January 2024

Volume 32

ASSOCHAM

Ideate · Innovate · Impact

MONTHLY

Banking, Financial Services & Insurance (BFSI)

E-Bulletin

Department of Banking & Financial Services

The Associated Chambers of Commerce and Industry of India

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TOP SPEECHES

India's Journey from Crisis to Confidence

(Speech by Shri Shaktikanta Das, Governor, Reserve Bank of India - January 17, 2024 - Delivered at an event organised by the Confederation of Indian Industry (CII), Davos, Switzerland)

It gives me great pleasure to be here at Davos for the annual meeting of the World Economic Forum. While the winter outside is cold, the warmth of coming together of eminent leaders and experts from diverse fields more than compensates for it. These meetings assume greater relevance when fundamental changes are taking place in a global scale that would potentially shape our common destiny. I thank the Confederation of Indian Industries (CII) for giving me this opportunity to speak at this event.

Recent information on the global macroeconomic front has been somewhat reassuring with inflation gradually descending closer to the target, even as growth has held up better than expected. The odds of a soft landing have increased and this has enthused the financial markets. Financial conditions have eased, and markets have scaled new highs, raising concerns that they might be running ahead of themselves. At this critical juncture, certain hard facts have to be kept in mind, namely, global growth is slowing down; geopolitical situation continues to be fragile with new flash points and fear of supply chain disruptions; geo-economic fragmentation remains unabated undermining global trade; and the daunting climate related challenges are holding their ground.

Given this global setting, I propose to speak on the broad theme of India's journey from crisis to confidence. I shall first dwell upon our recent experience in maintaining macroeconomic and financial stability, which are the prime responsibilities of a central bank. I shall then talk about the emerging fintech space and payments ecosystem that have become the hallmark of India's success in financial innovation and inclusion. Finally, I propose to end with some concluding remarks.

Macroeconomic Stability

Amidst an uncertain and challenging global macroeconomic environment, the Indian economy presents a picture of confidence, positivity and optimism. Recent growth outturns have surprised most forecasts on the upside. After clocking real gross domestic product (GDP) growth of 7.2 per cent in 2022-23, real GDP is expected to grow by 7.3 per cent during 2023-24 according to the latest release by the National Statistical Office (NSO). With strong domestic demand conditions, India remains the fastest growing major economy and is now the fifth largest economy in the world. In fact, in purchasing power parity (PPP) terms, India is already the third largest economy. The International Monetary Fund (IMF) has projected that India's contribution to world growth will rise from the current 16 per cent to 18 per cent by 2028. Strong domestic demand remains the main driver of growth, although there has been a significant increase in Indian economy's global integration through trade and financial channels. Higher reliance on domestic demand cushioned India from multiple external headwinds.

We have emerged from the recent spate of shocks with stronger fundamentals – inflation is easing; bank and corporate balance sheets are stronger than before; fiscal consolidation is on course and its quality has improved; and the external balances are eminently manageable with strong forex reserves. The decisive and timely monetary policy actions of the Reserve Bank of India through appropriate policy rate and liquidity measures helped India's quick and sustained recovery. Added to this, the structural reforms undertaken by the government over the last few years in the field of taxation, banking, ease of doing business, manufacturing, inflation management, digitalisation coupled with a clear focus on physical and digital infrastructure have boosted the medium and long-term growth potential of the economy. These reforms are continuously helping the Indian businesses to improve productivity and adopt technology driven changes across the spectrum. The manufacturing sector1 is undergoing a marked shift with support from the production linked incentives (PLIs) scheme. Services sector, which contributes the largest share to total value addition in the economy, is fast adopting new technologies to improve delivery, reach, and competitiveness. The external demand for India's services is surging and diversifying rapidly from information technology related services to other professional services like business development, research and development, professional management, accountancy and legal services on the back of rising competitiveness.

Headline inflation has substantially eased from its highly elevated level of the summer of 2022. This disinflation is underpinned by steady moderation in CPI core (excluding food and fuel group) inflation. There is easing of price momentum across core goods and services. This would show that our monetary policy action of increasing the repo rate by 250 basis points between May 2022 and February 2023, together with rebalancing of liquidity, is working. Even as the cost-push pressures induced by high commodity prices and supply-side shocks have eased, adverse transitory food price shocks with their increasing incidence and intensity, are imparting considerable volatility to headline inflation. Pro-active supply side interventions by the government have played a significant role to mitigate the impact of food price shocks. Going forward, the inflation outlook would be considerably influenced by food prices, which remain uncertain. Recurring food price shocks could lead to de-anchoring of inflation expectations and generalisation of price pressures. Monetary policy, amidst these uncertainties, needs to be alert and remain actively disinflationary to steer inflation towards the target rate of 4 per cent on a durable basis. Needless to add that a stable inflation will provide the bedrock to India's growth ambitions.

Turning to the outlook on inflation and growth for the next financial year (2024-25), our research teams are in the process of making a comprehensive assessment for our forthcoming February 2024 monetary policy. At this stage, our expectation is that the CPI inflation will average around 4.5 per cent in FY 2024-25. As regards growth, my sense is that the GDP growth in India will touch 7 per cent in FY 2024-25. I am saying this on the basis of strong momentum of economic activity seen in India. Consequently, growth would be 7 per cent and above for four consecutive years starting from FY 2021-22.

Financial Stability

Let me now turn to financial stability. A stable and efficient financial system is pivotal in safeguarding monetary stability; meeting the financing needs of the economy; protecting depositors and investors interests; and achieving sustainable economic growth. The banking sector is now characterised by robust earnings, strong buffers, renewed focus on governance and strengthening of balance sheets. This has been possible due to the efforts of the banks under the overarching, prudent and proactive financial sector policies adopted by the Reserve Bank of India. Overall, the Indian banking sector has seen a remarkable turnaround in the recent period. The Reserve Bank's focus is not just on mere compliance with the regulatory parameters but on genuine strengthening of the internal defences of the banking system which has stood us in good stead as can be seen from the latest performance indicators.

The non-banking financial companies (NBFC) sector is also reflecting sound performance parameters.3 Improved balance sheets of financial institutions are providing good support to durable and broad-based credit growth. Moreover, macro stress tests undertaken to assess the resilience of banks under adverse stress scenarios show that their capital ratios will remain sufficiently above the regulatory minimum.4 Rapid growth in retail loans, especially unsecured credit, and growing interconnectedness between banks and NBFCs, however, necessitated the Reserve Bank to take pre-emptive policy actions to prevent potential build-up of risks and safeguard financial stability.

The recent developments in the banking system of some advanced countries drive home the importance of ensuring prudent asset liability management; robust risk management; sustainable growth in liabilities and assets; undertaking periodic stress tests; and building up capital buffers for any unanticipated future stress.6 The Reserve Bank has applied a judicious mix of micro and macroprudential measures to strengthen financial stability and support growth in the real economy.7

The Reserve Bank has overhauled the regulatory architecture of Banks, NBFCs, Urban Cooperative Banks and other segments of the financial ecosystem. Steps have also been taken for mitigating cyber security risks and enhancing operational resilience of the regulated entities Our approach has been to ensure that innovation is assimilated in the financial system in a non-disruptive manner while simultaneously ensuring appropriate customer protection.

In parallel, we have made a paradigm shift in the Reserve Bank's supervision of the financial sector. The thrust has shifted towards early identification and remediation of risk factors by identifying root causes of vulnerabilities and triggering timely intervention before such factors culminate into distress. The systems have been recalibrated to be more proactive and forward-looking and to smell a distress early.

A key component of financial stability is to have a currency that is stable and appreciates or depreciates in an orderly manner. Various stakeholders in the economy including businesses, investors and, above all, the people stand to benefit from a stable currency. Excessive volatility has to be checked through market intervention by the central bank, more so in an emerging market economy (EME). The Indian rupee is a freely floating currency and its exchange rate is market determined. Its relative stability in the recent period is an outcome of the strength of the Indian economy, its macroeconomic fundamentals and improvements in India's external position, particularly the significant moderation in the current account deficit (CAD) and revival of capital flows on the back of comfortable foreign exchange reserves. Labelling the Indian rupee in any other manner by cherry-picking time periods for analysis is not appropriate and grossly inconsistent with reality.

During the recent period of heightened uncertainty, the emerging market economies (EMEs) were at the receiving end of excess volatility in US dollar and bond yields. In view of the systemic importance of the US economy in the global financial system, spillovers from these fluctuations are not unexpected, especially in the context of shifting expectations about the monetary policy trajectory in the US and its own fundamentals. In such a situation, the EMEs, which have their own domestic dynamics and challenges, cannot afford to be held hostage by international financial cycles. EMEs have to act to safeguard their own interest. We agree that there should be flexibility in exchange rates, but it should not be a destabilising influence on the domestic economy of EMEs. Accordingly, multilateral institutions would do well to take a more nuanced and balanced view of the policy perspectives of the EMEs.

Overall, domestic macroeconomic and systemic risks in India have declined and the improving balance sheets of financial institutions, together with prudent policies of the regulators, have strengthened the resilience of the financial system.

Fintech and Payments Ecosystem

There are several aspects of the Indian economy which are reflecting a lot of promise. I have chosen one area which merits greater attention, namely, the FinTech and the Payments Ecosystem.

The FinTech ecosystem in India has tremendously improved the delivery of financial services by making them faster, cheaper, efficient and more accessible. India is currently the world's third largest FinTech ecosystem in terms of the number of FinTech entities operating in India. The adoption rate of FinTech in India is 87 per cent, which is well above the global average of 67 per cent. India's FinTech market is projected to reach USD 150 billion by 2025, a significant leap from USD 50 billion in 2021.8 The JAM trinity – a combination of bank accounts (Jan Dhan); Aadhaar (India's biometric identity system that provides a single and portable proof of identity); and Mobile phone numbers – has revolutionised India's FinTech ecosystem in terms of financial inclusion, digitisation of financial services, and overall service delivery.

The indigenously developed Unified Payments Interface (UPI) has been the game changer. Its success story has, in fact, become an international model. The interoperability of UPI across banks has created a unified payment ecosystem. Its user-friendly interface and QR code-based payments have made it very popular. It has facilitated digital payments for small businesses and street vendors, leading to greater financial inclusion. The success is visible with more than 12 billion transactions carried out through UPI in December 2023. Various recent enhancements to UPI like 'Conversational Payments' backed by an artificial intelligence powered system; offline transactions; and linkage of credit lines to UPI would further enhance its versatility. At the same time 'UPI One World' provides foreign nationals visiting India to transact payments through the UPI. The linkage between India's UPI and Singapore's PayNow bears testimony to the resilience of UPI as a potential global fast payment system. The journey continues as we have signed up MoUs with a few other countries to tap the benefits offered by UPI.

With 24x7 operationalisation of retail as well as large value payment system operated by the Reserve Bank, India is part of a club of select countries providing such round the clock facilities with real time gross settlement (RTGS). With such availability, more than 485 million digital payments happen every day. This phenomenal growth of digital payments is reflected in the Reserve Bank's composite Digital Payment Index which has increased almost four-fold in the last 5 years.

The Reserve Bank has taken several other initiatives to promote innovation. In 2019, the innovative Regulatory Sandbox framework was introduced. It allows live testing of financial products or services within a controlled environment. One of its notable successes is UPI123Pay, which enables offline UPI payments. The Regulatory Sandbox framework has been made interoperable in 2023 across multiple regulators. The annual Global hackathon, HaRBInger, organised by the Reserve Bank and the Innovation Hub set up by the Reserve Bank further amplify our collaborative efforts with the private sector in the pursuit of innovation.

As a step towards greater digitalisation, the pilot for our Central Bank Digital Currency (CBDC), e-Rupee, was launched in both wholesale and retail segments in November-December, 2022. Since then, 4 million customers have been onboarded. The CBDC will enhance digital transactions, especially in areas with limited internet connectivity. We expect our CBDC (e-Rupee) to become a global trendsetter and facilitate seamless cross-border payments.

Our approach to FinTech ecosystem is customer-centric, with focus on ensuring effective oversight, ethical conduct, risk management, and encouraging self-regulation by the FinTechs themselves by establishing a Self-Regulatory Organisation (SRO).

