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# INDUSTRY ARTICLE IN THE MONTH

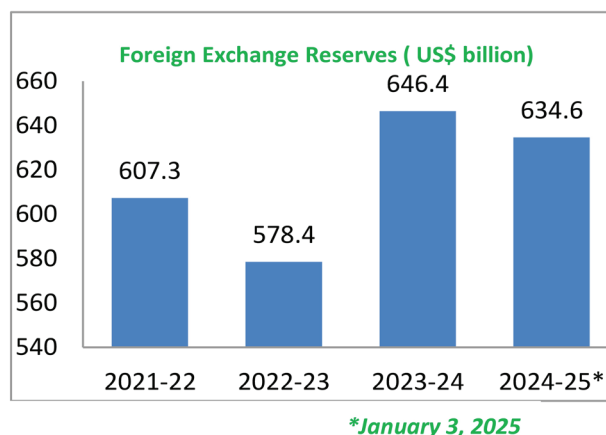
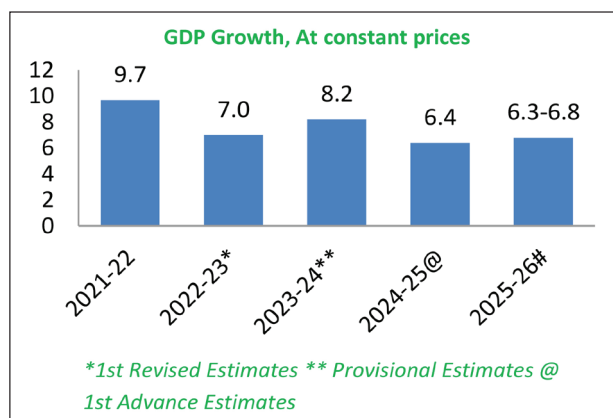
## India Union Budget 2025 – Overview and Key Highlights

### Background

The India Union Budget 2025 has been keenly awaited as India continues to be the fastest growing large economy in the world and in terms of GDP, India is currently the world's fifth largest economy. The current geo-political developments and the slowdown of economic growth in the recent quarters warrant certain bold and structural changes. The 'Economic Survey 2024-25 and certain significant aspects as announced by the Hon'ble Finance & Corporate Affairs Minister, Mrs. Nirmala Sitharaman, in the Union Budget on 1st February 2025 are elucidated as under:

### Sound Economic Fundamentals

- India's GDP expected to grow by 6.4% for FY 2024-25 recognizing key risks as geo-political risk, elevated assets valuation risk, inflation and global economic slowdown risk.
- The fiscal deficit of the Union Government is estimated at 4.8% of GDP in FY 2024-25 and expected to further drop to 4.4% of GDP by FY 2025-26 reflecting fiscal discipline and continued fiscal consolidation.
- India successfully managed to keep retail inflation at 4.9% in FY 2024-25.



- The Asset Monetisation Plan for 2025-30 will be launched to plough back capital of Rs.10 lakh crore (US\$ 134 billion) in new projects.
- FDI recorded a revival in FY25, with gross FDI inflows increasing from US\$ 47 billion in the first 8 months of FY24 to US\$ 55 billion in the same period of FY25, a YoY growth of 17.9%.
- After surpassing the US\$ 700 billion benchmark, India's foreign exchange reserves moderated to US\$ 640 billion as of end of December 2024.

### Certain Budget proposals – Key Highlights

- Personal tax – Major change in slab structure under the new regime, increase in basic exemption limit, increase in rebate on income tax and other changes benefitting millions of taxpayers.
- Corporate tax rates – No change.
- Rationalisation of transfer pricing provisions for carrying out multi-year arm's length price determination.
- Safe Harbour Rules proposed to be introduced for non-residents who store components for supply to specified electronics manufacturing units.

- Rationalisation of regimes for charitable entities.
- Tonnage tax scheme extended to Indian Vessels operating in Indian waters.
- Scheme of presumptive taxation extended for non-residents providing services for electronics manufacturing facility.
- Significant tax benefits provided to units in IFSC including extension of period for commencing operations to claim various tax benefits.
- Tax exemption for start-ups extended for a period of 5 years to eligible start ups incorporated before 1 April 2020.
- Rationalisation of TDS and TCS provisions and increase in threshold limits.
- Removal of higher TDS/TCS for non-filers of return of income.
- Indirect tax proposals covering custom duty and GST.

Overall, the Union Budget focus is on providing major relief under personal tax, boosting consumption and savings, growth, employment generation, fiscal stability and simplification of tax regime and should result in maintaining the sustained growth momentum.

There is no change in the overall structure of corporate tax rates. Given that the corporate tax rate under the new concessional regime is 25.17% and for new manufacturing companies it is 17.16%, the stability is a positive news. However, extension of sun-set date for setting up of a new manufacturing company beyond 31 March 2024 has not been announced.

One of the major proposals in Budget 2025 is announcement of multi-year arm's length price determination wherein it is proposed to carry out transfer pricing assessments in a block, in situations where there are similar international transactions or specified transactions for various years, same facts like enterprises with whom such transaction is done, proportionate quantum of transaction, location of

associated enterprises etc., and same arm's length analysis are repeated every year. Accordingly, a scheme has been introduced for determining arms' length price of international transactions for a block period of 3 years.

There is a welcome change in personal tax in relation to income slabs rates with benefits to individuals / HUFs under new regime with maximum benefit of Rs. 1,10,000. There has been no change in the surcharge and cess rates. The limit of rebate from income-tax under section 87A has been increased to Rs. 60,000/- as the limit of total income (excluding income subject to special rates such as capital gains) for rebate has been increased from Rs. 700,000/- to Rs. 12,00,000/- under the new regime. Accordingly, no tax on individuals having income (excluding income subject to special rates) up to Rs. 12,00,000/- under new regime.

### Introduction of New Income-Tax bill

A significant announcement was made to introduce the new income-tax bill, which is expected to remove the redundancy from the existing Income-Tax Act and also at the same time would be simple to understand for taxpayers and tax administration, leading to tax certainty and reduced litigation.

### Rationalization of Indirect Tax Provisions

Indirect tax related changes are aimed to boost domestic manufacturing, enhance domestic value addition, encourage green energy and rationalise tariff structure. On the GST front, recommendations made in GST Council has been proposed to be adopted such as enabling provisions for Invoice Management System (IMS) and 'track and trace mechanism', retrospective amendment in relation to construction-based input tax credit eligibility, taxability on issuance of vouchers, etc. On the Customs front, 7 more tariff rates have been removed, and rate structure further rationalised. Additionally, the social welfare surcharge has been exempted on 82 tariff lines that are subject to cess.



### Take Away

Overall, the Union Budget is a balanced budget despite the uncertain and challenging times, with a focus on priorities of growth, infrastructure, fiscal consolidation, stability of corporate tax regime and simplification of personal tax regime.

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## TOP SPEECHES

**Inaugural address delivered by Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India at the Indian Institute of Management Kozhikode (IIMK)- National Stock Exchange (NSE) joint Second Annual Conference on Macroeconomics, Banking and Finance at Mumbai on February 21, 2025**

### Introduction

#### Good Morning All!

I thank IIM, Kozhikode and the National Stock Exchange for inviting me to deliver the inaugural address at this Conference. The theme for the conference – "Finance for Growth Amid Creative Disruptions" – captures the essence of the transformation we are witnessing in the financial sector – not just in India but globally. Disruptions in finance are not new, but what sets this era apart is the unprecedented pace and scale of change, fuelled by digitalization, artificial intelligence, and the resulting confluence of these changes leading to emergence of new business models. These changes make it essential for us to understand how to harness them for sustainable economic growth.

For India, this transformation is particularly significant as we strive towards Viksit Bharat 2047 – a vision of a developed and self-reliant economy. Our goal of becoming an advanced economy by 2047 will require us to effectively integrate technology with finance to deepen markets, expand financial inclusion, and drive economic productivity.

### Creative Disruption vis-à-vis Creative Destruction

Innovation in finance has always been a double-edged sword – on one side, it drives efficiency and inclusion, but on the other, it can destabilize traditional structures if not managed well. This is where the distinction between creative disruption and creative destruction becomes crucial. While both terms may seem similar, they carry very different implications. Creative destruction, as popularized by economist Joseph Schumpeter, refers to the complete dismantling of old systems to make room for new ones. In contrast, creative disruption is a more nuanced

process - it's about evolving existing systems, refining them, and making them better through technological innovations. We are not simply looking to replace what exists but to transform it for the better.

This sets the context for my talk today. I will share my views on how digital transformation is reshaping finance, the role of AI, the way forward for more meaningful financialization and financial inclusion and how the regulatory landscape must evolve to foster responsible growth.

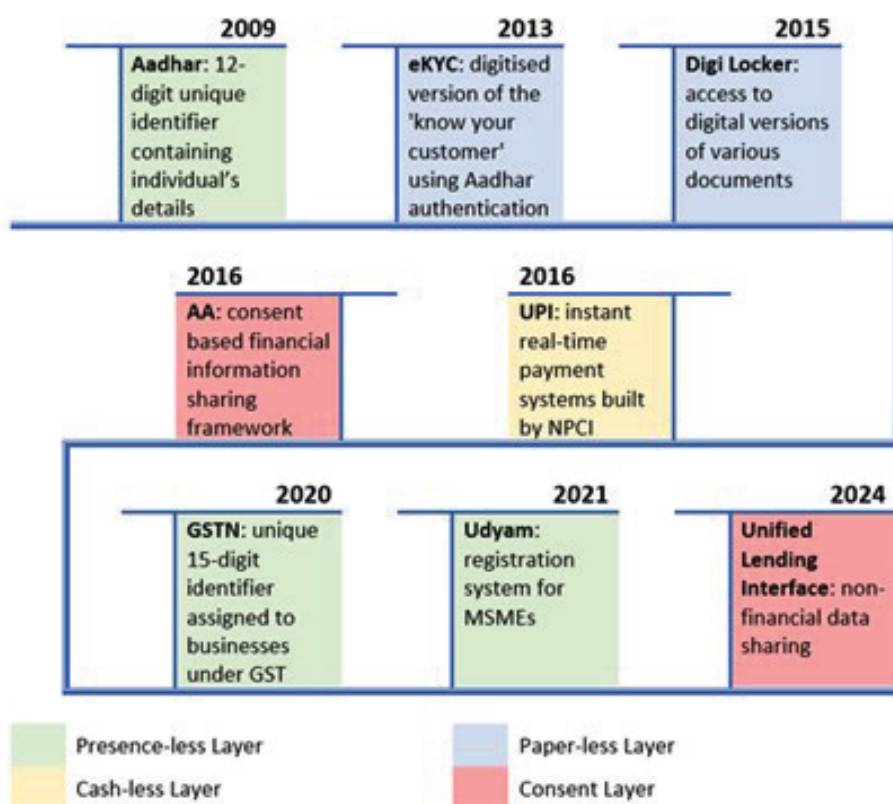
### Digital Transformation in Finance

The financial sector has undergone a profound transformation in the digital era, reshaping how individuals and businesses access and utilize financial services. The shift from cash-driven, paper-based transactions to a seamless, technology-driven ecosystem has been one of the most defining changes in modern finance. India has exemplified creative disruption in finance through innovations like Unified Payment Interface (UPI), Account Aggregator (AA) framework, and the recently launched Unified Lending Interface (ULI). This has complemented the other components of what is collectively known as the "India Stack". In the context of the creative disruption referred to earlier, these initiatives have not just supplemented the traditional banking system but have strengthened it by making transactions more seamless, expanding financial reach, and improving efficiency. Similarly, the rise of digital lending has not rendered conventional credit channels obsolete but has complemented them, bringing underserved segments into the formal financial fold.

