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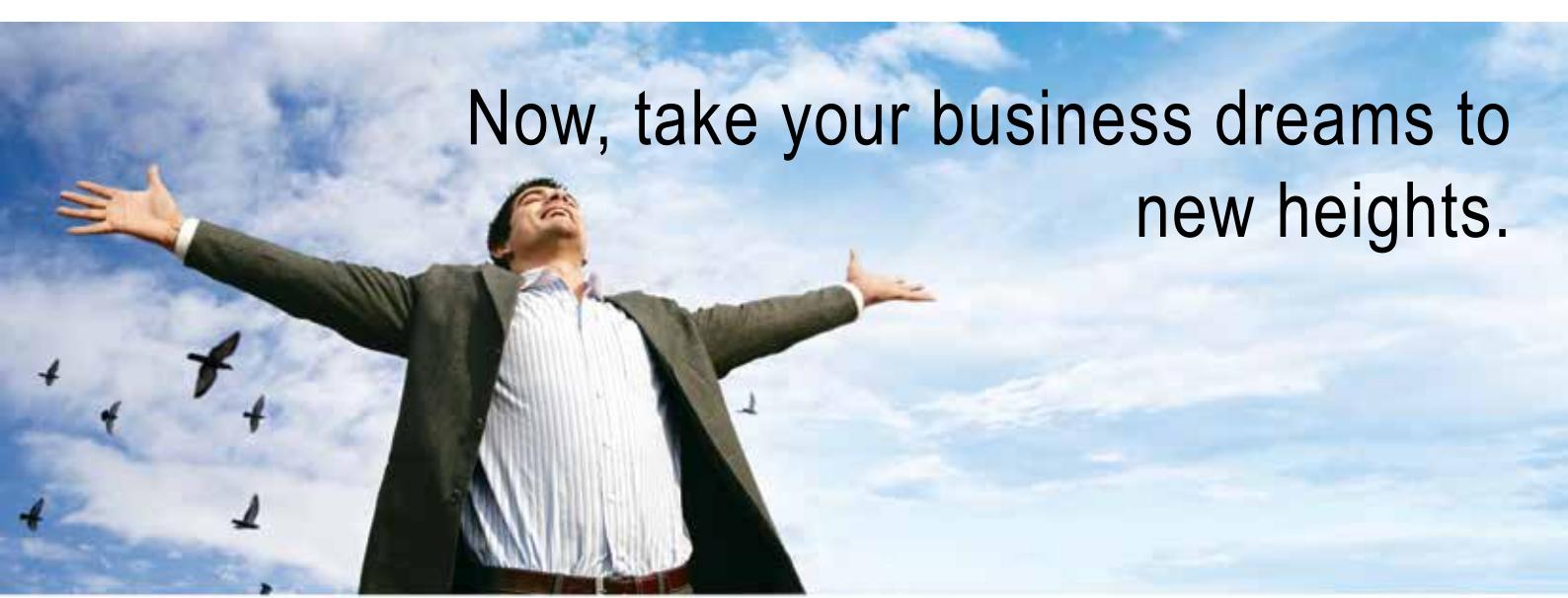


Department of Banking & Financial Services

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INDUSTRY ARTICLE IN THE MONTH

US Tariffs & The New World Economic Order- India Perspective

1.0 Background

The India-United States of America (US) trade relationship has evolved significantly over the past two decades, emerging as a cornerstone of the broader strategic partnership between the two democracies. Bilateral trade in goods and services crossed USD 200 billion in 2024, making the U.S. India's largest trading partner.

The recent imposition of tariff measures by the U.S across countries and commodities is redefining the global economic landscape. The US has a total trade of US\$ 7,301 billion in 2024 comprising of imports into US of US\$ 4,110 billion and exports from US of US\$ 3,192 billion resulting in a trade deficit of US\$ 918 billion.

2.0 New Proposed Tariff Structure

On 2 April 2025, US announced a complete shift in its Tariff policy from a very low Tariff regime (average 2.5%) to a baseline tariff of 10% for all countries and all commodities (subject to certain exemptions) and Tariffs ranging from 10% to 245%. Certain countries have imposed retaliatory tariffs. In the context of India, the US proposal of imposing additional tariff of upto 26 % has raised serious concerns about the potential impact on India's export sectors, economic growth and new investments.

3.0 India's Response Strategy to the US Tariffs

India's response to the recent tariff measures proposed by the United States, particularly the impending 26% reciprocal tariff on Indian exports, has been pragmatic and strategic, reflecting its commitment to preserving economic stability while safeguarding long-term trade interests.

On 13 February 2025, President Donald J. Trump hosted Prime Minister Narendra Modi for an Official Working Visit in Washington, DC. Reaffirming the strength of the India-U.S. Comprehensive Global Strategic Partnership, the two leaders launched the U.S.-India COMPACT for the 21st Century, aimed at enhancing cooperation in commerce, technology, and defense. A key pillar of this collaboration is "Mission 500", an ambitious initiative to double bilateral trade to USD 500 billion by 2030.

During the April 2025 visit of U.S. Vice President J.D. Vance to India, both nations finalized the terms of reference for a forthcoming Bilateral Trade Agreement (BTA). This reflects a significant shift toward structured negotiations to address tariff imbalances and secure mutual market access. The 26% tariff has been paused for 90 days until 8 July 2025, offering a critical window for concluding trade adjustments.

India has already undertaken pre-emptive tariff reductions on several U.S. imports to de-escalate tensions and encourage reciprocal access including the following key products:

- **Auto imports:** reduced from 110% to 70%
- **EV imports:** reduced from 110% to 15%
- **Bourbon whisky:** reduced from 150% to 100%

These adjustments reflect India's intent to signal flexibility and secure a cooperative trade environment. India has at present ruled out immediate counter-tariffs, choosing not to escalate the situation. This restraint demonstrates India's preference for a constructive trade partnership grounded in dialogue, not confrontation.

The Indian government is actively consulting key export sectors such as textiles, pharma, auto, engineering, electronics, gems and jewellery to assess the impact of U.S. tariffs and formulate calibrated responses.

India may also leverage its lower reciprocal tariff (26%), which remains competitive compared to China (245%), Vietnam (46%), Bangladesh (37%), Botswana (37%) etc. to expand its market share in U.S.-bound exports of textiles, apparel, footwear, steel products etc.

In parallel, India is also strengthening domestic manufacturing under the Make in India initiative, aimed at reducing reliance on imports and enhancing supply chain resilience.

To safeguard its broader export interests, India is considering selective tariff reductions on U.S. imports, a calibrated strategy to avert the imposition of broader tariff barriers by US while reinforcing the cooperative spirit of bilateral trade.

4.0 Future Outlook – Navigating the Road Ahead

As India and the United States navigate a critical juncture in their trade relationship, both nations have demonstrated willingness to avoid escalation and work toward a balanced outcome. The ongoing 90-day moratorium on the imposition of a 26% reciprocal tariff offers a narrow but valuable window for India and the U.S. to finalize a comprehensive Bilateral Trade Agreement (BTA). If successful, such an agreement could serve as a framework for resolving long-standing tariff asymmetries, enhancing market access, and institutionalizing dispute resolution mechanisms.

India's calibrated response marked by pre-emptive tariff cuts, enhanced industry consultations, and restraint from retaliatory measures demonstrates a mature and forward-looking trade strategy. These efforts emphasize on the country's intent to de-escalate tensions while safeguarding export interests and reinforcing its status as a reliable economic partner.

