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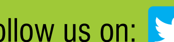

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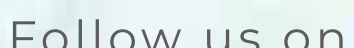

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TOP SPEECHES

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at King's College, London, 22 March 2023

We are living in turbulent times – once again. I guess almost everyone can name factors currently adding to overall uncertainty: the Russian war of aggression against Ukraine, the comeback of high inflation, high public debt levels and, most recently, financial market tensions as well. In such times, it is especially difficult to prioritise actions that need to be taken.

In my speech today, I will focus on a number of issues that I deem important right now. I will shed some light on current economic developments. Then I will of course, comment on inflation and monetary policy. And I will focus especially on fiscal developments and the discussion surrounding fiscal rules which – as you may know, is a particular obsession of central bankers.

One topic that is probably of particular interest to you is the most recent developments in financial markets. Whenever banks get in distress or fail, questions inevitably pop up: about proper risk management, about sufficient regulation, about contagion risks. And rightly so. It is our duty as central banks to probe the stability of our corners of the global financial system.

As far as I can see, the majority of risk managers in banks have done a decent job of coping with today's challenges. Regulation in the euro area is far stricter now than it was 15 years ago. The euro area banking sector is resilient, with strong capital and liquidity positions. And despite the events that we have witnessed in the past 15 days, contagion risks to euro area banks appear to be low. We will continue to monitor closely the developments in financial markets. And we are ready to act, if need be.

With that, I would like to move to issues more important in the long run. In my speech today, I will elaborate on some of the current challenges facing the European Monetary Union, with special focus on the two public sector agents influencing the macroeconomy – monetary and fiscal policies. I will draw particular attention to the ongoing debate about reforming European fiscal rules.

But every speech on general issues is naturally held in specific times and circumstances. So, let me begin with a few words about the economic and inflation outlook in Europe as well as about our latest monetary policy decisions.

The macroeconomic environment

Last year, the euro are saw an expansion of 3.5% in economic activity. The main factor behind the economic expansion in Europe was the lifting of COVID-related restrictions. However, high inflation dampened private consumption. This was, to some extent, due to the energy crisis caused by the Russian war of aggression against Ukraine.

Initially, during the late summer, there were deep concerns that a cut in the Russian energy supply would cause a severe recession, at least in some euro area countries. Fortunately, European countries and Germany in particular made considerable progress in finding alternative gas suppliers and in filling gas storage facilities before the winter. Thus, the most negative scenario was avoided.

Nevertheless, the energy crisis provoked not only surging energy retail prices and higher production costs for firms. It also created considerable uncertainty and made production planning for firms more difficult, especially for those with high energy consumption. These dampening factors had an effect in the second half of the year especially, while the growth effects of the lifting of COVID restrictions petered out.

For this winter, we expect economic activity in the euro area to increase marginally. According to the ECB's economic projections published last week, GDP in the euro area will grow only by 1% this year. It should be taken into account though, that the current financial market tensions imply greater uncertainty around projected figures.

One of the most striking economic features of the recent past is the comeback of high inflation. To be fair, the high inflation did not emerge only because of the energy crisis caused by the war in Ukraine. The inflation rate had already accelerated in the summer of 2021.

As the world recovered from the unprecedented economic slump caused by the pandemic, supply chains were under stress. Together with expansive monetary and fiscal policies, the rapid recovery pushed up energy prices. Moreover, demand for certain goods and services increased strongly. Supply bottlenecks and price increases were the result.

With the Russian invasion of Ukraine in February 2022, energy prices skyrocketed. Furthermore, the war and its consequences disrupted some other supply chains. In particular, the energy price shock heated up inflation even more.

The figures clearly demonstrate how exceptional last year was. According to the IMF, 2022 consumer prices in advanced economies rose by 7.3%. That was the highest increase in almost four decades. In the UK, the consumer price index even rose by more than 9%. In the euro area, the Harmonised Index of Consumer Prices rose by 8.4% on an annual average for 2022.

Initially, high inflation rates were driven mainly by energy and food prices. Energy prices recently decreased, and with them headline inflation rates. However, inflation keeps becoming more broad-based. We can see this from core inflation, which excludes energy and food prices. Core inflation keeps rising in the euro area. In February, it stood at 5.6%.

Overall, inflation rates will remain high in the near term. According to the ECB's economic projections, the inflation rate will average 5.3% this year. This is more than double our medium-term inflation target of 2%. According to the projection, we will have to wait until 2025 to see inflation approach our target by decreasing to 2.1%.

Moreover, the projection still contains significant uncertainty, and in particular upside risks. For example, high commodity and production prices could be passed on to consumers to a greater extent than previously expected. Wages may increase even more strongly than assumed in the projections.

Current monetary policy issues

Given this outlook, the Governing Council of the ECB could not simply assume that high inflation will return to the target level of 2% on its own. On the contrary, monetary policy has to act decisively. That's why the Governing Council of the ECB delivered six interest rate increases over the last eight months. Monetary policy rates increased by 350 basis points – the largest hike sequence ever in the euro area.

However, increasing the policy rates is not the only instrument we have at our disposal. In the first half of 2022, we discontinued net purchases under our PEPP and APP asset purchase programmes. This meant that security holdings under these programmes remained largely constant. From this month on until June, we are reinvesting only about 50% of maturing assets under the APP. So our balance sheet is starting to shrink gradually, phasing out one additional component of the previous expansive monetary policy. From July onwards, reinvestments in the APP could be further reduced. This would support the tight monetary policy needed to rein in inflation.

With our monetary policy actions, we are dampening economic activity. This is not an unwanted side effect, but an important link in the causal chain of our monetary policy tightening. We have to tame inflation, and to do so, we have to be bold and decisive. In my view, our job is not done yet. If inflation develops as projected, further interest rate hikes have to follow in upcoming meetings.

In the event that financial market tensions continue or spread to the euro area, we are prepared to respond to preserve financial stability in the euro area. The monetary policy of the Eurosystem will do what is necessary to ensure a timely return to price stability.

But it is not monetary policy alone that influences the inflation outcome. The former Governor of the Bank of England Mervyn King once said: "If central bankers are the only game in town, I'm getting out of town!".1 So let's have a look at the other important player of the public sector – fiscal policy.

Current fiscal policies

Before touching on some general aspects of the discussion on fiscal rules, let us take a quick look at the current policy mix in the euro area. Last year, we went through tough times. Fiscal policy action was needed. Huge increases in energy prices and high inflation severely affected households and businesses. It was right to use fiscal policies to help those people who were hit hardest and could not help themselves. It was right to support viable businesses that otherwise would not have made it through the particularly difficult times.

Fiscal policy has delivered quite forcefully. Sizeable temporary measures were taken, and the fiscal support was, for the most part, relatively broad and untargeted. And the measures were mainly financed through additional deficits.

However, while expansionary fiscal measures are appropriate to restore stability in the case of a demand shock, this is not so much the case in today's circumstances. The current situation is characterised to a large extent by supply-side effects and, of particular relevance for monetary policy, by high inflationary pressures.

In such a situation, expansionary fiscal measures risk fuelling inflation further. There is a risk that monetary and fiscal policies will work against each other. Therefore, looking ahead, it is important that in the euro area, the size of fiscal policy support is reduced as soon as possible. Any further support should be well-targeted.

The easing of tension in the energy market will assist in the reduction of fiscal support. And some measures, such as the German gas and electricity price brakes, will be less costly than initially planned. It would be highly advisable not to use this kind of fiscal relief for other purposes like other expenditure or tax cuts. They should instead contribute to lowering the high deficits. In this way, fiscal policy in the euro area can support the Eurosystem's monetary policy by reducing the fiscal stimulus and by putting public finances on a more sustainable path.

Fiscal rules in the euro area

In general, and not just in today's specific circumstances, fiscal policy is a major factor influencing how effectively the Eurosystem fulfils its mandate of price stability. Monetary and fiscal policy have their interdependencies. Their policy stances can more or less be in harmony.

In the best case, sound fiscal policy provides the necessary bedrock for monetary policy also in a broader and longer-term perspective. In the worst case, persistently unsound fiscal policy creates significant risks that make it more difficult for central banks to fulfil their mandate. Here, we speak of the risk of fiscal dominance. What does fiscal dominance mean exactly?

The higher the level of public debt becomes, the greater the pressure on central banks to maintain favourable financing conditions in order to prevent the state from experiencing a solvency crisis. If the central bank gives in to that pressure, it is no longer primarily following the goal of price stability. In an extreme case, the roles of fiscal and monetary policy are reversed: the central bank stabilises government debt, and the level of inflation is determined by fiscal priorities. Or, as the American Economist Michael Woodford puts it: "Fiscal dominance manifests itself through pressure on the central bank to use monetary policy to maintain the market value of government debt".2

In the euro area, fiscal soundness is all the more important because a single monetary authority operates amid many sovereign fiscal authorities. Therefore, the architects of Economic and Monetary Union not only relied on market discipline by emphasising the no-bail-out principle. In addition, fiscal rules were established as an important feature of the monetary union to preserve sound public finances and to prevent fiscal pressures on monetary policy.

The fiscal rules are enshrined in the European treaties. They were regularly the subject of controversy and have been repeatedly adapted and reformed over time. A frequent criticism was that the fiscal rules might be an impediment to public investment. Others criticised the rules as being overly complex and opaque.

In my view, the fiscal rules were better than their reputation – at least when we look at their substance. The quantitative budget ceilings were suited to ensuring that high debt ratios fall swiftly. However, they were insufficiently binding and their application was often the result of political negotiations. The results were not convincing either. Highly indebted countries failed to reduce their debt levels even in good economic times.

Currently the rules are still suspended until the end of the year. During the pandemic, the general escape clause from the Stability and Growth Pact was activated. In parallel, a reform process was launched. For that purpose, the Commission initiated a consultation process in 2021. The Bundesbank also contributed its proposals to this process.

Our main recommendations were to make the quantitative targets more binding, with less discretionary exemptions and more stringent implementation. Moreover, we suggested allowing for more deficit-financed investment expenditure when debt ratios are sufficiently low, and national rainy-day funds to enhance flexibility for fiscal authorities. In addition, we proposed making fiscal rules more binding, for example by transferring fiscal surveillance to an independent institution with an exclusive focus on debt sustainability – such as the European Stability Mechanism.

Last year, the Commission presented its first reform proposal, which saw contentious debate among Member States. Last week, the Economic and Financial Affairs Council – ECOFIN – agreed on basic reform principles. I very much welcome its commitment to sustainable public finances and reduction of high debt levels. However, the current agreement appears to be largely based on the Commission's proposals of last November. I have not been convinced by the initial Commission proposals. I have expressed doubts that such an approach will lead to an improvement in fiscal rules, but instead, I believe it will do the opposite.

