part of the Annual FIMMDA1-PDAI2 Conference today. I would like to place on record the Reserve Bank's appreciation of the critical role played by FIMMDA and PDAI in the development of financial markets in India over the years, and more recently, in partnering with the RBI in guiding the markets and the economy through the turbulent times of COVID-19, the war in Ukraine and the turmoil in financial markets.

2. Today, as I speak before keen market players, veterans and experts, I thought this would be an opportune moment to recapture the journey of our financial markets in the last decade or so and reflect on where we are and what we think about the course ahead. An attempt to draw from the past and forge ahead, so to speak.

3. From the global financial crisis to the Eurozone sovereign debt crisis; from the taper tantrum to Brexit; from unprecedented quantitative easing to among the most accelerated monetary tightening in recent memory; from a pandemic which brought humankind to a standstill to a geopolitical crisis which threatens the world order as it exists today - it would not be an exaggeration to say that the world has moved from one storm to another in the years since the global financial crisis.

4. Against this backdrop, the journey of Indian financial markets has been driven by two key objectives – stability and development. Crisis management has been a key component of this journey. Nonetheless, the pursuit of developmental reforms, with the key objective of widening and deepening of financial markets was continued even amidst the worst storms.

The Journey so far

5. Let me take a moment to reflect on the journey of Indian financial markets over the past few decades. Right up to the end of the 1980s, the Indian economy was characterised by an administered interest rate regime, fixed exchange rates, a captive government securities market and current and capital account restrictions. Policy measures during the decade of the 1990s set the stage for a transition to market-determined interest and exchange rates, shift to a multiple indicator approach and eventually to flexible inflation targeting in the conduct of monetary policy, convertibility in the current account and gradual liberalisation of the capital account. The policy measures were bolstered by several key legislative changes: the Foreign Exchange Management Act (FEMA), 1999; the Government Securities Act, 2006; the amendments to the RBI Act in 2006 to give explicit regulatory powers to the Reserve Bank over government securities, derivatives, and money market instruments; and the Payment and Settlement Systems Act, 2007. The Clearing Corporation of India Ltd. was set up in 2001 to provide clearing and guaranteed settlement for money, government securities, forex and derivative markets. A Real Time Gross Settlement System (RTGS) and the NDS-OM platform were operationalised. A Trade Repository was put in place for derivatives. Some of these initiatives became important at a global level only after the G20 rolled out its reforms agenda in the 2009 Pittsburgh Summit.

6. After the global financial crisis (2008), the Indian financial markets were nascent but growing. The approach to foreign participation in most market

segments was cautious. Derivative markets, the markets for the purpose of hedging risks, were limited in terms of participants and products. Meanwhile, the BIS Triennial survey published in 2013 showed that there was growing interest in the Indian Rupee overseas. The onshore and offshore markets for the Rupee, however, remained segmented, with the spreads between the onshore and offshore forex and interest rates being wide.

Headwinds and Tailwinds

7. Coming to more recent times, many of our policies over the last decade have been guided by the learnings from crisis management as well as the developmental objectives our country aspires to achieve. As the world moved through one storm after another, we were compelled to navigate through the spillovers of major global headwinds.

8. Equally compelling in guiding policy were the needs of the economy. As the real sector grew over the last decade, expectations from the financial markets also grew. The needs of the economy reflect these developments. To place this in perspective, let's look at some figures. Nominal GDP increased four-fold from ₹64 lakh crore for FY 2010 to ₹273 lakh crore for FY 2023.3 External trade also increased over four-fold from ₹29 lakh crore to ₹137 lakh crore during the same period.4 The ratio of trade to GDP5 has risen to 45% in 2021 from 25% in 2000. Foreign Direct Investment (FDI)6 in the country has risen sharply by two and a half times since 2010. The flow of resources to the commercial sector in India almost doubled from ₹12 lakh crore in FY 2012 to ₹22 lakh crore in FY 2022.7 While banks continue to be a dominant source of financing, market borrowings8 of the commercial sector increased from ₹74,000 crore in FY 2012 to ₹3,16,000 crore in FY 2022. As our economy and financial markets grew, the integration with the world economy and global financial markets has also risen. The growing economy and our aspirations to be and remain among the fastest growing economies has expanded our funding needs. All these necessitate larger and deeper financial markets.

The policy response to headwinds

9. It is relevant to look at some of our policy responses in recent times, especially to major global headwinds. Each successive episode of turmoil over the last decade and half has posed a specific set of challenges for the economy. Each has warranted a specific response.

10. In 2008, policy actions were aimed at ensuring comfortable system liquidity; augmenting forex reserves and maintaining a crisis management framework to support the economy through the global financial crisis. Conventional tools such as policy interest rates and cash reserve ratio (CRR) were used. Measures to manage forex liquidity included, inter alia, relaxing the interest rate ceiling on foreign currency deposits by non-resident Indians and external commercial borrowings (ECB) for corporates. Unconventional measures included a rupee-dollar swap facility for Indian banks, a refinance window for mutual funds and a special purpose vehicle for supporting nonbanking financial companies.

11. Post the announcement of early taper of quantitative easing by the Federal Reserve in 2013, the need for restoring confidence of market participants and containing the pressure on the Rupee guided the Reserve Bank's policy responses. Monetary conditions were tightened through unconventional tools. Forex market measures included both direct intervention and administrative measures to manage capital flows. These included import restrictions of non-essential items, opening of a special dollar swap window for PSU oil companies, a concessional swap window for Foreign Currency Non-Resident (FCNR-B) deposits, increased overseas borrowing limits of banks, enhanced foreign investment limits in government debt and restrictions

on outward investment flows, Liberalised Remittance Scheme (LRS) entitlements as well as exchange-traded derivatives.

12. The outbreak of the COVID-19 pandemic in March 2020 necessitated swift and focussed policy responses to address the emerging or potential market dislocations. As in the past, policy rates were reduced and systemic liquidity was expanded. But, this time, the policy corridor was asymmetrically widened and the fixed rate reverse repo became the effective anchor for the evolution of short and longer-term interest rates. To improve transmission of policy rates and ensure flow of credit to the affected sectors, unconventional measures were used viz., the Long-Term Repo Operations (LTROs), targeted LTROs and special refinance facilities to All India Financial Institutions. A special liquidity facility for mutual funds aimed at assuaging redemption pressures was also instituted. For the first time, the Reserve Bank pledged its balance sheet to revive the economy through a Government Securities Acquisition Programme (G-SAP) which provided an upfront commitment on the amounts to be purchased. Special open market operations involving simultaneous purchase and sale of securities (Operation Twist) were undertaken for orderly evolution of the yield curve and liquidity management. Forward guidance gained prominence with the emergence of time and state-contingent guidance, with assurances on the Reserve Bank's commitment to maintain congenial financial conditions. Communication became a significant part of our monetary policy toolkit.

13. The onset of the war in Ukraine again weakened risk sentiment, with commodity prices and inflation rising to multi-decade highs. As major central banks accelerated policy rate hikes and tightened liquidity to tackle inflationary pressures, financial market volatility spiralled, and the Rupee came under considerable pressure. The policy response this time eschewed administrative measures to contain outflows and instead focused on measures to enhance inflows through incentivising non-resident deposits, foreign investments in debt instruments and ECBs. To promote exports and support the increasing global interest in the Rupee, an additional arrangement for invoicing, payment and settlement of exports/ imports in Rupees was put in place.