As both countries work toward finalizing a Bilateral Trade Agreement, the next few months will be pivotal. A successful resolution will not only avert a tariff war but also unlock the potential for a redefined trade framework that fosters long-term growth, resilience, and strategic alignment in a rapidly evolving global order.

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TOP SPEECHES

Speech by AFSA Chief Executive Tim Beresford at the 2025 Future of Banking Summit on Friday 9 May.

Good morning and thank you for inviting me to speak to you today.

I'd like to acknowledge the traditional custodians of the lands on which we meet today, the Gadigal people of the Eora nation, and pay my respects to their Elders past and present.

Thank you to FST Media for organising today's event and for your work over the past two decades helping Australia's digital leaders stay ahead of the technology curve.

I see you have some wide-ranging discussions today as you consider the future of banking.

My address will touch on a number of those topics.

I'm going to pan out to the global picture and look at 3 megatrends causing uncertainty in the world – geopolitical risk, technological innovation and disruption, and climate change.

I'll discuss how these megatrends are shaping Australia's banking sector and impacting consumer behaviours and lending practices.

And I'll suggest how we can respond to these challenges and opportunities – in two ways.

Firstly, we need to take a holistic system approach.

The interconnectedness of the global financial system and the pace at which things change – as we saw with the collapse of the Silicon Valley Bank – requires system thinking from all of us.

That means everyone here is a system operator. We all have a role to play in the system's health and the customer experience.

We can often overlook this, making decisions in isolation, without considering their potential wider impact.

And secondly, in an increasingly uncertain world, we must all work to build social licence – it goes to trust.

Now more than ever, the way you do business matters.

Lending practices must balance both social and economic outcomes. Innovation mustn't come at the cost of responsible lending.

There's a speech Lieutenant General David Morrison gave to Australian troops in 2013 that still resonates strongly today.

He said: "The standard you walk past is the standard you accept."

I'd ask you all to reflect on the standard you accept, the values you uphold, as you go about your day-to-day work.

Global Megatrends

Geopolitical risk

As senior banking executives, you're operating in an increasingly fragmented global economy.

We're seeing a move away from multilateral trade agreements to ad-hoc bilateral arrangements and regional supply chains. From globalisation to slowbalisation.

This feeds into rising economic uncertainties. The risk of resurgent inflation and a sluggish economic recovery. A less optimistic outlook for the US and China. Not to mention the Black Sea and the Red Sea.

Little wonder that, in survey after survey, geopolitical risk comes out as the top concern of global business leaders and investors.

The impacts of this risk are very real.

Just two weeks ago, the IMF cut its global growth forecast for this year by half a percentage point to 2.8%, citing increased tariffs and uncertainty.

It warns the global economic system of the past 80 years is being reset, ushering the world into a new era.

APRA Chair John Lonsdale spoke at length about geopolitical risk in recent speeches to the European Australian Business Council and the AFR Banking Summit.

He noted how international upheaval has increased operational risks in the domestic financial system.

So, what does this mean for you as leaders and managers in the Australian banking system?

The Lowy Institute says Australian business leaders cannot afford to be passive observers to rising geopolitical risk.

Leaving it to government to manage these risks is no longer an option.

And it warns that markets, shareholders and stakeholders will punish firms that are caught unprepared for the calamities ahead.

We see regulators sharpening their understanding of how geopolitical shocks can impact the financial system.

APRA has created its first specialist geopolitical risk team.

APRA's first system-wide risk stress test will focus on links between the \$4.2 trillion superannuation industry and the \$5.5 trillion banking industry it will one day eclipse.

It will explore how the superannuation industry and fund decisions may dampen or amplify stress across the financial system.

These are important considerations, given the superannuation sector's large – and growing – share of financial system assets.

Technological innovation and disruption

Turning to the second megatrend, the rapid pace of technological change presents challenges and opportunities for businesses globally, including your own.

Cybersecurity poses a substantial risk to the global financial system.

As far back as February 2020, European Central Bank president Christine Lagarde warned a cyberattack could trigger a serious financial crisis.

Since then, cyberattacks have almost doubled, according to the IMF, with nearly one-fifth of all incidents affecting financial firms.

The growth of AI potentially elevates this threat, enabling more scalable attacks.

AI sits at an interesting nexus between innovation and risk.

On the innovation side, it's estimated generative AI could increase global banking industry revenues by up to 4.7% a year – or \$340 billion.

But on the risk side, trust in AI is divided. The 2025 Edelman Trust Barometer found while 72% of people in China trust AI, in the US it's just 32% – and in Australia, 25%.

And while organisations globally are keen to harness AI, only 37% say they're equipped to assess the security of AI tools before deployment, according to the World Economic Forum.

This has interesting implications for the Australian banking industry.

Australia has long been a financial services innovator, dating back to Paul Keating's 1983 decision to open the door to global banking competition.

That innovation continues today. Our fintech industry is ranked 6th in the world and the number of companies in it has grown five-fold in five years.

Our community embraces digital technology.

Digital banking interactions now account for over 99% of all customer interactions, and Australians are among the world's top users of cashless payments.

So, some great opportunities for the financial sector to grow through technology innovation – but also some risks.

NAB says every bank is under cyber attack every minute of every day. Its fraud team takes 80,000 calls a month.

It's a costly risk to manage. CBA alone spent more than \$800 million protecting against scams, fraud and cybercrime last financial year.

And while there are obvious gains for the local banking industry in pursuing AI, the Edelman Trust Barometer shows work is needed to build trust in the technology.

Climate change

On to the third global megatrend, climate change, which has become a major concern for insurers – with significant ramifications for the financial sector.

Last year, extreme events across the globe cost the insurance industry nearly \$US150 billion, the most since 2017.

As premiums rise, underinsurance is worsening globally.

This has profound implications for Australia.

We're ranked 22nd out of 193 countries for natural disaster risk, so we already face greater exposure to climate-related events.

As disasters become more common and severe, we see more households being priced out of insurance.

The Actuaries Institute estimates 15% of Australian households are under extreme insurance stress, with premiums exceeding one month's gross annual income.

Already, 5% of Australian homes are either uninsurable or unaffordable to insure, according to analysts at Climate Valuation.

That's expected to become 10% of homes over the next decade.

This will impact house values and the ability of affected householders to either secure finance or meet their existing mortgage obligations.

There are obvious flow-on effects for the Australian housing market, a mainstay of the financial services industry and the wider economy.

Impact on consumer behaviours and lending practices

All of this points to Australian consumers – your customers – facing sustained pressures over the foreseeable future.

On the face of it, we're seeing promising economic improvement.

GDP is improving, the cost of living has stabilised and interest rates have started to come down.

Unemployment remains low and consumer confidence is on the rise.

But, as the revised IMF forecasts show, circumstances can quickly change.

Personal insolvency system overview

As a regulator, I look at how that might play into personal insolvencies.

To give you some perspective, we expect around 12,400 insolvencies in 2024-25.

That's a modest increase on last year's 11,600 insolvencies.

But it's a huge decrease on the record 37,000 insolvencies in 2009-10 after the Global Financial Crisis.

Even as recently as 2017, at the start of the Hayne Royal Commission, personal insolvencies sat at more than 30,000 a year.

There's been a structural shift since then.

So, what changed? Three things.

Creditor behaviour changed in the wake of the Royal Commission.

Creditors are now much more likely to work with their customers who are experiencing financial difficulty – to seek solutions and to reach a workable compromise.

Debtor behaviour changed in the wake of the pandemic. People in financial difficulty are now much more likely to raise these issues with their creditors.