The Commission proposes multiannual fiscal adjustment paths. Those paths would have to be agreed by the Commission and every Member State. Individual public debt challenges as well as reform and investment plans would have to be taken into account. In my view, such an approach is hardly compatible with the goal of a common clear, transparent, and binding fiscal framework for all Member States. It implies leeway for Member States as well as a high degree of discretionary judgement by the Commission. Monitoring compliance with fiscal rules would be highly complex, and results of sustainability analyses will crucially depend on initially defined assumptions.

These challenges will be aggravated if the rules take reforms and investment plans into account. Fiscal targets would be mixed with other policy goals. In combination with the multiannual set up, this raises concerns about whether back-loading might become the new standard of fiscal efforts. I am concerned that such a fiscal framework would fail to contribute to a reliable reduction of high sovereign debt levels. And this would be a burden for our monetary policy and would leave us feeling exposed when it comes to dealing with future economic shocks.

However, the discussion on reforming the common fiscal framework is still ongoing between the Commission and the Member States. And similar concerns have been raised, not least by the German

Finance Minister Christian Lindner. So we have to wait for the final agreement. In the end, the specific design of the rules and, equally importantly, their implementation, will determine the outcome.

Perspectives of the European Monetary Union

Now you may ask: what's next for the euro area? Well, unless there is democratic legitimacy for a European political union, the future of the European monetary union relies on strengthening the existing governance framework.

In general, progress has been made in resolving the well-known drawbacks. The European Stability Mechanism – ESM – was established to provide financial assistance if necessary. A macroeconomic imbalance procedure has been introduced, and reforms have been implemented to mitigate the mutual reinforcement of problems in the financial sector and public finances. In particular, the Single Supervisory Mechanism and the Single Resolution Mechanism are designed to forestall financial distress in the banking system. However, further reform progress is needed to contain any detrimental impact of distortions from the government to the banking system.

Ultimately, however, each Member State remains responsible for its fiscal and economic policy. As regards the fiscal governance framework, fiscal rules should become less complex, less discretionary and more binding.

In my view, however, fiscal rules alone cannot ensure, together with monetary policy, price stability. That means financial markets have to play their part by pricing sovereign risks adequately and thereby support fiscal discipline. Borrowing at European Union level to finance current expenditure, such as with Next Generation European Union transfers, should remain an exception. This guarantees that potentially rising risk premia for government debt constitute a significant incentive for sound fiscal policy. Capital market disciplining would be helpful in this respect.

The debt ratio in the euro area increased rapidly during the pandemic.

Politicians have to find a proper way to bring it down. Sustainable public finances secure capital market access and avoid potential conflicts with monetary policy. I hope the current reform of the governance framework will not culminate in a rules-free setting. Sustainable public finances are in the interest of taxpayers as well as fiscal authorities and central banks.

Closing remarks

From a central banker's perspective, fiscal rules are indeed very important. The economist Karl Brunner expressed this with the following words:

"The crucial conclusion from [-] stability analysis suggests that a stable, non-inflationary monetary regime is unlikely to persist in the absence of a fiscal regime effectively containing the average deficit."3

In this context, the direction of the current reform process causes me concern. We will see whether the answers to questions still under discussion will improve the outcome. And we will see how any new rules will actually be implemented.

In my view, the European Union weathered the crises of the last few years fairly well. The EU countries reacted responsibly and successfully to the economic shocks caused by the pandemic and energy crisis. Certainly, we would not have been better off during the crisis had we been dealing with twenty different European currencies. Working together to find a common European response is worth the effort. I am firmly convinced that monetary union is beneficial to all members.

G20 for a Better Global Economic Order during India's Presidency (17th K P Hormis Commemorative Lecture by Shri Shaktikanta Das, Governor, Reserve Bank of India, Kochi, March 17, 2023)

I am delighted to have been invited by Federal Bank to deliver the K P Hormis Commemorative Lecture today. Late Shri K P Hormis, the founder of the Federal Bank, was a great institution builder who recognised early the critical role of entrepreneurs in an economy, the importance of banks in providing finance, particularly to small scale entrepreneurs, and the need for prudence in banking business to preserve financial stability.

Despite the multiple and overlapping shocks to the global economy from COVID-19 pandemic, the war in Ukraine and synchronised monetary policy tightening by Central Banks across the world, the Indian economy remains resilient and is expected to be the fastest growing major economy in the world. Our financial sector remains stable; the worst of inflation is behind us; and the Indian Rupee has exhibited least volatility among its peer currencies.

As you are aware, India has assumed the G20 Presidency for 2023. In a world that is fractured in geopolitics, trade and supply chains, the Indian Presidency is driving home the philosophy of 'Vasudhaiva Kutumbakam: One Earth, One Family, One Future'. The endeavor of the Indian Presidency is to realise the potential underlying this philosophy. I have, therefore, chosen the theme of "G20 for a Better Global Economic Order during India's Presidency" for my address today.

As I said a little while ago, India has assumed the leadership of G20 in an environment of formidable geo-economic shifts which have vitiated the global macro-financial outlook. The capacity of the existing global economic order to manage the severe impact of the multiple shocks is under challenge. This has led to severe supply-demand imbalances in critical sectors and given rise to high inflation in almost all countries. Globalisation of inflation to multi-decadal high levels and subdued global growth and trade have posed complex policy challenges. As the premier forum for promoting cooperative and effective solutions to global problems, the task of the G20 is cut out, given the difficulties in building consensus and the uncertainty around the outlook on geopolitics.

The ongoing global crisis is both an opportunity and a major test for the G20 which represents 85 per cent of world GDP and 75 per cent of global trade. Following the East Asian financial crisis of 1997, the G20 was founded in 1999 as a forum for the Finance Ministers and Central Bank Governors to discuss global issues and policy options. After the global financial crisis of 2008, G20 was upgraded to the level of Heads of States/Governments in 2009. In an interconnected world, national policies alone may not be fully effective when the nature of the shocks is global and persistent.

Post COVID, the world economy was recovering gradually on the back of large policy stimulus and rising pace of vaccination when the war in Ukraine led to sharp increases in global food, energy and commodity prices. It also triggered renewed supply chain disruptions. Geopolitics has now been taken over by geoeconomics. According to the IMF1, the global economy is now experiencing a process of geo-economic fragmentation, operating through five key channels – trade, technology, capital flows, labour mobility and global governance. There are rising restrictions on trade and diffusion of technology, barriers to labour migration, reduced capital flows and increased uncertainty about global public goods. The interlinkage between geopolitics and economic prospects of nations has become stronger, with each influencing the other. There is now growing trend of friend-shoring and onshoring. The focus is now on ensuring food and energy security and on securing strategic minerals – lithium, rare earths, copper, zinc, chromium, graphite, etc. which are required for producing batteries, solar panels and wind turbines.

Actually, the backlash against globalisation had started even before the pandemic struck, as globalisation created both winners and losers. The international order could not provide cooperative

solutions to make the process win-win for all. This indeed is the biggest challenge for G20 as a multilateral group. Globalisation must produce better and more equitable outcomes for all, including the global south.

Of the multiple risks facing the world community, the surge in inflation has posed a complex monetary policy dilemma in every economy between raising interest rates enough to tame inflation, and at the same time minimising the growth sacrifice to avoid a hard landing. The aggressive monetary policy tightening by systemic central banks since early 2022 and the consequent appreciation of the US Dollar have led to several economies, with a high share of external debt, becoming highly vulnerable to debt distress. According to the IMF2, 15 per cent of Low-Income Countries (LICs) are estimated to be already in debt distress, with an additional 45 per cent at high risk of debt distress. About 25 per cent of Emerging Market Economies (EMEs) are also at high risk. Further, capital outflows from Emerging Market and Developing Economies (EMDEs) due to continued tightening of financial conditions have led to reserve losses, sharp currency depreciations and spiraling imported inflation pressures. In such a situation, addressing the deteriorating debt situation in low and middle-income countries and facilitating coordinated debt treatment by official bilateral and private creditors under a multilateral framework has assumed priority under our G20 presidency.

Despite the overwhelming concerns a few months back about an imminent recession, the global economy has in fact exhibited greater resilience, reducing the probability of a hard landing. Nonetheless, there is a trend decline in global growth. There is also considerable uncertainty about structural shifts taking place in the drivers of inflation, ranging from labour market dynamics to concentration of market power and less efficient supply chains. In parallel, global food, energy and other commodity prices have softened from respective peaks and the supply chains are normalising, which should help in achieving disinflation. Restoration of a more balanced world economic order is, therefore, at the forefront of the G20 discussions. India has stressed the importance of creating an inclusive agenda to restore stability and confidence in multilateralism while revitalising global growth.

A fragmented global governance regime, as it prevails today, has also led to under provisioning of global public goods and erosion of economic welfare. The recent examples are discriminatory access to vaccines during the pandemic and reluctance to ensure universal access to vaccines and technology for life saving medicines; inadequate provision of finance and access to technology to quicken the pace of green transition in EMEs; and lack of timely creditor cooperation to address the severe stress facing some of the debt-ridden developing economies. Recommitting to multilateralism is the need of the hour and the G20 has a major role in this regard.

It is also important that the G20 countries take due notice of people-centric transformative changes taking place in member countries and adopt them to make the world a better place for all. Learning from each other's experience to enhance the quality of life for the common man must be a new dimension of the global economic order in the future. I would like to highlight two such key areas under our G20 presidency: first, digital public infrastructure for financial inclusion; and second, climate change and mitigation for achieving a more inclusive global economic order.

Digital public infrastructure for Financial Inclusion

The G20, through the Global Partnership for Financial Inclusion (GPFI), is facilitating a dialogue on financial inclusion in the global forum. The focus is on unserved and underserved individuals and on micro, small and medium enterprises (MSMEs). India is sharing its experience in financial inclusion as well as in the use of digital public infrastructure for achieving the goals of poverty alleviation and economic empowerment of the vulnerable sections of the society. India has been one of the forerunners in addressing the issue of 'last-mile connectivity' by leveraging its world-class digital public infrastructure

which includes the JAM (Jan-Dhan, Aadhaar, Mobile) trinity; the UPI; the Open Network for Digital Commerce (ONDC); and the account aggregators (AA) framework. We are also highlighting the importance of digital identity, digital payments and digital consent-based sharing of data in enabling a globally integrated financial inclusion ecosystem. India's rich and successful experience in this area offers fine guidance on pathways to improving the lives of the common man. Not surprisingly, India has been recently chosen as the co-chair of the Global Partnership for Financial Inclusion working group along with Italy.