In my opinion, what truly sets India apart from global peers is the open approach. Unlike many other countries, where these advancements have come as



**Figure 1: Evolution of India Stack**



"walled gardens", India's financial infrastructure is built on the principles of openness and accessibility. Our platforms are designed as plug-and-play systems, enabling any entity to build on top of them, fostering competition, innovation, and inclusion. Whether it is the UPI, the Account Aggregator framework, or the ULI, our guiding philosophy remains the same – creating an open ecosystem. UPI stands as a prime example of open digital infrastructure that fosters both innovation and inclusivity. It provides an interoperable framework for instant payments, enabling several private players to build seamless financial solutions on top of it. As on date<sup>2</sup>, there are 39 Third Party Application Providers (TPAP) in the UPI ecosystem enabling UPI payments besides apps of banks. With over 16 billion transactions processed monthly, UPI demonstrates how public digital infrastructure can empower private sector innovation for promoting financial inclusion, without the risks of exclusivity. A research article<sup>4</sup> by World Economic Forum (WEF) had estimated that

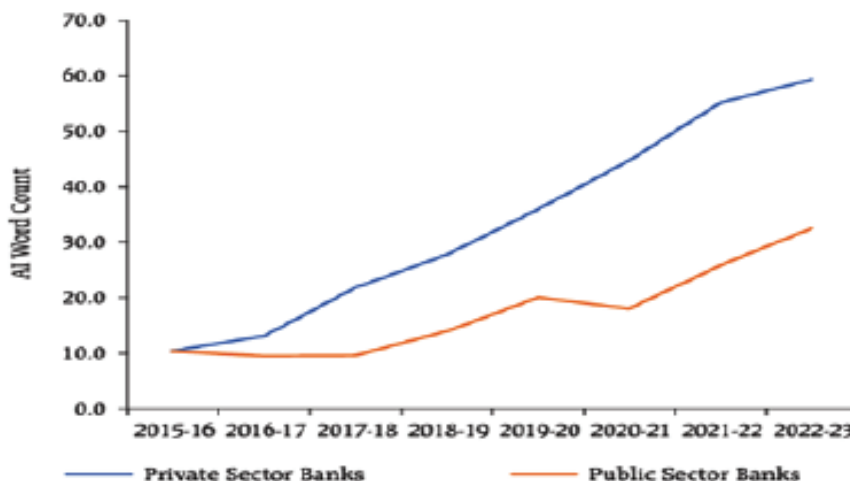
UPI has saved the Indian economy approximately \$67 billion since its inception in April 2016.

### AI/ ML in Finance

While the India Stack has successfully built the digital pipelines that power a seamless and inclusive financial system, as we move forward, I believe Artificial Intelligence (AI) and Machine Learning (ML) will become the engines that drive the next phase of financial transformation. These stand among the most transformative advancements of our times. This growing significance is reflected in how both financial institutions and regulators are increasingly engaging with AI-related topics. An analysis (Chart 1) of the annual reports of Scheduled Commercial Banks has revealed a sharp rise in references to AI and its applications in recent years.

Further, this trend is not limited to regulated entities – central banks are also devoting more

**Chart 1: AI Word Count for Public and Private Sector Banks**

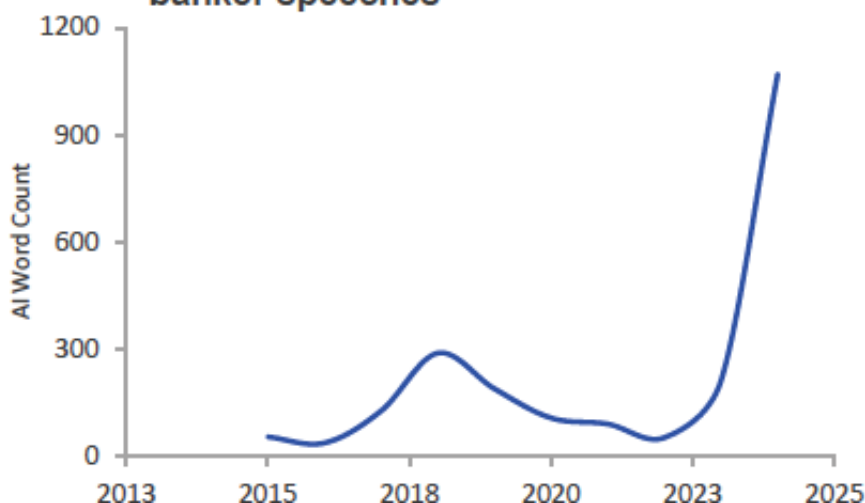


attention to AI in their public interactions. A review (Chart 2) of speeches<sup>6</sup> by central bank officials globally shows a similar pattern, where discussions on AI related topics have increased significantly especially post-2022 generative AI wave. This underscores the increasing awareness and strategic focus on AI within the financial ecosystem.

While AI adoption in financial services is increasing, it can make a significant impact in three areas viz. risk assessment and credit scoring, enhancing customer experience, and fraud detection.

Traditional credit evaluation relies heavily on structured financial data, such as credit history and income statements. However, AI-driven models enable analysis of vast amounts of alternative data – including transaction patterns, utility bill payments, e-commerce behaviour etc. to assess a borrower's creditworthiness more holistically. This is not only useful in initial underwriting, but in proactive monitoring of existing borrowers to detect stress at early stage and take remedial measures. It also enables offerings of hyper-personalized financial products leading to enhanced customer

**Chart 2: AI word count for central banker speeches**





experience. Another use-case gaining prominence is fraud detection. Unlike traditional rule-based fraud detection systems, which rely on predefined parameters, AI based techniques continuously learn and evolve, adapting to new fraud techniques and identifying subtle anomalies in transaction and payment behaviour. This is especially critical in the era of real-time payments and digital transactions, where cyber threats, frauds and use of mule accounts are becoming more sophisticated.

### Challenges and Ethical Considerations

On an earlier occasion, I spoke about the risks associated with AI/ML models and the guiding principles for their responsible use in finance. Today, however, I want to highlight a fundamental point: while AI raises critical issues such as algorithmic bias, fairness, data privacy, and security, the root of these challenges and many other lies in lack of explainability.

### Critical Need for Explainability and Human Oversight

Many advanced AI models, particularly deep learning-based systems, function as "black boxes," producing outputs that even their developers struggle to interpret. In a sector where trust, accountability, and regulatory compliance are paramount, a lack of explainability undermines confidence in AI-driven decisions. In the absence of explainability, human intervention can end up becoming mere rubber-stamping, rather than responsible oversight, increasing the likelihood of systemic errors.

### Second-Order Effects: Hidden Risks of Unexplainable AI

AI models continuously learn and evolve based on new data. While 'dynamic adaptation' can be beneficial, it also makes models susceptible to data drift<sup>8</sup> and concept drift. These changes can cause models to misalign with real-world trends, risking incorrect financial decisions and instability. Regular human oversight and explainability are critical to prevent such risks.

### Danger of Over-Reliance on AI

A less appreciated risk of AI-based decision models is "automation complacency," where people rely too much on technology, even when situations need careful judgment. As the aphorism goes, "All models are wrong, but some are useful<sup>10</sup>". While algorithms can provide valuable insights and efficiency, they should be viewed as tools to support, not replace, human judgment.

### Skill Gap: A Compounding Factor in the Explainability Challenge

A significant yet often overlooked barrier to responsible AI adoption in finance is the shortage of professionals who can interpret and oversee AI models. If financial institutions lack personnel with the necessary skills in AI, data science, and regulatory oversight, the explainability problem is further exacerbated and decisions made by AI models may remain opaque.

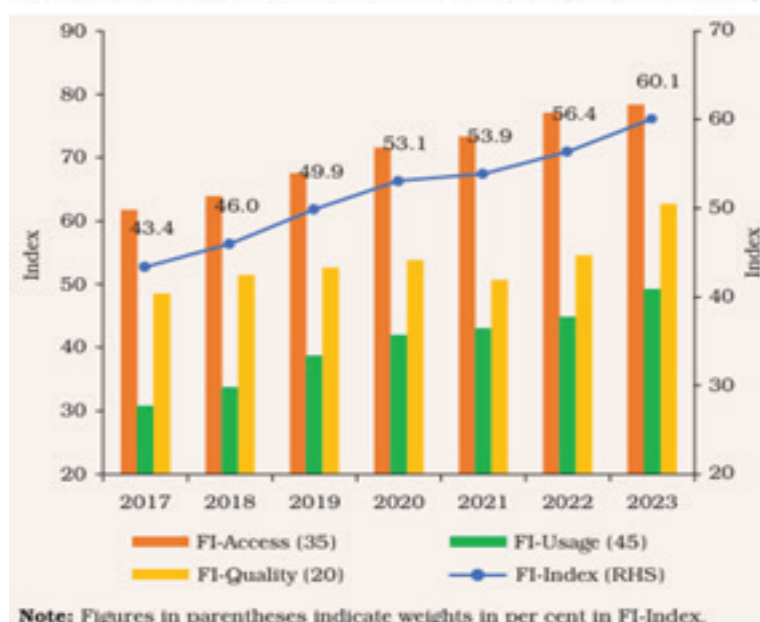
### Bridging the Gaps: Road Ahead for Financial Inclusion

Before I delve into the way forward on financial inclusion, another critical distinction is in order. Financialization and financial inclusion are often used interchangeably, but they represent distinct aspects of economic development. Financialization refers to the increasing role of financial markets, institutions, and instruments in an economy. On the other hand, financial inclusion focuses on ensuring that every individual, especially those from underserved and marginalized communities, has access to basic financial services like savings accounts, credit, insurance, and digital payments. The two are inherently complementary – without inclusion, financialization risks being concentrated among a privileged few, limiting broader economic participation. Conversely, without financialization, inclusion remains superficial, as access to banking alone does not empower individuals unless they can also save, invest, and grow their wealth.