And unemployment is lower. Ten years ago, unemployment was between 5% and 6% – but for the last 3 years, it's had a 3 or a 4 in front of it.

This means people are better placed to meet their financial obligations.

But there's a cohort of people who remain susceptible and, at AFSA, we see the sharp end of that financial vulnerability.

People entering our system often don't have an established asset base to fall back on when times get tough. They don't own a home or have a mortgage.

In fact, renters make up around 90% of new personal insolvencies. This is at odds with an economy where 31% of Australians rent.

People entering personal insolvency also have relatively little debt.

Around half have debts of less than \$50,000, compared to the average Australian household debt of more than \$260,000.

Fifty thousand dollars. That's the equivalent of a couple of credit cards, a personal loan and a handful of buy now pay later agreements.

In other words, personal insolvencies are largely skewed towards renters with unsecured debts and a low savings or asset base.

These debtors are less able to fortify their finances against external shocks such as the recent cost-of-living pressures or current geopolitical uncertainty.

The changing unsecured credit market

Given their reliance on unsecured credit, we also look at the phenomenal shift that's occurred in that market over the years.

Back in 2008, personal credit – of which approximately 80% is unsecured – accounted for around 14% of GDP. Now it's around 6%.

Now, instead of taking out a personal loan to buy a second car, people are using their redraw facility or offset account. It's a smart choice, a lower cost of finance.

This has allowed product innovation in the unsecured credit market, and new players to enter the market.

Buy now, pay later has become more prominent in the credit system, with reports that over 30% of people are using it to cover essentials like groceries and fuel.

In the personal insolvency system, approximately 2% of new debtors entering personal insolvency a decade ago had a BNPL debt. Last year, it was 49%.

It still makes up a small portion of the credit system – less than 1% – because the amount of credit is usually in the hundreds of dollars. But its contribution is growing.

Other products gaining traction in the unsecured credit market include payday loans and cryptocurrency.

This all adds up to higher risk coming into the system, in two ways – through products with higher risk profiles and operators without a social licence to operate.

How do we respond?

It's clear from the trends I've outlined that constant and unpredictable change is becoming more normal.

As regulators, our work must always consider the future of the systems we oversee.

We must take a holistic approach and continuously adapt our processes to meet the evolving needs of the Australian economy and community.

At the end of the day, AFSA's role is to support people to interact positively with the credit system.

That's also your role.

In every speech I make – whether to creditors like yourselves, insolvency trustees or financial counsellors – I highlight our shared responsibility to uphold the integrity of the Australian credit system and ensure public confidence in it.

We believe the system works best when we all work together.

That's why I encourage industry participants like yourselves to model best practice and work with us to stamp out misconduct.

If you see something wrong, say something. Don't walk past it. Don't let it be the standard you accept.

It's not just the right thing to do. There are important business imperatives to demonstrating a social licence to operate.

Key among them is that in an uncertain world, trust matters.

Businesses need to work harder than ever to build customer trust and support the customer experience.

The 25th edition of the Edelman Trust Barometer bears this out.

It says consumer trust in governments and business is at a premium. Indeed, long-held mistrust for these institutions has turned to grievance.

In Australia, 62% of respondents have a moderate or high sense of grievance, believing government and business make their lives harder.

This manifests in a lack of optimism for the future, with only 36% believing the next generation will be better off.

As Edelman warns, this places the social contract at risk.

And when that happens, instability, unrest and conflict ensues.

Conclusion

Your discussions today will explore many areas of opportunity and challenge for your businesses.

That's important to the continued growth of the banking sector and the Australian economy.

And in a world of increasing complexity and uncertainty, it's necessary to take a wider systemic lens.

We need to look at what's on the horizon – here and abroad – and consider its impact on the system rather than an individual line of business.

We need to have a curious mindset about the unintended consequences of business decisions, that may erode public trust and consumer confidence.

Businesses pay a high financial price for breaking that trust. Because, once broken, it is hard to rebuild.

As you continue your discussions today, think about how you demonstrate your social licence to operate.

Source: <https://www.afsa.gov.au/newsroom/afsa-chief-executive-speech-2025-future-banking-summit>

TOP BANKING NEWS

Gold loans guidelines: FinMin urges RBI to take time on new rules implementation; Muthoot Fin, Manappuram shares rise

The Ministry of Finance on Friday said that it has recommended significant revisions to the Reserve Bank of India's (RBI) draft directions on lending against gold collateral, including postponing the implementation.

The Department of Financial Services (DFS) has examined the RBI's proposals and submitted its feedback, the finance ministry said.

“@DFS_India has given suggestions to the @RBI to ensure that the requirements of the small gold loan borrowers are not adversely affected,” the Finance Ministry said in a post on X.

In a move likely to impact millions of small-scale borrowers, the DFS has proposed that borrowers seeking gold loans under Rs 2 lakh be exempted from the proposed regulatory requirements.

This step, it says, is necessary to ensure “timely and speedy disbursement of loans for such small ticket borrowers.”

The ministry highlighted the practical challenges involved in immediate implementation, and said, “DFS India has also stated that such guidelines will need time to implement at the field level and hence may be suitable for implementation from 1st January 2026 only.”

Shares of Muthoot Finance and Manappuram rose on the FinMin's feedback, trading at Rs 2,136.10 and Rs 233.14 apiece, up 3.07 per cent and 0.57 per cent respectively.

Earlier in April, the RBI issued draft guidelines, seeking to establish uniform rules and regulations for getting gold loans from banks and NBFCs. However, the draft rules imposed some restrictions regarding the type of gold that is eligible as collateral, the maximum loan amount a bank or NBFC can extend, and various payment rules.

The RBI is currently reviewing feedback received from various stakeholders, including public responses, before finalising the guidelines.

“RBI is reviewing the feedback received on the Draft guidelines,” the Ministry said. “It is expected that concerns raised by various stakeholders, as well as the feedback received from the public, will be duly considered by the RBI before finalising the Directions on the same.”

The suggestions have been formally communicated to the central bank, the FinMin said. What did the RBI say in its draft?

The Reserve Bank of India, in April, issued its draft guidelines on lending against gold to create a level playing field between banks and non-banking financial companies (NBFCs), and to address deficiencies in lending practices observed in recent supervisory reviews.

Last September, the central bank had flagged shortcomings such as weak loan appraisal mechanisms, poor monitoring of the end use of funds, and lack of transparency during gold auctions post-default. The draft guidelines are now intended to harmonize norms across different types of lenders, while also reflecting their respective risk-bearing capacities.

According to RBI Governor Sanjay Malhotra, the draft “aims at harmonising guidelines across various types of regulated entities, keeping in view their differential risk-bearing capabilities.”

Key proposals include:

Loan-to-Value (LTV) Recalibration: Lenders must compute LTV based on the total amount repayable by the borrower at maturity, not just the loan amount sanctioned at origination. This ratio must be maintained on an ongoing basis.

LTV Cap of 75%: A uniform LTV cap of 75% will now apply to all NBFC gold loans, irrespective of whether the loan is for consumption or income-generating purposes. Currently, banks and NBFCs have different norms.

Higher Provisioning Norms: If the LTV is breached and the condition persists for more than 30 consecutive days, the entire outstanding amount will attract an additional standard asset provisioning of 1%.

End-use Stringency: For loans used for income generation, banks (excluding NBFCs) may determine their own LTV policies. However, they must also conduct more rigorous borrower cash flow assessments and ensure proper creation of primary security—steps that may be operationally intensive.

