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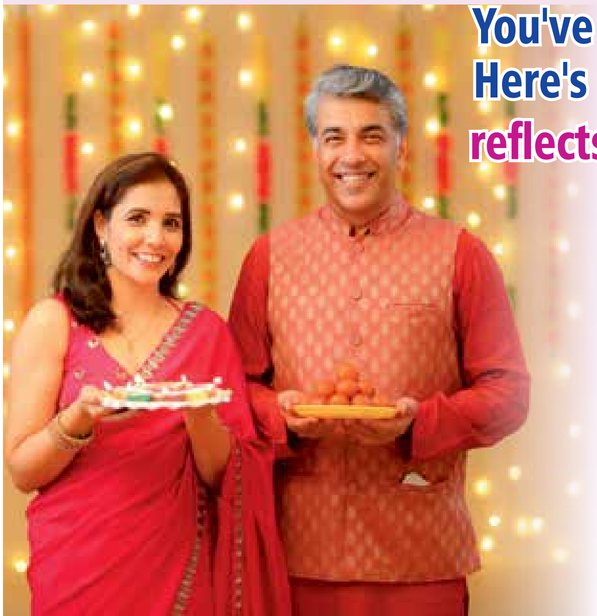

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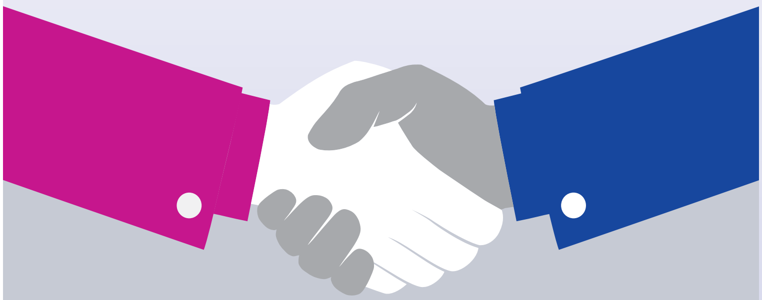

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TOP SPEECHES

New Vistas in Deposit Insurance in India

(Keynote Address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India - June 14, 2024 - at the 79th Executive Committee Meeting of the International Association of Deposit Insurers (IADI) at Rome, Italy)

Good morning to you all!

I am deeply honoured to participate in the 79th meeting of the Executive Council (EXCO) of the International Association of Deposit Insurers (IADI). At the outset, I would like to express my profound appreciation for the IADI as a global standard-setter as well as an international forum for the cross-fertilisation of information and country experiences on practices and techniques relating to deposit insurance. The IADI is contributing significantly to building effective deposit insurance systems across the world, thereby strengthening public confidence in the banking system and ensuring financial stability.

Before I begin my talk, I am happy to inform you that the Deposit Insurance and Credit Guarantee Corporation (DICGC) of India, in collaboration with the IADI and the Asia Pacific Regional Committee (APRC), would be hosting an international conference with 'Evolving Financial Landscape: Emerging issues for deposit insurance and the importance of crisis preparedness' as its theme during August 12 to 14, 2024 in Jaipur in the western state of Rajasthan in India. Jaipur is a world heritage city and is also known as the pink city due to the dominant colour scheme of its buildings. On behalf of the DICGC, I extend our invitation to the conference to all members of IADI. We look forward to welcoming you to India and to Jaipur soon.

In the recent period, India has been in the forefront of designing and implementing a pro-active deposit insurance (DI) framework that shields small depositors of banks from financial distress on account of bank runs or failures. Accordingly, the theme of my address is the recent set of policy initiatives undertaken in India for designing a strong safety net for depositors. The subject assumes considerable importance and topicality in the context of the bank failures in some jurisdictions in March 2023 that have posed new challenges for the conduct of monetary policy as well as for prudential regulation and supervision. The swift and decisive responses of deposit insurers (DIs) and regulators to quell the turbulence and contain contagion are redefining the landscape for resolution and deposit insurance in the pursuit of financial stability.

II. Deposit Insurance in India in a Cross-Country Setting

Let me begin by providing a brief historical context for the establishment of the DICGC. The idea of deposit insurance was shaped by intermittent bank failures between 1948 and 1960. A Deposit Insurance Act was promulgated by Parliament in 1961 to set up the Deposit Insurance Corporation (DIC), a wholly owned subsidiary of the Reserve Bank of India (RBI), the country's central bank. It was merged with the Credit Guarantee Corporation of India and renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC) on July 15, 1978 with the mandate of "insurance of deposits and guaranteeing of credit facilities and for other matters connected therewith or incidental thereto".

III. Mandate

From its very inception, therefore, the Corporation was envisaged as a paybox plus2 institution. The credit guarantee function was discontinued in April 2003 and deposit insurance became and remains the principal function of the Corporation. The resolution function resides with the RBI as the regulator of the financial sector. Currently, the paybox plus mandate is restricted to the provision of financial support in case of the mergers. More recently, however, this mandate has been strengthened with amendments to the DICGC Act in August 2021 which provides for up-front payouts within stipulated timelines. This provision is unique among deposit insurers. The Corporation is now liable to make payment to depositors of a bank facing solvency stress up to the deposit insurance limit within 90 days of the bank being placed under regulatory directions that restrict it from discharging its liabilities, i.e., even before liquidation and amalgamation. The insured bank has to submit the depositors list within 45 days. The Corporation has to get the genuineness and authenticity of the claims verified within 30 days and pay the depositors who have submitted their willingness to receive the same within the next 15 days. In case the RBI finds it expedient to bring a scheme of amalgamation/ compromise or arrangement/ reconstruction, the liability of the Corporation will get extended by a further period of 90 days.

Globally too, the mandates of DIs have expanded significantly, with the share of paybox3 entities shrinking. By 2023, it was down to 17 per cent. Increasingly, DIs have been vested with additional responsibilities, including for financing and resolution, in recognition of their crucial role as participants in the national financial safety net. Consequently, the share of DIs with paybox plus mandate has risen to 48 per cent (a rise of 11 basis points in ten years), especially among advanced economies. The shares of loss minimisers4 and risk minimisers5 have remained broadly unchanged.

IV. Coverage

It may be apposite at this juncture to set out some stylised facts about deposit insurance coverage in India and how they compare with the global experience as recently profiled by the IADI6. In India, deposit insurance is mandatory for all banks, including foreign banks. Currently, 1,997 banks are covered, comprising 140 commercial banks and 1,857 cooperative banks, which are small financial institutions owned and controlled by their members and are community-focused in their operations. According to the IADI's latest deposit insurance survey7, this is the largest number of deposit-taking institutions covered by deposit insurance in the world, second only to the US. The current insurance coverage limit is INR 500,000 (approximately US$ 6000) per depositor in a bank. Expressed as a multiple of nominal GDP per capita, this works out to 2.9 times as against the global median of 3.3, but it compares favourably with medians for paybox and risk minimiser DIs. On a by-account basis, the coverage ratio in India at 97.9 per cent is in line with the global median and a little below the latter – 44.2 per cent as against 47 per cent globally – in terms of value of deposits.

V. Funding

Funding for deposit insurance in India is in line with the global central tendency under which 96 per cent of DIs are funded by levying premiums on member institutions (64 per cent of pre-tax accretion to the fund). In addition, about 35 per cent of the accretion to the deposit insurance fund (DIF) came from investment income in fiscal 2022-2023. Unlike the growing practice worldwide of nearly half of deposit insurers levying differential premiums incorporating additional risk measures – up from 30 per cent in 2010 – a flat rate premium of 0.12 per cent per annum is levied in India which has been revised from time to time, keeping in view the adequacy of the Corporation's DIF. The size of the fund, measured by its ratio to insured deposits, at 2.02 per cent is comparable with the global median. The Corporation has targeted the achievement of a ratio of 2.5 per cent by March 2028.

VI. Reimbursement

Reimbursement of insured depositors is the core responsibility of a DI, with the IADI promoting a period of "within 7 days" as its Core Principle 15. There has been a significant improvement globally in the speed of reimbursement, although meeting the Core Principle has remained a challenge over the last decade. The global average period for reimbursement to depositors has reduced from 28 to 14 days8. Currently, the DICGC's reimbursement takes about a month on an average. Factors that usually impede fast reimbursement include data quality issues, identification of insured depositors and depositors lacking an alternative bank account.

VII. New Vistas for Deposit Insurance in India

The March 2023 banking turmoil and its aftermath prompted policy makers to refocus on design features of deposit insurance processes. In India, this has led to prioritising risk management, especially during adverse market conditions, while benchmarking to best international practices. This involves revamping risk management and internal control systems, including contingency planning and crisis management frameworks, in alignment with the IADI's 2020 Guidance Paper on "Risk Management and Internal Control System of Deposit Insurers (DIs)". In the context of the DICGC's portfolio valued at US$ 24.5 billion, treasury operations are being reinforced with asset-liability management tools, real time monitoring of liquidity and concentration ratios, and periodic value-at-risk and scenario analyses at various confidence levels. A dedicated market risk reserve has also been created. Some risk management measures like market borrowing, liquidity support from central bank/government, etc., may necessitate changes in statutory provisions.

Simultaneously, public awareness campaigns are being refashioned and stepped up. Driven by a Board approved communication policy, public awareness about deposit insurance is being nurtured through continuous dissemination of deposit insurance related information. All insured banks are required to display the DICGC Logo and QR code linked with the DICGC's website on their own websites and internet banking portals. The Corporation has also registered on a hyper-local social platform which facilitates sharing of specific information on claim payments. Messages are also relayed by structured mobile phone text. The website itself is being overhauled to make it more customer-friendly in terms of search capability, information architecture, improved user interface/ experience, content strategy and user engagement, a progressive Web App and the like.

Digital transformation of all operations is underway with a focus on data management, process optimisation, business analytics and cyber security with best-in-class market technologies. Straight through processing without manual intervention and seamless integration of various modules are on the anvil alongside use of application programming interfaces (APIs), and artificial intelligence. A standalone single customer view application (SCVA) will reduce time lags in the submission of claims. An in-house recovery dashboard enables tracking compliances, and authentication of asset details and payments by liquidators.

VIII. Conclusion

Looking ahead, the evolution of the deposit insurance function is likely to confront more complex challenges amidst heightened uncertainty. For instance, climate change is emerging as an overarching risk to the global economy and financial systems. According to the IADI's surveys, 60 per cent of DIs have formalised Environmental, Social, and Governance (ESG) policies and some are members of the Network for Greening the Financial System (NGFS). This is what is keeping us awake in India – framing a comprehensive ESG policy incorporating elements of climate sustainability, investment in sovereign green bonds, measuring the impact of climate change on default risk and contingency planning for climate related extreme events via actuarial analysis. We are exploring appropriate coverage for green deposits, climate risk based differential premiums and ex ante funding needs for climate sustainability. These new challenges will inevitably require effective coordination and information sharing between DIs and other national safety net participants as well as with those in other jurisdictions. Forums like this one will be the incubators of global coordination. The time to act is now.

Thank You.

Source: https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1437

Keeping the Financial System Resilient, Future Ready and Crisis Resistant

(Inaugural Address by Shri Shaktikanta Das, Governor, Reserve Bank of India - June 20, 2024 - at the Second Global Conference on Financial Resilience organised by the College of Supervisors (CoS), RBI, Mumbai)

Professor Sheri Markose;

Dr. Hiroko Oura;

Deputy Governor Shri Swaminathan;

Shri Arijit Basu, Chairman, Academic Council, College of Supervisors;

Dr. Rabi N. Mishra, Director, College of Supervisors;

Distinguished speakers and panelists;

Members of the Academic council, College of Supervisors;

My colleagues from the Reserve Bank;

Ladies and Gentlemen.

Namaskar.

I am delighted to be here to inaugurate the second edition of the global conference on financial resilience organised by the College of Supervisors (CoS) of the Reserve Bank of India. The first edition of the conference was held last year in April and I had participated in the same. Since its establishment in the year 2020, the CoS has made significant contributions to strengthen supervisory capacity of not just the Reserve Bank, but also the supervisors from a few other countries who have participated in the various programmes3 organised by the college. My compliments to the Team CoS for their dedication in successfully carrying forward the objectives of the organisation.

I am also happy to note that the conference has participation of eminent speakers, panelists and academicians from around the world. This three-day event would cover diverse topics of interest to the global financial community.

The theme of the conference, 'Keeping the Financial System Resilient, Future-Ready and Crisis-Immune', is one which will never lose relevance, no matter which side of the economic cycle we are in. In fact, the ethos of being future-ready and resilient against crisis needs to be built into every financial institution. It has to be a key element of their organisational culture. It has to be developed proactively when the system is healthy rather than reactively when there may not be enough headroom to strategise and implement.