Source: https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1349

Shaktikanta Das: Keynote Address - South Asia's Current Macroeconomic Challenges and Policy Priorities

(Keynote Address by Shri Shaktikanta Das, Governor, Reserve Bank of India – January 06, 2023 - at the high-level Conference co-organised by International Monetary Fund (IMF) Asia and Pacific Department (APD) and IMF South Asia Regional Training and Technical Assistance Centre (SARTTAC), New Delhi)

I am delighted to have been invited by the IMF to join this distinguished gathering here today to discuss pathways to resilient, sustainable and inclusive growth in South Asia. I am happy to note that the conference proceedings will be anchored by the research findings and policy recommendations of the book titled "South Asia's Path to Resilient Growth". In the current international setting, global trade and growth outlook appear uninspiring, and policies have to be conducted amid a whirlwind of uncertainty. At such critical times, conferences of this nature can help us better understand the evolving scenarios and policy trade-offs. In my address today, I shall briefly cover some of my thoughts on South Asia's Current Macroeconomic Challenges and Policy Priorities.

2. Looking back into history, the South Asian region has been a key hub of ideas, commerce, art and culture, etc. The Indus Valley civilisation was among the three earliest civilisations on earth and was the most extensive. In the so called middle ages, trade and commerce flourished in a variety of commodities such as spices, precious metals and other minerals, handicrafts and food items. Overall, the South Asian region has had an outsized influence on the progress of civilisation and trade in the world. Currently, the region accounts for about 25 per cent of world population. With a median age of 27 years, it is one of the youngest regions in the world. The average growth rate of the region has accelerated from 3 per cent in the 1970s to about 7 per cent in the latest decade (pre-pandemic). Consequently, per-capita income levels have risen alongside notable progress on key development parameters. As per the IMF estimates, South Asia contributes nearly 15 per cent to global growth, led by India and Bangladesh. The region also receives one-fifth of total remittance flows in the world.

3. The South Asian region has grown, responding to formidable global challenges in the past. Following the food crisis of the 1960s, the region successfully implemented the Green Revolution. After the oil shocks of the 1970s, emigration from South Asia to West Asia became one of the largest market-driven labour flows. This, in turn, led to a significant increase in remittance flows to the region. The Asian financial crisis of 1997 impacted the South Asian countries in terms of surges in capital outflows and exchange market pressures. Over the years, as a crisis prevention strategy, the South Asian countries prioritised sound macroeconomic policies and embraced financial sector reforms focusing on competition, prudential regulation, enhanced transparency, audit and accounting standards. These measures helped in preserving macro stability while sustaining integration of domestic economies with the global economy.

4. In recent years, multiple shocks, in particular the COVID-19 pandemic and the war in Ukraine, have dampened the economic prospects of the South Asian region, as in other parts of the world. Some countries in the region have also been contending with the ramifications of unsustainable debt and climate change induced events. Consequently, they have been seeking recourse to the IMF's financing facilities. Notwithstanding these challenges, as per the World Economic Outlook database (October 2022) of the IMF, India, Bangladesh and Maldives would be among the fastest growing economies in the world in 2022 and 2023. According to the Asian Development Bank's December 2022 outlook, the South Asian region's GDP is projected to grow at 6.5 per cent in 2022 and 6.3 per cent in 2023.

5. The World Bank estimates that regional co-operation could be a win-win situation for all countries of the region1. For example, intra-regional trade is currently only one-fifth of its potential, implying an annual shortfall of US$44 billion. The World Bank assessment also suggests that a common electricity market for Bangladesh, Bhutan, India and Nepal can yield savings of US$17 billion in capital costs. Investment in transport and logistics could help reduce the cost for container shipments in South Asia. According to a study by the IMF (2019) on South Asia, more than 150 million people will enter the South Asian labour force by 2030. The dependency ratio is expected to continue ebbing for almost two decades, indicating the strong demographic dividend the region is set to reap.

Policy Priorities

I would now like to focus on some of the desirable policy priorities for the South Asian region. I have identified six such policy priorities.

Taming Inflation

6. Multiple external shocks in the form of COVID related global supply chain disruptions, food and energy crisis following the war in Ukraine, and financial market volatility arising from

the aggressive monetary policy tightening have exerted sustained price pressures in the South Asian economies, as in other parts of the world. During the first three quarters of 2022, food price inflation in South Asia averaged more than 20 per cent. The region's heavy dependence on imported fossil fuels has made it vulnerable to imported fuel inflation. For successful disinflation, credible monetary policy actions accompanied by targeted supply side interventions, fiscal, trade policy and administrative measures have become the key instruments. While the recent softening of commodity prices and supply chain bottlenecks should help in lowering inflation going ahead, risks to growth and investment outlook may rise if inflation persists at high level. Prioritising price stability, may therefore be the optimal policy choice in the current context for the region. The approach to disinflation, however, needs to be mindful of the rising risks to the growth outlook in an environment of deteriorating prospects for global growth and trade activity.

Containing External Debt Vulnerabilities

7. The surge in external debt in recent years and associated vulnerabilities have undermined macroeconomic stability in several countries of the South Asian region. External debt, which was already elevated in low- and middle-income countries (that include all South Asian economies) in the pre-pandemic period, surged to US$ 9.3 trillion in 2021 from US$ 8.2 trillion in 2019, an increase of US$ 1.1 trillion.

8. The Debt Service Suspension Initiative (DSSI) was set up by the G20 in May 2020. Up to December 2021, an estimated US$ 12.9 billion of debt service was deferred. According to the World Bank, 60 per cent of the 73 DSSI-eligible countries are at high risk of debt distress or are already experiencing it. It is estimated that total external debt service payments on public and publicly guaranteed debt by poorest countries may rise by 35 per cent to over US$ 62 billion in 2022 and to remain high up to 2024 due to rising global interest rates and the compounding of interest on DSSI debt service deferrals.

9. Even though the participation of private creditors was encouraged in the DSSI, their response has not been encouraging. There has been a notable shift in the creditor composition of low- and middle-income countries between 2010 and 2021. The share of lending by private creditors in long-term public and publicly guaranteed debt was 61 per cent in 2021 (46 per cent in 2010) and the share of debt owed to bondholders was 47 per cent in 2021 (29 per cent in 2010).

10. A distinct shift in the creditor base over time in favour of private lenders and non-Paris Club official creditors has added a new dimension to debt restructuring processes for the low-income International Development Assistance (IDA)-eligible debtor countries. The share of debt owed to non-Paris Club creditors rose to 68 per cent in 2021 from 42 per cent in 2010. The increasing reliance on private creditors has raised debt servicing costs and complicated creditor coordination in debt resolution efforts. During 2010-2021, the average maturity on loans from private creditors was 12 years as compared with 26 years for loans from official creditors, and the average interest rate on loans from private creditors was 5 per cent vis-à-vis 2 per cent on loans from official creditors.

11. The role of multilateral organisations, particularly the IMF and the World Bank, becomes crucial in making debt treatment efforts more effective, while also strengthening the mechanism of recording, reporting and analysis of debt data so as to enhance transparency and preserve debt sustainability. The IMF's role in capacity building in the region, with a focus on region specific macro dynamics, policy effectiveness challenges, and economic aspirations of the nations would also be helpful.

Raising Productivity

12. While sustained and broad-based economic recovery remains the current policy focus, it is necessary to undertake deep structural reforms to raise the potential growth trajectories of the economies in the South Asian region. Ongoing global realignment of supply chains, green transition and advances in technology offer new opportunities for investment and growth, but policies would need to create the congenial climate for attracting new private investment, with public sector taking the lead in areas that can create large positive externalities, such as infrastructure, education, and health.