Conclusion

The global economy is confronted with multiple challenges. There is a dire need for collective and coordinated action by all stakeholders and global agencies. I am sure the discussions in Davos will energise the spirit of cooperation and guide us to a better future.

As far as the Indian economy is concerned, it is now poised for a long haul of higher growth. There are challenges, but they have to be dealt with effectively. With a confluence of factors in its favour, the confidence on India's prospects is at an all-time high. We have to make this happen in reality. All stakeholders need to be unambiguously focused and take measures to support this journey.

Source: https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1406

Harnessing Digital Technologies in Central Banks: Opportunities and Challenges

(Keynote address delivered by Michael Debabrata Patra, Deputy Governor, Reserve Bank of India - January 17, 2024 - at the SAARCFINANCE seminar on Emerging Digital Technologies

We are also delighted to be joined by experts on emerging technologies from the academia, the private sector, the legal sphere, data scientists, the World Bank, the RBI Innovation Hub and of course, my colleagues from the Reserve Bank of India (RBI).

This two-day seminar with 'Emerging Digital Technologies in Central Banking and Finance' as its theme marks the fulfilment of the commitment made in the 44th meeting of the SAARCFINANCE Governors' Group held at Marrakech in October 2023. Given recent developments on the technological front globally, the seminar's theme could not have been timelier and more relevant. We hope that it will serve as an avenue for intensifying engagements within the SAARC through sharing of knowledge and experiences as well as by energising person-to-person interactions.

The State of Play

New age technologies such as application programming interfaces (APIs), artificial intelligence (AI) and machine learning (ML), biometric-based identification and authentication (biometrics), cloud computing (CC) and distributed ledger technology (DLT) are currently powering innovations in the financial sector worldwide. Technological advances are also making the role of central banks more relevant and multi-faceted. Leveraging on these technologies, central banks are re-engineering their own work processes and procedures, building new capacities and, more generally, rethinking their approach to their various functions. They are also adapting their operations to new demands of citizens for more speed, convenience, and affordability. At the same time, central banks are widening and deepening their oversight and regulation role to deal with new products and new providers, including those like FinTech and BigTech that operate outside the purview of the traditional financial sector.

Consequently, central banks are also confronted with the associated risks. In doing so, they must pay heed to the fact that regulations can stifle or foster innovation in the financial sector by the manner in which they shape the rules and standards for cooperation, interoperability and competition. It is in this context that central banks cannot and should not work in isolation2. More than ever, cooperation and dialogue with other central banks and regulators as also with other stakeholders, both domestic and international, is an imperative if they have to navigate the unresting tides of innovation. Hence, forums like this seminar assume importance.

Opportunities

Let me spend a few minutes discussing the opportunities presented by these emerging technologies. First, we live in an age of data–driven policy making. Central banks are repositories of enormous volumes of data. Therefore, data quality and data governance are of utmost importance to ensure that policy measures are apposite and effective. In this context, digital technologies, especially the newer ones including AI and ML, help to dive deep into existing data as well as unstructured and high-frequency information to carry out meaningful analyses. They help to detect trends and anomalies better and thereby provide useful insights on specific economic and financial situations as inputs for policy formulation. In essence, the synergy between structured data, rigorous reporting and AI amplifies the productivity of data-driven processes, reinforcing their importance in modern central banking.

Second, central banks can use digital technologies, especially newly developed tools of big data analytics, for economic forecasting that is vital for forward-looking monetary policy assessments. An important development in this regard is the Billion Prices Project (BPP) created at MIT in 2008, which experiments with retail prices that are posted online on the websites of retailers all over the world. The objective is to improve the computation of traditional economic indicators starting with the consumer price index3. By 2010, the project was collecting 5 million prices every day from over 300 retailers in 50 countries. In May 2017, the BPP began experimenting with crowd-sourcing and mobile technologies to measure the monthly inflation rate in Venezuela where official statistics haven't been published since 2015.

Third, in the oversight of financial markets, technological innovations can help trade repositories (TRs) to tackle data quality issues and increase the value of TR data to authorities and the public. Regulators need to be vigilant, however, about unexpected forms of interconnectedness between financial markets and institutions on account of applications of AI and ML.

Fourth, regulatory compliance is another area which can significantly benefit central banks through RegTech and SupTech tools. With the increasing complexity of financial regulations, automating compliance processes through such tools, conducting risk assessments and monitoring transactions for potential violations could help sharpen compliance and ensure that financial institutions adhere to regulatory frameworks. This helps in reducing compliance costs for regulated entities, while improving the financial ecosystem as a whole. Machine readable regulations could be an additional synthesis in the usage of AI. Effective use of new technologies is expected to help to detect fraudulent actives in the system in a complex and interconnected environment.

Fifth, emerging technologies help central banks to design new products and services to cater to specific requirements. For instance, CBDC as a digital form of sovereign currency offers a secure and reliable medium of exchange. Apart from enhancing financial inclusion and improving transaction efficiency, it may also help reduce costs and facilitate cross-border transactions.

Cross Country Experience

Central banks have been early adopters of emerging technologies. I will not attempt complete enumeration of central bank practices; instead, present select experiences to underscore the wide diversity of usage.

Among advanced economy central banks, the European Central Bank (ECB) has been an early mover in applying these technologies to data collection, assessment and interpretation, and banking supervision. The US Federal Reserve is exploring the potential of generative AI through an 'incubator' programmme with 'responsible innovation' at the forefront of its strategy. The Bank of England uses AI in the scrutiny of data quality to identify potential indicators of unforeseen economic disruptions. Similarly, the Deutsche Bundesbank employs an unsupervised ML system to identify outliers in significant financial datasets. Meanwhile, the Banque de France's BIZMAP initiative leverages these advanced technologies to assist small- and medium-sized enterprises in France as they navigate global markets. Many central banks, including the Bank of Canada, are implementing cloud adoption strategies for data analysis and collaboration which helps them in hassle-free upscaling of computing power4.

Among emerging market economies, the Central Bank of Malaysia has developed a SupTech tool that supports communication with supervised entities with the aim of enhancing both the efficiency of the process and the consistency of the messages conveyed. Bank Indonesia has been using news articles to enhance the forecasting of labour market dynamics. The approach involves building a statistical index of employment vulnerability computed from a corpus of around 27,000 monthly news texts covering a period of 23 years and based on natural language processing (NLP) techniques.

The Indian Experience

The RBI as a full-service central bank has employed emerging technologies in virtually all its functions while also encouraging their adoption in various parts of the financial system. This has also involved spearheading innovation and building up the digital public infrastructure. As a result, a recent assessment has found that the usage of AI related keywords in Indian banks has increased sizeably5. A survey conducted by the RBI at end June-2023 revealed that almost three-fourths of Indian banks and several non-banking financial companies (NBFCs) have developed chatbots and virtual assistants. Increased collaboration of banks and NBFCs with FinTechs has facilitated introduction of model-based lending.

Within the RBI, big data analytics, AI and ML have been extensively employed in monetary policy, research and data management functions. Examples include use of AI powered tools to refine the quality of banking statistics; building of hybrid models that combine traditional statistical methods with ML tools for forecasting and nowcasting; applications of natural language processing (NLP) for classification of internal audit reports; and analyses of the textual complexity of banking regulations. The use of unconventional data like media sentiment is undertaken for assessing the effectiveness of central bank communication. Other applications include tracking inflation through online food prices and assessing crop production from remote sensing data.

On the supervisory front, the Advanced Supervisory Analytics Group (ASAG) has been set up to leverage ML models for social media analytics, know your customer (KYC) compliances and for gauging governance effectiveness. The establishment of an advanced off-site supervisory monitoring system—DAKSH – is helping to digitalise supervisory processes. An Integrated Compliance Management and Tracking System (ICMTS) and a Centralised Information Management System (CIMS) are two major SupTech initiatives being implemented for seamless reporting by supervised entities for enhancing data management and data analytics capabilities, respectively.

On the digital financial inclusion front, the RBI Innovation Hub has pioneered the delivery of farm loans or Kisan Credit Card (KCC) loans in a fully digital and hassle-free manner. The RBI has also facilitated setting up of digital banking units (DBUs) by commercial banks, which will enable broader access to cost effective and convenient digital financial products and services.

The RBI's innovations in payment and settlement systems have been recognised the world over. It is now building upon the success of India's fast payment system – the Unified Payment Interface (UPI) - by incorporating functionalities like offline payments through near field communication (NFC) technology (UPI Lite X), payments through feature phones (UPI123Pay), conversational payments. The UPI has been interlinked with PayNow, Singapore's fast payment system, in collaboration with the Monetary Authority of Singapore to enable users to make instant and low-cost cross-border peer-to-peer (P2P) payments. This is a major step towards the internationalisation of the UPI. Similar collaborations with other jurisdictions, notably with the UAE's Instant Payment Platform (IPP), are in the pipeline. In the development of CBDCs, both wholesale and retail e- ₹ pilots were initiated in 2022. Going forward, the aim is to expand the ongoing pilots by covering more locations, include more participating banks and incorporate feedback.

On the information technology front, the RBI is working on establishing a cloud facility for the financial sector in India. Taking cognizance of increasing geopolitical and climate related risks, a Lightweight Portable Payment System (LPSS) is being developed to process critical transactions during emergencies. The RBI is also developing a state-of-the-art greenfield data centre to address capacity expansion constraints to meet ever-increasing IT landscape needs and to avoid region specific risks.

The RBI has facilitated responsible innovation in the financial sector through initiatives like its regulatory sandbox, which has produced practical and innovative solutions in domains such as 'retail payments', 'cross-border payments', 'MSME lending' and 'prevention and mitigation of financial frauds'. It has also conducted hackathons to leverage the experience and skills of the private sector, the academia, and the public to provide innovative solutions to the problems facing digital India. The account aggregator (AA) framework helps in secured sharing of financial data between regulated financial institutions and also provides customers control over their data. By promoting data portability, this framework also expands the market for lenders. While encouraging innovation, the Reserve Bank is also proactive in safeguarding customer interests by regulating digital lending and flagging unauthorized forex trading platforms.

Challenges

As society harnesses the benefits of emerging technologies, regulators should pay careful attention to the underlying risks and hence to responsible use, data security and privacy, legal compliance, and ethical questions. These aspects will also require central banks to reskill and upskill the existing workforces and adapt to the changing digital landscape in a sustainable way.

First, with the increasing use of AI, concerns arise about transparency, data biases, governance, privacy and the robustness of algorithms. Hence, central banks need to ensure that there are enough checks and balances in place. The RBI has emphasised that data used for training of models should be extensive, accurate and diverse to rule out any prejudices and that algorithms should be auditable.

Second, cybersecurity in banking organizations is essential for continuing public trust in the financial system. Cyber risks also entail customers facing threats of exposing personally identifiable information (PII). Organizations too have to bear high costs on account of the operational impact on businesses, demand for payment of ransoms and/or having to develop new infrastructure from scratch. Due to increasing reliance on Software as a Service (SaaS) solutions, financial institutions can also get affected by third-party or supply-chain attacks. Cloud computing is becoming vital for many modern applications, but it is also associated with threats to data security and privacy, system availability, continuity of operations, interoperability, auditability and compliance with legal requirements6.

Third is the issue of digital financial exclusion whereby a significant proportion of the population may feel left behind. Additionally, emerging technologies have unleashed complex products and business models with risks, of which users may not be fully aware. New risks include the proliferation of fraudulent apps, deep fakes, and mis-selling through dark patterns.

Fourth, digital innovation can also drive fragmentation of the financial world, as differing systems can divide user groups and countries from each other7. For effective cross-border digital financial infrastructures, there emerges a need to discuss and promote common protocols, standardised APIs and secure communications channels. Legacy infrastructures in the financial system need to be upgraded in line with these common protocols to handle new kinds of demand.

Central bankers must closely monitor developments in Quantum Computing, which is expected to lead to a multi-fold increase in computational abilities. There is growing concern, however, about the vulnerability of existing cryptographic methods that secure our financial transactions as Quantum Computing can rapidly perform code-breaking calculations.

It is imperative to strike a balance between benefits and risks by strengthening the capacity of regulated entities (REs) and surveillance by oversight authorities, formulating/updating relevant legal and regulatory frameworks, proactively engaging stakeholders to identify possible risks, and expanding consumer education.