## Present Status of Financial Inclusion

Reserve Bank of India's Financial Inclusion Index (FI-Index), a multidimensional composite index that captures the extent of financial inclusion across the country, stood at 64.2 in March 2024, up from 60.1 in March 2023 and 43.4 in 2017. The index is based on three sub-indices – Access, Quality and Usage. India has made remarkable strides in expanding financial access, with the success of schemes like PM Jan Dhan Yojana, etc. ensuring that 80% of adults now have a bank account. Till date, 54.84 crore bank accounts have been opened under PM Jan Dhan Yojana with a total balance of ₹2.45 lakh crore in the accounts. However, true financial inclusion goes beyond merely opening accounts – it requires meaningful engagement with financial services. As the FI-Index (Chart 3) shows, Usage is the one which is lagging the other two.

**Chart 3: FI-Index and Sub-Indices (end-March)**



A bank account should serve as the entry point for individuals to access a broader suite of financial products, including credit, insurance, pensions, and investment opportunities. Without this deeper engagement, financial inclusion remains superficial, and the true benefits of a formal financial system do not reach every individual or business. It was encouraging to note that the improvement in the FI-

Index in 2023-24 was largely contributed by the usage dimension, reflecting deepening of financial inclusion. While this shows that we are moving in the right direction, there is still a long way to go wherein the most vulnerable populations and low-income groups have access to secure and affordable finance.

One of the significant gaps lies in access to credit, particularly for the informal sector of the economy, which is a major contributor to Indian economy, employing millions. Traditional credit models, which rely heavily on collateral-based lending, fail to accommodate first-time borrowers and small businesses with limited credit histories. As a result, such entities and individuals either remain underfunded or turn to informal sources of credit, often at exorbitant interest rates. Another critical gap is in insurance penetration, which stands at just 3.7%

in FY24, significantly lower than the global average of 7%. Similarly, pension assets in India account for only 21.5% of GDP (17% under EPFO and 4.5% under NPS), which pales in comparison to the 80% of GDP in OECD countries.

## Leveraging Digital Transformation for Greater Financial Inclusion

To bridge these gaps, we must harness the power of digital transformation to make financial services more accessible, efficient, and inclusive. Technology-driven solutions can democratize finance by breaking traditional barriers and bringing a wider range of financial products to underserved segments of the population.

As I highlighted earlier, having a bank account is not very useful if it does not lead to further financialization i.e. ensuring Quality and Usage. In case of payments, UPI meets all three dimensions of Access, Quality and Usage. Given the omnipresence nature of UPI for retail payments and its ease of usage, it has become essential for many informal sector businesses. This has created financial footprints for a large informal economy which was



earlier mostly dealing in cash. Access to these financial footprints has been enabled for the financial service providers through the AA framework and it can be employed by lenders to underwrite them using new-age models and combining with other alternative data to offer hyper-personalized products. This approach is particularly useful in extending credit to new-to-credit individuals, gig workers, and small businesses who may lack formal credit histories but demonstrate strong financial discipline through alternative indicators. Thus, the AA framework acts as a bridge, allowing banks, NBFCs, and other financial service providers to access a more holistic and accurate picture of a customer's financial profile.

Further, increasing formalization of MSMEs through GST, e-commerce sales data, etc. can help lenders assess creditworthiness more accurately. To augment further data-driven financial inclusion, RBI has also facilitated the setting up of ULI as a digital public infrastructure in the lending space, which will unlock critical financial, non-financial and alternate data for lenders to enable informed credit decisions. As on December 6, 2024, over 6 lakh loans amounting to ₹27,000 crore, including 1.6 lakh loans amounting to ₹14,500 crore to MSMEs have been disbursed using the ULI platform. 36 lenders, including various banks and NBFCs have been onboarded. These lenders are using more than 50 data services including, inter alia, authentication and verification services, land records data from six states, satellite service data, transliteration, property search services, dairy/milk pouring data and identity/ document verification.

### Financial Inclusion not Financial Excesses

While technology and digital innovations are driving financial inclusion and access, they also bring with them the risk of excessive exposure and over-leveraging, which can create significant vulnerabilities for both individuals and the broader financial system. However, as it is said that presence of too much light can also lead to blindness, we must be aware of the risk of reckless financialization. Of late we have seen some concerns of excessive borrowing in unsecured

segment and from derivative euphoria in the capital markets. The temptation of short-term gains can easily overshadow the long-term financial security of individuals. Financial entities have a duty to ensure that customers fully understand the risks associated with leveraged products and speculative investing.

While RBI along with other financial sector regulators is taking progressive steps to educate the customers, financial sector entities also need to shoulder part of the responsibility. Absence of financial literacy leads people to fall prey to unscrupulous players which erodes the trust of the people in the system. Increased financial literacy will help increase trust in the sector and its participants, whose benefits will accrue to the entities themselves.

### Financial Regulation in the era of fast-paced innovation

While educating consumers helps protect them from fraudulent practices, regulation plays a critical role in maintaining stability and preventing systemic failure. Financial services are regulated because their stability is crucial for the broader economy – failures in the financial sector have severe real-world consequences, often requiring costly taxpayer-funded bailouts. The 2008 global financial crisis is a reminder of how lax regulation and excessive risk-taking can lead to widespread economic distress, job losses, and prolonged recessions. The cost of restoring financial stability in such scenarios is often much higher than the cost of preventive regulation. While strong regulation is essential to prevent such crises, determining the optimal level of regulations remains a delicate balance – too little regulation may increase systemic risk, while excessive regulation can stifle innovation, limit credit availability, and raise costs. Thus, regulating finance in an era of fast-paced technological innovation is a delicate balancing act.

At the same time, regulated entities must develop the necessary capabilities to implement and comply with evolving regulations. As financial institutions integrate AI, cloud computing, and API-driven finance into their operations, they must invest in robust

governance frameworks and risk management protocols to ensure compliance and customer appropriateness. Financial firms cannot afford to view regulation as a barrier to innovation – rather, compliance itself must become a core component of their digital strategy. A strong internal culture of risk awareness, ethical AI usage, and customer-centric innovation will be critical in navigating the evolving financial landscape effectively.

## Conclusion

"Change is the only constant," wrote an ancient Greek philosopher<sup>16</sup> and yet change can appear daunting, destabilizing, even threatening. So, will the technological changes lead to "creative destruction" and really replace the traditional financial institutions like banks? The specter of banks being 'dead' has been raised in the past also. A quarter century back, the issue was examined in the light of disruptive financial innovation of those times such as securitisation which was touted as evidence enough for erasing the need of banks as financial intermediaries. As the passage of time has shown, these predictions proved false,

and the banking sector emerged even more resilient from these disruptions. Although, history does not repeat itself, and the potential of the current wave of disruption is arguably bigger, it may be prudent to be cautious while making predictions about future of banking.

For banks and NBFCs, however the message is clear: adapt or risk being made obsolete. To remain competitive, financial institutions must invest in digital infrastructure, and pivot to a customer-centric, data-driven approach in this new landscape. At the same time, institutions must navigate the risks of excessive reliance on third-party technology providers, ensuring that regulatory compliance and cybersecurity while ensuring customer protection remain their top priorities. The challenge is ensuring a balanced and resilient financial ecosystem for the future. The key is to harness the benefits while managing the risks.

## Thank You!

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## Abdul Rasheed Ghaffour: Transforming banking and advancing sustainability

**Special luncheon address by Mr Abdul Rasheed Ghaffour, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 2025 ASEAN Banking and Finance Summit, Kuala Lumpur, 25 February 2025. The views expressed in this speech are those of the speaker and not the view of the BIS.**

Since its inception 58 years ago, ASEAN has evolved to become a significant force in global trade, investment and diplomacy. ASEAN now stands as the world's fourth-largest economic bloc, with an estimated GDP of USD4.13 trillion.<sup>1</sup> Looking ahead to 2025, ASEAN is poised for another strong year. GDP is expected to grow by 4.7%,<sup>2</sup> significantly outperforming the global average. Much has been said about ASEAN's pivotal role in global supply chains, our geopolitical neutrality and our strategic location for global trade. However, ASEAN's driver for sustainable economic growth also comes from within: robust

domestic consumption from a youthful demographic, strong growth of individual member states and increasing regional integration. In 2023, for example, intra-ASEAN trade accounted for 21.5% of the region's total trade in goods.

Let me touch briefly on Malaysia's growth outlook. After a strong performance last year, Malaysia is expected to record steady growth going into 2025 despite the challenging global environment. The diversified export structure will help cushion against external demand shocks. But, more importantly, key factors within the economy, particularly the

robust expansion in investment activity and resilient household spending, will be important to drive growth this year. Exports are also expected to continue expanding with support from tech upcycle and forthcoming tourist arrivals. We acknowledge that the growth outlook is highly subject to risks from trade and investment restrictions. However, growth could potentially be higher from greater spillovers from the tech upcycle, more robust tourism activities and faster implementation of investment projects in the country.

The financial sector lies at the core of ASEAN's progress over the years. The sector acts as the central engine to our economy, facilitating financial flows within ASEAN. Indeed, over the last few decades, we have made progress in facilitating regional capital flows, connecting our payment infrastructure and introducing a framework to support the integration of our banking system through the ASEAN Banking Integration Framework (ABIF). However, the potential for intra-ASEAN investments remains untapped, and there is still much to be done to achieve regional regulatory coherence. My vision is for the financial sector to become the critical enabler for the next phase of economic integration under the ASEAN Economic Community (AEC) 2045. This would require the sector to strategically harness the three driving forces: funding, technology and talent.