Source: <https://economictimes.indiatimes.com/industry/banking/finance/gold-loans-guidelines-finmin-urges-rbi-to-take-time-on-new-rules-implementation-muthoot-fin-manappuram-shares-rise/articleshow/121505676.cms>

RBI's balance sheet increases 8.2% to ₹76.25 lakh crore in FY25 on 33% forex boost

The balance sheet of the RBI increased to ₹76.25 lakh crore, aided by nearly 33 per cent gains in foreign exchange transactions, as of March 2025, leading to a bumper ₹2.7 lakh crore dividend to the central government, said the central bank's annual report released on Thursday.

The keenly watched report said the Indian economy is poised to remain the fastest-growing major economy in 2025-26 by leveraging its sound macroeconomic fundamentals, robust financial sector and commitment towards sustainable growth.

The economy exhibited resilience during 2024-25, supported by strong macroeconomic fundamentals and proactive policy measures, amid protracted geopolitical tensions and geoeconomic fragmentation, said the RBI's Annual Report for the Year 2024-25.

Increase on assets side was due to rise in gold, domestic investments and foreign investments by 52.09 per cent, 14.32 per cent and 1.70 per cent, respectively, said the RBI's Annual Report for the Year 2024-25 released on Thursday.

Income for the year increased by 22.77 per cent and expenditure rose by 7.76 per cent.

"The year ended with an overall surplus of ₹2,68,590.07 crore as against ₹2,10,873.99 crore in the previous year, resulting in an increase of 27.37 per cent," it said.

The balance sheet of the RBI reflects activities carried out in pursuance of its various functions including issuance of currency as well as monetary policy and reserve management objectives.

According to the report, the size of the balance sheet increased by ₹5,77,718.72 crore, or 8.20 per cent, from ₹70,47,703.21 crore as on March 31, 2024 to ₹76,25,421.93 crore as on March 31, 2025.

On liabilities side, the RBI said expansion was due to increase in notes issued, revaluation accounts, and other liabilities by 6.03 per cent, 17.32 per cent and 23.31 per cent, respectively.

Domestic assets constituted 25.73 per cent while foreign currency assets, gold (including gold deposit and gold held in India) and loans and advances to financial institutions outside India constituted 74.27 per cent of total assets as on March 31, 2025 as against 23.31 per cent and 76.69 per cent, respectively, as on March 31, 2024.

A provision of ₹44,861.70 crore was made and transferred to the Contingency Fund (CF).

However, factors like easing of supply-chain pressures, softening global commodity prices and higher agricultural production on above-normal south west monsoon augur well for inflation outlook, the Reserve Bank said.

Shifts in tariff policies may result in sporadic episodes of volatility in financial markets, it said, adding that exports may encounter headwinds on "inward-looking policies and tariff-wars".

The trade pacts being signed and negotiated by India will help ensure that the impact is limited, the RBI said, adding that services exports and inward remittances will help ensure that the current account deficit is "eminently manageable" in the new fiscal.

The RBI, which has already lowered key policy rates in two consecutive reviews, said in the annual report that there is now a "greater confidence" on durable alignment of headline inflation to the 4 per cent target over a 12-month horizon.

Considering the dynamic nature of the interest rate risk, banks need to address both trading and banking book risks, especially in light of moderation in net interest margins, it recommended.

Giving details about its accounts for 2024-25, RBI said the size of the balance sheet as on March 31, 2025 increased by 8.20 per cent year on year.

While income for the year increased by 22.77 per cent, expenditure increased by 7.76 per cent.

The year ended with an overall surplus of ₹2,68,590.07 crore as against ₹2,10,873.99 crore in the previous year, resulting in an increase of 27.37 per cent.

"The size of the balance sheet increased by ₹5,77,718.72 crore, 8.20 per cent from ₹70,47,703.21 crore as on March 31, 2024 to ₹76,25,421.93 crore as on March 31, 2025," the report said.

Increase on assets side was due to rise in gold, domestic investments and foreign investments by 52.09 per cent, 14.32 per cent and 1.70 per cent, respectively.

Exchange gain from foreign exchange transactions increased by about 33 per cent to ₹1.11 lakh crore as on March 31, 2025 from ₹83,615.86 crore a year ago.

The Reserve Bank spent ₹6,372.82 crore on printing of currency notes in the last fiscal, an increase of 25 per cent from ₹5,101.4 crore in the preceding financial year.

The report said that the value and volume of banknotes in circulation increased by 6 per cent and 5.6 per cent, respectively, during 2024-25.

"During 2024-25, the share of ₹500 banknotes at 86 per cent, declined marginally in value terms," it said.

In volume terms, ₹500 denomination at 40.9 per cent, constituted the highest share of the total banknotes in circulation, followed by ₹10 denomination banknotes at 16.4 per cent.

The lower denomination banknotes (₹10, ₹20 and ₹50) together constituted 31.7 per cent of total banknotes in circulation by volume.

The withdrawal of ₹2000 banknotes from circulation, initiated in May 2023, continued during the year and 98.2 per cent of ₹3.56 lakh crore in circulation at the time of announcement have returned to the banking system up to March 31, 2025.

The value and volume of coins in circulation increased by 9.6 per cent and 3.6 per cent, respectively, during 2024-25.

Also, the value of e-rupee in circulation increased by 334 per cent during 2024-25.

The supply of notes increased by 24.69 per cent from 2,43,000 lakh pieces during the year 2023-24 to 3,03,000 lakh pieces during 2024-25.

Currency in circulation includes banknotes, central bank digital currency (CBDC) and coins. Presently, banknotes in circulation comprise denominations of ₹2, ₹5, ₹10, ₹20, ₹50, ₹100, ₹200, ₹500 and ₹2000.

The Reserve Bank is no longer printing banknotes of denominations of ₹2, ₹5 and ₹2000.

Coins in circulation comprise denominations of 50 paise and Re 1, ₹2, ₹5, ₹10 and ₹20.

On counterfeit notes, the report said that during 2024-25, out of the total Fake Indian Currency Notes (FICNs) detected in the banking sector, 4.7 per cent were detected at the Reserve Bank.

The counterfeit notes detected in the denominations of ₹10, ₹20, ₹50, ₹100 and ₹2000 declined during 2024-25, while those in ₹200 and ₹500 denominations increased by 13.9 and 37.3 per cent, respectively, as compared with the previous year.

Source: <https://www.livemint.com/industry/banking/rbis-balance-sheet-increases-8-2-to-rs-76-25-lakh-crore-in-fy25-on-33-forex-boost-11748517291013.html>

RBI Dividend: RBI to pay record ₹2.70 lakh crore dividend to govt for FY25— 27% higher than FY24

The Reserve Bank of India (RBI) will pay as much as ₹2.69 lakh crore—the highest-ever surplus—as dividend to the central government for fiscal 2024-25 (FY25). The central bank announced the record dividend payment on Friday, May 23.

This compares with ₹2.1 lakh crore transferred to the government in the financial year-ended March 2024. RBI's FY25 dividend payment is 27.4 per cent higher than FY24.

The Reserve Bank had transferred ₹2.1 lakh crore dividend to the government for the fiscal 2023-24. The payout was ₹87,416 crore for 2022-23.

The decision on the dividend payout was taken at the 616th meeting of the Central Board of Directors of Reserve Bank of India under the Chairmanship of Governor Sanjay Malhotra.

The board reviewed the global and domestic economic scenario, including risks to the outlook, RBI said in a statement.

The board also discussed the working of the Reserve Bank during the year April 2024 - March 2025 and approved the Reserve Bank's Annual Report and Financial Statements for the year 2024-25.