Fortunately, all stakeholders in India, namely, the Reserve Bank, the Banks and Non-banking financial companies (NBFCs), and the government have made tangible efforts in this direction. India's domestic financial system is now in a much stronger position4, characterised by robust capital adequacy, low levels of non-performing assets, and healthy profitability of banks and NBFCs. I would like to compliment the banks and other financial sector entities for such a stellar performance. There is, however, no room for complacency. We must keep constant vigil and continue to take proactive measures to sustain this progress.

In today's environment which is characterised by turbulent global spillovers and uncertainties, it is important for the financial sector to follow an adaptive and forward-looking approach to navigate amidst the emerging challenges. This would entail strengthening governance and risk management practices; employing sustainable business models; and embracing technological advances and using them to our advantage. On its part, the Reserve Bank will continue to fine tune the regulatory architecture and the supervisory rigour, as may be required, to promote long term resilience and stability of the financial system. Let me now elaborate on each of these aspects.

Governance

Strong governance is at the core of resilience, especially in the financial sector. It is in fact the bedrock for informed and strategic decisions that align with long-term goals and risk management principles. In this context, I would like to highlight three major imperatives. First, effective governance entails establishing clear roles and responsibilities for the Board of Directors and the executive management. Both of them should possess necessary expertise and independence to take the right decisions and to effectively exercise appropriate oversight on operations.

Second, robust governance also involves implementing comprehensive internal controls and strong assurance functions, namely, risk management, internal audit and compliance. Internal controls should be designed to detect and mitigate potential risks before they escalate into significant issues. Regular internal and external audits play a critical role in this process as they provide independent assessments of the organisation's financial health. They also facilitate genuine compliance with regulatory requirements. Perfunctory compliance with regulations would actually be self-defeating. I am happy to note that at the systemic level, there has been significant improvement in compliance culture in our financial system. The Reserve Bank is bilaterally engaged with the outlier entities wherever it notices deficiencies. The heads of risk management, internal audit and compliance functions are the conscience keepers of a financial institution. They should have the necessary seniority and independence within the organisation. These verticals in a Bank or NBFC play a critical role in identifying the gaps and weaknesses, if any, in their organisations and help in managing risks and safeguarding the institution and its reputation.

The third point which I wish to highlight is the importance of ethics in governance which involves compliance with laws and regulations, both in letter and spirit; pursuit of sustainable business practices; and avoidance of mindless pursuit of bottom lines.

Business models

Let me now turn to business models. Both regulated entities and supervisors need to be vigilant to risks, if any, in the business models of organisations. While business models may be designed to drive profitability and growth, they sometimes contain vulnerabilities that may not be apparent. Pursuit of business growth is important, but it should never come at the expense of taking on unacceptable risks. Robust risk mitigants are essential for ensuring long-term success and resilience of a regulated entity as well as the overall financial system.

Leveraging technology while managing its risks

As the financial sector gets increasingly digitised, adoption of advanced technologies can significantly strengthen the ability of Banks and NBFCs to withstand and respond to various risks. It has to be, however, ensured that these technologies are secure, reliable and aligned with the institution's overall strategic goals.

Integrating advanced and emerging technologies such as artificial intelligence (AI), machine learning (ML), and big data analytics into organisational functioning can transform the way financial institutions operate. AI and ML can enhance predictive analytics and enable banks and NBFCs to identify potential risks and trends more accurately. These technologies can improve fraud detection by recognising unusual patterns and transactions in real-time. Thus, they can protect the institutions and their customers from financial crimes and frauds. Operational efficiency can be improved through automation of routine tasks, which reduces human error and frees up resources for more strategic activities. Robotic process automation (RPA) can handle high-volume and repetitive tasks, such as data entry and transaction processing, more quickly and accurately than humans.

As financial institutions increasingly rely on advanced technologies to enhance their operations, the dependency on third-party vendors and service providers may increase. A vendor's inability to deliver services reliably can directly impact the regulated entity's operations and customer service. Therefore, a thorough due diligence becomes necessary before selecting third-party vendors. This includes assessing their financial sustainability, technical capabilities, security standards, and their ability to comply with regulations. Further, there should be continuous monitoring of third-party vendors to ensure that they adhere to the agreed standards and practices.

Fine tuning the regulatory framework and supervisory rigour

As risks evolve and new challenges emerge, the Reserve Bank as a regulator and supervisor constantly focuses on being vigilant, adaptive and proactive with regard to the regulatory frameworks and supervisory systems to safeguard the stability of the financial system.

Over the past few years, the Reserve Bank has undertaken a comprehensive review of regulations under the aegis of the Regulations Review Authority (RRA) 2.0 constituted by it. Apart from withdrawal of many redundant instructions, the RRA has also made valuable recommendations to ease compliance and reduce the regulatory burden; streamline the reporting mechanism; and bring in more clarity in regulatory instructions.

In recent years, the Reserve Bank has also comprehensively restructured the regulatory architecture for banks (both commercial and urban co-operative banks), NBFCs, Housing Finance Companies (HFCs), Asset Reconstruction Companies (ARCs), Digital lenders, Micro-finance lenders and Core-investment companies. Thus, the financial sector regulations are now not only in sync with the changing times but also forward looking with the required readiness to take further proactive measures as may be necessary. Steps have also been taken to set up Self-Regulatory Organisations (SROs) for NBFCs and Fintech companies. This is a completely new approach to facilitate greater consultation and close interface with the stakeholders in the system. It will make regulations even more dynamic and proactive. In the same breath, I would like to emphatically state that there is no intention to make frequent regulatory changes, but only to ensure that there is greater regulatory clarity and responsiveness to changing circumstances.

The Reserve Bank has also significantly strengthened its supervisory systems, transitioning beyond an entity-focused approach to a more thematic and activity-based approach. We now look at sustainability of business models of banks and NBFCs. Root cause analysis of problems and vulnerabilities are undertaken. Advance action is initiated wherever we notice or smell a crisis.

Structural changes have been implemented within the Reserve Bank by creating a unified department of supervision5 to ensure holistic assessment of the financial sector as well as to analyse the health of multiple entities within a group. The idea is to enhance agility and comprehensiveness of supervision. Unconventional methods are also being adopted now. Onsite supervision of Credit Information Companies has been made annual and intense. When problems appear too serious in a financial entity, a senior officer of the Reserve Bank in the rank of Executive Director addresses the full Board of the organisation and shares our concerns. Similarly, when we find material discrepancies between the auditor's report and our supervisory findings, or when we see that certain material issues are not properly addressed by the auditors, we invite the auditors for a direct discussion. These are some of the examples of our new methods of supervision.

The College of Supervisors (CoS) is itself a shining example of our proactive initiatives to enhance the quality of our supervision and capacity of our supervisors. This is a very critical component of our efforts to strengthen the supervisory system of the Reserve Bank. At the core of CoS's mandate is the professional development of supervisors, both at the initial foundation level as well during the later stages in their careers. Our effort is to ensure that the supervisors of the Reserve Bank remain abreast of emerging trends, best practices, and supervisory and regulatory developments in the dynamic financial landscape.

As the Reserve Bank approaches its centenary year (RBI@100), we have drawn up strategies that will gear it up to remain future ready for India's fast growing economy. We propose to take necessary policy actions for positioning the Reserve Bank as a model central bank of the global south6. Our goal is to make Reserve Bank's supervision a global model, by building a 'Through the Cycle' Risk Assessment Framework with continuous Horizon Scanning and a Holistic Risk Assessment. It also envisages having a more customer centric framework that protects and promotes customers' interest by improving the conduct of supervised entities. In pursuance of this goal, we look forward to active co-operation from all financial sector players which I am sure they will provide.

Conclusion

In conclusion, the journey towards a more resilient, future ready, and crisis resistant financial system is ongoing. It demands collective efforts, innovation, and adaptability from all stakeholders. I have delved into certain aspects which are crucial for achieving this goal, ranging from governance and assurance to the adoption of sustainable business models as well as leveraging technology while managing its risks. I have also emphasized on the role of regulatory and supervisory frameworks in safeguarding financial stability. As we move forward, it is imperative for all stakeholders to remain committed to advancing these principles and practices. I am confident that they will continue to contribute to the long-term sustainability and resilience of the Indian financial system.

With this, I extend my best wishes for successful deliberations during this three-day conference and commend the organisers for their efforts. May the next three days be filled with fruitful exchanges, innovative ideas, and collaborative solutions that would contribute to the process of keeping our financial system resilient, future ready, and crisis resistant

Source-https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1439

Building Trust through Governance: The Backbone of Stressed Assets Reconstruction

(Keynote address delivered by Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India - May 17, 2024 - at the conference on 'Governance in ARCs – Towards Effective Resolutions' held at Mumbai)

Deputy Governor Shri Swaminathan, Executive Directors, Chairmen of the Board and ACB of ARCs, MDs & CEOs of ARCs, my colleagues from RBI, ladies and gentlemen,

I am happy to be amidst you today to talk about the crucial topic of governance in ARCs. But before I address the issue of governance, let me briefly discuss the importance of credit risk management and the critical role envisaged for ARCs – both in terms of legislative intent and regulatory expectations, in India's financial landscape.

Role of ARCs in the Stressed Asset Management

We all know that books of our financial institutions are largely susceptible to credit risk as loans and advances constitute a large proportion of the asset portfolio. The credit risk weighted assets (credit RWAs), in fact, constitute around 80 per cent of total RWAs of the banking system. Therefore, any prudential regulation to safeguard the stability of financial system must remain alive to the credit risk in the books of financial entities, banks and non-banks alike.

The credit life cycle involves four distinct stages. These include the stage of sourcing of credit proposal; appraisal and underwriting; disbursal and monitoring; and, finally repayment which then starts off the next iteration of the credit cycle. If, however, for some reason, the borrower does not pay the dues on time and a loan does not enter the fourth stage, there could be a problem. ARCs have been institutionalised to play a crucial role at this juncture. They are the institutions to enable loan originators to focus on their core function of lending by taking over stressed financial assets. The ARC framework is also designed to help borrowers revive their businesses, if possible. This in some ways is also intended to preserve the productive asset generated out of the loan.

Reconstructing distressed assets is by no means an easy task. ARCs are expected to step in, armed with expertise in recovery and reconstruction of ailing assets, and help reduce the level of non-performing assets in the banking system by taking possession of the secured asset of the borrower.

However, efficacy of all such endeavours hinges upon the bedrock of governance. So, in today's address, let me dwell a bit on evolving regulatory framework for ARCs and why there is a need for robust governance structures for their transparent and effective functioning.

Regulatory Framework for ARCs

There are a few basic issues which regulations should seek to address for ARCs:

- First, ARCs should have sufficient resources to undertake asset reconstruction business.
- Second, the transactions have to be conducted in a transparent manner and on arm's length basis.
- Third, the manner in which ARCs can resolve an asset needs to be clearly laid down.

All our regulations are built to address the concerns around these issues.

On the first issue of having adequate resources, let me emphasize that since the ARCs are in the business of asset reconstruction, they are expected to have both – resources and the required skin in the game. To ensure that they have strong and sufficient resource base, the requirements of net owned funds (NOF) was increased from Rs. 100 crore to Rs. 300 crore2. Similarly, to ensure skin in the game, ARCs have been mandated to invest3 some amount in each class of SRs issued by them under each scheme on an ongoing basis, i.e., till the redemption.

On the second issue of transparency several regulatory requirements have been put in place. For example, the directions on Transfer of Loan Exposures (MD-TLE) provide for the checks in terms of price discovery of exposures, valuation of security receipts and transparent disclosure when assets are transferred by lenders to ARCs. In addition, taking over standard accounts from ARCs is subjected to specific conditions to avoid any transactions with malicious intent. Further, sharing of surplus from recovery of transferred exposures between the ARC and the lender is required to be made on a realisable basis.

Similarly, with a view to improve transparency, the revised framework has introduced a gamut of measures, including - (i) disclosures regarding the track record of returns generated for the security receipt (SR) holders in the offer document; (ii) increase in the disclosure period for the past performance of ARCs from 3 years to 5 years; and, (ii) disclosure of assumptions and rationale behind ratings of SRs to SR holders. These measures are expected to facilitate investments from a broader set of qualified buyers (QBs), address information asymmetry between the ARCs and SR holders, foster healthy competition among ARCs and nudge ARCs to focus on resolution of assets to achieve better returns for investors.

Third is the issue of resolution of the acquired assets. There is a regulatory framework in place, under the provisions of SARFAESI Act, which enables ARCs to undertake resolution. However, there are concerns around activities in this process chiefly relating to the ARC route becoming a vehicle for entry of the ‘tainted’ promoters, who in the first place were responsible for the default of the underlying entity. This aspect has become particularly relevant since the introduction of Section 29A in the Insolvency and Bankruptcy Code (IBC), which was specifically meant to keep out such promoters. However, often, entities meet this requirement by merely obtaining a declaration signed by the perspective buyer without undertaking any independent verification.