### **Mobilising funds to unlock new growth sectors, bridge financing gap and drive sustainable growth for ASEAN**

Let's start with funding, which is a crucial driver of ASEAN economic growth. ASEAN is facing significant funding gaps that demand our urgent attention. Let me share a few examples. The Asian Development Bank reports that ASEAN economies will need infrastructure investments of at least USD2.8 trillion from 2023 to 2030 to sustain economic growth, reduce poverty and respond to climate change. Key projects in the region that require large financing include the ASEAN Power Grid, which is pivotal to advancing the region's climate and energy security agenda, and

various ASEAN highway and railway projects, such as the Asian Highway Network, which are cornerstones of regional economic development and integration. Our micro, small, and medium enterprises (MSMEs) also face a daunting financing gap, exceeding USD300 billion annually.

These figures underscore the urgent need for strategic investments and collaborative efforts to secure a resilient and sustainable future for ASEAN. This need is even more pressing in a region where over 90% of all social infrastructure development has traditionally relied on public resources,<sup>4</sup> and public funding faces increasing constraints. How, then, can the financial sector step in as a catalyst to crowd in diverse sources of funding and facilitate long-term investments to ensure sustainable economic expansion and build more resilient supply chains and communities?

This is where blended finance, the strategic use of public, private, and philanthropic finance sources and development finance, can be a critical tool to mobilise additional private capital flows toward sustainable development in ASEAN. The financial sector is pivotal in advancing blended finance to meet funding gaps in ASEAN, by enabling acceptable risk-taking levels based on various funding sources. This approach leverages the willingness of development finance and philanthropic funders, including sovereign funds within ASEAN to assume greater risk exposure, utilising tools like partial credit guarantees to attract additional investors. Multilateral development banks and development finance institutions play a critical role by offering concessional financing and technical assistance, which supports local companies in accessing capital markets and structuring deals, thereby encouraging participation by private financial institutions through co-funding arrangements.

I also believe that this is an opportunity for Islamic finance to demonstrate its unique role and impact. In recent years, Islamic finance has gained momentum within the ASEAN region. It offers alternative solutions to conventional financial



structures through the use of risk sharing and social finance instruments that can be mobilised towards the development of productive economic sectors such as healthcare, transportation and green sectors. Notably, the deployment of blended capital using instruments such as waqf and zakat in Malaysia and a few neighbouring countries such as Indonesia and Brunei have significantly contributed to financial inclusion for the underserved and strengthened support for the MSMEs. An example of this is Malaysia's iTEKAD initiative, a social blended finance programme for low-income microentrepreneurs that provides social and commercial funding, which comes together with training and mentorship to empower them in generating sustainable income. In the capital market structure, Islamic finance has also been mobilised for infrastructure, climate and green projects. In Malaysia, for example, a total of USD56 billion of sukuk was issued in 2023 to fund real economic sectors with a high concentration in renewable energy and green real estate.

Embracing innovative financing structures will involve navigating various complexities that demand careful consideration, collaboration and adaptation. Hence, advancing capacity building within the financial sector is very crucial. In Malaysia, the Joint Committee on Climate Change (JC3) continues to serve as a key focal point in supporting the financial preparedness for climate change. As part of Malaysia's ASEAN Chairmanship in 2025, Bank Negara Malaysia is committed to supporting the region's transition efforts. During the ASEAN Finance Ministers and Governors Meeting week from 7 to 10 April this year in Kuala Lumpur, we will host several side events to advance these discussions. These events include a closed-door investor roundtable focused on innovative financing solutions for sizeable ASEAN green and transition projects, as well as pitching sessions on sustainable ASEAN Projects. We invite the financial industry to contribute and participate in these events.

## **Responsible deployment of technology in financial services is key to maximise its potential while minimising risk**

Ladies and gentlemen,

There is an immense potential for ASEAN to also leverage technology. This is the second point. With a median age of about 30 and a substantial portion under 35, 5 ASEAN's population is digitally proficient. Indeed, the adoption of digital financial services can be a game-changer in addressing challenges within the region, which include to better serve the needs of large unbanked and underbanked populations in our region.

The outlook for digital financial services in ASEAN is very bright. Through innovations such as mobile wallets, digital payments and micro-lending, digital finance is expanding access to financial services for individuals who previously had limited options. These services are not just filling gaps – they are creating new pathways to financial inclusion, thereby allowing individuals to save, invest and access credit with unprecedented ease.

While digital financial services hold tremendous promise, it comes with its own set of risks. Today's technological advances are progressing at an unprecedented pace, making our response to these developments very crucial. For financial institutions, deployment of technology must be done thoughtfully and responsibly with holistic consideration of the impacts and value to the broader environment and community. This unwavering commitment to enhance financial services and preserve consumer confidence includes addressing cybersecurity risks, strengthening climate resilience, promoting financial literacy and ensuring that digital financial services are secure and accessible to all segments of society.

As regulators, our commitment is for our policies to strike a balance between embracing technological innovation and, at the same time, preserving financial stability. Our Regulatory Sandbox allows for experimentation and contributes to the recalibration of regulatory policies such as eKYC. We also adapt

our regulations to welcome new players into the market, those that have strong value propositions on inclusion, as demonstrated by the issuance of our licensing and regulatory framework for digital banks and digital insurers and takaful operators.

**Investing in talent strategies that not only creates a more agile and adaptive workforce, but also paves the way for regional talent mobility**

Let me move on to the third point. At the heart of economic growth and development lies talent. ASEAN is blessed with a vibrant, young and dynamic workforce. To capitalise on this potential, the financial sector will need to create an environment that nurtures the next generation of leaders and innovators in finance who carry a unique ASEAN identity – one that is not only tech-savvy, but also adept at navigating the complexities of regional regulations and global economic shifts while championing social equity and environmental sustainability.

I would like to also take this opportunity to share Malaysia's efforts in developing talent in our financial sector. In July last year, the industry launched the Financial Sector Future Skills Framework, and this is to empower individuals to take charge of their professional development, while creating new talent pipelines and succession pools. I reiterate the call I made during the launch of the framework for the industry to work closely with training institutes, professional bodies and industry associations to ensure that training programmes meet the established quality assurance standards and set high standards in new skill areas.

Complementing this is a dynamic talent development hub, offering tailored learning programmes and certifications. For example, the Financial Sector Talent Enrichment Programme (FSTEP) targets fresh graduates interested in launching their career in financial services, while globally recognised financial certifications are available for seasoned professionals.

Malaysia is also home to regional research and learning hubs such as the SEACEN Centre and is recognised globally as a leader in Islamic finance. With a multitude of well-established talent development institutions and capacity-building providers in Islamic finance, we offer a fertile ground for nurturing specialised skills and thought leadership in this field.

To truly capitalise on the large working-age population in ASEAN, we need to go beyond domestic efforts. Financial institutions across the region should pursue collaborative initiatives that enhance talent mobility, such as through mutual recognition of qualifications and expertise sharing. ABIF can also be leveraged to intensify efforts to promote greater regulatory coherence through capacity-building initiatives. By doing so, we can improve connectivity across ASEAN markets, paving the way for a more integrated and resilient future for the region.

In closing, today's discourse reaffirms the financial sector's commitment to turning AEC 2045 into a reality. The challenge lies in ensuring that the ASEAN financial sector has the capacity to do so by mobilising funds, leveraging technology, and developing regional talent.

As I conclude my speech, I leave you with a thought from Peter Drucker: 'The best way to predict the future is to create it.' Together, let's create a future where the financial sector empowers ASEAN's growth and integration. On that note, I wish you all productive discussions during the rest of the Summit.

*Source: <https://www.bis.org/review/r250226b.htm>*

## TOP BANKING NEWS

- **RBI's FX swap auction sees strong demand as system liquidity deficit persists**

RBI's recent \$10 billion dollar/rupee swap auction highlighted strong demand amid significant liquidity deficits. With the rupee facing depreciation pressures, experts suggest RBI may need to implement further measures, including long-term swaps, to enhance liquidity in the banking system.

Mumbai: The Reserve Bank of India today saw strong demand its foreign currency buy/sell swap auction amid persistently tight liquidity deficit in the banking system.

The central bank auctioned three-year dollar/rupee buy/sell swaps worth \$10 billion. The central bank received 244 bids worth \$16.23 billion and accepted 161 bids worth \$10.06 billion at the auction. This was the biggest quantum for a dollar/rupee swap auction by the RBI on record.

"There is robust demand for long tenor swap auction. This will enable durable liquidity in the system. RBI will try to keep deficit in the system around ₹1-1.5 trillion and will use instrument like OMO (open market operations) buy/ Fx swap and if needed may be CRR (cash reserve ratio) as well," Gopal Tripathi, President and Head, Treasury and Capital Markets at Jana Small Finance Bank told Mint. He added that RBI may also like to switch from its short term buy/sell swap to longer tenor swaps gradually to ensure durable liquidity.

The central bank is expected to keep liquidity in deficit to manage the domestic currency which continues to be volatile and faces depreciation pressures. A large part of the liquidity crunch in the system has been due to repeated interventions by the regulator in the foreign exchange market to protect the rupee against sharp bouts of depreciation amid global and geo-political uncertainty and threat of US-imposed

tariffs, according to industry experts. The deficit had touched a 14-year high of ₹3.3 trillion in January 2025 and is currently estimated to be in a deficit of over ₹1.5 trillion.

Foreign exchange swaps entail RBI purchasing dollars from banks against rupees held by them, thus infusing liquidity into the system. It then sells back the dollars at a later date--in this case three years. The rupee extended losses after the result of the swap was announced, closing 0.4% lower at 87.5125 per dollar.

### Liquidity measures

RBI had announced this three-year swap auction on 21 February, 2025 with the objective of meeting the "durable liquidity needs of the system", it had then said. This was the second swap auction by the central bank in 2025, after it infused \$5.1 billion through a six-month swap on 31 January.

The first swap auction was part of a slew of liquidity measures announced by the central bank on 27 January. Those measures included open market operations (OMO) entailing purchase of government securities worth ₹60,000 crore in three tranches of ₹20,000 crore each. In addition to a \$5 billion swap, the regulator also announced a 56-day variable rate repo (VRR) auction for ₹50,000 crore.