The transferable surplus for the year (2024-25) has been arrived at on the basis of the revised Economic Capital Framework (ECF) as approved by the Central Board in its meeting held on May 15, 2025, RBI said.

"The Board...approved the transfer of ₹2,68,590.07 crore as surplus to the Central Government for the accounting year 2024-25," it said.

The revised framework stipulates that the risk provisioning under the Contingent Risk Buffer (CRB) be maintained within a range of 7.50 to 4.50 per cent of the RBI's balance sheet.

Based on the revised ECF, and taking into consideration the macroeconomic assessment, the Central Board decided to further increase the CRB to 7.50 per cent, RBI said.

The RBI makes an annual payout to the government from the surplus income earned from investments and valuation changes on its foreign exchange holdings, including the dollar, and the fees it gets from printing currency notes.

A bonanza from the central bank will help meet the government's 4.4% fiscal deficit target for the current financial year by fortifying its finances and offset a shortfall in tax collections due to weak growth. It will also create a cushion for any potential losses from import duty cuts as trade talks proceed.

Details on how the RBI managed to generate this substantial surplus will be disclosed in its annual report, expected to be released in the coming days.

Source: <https://www.livemint.com/industry/banking/rbi-dividend-rbi-to-pay-record-rs-2-70-lakh-crore-dividend-to-govt-for-fy25-27-higher-than-fy24-11748001180919.html>

SELECT RBI CIRCULARS

MAY 2025

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2025-2026/41 DoR.RET.REC.21/ 12.07.160/2025-26	27.5.2025	Department of Regulation	Inclusion of "The Vishweshwar Sahakari Bank Ltd., Pune" in the Second Schedule of the Reserve Bank of India Act, 1934	All Banks,
https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12853				
RBI/2025-2026/40 A.P. (DIR Series) Circular No. 06	23.5.2025	Foreign Exchange Department	Reporting on FIRMS portal – Issuance of Partly Paid Units by Investment Vehicles	All Category – I Authorised Dealer Banks
https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12852				
RBI/2025-2026/39 FIDD.CO.GSSD.BC.No 06/09.16.003/2025-26	22.5.2025	Financial Inclusion and Development Department	Withdrawal of Master Circular on Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM) and related circulars	The Chairman/ Managing Director/Chief Executive Officer All Scheduled Commercial Banks & Small Finance Banks
https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12851				

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2025-2026/38 DoR.RET. REC.20/12.07.160/2025-26	21.5.2025	Department of Regulation	Alteration in the name of “North East Small Finance Bank Limited” to “slice Small Finance Bank Limited” in the Second Schedule to the Reserve Bank of India Act, 1934	All Banks
https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12850				
RBI/2025-2026/37 A.P. (DIR Series) Circular No. 05	16.5.2025	Foreign Exchange Department	Exim Bank's GOI-supported Line of Credit (LOC) for USD 700 million to the Govt. of Mongolia (GO-MNG), for financing construction of Crude Oil Refinery Plant in Mongolia	All Category - I Authorised Dealer Banks
https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12849				

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2025-2026/36 DOR.STR. REC.19/21.07.001/2025-26	08.5.2025	Department of Regulation	Reserve Bank of India (Digital Lending) Directions, 2025	All Commercial Banks, All Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks, All Non-Banking Financial Companies (including Housing Finance Companies), and All All-India Financial Institutions
https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=12848				
RBI/2025-2026/35 FMRD.FMD. No.01/14.01.006/2025-26	08.5.2025	Financial Markets Regulation Department	Investments by Foreign Portfolio Investors in Corporate Debt Securities through the General Route – Relaxations	All Authorised Persons

 Source: https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx

STATISTICAL SUPPLEMENT

RESERVE BANK OF INDIA

Date : May 30, 2025					
Reserve Bank of India - Liabilities and Assets					
Item	2024		2025		Variation
	May 24	May 16	May 23	Week	Year
	1	2	3	4	5
1 Notes Issued	3550212	3805625	3805412	-213	255199
1.1 Notes in Circulation	3550201	3805608	3805396	-212	255195
1.2 Notes held in Banking Department	12	16	16	-1	4
2 Deposits					
2.1 Central Government	100	100	100	0	0
2.2 Market Stabilisation Scheme		0	0	0	0
2.3 State Governments	42	42	42	0	0
2.4 Scheduled Commercial Banks	987620	928136	935087	6951	-52533
2.5 Scheduled State Co-operative Banks	8474	8276	8169	-107	-305
2.6 Other Banks	54611	52275	52574	299	-2037
2.7 Others	823511	614539	865382	250843	41871
3 Other Liabilities	1590603	2312623	2076485	-236138	485882
Total Liabilities/Assets	7015174	7721616	7743250	21634	728077
1 Foreign Currency Assets	4754828	5007034	5026821	19787	271993
2 Gold	471279	694701	712210	17509	240930
3 Rupee Securities (including Treasury Bills)	1363745	1814971	1812565	-2406	448821

4 Loans and Advances					
4.1 Central Government	-	0	0	0	0
4.2 State Governments	18822	36404	24410	-11994	5587
4.3 NABARD	-	0	0	0	0
4.4 Scheduled Commercial Banks	258379	23081	23717	636	-234662
4.5 Scheduled State Co-op. Banks	0	0	0	0	0
4.6 Industrial Development Bank of India	-	-	-	-	-
4.7 Export- Import Bank of India	-	-	-	-	-
4.8 Others	139102	125203	122984	-2219	-16118
5 Bills Purchased and Discounted					
5.1 Commercial	-	-	-	-	-
5.2 Treasury	-	-	-	-	-
6 Investments	2064	2064	2064	0	0
7 Other Assets	6955	18159	18480	321	11525

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

Source: <https://www.rbi.org.in/Scripts/WSSView.aspx?Id=27693>

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

Liquidity abundant, but regulatory curbs holding back NBFC growth ambitions: Shweta Daptardar

"There have been certain stress on the loan book front as well for certain subsegments like MFI. Even CV financers have seen a sluggish quarter. The only subsegment which has done well for Q4 is housing financiers and affordable piece," says Shweta Daptardar, Elara Capital.

Firstly, give us some sense that what has been your reading from the earnings so far? How do you see the quarterly earnings panning out, NBFC especially because quite a mixed commentary coming in from the MFI space specifically where some of the companies are highlighting that the worst is behind, but some do expect that it will take a next couple of quarters for the whole segment to once again come back to track.

Shweta Daptardar: So, NBFC earnings for Q4 FY25 have turned out to be mixed, largely from the pressures coming from asset quality challenges and this is also because of RBI or regulatory intervention across business segments.

There have been certain stress on the loan book front as well for certain subsegments like MFI. Even CV financers have seen a sluggish quarter. The only subsegment which has done well for Q4 is housing financiers and affordable piece.

Going forward the larger, the bigger picture is while the liquidity has been strong in the system, and we are in a downward interest rate regime, so that has been boarding well for NBFCs.

So, while valuations have caught up really well because of the favourable macros, the earnings need to catch up. As far as microfinance picture is concerned, so the latest Tamil Nadu ordinance bill has further challenges at least for near term for microfinanciers.

So, while the ordinance bill does not have regulated entities under its purview, but given the fact that the ordinance clearly highlights the coercive practices of lenders in terms of recoveries, so there might be impact for one or two quarters on the front of collections for most of these microfinanciers.

So, maybe one or two quarter pressures still persist for microfinanciers and taking precedence from Karnataka wherein, of course, the stress was slightly on the higher scale, but Tamil Nadu being one of the largest market, so it is the second largest microfinance market with over 13% market share in the entire microfinance space. So, yes, the stress would also be slightly persisting at least for first half of this fiscal.