13. In this context, let me highlight some specific areas of policy priority. First, undertaking desirable structural change would require an improvement in resource allocation – moving production from low productive sectors to high productive sectors and promotion of innovation. Second, skill mismatches – a major constraint to resource reallocation – would warrant policy focus on education and skill upgradation. This is particularly important to the South Asian region, as the favourable demography of the region would require that production processes must be labour-intensive while being globally competitive. Third, while free trade and FDI have been conventionally congenial for diffusion of technology and augmentation of productivity, the region's investment on R&D must also increase from the current low levels, and the policy environment for scientific research and start-ups must be made more rewarding. Fourth, investment in physical infrastructure – energy, transportation, telecommunication – which are prime drivers of productivity growth have to be enhanced.

14. Infrastructure in the contemporary world of digital revolution would also include digital infrastructure – data centres, cellular towers and fibre connectivity, with an emphasis on scalability and resilience. Fintech, E-commerce, Ed Tech, Health Tech and Food Tech are the new age growth propellers and need quality internet connectivity and reliable digital payments.

Strengthening Cooperation for Energy Security

15. The South Asian region has a high reliance on fossil fuels and imported energy, making the region vulnerable to volatile oil, gas and coal prices. In view of the dominating influence of geopolitical factors in driving global energy market dynamics, the region needs to strengthen energy cooperation arrangements so as to enhance resilience to external shocks.

16. India and Bangladesh have already agreed to enhance the sub-regional connectivity in the energy sector by linking the power grids of the two countries synchronously. The India-Bangladesh Friendship Pipeline Project (IBFPP) – a 130 km pipeline joining Siliguri in West Bengal and Parbatipur in Bangladesh – would have a capacity to export petroleum products of one million metric tonnes per annum. Other examples of cooperation include transportation of petroleum, oil and lubricants across national jurisdictions. Similarly, cross-border petroleum products pipeline and joint venture hydroelectric projects are testimony to the immense scope for energy cooperation in the region.

17. Harmonisation of testing processes, performance and conservation standards, and labelling criteria for electrical appliances in the region can contribute to regional energy security by promoting cost savings and by boosting efficiency and trade. Integration of national power systems in the region could facilitate leveraging of untapped surplus hydropower while giving a fillip to development of solar and wind resources. Programmes of bulk procurement and distribution of energy-efficient appliances can be adopted by countries in the region. India, for example, has the UJALA (Unnat Jyoti by Affordable LEDs for All) scheme for distribution of LED bulbs at an affordable price.

Source: https://www.worldbank.org/en/programs/south-asia-regional-integration/overview

TOP BANKING NEWS

- **Banks face one-time impact on capital with transition to ECL framework: ICRA**

The Reserve Bank of India's (RBI) discussion paper on the implementation of the expected credit loss (ECL)-based loss provisioning by banks is expected to be an important step towards their eventual shift to the Indian Accounting Standards (IND-AS) regime, said a new report by ICRA. The RBI has sought feedback on the discussion paper from various stakeholders, prior to the issuance of the guidelines.

According to ICRA, the final guidelines are expected to be notified by FY2024 for implementation from April 1, 2025. In February 2016, the RBI had initially notified the implementation of IND-AS from April 1, 2018. It had also sought proforma IND-AS from banks starting September 30, 2016. However, the implementation of IND-AS was subsequently deferred.

The methodology/basis of computation of ECL is central to IND-AS and migration to ECL-based loss provisioning will be a major step towards the eventual shift to an IND-AS regime for banks. "The non-performing advances (NPA) levels of banks are likely to touch decadal lows by March 2024.

With further improvement in profitability and capital cushions in the near term, we believe the timing is apt for banks to implement the ECL-based provisions," said Aashay Choksey, Vice President and Sector Head – Financial Sector Ratings, ICRA.

Under ECL, 'financial assets' are to be classified as Stage 1, 2 or 3, depending on their credit risk profile with Stage 2 and 3 loans having higher provisions based on the historical credit loss patterns observed by banks.

Source: https://www.livemint.com/industry/banking/banks-face-one-time-impact-on-capital-with-transition-to-ecl-framework-icra-11674569457918.html

- **Board of directors of Maharashtra co-op bank violated norms to siphon off funds: ED**

The board of directors of the Maharashtra-based Seva Vikas Co-operative Bank, led by its former chairman Amar Mulchandani, "violated" all banking norms, deliberately sanctioned loans to shell entities and "siphoned off" funds, the Enforcement Directorate (ED) alleged on Monday. A statement of the federal agency to this effect came after the Pimpri-Chinchwad Police arrested Mulchandani and five of his family members for "obstructing" an ED raid conducted against the former bank chairman on Januar y 27 and "destruction of evidence". The ED said it has seized gold and diamond jewellery worth Rs 2.72 crore, about Rs 41 lakh in cash, four high-end cars, digital devices and "incriminating" documents during the searches.

The money-laundering case of the federal agency stems from an FIR lodged by the Pune Police against Vinay Aranha of the Rosary Education Group and others for an alleged loan fraud. The premises of "Vinay Aranha (of Rosary School, Pune) and Sagar Suryawanshi, who have benefitted from this scam", were also searched by the ED last week

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/board-of-directors-of-maharashtra-co-op-bank-violated-norms-to-siphon-off-funds-ed/articleshow/97446720.cms

- **Banks on branch addition spree to cash in on credit growth**

Indian banks are on a branch addition spree as they look to capitalise on the purple patch in credit growth. While digital banking is growing at a faster clip, banks feel that a physical-plus-online approach is here to stay. The trend is led by private banks. HDFC Bank alone opened 684 branches in the December quarter and aims to add more than 1,500 branches for the fiscal year.

"We are pursuing a branch build strategy and have another 600 branches in the pipeline," said Srinivasan Vaidyanathan, chief financial officer of HDFC Bank. "The goal is to grow faster than the market to gain deposit share. We are striving to get there by expanding our distribution and getting closer to the customer."

ICICI Bank opened about 300 branches between April and December 2022 and had a network of 5,718 branches at the end of last month.

Axis Bank has added 91 branches so far this fiscal to take its total branch strength to 4,849 at the end of December 2022. It separately onboarded 6,000 village level entrepreneurs to act as an extended arm to its rural branches. "During the quarter, we added nearly 6,000 VLEs (village level entrepreneurs) to take our overall CSC VLE network to more than 60,200...They would act as extended arms for our 2,065 Bharat branches," said Amitabh Chaudhry, managing director of Axis Bank. "The disbursements through the CSC network have been up over 5x YoY in December quarter." IndusInd Bank added 341 branches during April-December, taking total branches to 2,384.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-open-more-branches-to-cash-in-on-credit-growth/articleshow/97330007.cms

- **Bank unions defer two-day strike originally set for January 30, 31**

India's United Forum of Bank Unions on Saturday pushed back a previously planned two-day nationwide bank strike, originally scheduled for January 30 and 31, after a conciliation meet between the UFBU and the Indian Banks Association.

According to C H Venkatachalam, General Secretary, All India Bank Employees' Association, the IBA reportedly agreed to meet with the unions on January 31 to discuss their demands - which include five day banking, updation of pension, and restoration of the old pension scheme.

Other issues that the UFBU - an umbrella body of several bank unions - is pushing for have been relegated to later discussions that are set to take place separately with officers and workmen unions.

The two-day strike was called to press for the following demands: five-day banking, updation of pension, residual issues, scrapping of National Pension System, immediate starting of negotiation on charter of demands for wage revision, and adequate recruitment in all cadres.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/bank-unions-defer-two-day-strike-set-to-start-january-30/articleshow/97391080.cms

- **India's top banks say Adani exposure within RBI limits but remain watchful**

Some of India's leading public sector banks said on Friday their exposure to the Adani Group was within the limits prescribed by the central bank, assuaging fears of default risks from their exposure to the conglomerate.