Through these measures, the RBI is estimated to have infused a total of at least ₹3.2 trillion into the system, a recent report by CareEdge said, adding that while these steps have helped improve liquidity, "overall conditions remain tight". Further measures are needed to ease liquidity and support the transmission of RBI rate cuts, it added. The central bank cut the policy repo rate by 25 basis points on 7 February 2025.

"Liquidity will continue to remain a challenge and RBI will continue to look at tools they can



use to infuse liquidity into the system. Core liquidity itself has gone down significantly. The government cash surplus balance is also not very high and financial year capital requirements are generally higher. So RBI will need to do more OMOs or these long-term buy/sell swaps for some more time, of around ₹1 trillion more or so," said a senior level banker.

Source: <https://www.livemint.com/industry/banking/rbis-fx-swap-auction-sees-strong-demand-as-system-liquidity-deficit-persists-11740754309628.html>

- **RBI injects \$10 billion via currency swap to ease liquidity deficit in financial system: Report**

RBI conducted a three-year dollar-rupee buy-sell swap auction on Friday drawing bids 1.6 times the \$10 billion notified amount. This follows a \$5 billion six-month swap in January.

The Reserve Bank of India (RBI) injected \$10 billion through a currency or foreign-exchange swap auction on Friday, stepping up efforts to ease one of the worst liquidity deficits to hit the country's financial system. According to Bloomberg, the infusion takes the amount poured into the banking system to \$47 billion in February. It is part of RBI's plan to address the tightness in the money market.

The swap entails the central bank purchasing dollars from banks against the rupees they hold while contracting to sell the greenback at a future date. When the central bank buys dollars, it injects an equivalent quantum of rupee liquidity. After the swap's result was announced, the rupee extended losses, with the domestic currency down 0.3 per cent to 87.4900 per dollar.

The cash crunch has been caused partly by the central bank's intervention in the foreign exchange market to shield the rupee from global volatility amid US President Donald Trump's threat to impose tariff hikes. The shortfall in the market and liquidity crunch hurts an already slowing economy.

Liquidity in the financial system has tightened significantly since late 2024, with the deficit climbing to a 14-year high of ₹3.3 lakh crore in January. Since last month, the RBI has taken several steps to replenish the system with funds, including auction-based open-market bond purchases worth ₹1 trillion (\$11.5 billion) and an earlier foreign-exchange swap worth \$5 billion.

NR vs USD: Rupee extends losses after RBI's currency swap

The central bank has added ₹1.8 trillion via longer-term repurchase auctions, which are set to reverse in the coming weeks. It also reduced interest rates early this month. The RBI set a cutoff premium of 655.10 paise at Friday's swap auction. When the swap matures after three years, banks must return rupees to the RBI and the swap premium to receive dollars.

According to Bloomberg-compiled data, the three-year onshore forward premium in the secondary market was last at 698.25 paise. The rupee fell 0.4 per cent to close at 87.5125 per dollar. The rupee logged its fifth straight monthly fall in February, weighed down by foreign portfolio outflows and increased hedging in the onshore and non-deliverable forward markets.

The rupee ended at 87.4950 against the US dollar compared with 87.20 in the previous session. The domestic unit fell one per cent in February and slipped to an all-time low of 87.9. Hence, the RBI conducted a three-year dollar-rupee buy-sell swap auction on Friday, drawing bids 1.6 times the \$10 billion notified amount. This follows a \$5 billion six-month swap in January.

Source: <https://www.livemint.com/industry/banking/rbi-injects-10-billion-via-currency-swap-to-ease-liquidity-deficit-in-financial-system-report-11740745108748.html>

- **FinMin's first review meeting with PSB heads post-Union Budget deferred to March 5**

The finance ministry had said in an earlier statement that PSBs' better asset quality is visible

from a significantly low net NPA ratio of 0.59 per cent (aggregate net NPA outstanding of ₹61,252 crore).

The finance ministry has deferred the performance review meeting with heads of public sector banks (PSBs) by a day to March 5, 2025. The meeting, to be chaired by Financial Services Secretary M Nagaraju, will review the financial performance and progress of financial inclusion schemes, among other topics.

Earlier, the Department of Financial Services had fixed March 4, 2025, for the meeting. This will be the first meeting after the Union Budget 2025-26 presentation in the Parliament. The 12 PSBs in India posted their highest-ever net profit of ₹1.29 lakh crore in the April-December period of the current fiscal year (2024-25), marking an annual increase of 31.3 per cent.

#### **FinMin's performance review of PSBs**

During the period under review, PSBs' performance showed significant improvement in key financial parameters, like record net profit growth, improved asset quality, and the build-up of adequate capital buffers.

The finance ministry said that PSBs' better asset quality is visible from a significantly low net

non-performing asset (NPA) ratio of 0.59 per cent (aggregate net NPA outstanding of ₹61,252 crore). The PSBs reported a business growth of 11 per cent (year-on-year), with improved deposit growth of 9.8 per cent. During the period, PSBs' total business reached ₹242.27 lakh crore.

In December 2024, the Reserve Bank of India (RBI) said that Indian banks' profitability improved for the sixth consecutive year in 2023-24, and their gross bad debts or non-performing assets (NPAs) declined to a 13-year low of 2.7 per cent. According to a report released by the RBI, banks' financial position has stayed robust, marked by the sustained expansion in loans and deposits.

India's macro fundamentals have boosted the performance and soundness of the banking and non-banking financial sectors. "Banks' profitability rose for the sixth consecutive year in 2023-24 and continued to rise in H1:2024-25 with the return on assets (RoA) at 1.4 per cent and return on equity (RoE) at 14.6 per cent," said RBI in its Report on Trend and Progress of Banking in India 2023-24.

*Source: <https://www.livemint.com/industry/banking/finmin-defers-first-review-meeting-with-psb-heads-post-union-budget-to-march-5-report-11740497181736.html>*

## SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2024-2025/122 CO.DGBA.GBD.No.S954/42-01-029/2024-2025	28.2.2025	Department of Government and Bank Accounts	Reporting and Accounting of Central Government transactions for March 2025	All Agency Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12789">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12789</a>				
RBI/2024-2025/121 DOR.AML. REC.64/14.06.001/2024-25	27.2.2025	Department of Regulation	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 01 Entry	The Chairpersons/CEOs of all the Regulated Entities
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12788">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12788</a>				
RBI/2024-2025/120 DOR.STR.REC.61/21.06.001/2024-25	25.2.2025	Department of Regulation	Exposures of Scheduled Commercial Banks (SCBs) to Non-Banking Financial Companies (NBFCs) – Review of Risk Weights	All Scheduled Commercial Banks (including Small Finance Banks but excluding Regional Rural Banks and Payments Banks)
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12787">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12787</a>				
RBI/2024-2025/119 DOR.CRE. REC.63/21.06.001/2024-25	25.2.2025	Department of Regulation	Review of Risk Weights on Microfinance Loans	All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12786">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12786</a>				
RBI/2024-2025/118 DOR.CRE. REC.62/07.10.002/2024-25	24.2.2025	Department of Regulation	Review and rationalization of prudential norms - UCBs	All Primary (Urban) Co-operative Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12785">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12785</a>				
RBI/2024-2025/117 FMRD.DIRD.16/14.03.042/ 2024-25	21.2.2025	Financial Markets Regulation Department	Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025	All Eligible Market Participants
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12784">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12784</a>				



<a href="#">RBI/2024-2025/116</a> <a href="#">DOR.MRG.REC.60/00-00-017/2024-25</a>	17.2.2025	Department of Regulation	Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 - Amendment	Export-Import Bank of India (EXIM Bank), the National Bank for Agriculture and Rural Development (NABARD), the National Bank for Financing Infrastructure and Development (NaBFID), the National Housing Bank (NHB) and the Small Industries Development Bank of India (SIDBI)
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12783">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12783</a>				

<a href="#">RBI/2024-2025/115</a> <a href="#">FMRD.MIOD.</a> <a href="#">No.15/11.01.051/2024-25</a>	17.2.2025	Financial Markets Regulation Department	Government securities transactions between a Primary Member (PM) of NDS-OM and its own Gilt Account Holder (GAH) or between two GAHs of the same PM	All participants in Government Securities market
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12782">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12782</a>				

<a href="#">RBI//2024-2025/114</a> <a href="#">A.P. (DIR Series) Circular No. 21</a>	13.2.2025	Foreign Exchange Department	Export-Import Bank of India's GOI-supported Line of Credit of USD 120 mn to the Government of the Socialist Republic of Vietnam (GO-VNM) for procurement of High-Speed Guard Boats in the Borrower's Country	All Category – I Authorised Dealer Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12781">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12781</a>				

<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12780">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12780</a>	13.2.2025	Foreign Exchange Department	Export-Import Bank of India's GOI-supported Line of Credit of USD 180 mn to the Government of the Socialist Republic of Vietnam for procurement of 4 Offshore Patrol Vessels (OPV) in the Borrower's Country	All Category – I Authorised Dealer Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12781">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12781</a>				

<u>RBI/2024-2025/112</u> <u>DOR.CO.SOG(Leg)</u> <u>No.59/09.08.024/2024-25</u>	11.2.2025	Department of Regulation	All Agency Banks to remain open for public on March 31, 2025 (Monday)	All Agency Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12778">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12778</a>				
<u>RBI/2024-2025/111</u> <u>DoR.RET.REC.57/12.01.001/</u> <u>2024-25</u>	07.2.2025	Department of Regulation	Change in Bank Rate	All Banks
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12776">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12776</a>				
<u>RBI/2024-2025/110</u> <u>REF.No.MPD.</u> <u>BC.398/07.01.279/2024-25</u>	07.2.2025	Monetary Policy Department	Standing Liquidity Facility for Primary Dealers	All Primary Dealers,
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12775">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12775</a>				
<u>RBI/2024-2025/109</u> <u>FMOD.MAOG.</u> <u>No.150/01.01.001/2024-25</u>	07.2.2025	Financial Markets Operation Department	Liquidity Adjustment Facility - Change in rates	All Liquidity Adjustment Facility (LAF) participants
<a href="https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12774">https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12774</a>				

Source- [https://www.rbi.org.in/scripts/bs\\_circularindexdisplay.aspx](https://www.rbi.org.in/scripts/bs_circularindexdisplay.aspx)

## STATISTICAL SUPPLEMENT – RBI

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
(₹ Crore)					
Item	2024	2025		Variation	
	Feb. 23	Feb. 14	Feb. 21	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	-	0	0	0	0
4.2 State Governments	14809	25646	22112	-3534	7303
* Data are provisional; difference, if any, is due to rounding off.					