Conclusions and Way forward

There is significant heterogeneity across SAARC central banks in the use and adoption of emerging technologies. Within the SAARC, therefore, it is important for our central banks to learn from each other's experiences by focusing on nuances of technology, integration with existing systems, skilling and adaptability, and the disruptive aspects of technology.

Looking ahead, we can also envision the interlinking of technologies. A case in point is increased outward orientation of India's UPI to citizens of other countries. The potential is vast; to exploit it, we must gear up to participate in the new technology revolution. Above all, we must open our minds to the power of innovation, to the cross-fertilisation of ideas and experiences while being mindful of the inherent risks.

This seminar brings together the best minds, practices and capabilities in our region. This fusion will surely shed light on the way forward. As I wish you every success in your deliberations, I would like to end with a few words of caution expressed by Stephen Hawking: "Success in creating AI would be the biggest event in human history. Unfortunately, it might also be the last, unless we learn how to avoid the risks."

Source- https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1415

Safeguarding Financial Stability: The Crucial Role of Assurance Functions

(Speech by Shri Swaminathan J, Deputy Governor, Reserve Bank of India - January 10, 2024 - at the Conference for Heads of Assurance Functions in Mumbai)

I am delighted to address you today as we gather for this inaugural conference of Heads of Assurance functions. Last year, in our engagements with the Boards of both Public and Private Sector Banks, Governor had emphasized the importance of independence of assurance functions as well as their right to constructively challenge business functions for establishing a strong compliance and risk culture. Indeed, this conference today is a testament to the significant importance the Reserve Bank attaches to the assurance functions in the context of safeguarding financial integrity and promoting regulatory compliance.

Undoubtedly, these are good times for the financial services industry, characterized by robust parameters of performance and soundness. This enviable position is owed, in no small measure, to the hard work and unwavering dedication of the compliance, risk management, and internal audit functions. However, our success should not lull us into complacency. Vigilance and a proactive alert stance are essential to identifying and mitigating risks that may emerge on the horizon.

As custodians of financial stability, we must be acutely alert to the risks emanating from both familiar and unforeseen sources. Risks may be inherent in the business model such as over-concentration to a particular sector or sources of funding. They could also arise due to inadequate oversight over operations, more so in vulnerable areas like outsourcing. The growing use of technology and the pervasive digitalisation of finance bring forth new challenges, notably in the form of cyber-security risks. Then there is also the ever-growing threat of climate risks. In this milieu, assurance functions, acting as the extended arms of supervision, are crucial in identifying, escalating, and facilitating the proactive management of risks and preventing them from ballooning into a crisis.

Indeed, the assurance functions serve as the indispensable foundation, ensuring not only the stability of the individual financial institution but also the resilience of the broader financial system. Supervision, as I am about to explain, comes in much later after the four lines of defence.

a. As you are aware, the first line of defence operates at the business unit level itself and involves proactive risk management embedded within the daily operations of the bank. Here, assurance functions play a crucial role in fostering a culture of risk awareness and compliance at every level.

b. The second line builds on this foundation by establishing robust risk management frameworks, policies, and procedures. Compliance and Risk Management functions, with their independence and expertise, contribute significantly to shaping and monitoring these frameworks.

c. The third line of defence centres around internal audit, providing an objective and systematic evaluation of the effectiveness of risk management and internal controls. Internal audit contributes substantially to this line by ensuring an independent and comprehensive coverage, thorough examinations, and insightful recommendations.

d. If we take external audit as the fourth line of defence, Supervision, then, becomes the fifth line of defence, complementing the groundwork laid by the assurance functions. Supervisory oversight, while essential, is most effective when supported by a strong foundation of risk-awareness, well-defined risk management and compliance practices, as well as robust internal and external audits.

The seamless collaboration between these lines of defence can form a formidable shield, safeguarding not only individual banks but the entire financial system against potential threats and vulnerabilities. Therefore, the efficacy of assurance functions is not just a matter of internal governance but a lynchpin for the overall health of the financial ecosystem.

The Reserve Bank has always been cognizant of the important role played by the internal assurance functions. More than three decades ago the position of 'Compliance Officer' was formalised in 1992 based on the recommendations of the 'Committee on Frauds and Malpractices in Banks' (also know as the Ghosh Committee). Apart from the compliance function, several instructions have also been issued on risk management and internal audit as well. A key underlying principle repeatedly emphasised in various RBI guidelines and instructions is that assurance functions should have adequate independence and stature within the organisation to function effectively.

I would now like to highlight some specific aspects in the domain of compliance, risk management and internal audit, where I believe there can be greater focus and attention.

Compliance

The Compliance function is at the forefront of ensuring the integrity of banking operations. I would urge you to adopt a 'regulation-plus' approach, where the institution not only meets but exceeds regulatory expectations. The compliance function must go beyond mere adherence to regulatory requirements. Compliance officers must endeavour to ensure that products, processes, and outcomes fully comply not only with the letter of the law or regulation, but also the spirit and intent. This approach ensures not only regulatory compliance but also the cultivation of a culture that prioritizes ethical conduct and sound business practices.

We would also like Compliance Officers to give due attention to the Risk Assessment Report (RAR) observations and Risk Mitigation Plans (RMP). To ensure sustained compliance, it is important to address the root cause of the observations. Further, there should be no compromise on the agreed timelines for RMP, and the bank should ensure that all RMP and RAR observations are comprehensively addressed well before the start of the next inspection cycle. Pending compliance paragraphs is not a desirable situation and may be a reflection of the lack of due attention by the management as well as the Board. Such instances can also invite stern supervisory action.

As you would be aware, the RBI in 2022 introduced the DAKSH platform, which is a web-based end-to-end workflow application with anytime-anywhere secure access that inter-alia facilitates focussed compliance monitoring. Apart from using DAKSH, I would encourage Compliance teams to explore IT solutions for monitoring of internal compliance as well.

Risk Management

Risk management should ensure that the strategic business and capital plans are properly aligned with the risk appetite of the bank. The Internal Capital Adequacy Assessment Process or ICAAP under Pillar 2 is crucial in this regard. Pillar 2 acknowledges that the minimum regulatory requirements stipulated under Pillar 1 may not capture the full spectrum of risks that a bank faces. Therefore, the ICAAP provides a forward-looking mechanism for banks to comprehensively assess and manage their internal capital needs, by considering a broad range of risks. Banks should learn to recognise its inherent value and use ICAAP document as a strategic tool to align capital plans with risk appetite and risk assessment.

The other aspect I would like to highlight is the meticulous monitoring of risk limits. Frequent breaches in risk limits, coupled with their non-ratification or their routine ratification, poses substantial dangers to the stability and integrity of financial institutions that extend beyond the immediate financial implications. If breaches become normalized or overlooked, employees may perceive risk limits as mere guidelines rather than non-negotiable boundaries, thereby compromising the institution's overall risk awareness. Therefore, it is imperative to address breaches systematically, conduct thorough investigations, and implement corrective measures to fortify the risk management practices.

Internal Audit

As regards Internal Audit, very often we come across deficiencies in the scoping, coverage, and periodicity as well as issues in independence of the internal audit function. Proper scoping, periodicity, and independence in risk-based internal audit are essential components of a robust governance and risk management framework.

The scoping process should be aligned with the organization's risk profile. It involves identifying and prioritizing key risk areas that warrant thorough examination. The internal audit should not just rely on the audit reports of a branch/ division but have a program for centralised off-site analytics to timely identify any unusual trend or outliers, examine their materiality and have these rectified by instituting system level controls. I would encourage internal audit to increasingly leverage technology, including usage of Artificial Intelligence and Machine Learning to facilitate early identification of key risk areas.

The periodicity of internal audit should be responsive to the dynamic nature of the risk environment. High-risk areas may necessitate more frequent audits, while lower-risk areas may be subject to less frequent but regular assessments. In addition to regular audits, a continuous monitoring framework should be in place to detect and respond to risks in real-time.

Independence of Assurance Functions

Before I conclude, I would like to delve upon the importance of independence of assurance functions. These functions serve as a critical check and balance within the governance structure of an organization. Therefore, independence of assurance functions is fundamental for ensuring that assurance activities are conducted with integrity, objectivity, and effectiveness. As Heads of Assurance functions, you play a critical role in upholding the integrity and effectiveness of your respective functions within your organizations. You must be vigilant in protecting the independence of these roles, resisting compromises that may arise due to dual hatting or other conflicting roles. While business owners may be known risk takers in pursuit of their business goals, I would urge upon the heads of assurance functions to be the conscience keepers and not allow themselves to be influenced by some short-term priorities.

Very often some friends in the industry confide that only managing a business function improves career prospects as compared to managing assurance functions which are considered typically non glamorous. I can assure you from my personal experience that this is not the case. Promotions are based on a combination of individual performance, skills, and organizational needs. Executives who demonstrate excellence, leadership, and a commitment to contributing to the organization's success are bound to advance in their careers, regardless of whether they are in assurance functions or other areas in the bank.

Conclusion

In conclusion, this inaugural conference of Heads of Assurance functions underscores the significant role these functions play in upholding financial stability. As we navigate good times in the financial services industry, let us not become complacent. Instead, we must remain alert by proactively identifying and mitigating emerging risks. Most importantly, the commitment to independence and effectiveness in our assurance functions is not just a matter of internal governance but a cornerstone for the overall health of the financial ecosystem.

With this, I would once again like to extend my warm wishes to each one of you for a very Happy New Year. May the coming year bring success, prosperity, and fulfilment in both your professional and personal endeavours. As we embark on new challenges and opportunities, may our collective efforts contribute to the continued growth and resilience of the financial sector.

Source- https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1405

Insolvency & Bankruptcy Code – Towards Achieving Full Potential

(Keynote Address by Shri Shaktikanta Das, Governor, Reserve Bank of India - January 11, 2024 - At the Conference on Resolution of Stressed Assets and IBC – Future Road Map organised by the Centre for Advanced Financial Research and Learning (CAFRAL), Mumbai)

Internationally, bankruptcy laws serve a larger public cause of providing an avenue for recycling of capital tied up in inefficient firms and realigning the deployment of this capital in other productive purposes. The bankruptcy laws promote entrepreneurship in the economy; they also provide means for distressed borrowers to renegotiate their debt with the creditors; and creditors to exercise their rights over borrowers in default.

In the Indian context, as you would be aware, our credit markets are dominated by banks. The stressed debt held by the banks is usually an outcome of anticipated as well as unanticipated risks that have manifested. Wilful default or frauds are, however, a separate category. At a systemic level, a high level of stressed debt is generally caused by excessive leverage, poor underwriting, lax post disbursement surveillance and other exogenous shocks that may emerge from the real economy. Recent economic history has shown how the above factors have contributed to high level of stressed debt in various geographies. Even in the Indian context, we had witnessed a huge pile up of stressed assets about a decade ago. High level of stressed debt generates major adverse consequences in the credit system by way of misutilisation of capital, averseness to lending and crowding out of investments.

Seen from this perspective, the enactment of the Insolvency and Bankruptcy Code (IBC) has been a landmark reform in the economic history of India. Prior to IBC, the laws in India had brought the legislative, executive or judicial arms of the Constitution, into dealing with the distressed firms, in isolated manners. In this background, the Bankruptcy Law Reforms Committee (BLRC)1 had strongly opined that the appropriate resolution of a defaulting firm is a business decision, and only the creditors should make it. As a culmination of this thinking, the IBC as we have it today lays substantial emphasis on resolution mechanisms driven by creditors who have been empowered to initiate insolvency proceedings against a defaulting debtor. Such a process facilitates greater transparency and accountability.

The Reserve Bank, being the regulator of a large part of the credit ecosystem, has been a key stakeholder in the implementation of the IBC. The RBI has taken several measures dovetailed into the IBC, with a focus to resolve large value stressed accounts. The RBI was conferred with an explicit role in leveraging the IBC as the primary tool for resolution of large legacy stressed assets. The amendments to the Banking Regulation Act, 1949 carried out in 2017 inserted a clause that authorised the Reserve Bank to issue directions to any bank to initiate corporate insolvency resolution process (CIRP) in respect of a default, under the provisions of the IBC. Accordingly, leveraging these powers, the Reserve Bank issued directions for initiation of CIRP proceedings in 41 specific cases of default2.