How is that the liquidity surplus effect is not visible in NBFCs. I mean, forget the numbers, even the commentary they are not sounding great, they are sounding thanda. First, they were complaining give us liquidity, we will give you growth. Now, liquidity is there but they are not ready to commit to growth.

Shweta Daptardar: Yes, see, the moot problem is so all the NBFCs have seen aggressive growth in past two years, especially post covid be it on the retail loan side, so be it microfinance, be it personal loans. So, personal loans grew at accelerated pace of 50% growth in January 2025 over 2024. So, most of the retail segments including gold loans, of course, gold loans was underpinned also by the underlying price dynamics, but most of these NBFCs have seen strong growth between 23 to 25, that is where the regulatory forbearance came into picture, that is where the regulatory oversight increased because this aggression in lending led to overleveraged scenario at the borrower levels in turn increasing the risk on the balance sheets.

So, now, that regulator has become more cognisant about balance sheet risk augmentation for these NBFCs and they have been told to sort of slow down and sort of have a calibrated growth expansion, so regardless of liquidity or favourable scenario panning out for NBFCs, you might not see equal amount of translation or stronger transmission on the growth front. Having said that, valuations of NBFCs have really caught up well in past one year reflecting these strong macros. But like I said earlier, earnings need to catch up and that is where FY26 looks slightly under pressure.

What about MFI companies in specific, I mean because all of them at least in their commentary have stated that they do anticipate a recovery in FY26, do you sense that happening or do you think it is going to be very patchy and not an across-the-board recovery that we may see?

Shweta Daptardar: Yes, you are probably right because the scenario which is unfolding at microfinance lenders now is they do are seeing challenges in terms of collections or forward flows. But the problem is not just asset quality.

Are there supportive incremental triggers for ROA expansion in the immediate future? The answer is no. So, while there has been caution on new customer acquisition while the Mfin and Sa-Dhan guard rails are also in place which restrict a particular microfinance lender to go gung-ho on loan book expansion or new to credit customer acquisition, so

all these points put together growth as well as margins will remain under pressure and therefore, FY26 really do not look strong. So, even the largest player in the space might put up little over 3-3.5% kind of ROAs for this fiscal and perhaps 4.5% next year.

So, for such a high yielding business and high ROA business, we are talking about 3.5-4% ROAs because most of the parameters or catalyst to the profitability metrics are still a miss.

So, you will not recommend our viewers that they should start buying into NBFC stocks, especially MFI stocks. I mean, the turn is still a distance away that means?

Shweta Daptardar: Oh, MFI stocks we would still wait. We are definitely waiting for the cycle to turn around and that is still distant, that is still at least two to three quarters away. As far as NBFCs are concerned, so look as long as we are in a lower interest rate regime, there are rate cuts on the horizon. NBFCs will definitely remain in limelight. We have to be cherry picking wherein like I mentioned the ones which have strong liquidity buffers and which are showing healthy EPS CAGR those are the ones which you should be looking at in the NBFC space for next one to two years.

Source: <https://economictimes.indiatimes.com/markets/expert-view/liquidity-abundant-but-regulatory-curbs-holding-back-nbfc-growth-ambitions-shweta-daptardar/articleshow/121338727.cms>

Net interest margins of microfinance industry in FY25 anticipated to shrink: Report

The net interest margins (NIMs) of microfinance institutions (MFIs) are expected to shrink in the financial year 2025 ended in March, due to emerging challenges in asset quality and declining yields, according to a recent report by Mavenmark Advisors.

The report mentioned that this comes after two years of improvement driven by the Reserve Bank of India's move to remove the cap on lending rates, better asset quality, and reduced leverage. However, the sector now appears to be entering a more challenging phase.

It said "The microfinance industry has seen notable improvements in profitability over the past two years, due to the RBI's removal of the lending rate cap, better asset quality, and reduced leverage. For the current fiscal year, Net Interest Margins are anticipated to shrink due to rising asset quality concerns and reduced yields among several MFI players".

One of the key concerns is the rising number of delinquencies. According to the report, the increase in repayment delays, which began in the first half of FY25, has continued

into the second half of the fiscal year. This trend is now putting pressure on the financial performance of non-banking financial companies operating in the microfinance space (NBFC-MFIs).

Due to this rise in delinquencies, the growth trajectory of NBFC-MFIs is likely to be impacted, with overall growth expected to slow to just 4 per cent in FY25.

The report warned that the worsening asset quality could also drive up credit costs significantly, which are projected to rise to 6 per cent for the year.

This rise in credit costs may further affect profitability, particularly Return on Total Assets (RoTA), which is expected to decline as a result. Operating expenses are also likely to see a moderate increase, partly due to the effect of a shrinking denominator caused by slower balance sheet expansion.

Overall, the outlook for the microfinance sector in FY25 appears cautious, as players navigate a combination of asset quality stress, shrinking margins, and rising expenses.

The report suggests that MFIs will need to focus on strengthening their credit assessment frameworks and improving collection efficiency to manage the emerging risks.

Source: <https://economictimes.indiatimes.com/industry/banking/finance/net-interest-margins-of-microfinance-industry-in-fy25-anticipated-to-shrink-report/articleshow/120894115.cms>

REC to provide Rs 2.5 trn finance for renewable energy projects till 2030

State-owned non-banking finance firm REC Ltd will increase its exposure to renewable energy projects by about Rs 2.5 trillion in next six years to aid India's target of having 500 GW of non-fossil fuel energy by 2030.

REC currently has an exposure of about Rs 53,000 crore in renewable energy projects with a total loan book of Rs 5.67 trillion as on March 31, 2025.

The company has planned to achieve a loan book of Rs 10 trillion including Rs 3 trillion exposure in renewable energy project by 2030.

Renewable energy is a key area where the company will focus in the coming six years in view of nation's ambitious target of having 500 GW renewable energy by 2030.

Talking to PTI, REC Chairman and Managing Director Jitendra Srivastava said, "Currently, our loan book stands at around 5.67 trillion. and we are trying to aim for a loan book of 10

trillion by 2030. Out of this, we would like to see the renewable sector touching around 3 trillion, which is currently around Rs 52,000 crore to Rs 53,000 crore. So we are hopeful. We would like to push the sector." He said the company will be fairly aggressive in the renewable energy sector.

India's installed renewable energy capacity is about 220 GW as of March 31, 2025, which includes around 48 GW large hydro power project, over 50 GW wind energy and about 106 GW solar projects.

India needs to add 50 GW of renewable energy capacity per annum till 2030 to achieve the target of 500 GW.

Thus the nation needs a lot of investment and finance facility to achieving this tall order.

The government has appointed REC as the nodal agency for implementing roof-top solar scheme 'PM Surya Ghar Yojana'.

About the progress on the scheme, Srivastava said, "We have a target of 1 crore households for PM Surya Ghar Yojana, out of which 51 lakh applications have come in. Out of this, 1.2 million people have already received it and we are trying to complete our target of 1 crore households in next two years."

About reducing the net credit impaired assets or bad loans, he stated that the company is targeting zero bad loans this fiscal, which has already been brought down to 0.38 per cent from 0.86 per cent a year ago.

He also informed that there are 12 cases of bad loans and the company is working on them.

Source: https://www.business-standard.com/companies/news/rec-to-provide-rs-2-5-trn-finance-for-renewable-energy-projects-till-2030-125050801429_1.html

TOP INSURANCE NEWS

Non-life insurers post 13.5% premium growth to Rs 33,688 cr in April

Gross direct premium underwritten by non-life insurers grew 13.5 per cent year-on-year (YoY) to Rs 33,688.48 crore in April, supported by healthy growth in premiums from multiline general insurers and standalone health insurers.