2. Foreign Exchange Reserves*								
Item	As on February 21, 2025		Variation over					
			Week		End-March 2024		Year	
	₹ Cr.	US\$ Mn.	₹ Cr.	US\$ Mn.	₹ Cr.	US\$ Mn.	₹ Cr.	US\$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	5553750	640479	33918	4758	162494	-5939	418406	21407
1.1 Foreign Currency Assets #	4715811	543843	30676	4251	-46034	-27108	168437	-4346
1.2 Gold	646668	74576	2844	426	207348	21901	249754	26728
1.3 SDRs	155830	17971	432	73	4607	-161	4884	-226
1.4 Reserve Position in the IMF	35441	4090	-34	7	-3427	-572	-4670	-749
* Difference, if any, is due to rounding off.								
# Excludes (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC and ACU currency swap arrangements.								

### 3. Scheduled Commercial Banks - Business in India

(₹ Crore)

Item	Outstanding as on Feb. 7, 2025	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2023-24	2024-25	2024	2025
			3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	22334601	208029	2151468	1859375	2421856	2139219
	(22271598)		(2037014)		(2307402)	(2190671)
2.1a Growth (Per cent)		0.9	11.9	9.1	13.6	10.6
			(11.3)		(13.0)	(10.9)
2.1.1 Demand	2498428	-12486	138833	54574	227958	179164
2.1.2 Time	19836174	220515	2012635	1804800	2193898	1960055
2.2 Borrowings	940558	-13421	349489	162616	331620	145740
2.3 Other Demand and Time Liabilities	1048172	57251	129677	110744	145037	128844
7 Bank Credit	17965275	96796	2472241	1533111	2729416	1817798
	(17529632)		(1923921)		(2181096)	(1930476)
7.1a Growth (Per cent)		0.5	18.1	9.3	20.3	11.3
			(14.1)		(16.3)	(12.4)
7a.1 Food Credit	53945	-2234	26536	30864	2146	7503
7a.2 Non-food Credit	17911330	99030	2445705	1502247	2727270	1810296

1. Data since July 14, 2023 include the impact of the merger of a non-bank with a bank.

2. Figures in parentheses exclude the impact of the merger.



#### 4. Money Stock: Components and Sources

(₹ Crore)

Item	Outstanding as on		Variation over									
	2024	2025	Fortnight		Financial Year so far				Year-on-Year			
					2023-24		2024-25		2024		2025	
	Mar. 31	Feb. 07	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	24831618	26881061	252301	0.9	2127767	9.5	2049443	8.3	2483526	11.3	2409533	9.8
	(24939860)	(26944063)	(251065)	(0.9)			(2004203)	(8.0)			(2358082)	(9.6)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3410276	3536983	33381	1.0	74387	2.3	126707	3.7	143750	4.5	186160	5.6
1.2 Demand Deposits with Banks	2586888	2639943	-11769	-0.4	141287	6.1	53055	2.1	230996	10.4	178058	7.2
1.3 Time Deposits with Banks	18739918	20592208	223056	1.1	1906128	11.4	1852290	9.9	2088884	12.7	2017113	10.9
	(18848160)	(20655211)	(221820)	(1.1)			(1807050)	(9.6)			(1965662)	(10.5)
1.4 'Other' Deposits with Reserve Bank	94536	111927	7633	7.3	5964	7.7	17391	18.4	19896	31.2	28201	33.7
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7512016	8143783	206257	2.6	96600	1.3	631768	8.4	477598	7.0	881650	12.1
	(7603571)	(8194665)	(206263)	(2.6)			(591094)	(7.8)			(839702)	(11.4)
2.1.1 Reserve Bank	1193213	1220379	172486		-452644		27166		-218245		221898	
2.1.2 Other Banks	6318803	6923404	33771	0.5	549245	9.6	604602	9.6	695844	12.5	659753	10.5
	(6410358)	(6974286)	(33777)	(0.5)			(563928)	(8.8)			(617804)	(9.7)
2.2 Bank Credit to Commercial Sector	16672145	18332689	102271	0.6	1923051	13.3	1660543	10.0	2197523	15.5	1980002	12.1
	(17202832)	(18768332)	(96325)	(0.5)			(1565500)	(9.1)			(1867324)	(11.0)
2.2.1 Reserve Bank	14406	20792	-1968		-17371		6386		-2673		11614	
2.2.2 Other Banks	16657739	18311897	104239	0.6	1940422	13.5	1654158	9.9	2200195	15.6	1968388	12.0
	(17188426)	(18747540)	(98294)	(0.5)			(1559114)	(9.1)			(1855710)	(11.0)

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

## 5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6		8	9	
Feb. 17, 2025	-	-	157427	-	1471	112137	-	-	-	46761
Feb. 18, 2025	-	-	71773	-	1359	97359	-460	-	-	-24687
Feb. 19, 2025	-	-	-	-	6529	85144	-	-	-	-78615
Feb. 20, 2025	-	-	132938	-	760	137648	-	-	-	-3950
Feb. 21, 2025	-	-	193924	-	500	135990	-	-	40000	98434
Feb. 22, 2025	-	-	-	-	285	64888	-	-	-	-64603
Feb. 23, 2025	-	-	-	-	286	64977	-	-	-	-64691
SDF: Standing Deposit Facility; MSF: Marginal Standing Facility.										

Source: [https://m.rbi.org.in/Scripts/BS\\_ViewWssExtractdetails.aspx?id=59875](https://m.rbi.org.in/Scripts/BS_ViewWssExtractdetails.aspx?id=59875)

## TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **RBI lowers risk weight on bank finance to NBFC, microfinance loans**

The Reserve Bank of India partially reverses tighter rules for small borrower and non-bank lender loans, reducing risk weights for consumer microfinance loans. This adjustment follows a deferral of new capital and liquidity proposals by the central bank, coinciding with a change in leadership as Sanjay Malhotra assumes the role of governor.

The Reserve Bank on Tuesday lowered risk weights for bank finance to NBFCs and microfinance loans, a move that will unlock more funds and boost credit. A lower risk weight means that lenders need to set aside less funds as a safety net for consumer loans, implying an increase in their lending capacity.

Both NBFCs and microfinance institutions have witnessed a slow down in their lending after the central bank tightened lending norms by raising the risk weight in November 2023.

The risk weight on the exposures of commercial banks to NBFCs was increased by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs was below 100 per cent.

"On a review, it has been decided to restore the risk weights applicable to such exposures...", the RBI said in circular.

In another circular, the RBI said it has reviewed risk weights on microfinance loans.

In November 2023, the risk weights on consumer credit, including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery, too was

increased to 125 per cent.

"On a review, it has been decided that microfinance loans in the nature of consumer credit shall also be excluded from the applicability of higher risk weights specified in the circular ibid and shall accordingly, be subject to a risk weight of 100 per cent," RBI said in another circular.

The central bank further clarified that microfinance loans which are not in the nature of consumer credit and fulfil certain criteria may be classified under regulatory retail portfolio (RRP) provided that the banks put in place appropriate policies and standard operating procedures to ensure fulfilment of the qualifying criteria.

Also, microfinance loans extended by regional rural banks (RRBs) and local area banks (LABs) shall attract a risk weight of 100 per cent, the RBI said.

As per the MFIN data for the third quarter of the fiscal, the portfolio has declined by 3.53 per cent on year on year basis, amounting to Rs 3,85,348 crore.

"It is a welcome move in view of the current headwinds faced by the sector; this shall to an extent provide some relief to the players and facilitate credit flow to a broader set of players than what was witnessed in the recent past," Anil Gupta, Senior Vice President Co Group Head - Financial Sector Ratings, ICRA, said.

Given the significant slowdown in bank credit to NBFCs in the current fiscal, tighter market liquidity in general and, to prioritise credit flow to the underserved segment for growth, the RBI has restored its earlier decision of increasing the risk weight of the bank credit to NBFCs, Gupta said.

The restoration of lower risk weights for better-

rated NBFCs will improve the credit flow from banks to NBFCs while being immediately beneficial for their capital ratios, A M Karthik Senior Vice President, Financial Sector Ratings ICRA, said, adding that with improved credit flow to NBFCs, the overall credit flow to the retail segment is expected to improve thereby supporting overall economic growth.

Source: <https://economictimes.indiatimes.com/news/economy/policy/rbi-partly-dials-back-strict-loan-rules-for-micro-credit-non-bank-lenders/articleshow/118561390.cms?from=mdr>

- **Banking, NBFC stocks jump up to 8% as RBI eases risk weight for lending; check details**

Shares of small-sized banks and non-banking financial companies (NBFCs) rallied on Thursday, February 27, after the Reserve Bank of India (RBI) eased risk weight norms to boost lending growth.

The central bank on Tuesday lowered the risk weights of loans given by banks to NBFCs to 100% from 125%. Lower risk weights mean banks will have to set aside less capital for loans given to NBFCs, resulting in a substantial release of capital for lending purposes. This would help in improving banks' capital adequacy ratio (CAR).

Meanwhile, NBFCs will also benefit as banks would be able to extend more loans to these entities, helping them deal with their liquidity issues.

Reacting to the announcement, the NIFTY Bank and Financial Services indices emerged as the top sectoral gainers on Thursday. At 11:30 am, Bandhan Bank shares were trading 4.5% higher after rising over 8% intraday, AU Small Finance Bank was up 4%, IDFC First Bank Ltd gained 2% and IndusInd Bank rallied 0.9%.

Similarly, NBFCs like Shriram Finance shares rallied 4.5%. Chola mandalam Investment and Finance Co. Ltd was trading up 3.8%, Bajaj Finserv Ltd jumped 2.5% and Muthoot Finance Ltd gained 2%.

In a separate circular, RBI also announced that it has excluded microfinance loans from higher risk weights, which are currently applicable to consumer credit.

Bank risk weights for loans extended to microfinance companies will be 75% or 100%, depending on the loan's nature, compared with 125% earlier. All these new risk weight norms come into effect from April 1, 2025.

### **What is risk weight and its significance?**

In November 2023, RBI increased the risk weight of banks' exposure to consumption loans, credit card loans, and loans given to NBFCs by 25% to 125% to address the sharp hike in unsecured lending.

Risk weight is essentially a number that determines the minimum amount of capital that a financial institution needs to hold to cover its credit risk. In case the borrower fails to repay the loan, the amount set aside as the risk weight helps the lender to deal with the loss of a particular asset and maintain financial stability.