The ports-to-energy conglomerate, helmed by Gautam Adani - one of the world's richest men, has come under attack from U.S. short-seller Hindenburg Research, leading to a sharp fall in shares of group companies and the lenders that have exposure to it.

The Reserve Bank of India allows for no more than 25% of a bank's available eligible capital base to be exposed to any one group of connected companies.

Public sector banks in India have in the past been hit by massive corporate defaults. Lenders have since taken several measures to clean up their books, but any fresh default by a large corporate could strain their balance sheet.

"There is nothing alarming about our Adani exposure and we don't have any concerns as of now," Dinesh Kumar Khara, chairman of country's largest lender State Bank of India, told Reuters on Friday.

Khara said the Adani Group hadn't raised any funding from SBI in the recent past and that the bank would take a "prudent call" on any funding request from them in the near future.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/indias-top-banks-say-adani-exposure-within-rbi-limits-but-remain-watchful/articleshow/97380798.cms

- **Banks seek immunity for board members, suggest NaBFID-like shield against arrests**

Banks have asked the government for protection against the arbitrary arrest of board members for commercial decisions such as the granting of loans. They want similar immunity for executives deputed to boards of borrowing firms. The exemption could be on the lines of that available to the top brass of the National Bank for Financing Infrastructure and Development (NaBFID), they suggested.

The issue was discussed by banks internally at a meeting last week and a representation was subsequently made to the government, said people with knowledge of the matter.

Bankers have been lobbying for changes in existing provisions toward this end, arguing that it will help hasten decision-making, in turn bolstering growth and economic development. Banks repeatedly raised the issue after the 2021 arrest of former State Bank of India chairman Pratip Chaudhuri in an alleged loan scam case.

Independent directors too

"We have also sought immunity for bank officials who are appointed to the boards of other borrower companies as independent directors," a senior bank executive said. "Similar provisions are applicable for NaBFID."

Under Section 36 of the NaBFID Act, those appointed by lenders to the boards of borrowing entities are deemed to be independent directors under the Companies Act, 2013. The immunities available to independent directors are applicable to them.

"Banks should also be given this protection, which is for commercial decisions taken in good faith," said another bank official, adding they expect the government to make suitable changes to the Banking Regulations Act & Companies Act.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/lenders-seek-immunity-for-board-members-suggest-nabfid-like-shield-against-arrests/articleshow/97265101.cms

- **British banks in India may get breathing space with new amendment**

British banks in India, caught in a regulatory wrangle, may get a breathing space with a new amendment proposed in UK's financial market regulations.

A Bill has been moved to let the Bank of England (BoE) give more time to crucial market infrastructure institutions (MIIs) outside the UK – like the Clearing Corporation of India (CCIL) – to come under a new regime.

Under the present circumstances, British banks in India are required to end their relationship with CCIL – a central counterparty for government bonds, money market and foreign currency and interest rate derivatives – by June 30, 2023. If the Bill receives the royal assent in the next few months, the deadline would be pushed back to December 2025, by which time CCIL would have to apply to BoE and the latter can negotiate the terms of supervision with the Reserve Bank of India (RBI).

Since CCP takes over the clearing and settlement risk, cutting deals out of CCIL would mean higher capital requirement and operational complications for these foreign bank branches in India.

The idea of overseas regulators having oversight on MIIs of other countries took roots after the 2008 global meltdown to minimise the transmission of risk and losses from one market to another. But, this resulted in a standoff between regulators like the European Securities & Markets Authority (ESMA) and RBI which felt it amounted to extra-territorial powers. However, unlike ESMA which insists on inspection rights and onsite audit, BoE may be open to negotiating terms of mutual cooperation to mitigate risks.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/british-banks-in-india-may-get-breathing-space-with-new-amendment/articleshow/97142132.cms

- **Finance Ministry ask banks to increase credit penetration in 112 aspirational districts**

The Finance Ministry on Friday asked banks to further increase credit penetration in aspirational districts and ensure availability of at least one banking outlet within 5 km of all inhabited villages. Progress of 112 Aspirational Districts under Targeted Financial Inclusion Intervention Programme (TFIIP) was discussed in detail during a review meeting of Lead District Managers (LDMs) of aspirational districts and State Level Bankers' Committee (SLBC) convenors chaired by banking secretary Vivek Joshi.

"Banks were also requested to run financial literacy camps in villages with the help of Panchayati Raj institutions to further improve the performance of financial inclusion schemes. A reward and recognition programme for performing districts and SLBCs was also discussed," said an official release.

Joshi appreciated the efforts of SLBCs and LDMs in furthering the drive for financial inclusion in the country and requested LDMs and SLBC convenors to utilise the next six months with renewed vigour and zeal to achieve the set milestones.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/finance-ministry-ask-banks-to-increase-credit-penetration-in-112-aspirational-districts/articleshow/97177878.cms

- **RBI's new proposal on loan loss provisions to raise bank capital needs**

The Indian central bank's discussion paper suggesting banks make provisions on bad loans using an expected credit loss (ECL) method could raise capital requirements for lenders, analysts said.

On Monday evening, the Reserve Bank of India released the paper proposing a shift away from the current method - where loan loss provisions are made after a default - to one where banks will need to assess the probability of default upfront and provision accordingly.

The potential impact of a shift to the ECL mechanism on bank capital could be significant, said the RBI, which is yet to give a timeline for implementing the new rules.

If implemented, banks will be given at least a year to transition, it said.

The new mechanism will recognise problems ahead of time and make the banking system more resilient in the long run but could raise capital requirements significantly particularly for government owned banks, analysts at Macquarie Research said.

"The problem here is that over the last 5-10 years, the probability of default would have been very high for the banking sector and that's why eventual ECL provisions could be higher," Macquarie said.

While the impact on individual banks is difficult to assess at this stage, it could be felt in 2025/26 and banks would have to start preparing in 2024/25 to raise capital, the research house added.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbis-new-proposal-on-loan-loss-provisions-to-raise-bank-capital-needs/articleshow/97045904.cms

SELECT RBI CIRCULARS JANUARY 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2022-2023/171 DOR.AML REC.99/14.06.001/ 2022-23	30.1.2023	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 1 entry	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/170 DOR.AML. REC.98/14.06.001/ 2022-23	24.1.2023	Department of Regulation	Designation of 3 individuals as 'Terrorists' under Section 35 (1) (a) of the Unlawful Activities (Prevention) Act (UAPA), 1967 and their listing in the Schedule IV of the Act-Reg.	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/169 FMRD.FMID. No.07/14.01.006/ 2022-23	23.1.2023	Financial Markets Regulation Department	'Fully Accessible Route' for Investment by Non-residents in Government Securities – Inclusion of Sovereign Green Bonds	All participants in Government Securities market
RBI/2022-2023/168 CO.CEPD.PRS. No.S1233/13-01-018/ 2022-2023	23.1.2023	Customer Service Department	Safe Deposit Locker/ Safe Custody Article Facility provided by banks	All Commercial Banks (including RRBs, Small Finance Banks, Payment Banks and Local Area Banks) All Co-operative Banks
RBI/2022-2023/167 DOR.AML. REC.97/14.06.001/ 2022-23	17.1.2023	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 1 entry	The Chairpersons/ CEOs of all the Regulated Entities