While the current regulations largely aim to address the three issues mentioned above, there are certain other areas which are engaging regulatory attention. One pertains to operational flexibility for debt aggregation. For instance, under extant guidelines, an ARC can acquire financial assets from another ARC but effectively the existing SR holders have to exit when the underlying financial assets are sold by one ARC to another ARC. In this context, there have been suggestions that a change in the trustee/ manager role from one ARC to another should be allowed, without necessarily extinguishing the SRs.

Moreover, for debt aggregation and better value realization, there is a demand that even the equity pertaining to the distressed company should be allowed to be sold by the lenders to ARCs along with debt. Further, in cases where ARCs are permitted to acquire equity and by extension ownership/ control of the borrower entities through various channels4 such as IBC or conversion of debt into equity, they should be allowed operational freedom to take decisions, including sale/lease of business.

We are examining these issues and are in touch with the industry to firm up our views.

Role of Governance

But there is a key area which is a point of concern for us as regulators, namely the governance in ARCs.

Sound and robust governance provides a strong foundation for the ARCs to build a robust business model. Governance, in this context, transcends mere regulatory compliance; it embodies a philosophy of accountability, transparency, and ethical conduct. In case of distressed assets, where conflicts of interest looms large and fiduciary duties are tested, effective governance can serve to develop confidence in the processes adopted by the ARCs.

Sound governance can also act as both a shield and a sword. It shields the stakeholders from conflicts of interest, ensuring that the decisions are guided by prudence and sound business sense. At the same time, it wields the sword of transparency and accountability by holding decision makers accountable for their actions and fostering a culture of ethical leadership.

To build a strong bedrock of governance, following conditions are critical:

i. A diverse and independent Board with effective oversight.

ii. A robust risk management framework for identifying, assessing, and mitigating risks inherent in the portfolio of distressed assets.

iii. Transparency regarding disclosure of information about the operations and decision-making processes and accounting practices.

iv. Effective safeguards and robust policies to identify, disclose, and manage conflicts of interest in a fair and transparent manner.

v. A comprehensive code of conduct that outlines ethical principles, professional integrity, and accountability.

Sound governance in ARCs, therefore, requires a multifaceted approach that encompasses all the above elements. The onus in this regard lies largely with the Boards of the ARCs and the top functionaries who will have to develop a strong and robust institutional culture based on these principles. Without robust governance mechanisms, it would be a challenging task for ARCs to instil confidence in their operations and decision-making processes.

ARCs also need to be conscious of their conduct vis-à-vis the distressed borrowers. Even a single incident of misconduct can potentially snowball into a controversy which the sector should guard against. While we acknowledge the rights of the ARCs to recover overdue loans, they or their recovery agents should not resort to harassment of borrowers. A comprehensive fair practice code (FPC) for ARCs has been put in place which requires ARCs to follow transparent and non-discriminatory practices. This becomes that much more critical at present juncture when the share of retail loans in the financial assets acquired by the ARCs has increased (from 9%, as of March 31, 2020 to 16% as of March 31, 2023).

Way forward

As you are aware, the regulatory framework of ARCs was comprehensively reviewed by a Committee constituted by the Reserve Bank (Chair: Shri Sudarshan Sen). Based on these recommendations we have issued a set of revised instructions in October 2022 and they have also been subsequently incorporated in the comprehensive Master Directions on ARCs issued on April 24, 2024. These instructions are aimed at having a robust governance system in place. With a view to enable this and in order to enhance Board oversight, it has been stipulated that ARCs need to appoint an independent director as the Chair of the Board, and at least half of the directors in any Board meeting should be independent directors. ARCs are also required to constitute two committees of the Board viz., Audit Committee and Nomination and Remuneration Committee which are expected to enhance the efficacy of the Board and improve its focus on specific areas.

However, what we observe is that not all ARCs have implemented the revised guidelines on composition and functioning of the Board. I would take this opportunity to urge all ARCs to implement these guidelines in right spirit. Also, failure to meet regulatory guidelines and wilful violations would invite strict supervisory and enforcement action, if warranted.

Apart from the revision of ARC guidelines, the Reserve Bank has been undertaking several steps to create a vibrant market for credit risk transfer. The revised guidelines on transfer of loan exposures and securitisation of standard assets, credit default swaps (CDS) and formation of a secondary market loan association (SLMA) are some of the recent measures taken by the Reserve Bank towards this end.

The thrust of RBI regulations going forward is on developing a market for distressed assets by considering the inclusion of additional stakeholders with strong fundamentals and possessing expertise in resolution. This intention is reflected in the discussion paper on the Securitisation of Stressed Assets Framework. This is expected to increase competition among buyers of distressed assets, giving competitive advantage to the entities with superior resolution and recovery mechanisms capable of achieving optimal outcomes. Given their first mover advantage in this space, I feel ARCs are better placed to capitalize on this focus area and they should endeavour to explore options around this business segment in right earnest.

Concluding thoughts

To conclude, let me reiterate the fact that RBI regulations are intended to promote the integrity and effectiveness of the sector. As the leaders of the ARC sector, it should be your endeavour to ensure that the sector remains focused on course charted through legislative and regulatory intent and should ensure that any negative perception about the functioning and governance standards of the ARCs is dispelled.

To achieve that, it is important that ARCs have strong governance frameworks, robust internal controls, well developed risk management function, and strong compliance culture. As a regulator, our efforts would be to smoothen the operational difficulties and support the growth of the ecosystem for faster and efficient resolution of stressed assets. I am hopeful that ARCs would play the lead role in this process.

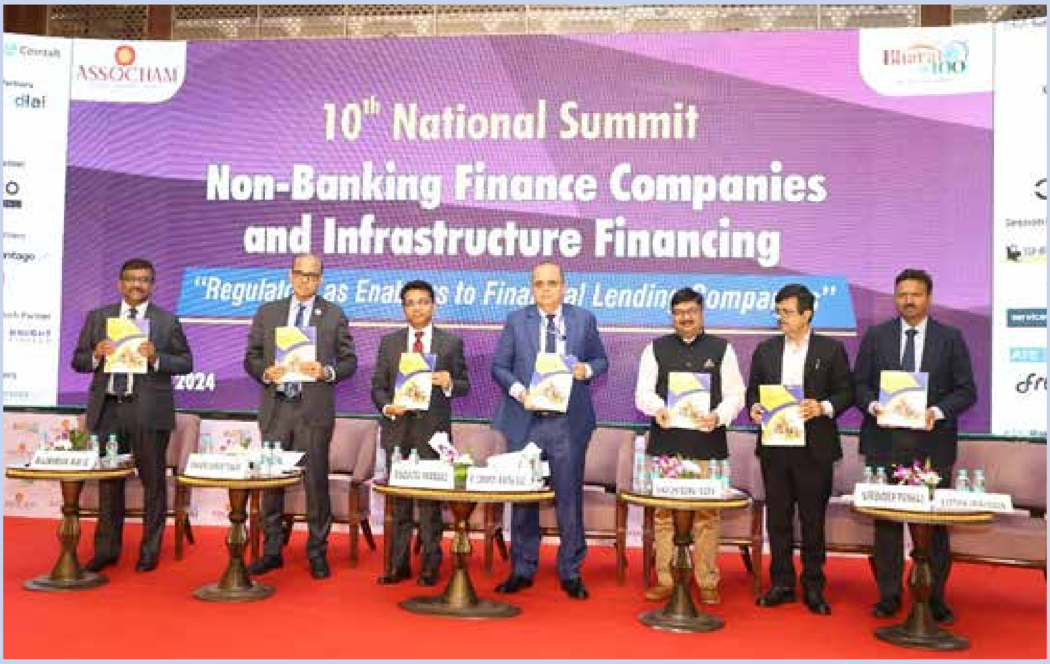
Thank you.

Source- https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1435

BANKING, FINANCIAL SERVICES & INSURANCE (BFSI) ACTIVITIES IN THE MONTH

10th National Summit

Non-Banking finance companies and infrastructure financing Regulators as an enabler to Financial lending companies



Mumbai, 21 June 2024: The Reserve Bank of India (RBI) highlighted its commitment to fostering a robust and innovative NBFC (Non-Banking Financial Company) sector while ensuring financial stability. “RBI's role encompasses regulation, supervision, consumer protection, and enforcement. The developmental role has always been there, and we strive to streamline the regulatory framework to address risks while enabling the development and growth of these entities and fintech,” said Shri R. Lakshmi Kanth Rao, Executive Director, Reserve Bank of India (RBI) while addressing at the Assocham 10th National Summit on NBFCs & Infrastructure Financing held in Mumbai today.

The RBI Executive Director stressed the importance of compliance and customer protection for NBFCs. “NBFCs are a critical part of the financial system, contributing to diversification and innovation. However, their growing size necessitates a shift from pure activity-based regulation to a framework that considers both activity and scale to effectively manage risk. There could be lesser importance given to compliance due to lighter regulations in the past. However, with increased scale, NBFCs are required to meet stricter compliance requirements. They need to diagnose their compliance systems and adhere to the guidelines issued by RBI.”

“The risks associated with infrastructure financing are well-known. For it to thrive, collaboration among all stakeholders, including banks, NBFCs, and the government, is essential,” said Rao while emphasizing the significance of collaboration between the RBI and NBFCs, “We have called for applications for Self-Regulatory Organizations (SROs). This is a developmental aspect where NBFCs can play a strong role in regulating themselves. The sector itself needs to have strong regulatory standards to ensure there are no regulatory gaps.”

"We frequently issue discussion papers on major developmental initiatives, inviting stakeholder feedback to ensure well-rounded regulatory frameworks. The idea of a level playing field between banks and NBFCs is complex, given their distinct roles and regulatory requirements. Banks and NBFCs differ fundamentally in their operations and risk profiles, necessitating different regulatory approaches. The NBFC sector is significant, accounting for around 30% of the total bank credit in India and plays a crucial role in credit intermediation. Their contributions to financial diversification and stability are invaluable, yet their interconnectedness with banks also poses systemic risks. A balanced regulatory approach is essential to support NBFC growth while ensuring overall financial stability" concluded Shri Rao.

Calling for collaboration and innovation among traditional banks, NBFCs, and the capital markets to strengthen infrastructure financing in India, SBI Managing Director Shri Ashwini Kumar Tewari in his address said, "It is indeed India's time. But as we all know, India is getting built every single day, and may be for the next several years India will continue to be built. So therefore, if that be the case, then infrastructure finance is a very, very key piece of this whole story."

"There's a long way to go for NBFCs in infrastructure financing. While regulations have rightly evolved and tightened recently due to past incidents, NBFCs have the potential to significantly contribute to this sector," he added, "The growing dependence of NBFCs on banks for funding increases risk for the entire banking system. The bank lending to NBFC has gone up significantly. It used to be around 20%, but in the last round, I think December or February numbers, if I recall correctly, it's closer to 50%. Now, if 50% of the NBFC book is financed by banks, then we have to take the risk. And therefore, the regulations which apply to banks possibly also need to be applied to NBFCs to ensure a more balanced and secure financial landscape."

Looking towards the future, the SBI MD stressed the importance of developing a robust bond market, stating, "The bond market remains an underutilized avenue for long-term infrastructure financing. Partial credit enhancement mechanisms can play a vital role in attracting investors by mitigating risk and encouraging participation in these essential projects."

To provide alternate funding channels for smaller NBFCs, Shri Sudatta Mandal, DMD, SIDBI, while speaking at the event said, "We all would agree that there is always scope for changes for the betterment of NBFC sector and to make it robust. There is a case for positive regulatory intervention to support the growth of the sector while one area of focus could be strengthening the liability side of balance sheets, the other could be mechanisms to boost lender confidence and safety. We have witnessed increasing dependence of NBFCs on bank warrants as a major source of funds which has become a cause of concern for the regulator. While the corporate bond market issuances in the recent past have seen large participation from the NBFC space the same is tilted in favour of the larger and highly rated NBFCs with the smaller ones generally kept out. So, this sector has no accessibility to CASA and faces non availability of depositor credit insurance.”

“Considering the role played by MSMEs in enhancing MSME credit delivery in a growing economy there is a need for positive regulatory interventions for enhancing alternate funding channels for the NBFC sector more particularly the smaller NBFCs," he further added.

Speaking on the need of large capital in infrastructure financing space, Shri Virender Pankaj, CEO, Aseem Infrastructure Finance Ltd, said, "For a country like India where capital formation and whatever savings we have is not going to be enough for this which means we need very large amount of private capital, very large amount of global capital to come in. Global capital is inversely proportional to the risk perception so lesser are the risk associated or what is called India risk in global markets. Lesser is the India risk more is the capital available because there is no dearth of capital available in the world, in fact it is the other way round, there are fewer places to invest but risk is very important.