Different kinds of loans are assigned different risk weights because they pose different levels of risk. Secured loans, like mortgage loans, carry lower risk weights because they are backed by collateral, while unsecured loans, like personal loans, carry higher risk weights.

The easing of risk weight requirements would help banks set aside lower capital to cover risk. This would free up some of their reserves and boost their capital adequacy ratio (CAR), which helps assess a bank's financial health and ability to withstand economic downturns.

### **How will NBFCs, microfinance institutions going to benefit?**

Lower risk weight on bank loans extended to NBFCs and microfinance institutions (MFIs) will encourage banks to lend more to these entities.

This is likely to improve credit flow to NBFCs and



MFIs, which will further flow down as improved credit availability in the retail segment of the economy.

This development is especially significant for MFIs, as recent data showed that the gross loan portfolio in the microfinance segment shrunk by 3.5% year-on-year to ₹3.85 lakh crore during the December 2024 quarter due to curtailed funding. Sequentially, the sector's loan portfolio declined from ₹4.08 lakh crore in the September 2024 quarter.

Source: <https://upstox.com/news/market-news/stocks/banking-nbfc-stocks-jump-up-to-8-as-rbi-eases-risk-weight-for-lending-check-details/article-148767/>

- **Karnataka Micro Loan and Small Loan ordinance could lead to short-term disruptions for NBFC-MFIs: Ind-Ra**

Ind-Ra says with stricter regulations on recovery practices, registered players could face challenges in making collections, especially from the high-risk borrowers in deeper delinquency buckets

The Karnataka Micro Loan and Small Loan (Prevention of Coercive Action) ordinance 2025 effective 12 February 2025 could have short-term disruptions, impact customer discipline in the near term and lead to an increase in delinquencies in the fourth quarter (4QFY25) for non-banking finance companies-microfinance institutions (NBFC-MFIs), cautioned India Ratings and Research (Ind-Ra).

This is despite the ordinance excluding banks, NBFCs and NBFC-MFIs and being applicable to un-registered/ unlicensed microlenders.

The credit rating agency noted that Karnataka has the fourth-largest microfinance market in the country and some large NBFC- MFIs have a sizeable portion of their portfolio in the state.

Furthermore, the political events unfolding in Karnataka could have a spillover effect in the nearby regions and would be a key monitorable

Ind-Ra has maintained a deteriorating sector outlook and a Stable rating Outlook for NBFC-MFIs for FY26.

"Recent developments in Karnataka could exacerbate the ongoing situation for the MFI sector and delay the recovery further as a temporary impact on credit discipline of borrowers is likely, given the geographical contribution of the state and the relative dip seen in the collection efficiency already", says Karan Gupta, Head and Director Financial Institutions, Ind-Ra.

### **MFI issue takes a political turn**

The agency observed that post new reports regarding several families in Karnataka being allegedly abused by microfinance companies over the past few months and company representatives harassing borrowers in the name of repayment, the issue became political including the arrest of some collection agents by local police authorities and the state government bringing in the Microfinance Ordinance.

It noted that the key points covered under the ordinance include mandatory registration of unregulated micro-lenders with designated district authorities within a specified time frame, prohibition of coercive recovery practices, transparency in loan pricing, establishment of an ombudsperson for mediation of disputes between borrowers and lenders and debt relief in case of loans disbursed prior to implementation of the ordinance.

Ind-Ra opined that the ordinance targets to address the key issue of coercive collection and recovery practices adopted by MFI executives and private moneylenders including fines of up to ₹5 lakh or a jail term of up to 10 years. This could lead to a more ethical lending environment in the state over the medium to long-term.

However, on the counter-side, this may also lead to near-term disruptions in the existing operational environment for NBFC-MFIs.

The agency assessed that with stricter regulations on recovery practices, registered players could face challenges in making collections, especially from the high-risk borrowers in deeper delinquency buckets.

This may also impact borrower discipline as they may feel less pressured to make repayments, leading to increased defaults and asset quality issues for the segment. Incremental disbursements may also be impacted, till the operations are streamlined in the state.

Ind-Ra said the ordinance also points towards relief on the loans extended by un-registered/unlicensed MFIs, prior to the ordinance's implementation.

It took note of the Self-Regulatory Organisations (SRO) guardrails which restrict the number of microfinance lenders to three per borrower and incremental exposure to delinquent borrowers (overdue for more than 60 days), which will help improve the borrower discipline but over the medium term. However, near-term impact

on borrower repayment behaviour remains a monitorable.

### **Geographical concentration risk**

The agency noted that Karnataka has the fourth-largest microfinance market after Bihar, Tamil Nadu and Uttar Pradesh. Moreover, the top five large NBFC-MFIs operate in the state, comprising nearly 35 per cent of the gross loan portfolio as of December 2024.

The share of Karnataka in the overall loan portfolio for such players ranges between 9 per cent - 33 per cent, indicating some level of geographical concentration risk. With the ongoing political issues in the state, the collection efficiency levels in the state dipped by 1 per cent - 4 per cent between December 2024 and January 2025, Ind-Ra said.

*Source: <https://www.thehindubusinessline.com/money-and-banking/karnataka-micro-loan-and-small-loan-ordinance-could-lead-to-short-term-disruptions-for-nbfc-mfis-ind-ra/article69222906.ece>*

## TOP INSURANCE NEWS

- **Health insurance premiums cross Rs 1 lakh crore in 10 months, growth slows to 10%**

Health insurance premiums in India surpassed Rs 1 lakh crore in the first 10 months of the current financial year, reflecting a 10% increase from Rs 90,785 crore collected during the same period last year. However, this growth is slower compared to the 20% rise recorded in the previous fiscal year. By January 2025, total health insurance premiums stood at Rs 1.07 lakh crore, as per data from non-life insurers.

According to a TOI report, the individual health insurance segment recorded the highest growth, expanding by 13.5% to Rs 37,068 crore, contributing 38% of total premiums. Group health insurance, which is primarily purchased by companies for employees, remained the largest category with a 53% share. Premiums in this segment increased by 12.4% to Rs 47,312 crore.

Government-backed schemes, including Ayushman Bharat Yojana, saw a decline in premiums by 9.7% to Rs 8,828 crore. Under these schemes, state governments either purchase insurance or set up trusts to manage claims. In the previous fiscal year, all three segments—government schemes, group insurance, and individual policies—had recorded double-digit growth. This year, overall premium growth has slowed to 10.4%, with some policyholders facing rate hikes exceeding 10% following insurer revisions.

The rising cost of health insurance has raised concerns about accessibility. Despite a 20% increase in premiums last year, the number of individuals covered under personal health policies grew by only 5%, aligning with workforce expansion. Affordability remains a challenge, prompting calls for the removal of the 18% GST

on health insurance premiums.

Medical inflation has led insurers to encourage higher coverage amounts. A decade ago, the standard mediclaim cover was Rs 3 lakh, whereas most insurers now recommend Rs 5 lakh. Additionally, expanded coverage, including maternity benefits and regulatory mandates for previously excluded conditions, has contributed to premium hikes. A high claims ratio in group insurance has also driven up costs.

Data from Star Health and Allied Insurance, which accounts for one-third of individual health policies in India, showed a drop in the retail health renewal ratio from 98.2% in December 2023 to 94% in December 2024. The company also reported a 10% rise in the overall sum insured in the retail health segment.

Among insurers, New India Assurance leads the market with a 17% share of total health insurance premiums, followed by Star Health at 13% and Bajaj Allianz at 7%. Standalone health insurers collectively account for nearly 30% of total premiums.

Source <https://economictimes.indiatimes.com/industry/banking/finance/insure/health-insurance-premiums-cross-rs-1-lakh-crore-in-10-months-growth-slows-to-10/articleshow/118624113.cms>

- **Bima-ASBA facility will eliminate unauthorised deductions, say insurance sector players**

Irdai's decision to implement ASBA facility for insurance premium payment will benefit customers by eliminating unauthorised deductions and delayed refunds, say experts. Insurance Regulatory and Development Authority of India (Irdai) has directed life and health insurers to provide Bima-ASBA, a facility wherein a policyholder blocks the amount towards premium in his or her bank account

which gets debited only when the policy is issued.

Insurers have been asked to implement the new payment mechanism Bima-ASBA (Applications Supported by Blocked Amount) through Unified Payments Interface (UPI).

ASBA facility or blocking of funds through UPI is widely used by retail investors in stock market.

Commenting on the Irdai's decision, Jitendra Attra, Chief Financial Officer, SBI General Insurance said Bima-ASBA is a significant step toward enhancing transparency, security, and ease in insurance premium payments.

"By enabling policyholders to authorise premium payments directly from their bank accounts, Bima-ASBA ensures greater control over transactions, eliminating issues like unauthorised deductions and delayed refunds. This will particularly benefit customers who prefer a hassle-free and automated payment mechanism while ensuring their funds remain secure until policy issuance," Attra said.

Sanket Gupta, Chief Financial Officer, IFFCO Tokio General Insurance Company said that like ASBA in the IPO market, which SEBI introduced almost a decade ago, Bima-ASBA will also lead to smooth premium payments.

"With this move, the amount will remain in the policyholder's account until the policy is issued or acceptance is communicated. This will resolve many grievances and disputes that arise between insurance companies and customers/policyholders regarding the timing of policy issuance," he said.

At the same time, Gupta added that the move will ensure that policyholders do not forgo any interest income in the interim until official communication is received regarding the policy's issuance.

Indraneel Chatterjee, Co-Founder, RenewBuy too said that Bima-ASBA is a significant step forward for the Indian insurance sector, with substantial benefits for consumers.

"Policyholders earlier often faced uncertainty regarding premium payments before policy issuance. Bima-ASBA eliminates this ambiguity by blocking funds rather than immediately debiting them, it ensures that premiums are only transferred once the policy is issued and protects consumers' funds in case the policy does not get issued," Chatterjee added.

According to Iradi norms, premium is required to be paid only after the insurer communicates the decision of acceptance of the proposal to customer.

Unified Payments Interface (UPI) One Time Mandate (OTM) feature allows users to block funds in their bank accounts for specific transactions, ensuring availability of funds while deferring actual payments.

With an aim to facilitate smooth transactions of payment of premium, Irdai decided to enable UPI-OTM for insurers.