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2022-2023/166 DOR.AML. REC.96/14.06.001/ 2022-23	17.1.2023	Department of Regulation	Designation of two individuals and one organisation under Section 35(1) (a) and 2(1) (m) of the Unlawful Activities (Prevention) Act,1967 and their listing in the First and Fourth Schedule of the Act	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/165 FIDD.CO.LBS. BC.No.17/02.08.001/ 2022-23	13.1.2023	Financial Inclusion and Development Department	Formation of new district in the State of Sikkim – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned
RBI/2022-2023/164 FIDD.CO.LBS. BC.No.16/02.08.001/ 2022-23	13.1.2023	Financial Inclusion and Development Department	Formation of new district in the State of Arunachal Pradesh – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned
RBI/2022-2023/163 IDMD. No.S2800/08.02.032/ 2022-23	11.1.2023	Internal Debt Management Department	Operational Risk Management: Price / Yield range setting in e-Kuber	All participants in the Government Securities Market
RBI/2022-2023/162 DOR.STR. REC.94/21.06.008/ 2022-23	09.1.2023	Department of Regulation	Basel III Capital Regulations - Eligible Credit Rating Agencies	All Scheduled Commercial Banks (including Small Finance Banks) (excluding Local Area Banks, Payments Banks and Regional Rural Banks)
RBI/2022-2023/161 FIDD.CO.LBS. BC.No.15/02.08.001/ 2022-23	06.1.2023	Financial Inclusion and Development Department	Formation of new districts in the State of Chhattisgarh – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned
RBI/2022-2023/160 A.P. (DIR Series) Circular No. 22	04.1.2023	Foreign Exchange Department	Foreign Investment in India - Rationalisation of reporting in Single Master Form (SMF) on FIRMS Portal	All Category-I Authorised Dealer Banks

STATISTICAL SUPPLEMENT – RBI

Date : Jan 27, 2023					
Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
(₹ Crore)					
Item	2022	2023		Variation	
	Jan. 21	Jan. 13	Jan. 20	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	-	-	-	-	-
4.2 State Governments	2899	16688	19058	2370	16159

** Data are provisional.*

2. Foreign Exchange Reserves

Item	As on January 20, 2023		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	4654872	573727	1945	1727	56053	-33582	-64963	-60559
1.1 Foreign Currency Assets #	4108235	506358	-3858	839	13670	-34366	-130062	-63224
1.2 Gold	354646	43712	5759	821	32432	1160	54496	3375
1.3 SDRs	149543	18432	161	68	6491	-459	7032	-720
1.4 Reserve Position in the IMF	42447	5226	-117	-1	3459	83	3570	10

** 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 Jan. 13, 2023	Variation over				
		Fortnight	Financial year so far		Year-on-year	
			2021-22	2022-23	2022	2023
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	17674372	-59412	869467	1209058	1357589	1691393
2.1a Growth (per cent)		–0.3	5.8	7.3	9.3	10.6
2.1.1 Demand	2075219	-126532	-32843	2472	254530	246870
2.1.2 Time	15599153	67120	902310	1206586	1103059	1444523
2.2 Borrowings	472464	32021	31712	197870	32027	196727
2.3 Other Demand and Time Liabilities	686950	-65688	-80494	46102	11077	110836
7 Bank Credit*	13281377	-24477	551790	1390063	857584	1882299
7.1a Growth (per cent)		–0.2	5.1	11.7	8.1	16.5
7a.1 Food Credit	52654	-1318	24427	-2356	-1269	-33027
7a.2 Non-food credit	13228723	-23159	527363	1392419	858853	1915326

**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	2023	Fortnight		Financial Year so far				Year-on-Year			
					2021-22		2022-23		2022		2023	
	Mar. 31	Jan. 13	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	20493729	21842676	-16559	-0.1	1062769	5.6	1348946	6.6	1667617	9.1	1935328	9.7
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3035689	3163730	41494	1.3	182884	6.6	128041	4.2	217690	8.0	229018	7.8
1.2 Demand Deposits with Banks	2212992	2215861	-126075	-5.4	-27979	-1.4	2869	0.1	270957	16.0	248720	12.6
1.3 Time Deposits with Banks	15186605	16400758	68627	0.4	905579	6.4	1214154	8.0	1171925	8.5	1444901	9.7
1.4 'Other' Deposits with Reserve Bank	58444	62326	-606	-1.0	2286	4.8	3882	6.6	7045	16.5	12690	25.6
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	6477629	6753836	188363	2.9	233970	4.0	276206	4.3	366178	6.4	669492	11.0
2.1.1 Reserve Bank	1450596	1253932	83678	7.2	61368		-196665		109388		92878	
2.1.2 Other Banks	5027033	5499904	104685	1.9	172602	3.6	472871	9.4	256789	5.5	576614	11.7
2.2 Bank Credit to Commercial Sector	12616520	14006383	-39495	0.3	443016	3.8	1389862	11.0	911900	8.1	1894900	15.6
2.2.1 Reserve Bank	16571	3724	-16128		-3569		-12846		-4200		-1416	
2.2.2 Other Banks	12599950	14002658	-23367	0.3	446585	3.8	1402709	11.1	916101	8.2	1896316	15.7

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
Jan. 16, 2023	–	–	–	–	412	75675	–1000	305	–	-76568
Jan. 17, 2023	–	–	–	–	365	85866	–	–	–	-85501
Jan. 18, 2023	–	–	–	–	431	105597	245	380	–	-105301
Jan. 19, 2023	–	–	–	–	1090	104254	–	625	–	-103789
Jan. 20, 2023	–	–	–	–	2149	34184	2572	280	–	-29743
Jan. 21, 2023	–	–	–	–	2038	19728	–	–	–	-17690
Jan. 22, 2023	–	–	–	–	78	3217	–	–	–	-3139

SDF: Standing Deposit Facility; MSF: Marginal Standing Facility

TOP NBFC & MICRO FINANCE INSTITUTIONS NEWS

- **Union Budget 2023-24: Booster for the Indian Fintech sector?**

Union Budget: The Fintech sector has served as a catalyst for the transformation and growth of the Indian financial services industry. Currently, India, which is among the world's fastest growing fintech markets, has around 6,600 Fintech startups with consumers becoming more financially literate, tech savvy, and comfortable with buying financial products through apps and on-line portals. The sector is justly seen as an important player to support the Indian government's vision of financial inclusion and digital India, and a bridge to reach the US$ 5 trillion economy target by 2025. With the Union Budget 2023-24 just around the corner, the timing couldn't be better for the government to introduce policy measures and tax measures to boost the Indian Fintech sector.

From a policy front, the biggest ask of the Fintech sector is to provide a clear, transparent, and liberal regulatory framework to keep up with the pace of innovation in the sector.

Neo-banks: Absent from physical presence, Neo-banks are allowed to offer limited financial services through online platforms, but only in collaboration with a regulated entity (Banks, NBFCs, etc.). The current partnership model poses various operational challenges for their growth. Further, RBI's guidelines on Digital Banking Unit ('DBU') permit only commercial banks with past digital experience to set-up a DBU; thereby excluding neo-banks. With a view to addressing the regulatory conundrum, NITI Aayog recently came out with a report on Digital Banks, to provide a roadmap for the licensing regime for neobanks in India. The Indian government should implement these recommendations for a defined regulatory regime for neo-banks in India, as it can boost Indian economy and increase financial inclusion.

Source: https://www.financialexpress.com/budget/union-budget-2023-24-booster-for-the-indian-fintech-sector-2956043/

- **Budget 2023: NBFCs seek liquidity support system**

Union Budget 2023: With the Union Budget just two weeks away, a host of smaller non-banking financial companies (NBFC) are hoping for some liquidity-enhancement measures that will provide relief to them at a time when the cost of funding has gone up.