Climate Change and Mitigation

Climate change is no longer a distant threat. It is right here staring at us and is a growing danger with risks for millions of lives and livelihoods around the world. Extreme weather events world over, such as floods, droughts, wildfires, cyclones, etc. can disrupt production and supply chains and create shortages of essential goods and services at anytime, anywhere. Such events can create sudden increase in prices leading to inflationary pressures. In addition, climate change can also affect the productivity of sectors that are heavily dependent on nature, such as agriculture. For instance, rising temperatures and changing rainfall patterns are causing lower crop yields and higher prices of foodgrains in recent years. The physical impact of climate change, such as rise in sea-level and increased frequency and intensity of extreme weather events, can damage infrastructure and property, leading to higher costs for businesses and households. All these factors can contribute to higher inflation and lower growth, which can erode the purchasing power of households and businesses. As we all know, such events are becoming more frequent in recent years. Therefore, it is essential that we take concerted climate action to safeguard the future of our planet and its inhabitants.

The G20 countries have a major responsibility in providing leadership for global action on climate change and provision of climate finance, together with transfer of technology, to take this agenda forward. In dealing with weather related disasters, India has made noteworthy progress in its green transition agenda and capacity creation for efficient disaster management. Sharing our experience with other G-20 countries could open up scope for collaboration, in pursuit of the common goal of a greener global economy.

It is noteworthy that India is the highest ranked G20 country according to the Climate Change Performance Index3 2023 and is also the 5th best performing country globally. Given that India is widely expected to remain as one of the fastest growing economies in the world, our energy demand could rise manifold. The challenge for us is twofold: one, to meet the projected increase in energy demand; and two, to rapidly transition from fossil fuel to renewables.

Climate proofing of our infrastructure has also been a priority, more so in view of the large investment in infrastructure in recent years. Through global forums such as the Coalition for Disaster Resilient Infrastructure (CDRI)4, India is providing leadership to global efforts for addressing these challenges.

We live in a world where the global macro-economic and financial outlook may become increasingly uncertain because of climate events, and only a committed global response with a spirit of collaboration can help mitigate the impending risk. In this context, the need for scaling up climate finance for mitigation and adaptation efforts in a balanced manner is well recognised if we were to meet the ambitious net zero targets. In this endeavor, Multilateral Development Banks (MDBs) have an important role to play. They must evolve to meet the increasing demand for lending resources, provide knowledge support and catalyse private investment while continuing with their traditional roles of poverty reduction and achieving the Sustainable Development Goals (SDGs). To address these issues, the G20 has set up an expert group to deliberate on strengthening the MDBs.

As I proceed to conclude, let me state that recent developments in the US banking system have brought to the fore the criticality of banking sector regulation

and supervision. These are areas which have significant impact on preserving financial stability of every country. More specifically, these developments in the US drive home the importance of ensuring prudent asset liability management, robust risk management and sustainable growth in liabilities and assets; undertaking periodic stress tests; and building up capital buffers for any unanticipated future stress. They also bring out that crypto currencies/assets or the like, can be a real danger to banks, whether directly or indirectly. The Reserve Bank has taken necessary steps in all these areas. The regulation and supervision of the financial sector and the regulated entities have been suitably strengthened. The regulatory steps include, among other things, the implementation of leverage ratio (June 2019), large exposures framework (June 2019), guidelines on governance in commercial banks (April 2021), guidelines on securitisation of standard assets (September 2021), scale-based regulatory (SBR) framework for NBFCs (October 2021), revised regulatory framework for microfinance (April 2022), Revised regulatory framework (July 2022) for Urban Cooperative Banks (UCBs) and guidelines on digital lending (September 2022).

Simultaneously, RBI's supervisory systems have been strengthened significantly in recent years through measures which include a unified and harmonised supervisory approach for Commercial Banks, NBFCs and UCBs. The frequency and intensity of on-site supervisory engagement is now based on the size as well as riskiness of the institutions. Off-site supervision has also become more intense and frequent. We have strengthened our engagement with the Senior Management and Boards of the Supervised Entities. The focus is now more on identifying the root cause of vulnerabilities, rather than dealing with the symptoms alone. We have also issued revised guidelines on oversight and assurance functions of financial entities. Use of advanced data analytics is supplementing our supervisory process. To strengthen cyber resilience, a comprehensive cyber security framework for banks together with Digital Payment Security Control Guidelines have been issued. We have also established the college of Supervisors and augmented the staff strength significantly in recent years. What we have in India today is a well regulated and well supervised banking sector. The same would apply to the NBFCs sector and other financial entities under RBI's domain.

Conclusion

Let me now conclude by stating that India has assumed the G20 presidency at a time when it has once again emerged as the fastest growing major economy in the world. International confidence on India's capacity to contribute constructively to reshape the global economic order is rising. The risk of a hard landing has dissipated world over, even as the pace of disinflation remains less than desirable. Before the cascading effects of geo-economic fragmentation further dampen the global outlook, rebuilding trust through cooperation and recommitting to multilateral frameworks for addressing critical global challenges has become essential. Every crisis can have a solution when powerful minds come together. As Swami Vivekananda had once said "...The powers of the mind are like rays of light dissipated; when they are concentrated, they illuminate"5.

Thank you.

Source: https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1356

BANKING & FINANCIAL SERVICES ACTIVITIES IN THE MONTH

7th National Summit Insolvency & Bankruptcy Code and Valuation 'Promoting Investment in Stressed Assets Under the IBC' Friday, 3rd March 2023, Hotel Hyatt Place, Vadodara, Gujarat

The ASSOCHAM National Council for Insolvency & Bankruptcy Code and Valuation successfully conducted 7th National Summit on Insolvency & Bankruptcy Code and Valuation 'Promoting Investments in stressed assets Under the IBC' on Friday, 03rd March 2023, Hotel Hyatt Place, Vadodara, Gujarat from 10:00 AM to 04:00 PM. Total number of participants were more than 150.

Some of the eminent panelists were – Shri Anil Goel, Chairman, ASSOCHAM National Council for IBC & Valuation and Founder & Chairman, AAA Insolvency Professionals LLP CA. Abhishek Nagori, Partner, JLN US & Co, Shri Ratan Mishra, AVP, Resurgent India, Shri Ramakant Rai, Partner – Insolvency and Bankruptcy, Trilegal,

Shri Rajesh Sharma, Former Member – Technical, National Company Law Tribunal, Shri Santosh Shukla, Executive Director, Insolvency and Bankruptcy Board of India,

Some of the Key Session discussed during the Summit by the panellists were:

Fireside Session: "Recent Amendments in IBC & Judicial Pronouncements: Challenges to Resolution Applicants & Remedies"

Moderator – Shri Anil Goel, Chairman, ASSOCHAM National Council for IBC & Valuation and Founder & Chairman, AAA Insolvency Professionals LLP

Panellist – Adv. Navin Pahwa, Sr. Counsel, Thakkar & Pahwa Advocates, Shri Ankur Kumar Srivastava, Managing Partner, EZY Laws, Shri Sandiip Agarwwal, Director, Raj Rayon Industries Limited (SVG Group), CA. Pradeep Kumar Kabra, Partner, JLN US & Co.

Special Session: "Opportunities & Challenges in Funding Acquisitions Under IBC"

Moderator – Ms Shalini Shrivastav, Partner, PWC

Panellist – (CA) Dr. Shailendra Saxena, Country Head- GST Advisory, Fidem Business Services Private limited

Shri Bhupesh Porwal, CFO, Ankur Scientific Technologies Private Limited, CA. Abhishek Nagori, Partner, JLN US & Co.

Panel Discussion: "Banker Perspective on IBC & Valuation"

Moderator – Shri Ankit Goel, Founder Partner, AAA, Valuation Professionals, LLP

Panellist – Shri Vishal Gupta, Partner, Taxcraft Advisors LLP, CA Vipul Shah, Chartered Accountant & Registered valuers, Shri Mihir Vyas, Chairman – Vadodara Chapter, The Institute of Cost Accountants of India.

New India @ 2030: Tailoring for Sustainable Growth - Reform, Perform, Transform
Saturday, 4th March 2023, The Lalit Hotel, Mumbai

The ASSOCHAM and Alumni Association of N.C.E Bengal & Jadavpur University's Mumbai chapter hosted a National Conference on 4th March 2023 in Mumbai. The day-long Conference titled 'New India @ 2030: Tailoring for Sustainable Growth: Reform, Perform, Transform' reviewed India's readiness to achieve sustainable growth and discussed transformative and accelerated actions needed to accomplish the intermediate target of Sustainable Development Goals (SDGs) by 2030.

The day's proceedings were initiated by Ashok Adhikary, Chairman of the Conference Committee and Dr Rajesh Singh, Joint Director & Head of the Department of banking and financial services of ASSOCHAM, on behalf of both the organisers. Padma Vibhushan Dr. R Chidambaram, the former principal scientific advisor to the Government of India and former chairman of the Atomic Energy Commission, inaugurated the event by lighting the ceremonial lamp. He was joined by the Guests of Honour, Marja Einig, Deputy Consulate General, German Consulate General Mumbai, and S S Mundra, Former Deputy Governor of Reserve Bank of India.

In addition to some distinguished guest speakers, various technical sessions were attended by luminaries from the worlds of Education, Science, Technology, and Business. Over 165 people from India, the US, Germany, and Norway participated in this event, including scientists, professors, industry leaders, business professionals, members of the German embassy, and PhD. Scholars.

Shadow Monetary Policy Committee Meeting "Discussion On Monetary Policy" Wednesday, 29th March 2023

The ASSOCHAM National Council for Banking successfully conducted Shadow Monetary Policy on Committee Meeting "Discussion On Monetary Policy" held on Friday, 03rd February 2023 from 03:00 PM to 04:00 PM. Total number of participants were more than 40.