The other significant implication of the IBC from a regulatory perspective was a shift towards a more principle-based approach as far as out of court resolution is concerned. All existing schemes of restructuring of loans were substituted by a simple and harmonised framework for resolution under the Prudential Framework which was issued by the Reserve Bank on June 7, 2019. The harmonised framework provided discretion to lenders for designing and implementing resolution plans in respect of borrowers in default, subject to evaluation of commercial viability. The resolution plan could also include filing of CIRP applications under the IBC. In respect of large value borrowers, i.e., where aggregate exposure of banks is in excess of ₹1500 crore, disincentives have been prescribed in the form of additional provisions to be made for delayed implementation of resolution plans. Several of these accounts have since been resolved under the IBC.

Stocktaking of the implementation of the IBC

If we have to take stock of the implementation journey of the IBC and its impact so far, there are significant positive indications as well as learnings, suggesting the need for some course correction. Let me first highlight the positive aspects in terms of (i) nature of resolution; (ii) realisation of value; and (iii) behavioural shift.

In terms of nature of resolution: Since its inception, 7,058 corporate debtors (CDs)3 have been admitted into the CIRP, of which 5,057 cases have been closed and 2,001 corporate debtors are under various stages of resolution. Of the cases which have been closed, around 16 per cent have yielded successful resolution plans; 19 per cent have been withdrawn under Sec 12A of IBC, where largely the debtors agreed for full or partial settlement with the creditors; 21 per cent were closed on appeal or review; and in 44 per cent of the cases, liquidation orders have been passed. Putting together the 16 per cent cases which had successful resolution plans and the 19 per cent of cases where the CDs agreed for settlement, it can be said that 35 per cent of the total CIRP cases saw the positive impact of the IBC.

A fine combing of the data would indicate that 77 per cent of the cases which ended in liquidation were inherited from the earlier Board for Industrial and Financial Reconstruction (BIFR) regime or were already defunct units where substantial value erosion had taken place before their admission under IBC. In fact, the Code has provided all these legacy cases a means for an orderly exit. To illustrate further, 38 per cent of the CIRPs which yielded a successful resolution were earlier with the BIFR and/or were defunct; and if not for IBC, their fate would have perhaps remained uncertain till now.

The data published by the IBBI suggests that there has been an increase in the number of CIRPs resulting in resolution as a percentage of liquidation orders going up from 21 per cent during FY 2017-18 to 45 per cent during FY 2022-23. This reflects a steady tilting towards resolution option under the IBC and highlights the increased acceptance of the IBC as an appropriate statutory umbrella for turning around viable firms.

Even in other segments of the financial sector, entities such as the non-banking financial companies (NBFCs), the IBC has provided an effective enabler for resolution of stressed entities. I am referring to section 227 of the Code, which was operationalised through a separate notification for resolution of certain Financial Service Providers in 20194. The RBI has been able to leverage this mechanism to undertake resolution of a few major stressed NBFCs in the recent past, with minimal disruption to the overall financial system.

In terms of realization of value: Creditors have realised ₹3.16 lakh crore out of the admitted claims of ₹9.92 lakh crore as of September 2023, which works out to a recovery rate of 32 per cent. It needs to be emphasized here that significant value destruction would have already happened in these assets prior to their admission under the IBC. Further, a comparison of realised value with admitted claims may not be a reasonable indicator of the effectiveness of the resolution process. Rather, the resolution value may be compared with the liquidation value of stressed assets or the fair value at the time of admission into IBC. When evaluated from the prism of these two parameters, namely, the liquidation value and the fair value, the realization rates are 169 per cent and 86 per cent respectively which appears quite encouraging.

In terms of behavioural shift: The most interesting outcome of the IBC has been the substantial behavioural shift ushered in by the Code. This is evident from the 26,518 applications for initiation of CIRPs having total underlying default of ₹9.33 lakh crore which were withdrawn before admission, till August 2023. The credible 'threat of insolvency' ignited by the Code has strengthened the negotiating powers of the creditors, in the absence of which it is most likely that those defaults would have lingered for much longer, resulting in value destruction. It has to be stated here that the IBC should not be seen as merely a loan recovery instrument; it has to be seen as an instrument which facilitates preservation of economic value of assets through effective resolution or unlocking of capital which is stuck in unviable businesses.

Challenges and Way Forward

If all is good about the implementation of the Code, then where is the criticism coming from? In general, the criticisms of the IBC are on two fronts – the time taken for resolution and the extent of haircuts vis-à-vis the admitted claims. I have already shared my perspectives on the haircut part. Let me now share some thoughts on the delay part.

The Code envisages a time bound process, requiring the completion of CIRP within 180 days, with a one-time extension by up to 90 days in exceptional circumstances. The data published by the IBBI5, however, raises certain serious concerns. As of September 2023, 67% of the ongoing CIRP cases have already crossed the total timeline of 270 days including possible extension period of 90 days. More concerning is the fact that, the average time taken for admission of a case during FY 2020-21 and FY 2021-22 stood at 468 days and 650 days respectively. Such long degree of delays will substantially erode the value of the assets. There are multitude of factors playing out here, namely, the evolving jurisprudence related to the Code; litigatory tactics adopted by some corporate debtors; lack of effective coordination among the creditors; bottlenecks in the judicial infrastructure, etc. I would wish to touch upon some of these issues along with thoughts on the possible way forward. I have four specific points to make.

(a) Realigning the dynamics between the Creditors and Corporate Debtors

The IBC transfers full control of the Corporate Debtors to the creditors during the period of CIRP, through the resolution professional. The rationale for the same is to prevent any erosion of value during the process of resolution. Given the loss of saddle, we see the promoters of the debtors in many cases resorting to various litigatory tactics. While there could be bonafide reasons in some cases, other kinds of intent are also visible in the market. To minimize this friction, there has been an institutional attempt towards adopting the prepack schemes which is essentially a debtor-in-possession model. Globally, pre-packs have evolved organically without statutory interventions, because in those countries, the insolvency regimes had stabilized. In such predictable scenarios, the judiciary's role is rather limited because the Courts generally approve the resolution plans after verifying compliance with the laid down tenets.

In the Indian context, to start with, the Pre-Packaged Insolvency Resolution Process (PPIRP) has been rolled out for the MSMEs. The response towards its adoption, however, seems to be relatively muted. One reason could be the hesitancy on the part of the financial creditors (FCs) in approving the proposals under this mechanism, wherein the haircut is perceived as voluntary. It may be stressed here that PPIRP will incentivise the promoters to constructively engage with the creditors, possibly even before occurrence of any default event. This would facilitate swift and smoother resolutions, avoiding unnecessary adversarial litigations. Overall, this could be a win-win situation for both creditors and debtors. Once this perception is established, there could be a greater acceptance of this mechanism for larger corporate debtors as well, as and when the statutory enablers are in place. Thus, in their own interest, the creditors and debtors may consider adopting PPIRP in applicable scenarios based on prudentially realistic cost-benefit evaluations.

From the Reserve Bank's side, we are cognisant of the limitations of the out of court resolution framework, in particular the coordination issues since a large part of the creditor universe like mutual funds, insurance companies and other bond/debenture holders, etc. is outside the scope of our Prudential Framework for Resolution of Stressed Assets. Hence, we have a special interest in effectively dovetailing the out of court workouts conceived under our Prudential Framework with that of the IBC. The PPIRP could be a potential game changer in this regard.

(b) Reaffirming the financial creditor's role

Through the course of last seven years of implementation of the Code, the jurisprudence on the role of the Committee of Creditors (CoC) has evolved. The CoC has a fiduciary responsibility to safeguard the interests of all stakeholders. The success of the Code is linked to an active involvement of the CoC in driving the resolution process forward. On several occasions, however, the Adjudicating Authorities (AA) have raised concerns regarding the conduct of the CoC in the insolvency proceedings. This includes lack of participation in the CoC meetings; lack of engagement or effective coordination among creditors; disproportionate prioritisation of individual interest of creditors rather than their collective interest while designing the resolution plans which can be detrimental to the resolution plan itself, etc.

Given these shortcomings on the part of CoC, there appears to be a trend in recent years towards balancing the rights of Operational Creditors (OCs) with those of Financial Creditors (FCs) under the Code. While the focus on ensuring equity among all stakeholders may be appreciated, there needs to be some distinction in weightage attributed to different category of creditors, depending upon the degree of risk absorbed ab initio. It has to be recognised that the financial creditors take the maximum risk and hence their risk needs to be commensurately compensated and with priority. Accordingly, any amendments to the Code and its evolution thereof may continue to lay emphasis on a financial creditor-led resolution framework, in an overarching manner.

(c) Envisaging a Group Insolvency Mechanism

While the insolvency mechanism has been graduating towards a zone of stability through various concerted measures, one visible impediment seems to be the absence of a clear framework for group insolvency. Globally, there are two diverse facets of Group Insolvency. Some jurisdictions have adopted either procedural coordination or substantive consolidation. Substantive consolidation pertains to the consolidation of assets, liabilities, and operations of multiple entities within a group, disregarding their separate legal entity status. On the other hand, under procedural coordination, the approach is limited to aligning procedural aspects like filing requirements, timelines, coordination, etc., and not mingling the entities per se.

In the Indian context, in the absence of a specified framework, the group insolvency mechanism has been so far evolving under the guidance of the Courts. Perhaps the time has come for laying down appropriate principles in this regard through legislative changes. There has been quite a bit of brainstorming on this issue in the policy circles for some time now. The task now is to move forward through appropriate legal changes.

While a legal framework cannot envisage all plausible real world scenarios, given the complicated group structures at the ground level including cross border linkages, it may be in the fitness of things to formally conceive a framework to start with. There would be challenges in this journey like intermingling of assets, devising a definition of 'Group', addressing cross-border aspects, etc. It would still be preferable to see the opportunity here and put in place a workable framework for group insolvency.

(d) Developing a vibrant secondary market for stressed assets

One major impediment for implementing a successful resolution plan has been the absence of a vibrant market for stressed assets in the country. This effectively limits the pool of prospective resolution applicants for stressed assets under IBC. In fact, this applies to even our regulated entities when they transfer their stressed assets outside the IBC process. A robust secondary market in loans can be an important mechanism for management of credit exposures by the lending institutions.

It is in this pursuit that certain measures have been taken by the Reserve Bank. The Master Directions on Transfer of Loan Exposures issued on September 24, 2021 lay down a comprehensive regulatory framework for transfer of loan exposures by banks, NBFCs and All India Financial Institutions (AIFIs). In particular, an enabling framework has been put in place for transfer of stressed loan exposures to a wider set of market participants, subject to specified conditions. We are also currently in the process of formulating a framework for securitization of stressed assets, for which a Discussion Paper has been issued in January, 2023.

From an institutional perspective, the Reserve Bank has brought together a core group of major banks to set up a Self-Regulatory Body – i.e. Secondary Loan Market Association (SLMA). The self regulatory body is expected to play an important role in standardisation of documentation and market practices; setting up the market infrastructure; promoting liquidity, efficiency and growth of the secondary market in alignment with broad regulatory objectives.

These measures are expected to facilitate the transfer of credit risk originating in the banking sector and ensure market-based credit products for diversified set of investors. Undoubtedly, the germination of an active secondary market ecosystem will have consequential benefits for the IBC mechanism.

Conclusion

Apart from what I have highlighted, there are several other aspects which merit attention. These would include leveraging technology to optimise the disposal of cases, strengthening the judicial infrastructure, regular stakeholder awareness programmes and the like. From the Reserve Bank's side, we have also been consistently engaging with the stakeholders to understand their thought process on the emerging challenges to arrive at likely solutions.

The recent/steady improvement in the asset quality of the banking sector can be attributed to a multitude of factors including the introduction of the IBC. A law is only as good as its implementation. The Reserve Bank would continue to have focussed interest in the orderly and sustained evolution of the IBC ecosystem.