"While banks and HFCs (home finance companies) have an active liquidity support system through RBI and NHB (National Housing Bank), there is no such support for NBFCs. Considering the stellar role of NBFCs in financial inclusion and job creation, it's about time that the government, in consultation with RBI, creates a liquidity support system for NBFCs," Shachindra Nath, vice chairman and managing director, U GRO Capital said.

According to him, either SIDBI (Small Industries Development Bank of India) or NABARD (National Bank for Agriculture and Rural Development) should be made as the agency for providing active liquidity support to the NBFCs and there should be a budgetary allocation to SIDBI from the Government of India to provide this liquidity support."

In recent months, lenders have been scurrying for funds in a bid to meet the rising demand for credit. The liquidity-crunch has been accentuated by the Reserve Bank of India's (RBI) mechanisms to remove excess liquidity from the financial system.

But unlike banks, most NBFCs are not allowed to raise deposits and have to rely on borrowings.

Source: https://www.financialexpress.com/budget/nbfcs-seek-liquidity-support-system-2950166/

- **NBFCs' yields may get impacted on higher costs**

Yields of some non-banking finance companies (NBFCs) are likely to get impacted on account of rising cost of funds. However, non-banks that are able to pass on higher borrowing costs might get some relief, market players said.

Although some NBFCs would be able to pass on the increase to borrowers in segments such as personal loans, two-wheeler loans and microfinance loans, they may face difficulties in competitive segments such as housing loans, and will have to absorb part of the rise in funding cost. The Reserve Bank of India (RBI), too, has cautioned NBFCs to be mindful of rising costs and competition from banks.

Cost of funds for NBFCs increased by 80-100 bps in FY23, as per data compiled by India Ratings. Cost of funds raised through bonds and NCDs substantially increased as the markets were factoring in potential rate hikes. In order to cope with rising costs, NBFCs are preferring banks borrowings.

The growth in bank borrowing of NBFCs was 26.4% as on September 30, compared with 11.5% a year ago and 16.7% a quarter ago, RBI data showed. In comparison, increase in debentures issued by shadow banks was at 2.2% as of September 30, compared to 8.4% a year ago and 2.4% a quarter ago. Bank lending to NBFCs increased 33% YoY in December to Rs 12 trillion, consisting of 9% of Rs 129-trillion non-food credit issued by banks.

Source: https://www.financialexpress.com/industry/banking-finance/nbfcs-yields-may-get-impacted-on-higher-costs/2939480/

- **NBFCs brace for tougher year as tight RBI regulations, competition pose challenges**

India's non-banking finance companies (NBFCs) may have a tough year ahead on account of tight regulations from the Reserve Bank of India (RBI) and intense rivalry from competition, said industry experts.

Industry experts said the central bank has been tightening rules for shadow banks in the aftermath of the collapse of erstwhile Dewan Housing and IL&FS focusing on capital requirement, and governance standards.

But what has impacted NBFCs more is the changes in asset classification, experts said.

Mahesh Thakkar, Director General, Finance Industry Development Council (FIDC), an NBFC industry body, in a letter to Union Finance Minister Nirmala Sitharaman, said: "The ticket size of the loan, as a determining factor for use of tools of recovery of that particular loan, for NBFCs is not justifiable."

At this point, the asset norms applicable to NBFCs are similar to those for banks. An RBI circular dated November 12, 2021 said that an NBFC loan will be tagged as non-performing asset (NPA) if an overdue amount is not paid by the 90th day, just like it is for banks.

Source: https://www.moneycontrol.com/news/business/banks/nbfcs-brace-for-tougher-year-as-tight-rbi-regulations-competition-pose-challenges-9823941.html

- **Fintech companies ask RBI for clear First Loss Default Guarantee framework**

Managing compliance obligations effectively has always been a headache for non-banking financial companies (NBFCs) in India as Reserve Bank of India (RBI) has specifically laid down it rules for the sector.

As per details, the RBI has alone issued over 27 regulatory updates specific to the NBFC sector in 2022. Also, a NBFC operating in a single state must comply with at least 621 compliances which involves over 35 one-time registrations and approvals.

The compliance that NBFC have to go through include maintenance of records, returns, and filings under the Prevention of Money Laundering Act, 2002, Prevention of Money Laundering (Maintenance of Records) Rules, 2005, and RBI Guidelines on Fair Practices Code for NBFCs, among others.

NBFCs have to meet a plethora of return filing requirements and disclosure related compliances under RBI circulars. Besides general compliances RBI circulars, there are specific particulars such as the asset classification norms applicable to NBFCs.

With difficulty in maintaining the compliance, 94 percent of the compliance officers at NBFCs believe they don't have the required visibility and control in their organization's compliance program, says a report by TeamLease Regtech.

The report further adds that 92 percent of the surveyed NBFCs agree they had missed at least one critical compliance during the 12-month period.

Source: https://www.livemint.com/news/india/nbfcs-struggle-to-manage-compliance-obligations-here-s-a-guideline-to-get-rid-of-it-11673984763001.html

- **Equity funds hike exposure to banking, NBFC and auto stocks in Jan: Data**

  The data from Indian Mutual Fund Tracker by Motilal Oswal shows that in January, six of the top 10 stocks that saw the maximum increase in value were ICICI Bank, Axis Bank and SBI

  Indian equity fund managers have increased their allocation towards private banks, non-banking financial companies (NBFCs) and auto in January. The data from Indian Mutual Fund Tracker by Motilal Oswal shows that in January six of the top 10 stocks that saw the maximum increase in value were ICICI Bank, Axis Bank and SBI.

  Source: https://www.business-standard.com/article/markets/equity-funds-hike-exposure-to-banking-nbfc-and-auto-stocks-in-jan-data-122021501232_1.html

TOP INSURANCE NEWS

- **Why's the insurance industry largely silent on 100% FDI demand?**

Strangely not much of noise is being heard from the Indian insurance sector on hiking the foreign direct investment (FDI) to 100 per cent from the current 74 per cent as their budget wishlist.

In the past, the sector's top executives would make a high-decibel pitch for their demand to increase the FDI limit.

Earlier, the life insurance industry had advocated that the increase in FDI from 26 per cent to 74 per cent would bring in an additional capital of Rs 50,000 crore

Incidentally, not many foreign partners of Indian insurance joint ventures have increased their stakes to the permissible 74 per cent and the touted amount has not materialised.

"Among the host of expectations from the budget, the proposal to increase the FDI limit to 100 per cent in insurance is unlikely be introduced in the upcoming Budget, especially since the FDI limit has just been recently increased to 74 per cent," Anup Rau, MD and CEO, Future Generali India Insurance on the pre-budget expectations said.

He said the industry should nevertheless have this conversation with the policy makers on allowing 100 per cent FDI. According to him, one of the challenges for the global insurers is to find a suitable local partner.

"With over 60 insurers between life and general insurance and a large number of them joint ventures, there is really an acute shortage of local partners, who either have the ability or the inclination to get into this space," Rau said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/whys-the-insurance-industry-largely-silent-on-100-fdi-demand/articleshow/97399500.cms

- **Insurance Bill may not be introduced in budget session**

The government is likely to put on hold the Insurance Laws (Amendment) Bill, 2022, following demands from the industry for major changes, including dropping the composite licence provision, which allows insurers to undertake general and health insurance via a single entity. The bill was expected to be introduced in the upcoming budget session.

The finance ministry last November invited comments on the proposed amendments to the Insurance Act, 1938, and the Insurance Regulatory and Development Authority Act, 1999.

The General Insurance Council, a grouping of non-life insurers, has opposed the composite licence, warning that letting companies enter any segment will result in chaos and fragmentation of existing markets, an industry executive told ET.