So, we reduce the risk, now in infrastructure actually number of players or number of stakeholders as a class is very few so it is not too difficult or complicated for us a nation to collectively reduce the risk in this space and lot of risks have gone down if one were to look at the infrastructure financing."

Earlier, Shri Shachindra Nath Chairman, ASSOCHAM National Council for NBFC & Infrastructure Financing and VC & MD, UGRO Capital Ltd has given the welcome address. Shri Rajkiran Rai Chairman, ASSOCHAM National Council for Banking & MD, National Bank for Financing Infrastructure and Development (NaBFID) in his theme speech highlighted the vital aspect and role of NBFCs, emphasizing how regulation ensures a level playing field, protects consumers, and promotes long-term stability. An Assocham-ICRA joint Knowledge report titled NBFCs - Regulators as Enablers to Financial Lending Companies was also unveiled during the event.

INDUSTRY ARTICLE IN THE MONTH

GST Exposure Management and Optimisation for Businesses in India

The implementation and evolution of the Goods and Services Tax (GST) in India, over the past seven years, has certainly revolutionized the indirect tax landscape, impacting businesses across all sectors. Understanding the tax incidence under GST requires a careful consideration of regulatory nuances.

GST aims at enhancing simplification, seamlessness, compliance automation and transparency under indirect taxes. As GST is an ad valorem tax and rates can vary between 0% to 28% in the case of GST, there is a significant exposure and risks, a business faces, if they fail to comply correctly with the GST law.

An effective management of GST exposure is, thus, crucial to avoid legal, financial, and reputational repercussions. Additionally, businesses can, at a later stage, once a baseline tax compliance is established, look at optimizing their GST strategy to ensure tax efficiency. This article delves into both these aspects, providing insights and practical tips for businesses in India.

Understanding GST Exposure

Key Risks for Businesses

Incorrect Tax Positions: Adopting an incorrect position on GST applicability, classification, or valuation can lead to substantial financial penalties and interest. While GST is a comprehensively drafted law, there are various aspects on which an alternate view is possible. A divergence between the position adopted by the tax authorities vis a vis the stand taken by the company, can result in various tax disputes. These tax disputes expose the company to a variety of tax risks.

Risk of Prosecution: Non-compliance with certain GST laws may result in prosecution severely affecting a company's reputation.

Financial Implications: Apart from penalties and interest, businesses may face cash flow issues due to blocked ITC or delayed refunds. Additionally, litigation costs can be significant if a company is embroiled in tax disputes.

Management Time and Resources: Ensuring GST compliance and resolution of tax disputes demand considerable management time and resources, and tend to divert the management's attention from core business activities. It must also be mentioned that under GST each state warrants a separate GST registration. There is a need for effective representation and exposure management, not only at the head office, but also at each such registered presence.

Managing GST Exposure

Place of supply, availing necessary tax incentives, and also adopting tax strategies that are consistent with other laws and regulations, such as income tax, Customs, exchange controls and industry specific regulations.

Supply Chain Management: With a one nation one tax regime, GST law provides opportunities to reevaluate and possibly restructure the supply chain to ensure tax efficiency. This includes analyzing vendor contracts, transportation routes, and warehouse locations to optimize GST impact. Earlier, fiscal considerations and cascading effect of taxes, required companies to have a presence in each state of India, resulting in inefficient supply chains.

Utilize Exemptions and Avail State Specific Incentives: It is also important to emphasise that GST law provides several exemptions, which are either general or area based. Several states in India have their own incentive schemes, which offer waiver of SGST and also certain procedural relaxations. Companies may wish to explore these incentives.

Align with Business Strategy: Ensure that GST optimization strategies align with the overall business strategy. This involves integrating GST planning with financial planning, budgeting, and corporate objectives.

Cross-Border Transactions: For businesses involved in international trade, there are several opportunities to structure cross-border transactions in a manner that optimizes GST. This includes understanding the implications of import and export GST, foreign exchange regulations, and double taxation treaties.

Conclusion

GST compliance is a critical aspect of business operations in India, and managing exposure effectively can prevent significant financial, legal and reputational risks. By seeking updated advice, conducting regular health checks, maintaining proper documentation, and leveraging technology, businesses can mitigate these risks. Simultaneously, optimizing GST strategies through careful transaction structuring, supply chain management, and alignment with business objectives can enhance tax efficiency. By adopting a balanced approach to GST exposure management and optimization, businesses can navigate the complexities of GST and achieve sustainable growth. This dual focus on exposure management and optimization will help businesses thrive in India's evolving tax landscape.

RSM can help companies balance these objectives by providing the necessary analysis and expert advice on the latest GST regulations and by conducting comprehensive GST health checks to identify and mitigate tax exposures. Their tailored solutions for tax compliance, automation, transaction structuring and supply chain management ensure tax efficiency while aligning with the company's strategic goals. With RSM's support, businesses can confidently navigate GST complexities, mitigating risks and optimizing their tax positions.

RSM

Nariman Point: 8th Floor, Bakhtawar, 229, Nariman Point, Mumbai 400 021.
Andheri: 3rd Floor, Technopolis Knowledge Park, A Wing, MIDC, Andheri (E), Mumbai 400 093.
Tel.: +91 22 6121 4444 • www.rsmindia.in

Offices: Mumbai, New Delhi – NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur and Vijayanagar

TOP BANKING NEWS

- **UCBs should ensure proper credit underwriting, NPA recovery: RBI Governor**

  Reserve Bank of India (RBI) Governor Shaktikanta Das on Friday asked urban cooperative banks (UCBs) to follow proper credit underwriting standards, review and follow up on recovery of non-performing assets to build a sound financial profile.

  In his address to directors of select UCBs, the governor highlighted the critical importance of robust governance and the role of the Board of Directors to ensure the same.

  He also emphasised the importance of assurance functions -- Compliance, Risk Management and Internal Audit -- in upholding good governance, the RBI said in a statement.

  The central bank held a Conference of Directors of UCBs in Western Zone in Ahmedabad.

  The theme of Conference was 'Governance in UCBs- Driving Sustainable Growth and Stability'. The RBI had previously held similar conferences with the Directors of UCBs at Mumbai, Hyderabad and Lucknow in August 2023, January 2024 and April 2024, respectively.

  Das also touched upon aspects of capacity building, especially with respect to IT and cyber security.

  Deputy Governor Swaminathan J in his speech emphasised upon the pivotal role UCBs can play in providing last mile connectivity to the unbanked population and the consequent need to enhance their financial and operational resilience for sustenance of overall systemic stability.

  Das requested UCBs to fully support and benefit from the recently established Umbrella Organisation.

  Source: https://www.business-standard.com/industry/banking/ucbs-should-ensure-proper-credit-underwriting-npa-recovery-rbi-governor-124062101050_1.html

- **RBI revises its incentive framework to push banks to increase the flow of priority sector credit**

  The Reserve Bank of India has revised its incentive framework to push banks to increase the flow of priority sector credit to districts with lower credit flow in order to address the regional disparities at the district level.

  Accordingly, the central bank has assigned a higher weight of 125% to the incremental priority sector credit in the districts with per capita priority sector credit less than Rs 9000, with effect from FY25.

  This effectively means that if a bank gives Rs 100 loan in low credit flow district, it will be considered as Rs 125 priority sector loan.

  Earlier from FY22 onwards till date, RBI followed a rule of higher weight of 125% in districts where per capita priority sector credit flow was Rs 6000.

  RBI maintains a district wise ranking in terms of per capita credit flow and circulates this with banks so that the lenders raise their efforts as per need to address the gap

  There is also a dis-incentive framework for districts with comparatively higher flow of priority sector credit in which a lower 90% weight is assigned for districts where the per capita priority sector credit flow is greater than Rs 42,000. This threshold was revised from Rs 25000 earlier.

  The weight is maintained at 100% for all other districts not mentioned by the central bank.

  Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-revises-its-incentive-framework-to-push-banks-to-increase-the-flow-of-priority-sector-credit/articleshow/111173951.cms

- **RBI completes special audit of IIFL Finance to address concerns identified in gold loan portfolio**

  IIFL Finance Ltd announced that the Reserve Bank of India (RBI) has concluded its special audit of the company, which was initiated in response to significant concerns identified in its gold loan portfolio, according to news agency ANI. The RBI imposed supervisory restrictions on the non-banking financial company (NBFC) on March 4, 2024 that followed an earlier inspection of the IIFL's financial position conducted on March 31, 2023.

The central bank's initial inspection revealed several irregularities in IIFL's gold loan operations, according to the report. Some of these included cash disbursals and collections exceeding statutory limits, lack of transparency in customer charges, deviations in assaying and certifying gold purity and weight, and breaches in the Loan-to-Value (LTV) ratio.

These findings prompted the RBI to enforce restrictions, mandating IIFL to cease the sanctioning or disbursing of new gold loans and the assignment, securitization, or sale of existing gold loans. However, IIFL was permitted to continue servicing its existing gold loan portfolio, including collections and recoveries, while maintaining other business operations, according to ANI.

To reduce its risks, the company has raised ₹1271.3 crore of capital through rights issues, it said in the statement. In addition, it has secured ₹500 crore through non-convertible debentures (NCDs) from long-term investors.

It also has implemented cost control measures such as the reduction of major discretionary expenditures, as per the company. "These actions ensure that the company's projected cash flows over the next three years will meet its financial obligations, maintaining robust capital adequacy," the company said.

"The regulatory action imposing an embargo on fresh gold loans has significantly impacted our business in the last quarter and continues to do so in the current quarter. We have used this opportunity to enhance our compliance, controls, and operations. The special audit has been completed, and we now await the RBI's review and expect positive action soon. The business environment remains healthy, and we are optimistic about the outlook for all our other business segments,'' said Nirmal Jain, Founder, of IIFL Finance Ltd.

Source : https://www.livemint.com/industry/banking/rbi-completes-special-audit-of-iifl-finance-to-address-concerns-identified-in-gold-loan-portfolio-11718534257096.html

- **RBI pushes asset reconstruction companies to strengthen KYC compliance**

After the Paytm Payments Bank fiasco, the Reserve Bank of India (RBI) is insisting on KYC (Know Your Customer) compliance for accounts purchased by asset reconstruction companies from banks and non-banking finance companies.

Earlier, asset reconstruction companies (ARCs) would ask creditors selling bad loans for central KYC records, but now the RBI is insisting on full KYC. "When purchasing portfolios from banks/NBFCs, RBI requires ARCs to maintain KYC documents for all accounts. This seems to be a fallout of the Paytm incident," said an ARC executive.

This additional "mandatory" requirement has increased the burden on ARCs that are not the "originators" of such loans and have acquired "bad loans" from the original lenders - primarily responsible for such KYCs. The onus should continue to be on the loan originator, the executive added.

Gaps in KYC, despite reminders and follow-ups, were one of the major reasons for the central bank to direct Paytm Payments Bank to stop offering banking services earlier this year. Its chief executive, Surinder Chawla, resigned Tuesday, citing personal reasons.

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Some ARCs are suggesting that the RBI clarify that accounts lacking KYC compliances for the purpose of accountability be mandatorily excluded from the list of those available for sale to ARCs.

After an account turns bad, borrowers often become non-cooperative, making it extremely challenging to meet the required criteria, especially regarding KYC compliance. While KYC was already a part of the process before, along with CERSAI registration, it didn't receive as much attention as it does now.

Finance companies update their customers' records on the CKYC registry which is managed by the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI).

CKYC keeps track of customers' identity and other details for banks and non-bank lenders as need to follow anti-money laundering rules.

Customer Bonafide

Using CKYC, banks and NBFCs can check and confirm their customers' identity, address, and other information. This helps prevent fraud and financial crimes and ARCs were using this as the KYC document.

The RBI had recently introduced a new section in the Foreign Contribution Regulation Act and emphasised a risk-based approach, requiring comprehensive due diligence, and limited outsourcing of KYC decision-making. ARCs face challenges with CKYC requirements when acquiring financial assets, as no account-based relationship is initiated. The industry wants CKYC requirements to be exempted for such defaulting borrowers whose loans are taken over.

Source : https://economictimes.indiatimes.com/markets/stocks/news/paytm-fallout-rbis-new-kyc-drill-impacting-arc-deals/articleshow/109177696.cms

- **Strong growth and other macro data provide flexibility to RBI**

The Reserve Bank of India (RBI) announced the second monetary policy of FY25 on June 7. The central bank's monetary policy committee (MPC) voted with a 4-to-2 majority to keep the key policy repo rate unchanged at 6.50 percent for the eighth consecutive time.