Source- https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1402

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

3rd Green Investment & Sustainability Summit 2024 "Driving Transformational Change for Sustainable Growth"

30th - 31st January 2024 (Chennai)

The ASSOCHAM National Council for Banking successfully conducted 3rd Green Investment & Sustainability Summit 2024 "Driving Transformational Change for Sustainable Growth" held on 30th – 31st January 2024 at Chennai. The Special Address was delivered by Smt. Uma Sankar, Regional Director, Reserve Bank of India and the eminent panel members were Shri Ramachandran Venkataraman, Co-Chairman, ASSOCHAM National Council on Business Facilitation and Global Competitiveness and COO, V-Guard Industries; Shri Prasenjit Roy, CMO, NTT India; Shri S Seetharaman, Member, ASSOCHAM and Co-Founder, Sarvada Legal; Dr. Rambabu Paravastu, Co-Chairman, ASSOCHAM National Council on Sustainable Finance and CSO, Greenko Group;

Shri Sankarasubbu Selvam, Senior Advisor – Special Projects, Swelect Energy; Shri P Sudhir, ASSOCHAM National Council on Business Facilitation and Global Competitiveness and Group CEO, Aeries Technologies.

TOP BANKING NEWS

- **RBL Bank expects 20% loan growth over next 2 years led by retail assets**

RBL Bank expects a 20 percent growth in its loan book over the next two financial years, largely led by secured retail assets, its managing director and chief executive officer said in an interview on 24 January.

In an interview with Reuters, R Subramaniakumar said, "We are trying to get into areas which are futuristic ... and have a better management of the capital."

"We have forayed into areas like gold and housing loans where the risk weight is fairly less and capital adequacy is going to be taken care of," he added.

The Reserve Bank of India's move to raise the risk on unsecured loans impacted RBL Bank's capital adequacy ratio by 70 points, Subramaniakumar said.

The lender is aiming to grow its credit card book around 23-25% going forward, from 29% in the October-December quarter, he added.

The Mumbai-headquartered bank reported a 20 percent growth in loans on-year, while deposits grew by 13 percent. The bank's retail loans grew 33 percent year-on-year.

Subramaniakumar said the bank does not envisage any pressure on deposits and its deposit rates have peaked.

Recently, on 20 January, RBL Bank reported an 11 per cent increase in its profit to ₹233 crore in the third quarter ended in December 2023. The bank had earned a net profit of ₹209 crore in the same quarter a year ago. Total income increased to ₹3,969 crore during the quarter under review against ₹3,116 crore in the same period last year, RBL Bank said in a regulatory filing. Interest income of the bank also improved to ₹3,191 crore during the quarter compared to ₹2,498 crore in the same period a year ago.

Coming back to Subramaniakumar's interview with Reuters, he said, NIM will increase by a few basis points every quarter in 2024-25.

According to Subramaniakumar, the lender is also considering its options with regard to its exposure to alternate investment funds (AIF), and this exposure is fully covered by the central bank's mandate. RBL Bank's investments in AIF have a net asset value of 1.61 billion rupees ($19.38 million), he added.

Source: https://www.livemint.com/industry/banking/rbl-bank-expects-20-loan-growth-over-next-2-years-led-by-retail-assets-says-ceo-r-subramaniakumar-11706143547807.html

- **Axis Bank expects personal loan growth to continue**

Private sector lender Axis Bank believes it will be able to sustain its current growth in personal loans with the quality of the credit portfolio remaining healthy, a senior executive said on Tuesday.

Personal loans—a category of unsecured loans where the Reserve Bank of India (RBI) has been warning of exuberance—grew 28% year-on-year (y-o-y) to ₹65,083 crore as on 31 December. In comparison, ICICI Bank and HDFC Bank witnessed a 37.3% y-o-y and 10.3% y-o-y growth in personal loans.

Sumit Bali, group executive and head of retail lending at Axis Bank, said that over 80% of customers in the personal loan segment are existing ones and the bank has quite a bit of their banking history. Such data on past transactions help banks make better credit decisions. To be sure, the share of existing bank customers in personal loans is higher than in segments like loan against property (76%), auto loan (65%), and home loan (57%), besides others.

The bank's total advances grew 22% y-o-y to ₹9.32 trillion as on 31 December. Retail loans, a subsegment of the overall advances, rose 27% y-o-y.

“The growth (in personal loans) you see is a result of some transformation projects we have been running over the years and are midway through that journey. We expect portfolio quality will hold up and this kind of growth will continue," said Bali.

He said that the bank was not sacrificing quality for the sake of growth.

“We have just tweaked (some) minor onboarding criteria but it is insignificant. These are not related to the newsflow you see but internal process changes to get more efficient," said Bali when asked if the bank is looking to tweak any risk filters following RBI’s concerns around the banking sector’s brisk growth in unsecured loans.

Axis Bank’s provision and contingencies for the December quarter stood at ₹1,028 crore and the bank said it fully provided for its entire AIF investments, setting aside ₹182 crore in the quarter. Last month, RBI clamped down on lenders allegedly evergreening loans through the use of alternative investment funds (AIFs), a practice previously red-flagged by the stock market regulator. It asked lenders to fully provide for such investments if they are not able to exit in 30 days.

In November, RBI raised the risk weights assigned to unsecured consumer credit like personal loans and credit card dues. This had an impact of 70-basis points (bps) on the bank’s core equity capital which as on 31 December stood at 13.71%.

Amitabh Chaudhry, managing director and chief executive, Axis Bank, told CNBC TV18 in an interview earlier this month from Davos that by increasing the risk weightages RBI gave a clear signal that it wants the market to temper their growth, watch for credit risks and also look at the leverage of some of the borrowers.

Axis Bank on Tuesday reported a net profit of ₹6,071 crore for the three months through December, up 4% from the same period last year, slightly falling short of analyst expectations. A Bloomberg poll of 14 analysts had pegged the bank’s Q3 net profit at ₹6,120 crore.

The bank’s net interest income—difference between interest earned and interest expended—grew 9% y-o-y to ₹12,532 crore. Its net interest margin—a gauge of profitability—stood at 4.01%, down 10 bps from the sequential quarter.

Its aggregate deposits grew 18% y-o-y to ₹10.04 trillion and current and savings account deposits were up 12%. While the bank performed better among its peers in garnering current account savings account (CASA) deposits that are sought for their low cost, it sees strong competition for deposits to continue and believes it will be a challenge over the short and medium term.

As on 31 December, the bank’s reported gross non-performing asset (NPA) and net NPA ratios were at 1.58% and 0.36%, respectively, compared to 1.73% and 0.36% as on 30 September.

Shares of Axis Bank stood at ₹1,088.9 apiece, down 2.84% from the previous close. The broader 30-share BSE Sensex closed 1.47% down, at 70,370.55.

Source: https://www.livemint.com/industry/banking/axis-bank-expects-personal-loan-growth-to-continue-11706026582679.html

- **RBI flags rising risks in consumer lending**

HDFC Bank Ltd, India’s biggest private sector lender, is seeking to open its first branch in Singapore, signaling its overseas ambitions after sewing up a landmark merger with mortgage financier Housing Development Finance Corp. last year.

The bank has applied to the Monetary Authority of Singapore for a banking license and is awaiting approval, according to sources familiar with the matter. It is not clear what kind of banking license HDFC Bank is seeking in Singapore, said one of the people, who declined to be identified as the information is confidential.

The banking giant is seeking a bigger presence abroad to tap the Indian diaspora for savings and term deposits, as well as to cross-sell more products, including mortgages, the people said. At home, HDFC has been focusing on deepening its reach in the world's most populous country through loans to retail customers.

HDFC Bank did not respond to an email seeking comment. "As a matter of policy, MAS does not comment on our dealings with financial institutions," according to a spokesperson from the Singapore regulator.

Singapore, with a population of almost 6 million people, houses a large India diaspora. About 650,000 non-resident and persons of Indian origin live in the city-state, according to Indian government data.

HDFC Bank is currently not licensed or regulated by the MAS, according to its website. It only provides home loans-related advisory services for the purchase of properties in India, the website states.

The categories of banking licenses in Singapore encompass full banks, qualifying full banks and wholesale banks, which impose varying levels of restrictions on the lenders' activities. State Bank of India and ICICI Bank Ltd. hold qualifying full banking licenses, alongside eight other banks like Bank of China Ltd. and BNP Paribas SA. Such licenses are open only to foreign banks and allow them to have additional branches and/or off-premise ATMs as well as to share ATMs among themselves, according to the Association of Banks in Singapore's website.

The MAS regulates and supervises more than 150 deposit-taking institutions in Singapore, ranging from full banks to finance companies, according to its website.

Besides Singapore, HDFC Bank also has presence in markets like London, Hong Kong and Bahrain.

The India bank has a total customer base of 93 million at the end of the December quarter compared with 91 million in the preceding three-month period, according to an investor presentation.

Source: https://www.livemint.com/industry/banking/hdfc-bank-seeks-singapore-bank-license-to-grow-overseas-after-merger-with-mortgage-financier-hdfc-11705585535675.html

- **SBI warns of intermittent fluctuations in YONO services.**

  The State Bank of India (SBI) informed that there will be some intermittent fluctuations while using YONO services on Wednesday morning. However, the bank has not specified the reason behind the issue.

  In a post on X (formerly Twitter), the State Bank of India wrote, "There may be intermittent fluctuations while using YONO services between 7 am to 9 am on January 17th, 2024. However, our other digital channels YONO Lite, Internet Banking, and UPI will remain available during this period." "The inconvenience caused is deeply regretted," it added.

  Source: https://www.livemint.com/industry/banking/sbi-warns-of-intermittent-fluctuations-in-yono-services-details-here-11705456460895.html

- **RBI imposes monetary penalty on five co-operative banks.**

  The Reserve Bank of India (RBI) has imposed monetary penalties on five co-operative banks for deficiencies in regulatory compliance. The co-operative banks that faced the central bank's action are Navsarjan Industrial Co-operative Bank Ltd, Mehsana Jilla Panchayat Karmachari Co-operative Bank Ltd, Halol Urban Co-operative Bank Ltd, Stambhadri Co-operative Urban Bank Ltd and Subramanianagar Co-operative Urban Bank Ltd.

  The Reserve Bank imposed a monetary penalty of ₹7 lakh on the Navsarjan Industrial Co-operative Bank Ltd at Ankleshwar in Bharuch district of Gujarat for non-compliance with the directions issued by the RBI on 'placement of deposits with other banks by primary (urban) co-operative banks, Reserve Bank of India (KYC) Directions, 2016 and contravention of certain norms of the Banking Regulation Act, 1949'.

  The apex bank said the Navsarjan Industrial Co-operative Bank had breached inter-bank gross and counterparty exposure limits and had not carried out a review of risk categorisation of accounts as per prescribed periodicity. The bank had not transferred the eligible amount to the Depositor Education and Awareness Fund, the RBI said.

The apex bank imposed a monetary penalty of ₹3 lakh on the Mehsana Jilla Panchayat Karmachari Co-operative Bank in Gujarat for non-compliance with the directions issued by the RBI on 'placement of deposits with other banks by primary (urban) co-operative banks' and contravention of certain provisions of the Banking Regulation Act, 1949.

The RBI said the Mehsana Jilla Panchayat Karmachari Co-operative Bank had breached the prudential inter-bank counterparty exposure limit, and not transferred eligible amount to the Depositor Education and Awareness Fund.

The RBI said the Halol Urban Co-operative Bank had sanctioned a loan where a relative of one of the directors of the bank stood as guarantor, and breached the prudential inter-bank counterparty exposure limit. The RBI further said the co-operative bank had not paid interest in matured term deposits from the date of maturity till the date of their repayment at the applicable rate. The banking regulator imposed a monetary penalty of ₹2 lakh on the Halol Urban Co-operative Bank at Panchmahal in Gujarat for non-compliance with the directions issued by the RBI on 'loans and advances to directors, relatives and firms/concerns in which they are interested' and 'placement of deposits with other banks by primary (urban) co-operative banks'.

The RBI imposed a monetary penalty of ₹50,000 on the Stambhadri Co-operative Urban Bank at Khammam in Telangana for non-compliance with the directions issued by the RBI on 'loans and advances to directors, their relatives, and firms/concerns in which they are interested'. The Stambhadri Co-operative Urban Bank had extended loans to a director and directors' relatives, the RBI said.

The RBI imposed a monetary penalty of ₹25,000 on the Subramanianagar Co-operative Urban Bank at Salem in Tamil Nadu for non-compliance with the directions issued by the RBI on 'loans and advances to directors, their relatives, and firms/concerns in which they are interested'. The Subramanianagar Co-operative Urban Bank had extended loans to a relative of a director, the RBI added.