"The council has argued that this will harm the interests of the existing policyholders in both life and non-life segments and that merging too many businesses might lead to issues in customer service and a lack of specialisation," he said.

India has 24 general insurance companies, apart from some standalone health insurers. In the first nine months of FY23, total non-life premiums were up 16.2% to Rs 1.87 lakh crore.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/insurance-bill-may-not-be-introduced-in-budget-session/articleshow/97361600.cms

- **Tier II cities beat metros in sale of term insurance products: Report**

India's Tier II cities like Ludhiana, Jaipur, Patna and Pune beat metros in terms of buying term insurance or pure insurance products, as per a report. According to India Protection Quotient survey (IPQ) commissioned by Max Life Insurance, awareness about term insurance products has increased post COVID-19 pandemic.

There has been steady progress seen in preference of online channels to purchase term insurance, while agents remain the top channel of purchase with 2 out of 3 urban Indian opting for it, it said.

The latest study IPQ 5.0 was conducted among 3,500 respondents in top 25 cities.

As COVID-induced anxieties take a backseat, inflation has emerged as a predominant concern for urban Indians, it added.

Beginning with a Protection Quotient of 35 in 2019, India has come a long way, it said, adding as per the latest edition of the survey, urban India showcased a positive movement, climbing up 8 points on the Protection Quotient to 43, signalling steady progress in the country's overall financial protection levels.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/tier-ii-cities-beat-metros-in-sale-of-term-insurance-products-report/articleshow/97257950.cms

- **Sale of health insurance policies rising in rural areas: Report**

Rising cost of healthcare services, demand from the micro-insurance segment and post-Covid awareness is pushing sale of health insurance policies in semi-urban and rural markets, according to a report in Times of India.

As per the report, Kotak Mahindra General Insurance has more than doubled its rural policies from 13% in FY20 to 32% through September of the current financial year (FY23). During the same period, the number of lives covered also rose, from 11% to 25%.

"This can be attributed to the right product fitment and robust demand from the micro-insurance segment," N Ravichandran, senior executive VP & chief technical officer at Kotak Mahindra General Insurance, told Times of India.

Niva Bupa Health Insurance too saw huge growth of 160 per cent in the number of policies since November 2019. The insurer said 7 per cent of its policies are from rural areas. Director & chief actuary Vishwanath said people have realised the importance of access to quality treatment without financial burden. "Also, the rising cost of healthcare services and overall medical inflation in the country have further made health insurance an absolute necessity," he added.

"The desire to take insurance in the rural sector is increasing since the pandemic," according to Star Health and Allied Insurance Chairman and CEO V Jagannathan. The rural segment accounts for more than 23% of the standalone health insurer's policies and lives.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/sale-of-health-insurance-policies-rising-in-rural-areas-report/articleshow/96783970.cms

- **Joshimath subsidence: Irdai ask insurers to expeditiously settle claims**

Regulator Irdai on Thursday asked insurance companies to take steps for expeditious settlement of claims of loss to property due to subsidence and landslides in the calamity-affected areas in Uttarakhand. The Insurance Regulatory and Development Authority of India (Irdai) has issued the circular for general insurers in wake of subsidence in Joshimath town of Chamoli district and subsequent evacuation and demolition of properties which have developed cracks.

As you are aware, subsidence and landslide have caused loss to property in some areas in the State of Uttarakhand. There is an urgent need for the general insurers to take immediate steps to mitigate the hardships of the affected insured population by ensuring immediate registration and settlement of eligible claims," it said.

Irdai has asked the insurers to nominate a senior officer at the company level who would act as a Nodal Officer in the affected districts of Uttarakhand. The nodal officer would be coordinating the receipt, processing, and settlement of all eligible claims.

Insurers have also been asked to engage adequate number of surveyors immediately as required and, if need be, consider engaging surveyors from neighboring areas as well.

"We request you (insurance companies) to take urgent steps for expeditious settlement of claims in the affected areas and maintain the details of the same," the Irdai's circular said.

Meanwhile, crack meters installed in the damaged houses of Joshimath have registered no further widening of cracks in the last three days, but water discharge from an underground channel near J P Colony has shot up again to 150 litre per minute, a senior official said on Thursday

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/joshimath-subsidence-irdai-ask-insurers-to-expeditiously-settle-claims/articleshow/97144022.cms

- **Insurance industry needs Rs 50k cr capital every year to double penetration: Debasish Panda**

India's insurance industry will need to infuse Rs 50,000 crore of capital every year in order to double penetration in the country, Insurance Regulatory and Development Authority (IRDAI) chairman Debasish Panda said.

He also implored corporate conglomerates and investors to consider investing in the sector.

"If we have to double the penetration, every year there is need to infuse an additional Rs 50,000 crore. Some of it will come from the existing players itself by way of ploughing back their profits, some of it will come as an additional capital. After March, I intend to meet the chairpersons of all the insurance companies to drive home the point that they have to factor this and start planning to infuse more capital. I'm glad some players have already started around that," Panda said while addressing indsutry executives at the CII organised Insurance and Pensions Summit.

Panda said India is set to become the sixth largest insurance market by 2032 from tenth largest currently but the country needs more investments if it has to acheive the insurance for all target set by the regulator by 2047.

"I will like to reach out to the conglomerates who are present in this country. Individual investors who are interested to invest their money. If you look at return on equity on the top 5 companies it is 20% and 16% on an average for non life and 14% for life insurance," Panda said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/insurance-industry-needs-rs-50k-cr-capital-every-year-to-double-penetration-debasish-panda/articleshow/97168279.cms

TOP CORPORATE BOND MARKET NEWS

- **Bond investors brace for recession as Fed expected to slow pace of tightening**

  Recession worries are sending investors into Treasuries and other fixed income investments ahead of the Federal Reserve's first meeting of 2023, even as stocks start the year with a hopeful rally.

  Yields on the benchmark U.S. 10-year Treasury note, which move inversely to prices, have fallen by around 83 basis points from their October high of 4.338% and investors sent $4.89 billion into U.S. bond funds last week, the third straight week of net inflows. The rally comes after Treasuries notched the worst year in their history following the Fed's most aggressive monetary policy tightening since the 1980s.

  Worries that the Fed's rate increases will send the U.S. economy into a recession have been a key driver of demand for Treasuries, often seen as a safe haven during economically uncertain times.

  While investors widely expect the Fed to raise rates by another 25 basis points at the end of its monetary policy meeting on Feb. 1, markets are also looking for signals that the central bank is pulling back on its hawkish monetary policy amid signs of falling inflation and softness in the economy.

  "Things are coming off the boil here," said Rob Daly, director of fixed income at Glenmede Investment Management. "There is a de-risking that's happening, and we're seeing flows out of equities into higher quality parts of the market such as fixed income."

  That move has stood in contrast to a recent rally in stocks, where recession concerns are less apparent and hopes of a so-called soft landing, where inflation eases and growth remains resilient, have emerged.

  Source: https://economictimes.indiatimes.com/markets/bonds/bond-investors-brace-for-recession-as-fed-expected-to-slow-pace-of-tightening/articleshow/97489475.cms

- **Bond yields rise as caution prevails ahead of budget, supply weighs**

  Indian government bond yields ended higher for the third consecutive trading session on Monday, as investors remained cautious ahead of the Union budget announcement, while elevated borrowing by states further hurt sentiment.

  The benchmark 10-year yield ended at 7.4004%, highest level since Nov. 7, after closing at 7.3874% on Friday, posting its second consecutive weekly rise. It had risen by nine basis points in the last two weeks.