Some of the eminent panelist were: Shri S. C. Aggarwal, CMD, SMC Group & Sr. Member, ASSOCHAM; Dr. Surjit Bhalla, Former Executive Director- India, International Monetary Fund; Ms. Upasna Bhardwaj, Chief Economist, Kotak Mahindra Bank; Shri Indranil Sen Gupta, Head of Research, CLSA India; Shri Ahbeek Barua, Chief Economist & Executive VP, HDFC Bank; Shri Siddhartha Sanyal, Chief Economist & Head of Research, Bandhan Bank; Dr. Charan Singh, Committee Member, ASSOCHAM National Council for Banking and Chief Executive, EGROW Foundation & Shri Basudev Mukherjee, Assistant Secretary General, ASSOCHAM

Some of the key points discussed during the webinar by the panellists were:-

- SVB has been noticed by all.
- Even the takeover of SVB has changed the scenario.
- The oil prices have also come down drastically.
- FED & ECB has even raised its raised.
- Brazil & Russia has not raised its interest rate.
- Indian economy is doing very well, one of the fastest in world.
- World bank & IMF will release its statement shortly.
- Industry is doing reasonably well.
- TVS and Hero Moto Corp. is seeing quite a good growth rate.
- The sale of two-wheeler has shown a good hike.
- GST collection is also very good which is nearly Rs. 1.5 Lakh Cr.
- CPI is 4.5% which is slightly higher than band.
- Inflation is pretty well and under control.
- RBI should go for pause for this policy statement.
- Internationally there is moderation.
- We are looking are 25 bps and 100 bps rate cut in October.
- RBI rate decision is in hands of Fed directly or indirectly.
- Fed might pause with another hike.
- RBI can go up to 7% depending on Fed action in coming times.
- Core inflation is high which provide additional buffer space to RBI for rate hike.
- As RBI is increasing interest rates, means higher EMI in coming times.
- We need to see how much MPC has to do with inflation and growth.
- There is evidence the MPC and real interest rate will affect inflation and growth.
- In India the inflation is mainly caused by supply demand cause.
- We need to see what is going on Fed and Europe.
- The average interest rate for US over the years has been 2.5 %.
- There is a lot of uncertainty which is global not domestic.

TOP BANKING NEWS

- **RBI asks banks to make extra provisioning on top 20 business houses**

To ready up for any contingency, the Reserve Bank of India has advised banks to set aside specific provisioning towards their exposure to top 20 conglomerates of India.

Highly placed sources say that the move is more to lean on the side of caution and should not be construed as any 'warning signal' from the regulator.

"PSU banks and private banks are in a much better shape now than before. Therefore, the regulator felt that it would be good for the system if banks start taking prudential provisioning on business groups now," said senior banker aware of the matter.

It is learnt that the regulator was mulling on these lines after the FY22 annual inspection, which concluded for most banks by September–November last year, but the decision to implement the need for prudential provisioning became imminent in the wake of ongoing collapses of banks in the US and Europe.

"Some of large corporations also have significant foreign debt exposure in the form of bonds and loans and it would be better to be step ahead of the curve to ensure that banks in India don't suffer because of the global turmoil," said another senior executive who didn't want to be named. Reliance Industries, Adani group and Vedanta are conglomerates to name a few, with heavy exposure to foreign debt.

An email sent to RBI seeking confirmation remained unanswered till press time.

Another banker aware of the matter added that with overall asset quality position and profitability of the banking system at a multi-decade best level, the RBI felt that now would be a good time to shore up some provisioning to meet any contingencies.

Source: https://www.thehindubusinessline.com/money-and-banking/rbi-asks-banks-to-make-extra-provisioning-on-top-20-business-houses/article66664724.ece

- **India needs to internationalise payment products: RBI Guv Das**

QR code-based merchant payments through UPI apps are already enabled in Bhutan, Singapore and the UAE.

Reserve Bank Governor Shaktikanta Das on Saturday underlined the need for using the G20 presidency to present India's e-payment story to the global audience and seize the opportunity to internationalise payment products like UPI and RuPay. India's home-grown payment products like UPI and RuPay network are increasing their global footprint and will make cross-border payments easier, Das said while inaugurating the Payment System Operators (PSO) Conference here.

"Under Reserve Bank's Payments Vision 2025, we stand committed to the core theme of 'E-Payments for Everyone, Everywhere, Everytime' (4Es). We must seize every opportunity to internationalise our payment products. This will open up a new world of opportunities for our country. This is the year of the Indian Presidency of the G20. Let us present the India story to the global audience," he said.

The governor further said with the Indian economy getting increasingly integrated with the global system, crossborder payments have assumed greater significance."Our home-grown payment products, UPI and RuPay network, are enhancing their global footprint," he said and added launch of UPI linkage with Singapore's PayNow is a major step forward.In future, Das added such linkages with other countries will make crossborder payments simple, affordable and real-time.

Source: https://www.financialexpress.com/industry/banking-finance/india-needs-to-internationalise-payment-products-rbi-guv-das/3014457/

- **Banking system stable, resilient, says RBI Governor Shaktikanta Das**

Das also said that the worst of inflation is behind us and that the rupee exhibited the least volatility among its peers.

Reserve Bank of India (RBI) governor Shaktikanta Das on Friday said that the country's banking system continues to be stable and resilient, and lenders have built sufficient buffers to shield themselves from any unforeseen stress. His comments come amid the recent turmoil in the banking sector globally.

Das also said that the worst of inflation is behind us and that the rupee exhibited the least volatility among its peers.

He stressed that despite the multiple and overlapping shocks to the global economy from the pandemic, Russia-Ukraine war and monetary policy tightening by central banks across the world, the Indian economy remains resilient and is expected to be the fastest-growing major economy in the world.

Commenting on the recent developments in the US banking system, including the failure of three banks, he said that it has brought to the fore the criticality of regulation and supervision in the banking sector.

Speaking at the 17th KP Hormis Commemorative ceremony, Das said the developments highlight importance of banks ensuring prudent asset liability management, robust risk management, and sustainable growth in liabilities and assets. Further, they also put in focus the need for banks to conduct periodic stress tests and build up capital buffers.

Source: https://www.financialexpress.com/industry/banking-finance/banking-system-stable-resilient-says-rbi-governor-shaktikanta-das/3013865/

- **RBI Governor Shaktikanta Das cautions banks against any build-up of asset-liability mismatches**

Delivering the annual KP Hormis (Federal Bank founder) commemorative lecture in Kochi this evening, the governor was quick to acknowledge and assure that the domestic financial sector is stable and the worst of inflation is behind us.

Reserve Bank governor Shaktikanta Das on Friday cautioned banks against any build-up of asset-liability mismatches, saying both are detrimental to financial stability and hinted that the ongoing crisis in the US banking system seems to have emanated from such mismatches.

Delivering the annual KP Hormis (Federal Bank founder) commemorative lecture in Kochi this evening, the governor was quick to acknowledge and assure that the domestic financial sector is stable and the worst of inflation is behind us. Amid the continuing volatility in exchange rates, especially due to the excessive appreciation of the US dollar, and its impact on the external debt servicing ability of nations, Das said, "We have nothing to fear as our external debt is manageable and thus appreciation of the greenback does not pose any problem to us".

Source: https://www.financialexpress.com/industry/banking-finance/rbi-governor-shaktikanta-das-cautions-banks-against-any-build-up-of-asset-liability-mismatches/3013677/

- **PSU bank stocks deliver up to 96% return in FY23. Will the magic repeat in next fiscal?**

Beating much-fancied private sector peers by a wide margin, PSU bank stocks have turned out to be the top performing sector of FY22 on the back of improved loan growth, margins and controlled credit costs.

In the last one year, Nifty PSU Bank index has rallied over 30% with UCO Bank turning out to be a little ninja for investors as it has nearly doubled money.

In the 12-pack index of all state-run banks, India's largest lender the State Bank of India (SBI) is the worst performer with a minor return of just around 3%. All other stocks in the index have given double-digit returns.

So far in the financial year, Indian Bank has rallied over 76%, Union Bank of India 60%, Punjab & Sind Bank 55% and Bank of India 51%.

However, the last 3 months have been merciless for PSU bank stocks with the barometer losing around 15% of its value amid concerns around debts given to embattled Adani Group and global banking turmoil.

In the December quarter, PSBs reported a solid cumulative profit growth of 65%, mainly driven by healthy net interest income.

Bank of Maharashtra emerged as the top performer in terms of percentage growth in profit. The Pune-headquartered lender recorded a 139% jump in profit to Rs 775 crore at the end of December 2022.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/psu-bank-stocks-deliver-up-to-96-return-in-fy23-will-the-magic-repeat-in-next-fiscal/articleshow/99082642.cms

- **PSU banks recover 14 pc of written-off loans in last 5 years: Nirmala Sitharaman**

Public sector banks could recover only 14 per cent of the written-off loans worth Rs 7.34 lakh crore in the last five years ending March 2022, Parliament was informed on Tuesday. Of Rs 7.34 lakh crore written-off loans, state-owned lenders recovered Rs 1.03 lakh crore, Finance Minister Nirmala Sitharaman said in a written reply to the Rajya Sabha.

So after recovery, net written-off stood at Rs 6.31 lakh crore in the last five years.

Replying to another question, the finance minister said non-performing assets (NPAs), including, those in respect of which full provisioning has been made on completion of four years, are removed from the balance-sheet of the bank concerned by way of write-off as per RBI guidelines and policy approved by bank boards.

Banks evaluate/consider the impact of write-offs as part of their regular exercise to clean up their balance sheets, avail tax benefits and optimise capital, in accordance with RBI guidelines and policy approved by their boards, she said.

Such write-off does not result in waiver of liabilities of borrowers to repay, she said.

As borrowers of written-off loans continue to be liable for repayment and the process of recovery of dues from the borrower in written-off loan accounts continues, write-off does not benefit the borrower, she said.

Banks continue to pursue recovery actions initiated in written-off accounts through various recovery mechanisms available, such as filing of a suit in civil courts or in Debts Recovery Tribunals, action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, she said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/psu-banks-recover-14-pc-of-written-off-loans-in-last-5-years-nirmala-sitharaman/articleshow/99064679.cms

- **Our banking system stable, resilient: Das**

Amid the banking sector turmoil, India's banking system continues to remain resilient and stable, Reserve Bank of India Governor Shaktikanta Das said Friday.

Das, however, cautioned lenders against build up of any asset-liability mismanagement and asked them to keep conducting internal stress tests to ensure proper risk assessment.

"We have been engaging with the banks over the last several years and I am happy to report that the way the Indian banking system has evolved and the way it is positioned today, the Indian banking system continues to be resilient and stable," Das said in a lecture in Kochi.

Without mentioning the name of Silicon Valley Bank (SVB) and Signature Bank, Das said that recent developments in the US banking system has brought to the fore the criticality of the banking sector regulation and supervision. These are areas that have a significant impact on preserving the financial stability of every country.

"More specifically, these developments in the banking system of the US, especially over the last one week and thereafter, drive home the importance of ensuring prudent asset-liability management, robust risk management and sustainable growth in liabilities and assets, undertaking periodic stress tests and building up critical buffers for any unanticipated future stress," the Governor said.