These penalties have been imposed in the exercise of powers conferred on the RBI under certain provisions of the Banking Regulation Act, 1949, the banking regulator said.

The RBI further said the monetary penalties on the cooperative banks were based on deficiencies in regulatory compliance and were not intended to be pronounced upon the validity of any transaction or agreement entered into by the banks with its customers.

Source: https://www.livemint.com/industry/banking/rbi-imposes-monetary-penalty-on-five-co-operative-banks-details-here-11704726615454.html

- **RBI issues guidelines on bank classification of unclaimed deposits**

The Reserve Bank of India on Monday released comprehensive guidelines on the measures to be put in place by banks while classifying accounts and deposits as inoperative accounts and unclaimed deposits.

This includes periodic review of such accounts and deposits, measures to prevent fraud in such accounts/deposits, grievance redressal mechanism for expeditious resolution of complaints, steps to be taken for tracing the customers of inoperative accounts including nominees or legal heirs for account re-activation, claims settlement or closure.

This move comes after RBI launched "100 Days 100 Pays" campaign in June last year, under which banks must trace and settle the top 100 unclaimed deposits of every bank in every district. The deadline for the scheme, which was to end on 8 September, has now been extended to 1 April 2024.

Under the new guidelines, RBI said banks shall undertake at least an annual review in respect of accounts where there is no customer induced transactions for more than a year. “In cases where there is no explicit mandate to renew the term deposit, the banks should review such accounts if the customers have not withdrawn the proceeds after maturity or transferred these to their savings/ current account in order to prevent such deposits from becoming unclaimed," it said.

RBI also said banks shall not classify zero balance accounts as ‘inoperative’ if it remains non-operative for a period of more than two years. “Central and State governments have been expressing difficulty in crediting cheques/Direct Benefit Transfer/ Electronic Benefit Transfer/ scholarship amount in these accounts as they are also classified as inoperative due to non-operation for two years," it said.

Banks shall ensure that amounts lying in inoperative accounts or unclaimed deposits and reactivated will be put under concurrent audit, according to the new norms. All transactions in these accounts, which are reactivated, will be monitored regularly for at least six months, at higher levels without the knowledge of the customers and dealing staff.

The balance in savings or current accounts not operated for 10 years and term deposits not claimed for 10 years from the date of maturity are classified by banks as unclaimed deposits. These amounts are transferred to the depositor education and awareness (DEA) fund maintained by RBI.

Mint had reported that RBI has been constantly monitoring the progress made by banks in classifying the accounts as unclaimed deposits.

Source: https://www.livemint.com/industry/banking/rbi-issues-guidelines-on-bank-classification-of-unclaimed-deposits-11704136554134.html

- **Small finance and payments banks are growing sustainably: Experts at Mint BFSI Summit**

Small finance banks (SFB) and payments banks, constituted under the differentiated banking license policy of the Reserve Bank of India (RBI), have seen sustainable growth throughout their existence, industry experts said at the Mint BFSI Summit and Awards 2024 on Thursday.

“India is fortunate to have differentiated licenses. The regulator Reserve Bank (RBI) has been visionary – there are just seven countries in the world which have differentiated licenses, the United States, Brazil, Hong Kong, Singapore, India and a couple more. Today, small finance banks have 25 million accounts. That means they have touched the lives of 100 million Indians, or 7% of the population, in under seven years," said Inderjit Camotra, MD & CEO of Unity Small Finance Bank.

Rishi Gupta, MD & CEO of Fino Payments Bank, elaborated on how the payments-bank model helped control their costs, especially fixed costs, while charging the customer for accessibility to services for which they would have otherwise needed to visit a bank.

“We have started to see companies that are very active on UPI and in the payments banks space use data for cross-selling. This is because using only UPI-based solutions makes the path to profitability difficult. So, a lot of payment companies are now looking at how to use the data of the millions of customers who come to them every month. As a company, we have been viable from the fourth year itself. We are probably the first payments bank to become profitable and the first and only one to be listed on the bourses."

Five out of six payments banks are reportedly profitable as of now, while SFBs, which have a similar business model to traditional banks, have been profitable from early on. Given this, there has been consolidation among SFBs, including the merger of AU Small Finance Bank and Fincare, which Camotra believes is a healthy sign for the industry.

Speaking about Unity Small Finance Bank’s tie-up with a fintech firm, Camotra said, “It’s the best thing for India to have its banking and fintech integrated. Ripl is one of the leading unicorns of India and we are working together in many spaces – the fintech stack, merchant acquisitions, cards, QR codes, etc. I think fintech firms coming together with BFSI firms is the best thing that has happened to India in a long time.

Source: https://www.livemint.com/industry/banking/small-finance-and-payments-banks-are-growing-sustainably-experts-at-mint-bfsi-summit-11704975961256.html

- **Karnataka Bank and Clix Capital enter into a Co-Lending partnership**

Karnataka Bank (KBL), a leading Private Sector Bank and Clix Capital, one of India's fastest-growing new-age NBFCs, have entered into a strategic digital co-lending partnership through Yubi Co.lend Platform. This partnership is focused on providing loans to the Indian MSME sector which is one of the biggest contributors to India's GDP and employment growth. The agreement is in line with the Reserve Bank of India's guidelines on co-lending by banks and NBFCs to priority sectors.

The partnership combines Karnataka Bank's low cost of funds, end-to-end digital capabilities and expertise to offer credit facilities to this segment along with Clix Capital's strong & easy lending tech platform and robust due diligence. The partnership aims to provide seamless financing solutions, conveniently and economically in a digital manner, thereby enabling both the partners to draw upon each other's strengths to serve the unserved. The agreement was signed in Bengaluru today.

Speaking on the collaboration, Srikrishnan H, Managing Director & CEO, Karnataka Bank said, "Our Co-lending partnership with Clix Capital will focus on digital credit to MSMEs with superior product and service offerings through our wide network of branches. By this arrangement, the much-needed liquidity at affordable rates for the MSME sector will be a reality. Clix Capital and Karnataka Bank will jointly address the MSME's requirements adding impetus to the micro-credit facilities segment keeping in mind the sustainable economic growth for the country".

Commenting on the co-lending agreement with Karnataka Bank,Rakesh Kaul, CEO, Clix Capital said, "We at Clix Capital feel elated as we sign this co-lending agreement with Karnataka Bank. With this partnership, we will bring to the table our tech prowess, and agility to understand and underwrite segments that largely remain underserved. Our joined forces will together harness the robust networks to reach a broader audience. Our efforts along with Karnataka Bank will empower the MSME to fulfil their aspirations of seeking seamless and affordable business loans to grow."

Sekhar Rao, Executive Director, Karnataka Bank, stated, "the tie-up shall leverage technology and digital solutions to seamlessly extend wide range of financial products to MSME sector".

Source: https://www.livemint.com/industry/banking/karnataka-bank-and-clix-capital-enter-into-a-co-lending-partnership-11705427051538.html

- **RBI waives ₹5 crore penalty imposed on Bank of Baroda over shortfall in soiled note remittances**

State-owned lender Bank of Baroda (BOB) Thursday said the Reserve Bank of India (RBI) has decided to waive the ₹5 crore penalty that was previously imposed on it due to a shortfall in soiled note remittances.

"IncontinuationtoourletternoBCC:ISD:115:16:327 dated 22.12.2023, we advise that Reserve Bank of India (RBI) vide its letter dated 10th January 2024 has waived the penalty of Rs.5 crore imposed on our Bank," the lender said in a regulatory filing on January 11

Earlier, on December 22, 2023, BOB had revealed that the Reserve Bank had fined the lender ₹5 crore. The penalty was attributed to a shortfall in soiled note remittances, indicating issues with the handling of notes that had undergone normal wear and tear.

Source: https://www.livemint.com/industry/banking/rbi-waives-5-crore-penalty-imposed-on-bank-of-baroda-over-shortfall-in-soiled-note-remittances-11704984910715.html

SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2022-2023/171 DOR.AML.REC.99/ 14.06.001/2022-23	30.1.2023	Department of Regulation	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of 1 entry	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/170 DOR.AML.REC.98/ 14.06.001/2022-23	24.1.2023	Department of Regulation	Designation of 3 individuals as 'Terrorists' under Section 35 (1) (a) of the Unlawful Activities (Prevention) Act (UAPA), 1967 and their listing in the Schedule IV of the Act-Reg.	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/169 FMRD.FMID.No.07/ 14.01.006/2022-23	23.1.2023	Financial Markets Regulation Department	'Fully Accessible Route' for Investment by Non-residents in Government Securities – Inclusion of Sovereign Green Bonds	All participants in Government Securities market
RBI/2022-2023/168 CO.CEPD.PRS. No.S1233/ 13-01-018/2022-2023	23.1.2023	Customer Service Department	Safe Deposit Locker/ Safe Custody Article Facility provided by banks	All Commercial Banks (including RRBs, Small Finance Banks, Payment Banks and Local Area Banks) All Co-operative Banks
RBI/2022-2023/167 DOR.AML.REC.97/ 14.06.001/2022-23	17.1.2023	Department of Regulation	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of 1 entry	The Chairpersons/ CEOs of all the Regulated Entities

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

STATISTICAL SUPPLEMENT – RBI

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract

1. Reserve Bank of India - Liabilities and Assets*

(₹ Crore)

Item	2023	2024		Variation	
	Jan. 20	Jan. 12	Jan. 19	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	0	0	0	0	0
4.2 State Governments	19058	16087	18712	2625	-346

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

2. Foreign Exchange Reserves*

Item	As on January 19, 2024		Variation over					
			Week		End-March 2023		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	5118229	616143	-14233	-2795	363965	37693	463358	42415
1.1 Foreign Currency Assets #	4534331	545855	-14081	-2653	345199	36164	426096	39498
1.2 Gold	392185	47212	400	-34	20685	2012	37539	3501
1.3 SDRs	151361	18221	-476	-89	196	-171	1817	-211
1.4 Reserve Position in the IMF	40353	4854	-76	-18	-2115	-311	-2094	-372

** 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 Jan. 12, 2024	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2022-23	2023-24	2023	2024
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	19983897	-104144	1209462	1939983	1691796	2309122
	(19864537)			(1820623)		(2189762)
2.1a Growth (Per cent)		-0.5	7.3	10.8	10.6	13.1
				(10.1)		(12.4)
2.1.1 Demand	2265472	-172032	2877	85041	247274	189848
2.1.2 Time	17718425	67888	1206585	1854942	1444521	2119274
2.2 Borrowings	826116	67052	198399	380787	197256	353123
2.3 Other Demand and Time Liabilities	874679	-59126	38211	85028	102946	195620
7 Bank Credit	15971513	8579	1385445	2296278	1877682	2694754
	(15404972)			(1729737)		(2128213)
7.1a Growth (Per cent)		0.1	11.7	16.8	16.5	20.3
				(12.6)		(16.0)
7a.1 Food Credit	43969	830	-2356	24063	-33027	-8686
7a.2 Non-food credit	15927545	7749	1387801	2272215	1910709	2703440

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									
	2023	2024	Fortnight		Financial Year so far				Year-on-Year			
					2022-23		2023-24		2023		2024	
	Mar. 31	Jan. 12	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	22343760	24209307	-46249	-0.2	1349350	6.6	1865546	8.3	1935732	9.7	2366228	10.8
		(24328667)	(-48176)	(-0.2)			(1984906)	(8.9)			(2485588)	(11.4)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3276436	3311754	56074	1.7	128041	4.2	35318	1.1	229018	7.8	148024	4.7
1.2 Demand Deposits with Banks	2320598	2408079	-172410	-6.7	3274	0.1	87481	3.8	249125	12.7	191813	8.7
1.3 Time Deposits with Banks	16668966	18411008	72673	0.4	1214152	8.0	1742043	10.5	1444899	9.7	2010252	12.3
		(18530368)	(70746)	(0.4)			(1861402)	(11.2)			(2129612)	(13.0)
1.4 'Other' Deposits with Reserve Bank	77761	78465	-2586	-3.2	3882	6.6	704	0.9	12690	25.6	16139	25.9
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7165533	7228491	56684	0.8	276197	4.3	62959	0.9	669483	11.0	474665	7.0
		(7325112)	(52495)	(0.7)			(159579)	(2.2)			(571286)	(8.5)
2.1.1 Reserve Bank	1451126	1016037	36378		-196665		-435089		92878		-237895	
2.1.2 Other Banks	5714407	6212455	20306	0.3	472862	9.4	498048	8.7	576605	11.7	712560	13.0
		(6309075)	(16116)	(0.3)			(594668)	(10.4)			(809180)	(14.7)
2.2 Bank Credit to Commercial Sector	14429636	16151677	14072	0.1	1385245	11.0	1722041	11.9	1890282	15.6	2149913	15.4
		(16718218)	(7540)	(0.0)			(2288582)	(15.9)			(2716453)	(19.4)
2.2.1 Reserve Bank	26549	5228	148		-12846		-21321		-1416		1503	
2.2.2 Other Banks	14403087	16146450	13924	0.1	1398091	11.1	1743363	12.1	1891699	15.6	2148409	15.3
		(16712990)	(7392)	(0.0)			(2309903)	(16.0)			(2714950)	(19.4)