Under 'Bima Applications Supported by Blocked Amount (Bima-ASBA) facility, transfer of money from the prospect to the insurer happens only when insurance policy is issued," it said.

Insurers are allowed to use Bima-ASBA mechanism for blocking of premium up to the limit specified by NPCI from time to time.

Insurers have been asked to partner with multiple banks and have appropriate systems and process in place.

*Source: <https://economictimes.indiatimes.com/industry/banking/finance/insure/bima-asba-facility-will-eliminate-unauthorised-deductions-say-insurance-sector-players/articleshow/118454586.cms>*



- **Insurance companies look to hike health premiums as pollution stings**

Indian insurers are considering making New Delhi residents pay 10% to 15% more for new health policies after an extraordinary spike in claims related to air pollution in 2024 in India's capital, according to nine executives aware of the matter.

The plan, now in discussion amongst insurers and which would need approval from the insurance regulator, follows record-breaking air pollution in New Delhi last year. If approved, it would be the first time air pollution was used as a direct factor in figuring health insurance premiums in India, and could be used to justify price hikes in other cities as well.

Toxic air led to more Delhi residents seeking treatment for asthma, chronic obstructive pulmonary disease (COPD) and cardiovascular conditions in 2024, higher than in any prior year, five of the executives said.

All the executives spoke on condition of anonymity as they are not authorized to speak with media.

"We have to start thinking about pollution as a separate factor in the pricing in the sense that can we then start executing a particular charge for the areas which are impacted by it," said Amitabh Jain, the operating chief of Star Health, India's No.1 standalone health insurer.

In 2024, the number of patients with respiratory ailments who needed to be hospitalized rose to 17%-18% in the second half of the year versus 5%-6% in the first half, Jain said.

Also, respiratory claims rose 8.3% from fiscal year 2023 to fiscal year 2025 in the state of Delhi, which recorded the highest rise in healthcare costs in India during that period, according to a joint report from Boston Consulting Group and Indian healthcare administrator Medi Assist.

Star Health and ICICI Lombard said pollution could soon become a direct factor in determining health insurance premiums if poor air quality persists. Bajaj Allianz General Insurance said the industry could also add new clauses specifically addressing pollution-related health concerns.

The Insurance Regulatory and Development Authority of India (IRDAI) and prominent Indian insurers including Aditya Birla Health Insurance, Tata AIG, New India Assurance and Go Digit did not respond to requests seeking comment.

For 2023/24, Indian insurers collected \$12.4 billion in health insurance premiums, an increase of about 20% over the previous year, according to the latest IRDAI annual report.

New Delhi chokes on smog every winter due to a blend of vehicle emissions, construction dust and smoke from illegal farm fires. In November, Delhi overtook Pakistan's Lahore as the world's most polluted city in Swiss group IQAir's live rankings, with Mumbai and Kolkata also making it to the list of top 10 cities with the most toxic air.

On November 18, India's pollution control authority said the national capital territory's 24-hour air quality index (AQI) score touched a season-high of 491 on a scale of 500. Anything over 400 is "severe", affecting healthy people as well as "seriously impacting" those with existing health issues.

In India, insurers can vary health insurance premiums by city based on factors ranging from hospitalization costs to demographics.

Getting the regulatory nod to include air pollution as a factor would depend on insurers submitting proof to back the assertion that toxic air is leading to an increase in claims.

"The frequency and severity of hospitalization purely due to the toxicity in the air needs to be

isolated," PwC India Financial Services Advisory Leader Joydeep Roy said.

"That involves commissioning longer-term studies."

It is not known how long it would take to conduct such studies or to get the needed approvals from IRDAI.

Senior citizens, children, outdoor professionals and those with preexisting respiratory conditions would likely pay the highest premiums. The plan, if approved, would likely make health insurance unaffordable for many who need it most.

New Delhi's per capita income was \$5,331 in 2024 according to the Delhi Statistical Handbook, and under current guidelines health insurance with a coverage limit of \$10,000 for a family in the city would cost between \$100 to \$400 per year.

"In India, owning health insurance cover is a luxury," said Delhi resident and COPD patient Aniket Tiwari, 28, who decided against getting coverage in 2024 because it was too pricey.

*Source: <https://economictimes.indiatimes.com/industry/banking/finance/insure/insurance-companies-look-to-hike-health-premiums-as-pollution-stings/articleshow/118445289.cms>*

## TOP CORPORATE BOND MARKET NEWS

- **Sebi launches centralised database portal for corporate bonds**

Markets regulator Sebi has launched a centralised database portal for corporate bonds in a bid to create a single, authentic source of information on such securities. The portal -- Bond Central-- has been developed by Online Bond Platform Providers Association (OBPP Association) in collaboration with Market Infrastructure Institutions (MIIs) comprising stock exchanges and depositories.

"The Bond Central aims to create a single, authentic source of information on corporate bonds issued in India and is intended as an information repository for the public at large and is accessible free of cost," Sebi said in a statement.

This database is expected to enhance transparency and facilitate informed decision making amongst investors and other market participants and will be operated by the OBPP Association, which is a not-for-profit entity with support from MIIs.

Listing out the key features of the portal, Sebi said it is a unified view of corporate bonds across exchanges and issuers ensuring transparency and comparison.

Additionally, investors can compare corporate bond prices with Government Securities (G-Secs) and other fixed-income indices for better decision-making.

Investors can access to detailed risk assessments, corporate bond documents, and disclosures from the portal enabling investors to evaluate opportunities effectively.

The platform standardises corporate bond-related data, reducing information asymmetry

and thereby improving trust in the market

The first phase of Bond Central went live on Thursday and additional features will be added on an on-going basis based on stakeholder feedback, Sebi said.

Source: <https://economictimes.indiatimes.com/markets/bonds/sebi-launches-centralised-database-portal-for-corporate-bonds/articleshow/118625778.cms>

- **India's bond forwards may see strong demand from insurers, investors say**

India's soon-to-be-launched bond forwards could see strong demand from insurers as these instruments offer the option of taking delivery of underlying securities at the end of a contract, bankers and investors said on Tuesday.

Bond forwards allow investors to buy government securities at an agreed price on a future date. The central bank announced guidelines for these contracts last Friday, with the rules set to kick in from May 2.

Insurers currently use forward rate agreements (FRA), a derivative instrument used to hedge interest rate fluctuations. At the end of a contract, no securities are delivered and only the price differential is settled.

"Bond forwards would be very active and insurance companies will most likely prefer bond forwards over forward rate agreements," said Churchill Bhatt, executive vice president at Kotak Mahindra Life Insurance.

Banks and primary dealers will be allowed to act as market makers for these transactions.

Bond forwards are also attractive as investors can align their cash flow with asset purchases and opt for either cash settlement or actual bond delivery.

"Cash settlement will be more popular with traders, especially those who want to take advantage of their call or are looking at a change in interest rates for a specific timeline. The deliverable part will help long-term investors like insurance companies," said Alok Singh, group head of treasury at CSB Bank.

Traders expect domestic banks to participate in this market, which will ensure sufficient liquidity.

"Any instrument that allows investors to hedge or trade on both sides curbs volatility," CSB Bank's Singh said.

The launch of bond forwards could also improve demand for ultra-long bonds as more insurance companies would be willing to engage in instruments that are regulated by the Reserve Bank of India, investors have said.

The launch of bond forwards could also improve demand for ultra-long bonds as more insurance companies would be willing to engage in instruments that are regulated by the Reserve Bank of India, investors have said.

The majority of debt supply from New Delhi has been focused on ultra-long papers in recent years.

"The bond forward guidelines will offer operational comfort to insurance companies. We do not expect it to impact the 10-year yield much, but it may lead to some softening in the ultra-long-end part of the curve," said Ritesh Bhusari, joint general manager for treasury at South Indian Bank.

Investors anticipate bond forwards to reduce volatility at maturity.

By providing the option of bond delivery instead of only cash settlement, these instruments are expected to help insurers avoid speculation, South Indian Bank's Bhusari said.

"That will prevent these companies from scrambling for bonds in the secondary market and, in turn, curb volatility."

Source: <https://economictimes.indiatimes.com/markets/bonds/indias-bond-forwards-may-see-strong-demand-from-insurers-investors-say/articleshow/118553481.cms>

#### ● **Indian state-run firms line up \$2 bln bond sales as central bank cuts interest rate**

Indian state-run companies are set to borrow nearly \$2 billion via the bond market early next week after the central bank cut interest rates for the first time in nearly five years.

Four state-run firms REC, IIFCL, HUDCO and SIDBI are looking to raise a total of up to 170 billion rupees (\$1.94 billion) through Monday and Tuesday, according to merchant bankers.

Overall, companies raised around 125 billion rupees via bonds this week, compared with the typical weekly issuance range of 50-100 billion rupees.

Earlier in the day, the Reserve Bank of India cut its key policy rate for the first time in nearly five years and signaled a less restrictive policy approach ahead to provide stimulus to the sluggish economy.

Governor Sanjay Malhotra also said the RBI will continue to monitor liquidity and financial market conditions and proactively take appropriate measures to ensure orderly liquidity conditions.

The central bank has already announced an infusion of close to 2 trillion rupees of durable banking system liquidity since the last month.

Bond yields rose after the policy decision as the central bank did not announce any additional liquidity measures along with the rate cut, which was already priced in.



"Market sentiment is expected to stabilise next week ahead of bidding," said Venkatakrishnan Srinivasan, founder and managing partner at debt advisory firm Rockfort Fincap.

Even as state-run companies generally prefer longer duration debt, of the total fundraising over the next two days, 110 billion rupees are being targeted through shorter duration debt.

"We expect robust demand from key investors such as provident funds, insurance companies, mutual funds, and banks for these issuances," said Suresh Darak, founder of Bondbazaar, an online bond trading platform.

Mutual funds have preferred to remain invested in shorter duration high-rated corporate bonds,

as they anticipate more liquidity infusion bodes well for this part of the yield curve.

"The RBI also continues to remain comfortable on the domestic growth outlook. This indicates a shallow rate cut cycle ahead. Hence we continue to prefer short to medium duration products given the favourable risk reward," Anurag Mittal, head of fixed income at UTI Asset Management.

(\$1 = 87.4400 Indian rupees)

Source: <https://economictimes.indiatimes.com/markets/bonds/indian-state-run-firms-line-up-2-bltn-bond-sales-as-central-bank-cuts-interest-rate/articleshow/118012386.cms>

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