Source: https://indianexpress.com/article/business/banking-and-finance/our-banking-system-stable-resilient-das-8504051/

- **RBI likely to pause in April as inflation expected to moderate: Analysts**

Reserve Bank of India (RBI) is likely to keep repo rate unchanged at 6.5 per cent in its April monetary policy on expectation of moderation in inflation going ahead, worsening global outlook and weaker domestic demand in the next financial year, say analysts.

With an expectation of lower inflation and growth, the RBI may start reducing the repo rate from October this year, they said.

The consumer price-based inflation (CPI) slightly eased to 6.44 per cent in February from 6.52 per cent in January. It, however, remained over the upper band of the RBI's comfort zone of 2-6 per cent. The core inflation, which has remained sticky in the last few months, eased to 6.1 per cent from 6.2 per cent.

"In contrast to consensus expectations of a 25 basis points (bps) hike, we expect the RBI to remain on hold in April owing to – the benign forward inflation profile; lagged monetary policy effects; worsening US financial/economic outlooks; and weaker domestic demand outlook in FY24. We assign a higher probability to a pause (80 per cent) than to a 25bps hike (20 per cent)," Nomura said in a research report.

The Reserve Bank of India (RBI) has raised repo rate cumulatively by 250 basis points since May 2022 to rein in inflation.

Source: https://indianexpress.com/article/business/banking-and-finance/rbi-likely-to-pause-in-april-as-inflation-expected-to-moderate-analysts-8497367/

- **Indian equity markets fall as crisis in US banking sector raises concern**

The domestic equity markets crashed around 1.5 per cent on Monday tracking a fall in global markets as the collapse of Silicon Valley Bank (SVB) and Signature Bank raised concerns over the health of the US banking system.

The 30-share BSE Sensex tanked 1.52 per cent, or 897.28 points, to close at 58,237.85. After opening up, Sensex plummeted 1,040.58 points during the intraday trades. The broader NSE Nifty fell 1.49 per cent, or 258.6 points to 17,154.3.

"Downward spiral continued in a highly volatile charged trading session due to weakness in the US and European markets. Investors once again exited financial stocks on worries that the collapse of US-based SVB could worsen the overall mood already reeling under rising interest rates and slowing global growth," Kotak Securities Ltd Head of Equity Research (Retail) Shrikant Chouhan said.

According to Geojit Financial Services' Head of Research Vinod Nair the bloodbath was seen in the global market as the fallout of Silicon Valley Bank was followed by turmoil at Signature Bank, keeping investors worried about the strength of the US banking system.

The sell off in the global market was seen even as the US authorities stepped in to protect the interest of depositors and provide access to credit to households and businesses.

Source: https://indianexpress.com/article/business/banking-and-finance/indian-equity-markets-fall-as-crisis-in-us-banking-sector-raises-concern-8495055/

- **Banking system liquidity turns surplus on higher deposit growth, govt spending**

The banking system liquidity has become surplus in the last few days on higher deposit accretion and increase in the government spending.

The Reserve Bank of India (RBI) absorbed on an average Rs 70,933.8 crore of liquidity from the system on a daily basis between February 28 and March 7. The net liquidity absorption by RBI stood at Rs 1.14 lakh crore on March 5 and Rs 1.05 lakh crore on March 4.

While the net absorption number shows the surplus liquidity which is being sucked out of the system by RBI, net injection reflects the deficit. Liquidity in the banking system refers to the readily available cash that banks need to meet short-term business and financial needs.

"Essentially, it (liquidity surplus) is because of the deposits which have started increasing due to rise in interest rates. At the same time, there is some kind of slowdown in credit demand," Bank of Baroda Chief Economist Madan Sabnavis said.

Many banks have increased their deposit rates after the RBI raised the repo rate by 250 basis point (bps) to 6.50 per cent since May 2022.

The weighted average domestic term deposit rate (WADTDR) on outstanding rupee term deposits of scheduled commercial banks increased by 12 basis points from 5.78 per cent in December 2022 to 5.9 per cent in January 2023, the latest RBI data showed.

Source: https://indianexpress.com/article/business/banking-and-finance/banking-system-liquidity-turns-surplus-on-higher-deposit-growth-govt-spending-8486123/

SELECT RBI CIRCULARS MARCH 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2022-2023/190 CO.DPSS.RPPD.No.S2185/ 03-01-002/2022-2023	29.3.2023	Department of Payment and Settlement Systems	Special Clearing Operations on March 31, 2023	The Chairman and Managing Director/ Chief Executive Officer All Scheduled Commercial Banks including Regional Rural Banks/ Urban Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks/ Local Area Banks/ Payment Banks/ Small Finance Banks/ National Payments Corporation of India
RBI/2022-2023/189 DOR.CAP.REC. No.109/ 09.18.201/2022-23	29.3.2023	Department of Regulation	Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy	All Primary (Urban) Co-operative Banks
RBI/2022-2023/188 DOR.RET.REC.108/ 12.07.160/2022-23	27.3.2023	Department of Regulation	Cessation of "Abu Dhabi Commercial Bank PJSC" as a banking company within the meaning of sub section (2) of Section 36 A of Banking Regulation Act, 1949	All Banks
RBI/2022-2023/187 DOR.RET.REC.107/ 12.07.160/2022-23	27.3.2023	Department of Regulation	Exclusion of "Abu Dhabi Commercial Bank PJSC" from the Second Schedule to the Reserve Bank of India Act, 1934	All Banks
RBI/2022-2023/186 CO.DGBA.GBD.No.S1490/ 42-01-029/2022-2023	21.3.2023	Department of Government and Bank Accounts	Annual Closing of Government Accounts – Transactions of Central / State Governments – Special Measures for the Current Financial Year (2022-23)	All Agency Banks
RBI/2022-2023/185 DOR.AML.REC.106/ 14.06.001/2022-23	17.3.2023	Department of Regulation	Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments to 102 entries	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/184 DGBA.GBD.No.S1469/ 42-01-029/2022-2023	16.3.2023	Department of Government and Bank Accounts	Reporting and Accounting of Central Government transactions for March 2023	All Agency Banks

STATISTICAL SUPPLEMENT – RBI

Date : March, 2023

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract

1. Reserve Bank of India - Liabilities and Assets*

(₹ Crore)

Item	2022	2023		Variation	
	Mar. 18	Mar. 10	Mar. 17	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	-	-	-	-	-
4.2 State Governments	3343	736	8189	7453	4846

** Data are provisional*

2. Foreign Exchange Reserves

Item	As on March 17, 2023		Variation over					
			Week		End-March 2022		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	4727502	572801	132910	12798	128684	-34508	28181	-46877
1.1 Foreign Currency Assets #	4170825	505348	110662	10485	76260	-35376	-27791	-48308
1.2 Gold	364051	44109	20091	2187	41838	1558	45466	2099
1.3 SDRs	150366	18219	1692	98	7314	-673	7302	-647
1.4 Reserve Position in the IMF	42261	5125	466	29	3272	-18	3204	-22

** Difference, if any, is due to rounding off*

 # Excludes (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC Currency swap arrangements

3. Scheduled Commercial Banks - Business in India						
(₹ Crore)						
Item	Outstanding as on March 10, 2023	Variation over				
		Fort-night	Financial year so far		Year-on-year	
			2021-22	2022-23	2022	2023
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	17958357	96503	1163173	1493044	1320881	1681671
2.1a Growth (per cent)		0.5	7.7	9.1	8.8	10.3
2.1.1 Demand	2119169	-31562	43502	46422	208332	214474
2.1.2 Time	15839188	128065	1119671	1446622	1112549	1467197
2.2 Borrowings	451775	-15170	41497	177181	42234	166253
2.3 Other Demand and Time Liabilities	808273	45324	-9948	167425	9349	161613
7 Bank Credit*	13548668	98400	865054	1657354	1018744	1836327
7.1a Growth (per cent)		0.7	8.0	13.9	9.5	15.7
7a.1 Food Credit	28278	-6998	-347	-26732	-8285	-32629
7a.2 Non-food credit	13520390	105398	865400	1684086	1027029	1868956

**Bank credit growth and related variations from December 3, 2021 to November 18, 2022 are adjusted for past reporting errors by select scheduled commercial banks (SCBs)*

4. Money Stock: Components and Sources

(₹ Crore)

Item	Outstanding as on		Variation over									
	2022	2023	Fortnight		Financial Year so far				Year-on-Year			
					2021-22		2022-23		2022		2023	
	Mar. 31	Mar. 10	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	20493729	22223755	121336	0.5	1434397	7.6	1730025	8.4	1665160	8.9	1944780	9.6
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3035689	3258093	26269	0.8	267051	9.7	222404	7.3	259407	9.4	239214	7.9
1.2 Demand Deposits with Banks	2212992	2258867	-33714	-1.5	48952	2.5	45876	2.1	224988	12.4	214795	10.5
1.3 Time Deposits with Banks	15186605	16642532	128648	0.8	1114065	7.9	1455928	9.6	1174881	8.4	1478189	9.7
1.4 'Other' Deposits with Reserve Bank	58444	64262	133	0.2	4329	9.1	5818	10.0	5884	12.8	12582	24.3
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	6477629	6979997	125751	1.8	489551	8.4	502368	7.8	508811	8.7	640072	10.1
2.1.1 Reserve Bank	1450596	1291301	74776	6.1	194799		-159296		223994		-3184	
2.1.2 Other Banks	5027033	5688697	50975	0.9	294752	6.2	661664	13.2	284816	6.0	643256	12.7
2.2 Bank Credit to Commercial Sector	12616520	14293607	105240	0.7	752610	6.4	1677087	13.3	1069366	9.4	1872531	15.1
2.2.1 Reserve Bank	16571	18719	6190		-6623		2149		-6425		16633	
2.2.2 Other Banks	12599950	14274888	99050	0.7	759233	6.5	1674938	13.3	1075791	9.5	1855898	14.9

5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Out-right)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Mar. 13, 2023	–	–	–	–	434	189447	–	–	–	-189013
Mar. 14, 2023	–	–	–	–	477	220883	–	–	–	-220406
Mar. 15, 2023	–	–	–	–	730	136008	245	–	–	-135033
Mar. 16, 2023	–	–	–	–	8664	83383	417	–	–	-74302
Mar. 17, 2023	–	–	–	–	3811	66641	1514	20	–	-61336
Mar. 18, 2023	–	–	–	–	799	24196	–	–	–	-23397
Mar. 19, 2023	–	–	–	–	47	6449	–	–	–	-6402

SDF: Standing Deposit Facility; MSF: Marginal Standing Facility

TOP NBFC & MICRO FINANCE INSTITUTIONS NEWS

- **Reserve Bank of India cancels Certificate of Registration of 17 NBFCs**

Some of the NBFCs whose CoR got cancelled include Dhanbad Properties Private Limited, Soorya Vanijya & Investment Ltd., Jainex India Limited., Jayam Vyapaar Pvt Ltd, and JM Holdings Pvt Ltd, among others.