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

5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Jan. 15, 2024	-	-	-	-	57770	37067	-	-	-	20703
Jan. 16, 2024	-	-	-	-	40537	36771	-	-	-	3766
Jan. 17, 2024	-	-	-	-	57407	32784	10	-	-	24633
Jan. 18, 2024	-	-	-	-	60109	36325	-	-	-	23784
Jan. 19, 2024	-	-	50007	-	33157	32512	-	-	-	50652
Jan. 20, 2024	-	-	-	-	45209	29868	-	-	-	15341
Jan. 21, 2024	-	-	-	-	29656	29180	-	-	-	476

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

Source:- https://rbi.org.in/scripts/PublicationsView.aspx?id=15762

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **Multibagger NBFC stock Mufin Green Finance hits lifetime high. Rises 400% in six months**

Shares of Mufin Green Finance Limited are one of the multibagger stocks that the Indian stock market has delivered in the last one year. This NBFC stock has surged from around ₹44.40 apiece level to ₹219.25 per share mark, logging around 400 per cent appreciation in the last six months. However, it seems that the NBFC stock still possesses some upside potential.

Mufin Green Finance share price today opened upside and went on to touch a 5 per cent upper circuit and climbed to a new lifetime high of ₹219.25 per share.

While climbing to a new peak, the multibagger stock went on to lock in a 5 per cent upper circuit for the second straight session. Meanwhile, Mufin Green Finance shares have touched new record highs for the last three straight sessions.

Mufin Green Finance share price history

As mentioned above, this multibagger NBFC stock has been on an uptrend for the last six months. In the last one month, this NBFC stock has risen from around ₹164.30 to ₹219.25 apiece level, logging more than 30 per cent appreciation in this time.

In the last six months, this multibagger stock has surged to the tune of 400 per cent whereas, in YTD time, it has risen around 30 per cent. In the last five years, this multibagger stock has risen from ₹3.16 apiece to ₹219.25 per share level, recording around a 6,800 per cent rise in this time.

This NBFC stock is available for trade on both NSE and BSE. This mainboard stock has a trade volume of 51,616 on Monday. Its market cap is ₹3,307 crore. Its 52-week high is ₹219.25, which it climbed today. Its 52-week low is ₹34.23 apiece.

Source : https://www.livemint.com/market/stock-market-news/multibagger-nbfc-stock-mufin-green-finance-hits-lifetime-high-rises-400-in-six-months-11706520131565.html

- **New NBFC to ease credit for infra projects on cards**

The government may prepare a roadmap to establish a new non-banking financial company (NBFC) to give a push to infrastructure projects by enabling easier credit financing, two people aware of the matter said.

The NBFC would act as a guarantor for lower-rated infrastructure bonds, which would improve the ratings of projects. This would, in turn, improve the credit risk profile of infrastructure companies, and allow them to secure funding on more favourable terms.

Such an institution would also allow more long-term funds to be invested in the sector. This roadmap may be unveiled in the upcoming budget, and details of the entity including its structure may be finalized next fiscal (FY25), the first person mentioned above said.

Financing infrastructure projects has become critical, necessitating the creation of large dedicated financial institutions, the person added. Investments to the tune of ₹8-9 trillion are being made in infrastructure every year.

A finance ministry spokesperson didn't respond to emailed queries.

Experts said infrastructure projects would benefit significantly from a dedicated credit enhancement body as it would ensure investments required over the medium to long term are realized.

Sanjay Agarwal, senior director, Care Ratings Ltd, said that an NBFC providing guarantees to improve the credit risk profile of infrastructure companies will help infrastructure projects initiated by states and even at district levels, which have funding challenges due to various reasons including operational and political.

“Infrastructure projects like renewables and roads are well-financed. However, some projects by state governments, especially last mile schemes, need financing," he added.

The plan to set up such an NBFC to augment capital availability for infrastructure financing was first announced by finance minister Nirmala Sitharaman in the 2019-20 budget. However, its launch has been delayed due to disagreements among different government departments during extended inter-ministerial consultations, said the second person mentioned above.

An earlier plan included setting up a Credit Guarantee Enhancement Corp. or National Infrastructure Credit Enhancement Ltd with an initial authorized capital of ₹20,000 crore and equity participation from other state-run financial institutions.

The government has finalized an infrastructure pipeline with a projected investment of ₹111 trillion for FY20-25.

Moreover, now a Vision 2047 plan has been finalized that would create a fresh pipeline of infrastructure projects, which makes a credit guarantee enhancement NBFC relevant. Also, the need for credit enhancement has become crucial after the pandemic, which put many infrastructure companies under stress.

A credit enhancement structure can help address the infrastructure sector’s challenges by ensuring companies have easy access to liquidity for fresh investments.

The existing mechanism of credit guarantee is limited to entities such as the IIFCL (India Infrastructure Finance Co. Ltd) that have provided only about ₹250-300 crore annually over the past 6-7 years.

In this situation, a dedicated entity providing a single window credit guarantee facility to infrastructure projects having partnerships with multilateral agencies would bring a big support to the sector.

Source: https://www.livemint.com/news/india/new-nbfc-to-ease-credit-for-infra-projects-on-cards-11705692038071.html

- **Budget 2024: NBFCs bat for credit guarantee scheme, among other measures in Interim Budget**

Gold loan non-banking finance companies (NBFCs), that are currently facing a liquidity crunch, have urged for fiscal measures in the upcoming Union Budget 2024 to infuse liquidity in the system and introduce a partial credit guarantee scheme to cover NBFC's onward lending to micro-enterprises.

The gold loan NBFCs have also urged the Centre for granting ‘priority sector status’ to gold loans and allowing a ‘Gold linked credit line via UPI’ that can go a long way to help households/small business owners meet their financing needs and monetise idle gold jewellery.

Umesh Mohanan, ED & CEO of Indel Money said "Since the cost of funds is very high, gold-loan NBFCs are currently facing a liquidity crunch. RBI's recent decision to impose restrictions on banks on lending to NBFCs also made the situation tight. So, the overall restrictive monetary condition is affecting the liquidity of the gold-loan financiers. In this backdrop, we demand fiscal measures in the upcoming Budget 2024-25 to infuse liquidity in the system.

SIDBI or NABARD can be made a nodal agency to provide liquidity support to the cash-strapped NBFCs. Another major demand is that the Centre should introduce a partial credit guarantee scheme to cover NBFC's onward lending to micro-enterprises. The objective of the credit guarantee scheme is to strengthen the credit delivery mechanism and to facilitate flow of credit to the MSMEs and other under-served segments.

Above all, we expect regulatory easing in the Budget to push digital lending further and to facilitate deeper and wider collaborations, such as co-lending partnerships, between banks, NBFCs and fintechs."

George Alexander Muthoot, managing director of Muthoot Finance said "Indian households possess up to 25,000 tonnes of gold which lies idle and can be leveraged as an immediate and reliable source of financing to meet immediate personal or business needs.

"We believe giving priority sector status to eligible gold loans will benefit the bottom of the pyramid and enhance financial inclusion. Typically small borrowers need loans under Rs 50,000 (about 20 grams of gold collateral) for short durations like a year. Herein gold loan NBFCs can play an important role to fulfill the needs of small borrowers, self-employed micro business owners, and help address their finance needs or working capital needs. Gold loans against jewellery also is a vital funding source for MSMEs. Gold loans provided by banks to farmers do get priority sector status, but not gold loans provided by NBFCs. Extending priority status to all micro gold loans (under Rs. 50,000) by removing the current distinction between NBFCs and banks can enable gold loan NBFCs access to increased funding," he said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/budget-2024-nbfcs-bat-for-credit-guarantee-scheme-among-other-measures-in-interim-budget/articleshow/107085064.cms?from=mdr

- **NBFC Vivifi India raises $75 million in a mix of debt and equity**

Hyderabad-based Non-banking Financial Company (NBFC), Vivifi India Finance Private Limited has raised $75 million in its Series B funding round in a mix of debt and equity from US-based investors, in yet another instance of investors betting big on the fintech sector.

While the firm did not disclose the names of the investors, RoC filings sourced by Moneycontrol indicate that the investing entity is named BP IN VPF LLC.

Industry sources said that the funding is $15 million of equity and the rest is debt. The firm is valued at $150 million.

The firm plans to utilise the funding to expand its reach to more consumers and aims to expand its workforce to over 2,000 employees in the next 12-18 months from its existing strength of 700.

"Apart from building on our existing platform, we are also planning to expand our offerings a little bit into the MSME segment...We see huge potential for our product in smaller cities as well, the core will continue to be offered to middle-class of India for us," said founder and CEO of Vivifi Anil Pinapala to Moneycontrol.

Source: https://www.moneycontrol.com/news/technology/nbfc-vivifi-india-raises-75-million-in-a-mix-of-debt-and-equity-12115081.html

- **RBI proposes to further harmonise regulations of HFCs and NBFCs**

The Reserve Bank of India (RBI) on January 15 issued a draft circular that seeks to harmonise regulations of housing finance companies (HFCs) with that of Non-banking finance companies (NBFCs) in several areas including minimum capital requirement, deposit taking rules among other areas of regulations.

The central bank has reviewed deposit directions for deposit-taking HFCs, participation of HFCs in various derivative products for hedging purposes, diversification into other financial products and adoption of technical specifications by HFCs under Account Aggregator ecosystem, etc, the RBI said in a press release.

Further, the draft circular proposes to review certain directions for deposit taking NBFCs, the central bank said, adding this exercise is part of further harmonisation of HFC regulations with NBFC regulations.

Key changes proposed:

As per the draft circular, HFCs will have stricter rules going ahead comparable to NBFCs. Currently, HFCs accept public deposits are subject to more relaxed prudential parameters on deposit acceptance as compared to NBFCs. Since the regulatory concerns associated with deposit acceptance is same across all categories of NBFCs, it has been decided to move HFCs towards the regulatory regime on deposit acceptance as applicable to deposit-taking NBFCs, the RBI said.

Source - https://www.moneycontrol.com/news/business/rbi-proposes-to-further-harmonise-regulations-of-hfcs-and-nbfcs-12055501.html

- **Market share of gold-loan NBFCs steady despite competition from banks, says CRISIL**

Gold-focused non-banking financial companies (NBFCs) have maintained a reasonably resilient market share despite intense competition from banks, CRISIL said on January 3. "Support from strong capitalisation, sharp focus on risk management and healthy profitability has kept the NBFCs' credit profiles stable," the agency said in a note.

Further, growth in the assets under management (AUM) of gold-loan NBFCs has been driven by three factors — ability to hold on to their customers, focus on small and mid-size loans and increasing reach by expanding branch networks, the agency said.

Banks have focused on borrowers seeking bigger loans and competitive interest rates. And on the other side, NBFCs are known for their servicing agility, CRISIL said.

Additionally, CRISIL highlighted that banks have sharpened their focus on non-agricultural gold loans for personal use, particularly in the Rs 3 lakh and above ticket sizes, over the past 3 years. "NBFCs have adopted steps to sustain growth rate and market share. In the first half of this fiscal, NBFCs matched banks by growing at around 10-11 percent," CRISIL said.

The growth of gold-loan NBFCs remains highly influenced by changes in the prices of the precious metal. For example, in FY2023, gold prices rose by 10 percent with loan books rising, supported by bigger ticket sizes, CRISIL said.