The six-member committee also kept the stance unchanged at “withdrawal of accommodation” with the same vote of 4-2. Two of the external members, Jayanth Varma and Ashima Goyal, voted to reduce the policy rate by 25 basis points (bps) and a change in stance to neutral. The monetary transmission of the cumulative 250 bps policy rate hike (since May 2022) into the economy is still under way, as per the RBI.

Shaktikanta Das, the RBI governor, referred to “CPI inflation” as the “elephant in the room” at the previous MPC meeting in April and also signalled confidence by stating that “the elephant has now gone out for a walk and appears to be returning to forest”. However, the RBI needs more confidence to ensure that the elephant will stay in the forest for a long period of time as food inflation is elevated and possibly derailing the path of disinflation. Das at a press conference following the most recent meeting, mentioned that elephant is walking very slowly. The RBI has maintained its inflation forecast for FY25 at 4.5 percent, and it would seem the MPC wants to weigh its options taking into account the monsoon's progress and the full budget in July of the new NDA government. The expectation is that the fiscal deficit in the upcoming budget is likely to remain at 4.9-5.1 percent of GDP, in line with what was mentioned in the interim budget.

The RBI has revised upwards its projection for real GDP growth for FY25 to 7.2 percent, and if this is achieved, it would be the fourth consecutive year of 7-plus percent growth. So far in FY25, the economy has largely been humming along. Manufacturing activity has gained momentum backed by strong domestic demand. Services PMI or Purchasing Managers' Index services came in at 60.2 in May, well above the 50 reading that indicates expansion. So far, the rupee has moved in a narrow range with low volatility in spite of foreign portfolio investment outflows. Moreover, India’s external sector has maintained strong growth with key indicators continuing to improve. The RBI has also noted a reduced trade deficit with robust exports, and the current account deficit moderating in FY24.

India's foreign exchange reserves hit a new high of $651.5 billion as on May 31, 2024. The central bank noted that this strong growth provides monetary policy greater elbow room to pursue price stability to ensure that inflation aligns with the target on a durable basis.

On the liquidity front, the RBI has reiterated that it will remain nimble and flexible in taking steps to align the call rate close to repo rate. The RBI absorbed excess liquidity through variable reverse repo rate (VRRR) auctions //Word added, please check// during the first half of April 2024 and injected liquidity through variable rate repo (VRR) operations in second half of April and May 2024. The weighted average call rate (WACR) has remained within the corridor of the marginal standing facility rate of 6.75 percent and the standing deposit facility rate of 6.25 percent. The RBI remained committed to maintain stability and orderliness in all segments of the financial market and institutions regulated by it

Globally, interest rates seem to have peaked and the recent rate cuts by the Bank of Canada and European Central Bank by 25 bps indicates that most advanced economies around the world are heading towards a rate cut. The US Federal Reserve to start its rate cut rate cycle in the second half of calendar 2024. In addition, recent incoming data point tosigns of a softening in the US economy. However, Das mentioned that while there seemed to be clouds over the global economy, the Indian central bank would play as per the local weather and pitch conditions which indicates that it will observe the Fed's policy but will act based on domestic economic needs.

Given the above, we believe there is a higher probability that the RBI may change its stance to neutral in August 2024 followed by rate cuts in the second half of FY25. As the policy decision and commentary was in line with broad market expectations, the reaction in the government securities market has been muted following the policy decision.

Source: https://www.moneycontrol.com/news/business/strong-growth-and-other-macro-data-provide-flexibility-to-rbi-12743486.html

- **RBI exploring appropriate coverage for green deposits; climate-change big risk to global economy**

The Reserve Bank of India (RBI) is exploring appropriate coverage for green deposits, deputy governor Michael Patra has said while identifying climate change as the biggest risk to the global economy.

"We are exploring appropriate coverage for green deposits, climate-risk based differential premiums and ex ante funding needs for climate sustainability," Patra said at the 79th Executive Committee Meeting of the International Association of Deposit Insures (IADI) at Rome in Italy on June 14.

New challenges would inevitably require effective coordination and information sharing between domestic insurers and other national safety net participants as well as with those in other jurisdictions, Patra was cited as saying by the RBI in a statement released on June 18.

The Deposit Insurance and Credit Guarantee Corporation (DICGC) of India offers deposit insurance to bank customers. It steps in when depositors' money is at stake in the event of a bank collapse. DICGC is a wholly owned subsidiary of the RBI.

The evolution of the deposit insurance function was likely to confront more complex challenges amid heightened uncertainty, Patra, one of the four deputy RBI governors, said. "For instance, climate change is emerging as an overarching risk to the global economy and financial systems," he said.

Citing an IADI surveys, Patra said 60 percent of deposit insurers formalised Environmental, Social, and Governance (ESG) policies and some were the members of the Network for Greening the Financial System (NGFS).

"This is what is keeping us awake in India – framing a comprehensive ESG policy, incorporating elements of climate sustainability, investment in sovereign green bonds, measuring the impact of climate change on default risk and contingency planning for climate related extreme events via actuarial analysis," the deputy governor added.

In April 2023, the RBI announced the framework for acceptance of "green deposits" of regulated entities. The idea was to foster and develop a green finance ecosystem in the country, the central bank said.

Under the framework, regulated entities can offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities/projects, it said.

some banks are taking a closer look at the green finance business upon finding an opportunity and being nudged by the banking regulator. They are either opting for partnerships or exploring individual products to establish a business model.

Banks like Canara Bank, Bank of Maharashtra, IDFC First Bank, Federal Bank and HSBC India have partnered with different companies and service providers or built specific individual products.

Source: https://www.moneycontrol.com/news/business/rbi-exploring-appropriate-coverage-for-green-deposits-climate-change-big-risk-to-global-economy-says-patra-12751192.html

- **RBI governor urges urban co-op banks to ensure proper loan underwriting, recovery practices**

The Reserve Bank of India governor Shaktikanta Das urged boards of select large urban co-operative banks (UCBs) of western zone to ensure proper credit underwriting standards, review and follow up on recovery of non-performing assets. In his address to a conference of UCB boards, Das highlighted the critical importance of robust governance and the role of the board of directors to ensure the same.

"Governor urged Boards of UCBs to ensure proper credit underwriting standards, review and follow up on recovery of non-performing assets as well as prudently manage liquidity risk. Shri Das also touched upon aspects of capacity building, especially with respect to IT and cyber security," the RBI said in a statement.

RBI deputy governor Swaminathan J highlighted the pivotal role UCBs in providing last mile connectivity to the unbanked population. He also focused on the consequent need to enhance UCBs financial and operational resilience for sustenance of overall systemic stability.

Additionally, the conference included sessions on IT and cybersecurity, governance and assurance functions, as well as supervisory and regulatory expectations.

Earlier, deputy governor M Rajeshwar Rao stressed the need for effective governance, the importance of the internal audit function in early detection of irregularities, and the need for leveraging technology.

Rao highlighted the critical role played by UCBs in providing banking services, especially to the unbanked. He emphasized the importance of a robust and comprehensive risk management framework in ensuring sound banking operations.

In recent years, the RBI has strengthened the scrutiny of cooperative banks with more penal actions lined up and cancelled the licence of several co-operative banks.

Source: https://www.moneycontrol.com/news/business/rbi-governor-urges-urban-co-op-banks-to-ensure-proper-loan-underwriting-recovery-practices-12753878.html

SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2024-2025/45 DoR.RET.REC.25/ 12.07.160/2024-25	28.6.2024	Department of Regulation	Exclusion of "Nagar Urban Co-operative Bank Limited" from the Second Schedule of the Reserve Bank of India Act, 1934	All Commercial and Co-operative Banks
RBI/2024-2025/44 FIDD.CO.PSD. BC.No.7/ 04.09.01/2024-25	21.6.2024	Financial Inclusion and Development Department	Priority Sector Lending – Amendments to the Master Directions	The Chairman / Managing Director/ Chief Executive Officer [All Commercial Banks including Regional Rural Banks, Small Finance Banks, Local Area Banks and Primary (Urban) Co-operative Banks other than Salary Earners' Banks]
RBI/2024-2025/43 A.P. (DIR Series) Circular No.11	11.6.2024	Foreign Exchange Department	International Trade Settlement in Indian Rupees (INR) – Opening of additional Current Account for settlement of trade transactions	All Scheduled Commercial Banks (holding AD Category-I license)
RBI/2024-2025/42 A.P. (DIR Series) Circular No.10	11.6.2024	Foreign Exchange Department	Export-Import Bank of India (Exim Bank)'s Government of India-supported Line of Credit of USD 23.37 mn to the Government of the Co-operative Republic of Guyana (GO-GUY), for procurement of two Hindustan 228-201 aircraft from Hindustan Aeronautics Ltd.	All Category – I Authorised Dealer Banks
RBI/2024-2025/41 A.P. (DIR Series) Circular No. 09	07.6.2024	Foreign Exchange Department	Foreign Exchange Management (Overseas Investment) Directions, 2022 - Investments in Overseas Funds	All Category-I Authorised Dealer Banks
RBI/2024-2025/40 DoR.SPE.REC.No.24/ 13.03.00/2024-2025	07.6.2024	Department of Regulation	Amendment to Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016	All Scheduled Commercial Banks (excluding RRBs) All Small Finance Banks All Local Area Banks

Source- https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx

STATISTICAL SUPPLEMENT – RBI

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract

1. Reserve Bank of India - Liabilities and Assets*

(₹ Crore)

Item	2023	2024		Variation	
	Jun. 23	Jun. 14	Jun. 21	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	0	0	0	0	0
4.2 State Governments	12339	7994	4039	-3955	-8300

** Data are provisional; difference, if any, is due to rounding off.*

2. Foreign Exchange Reserves*

Item	As on Jun. 21, 2024		Variation over					
			Week		End-March 2024		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	5460976	653711	5055	816	69720	7292	594535	60513
1.1 Foreign Currency Assets #	4796186	574134	-2458	-106	34341	3183	485622	48694
1.2 Gold	475795	56956	8102	988	36476	4281	112335	12651
1.3 SDRs	150781	18049	-529	-57	-443	-82	373	-285
1.4 Reserve Position in the IMF	38215	4572	-59	-9	-654	-90	-3795	-548

** 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 and ACU currency swap arrangements.

3. Scheduled Commercial Banks - Business in India

(₹ Crore)

Item	Outstanding as on Jun. 14, 2024	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2023-24	2024-25	2023	2024
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	20902920	-184287	524043	427693	1998639	2334963
	(20809916)					(2241959)
2.1a Growth (Per cent)		-0.9	2.9	2.1	12.1	12.6
						(12.1)
2.1.1 Demand	2390682	-115811	-20215	-53171	213918	230466
2.1.2 Time	18512238	-68476	544257	480864	1784721	2104497
2.2 Borrowings	780675	41750	59950	2732	133938	275395
2.3 Other Demand and Time Liabilities	965750	-1608	13815	28322	136693	162283
7 Bank Credit	16710797	-71602	348263	278633	1873145	2687298
	(16204282)					(2180783)
7.1a Growth (Per cent)		-0.4	2.5	1.7	15.4	19.2
						(15.6)
7a.1 Food Credit	36923	-3336	8827	13842	-14826	8190
7a.2 Non-food credit	16673874	-68266	339436	264791	1887972	2679108

1. Data since July 14, 2023 include the impact of the merger of a non-bank with a bank.
2. Figures in parentheses exclude the impact of the merger.

4. Money Stock: Components and Sources

(₹ Crore)

Item	Outstanding as on		Variation over									
	2024	Fortnight	Financial Year so far		Year-on-Year				Year-on-Year			
					2023-24		2024-25		2023		2024	
	Mar. 31	Jun. 14	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	24831384	25351889	-162702	-0.6	514653	2.3	520505	2.1	2194596	10.6	2493476	10.9
	(24939627)	(25444893)	(-164877)	(-0.6)			(505267)	(2.0)			(2586480)	(11.3)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3410042	3490455	21979	0.6	-6759	-0.2	80413	2.4	165526	5.3	220778	6.8
1.2 Demand Deposits with Banks	2586888	2535399	-116070	-4.4	-20645	-0.9	-51490	-2.0	212612	10.2	235446	10.2
1.3 Time Deposits with Banks	18739918	19236092	-67387	-0.3	551067	3.3	496174	2.6	1802062	11.7	2016059	11.7
	(18848160)	(19329096)	(-69561)	(-0.4)			(480936)	(2.6)			(2109063)	(12.2)
1.4 'Other' Deposits with Reserve Bank	94536	89944	-1225	-1.3	-9010	-11.6	-4593	-4.9	14396	26.5	21193	30.8
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7512016	7422902	52879	0.7	2097	0.0	-89113	-1.2	904571	14.4	255273	3.6
	(7603571)	(7507820)	(52914)	(0.7)			(-95750)	(-1.3)			(340191)	(4.7)
2.1.1 Reserve Bank	1193213	973578	7542		-227802		-219635		141518		-249745	
2.1.2 Other Banks	6318803	6449325	45337	0.7	229899	4.0	130522	2.1	763052	14.7	505018	8.5
	(6410358)	(6534243)	(45373)	(0.7)			(123885)	(1.9)			(589936)	(9.9)
2.2 Bank Credit to Commercial Sector	16672145	16968825	-66934	-0.4	333212	2.3	296680	1.8	1870814	14.5	2205976	14.9
	(17202832)	(17475340)	(-71497)	(-0.4)			(272508)	(1.6)			(2712491)	(18.4)
2.2.1 Reserve Bank	14406	11370	-2		-21684		-3037		-24216		6504	
2.2.2 Other Banks	16657739	16957455	-66932	-0.4	354896	2.5	299716	1.8	1895030	14.7	2199472	14.9
	(17188425)	(17463970)	(-71495)	(-0.4)			(275545)	(1.6)			(2705987)	(18.3)

Note: Figures in parentheses include the impact of merger of a non-bank with a bank.