The Reserve Bank of India on March 10, 2023, said it has cancelled the Certificate of Registration (CoR) of 17 Non-Banking Financial Companies (NBFCs).

"17 Non-Banking Financial Companies have surrendered the Certificate of Registration (CoR) granted to them by the Reserve Bank of India (RBI)," the central bank said.

India's central bank further noted that in the exercise of powers conferred on it under Section 45-IA (6) of the Reserve Bank of India Act, 1934, it has therefore cancelled the NBFCs' CoR.

Some of the NBFCs whose CoR got cancelled include Dhanbad Properties Private Limited, Soorya Vanijya & Investment Ltd., Jainex India Limited., Jayam Vyapaar Pvt Ltd, and JM Holdings Pvt Ltd, among others.

Source: https://www.moneycontrol.com/news/business/reserve-bank-of-india-cancels-certificate-of-registration-of-17-nbfcs-10229391.html

- **Co-lending pacts between NBFCs gaining traction**

These include segments like home loans, two-wheeler loans, commercial vehicle loans, microfinance loans, gold loans and MSME loans. We are seeing bank-NBFC co-lending arrangements as well as NBFC-NBFC co-lending tie-ups," he added.

More non-banking financial companies (NBFC) are likely to enter into co-lending partnerships with peers at a time when the gap between larger lenders and their smaller peers has grown wider."Co-lending volumes should increase in the days ahead. The model is a win-win for both entities — the originator or smaller entity and the primary funder or larger entity. For the smaller entities, it is a capital-efficient or a funding-light model of growth. On the other hand, it helps the larger entities lower their turnaround time and operating expenses for reaching out to newer geographies," Krishnan Sitaraman, senior director & deputy chief ratings officer, Crisil Ratings, said."We are seeing co-lending gaining traction across asset classes on the retail side.

These include segments like home loans, two-wheeler loans, commercial vehicle loans, microfinance loans, gold loans and MSME loans. We are seeing bank-NBFC co-lending arrangements as well as NBFC-NBFC co-lending tie-ups," he added.

Recently, gold loan company Muthoot Finance disclosed that it is considering co-lending arrangements with other NBFCs to mitigate stiff competition from banks. "While (co-lending partnerships) are just in a proposal stage, we are scouting for opportunities," Muthoot Finance MD George Alexander Muthoot told FE in a statement.

Such partnerships will enable larger entities to lend to customers in wider geographies and give smaller entities access to funds at a lower cost, say experts. "Non-bank lenders can be categorised into the various segments. Those promoted by large business houses with large origination capacity; those promoted by large business houses and with moderate origination capacity; those promoted by large business houses having origination capacity but with room and appetite for further growth; those promoted by large business houses that have limited capital and limited capacity to leverage the capital, but good quality asset origination capacity," Kishore Lodha, chief financial officer, U GRO Capital, said.

Source: https://www.financialexpress.com/industry/banking-finance/co-lending-pacts-between-nbfcs-gaining-traction/3012409/

- **NBFCs likely to rely more on bank borrowing, other funding routes**

  Non-banking financial companies (NBFCs) may have to rely more on bank borrowings and other funding sources as the latest change in rules could slow the pace of mutual fund investment in debt instruments issued by NBFCs.

  These lenders will tap other funding avenues like non-convertible debenture issues, bank borrowings and alternative investment funds, say experts.

  "NBFCs have a well-diversified borrowing mix, with borrowings from MFs constituting 5-7%, which can be replaced by other forms of borrowings. In fact, over a medium term, more money can directly flow to corporate bonds instead of the MF route," Abhay Bhutada, managing director, Poonawalla Fincorp, said.

  On Friday, the government announced that the indexation benefit for investments into debt mutual funds held for over three years would be removed from April 1. This is expected to result in a lower post-tax return for investors, lowering their motivation to hold money in debt funds for longer durations, which may dent the demand for such funds, say experts.

  "To attract more investors to debt funds, higher returns may be necessary, but this could lead to an increase (could be up to 50 bps) in borrowing costs for NBFCs. This may result in a demand-supply mismatch for those lenders," Parry Singh, founder and chief executive officer, Red Fort Capital, said. "Overall, the reduction in liquidity in debt mutual funds could have varying effects on the borrowing costs of NBFCs, depending on factors such as creditworthiness, availability of credit from other sources and the current interest rate environment."

  Source: https://www.financialexpress.com/industry/banking-finance/nbfcs-likely-to-rely-more-on-bank-borrowing-other-funding-routes/3025074/

- **Finance bill 2023: Manageable impact on NBFCs**

  Amendments to the Finance Bill 2023 were passed by the government last week, with the removal of the long-term capital gains (LTCG) tax benefit from debt MFs being a major highlight. This change could impact flows into mid-to longer-duration schemes, which currently have around Rs 6 trn in AUM. Additionally, the funding of corporate bonds by debt MFs could also see some negative impact, as they currently account for around 10-11% of total corporate bond funding. While this change is expected to have a negative impact on NBFCs, it should be manageable. Bonds represent only 36% of NBFCs' borrowings, and the exposure of debt MFs to NBFC bonds has decreased following the IL&FS crisis. Currently, debt MFs fund only around 15% of NBFC bonds. However, certain NBFCs such as Chola Investment & Finance (CIFC) and Mahindra Finance (MMFS) have higher borrowings from MFs, although this includes commercial papers as well.

  As per the amendment, MFs with less than 35% invested in equities will be taxed as short term capital gains based on income tax slab levels w.e.f April 1, 2023. Indexation benefit on debt MFs will be removed. At present investments in debt MFs over 3 years is treated as long term capital gains and taxed at 20% with indexation benefits.

  Inflows to mid-longer duration debt MFs could moderate as removal of taxation-related benefit of pure debt MFs reduces its attractiveness vs. FDs. Retail/HNI flows to debt MFs may see some shift to FDs, but corporates may still prefer investing in debt MFs over FDs due to better liquidity and return expectations. Preference for more liquid NCDs due to uncertainty around holding period of debt MF investors could also affect credit spreads.

Corporate bonds account for nearly 36% of NBFC/HFC borrowings, but debt MF investment in NBFC/HFCs have reduced materially. We estimate debt MFs funds 15% of NBFC/HFCs NCDs. Within our coverage, CIFC (10% of borrowings) and MMFS (8% of borrowings) have higher share of borrowings from MFs, though note this also includes investments in CPs (CIFC 6% of borrowings, MMFS c.1% of borrowings) which should not be affected by the tax norm change.

Source: https://www.financialexpress.com/market/finance-bill-2023-manageable-impact-on-nbfcs/3023924/

- **NBFCs expect up to 30 bps rise in borrowing cost in FY24**

Non-banking finance companies are expecting up to 30 basis points rise in their borrowing cost in next financial year as they expect the Reserve Bank of India to hike repo rate in its April Monetary Policy Committee meeting by 25 basis points, industry players said.

While the non-banking finance companies (NBFCs) will be able to pass on the rate hike to borrowers in case of external benchmark-linked loans, they will struggle passing the same in fixed rate loan products such as vehicle and MSME loans, they add.

…For the mid-sized non-banking financial institutions, borrowing cost may go up between 10 bps-25 bps at the aggregate level in FY24. The direct borrowing cost is marginally higher when you are borrowing from primary market," says Jugal Mantri, executive director and chief executive officer at Anand Rathi Global Finance.

"Similarly, if you are having back-to-back line of credit, any change in the repo rate will have direct consequences for non-bank lenders who avail bank loans," he added.

In its FY24 outlook for the NBFC industry, India Ratings & Research had said that till now there has been a stable funding environment for the NBFCs due to efforts undertaken by the RBI and the Centre.

The NBFCs migrated to bank loans for funding on account of hardening of bond yields. However, now that the marginal cost of funds-based lending rate has also moved up, the NBFCs have started mobilising funds from capital markets.

Source: https://www.financialexpress.com/industry/banking-finance/nbfcs-expect-up-to-30-bps-rise-in-borrowing-cost-in-fy24/3000335/

- **Chinese loan app case: ED files chargesheet against Razorpay, fintech firms, NBFCs**

The Enforcement Directorate Friday said it has filed a charge sheet against payment gateway Razorpay, three fintech companies controlled by Chinese nationals and as many NBFCs and some others in a money laundering probe linked to Chinese loan apps which allegedly cheated numerous people.

The federal probe agency said in a statement that the special Prevention of Money Laundering Act (PMLA) court based in Bengaluru has taken cognisance of the prosecution complaint (chargesheet).

A total of seven entities and five individuals have been named as accused in the charge sheet.

The accused entities include fintech companies Mad Elephant Network Technology Private Limited, Baryonyx Technology Private Limited and Cloud Atlas Future Technology Private Limited which are "controlled" by the Chinese nationals and three non-banking financial companies (NBFCs) registered with RBI named X10 Financial Services Private Limited, Track Fin-ed Private Limited and Jamnadas Morarjee Finance Private Limited.

Payment gateway Razorpay Software Private Limited has also been named in the charge sheet as an accused, the agency said.

The money laundering case of the ED stems from multiple FIRs of the Bengaluru Police CID which were filed based on complaints received from

various customers who had availed loans and "faced harassment" from the recovery agent of these money-lending companies.

Source: https://economictimes.indiatimes.com/tech/technology/chinese-loan-app-case-ed-charge-sheet-against-razorpay-fintech-firms-nbfcs-on-money-laundering-charges/articleshow/98733342.cms

- **PSU NBFC stock falls 4% after board okays Rs 1.2 lakh crore market borrowing programme**

Shares of state-owned NBFC firm REC fell nearly 4% to Rs 121.2 in Friday's intraday trade on BSE after the company approved a Rs 1,20,000 crore market borrowing programme for 2023-24.

"The board of directors of REC in its meeting held on March 9, 2023, inter-alia approved the market borrowing programme under different debt instruments for the financial year 2023-24," the company said in a BSE filing.

"REC will borrow Rs 1.2 lakh crore from the market during 2023-24, which includes various types of bonds and loans (Rs 1.05 lakh crore), short-term loans (Rs 10,000 crore) and commercial papers (Rs 5,000 crore)," the firm said.