  "There is caution before Wednesday's budget and we may see some more upside pressure on government bond yields," said Ajay Manglunia, managing director and head of investment grade group at JM Financial

  Indian states aim to raise 258.05 billion rupees ($3.16 billion) through the sale of bonds on Tuesday, the second consecutive week when the quantum has risen above the 250 billion rupee mark.

  Last week, the government raised 300 billion rupees through a weekly debt sale and another 80 billion rupees through the first-ever sovereign green bond issuance, which was largely subscribed by local banks and a large state-run insurance company. Bond yields had dipped in opening trades with the federal government likely capping its gross market borrowing below 16 trillion rupees for the next financial year, as reported by Reuters, citing two sources.

  Source: https://economictimes.indiatimes.com/markets/bonds/bond-yields-rise-as-caution-prevails-ahead-of-budget-supply-weighs/articleshow/97453267.cms

- **Govt raises Rs 8,000 cr via maiden auction of Sovereign Green Bonds**

  The first tranche of Sovereign Green Bonds (SGrBs) worth Rs 8,000 crore was subscribed fully on Wednesday. As per the auction details provided by the Reserve Bank of India (RBI), SGrB 2028 maturing in 2028 will have a coupon rate of 7.10, while SGrB 2033 maturing in 2033 will carry a rate of 7.29 per cent. Coupon rates of Sovereign Green Bonds are very much in line with the G-Sec.

As announced in the Union Budget 2022-23, the central government as part of its overall market borrowings will be issuing SGrBs for mobilising resources for green infrastructure. The second auction of another Rs 8,000 crore will be conducted on February 9.

SGrBs will be issued through uniform price auction and 5 per cent of the notified amount of sale will be reserved for retail investors, the RBI said, adding these papers will be reckoned as an eligible investment for SLR purposes.

These bonds will be eligible for trading in the secondary market. The proceeds from the green bonds issuance cannot be used for extraction, production and distribution of fossil fuels or where the core energy source is fossil-fuel based, and nuclear power projects.

All eligible green expenditures will include public expenditure undertaken by the government in the form of investment, subsidies, grants-in-aid, or tax foregone (or a combination of all or some of these) or select operational expenditures.

Source: https://economictimes.indiatimes.com/markets/bonds/govt-raises-rs-8000-cr-via-maiden-auction-of-sovereign-green-bonds/articleshow/97321609.cms

- **Euro zone bond yields little changed after hawkish ECB comments**

Euro zone government bond yields were little changed on Monday in subdued trading after European Central Bank (ECB) officials said over the weekend they expect interest rates to climb considerably higher.

Bond yields in the single-currency area have fallen sharply since the start of the year, as lower global energy prices and a resulting slowdown in inflation have cheered investors and spurred bets that central banks would soon slow the pace of their interest rate increases. ECB governing council member Klaas Knot pushed back against those expectations on Sunday, saying he expects the central bank's main interest rate to rise 50 basis points (bps) in both February and March and to keep climbing after that.

ECB policymaker Robert Holzmann also said on Friday he expects at least two interest-rate increases of 50 bps each in the first half of this year. Christine Lagarde, the president of the ECB, is due to speak in Germany on Monday after markets close.

Germany's 10-year government bond yield was down 1 basis point on Monday at 2.165%, having risen more than 11 bps on Friday after other ECB officials made similarly hawkish comments late last week. It remained well off the 11-year high of 2.569% touched on Jan. 2, however.

The yield on Germany's 2-year bond, which is sensitive to interest rate expectations, was little changed at 2.573%. It rose 6 bps on both Thursday and Friday.

Source: https://economictimes.indiatimes.com/markets/bonds/euro-zone-bond-yields-little-changed-after-hawkish-ecb-comments/articleshow/97248451.cms

- **SEBI launches information database on municipal bonds**

Markets regulator Sebi has launched an information database on municipal bonds. As part of efforts to develop the bond markets, an outreach programme on municipal bonds and municipal finance was organised by Sebi in the national capital on January 20 and 21, according to a release on Sunday.

Representatives from various stakeholders, including the Ministry of Housing and Urban Affairs, municipal corporations, stock exchanges, credit rating agencies, merchant bankers and debenture trustees, participated in the programme.

At the event, Sebi Chairperson Madhabi Puri Buch emphasised the potential of municipal bonds in infrastructure development and nation building.

The information database was launched at the event. The information database contains a wide range of information in the form of statistics and regulations, circulars, guidance note and Frequently Asked Questions issued by Sebi in respect of municipal debt securities," it said.

According to the release, the repository contains various checklists for pre-listing requirements and sample letters and certificates from various intermediaries to be obtained by an issuer who plans to tap the municipal bond market.

Source: https://economictimes.indiatimes.com/markets/bonds/sebi-launches-information-database-on-municipal-bonds/articleshow/97225388.cms

- **SEBI steps to enhance retail participation in bond market can bolster issuances: Nithin Kamath**

The recent measures taken by the Securities and Exchange Board of India (Sebi) to boost retail participation in corporate bonds will go a long way in building the market, paving the way for more issuances with smaller face values, believes Zerodha's founder and chief executive officer Nithin Kamath.

"We've always believed that bonds and maybe not stocks are the right stepping stone for most Indians — better than FD returns, but lower risk than stocks," Kamath said in a tweet.

In October, the capital market regulator sharply reduced the face value of debt securities, including non-convertible debentures, issued on a private placement basis to Rs 1,00,000 from Rs 10,00,000, following representations from various market participants.

A reduction in the face value and the trading lot will not only make way for more investors to participate but will also enhance the liquidity in the corporate bond market.

Traditionally bonds have been an instrument for high-net-worth individuals, but these measures will now see even the retail community entering the market. Further, SEBI allowed registered stock brokers to place bids on the request for quote (RFQ) debt trading platform on behalf of their clients to facilitate wider participation in the corporate bond market.

RFQ is an electronic platform to enable sophisticated, multilateral negotiations to take place on a centralised online trading platform, and only mutual funds and portfolio management services were previously allowed to do part of the trades through this platform.

Source: https://economictimes.indiatimes.com/markets/bonds/sebi-steps-to-enhance-retail-participation-in-bond-market-can-bolster-issuances-nithin-kamath/articleshow/96908072.cms

- **'Big tech targets bond market for cash to buy back sinking stocks**

Tech companies including Microsoft Corp. and Meta Platforms Inc. are expected to hit the bond market in size to buy back stock after last year's rout.

As much as $20 billion in issuance from Microsoft and $10 billion from Meta could be on the docket, according to analysis by Bloomberg Intelligence. The sector has more cash than others, giving it room to pursue bond sales to fund buybacks.

Microsoft's shares are down nearly 30% in the last year, while Meta Platforms saw more than 60% of its value erased. The massive sell off in many high-flying tech stocks may push the industry's behemoths to borrow more to help return money to shareholders as cash levels drop.

"Despite rising interest rates and minimal maturities, we don't expect tech to avoid debt markets; the sector may continue to bolster balance sheets, particularly for enhanced shareholder returns," Bloomberg Intelligence strategist Robert Schiffman wrote in a note Wednesday. Funding for acquisitions and maturing debt also "could drive jumbo financing at the sector's largest issuers."

Source: https://economictimes.indiatimes.com/markets/bonds/big-tech-targets-bond-market-for-cash-to-buy-back-sinking-stocks/articleshow/96808508.cms

Department of Banking & Financial Services Upcoming Programme

ASSOCHAM 9th Annual Summit Non-Banking Financial Companies and Infrastructure Financing	10th February 2023
ASSOCHAM 5th National Summit on Asset Reconstruction Companies	23rd February 2023
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