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
Jun. 17, 2024	-	-	-	-	43647	39493	-	-	-	4154
Jun. 18, 2024	-	-	100002	-	1243	42626	-	-	-	58619
Jun. 19, 2024	-	-	-	-	2865	37153	-	-	-	-34288
Jun. 20, 2024	-	-	-	-	7106	50370	-	-	-	-43264
Jun. 21, 2024	-	-	100005	-	15199	44438	-	-	-	70766
Jun. 22, 2024	-	-	-	-	12992	32189	-	-	-	-19197
Jun. 23, 2024	-	-	-	-	12856	34342	-	-	-	-21486

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

The above information can be accessed on Internet at https://wss.rbi.org.in/

The concepts and methodologies for WSS are available in Handbook on WSS (https://rbi.org.in/scripts/PublicationsView.aspx?id=15762).

Time series data are available at https://dbie.rbi.org.in

Ajit Prasad
Deputy General Manager
(Communications)

Press Release: 2024-2025/585

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **Punjab National Bank, IIFCL sign pact for financing infra projects**

  Punjab National Bank (PNB) and India Infrastructure Finance Company Ltd (IIFCL) on Monday signed an agreement to offer long-term financial assistance to viable infrastructure projects. With this, both the institutions will collaborate to fund the infrastructure projects wherein the parties can mutually participate under consortium/multiple lending arrangements to provide financial support to the prospective borrowers subject to due diligence and on a case-to-case basis, a joint statement said.

  A signing ceremony for the Memorandum of Understanding (MoU) took place in the presence of Atul Kumar Goel, MD & CEO of PNB, and Padmanabhan Raja Jaishankar, MD of IIFCL, it said.

  This MOU would be a milestone in finding new avenues of lending to the infrastructure projects of the country and they assured full participation from both sides in this endeavour, it said.

  Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/punjab-national-bank-iifcl-sign-pact-for-financing-infra-projects/articleshow/110670613.cms

- **FIDC urges RBI to relax draft guidelines on infrastructure provisioning**

  The Finance Industry Development Council (FIDC), the representative body for Non-Banking Financial Companies (NBFCs), has requested the Reserve Bank of India (RBI) to reconsider and clarify certain proposals in its recent draft circular on infrastructure provisioning. The draft, released last month, sets forth guidelines that NBFCs argue need flexibility to support the infrastructure sector.

  Key concerns of the industry are the provisions on standard assets during the construction phase. The draft suggests a general provision of 5% of the funded outstanding should be maintained on all existing and stressed exposures on a portfolio basis. The FIDC has proposed RBI that the standard provision rate of 0.4% should continue for all projects, with enhanced provisioning reserved only for those projects requiring an extension in their Date of Commencement of Commercial Operations (DCCO).

  The FIDC has sought clarity on whether the provisions apply solely to lenders financing projects under a common agreement between debtors and lenders. It also recommended that minimum financing limits should not be prescribed by the RBI but instead determined through commercial agreements between parties.

  While RBI's draft stipulates that for projects with an aggregate exposure of up to Rs. 1500 crore, no individual lender's exposure should be less than 10% of the total exposure. For projects exceeding Rs. 1500 crore, the individual exposure floor should be 5% or Rs. 150 crore, whichever is higher, the FIDC wants regulator to relook these minimum limits and allow for commercial decisions to dictate financing terms.

  On the proposed requirement of such events be reported to the Central Repository of Information on Large Credits (CRILC) by lenders, the FIDC has said that NBFCs currently lack access to CRILC, resulting in potential delays in information dissemination. It has requested the RBI to grant NBFCs access to CRILC, which has been a longstanding industry demand.

  On the matter of DCCO extension, the FIDC requests that the timelines for exogenous and legal reasons be aligned with those for endogenous reasons, set at two years. The RBI's provision allows funding for cost overruns up to 10% of the original project cost if a standby credit facility was sanctioned initially. The FIDC has said that cost overruns can occur for various reasons beyond the control of borrowers and lenders. It has suggested that no cap should be placed on the maximum cost overruns up to 10% of the original project cost if a standby credit facility was sanctioned initially. The FIDC has said that cost overruns can occur for various reasons beyond the control of borrowers and lenders. It has suggested that no cap should be placed on the maximum cost overrun that can be funded, leaving such decisions to commercial discretion.

Source: https://economictimes.indiatimes.com/industry/banking/finance/fidc-urges-rbi-to-relax-draft-guidelines-on-infrastructure-provisioning/articleshow/110895234.cms

- **India's non-banking financial sector grew by 10%; declined globally by 3 %**

India's non-banking financial sector registered a growth of 10 per cent however globally the sector declined by 3 per cent, highlights a report by SBI.

The non-banking financial institutions are typically those that do not possess a full banking license and thus, cannot accept public deposits. These entities usually focus on lending and financing activities.

"Globally, the size of the non-bank financial intermediation (NBFI) sector declined by 3 per cent in 2022, which is the first notable decrease since. However, Economic Function 2 (EF2) entities i.e., entities undertaking lending activities, which are akin to NBFCs in India, exhibited a growth of around 10 per cent which is the highest among all five economic categories of the NBFI sector" said the report.

The report highlighted India as the third-largest entities in the non-banking financial sector, following the United States and the United Kingdom. Over the past decade, the Indian banking system has demonstrated remarkable resilience, overcoming numerous challenges posed by both domestic and international economic environments.

The report said that the improvement in asset quality and the strong macroeconomic fundamentals have played a crucial role in improving the Indian banking sector.

It highlighted that the Indian government and regulatory bodies have focused on creating a level playing field for financial institutions. This has involved initiatives such as the creation of strong banks through mergers and capital infusion, improving governance practices, expanding the reach and quality of financial services, and enhancing the adoption of digital banking.

During the pandemic, the government maintained the financial sector's stability through substantial capital and liquidity buffers. This resilience is credited to the proactive measures taken by the Reserve Bank of India (RBI).

The report also highlighted RBI's efforts in strengthening the financial system included enforcing the regulatory measures that ensured the sector remained well-cushioned against economic shocks. These measures have not only helped in maintaining stability but also in fostering growth and innovation within the sector.

Recently India's digital banking landscape has also seen significant advancements. The push towards digital banking has been a major contributor to the sector's growth. This transition to digital platforms has expanded access to financial services, making them more inclusive and efficient.

Moreover, the report said that the government and regulatory bodies have prioritized customer protection, ensuring that the interests of the public are safeguarded amidst the digital transformation.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/indias-non-banking-financial-sector-grew-by-10-declined-globally-by-3-/articleshow/111055072.cms

- **NBFC unsecured loans grow twice as fast as retail credit**

Unsecured loans by NBFCs expanded at a compound annual growth rate (CAGR) of about 32% during FY2017-2024. While this growth is on a lower base, it is double the growth rate of retail secured loans such as vehicle, home, gold and property loans during the same period. According to a report on NBFCs by Assocham and ICRA, the share of unsecured retail loans in NBFCs is estimated to have increased to 14% of the overall NBFC credit.If the large chunky loans to infrastructure projects by lending institutions were to be excluded, the share of unsecured loans would be 23%, of the NBFC portfolio up from 5% in March 2016.The retail unsecured loans which grew at a much higher pace include microfinance, personal and consumption loans and unsecured SME loans, which expanded at a higher pace. The unsecured book pushed the growth in retail loans to an 18% CAGR during FY2017-FY2024.In overall lending as well, NBFCs have steadily improved their market position by expanding at a healthy CAGR of around 15% during FY2017-2024, which is higher than the 11% CAGR achieved by banks during this period."NBFCs registered a robust expansion in the last two financial years, boosting their position in the overall financial ecosystem. However, their improved systemic importance and higher interconnectedness, especially with the banking sector, have led to increased regulatory oversight and actions in the recent past," said Karthik Srinivasan, senior VP, ICRA.

Read more at: http://timesofindia.indiatimes.com/articleshow/111179197.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

- **RBI invites SRO application for NBFCs**

The Reserve Bank of India (RBI) on Wednesday invited applications for recognition of SROs for the NBFC sector. The applications are invited under the aegis of RBI's 'Omnibus Framework for recognition of Self-Regulatory Organisations for Regulated Entities of the Reserve Bank' dated March 21, 2024. In March, the RBI said that each sector of the regulated entities (RE) will have a separate SRO and with the finalisation of the framework the RBI will receive applications from various entities seeking to get SRO status.

While releasing the framework, the central bank had said that with the growth of the REs in terms of number as well as scale of operations, increase in adoption of innovative technologies and enhanced customer outreach, a need was felt to develop better industry standards for self-regulation. What is the membership criteria for NBFC SROs? According to the RBI, the SRO for NBFC sector is primarily envisaged for NBFCs in the categories of Investment and Credit Companies (NBFC-ICCs), Housing Finance Companies (HFCs) and Factors (NBFC-Factors). However, the SRO may also have other categories of NBFCs as its members

The recognized SRO shall have a good mix of NBFC-ICCs, HFCs and NBFC-Factors as its members, it said. To ensure fair representation to smaller NBFCs, the SRO shall have at least 10% of the total number of NBFCs in the Base Layer as per Scale Based Regulatory Framework and categorised as NBFC-ICC and NBFC-Factor, as its members. The RBI has also highlighted that the failure to achieve the aforesaid membership, within two years of the grant of recognition as SRO, would render the SRO liable for revocation of the recognition granted.

What are the terms of recognition of SROs?

As per the details laid down by the RBI, the applicant should achieve a minimum net worth of Rs 2 crore within a period of one year after recognition as an SRO, or before commencement of operations as an SRO, whichever is earlier.

A maximum of two SROs for the NBFC sector will be recognized, subject to the applicants fulfilling the prescribed criteria to the satisfaction of the Reserve Bank. The guidelines as given in the omnibus framework for recognition of SRO for REs of the Reserve Bank, shall be adhered to for application, recognition and functioning of the SRO. Further, the RBI said that different verticals/divisions within the SRO may be set up for catering to different categories of NBFCs, as considered necessary.

Source - https://bfsi.economictimes.indiatimes.com/news/nbfc/rbi-invites-sro-application-for-nbfcs-what-are-its-criteria-terms-of-recognition/111118956?utm_source=top_news&utm_medium=sectionListing

- **NBFC body urges RBI to review provisions on infra loans**

The Finance Industry Development Council (FIDC) on Tuesday urged the Reserve Bank of India (RBI) to review its recent proposal calling for an increase in the provisions that lenders have to set aside against infrastructure project loans. Last month, the RBI had released guidelines on project financing under which the lenders would be required to set aside provisions of up to 5% of outstanding exposures during the construction phase of projects, compared to the current 0.4%. This provision would then decrease to 2.5% once the project becomes operational.

The FIDC has written to the Chief General Manager, Credit Risk Group, Department of Regulation, seeking certain clarifications in context of the criteria laid down by the central bank. Common agreement: FIDC has requested RBI to clarify whether this framework will be applicable to loans which were extended prior to such guidelines where there is no common agreement between debtor and the lender. Minimum limits for financing: RBI in its draft guidelines said that projects where aggregate exposure of the participant lenders is upto Rs 1,500 crores, no individual lender shall have an exposure which is less than 10% of the aggregate exposure. For those over Rs 1,500 crores, this individual exposure floor shall be 5% or Rs 150 crores, whichever is higher.

FIDC requested the RBI to not to prescribe minimum limits for financing and let it be decided by commercial agreement between the parties. The Lenders will be required to be part of an agreement jointly with Debtors. "This will ensure that rights and duties of parties will be clear, un-ambiguous and protected," it said. Central Repository of Information on Large Credit (CRILC) The RBI guidelines have said that any such credit event shall be reported to the Central Repository of Information on Large Credit (CRILC) by the lenders. However, the FIDC submitted that the NBFCs do not have access to CRILC. This will mean that there will be lag for such information to come to notice of NBFCs, through other lenders.