"The proposed borrowing programme for the financial year 2023-24 will be raised for different maturities, through different instruments, depending upon the actual requirement of funds, asset-liability position and prevailing market conditions," it added.

At 10.37 am, the scrip was trading 2.6% lower at Rs 122.8 over its last day's closing price of Rs 126.1 per share. The stock has risen over 16% in the last six months, while it has surged over 32% in the last 12 months.

As per Trendlyne data, the highest target price for the stock goes up to Rs 180, while the average target price estimate is Rs 163.5, which shows an upside potential of 33% from the current market prices. The consensus recommendation from five analysts for the stock is a strong buy.

Technically, the stock is trading above 8 out of 8 SMAs (simple moving average).

Source: https://economictimes.indiatimes.com/markets/stocks/news/psu-nbfc-stock-falls-4-after-board-okays-rs-1-2-lakh-crore-market-borrowing-programme/articleshow/98535196.cms

TOP INSURANCE NEWS

- **Life insurance sector expects demand surge for products**

  The country's life insurance industry expects insurance products in the savings and investment category to see a surge in demand after the government's decision to remove long-term tax benefits for debt funds.

  Life insurers feel they would derive benefits from the change in taxation norms of debt mutual funds, as investors are likely to move money from mutual fund debt schemes to insurance products in order to avail tax benefits.

  "The opportunities created by recent government decisions are a welcome development. Life insurance companies will benefit from the decision to change the tax treatment on debt funds. A shift is expected from mutual funds debt schemes, which will no longer have indexation benefits, towards ULIPs of less than Rs 2.5 lakh. This would be advantageous for the life insurance industry," IndiaFirst Life Insurance deputy CEO Rushabh Gandhi told FE.

  A person allocates his/her investment portfolio among different investment instruments, such as equity, fixed income, insurance, gold and real estate, among others. The allocation towards life insurance is expected to increase at the cost of some other fixed income investment options.

  "ULIPs with premium below Rs 2.5 lakh and traditional policies with premium below Rs 5 lakh are expected to see a surge in demand," Gandhi added.

  Source: https://www.financialexpress.com/money/insurance/life-insurance-sector-expects-demand-surge-for-products/3021679/

- **How motor insurance premium varies for electric vehicles vs fuel-based vehicles**

  Electric vehicles (EVs) are a determining force of green mobility. A recent study by the Council on Energy, Environment and Water indicated that Delhi has the highest rate of EV adoption at 8.3% (between April 2021 and September 2022). This appeal isn't limited to metro cities; the adoption is seeping into smaller cities as well.

  But EV embracement is not without its blind spots and doubts. A common question is whether motor insurance differs for an EV as compared to a fuel-based vehicle? Since motor insurance is a mandate by law, EVs are no exception to the rule and it is critical to know about insurance terms. Here's a lowdown on how your premium changes for both kinds of vehicles.

  Does the choice of engine impact your premium?

  Yes. The make of the engine has a direct impact on premium. Fuel-based cars with a higher cubic capacity will have higher third-party rates as compared to those with a lower capacity. But EVs don't have an internal combustion engine. They have an electric motor functioning as the engine. For this reason, the same classification of cubic capacity does not hold relevance. So, how is the premium for EVs determined? Instead of cc, it's kW or kilowatts that are the deciding factor for EV premium

  Is it costlier to insure your EV?

  The answer is not so straightforward. Let's break this down.

  Discounted premium: Third-party insurance is a lawful mandate that applies to EVs and fuel-based vehicles alike. The only difference is that in a bid to promote green mobility through EVs, the IRDAI has provided 15% discount on premium for motor insurance on EVs. In reality, it translates to around Rs 1,700 third-party premium for an EV less than 30 kW and around Rs 6,700 for EVs above 65 kW, while the cost comes to Rs 2,700 for EVs with 30-65 kW.

  If we talk about fuel-based cars, here's how the figures differ. Costlier cars like SUVs and luxury sedans with a cubic capacity above 1,499 cc have

a third-party premium of Rs 7,897 plus tax, while the premium for hatchbacks with engine capacity lower than 1,000 cc is Rs 2,100 plus taxes.

Source: https://www.financialexpress.com/money/insurance/how-motor-insurance-premium-varies-for-electric-vehicles-vs-fuel-based-vehicles/3015166/

- **Three new health plans by Digit Insurance: Get worldwide coverage, unlimited sum insured**

Go Digit General Insurance has launched three new plans under Digit Health Insurance policy. The three plans — Digit Double Wallet plan, Digit Infinity Wallet plan, and Digit Worldwide Treatment plan — will cater to the newly-evolved health insurance needs of Indians post the pandemic, the company said in the statement.

The insurer said that under Infinity Wallet and Worldwide Treatment plan, for every claim-free year, policyholders will be able to earn 50% of the sum insured as cumulative bonus up to a maximum of 100% of the SI.

All three plans will have no cap on room rent or type and ICU. Also, customers will be able to avail treatment in thousands of cashless network hospitals under its quick in-house claim settlement process.

Infinite Sum Insured with Digit Infinity Wallet Plan:

1. Double Sum Insured with Digit Double Wallet Plan
2. Freedom of Treatment anywhere in the world with Digit Worldwide Treatment

The Digit Worldwide Treatment plan will give people the freedom to get treated anywhere in the world, including India. Customers if diagnosed with an illness in India can plan their treatment abroad.

"Our plans and processes succeed by just following their demands. We hope to improve health insurance penetration in India with these plans as people will no longer be restricted by where and how they want to get treated," said Vivek Chaturvedi, CMO and Head of Direct Sales, Go Digit General Insurance.

Source: https://www.financialexpress.com/money/insurance/three-new-health-plans-by-digit-insurance-get-worldwide-coverage-unlimited-sum-insured/3011109/

- **Insurers to be allowed to offer allied services**

Insurers may be able to offer assorted allied services to customers as part of the proposed amendments to the Insurance Act, 1938. For instance, gym membership may come with a health insurance policy and motor repair services may be offered to those who take vehicle insurance.

According to sources close to the development, the amendments to the Insurance Act and the IRDA Act have been finalised and will be taken to the Cabinet soon. Though the timing of their introduction in Parliament is still not decided, they could be taken up in the current session of Parliament.

"Concerns by industry players on composite license have also been addressed and the provision will remain. The work on the Bill has been completed and there are no major revisions from what was put in the public domain for consultation," said a source close to the development, adding that the amendments could be taken up for approval by the Union Cabinet later this month.

A new provision is proposed to be inserted as part of the amendment that would allow insurers to provide services "related or incidental to insurance business" and may also distribute other financial products as specified by and subject to regulations.

"At present, these services are provided in partnership with another company but now insurers may be able to offer them directly. For instance, a health insurer could offer gym membership while a general insurer could provide garage services to their customers. This would be an additional source of revenue and would also ensure that claims are in check," said the source.

Source: https://www.financialexpress.com/money/insurance/insurers-to-be-allowed-to-offer-allied-services/3011055/

- **How India's Unicorns are raising the bar when it comes to employee health benefits**

  India's Unicorns are not just creating new employment opportunities and contributing to the country's economy but also raising the bar when it comes to providing health benefits to their employees.

  According to a study by Plum, the median sum insured offered to employees by unicorns is Rs 5 lakh. In contrast, the median sum insured offered by startups is just Rs 3 lakh while most of the high-growth companies are offering only up to Rs 4 lakh median sum insured to their employees. However, most mature-stage companies are also offering up to Rs 5 lakh sum insured to their employees.

  Unicorns are also offering better maternity benefits. The report says that 96% of unicorns are offering maternity benefits and the average maternity cover for normal deliveries is Rs 81,000.

  In terms of holistic health benefits, 16% of unicorns in India are offering OPD coverage. In comparison, less than 2% of Indian companies are offering this benefit to their employees.

  Around 30% of unicorns are also providing comprehensive health benefits, including Health Insurance, Personal Accident and Disability Cover, Term Life Insurance, and Telehealth consultations.

  Among the unicorns, SaaS companies are offering better health benefits to their employees than Fintech and E-commerce companies. The average sum insured offered by SaaS companies is Rs 7.3 lakh while the average sum insured offered by Fintech and E-commerce companies are Rs 5 lakh and Rs 4.7 lakh respectively.

  Fifty per cent of SaaS companies are also offering OPD cover while only 25% of Fintech companies are offering this benefit. In the case of E-commerce companies, OPD cover is provided by none.

  Source: https://www.financialexpress.com/money/insurance/how-indias-unicorns-are-raising-the-bar-when-it-comes-to-employee-health-benefits/3011579/

- **IRDAI removes commission cap for insurance agents; replaces it with company-wide limit**

  Insurance Regulatory and Development Authority of India (IRDAI) has removed the cap on commission payments to agents, aggregators and brokers. According to new rules the earlier cap on commission payments is now replaced with an overall cap on expenses of management of insurers.

  "The IRDAI regulatory changes are good for customers and the insurance industry, i.e., the revised Expenses of Management (EOM) and Commission limits for the industry. We firmly believe that the shift from product level commissions to a company-wide limit of expenses, as proposed through the proposed regulations, will ensure parity across varying business models while rendering greater flexibility in managing expenses for insurers," said Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance.

  Anil Kumar Aggarwal, MD and CEO at Shriram General insurance agreed, "The regulatory change is an eagerly awaited and path-breaking reform by IRDAI. The removal of the cap on commission payments will positively impact the insurance sector. It will facilitate greater product innovation, development of new product distribution models and lead to more customer-centric operations. It will also increase insurance penetration and provide flexibility to insurers in managing their expenses. Overall, it will smoothen adherence to compliance norms."

  Earlier in 2022 IRDAI proposed a 20 per cent limit on agents' commission in an 'Exposure Draft.

  Singhel added," Moreover, with the majority of the insurers above the prescribed norms of expenses and with the industry reeling with a combined ratio of more than 118%, these EOM limits will help in bringing cost discipline and take the industry in the right direction of prudency and profitability. This should hence translate into better pricing and products for customers in the medium to long term. The revised regulations also provides for an extra expense allowance

for Insurtech expenses, spends on insurance awareness, and rural and social schemes of the government, all of which are targeted towards the IRDAI's overall objective of enhancing penetration and ease of doing business. The industry hence welcomes this change with open arms."

Source: https://www.businesstoday.in/personal-finance/insurance/story/irdai-removes-commission-cap-for-insurance-agents-replaces-it-with-company-wide-limit-375194-2023-03-28

- **Insurance plans in high demand; non-Ulip plans going to be taxable from April 1**

The insurance policies (excluding Unit Linked Insurance Plans or Ulip) with cumulative annual premiums exceeding Rs 5 lakh will become taxable from April 1, 2023, as per the budget proposals. This has led to a surge in demand for non-Ulip policies, particularly guaranteed plans.