According to data released by the General Insurance Council, general insurance companies recorded 14 per cent YoY growth in premiums to Rs 30,662 crore, while standalone health insurance companies posted an 11 per cent YoY growth to Rs 2,932.8 crore.

Premium figures are not directly comparable with the same period last year (April 2024) due to a change in the accounting format by the insurance regulator, effective from October last year.

Among major general insurers, state-owned New India Assurance reported a 14.6 per cent YoY rise in premiums to Rs 6,026 crore. ICICI Lombard General Insurance saw a 6.72 per cent increase to Rs 3,592 crore, while Bajaj Allianz General Insurance's premium remained flat at Rs 2,402.8 crore.

National Insurance Company posted a 10.92 per cent rise to Rs 1,533.53 crore, Oriental Insurance saw a sharp 56.53 per cent YoY growth to Rs 2,692.88 crore, and United India Insurance recorded a 3.44 per cent increase to Rs 2,093.11 crore.

Among standalone health insurers, the largest player—Star Health & Allied Insurance—reported a 4.63 per cent YoY rise in premium to Rs 1,060.13 crore. Care Health Insurance posted 8.72 per cent growth to Rs 724.48 crore.

Meanwhile, specialised insurers saw their premium decline 20.25 per cent YoY to Rs 93.44 crore in April 2025.

The market share of general insurers in April stood at 91.02 per cent, up from 90.70 per cent in April 2024. The share of standalone health insurers dropped to 8.71 per cent from 8.90 per cent in the same period.

Source: https://www.business-standard.com/finance/insurance/non-life-insurers-premium-grows-13-5-pc-in-april-on-health-general-125050801437_1.html

Demand for D&O liability insurance rises 25-35% in FY25, says report

Increased board accountability, along with investor pressure and regulatory interventions, has resulted in a 25-35 per cent increase in demand for Directors & Officers (D&O) liability insurance in FY25, according to Policybazaar data.

According to the insurance distributor, the trend implies increased awareness among promoters, start-ups and mid-sized companies of the personal liability risks faced by key managerial personnel.

It has also seen nearly 85 per cent renewal in these policies. Policy discontinuation has been minimal, with non-renewals primarily linked to changes such as mergers and acquisitions, changes in shareholding patterns, or company closures.

“What once started as a compliance-driven necessity has now evolved into a cornerstone of proactive risk management. The increasing recognition of D&O insurance as a vital safeguard for leadership reflects a strategic shift in how businesses approach risk,” said Evaa Saiwal, Head of Liability Insurance at Policybazaar.

The average sum insured for D&O insurance for small enterprises (start-ups and SMEs) is in the range of Rs 50 lakh-Rs 2 crore. For mid-sized companies, the average sum insured ranges between Rs 2 crore and Rs 10 crore, with premiums of around Rs 1-5 lakh. For large enterprises or corporates, the average sum insured is more than Rs 10 crore, with premiums over Rs 5 lakh.

“As IPO-bound companies embrace D&O coverage more than ever, we are witnessing a surge in its value—a direct response to the growing prominence of board accountability and the very real threat of leadership liability in today’s fast-paced, litigious environment,” Saiwal added.

Other than IPO-bound companies, ESG failures and cybersecurity lapses are emerging as key drivers for D&O demand. There is also an increase in directors asking for D&O policy reviews before accepting board positions, indicating heightened caution around personal liability. Additionally, more businesses are opting for non-rescindable Side A-only excess policies—especially for independent directors—offering broader protection in cases of insolvency or lack of indemnification.

With increased demand, there has also been 10-15 per cent growth in claims, triggered mainly by alleged breaches of fiduciary duties—indicating higher board-level scrutiny, a surge in litigation costs, increased regulatory investigations, and growing concerns around reputation management and crisis response. This highlights the reputational stakes involved in D&O exposures.

Source: https://www.business-standard.com/finance/insurance/d-o-liability-insurance-demand-rises-25-35-percent-in-fy25-policybazaar-125050201271_1.html

FM asks state-run general insurers to develop innovative products

Finance Minister Nirmala Sitharaman urges state-run general insurers to develop innovative products for emerging risks like cyber fraud, improve underwriting practices, and boost insurance penetration and density, as public sector insurers return to profitability and industry premiums surge.

Finance Minister Nirmala Sitharaman on Wednesday reviewed the key performance indicators of public sector general insurance companies (PSGICs) and directed them to develop innovative insurance products tailored to new and emerging risks.

Sitharaman asked the companies to develop such innovative insurance products tailored to new and emerging risks, including cyber fraud, and to diversify their product portfolio in line with evolving consumer needs, the finance ministry said in a statement.

The importance of robust underwriting practices and portfolio optimisation was also highlighted, with instructions to align combined ratios with global industry benchmarks to safeguard profitability and financial stability, it said.

During the meeting, Sitharaman reviewed performance indicators including premium collections, insurance penetration and density, and incurred claims ratios. It was noted that the total premium collected by PSGICs has increased from around ₹80,000 crore in 2019 to nearly ₹1.06 lakh crore in 2025, the finance ministry said.

The overall general insurance industry also reported growth, with total premium collections reaching ₹3.07 lakh crore in FY 2024-25.

The meeting was attended by financial services secretary M. Nagaraju and the managing directors of PSGICs—New India Assurance, United India Insurance, Oriental Insurance, and National Insurance, General Insurance Corporation of India (Reinsurance) and Agriculture Insurance Company of India.

While general insurance penetration in India remains relatively low at 1% of GDP—compared to a global average of 4.2% in 2023—insurance density has steadily improved, increasing from ₹9 in 2019 to ₹25 in 2023. The minister underscored the need for PSGICs to work towards improving both penetration and density to ensure wider financial protection. The PSGICs have witnessed a significant turnaround, with all of them having become profitable again. Oriental Insurance and National Insurance started posting quarterly profits from Q4 of 2023-24 and Q2 of 2024-25, respectively. United India Insurance posted profit in Q3 of 2024-25 after a gap of 7 years. Notably, New India Assurance has consistently maintained its position as a market leader and has been making profits regularly.

Source: <https://www.financialexpress.com/money/fm-asks-state-run-general-insurers-to-develop-innovative-products-3860762/>

Life insurance sector in India to grow at 10.5% against global average of 5%: Report

Life insurance market in India will grow at 10.5 per cent against a global average of 5 per cent over the next ten years, according to a report by Allianz Global Insurance.

The anticipation for the growth of life insurance in India is due to the growing economic activity in the Indian economy and the policies of the government to promote insurance.

The report stated that most of the growth will be in the life segment, adding that more than half of the additional premium pool will be generated in Asia, with China leading, followed by North America and Europe, but India is likely to grow at a much faster rate.

"While China (+7.8% p.a.) will continue to dominate the region in absolute terms, the real growth champion over the next decade is likely to be India (+10.5% p.a.). As a result, the Indian life insurance market will overtake Japan to become the second largest in the region," the report added.

To take advantage of the global insurance growth, India has raised the Foreign Direct Investment (FDI) limit to 100 per cent from the previously allowed limit of 74 per cent.

Government infused Rs. 17,450 crore into PSGICs between 2019-20 and 2021-22 to support reforms, improve efficiency, and drive profitability.

In the previous fiscal year, Indian Public Sector General Insurance Companies (PSGICs) witnessed a major turnaround, with all of them having become profitable again after historical losses.