"We request if longstanding industry request of providing access to NBFCs to CRILC to be considered favorably," it said. Extension of DCCO RBI discouraged banks from designing finance agreements that allow a moratorium on repayments beyond the date of commencement of commercial operations (DCCO). If lenders decide to grant a moratorium on repayment beyond the DCCO, the moratorium cannot exceed six months from the commencement of commercial operations, RBI said. FIDC requested timeline for extension for exogenous and legal reasons be also the same that for endogenous i.e. 2 years. Cap on cost overruns RBI has proposed that in cases where lenders have specifically sanctioned a 'Standby Credit Facility (SBCF) at the time of initial financial closure to fund cost overruns arising on account of extension in DCCO, they may fund cost overruns as per the agreed terms and conditions up to a maximum of 10% of the original project cost. FIDC said any cap has the potential of inhibiting the project continuation even after considering extension of DCCO. "We, therefore, request that no limit be placed on maximum cost overrun which can be funded and it should be left on commercial decision-making." Provision of 5% A general provision of 5% of the funded outstanding shall be maintained on all existing as well as fresh exposures on a portfolio basis, said RBI. FIDC said, we request that instead of flat provision of 5% for all projects in construction phase, it should continue to be standard provision rate of 0.4%.

Source- https://bfsi.economictimes.indiatimes.com/news/nbfc/nbfc-body-urges-rbi-to-review-provisions-on-infra-loans/110917836?utm_source=most_read&utm_medium=sectionListing

TOP INSURANCE NEWS

- **IRDAI makes journey with general insurance smoother with easier claim settlement, wider choices**

General insurance customers, particularly motor insurance policyholders, may soon have a smooth sail in terms of claim settlement, choice of products and understanding of product features and clauses, while dealing with their insurers. After issuing a master circular for health insurance, the Insurance Regulatory and Development Authority of India (IRDAI) has now issued a similar notification detailing the steps that general insurance companies should take to improve customer experience. The master circular directs insurance companies to ensure greater flexibility to choose products, wider choice of add-ons, concise customer information sheet to provide quick access to key policy clauses and features and tighter turnaround time for appointment of surveyors. This master circular will replace 13 older circulars that now stand repealed. Here are the key customer-centric changes that could benefit retail policyholders, primarily motor insurance customers.

Like in the case of health insurance policies, the IRDAI has mandated a Customer Information Sheet (CIS) to be provided along with policy documents at the time of purchase. This CIS will specify scope and terms of coverage – for instance, sum assured and risks covered, exclusions, warranties and claim settlement processes. This concise sheet will help policyholders decode the technical terms in their policy documents. No claim rejection solely for want of documents The IRDAI has asked insurers not to reject claims merely for the want of documents not directly linked to claims. "No claim shall be rejected for want of documents. Required documents to be called at the time of underwriting the proposal. The customer may be asked to submit only those documents necessary and related to claim settlement (if cashless is not available)," the circular says. This will work in favour of retail customers. "Ensuring that no claim is rejected due to insufficient documentation shifts the burden of proof onto insurers during the underwriting process. This change simplifies the claims process for policyholders, reducing administrative hurdles and expediting claim settlements, which enhances the overall customer experience," says Narendra Bharindwal, vice-president of Insurance Brokers' Association of India (IBAI).

Claim settlement TAT, surveyor appointment streamlined Insurance companies will have to inform their customers about the turnaround timelines for claim settlement in advance. The IRDAI has delegated the responsibility of allocating surveyors (in simple terms, independent officials who assess the extent of damage to cars or properties) through a tech-based solution within 24 hours of the claim being reported. The surveyor will have to submit the report within 15 days of allocation and the onus will be on insurers to obtain the same within this period. Insurers will have to take a call on the claim within seven days of receiving the surveyor report. "The insurer cannot fully or partly repudiate any claim where the breach of warranty or condition is not relevant to the circumstances of the loss... And on account of any delay on the part of the policyholder where such delay has not resulted in the amount of assessed loss being increased," the master circular says. Base product in every segment Insurance companies have to offer one base product that will offer the minimum coverage in each line of business such as motor insurance, home insurance, cyber insurance and so on. They have to put out the details on the website to enable easy comparison for customers. Motor add-ons as first choice to customers The IRDAI has also asked insurers to provide pay-as-you-drive and pay-as-you-go (launched by several insurers in 2022) to be offered to customers. Insurers will also have to provide depreciation cover as part of the comprehensive motor insurance package. Option to cancel policies You can cancel your motor or home insurance policy – without citing any reason – any time during the policy tenure. However, the insurer can cancel the policy only on the grounds of established fraud, after issuing a seven-day notice. “The insurer shall refund proportionate premium for the unexpired policy period on cancellation,” the IRDAI said. Penalty for non-compliance with ombudsman orders The insurance ombudsman rules require insurers to comply with orders issued by these IRDAI-appointed grievance redressal officers within 30 days, but many fail to do so. Therefore, the regulator has now decided to levy a penalty of Rs 5,000 per day on insurers – to be paid to customers- for every day of delay. This is an addition to the penalty mentioned in the ombudsman rules - insurers have to shell out penal interest (two percentage points over the prevailing bank rate), as per the Protection of Policyholders Regulations.

Source: https://www.moneycontrol.com/news/business/personal-finance/irdai-makes-journey-with-general-insurance-smoother-with-easier-claim-settlement-wider-choices-12746321.html

- **IRDAI’s diktat: Life insurance policyholders to get higher special surrender payouts on early exit from endowment plans**

Brushing aside life insurers’ concerns around offering higher premature exit payouts to policyholders, the Insurance Regulatory and Development Authority of India (IRDAI) on June 12 retained most of the provisions related to higher special surrender value (SSV) for endowment policies proposed last month. Put simply, compared to the present scenario, the surrender values - payouts on premature exit - for policyholders making an early exit due to realisation of mis-selling or inability to pay premiums will go up. Unlike now, when policyholders lose the entire premium paid if they exit after year one, they will get a part of their premiums back. "While we anticipate a gross impact of approximately 100 bps on the company's new business margin (NBM) due to higher surrender value on early exits, we are confident in our ability to largely mitigate this impact without compromising the value proposition for our customers. We expect these measures to positively impact the long-term growth prospects for the industry," an HDFC Life spokesperson said.

“The increase is substantial in early policy years and the policyholders will now get much higher surrender values compared to the earlier regime. Given the fact that substantial number of policyholders surrender their policies in early years, this regulation would immensely benefit those policyholders in particular. The increase will also be applicable to surrender in latter years, albeit the quantum of such increase will be comparatively lower,” an actuary at a private life insurance company, speaking on the condition of anonymity, said.

Higher surrender payouts IRDAI has said that that the SSV should be equivalent to at least the present value of the paid-up sum assured and paid-up future benefits (such as regular income payouts, if any). Paid-up value is calculated as per a formula: number of premiums paid X sum assured/total number of premiums payable. In the draft master circular issued last month, insurers were to take 10-year G-sec yield into account for discounting purposes. “Now, the IRDAI has allowed a maximum spread of 50 basis points over 10-year G-Sec yield for discounting purposes to arrive at the Special Surrender Value (SSV). Allowing for the spread will result in reduction of roughly 4-5 percent in surrender value compared to the proposals made in the draft version,” he said. Life insurers disappointed As Moneycontrol had reported on May 31, life insurers had opposed the move to allow higher special surrender values on the grounds that these products are not meant to ensure liquidity, but long-term goals. “There will be implications for the industry. Reserving will have to go up and more capital will be required. Our alternative solution was to allow complete refund of premiums in case of mis-selling rather than offering higher surrender values. The upfront charges are high and it is difficult to recoup the commissions paid in the initial years," said the CEO of a large private life insurance company. Customer information sheet mandatory Like in the case of health and general insurance, the insurance regulator has made it mandatory for life insurers to issue Customer Information Sheet (CIS) as part of policy documents .It is meant to, in simple language and concise manner, share information on clauses, policy benefits, premiums, and terms and conditions. Newer products on the anvil? The IRDAI had, in its product regulations issued in March, allowed insurers to design a host of products including index-linked plans, variable annuity payout options (where these will vary in line with publicly available benchmark as per the formula as specified in the insurer's product filing documents) and so on. More robust grievance redressal To resolve complaints around insurers not complying with insurance ombudsman orders against them on time, the IRDAI has introduced additional penalties. So, insurers will have to pay policyholders penalty of Rs 5,000 a day if they do not honour the ombudsman order within 30 days.

Source: https://www.moneycontrol.com/news/business/personal-finance/irdais-diktat-life-insurance-policyholders-to-get-higher-special-surrender-payouts-on-early-exit-from-endowment-plans-12747183.html

- **IRDAI asks life insurers to offer surrender value in first year**

The Insurance Regulatory and Development Authority of India (IRDAI) has asked insurance companies to offer a surrender value from the first year itself, a move that could impact their margins. The regulator issued a master circular, which mandates insurers to pay special surrender value (SSVs) after the first policy year, provided one full year's premium has been received. For policies with limited premium payment terms of less than five years and single premium policies, SSVs become payable immediately after receipt of the first full-year premium or single premium.

Previously, the surrender value for guaranteed return products was zero in the first year and up to 30-35% in the second and third years. The new regulations propose introducing benefit payouts in the first year, which will affect the margins of life insurance companies. However, some insurers believe the impact may be minimal, as over 85% of policies tend to remain active beyond the early years. "Most life insurance companies' 13th month persistency is over 85% which may not see much impact but others could have some impact on growth and margins," said a life insurance executive.

Insurers can now offer higher Guaranteed Surrender Values (GSV) than those specified in the regulations, which may vary based on factors such as premium size, premium paying term, policy term, and the duration elapsed at the time of surrender. The new regulations also stipulate that the Special Surrender Value (SSV) should at least equal the expected present value of the paid-up sum assured, paid-up future benefits, and accrued benefits.

"The extent of the impact will depend on changes in policyholder behaviour and what insurers do to improve persistence and curb mis-selling," said another life insurance executive.

IRDAI has asked insurers to examine persistence across all distribution channels and implement measures to improve long-term benefits for policyholders and address issues related to policy lapses and mis-selling that often lead to financial losses to policyholders. To ensure transparency, insurers must now include policy year-wise GSV, SSV, and surrender values payable in benefit illustrations. This move is intended to provide clearer information to policyholders about their potential returns and benefits. Also, all non-linked savings products offering surrender value must now have a policy loan facility based on the eligible surrender value. Insurers are asked to provide this facility to annuity products with a 'Return of Purchase Price' option.

Sources- https://economictimes.indiatimes.com/industry/banking/finance/insure/irdai-asks-life-insurers-to-offer-surrender-value-in-first-year/articleshow/110948622.cms

- **Life insurers to mandatorily provide loan facility against policies: Irdai**

Regulator Irdai on Wednesday said the facility of policy loan is now mandatory in all life insurance savings products, enabling policyholders to meet liquidity requirements. Issuing a master circular which consolidates all regulations with regards to life insurance policies, the Insurance Regulatory and Development Authority of India (Irdai) also said the free look period, which provides time to review the policy terms and conditions, is 30 days as against 15 days earlier. The latest master circular follows a similar exercise by the regulator for general insurance policies. "This is an important step in the series of reforms taken up by the insurance regulator with interests of the policyholders at the core. A conducive environment is now facilitated to spur innovation, enhance customer experience and satisfaction," Irdai said.

According to the master circular, the facility of partial withdrawal under pension products is allowed enabling the policyholders to meet their specific financial needs for important life events like higher education or marriage of children; purchase/ construction of residential house/flat; medical expenses, and treatment of critical illness. In case of surrender of policies, reasonableness and value for money is to be ensured for both surrendering policyholders and continuing policyholders, Irdai said. Further, the regulator said robust systems should be in place for grievance redressal of policyholders.

"In case the insurer does not appeal against the award of insurance ombudsman and does not implement the same within 30 days, a penalty of Rs 5,000 per day shall be payable to the complainant," the circular said. Insurance companies have also been asked to put in place mechanisms to improve persistency, curb mis-selling and avoid financial loss to the policyholders and also enhancing long-term benefits to them.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/life-insurers-to-mandatorily-provide-loan-facility-against-policies-irdai/articleshow/110943096.cms

- **Don't sell Ulips as investment products: Irdai to insurance companies**

The Insurance Regulatory and Development Authority of India (IRDAI) has asked life insurance companies not to advertise unit-linked plans as investment products in a recent circular. “Unit-linked or index-linked insurance products shall not be advertised as ‘investment products’. In the case of unit-linked insurance products (Ulip), index-linked products, and annuity products with variable annuity payout options, the risk factors shall be disclosed,” the regulator said.