"People are using this opportunity because this is the last month to deploy a part of their savings toward tax-saving vehicles, and this is for non-par and par policies with premiums more than Rs 5 lakh. So, we are seeing that trend," said Prashant Tripathy, Managing Director and CEO, Max Life Insurance Company.

Vivek Jain, Head of Investments Business, Policybazaar.com concurred: "At Policybazaar, we are especially seeing increased traction for guaranteed return plans. To avoid getting taxed under Section 10 (10D) after the deadline, it is recommended to purchase a guaranteed return plan now and lock in the tax-free maturity amount for the future."

Apart from the tax advantage the guaranteed plans have become popular because of the ability to lock in a high interest rate for the next 20, 25, 30 years, especially when one expects interest rates to fall. The post tax return from such plans is 6-6.5 per cent per annum.

Jain explained: "For instance, if you invest rupees Rs 12 lakh annually for 5 years then in 10 years, your maturity amount will be Rs 1.03 crore. Today, this entire maturity amount will be absolutely tax exempted under Section 10(10D). While, if you invest the same amount after March 31, then this maturity amount will be taxable and you will only make Rs 86 lakh, assuming that you fall in the highest tax slab."

Guaranteed plans offer capital protection where policyholders can choose to receive the payout in the form of a lump sum or regular income for a certain number of years. The return from these policies is around 6-6.5 per cent, which gets fixed at the time of buying the policy and remains the same throughout the tenure of the policy. HDFC Life's Sanchay Plus is among one of the popular plans in the market, which offers guaranteed payouts for different tenures.

Source: https://www.businesstoday.in/personal-finance/insurance/story/insurance-plans-in-high-demand-non-ulip-plans-going-to-be-taxable-from-april-1-374265-2023-03-21

TOP CORPORATE BOND MARKET NEWS

- **India's $1 trillion sovereign bond market sees rising clout of insurers**

The growing wealth of India's public is leading to a crucial shift in its $1 trillion sovereign bond market.

Their savings — channeled through life insurers, provident and pension funds — are increasingly getting plowed into long-term debt, leading to a structural change in the costs of borrowing for Prime Minister Narendra Modi's government.

India's yield curve has flattened markedly as the insurers and pension funds snapped up 10-to-40 year debt, with HDFC Life Insurance Ltd. saying that market participants are asking the central bank to sell more longer-dated bonds. Their growing footprint mean that the state will be less reliant on banks over time, while reducing anxiety among traders over how Modi's infrastructure-building spree will be funded.

"Insurance companies have been one of the key investors in long-maturity bonds," said Badrish Kulhalli, head of fixed-income at HDFC Life. "As the penetration and reach of distribution channels increase, we expect that the growth in the sales of the traditional products to continue to grow, and consequently the demand for long-maturity bonds."

The change has been incremental, with insurers owning 26% of government bonds at the end of December, up from 22% in 2010, according to finance ministry data. Their presence is likely understated thanks to the popular use of a derivative trade, worth $19 billion by some estimates, which masks purchases.

But, their rising heft was visible in recent bond auctions in the fiscal year ending March, where longer-dated debt priced at lower yields than shorter-maturity paper. The gap between the 10-year benchmark and its two-year equivalent has almost disappeared for the first time since 2017.

Source: https://www.business-standard.com/markets/news/india-s-1-trillion-sovereign-bond-market-sees-rising-clout-of-insurers-123032800156_1.html

- **2-year Treasury yield has biggest three-week decline in 35 years as traders assess latest signs of bank stress**

Two- and 10-year Treasury yields fell on Friday, posting weekly declines, as investors focused on fresh signs of stress in the financial sector.

Meanwhile, one policy maker, St. Louis Fed President James Bullard, said lower yields may offset some of the negative fallout from the banking sector.

What happened

The yield on the 2-year Treasury TMUBMUSD02Y, 4.018% fell 3.1 basis points to 3.777% from 3.808% on Thursday. For the week, it was down 6.9 basis points. It has fallen 108.2 basis points over the past three weeks, its biggest decline for such a length of time since the period that ended Nov. 6, 1987, according to 3 p.m. data from Dow Jones Market Data.

The yield on the 10-year Treasury TMUBMUSD10Y, 3.543% declined 2.7 basis points to 3.379% from 3.406% as of Thursday afternoon. The rate fell 1.6 basis points this week. It has dropped 58.3 basis points over the last three weeks, the biggest three-week plunge since the period that ended March 6, 2020.

The yield on the 30-year Treasury TMUBMUSD30Y, 3.760% was 3.642%, down 4 basis points from 3.682% late Thursday. It rose 4.2 basis points this week, the largest weekly gain since the period that ended Feb. 24.

What drove markets

Deutsche Bank shares DBK, 1.45% dropped 8.5% in Frankfurt trade, putting the health of another

systemically important bank in the spotlight. Deutsche Bank's contingent convertible bonds, or AT1 securities, have dropped sharply in value since Switzerland's government wiped out similar debt at Credit Suisse as part of the deal for the Swiss bank to be taken over by UBS UBS, -0.67%..

Source: https://www.marketwatch.com/story/bond-yields-drop-as-traders-assess-latest-signs-of-bank-stress-1298fb15?mod=bonds

- **India's $1 trillion bond market sees growing share of retirement savings**

The growing wealth of India's public is leading to a crucial shift in its $1 trillion sovereign bond market.

Their savings – channeled through life insurers, provident and pension funds – are increasingly getting plowed into long-term debt, leading to a structural change in the costs of borrowing for Prime Minister Narendra Modi's government.

India's yield curve has flattened markedly as the insurers and pension funds snapped up 10-to-40 year debt, with HDFC Life Insurance Ltd. saying that market participants are asking the central bank to sell more longer-dated bonds. Their growing footprint mean that the state will be less reliant on banks over time, while reducing anxiety among traders over how Modi's infrastructure-building spree will be funded.

"Insurance companies have been one of the key investors in long-maturity bonds," said Badrish Kulhalli, head of fixed-income at HDFC Life. "As the penetration and reach of distribution channels increase, we expect that the growth in the sales of the traditional products to continue to grow, and consequently the demand for long-maturity bonds."

The government will detail its April-to-September borrowing plan this week and typically aims for 55%-60% of its full year target.

The change has been incremental, with insurers owning 26% of government bonds at the end of December, up from 22% in 2010, according to finance ministry data. Their presence is likely understated thanks to the popular use of a derivative trade, worth $19 billion by some estimates, which masks purchases.

Source: https://economictimes.indiatimes.com/markets/bonds/indias-1-trillion-bond-market-sees-growing-share-of-retirement-savings/articleshow/99050170.cms

- **Nirmala Sitharaman removes income tax benefit given to debt mutual fund investors**

The Lok Sabha today passed amendments to Finance Bill, 2023, in which Finance Minister Nirmala Sitharaman has done away with the long-term capital gain tax benefit that debt mutual fund investors currently enjoy. According to the amendments, debt funds having not more than 35% invested in equity shares would be taxed at the income tax slab level and treated as short term capital gain. Bank fixed deposits are also taxed similarly.

As of now, debt mutual funds are treated as long-term investments if held for more than 3 years and taxed at the rate of 20% along with indexation benefits or 10% without indexation. For those with a holding period of less than 3 years, they are taxed according to their tax slab.

The amendment to the Finance Bill, which will now be sent to the Rajya Sabha, is also applicable for gold, international equity and even domestic equity fund of funds (FoFs). The changes would be applicable from April 1, 2023 and therefore, investors who want to take advantage of the proposed changes can do so before year-end.

Archit Gupta, Founder and CEO of fintech platform Clear said debt mutual funds will be affected unfavorably and people may be tempted to go for FDs.

Shares of mutual fund companies were trading lower after the news on Friday. Shares of HDFC AMC, Aditya Birla Sun Life AMC and UTI AMC were trading lower by around 4% each.

Source: https://economictimes.indiatimes.com/markets/bonds/govt-may-remove-income-tax-benefit-given-to-debt-mutual-fund-investors-report/articleshow/98957864.cms

- **Here's Bharat Bond ETF's report card as first tranche is set for April maturity**

Bharat Bond ETF was launched with much fanfare in 2020 with an aim to make the Indian bond market more accessible to retail investors. As the first tranche of the Bharat Bond Index - April 2023 is set to mature on April 15, 2023, a quick look at its track record shows that it has been able to give steady returns to investors.

"Launched on January 1, 2020, the Bharat Bond ETF April 2023 saw both the scenario of quantitative easing and tightening playing out. Overall, the performance of this instrument was steady as it includes only AAA rated bonds issued by government owned entities," Deepak Jasani, Head of Retail Research at HDFC Securities said while analysing the performance of this debt instrument.

"Current yields of all issues of Bharat Bond ETF are broadly in-line with similar maturities. It invests in Public Sector Bonds of high quality with AAA rating, so credit risk is also relatively low," he further said.

"Also, because the maturity is shorter term, the NAV/market price saw lower volatility compared to longer maturity Bharat bond ETF (2030, 2031 maturities)," he added.

Bharat Bond Index with April 2023 Maturity has delivered returns as was envisaged at the time of launch of the product, Alekh Yadav, Head of Investment Products at Sanctum Wealth said. "The YTM (yield to maturity) of Bharat Bond Fund at the time of inception was close to 6.7% and so far it has delivered a return of about 6.5%", he added.

The introduction of corporate bond ETFs through the launch of Bharat Bond ETF was conceptualised by the Department of Investment and Public Asset Management (DIPAM) and the former tracks the Nifty Bharat Bond Index series. It is a target maturity ETF with a fixed maturity period and at the end of the same, maturity investors will get back their investment proceeds along with returns.

Source: https://economictimes.indiatimes.com/markets/bonds/heres-bharat-bond-etfs-report-card-as-first-tranche-is-set-for-april-maturity/articleshow/98942747.cms

Department of Banking & Financial Services Upcoming Programme

Programme	Date
ASSOCHAM 2nd National Summit on Neo-Banking	19th May 2023
ASSOCHAM 4th National Summit on Role of Trade Financing for Inclusive Growth	08th June 2023
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For Branding and speaker opportunities:

Mr. Kushagra Joshi
Deputy Director
Mobile: 8447365357
Email: kushagra.joshi@assocham.com

Mr. Aryan
Executive
Mobile: 9572902602
Email: aryan@assocham.com

Further Details Please Contact:

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

CORPORATE OFFICE:

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