The report adds that Asia and China will remain the growth engines for the global life insurance business as pension systems continue to be developed against the backdrop of accelerating demographic change.

The Property and Casualty (P&C) Insurance segment in the global insurance sector will grow by 4.5 per cent per year until 2035. The P&C segment will post solid growth rates in almost all markets as the need for more protection is a global phenomenon.

The report adds that benefiting from higher interest rates, life insurance sector may grow at a CAGR of about 5.0 per cent over the next decade. The global growth will boost the demand in developed markets such as West and North America.

The Government of India has been committed to creating strong and competitive Public Sector General Insurance Companies and introduced reforms, including regular key performance indicator-based monitoring.

Source: <https://economictimes.indiatimes.com/industry/banking/finance/insure/life-insurance-sector-in-india-to-grow-at-10-5-against-global-average-of-5-report/articleshow/121455201.cms?from=mdr>

TOP CORPORATE BOND MARKET NEWS

Bond market gets a boost as first forwards deal takes off

India's bond market sees a major milestone as Kotak Life and JP Morgan execute the first bond forwards deal. Enabled by RBI's new regulation, bond forwards offer better risk management and hedging tools, paving the way for a more robust and dynamic fixed-income market.

After persistent efforts and dialogues with the regulator to introduce bond forwards, Kotak Life Insurance and JP Morgan India successfully executed India's first bond forwards on May 5, marking a significant step forward in enhancing the country's bond market infrastructure.

The Reserve Bank of India (RBI) permitted bond forwards in government securities from May 1, 2025, allowing insurance companies, mutual funds, and other institutional players to help hedge their positions by buying bonds from banks and institutions.

The first bond forwards deal reported on CCIL involved Kotak Life Insurance purchasing 40-year, 7.34% 2064 government securities (G-Sec) bond forwards worth Rs 20 crore from JP Morgan for a tenure of more than 5 years and less than 7 years. Confirming the deal, Mahesh Balasubramanian, managing director at Kotak Life Insurance, said, "Bond forwards are a step in the right direction for hedging future risk. Earlier, under forward rate agreements (FRAs), the seller didn't have a contractual obligation to sell the bond, but with bond forwards, the seller must deliver the bonds at a future date."

He believes that this development is expected to enhance the risk management capabilities of insurance companies by providing a more robust framework for hedging. Bond forwards can help insurance companies manage interest rate risk. For instance, if an insurance company expects interest rates to fall, it can enter into a contract to buy a specific bond at a future date, thereby locking in the current yield and protecting against potential interest rate declines.

Consider a scenario where a customer buys an insurance policy now, and the insurance company needs to lock in returns for customers at the current rate. However, the insurance premium is paid in phases. In this case, bond forwards can help insurance companies hedge their interest rate risk. Even if interest rates fall, the insurance company benefits

from the forward contract by purchasing the bond at the contracted price rather than at a higher market price. This was not possible before May 1, 2025, as buyers and sellers would enter into a forward rate agreement, where the seller would not have a contractual obligation to deliver the bond at the time of delivery.

Bond forwards also offer an advantage over FRAs as they involve the physical delivery of bonds while also allowing for cash settlement in some cases. Market participants believe that once initial challenges are overcome, bond forwards may eventually replace FRAs due to their added flexibility and potential for more comprehensive risk management.

In May 2025, the forwards market, including bond forwards and FRAs, reported deals close to Rs 6,000 crore. A senior official at CCIL said market participants are adopting a wait-and-watch approach. "Volumes are currently subdued, but we expect them to pick up once market players modify their contracts to accommodate the physical delivery of bonds."

Bond forwards require physical delivery of bonds, unlike earlier rate-settlement contracts, necessitating end-to-end changes in accounting, technology, and operations due to significant legal and operational implications.

VRC Reddy, head of treasury at Karur Vysya Bank, believes that to boost volumes, a shift in the mindset towards trading and active participation is necessary. "The Indian bond market primarily functions as an investment market, rather than a trading market, with state-run banks, insurance companies and pension funds typically adopting a buy-and-hold strategy. The long-only approach limits market activity, with only a few foreign banks actively participating in the forwards market. However, the volume of bond forwards is expected to gradually increase, driven by a rising demand from insurance companies, despite regulatory changes capping insurance premiums at Rs 5 lakh per year for tax exemption."

Source:<https://www.financialexpress.com/money/bond-market-gets-a-boost-as-first-forwards-deal-takes-off-3860689/>

RBI easing may spur FPI participation corporate bond market

With the Reserve Bank of India (RBI) relaxing investment norms for foreign portfolio investors (FPIs) in the corporate bond market recently, experts believe that this will encourage them to participate more aggressively.

Earlier, FPIs had to mandatorily sell bonds with less than a year of residual maturity or increase their overall investment to bring the concentration in one-year residual maturity

to below 30%. Due to this stiff regulation, FPI participation used a mere 14.3% (Rs 1.1 lakh crore) of the overall investment limit of Rs 7.63 lakh crore.

With this restriction lifted, FPIs can now hold maturing papers until maturity, providing them greater flexibility and reduced regulatory hurdles.

The RBI has also been increasing the investment limit for FPIs in corporate bonds, with the ceiling raised to Rs 8.22 lakh crore for April-September 2025 and Rs 8.80 lakh crore for October 2025-March 2026, indicating its efforts to attract more foreign investment.

“The change brought by RBI is to address practical issues rather than making a structural shift in how RBI views foreign investments in the Indian bond market. It is a fine-tuning of a difficult-to-meet compliance,” said Ajay Bagga, a market veteran.

Vishal Goenka, Co-Founder at Indiabonds, stated that the move would give FPIs more flexibility to manage their portfolios. “FPIs will have flexibility,” he said, adding that India is a comfortable investment destination for FPIs, given the problems investing in Russia and China.

“The relaxation in corporate bond is a huge psychological move, the first step towards a bigger future outcome, giving FPI confidence on the country’s policy,” said a fixed-income fund manager at a domestic mutual fund.

While RBI’s latest guidelines do not directly impact the government bond market, fund managers believe that with the overall push towards deepening of the bond market, there will be further improvement FPI sentiments towards Indian debt securities. “Global index inclusions, such as JP Morgan’s GBI-EM and FTSE Russell’s EMGBI, typically span 5-10 years or more. These inclusions put India in focus, starting with government securities (G-Secs), and as investors gain comfort with the country’s economic landscape, they gradually move down the credit curve, exploring other investment opportunities beyond index trackers.”

However, Bagga believes that the impact of the move on FPI inflows might be limited in the immediate future, given the expected rate cuts in India and the US.

“Indian rates are expected to fall further, with market chatter of a rate cut in the June RBI MPC, and US rates not expected to fall till September at least. The differential (10-year G-Sec) between India and the US will be too low to encourage additional flows looking for yields,” he said.

In the last two months on concerns over trade tariffs, FPIs have sold close to Rs 12,000 crore of Indian corporate bonds from Rs 1.2 lakh crore on March 28, 2025, to Rs 1.08 lakh

crore on May 23, 2025. Currently, the differential between 10-year Indian and US paper is at a two decadal low of 176 bps.

A banker, speaking on condition of anonymity, said that while the move is positive, RBI's core philosophy of India's FPI debt policy is to favour longer-duration investments over short-term inflows. So, currently it is testing waters to see whether relaxations can attract foreign players in the corporate debt market, at least for the short term.

Source:<https://www.financialexpress.com/market/rbi-easing-may-spur-fpi-participation-corporate-bond-market-3858118/>

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