Insurance companies will have to specifically state that market-linked insurance plans are different from traditional endowment policies and carry risks. Likewise, participating (with bonus) endowment policies will have to state upfront that the bonuses projected in benefit illustrations are not guaranteed.

As a measure to boost transparency, the regulator said that the advertisement committee of the company and/or a senior-level officer of the distribution channel will examine and approve the advertisements and ensure that they are not misleading. IRDAI also said that policyholders can access information on unclaimed amounts with any insurer on the Bima Bharosa portal.

Unclaimed life insurance funds refer to the proceeds of insurance policies, including death or survival benefits, not claimed by the beneficiary or the policyholder. According to IRDAI, which has issued the Master Circular on Protection of Policyholders’ Interests, Operations, and Allied

Matters of Insurers Regulations, 2024, this data will be available in one portal along with the individual websites of the insurers.

The regulator has also asked the companies to have a tech-based robust mechanism for grievance redressal of policyholders for an efficient and speedy resolution, while striving to move towards “zero grievances”. “By guiding insurers to establish effective processes for addressing grievances, the government is setting a high standard of accountability and responsiveness. The goal of achieving zero grievances is ambitious yet crucial, as it reflects a dedication to resolving issues promptly and efficiently with increased standards of customer interactions and awareness,” said Shashi Kant Dahuja, Executive Director and Chief Underwriting Officer, Shriram General Insurance.

Insurers are required to establish regular customer interfaces through consumer-friendly processes, running awareness campaigns, facilitating the submission of grievances online and ensuring the registration of all grievances; strengthen resolution processes with an internal escalation matrix (if not satisfied with resolution at the first level) and Internal Ombudsman Schemes.

Also, insurance companies are permitted to outsource activities only if they are economic and efficient in providing services to customers. These outsourcing activities will be under the oversight of the committee set up by the board, the regulator said.

Source- https://www.business-standard.com/finance/insurance/don-t-sell-ulips-as-investment-products-irdai-to-insurance-companies-124062100973_1.html

TOP CORPORATE BOND MARKET NEWS

- **Bond investors positioned for India's index inclusion: Morgan Stanley**

  Investors tracking JPMorgan Chase & Co.'s emerging markets bond index have already positioned for India's inclusion, with 3.6 per cent of their assets allocated to the nation's sovereign debt at end-May, according to Morgan Stanley. Most of the investors are active fund managers who don't need to add exposure as India is added to the gauge on Friday, Min Dai, head of Asia macro strategy, wrote in a note. More than half of them have already increased their India exposure, he said. India's index-eligible bonds have attracted $10 billion since the inclusion was announced in September. This event could likely draw $20 billion to $25 billion of global flows into local debt, according to JPMorgan. The nation will have a 1 per cent weight in the index, which will gradually rise to 10 per cent over a 10-month period. "Investors could have some moderate overweight in both rates and FX in the size of 1 per cent-2 per cent", if India keeps the rupee stable, maintains a hawkish monetary policy stance and the budget deficit is moderate, Dai wrote in the note dated June 21. This suggests investors still need to add 8 per cent-9 per cent of their assets in India over the next 10 months, he said. JPMorgan estimates that foreign ownership of India's bond market will nearly double to over 4.4 per cent of outstanding, from the current 2.5 per cent, over the next 12 months. Additionally, investors are overweight on the rupee, with 2.9 per cent holding driven by pre-positioning ahead of the index inclusion. India's debt has become a favorite among emerging markets, with investors attracted to the nation's solid finances and a stable currency. The country's inclusion will come at the expense of Thailand, South Africa, Poland, the Czech Republic, Brazil and Columbia, according to Morgan Stanley. "Investors would need to either sell these markets' bonds to fund India trades or use any new inflows to buy into India," Dai wrote. "This could prove to be a headwind for some of the biggest GBI-EM countries in the next 10 months." India's addition will put Asia's weight at 47.6 per cent in the index, while a possible addition of the Philippines could take the region's weighting above 50 per cent, the note said. JPMorgan has proposed two possible steps to rebalance the index in its latest consultation, Morgan Stanley said. One suggestion is to cap Asia at 40 per cent, which would give more weight to Latin America. The second measure would reduce the weight of major economies, effectively lowering China's weight from 10 per cent to 6 per cent, it added.

  Source: https://www.business-standard.com/markets/news/bond-investors-positioned-for-india-s-index-inclusion-morgan-stanley-124062400221_1.html

- **India Infrastructure Finance Company to raise up to Rs 2,500 crore through bonds**

  India Infrastructure Finance Company Ltd plans to raise up to Rs 2,500 crore through bonds on June 24, money market sources said. The bonds have a base issue of Rs 500 crore, and a greenshoe option of Rs 2,000 crore. A greenshoe option gives the underwriter the right to sell investors more bonds than planned if the demand is higher than expected. The bonds will mature in 15 years or on June 25, 2039. Bidding will take place between 11am and 12pm on the electronic bidding platform of the BSE. Pay-in date of the bonds is in June 26. The pay-in date is when exchange of bonds and money takes place between issuer and investors. The bonds have been rated 'AAA' with a 'stable' outlook by India Ratings and CARE. Minimum application size on the bonds is Rs 1 crore and in multiples of Rs 1 lakh. On June 20, MAS Financial Services, Akara Capital Advisors Pvt Ltd, Kotak Mahindra Prime, Sundaram Finance, and NIIF Infrastructure Finance raised funds through bonds.

Source: https://www.moneycontrol.com/news/business/india-infrastructure-finance-company-to-raise-up-to-rs-2500-crore-through-bonds-12753628.html

- **Nabard to raise up to Rs 5,000 crore from bonds on June 13**

  National Bank for Agriculture and Rural Development (Nabard) plans to raise up to Rs 5,000 crore through bonds on June 13, money market sources said. The bonds have a 5-year-5-month-22-day maturity on December 6, 2029. The bonds have a base issue of Rs 2,000 crore and a greenshoe option of Rs 3,000 crore. A greenshoe option gives the underwriter the right to sell investors more bonds than planned if the demand is higher than expected. Bidding for the bonds will held between 10:30am and 11:30am on the electronic bidding platform of the BSE. The pay-in date of the bonds is on June 14. It is the date when exchange of bonds and money takes place. The bonds have been rated 'AAA' with a 'stable' outlook by India Ratings and ICRA. Minimum application size of the bonds is Rs 1 lakh and in multiples of Rs 1 lakh thereafter. On June 11, Indian Railway Finance Corp, Sundaram Home Finance, Krazybee Services Pvt Ltd, Adani Airport Holdings Ltd, Tata Realty and Infrastructure Ltd, and Muthoot Capital Services Ltd raised funds through bonds. Indian Railway Finance Corp raised Rs 3,000 crore through bonds maturing in 10 years at 7.44 percent coupon rate. Adani Airport Holdings raised Rs 150 crore through bonds maturing in four years at a coupon rate of 9.95 percent.

  Source -https://www.moneycontrol.com/news/business/nabard-to-raise-up-to-rs-5000-crore-from-bonds-on-june-13-12746720.html

- **IREDA, Bank of Maharashtra to raise up to Rs 2,500 cr through bonds**

  Indian Renewable Energy Development Agency (IREDA) and Bank of Maharashtra plan to raise up to Rs 2,500 crore through bonds, money market sources said. IREDA is set to raise up to Rs 1,500 crore, which includes Rs 1,000 crore as greenshoe option. Whereas, Bank of Maharashtra will raise Rs 1,000 crore, which includes Rs 750 crore in greenshoe. A greenshoe option gives the underwriter the right to sell investors more bonds than planned if the demand is higher than expected. IREDA's bonds will mature in 10 years and two months, or on August 25, 2034, while Bank of Maharashtra's bonds are Basel-III compliant tier II bonds that will mature in 10 years, with call option after five years from date of allotment. Bidding for the IREDA's bonds will take place on June 21, between 10:00 AM and 11:00 AM on the electronic bidding platform of BSE. The bonds of IREDA is rated 'AAA' with 'Stable' outlook by India Ratings and Icra. Similarly, Bank of Maharashtra's bonds have been rated 'AA+' with 'Stable' outlook by CARE and ICRA ratings. On June 18, National Housing Bank and Tata Capital Ltd raised Rs 3,490 crore through bonds. National Housing Bank raised Rs 3,200 crore through bonds maturing in 3 years, 2 months and 19 days on September 8, 2027, at a coupon rate of 7.59 percent.

  Source: https://www.moneycontrol.com/news/business/ireda-bank-of-maharashtra-to-raise-up-to-rs-2500-cr-through-bonds-12751769.html

- **Bonds, rupee stage strong rebound on poll outlook**

  Government bond yields closed at their lowest levels in more than two years, and the rupee logged its largest single-day gain since December, as exit polls predicted a strong victory for the ruling National Democratic Alliance (NDA) in the general elections, kindling expectations of policy continuity. Yield on the 10-year benchmark government ended the day's trade at 6.9438%, its lowest closing level since April 7, 2022, LSEG data showed. The bond had closed at 6.9860% on Friday. Bond prices and yields move inversely. A fall in government bond yields makes it cheaper for companies to raise funds through debt as sovereign bond yields are the pricing benchmarks for corporate debt. The rupee closed at 83.14 per US dollar versus 83.4625 per dollar at the previous close, the data showed. Currency traders said Monday's 0.38% appreciation versus the US dollar was the largest single-day gain since Dec 15, 2023. "The main reason for bond prices to go up is the anticipation of stability and policy continuity. If the majority is strong, that makes a case for the government to use the huge dividend payout it has received from the Reserve Bank of India for further adherence to fiscal consolidation, which brings with it the possibility of lower market borrowing," said Naveen Singh, head of trading at ICICI Securities Primary Dealership

Source: https://economictimes.indiatimes.com/markets/bonds/bonds-re-stage-strong-rebound-on-poll-outlook/articleshow/110685274.cms

- **Green flavour not enticing enough for bond investors**

Green bonds appear to have got off to a circumspect start in India. More than a year after the first such instrument was sold by the government, follow-up issuances have dried up. The absence of financial institutions with a focus on green financing, expectations of returns higher than what the sovereign bonds yield, and the lack of investors enthusiastic about environment protection and corporate governance are said to be obstacles in getting this market to take off. "Globally, there are dedicated investors for sustainable funds that only look at green financing. We don't have that set of people in India," said Vikas Goel, MD & CEO at PNB Gilts. "The current set of investors in Indian bond markets don't have either the mandate or an incentive to pay a greenium. They have no obligations of investing in these green bonds as an investor," he said. Last week, the Reserve Bank of India had to cancel the first green bond auction of this fiscal as investors refused to pay a premium and sought yields at a higher level than the RBI and government were comfortable with. The investors sought yields at 7-7.05% for the green bonds when the 10-year benchmark bond was trading at 6.99%, people familiar with the development said.

Globally, there are certain investment pools that will devote a percentage of their funds to the green objective. In many countries, their sovereign funds have an internal mandate, driven by government policy that would allocate a certain portion in green financing.

Norway's sovereign wealth fund, one of the largest in the world valued at $1.7 trillion, now includes ESG mandates in its fixed-income portfolios.

"Our investment mandate has specific requirements for responsible investment. We are therefore increasingly integrating ESG data into our investment processes. The mandates for our portfolio managers require them to take ESG considerations into account in their analyses," said a February 2024 report by the Norges Bank Investment Management, which handles the fund.

Domestically, there are no bonds, other than the sovereign green bonds that invest specifically in ESG. There are nine ESG-specific equity mutual funds in India with a corpus of ₹10,908 crore, which is insignificant to the total asset value of the equity mutual funds at ₹23.12 lakh crore. "There are no dedicated bond ESG funds because there is no government mandate, everyone goes for G-Secs and there is no investor class that has developed that invests in ESG-specific funds, especially in the bond market," said Rahul Prithiani, Senior Director and Global Head at Crisil MI&A. The investor class in India today has a choice to choose from green and non-green because of the lack of mandates.

Source: https://economictimes.indiatimes.com/markets/bonds/green-flavour-not-enticing-enough-for-bond-investors/articleshow/110858076.cms

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Mr. Kushagra Joshi *Deputy Director* Mobile: 84473 65357 Email: kushagra.joshi@assocham.com	**Mr. Vishal Kumar** *Executive* Mobile: 88516 20732 Email: vishal.kumar@assocham.com

Further Details Please Contact:

Dr Rajesh Singh
Additional Director & HOD
(Department of Banking & Financial Services)
Mobile: 9871204880 | Email: rajesh.singh@assocham.com

CORPORATE OFFICE:

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

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