Source- https://www.moneycontrol.com/news/business/market-share-of-gold-loan-nbfcs-steady-despite-competition-from-banks-says-crisil-11993761.html

TOP INSURANCE NEWS

- **Insurers may need prior approval from IRDAI to appoint new chief**

The Insurance Regulatory and Development Authority of India (IRDAI) is eyeing a revamp of the governance norms for insurance companies aimed at strengthening corporate governance as also simplifying compliances.

At present, no approval is required from the regulator to appoint a board's chairman.

Discussions were held with all stakeholders at the Bima Manthan event organised by the regulator earlier this month, said an official, adding that these are preliminary discussions and, in some cases, the regulator has already sought views from all stakeholders.

"The focus is on reducing unnecessary compliance measures, but the regulator also wants insurers to further strengthen corporate governance norms and policyholder protection policies, including a more robust grievance redressal and claim management system," he added.

Another proposal being examined is to make an Asset-Liability and Ethics Committee at the board level mandatory and exempt insurers from the requirement of a prior approval from IRDAI before approaching the market regulator, Securities and Exchange Board of India for listing, said another official.

The regulator is also considering mandating a board-approved Environmental, Social and Governance (ESG), and Climate Risk Framework. "These changes aim to reduce the compliance burden on insurers, update them with changing dynamics in the sector, and further strengthen corporate governance norms," the official said. ESG norms are not explicitly addressed in existing corporate governance guidelines.

The regulator is also discussing with stakeholders a possible relaxation of the lock-in period for insurers in cases of amalgamation or to address distressed financial situations.

Under existing regulations, equity shares of the company on the date of the grant of a Certificate of Registration remain locked-in for different periods, with the regulator only providing exemption in cases of listing. "Another suggestion is that directors nominated by both promoters and investors should not be on the board of any other insurer in the same line of business," the official said.

Discussions were also held about addressing the challenges in the Bancassurance space. In October 2023, the IRDAI had set up a task force to review the existing banking intermediation model and carry out modifications in the regulatory framework.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/insurers-may-need-prior-approval-from-irdai-to-appoint-new-chief/articleshow/107270631.cms

- **LIC not expected to hike HDFC Bank stake in a rush**

Life Insurance Corp may not be in any hurry to buy additional HDFC Bank stock from the market, people familiar with the matter said, despite the banking regulator allowing the insurer to up its ownership in the country's most valued lender.

While the HDFC Bank stock may be trading at decadal low valuations of about 2.1 times to book value, investors including LIC may be cautious in jumping to buy it, they said. To raise the stake by another 4.8% - the maximum the insurer is now allowed to buy following central bank permission - LIC will have to pay ₹52,000 crore at current market prices.

"LIC will not immediately raise stake to 9.9% of HDFC Bank as acquiring additional stake will require a large sum," said Suresh Ganapathy, head of financial services research at Macquarie Capital. "What they have got is just an enabling approval, and they may not go up to 9.9%. However, they will want to raise some stake as there is value in HDFC Bank stock."

India's banking regulator has allowed LIC to acquire an additional 4.8% stake in HDFC Bank, and the stake could be raised to a maximum of 9.99% by January 24, 2025. Currently, LIC owns 5.19% stake in HDFC Bank as of December 2023.

LIC has been advised to acquire a major shareholding in the bank within one year, by January 24, 2025. However, LIC must ensure that its aggregate holding does not exceed 9.99% of the paid-up share capital or voting rights of the bank at any given time.

Shares of HDFC Bank experienced a 1.4% decline, closing at ₹1,435.3 on the BSE on Thursday. The bank recently reported its third-quarter financial results, disclosing a decrease in the core net interest margin on total assets from 3.65% to 3.4%. The decline in margin is due to the bank's merger with its erstwhile parent HDFC in July 2023, impacting margins due to higher borrowing and a lower-yielding loan book.

Despite the stock decline, HDFC Bank reported a 2.65% increase in consolidated net profit for the October-December period, reaching ₹17,258 crore compared to ₹16,811 crore in the preceding September quarter. The bank's performance and the strategic move by LIC to increase its stake highlight the evolving landscape of the financial sector in India.

LIC owns 4% of market capitalisation in India. Its asset size is ₹47.5 lakh crore and of this, ₹11 lakh-12 lakh crore is in equity value investment. LIC, with investments across 260 listed companies, has seen an increase in the market value of its overall holdings and as per the data from Ace Equity, the market value rose to ₹11.89 lakh crore until December 2023 from ₹9.61 lakh crore in December of the previous year. The top performers included Coal India, Larsen & Toubro, Bajaj Auto, Tata Motors, and NTPC, as reported by ET.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/lic-not-expected-to-hike-hdfc-bank-stake-in-a-rush/articleshow/107221531.cms

- **LIC gets RBI approval to acquire 9.99% holding in HDFC Bank**

The Reserve Bank of India on Thursday approved state-run insurer Life Insurance Corporation of India's (LIC) application to acquire a 9.99% aggregate holding of paid-up share capital in HDFC Bank.

"Pursuant to Regulation 30 of the SEBI Listing Regulations, we would like to inform you that the Reserve Bank of India ("RBI") vide its letter dated January 25, 2024, addressed to Life Insurance Corporation of India ("LIC"), has accorded its approval to LIC for acquiring aggregate holding up to 9.99% of the paid-up share capital or voting rights of HDFC Bank Limited," the insurance company said in an exchange filing.

The central bank's approval comes in light of an earlier application by the state-run insurer to acquire voting rights in the bank.

"The approval has been granted with reference to the application made by LIC to RBI. The aforesaid approval granted by RBI is subject to the conditions mentioned therein including compliance with the relevant provisions of the Banking Regulation Act, 1949, RBI's Master Direction and Guidelines on Acquisition and Holding of Shares or Voting Rights in Banking Companies dated January 16, 2023 (as amended from time to time), provisions of the Foreign Exchange Management Act, 1999, provisions of the regulations issued by Securities and Exchange Board of India, and any other guidelines, regulations and statutes as applicable," the filing added. According to the RBI's regulations, LIC will have to acquire the 9.99% stake within the year, while ensuring that its holding never crosses the 9.99% mark.

Sources- https://economictimes.indiatimes.com/industry/banking/finance/insure/lic-gets-rbi-approval-to-acquire-9-99-holding-in-hdfc-bank/articleshow/107153004.cms

- **Health insurance: Cashless treatment at any hospital now as insurers launch new initiative**

The General Insurance Council on Wednesday announced a drive aimed at making cashless hospitalisation available for policyholders even in non-empanelled hospitals. Hospitals with 15 beds, and registered with the respective state health authorities under the Clinical Establishment Act can offer cashless hospitalisation now. In the event of hospitalisation, policyholders need not pay for treatment out of their pockets as the expenses would be covered by the insurance companies concerned. This is subject to the claim being admissible, as per the council.

Under the drive 'Cashless Everywhere', efforts will be made to ensure that policyholders can get treated in any hospital they choose with a cashless facility, subject to certain conditions.

The conditions include that the policy of the individual concerned is admissible and the insurance company should be informed 48 hours before hospitalisation in the non-empanelled hospital. There will also be the option of informing the insurance company within 48 hours of hospitalisation.

The council's Chairman Tapan Singhal said that if a policyholder chooses a hospital without such a pre-agreement, the cashless facility is not offered, and the customer has to go for a reimbursement claim, which further delays the claim process. This will be a thing of the past, he said, adding the objective is to ease the burden of policyholders who get treated in a hospital, not in the insurer's network.

Currently, cashless facilities are available only at about 40,000 empanelled hospitals, he said.

Singhal, also the chief executive of Bajaj Allianz General Insurance, said it has been the constant endeavour of the council to simplify the lives of policyholders and bring positive changes that benefit them.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/health-insurance-cashless-treatment-at-any-hospital-now-as-insurers-launch-new-initiative/articleshow/107123606.cms

- **Bharti Group in talks with SBI Life, others to sell insurance business**

Bharti Group is in advanced talks with SBI Life and some other insurers to sell its now wholly owned life insurance venture Bharti AXA Life Insurance, people aware of the negotiations told ET.

The move comes after Bharti Group in October 2023 announced plans to buy out its joint venture partner AXA Group's 49% stake in the life insurance business. "After acquiring the business from AXA, Bharti has been looking to exit the insurance business and focus on telecom," one of the people cited above said. "After selling the general insurance business to ICICI Lombard by way of merger, it has been looking to sell the life insurance business entirely."

There is no clarity on whether the deal will go through, people cited above said.

Spokespersons of Bharti declined to comment while SBI Life said it will not comment on market speculation.

ET could not ascertain the potential deal value for Bharti's life insurance business and how much Bharti shelled out for AXA's 49% stake.

Bharti Life Ventures Pvt Ltd (BLVPL), the holding firm of Bharti Group's insurance business, should have full ownership of the life insurance venture post the acquisition of AXA's stake, which was subject to regulatory clearances. Bharti and the French insurer had formed two joint ventures in 2006, with the Indian partner holding 74% stake in both Bharti AXA Life Insurance and Bharti AXA General Insurance.

The general insurance venture was merged into ICICI Lombard in 2020 when AXA exited the company.

Earlier attempts by Hinduja Group and Abu Dhabi Investment Authority (ADIA) to acquire AXA's stake in the life insurance venture did not fructify, leading to Bharti agreeing to buy out the JV partner.

Bharti AXA has a market share of 2% in terms of premium in the life insurance sector. Equity share capital of the company stood at Rs 3,706 crore as of March 31, 2023. In the last financial year, the company had underwritten Rs 2,920 crore premium income. As of March 2023, Bharti AXA Life Insurance had an investment book of Rs 12,009 crore and its solvency stood at 1.63 times against the regulatory requirement of 1.5 times.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/bharti-group-in-talks-with-sbi-life-others-to-sell-insurance-business/articleshow/107064594.cms

- **Insurance sector may see further listing, M&A activity in coming months: Moody's**

New Delhi, Having raised Rs 1,930 crore in FY23, the insurance sector may witness further capital transactions, including stock market listings and M&A, to improve the sector's capital adequacy and financial flexibility in the months ahead, a report said. Indian insurers' favourable growth prospects have encouraged the sector to raise capital, outweighing the adverse impact of their weak underwriting profitability, Moody's said in a report.

In FY23, the sector's paid capital rose to Rs 75,300 crore from Rs 73,400 crore a year earlier, an increase of 2.6 per cent.

"We expect more such transactions, as well as more merger and acquisition (M&A) deals and initial public offerings (IPOs), to improve the Indian insurance sector's capital adequacy and financial flexibility in the months

The report said foreign insurers would continue investing in the Indian insurance market and many foreign companies already present in the country through joint ventures could seek to increase their ownership stakes in their Indian affiliates.

"We believe the presence of foreign stakeholders brings particular benefits in the areas of capital adequacy, financial flexibility and governance standards. The raising of limits on foreign ownership of insurance companies has been credit positive for the market," it said.

India's privately-owned insurers, where foreign shareholdings are concentrated, have cut their exposure to high risk assets and have been early adopters of actuarial-led reserve management and risk-based capital management, it said, adding, this will help private insurers reap benefits of India's economic growth.

However, the general insurance sector's result remained negative as rising claims pushed it to an underwriting loss, it said, adding, a sustained increase in prices as a result of the government's reform programme would significantly improve the sector's underwriting performance and profitability.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/insurance-sector-may-see-further-listing-ma-activity-in-coming-months-moodys/articleshow/106931405.cms

TOP CORPORATE BOND MARKET NEWS

- **UGRO Capital raises Rs 250 crore from Asian Development Bank**

UGRO Capital has raised Rs 250 crore from the Asian Development Bank through non-convertible debentures (NCD), the non-banking finance company (NBFC) said.

This second such funding for the company in as many days. In December, it raised an equal amount through Non-Convertible Debentures from FMO, a Dutch entrepreneurial development bank.

UGRO Capital manages asset worth Rs 8,363.8 crore as of December 2023. Over the last 5 years, the company has raised total of Rs 9,137.80 crore Equity and Debt from diverse institutional sources.

Over the past five years, UGRO Capital has provided credit to approximately 90,000 small businesses, the company said in release.

Corporates and banks have raised Rs 60,875.75 crore through bonds this month, data compiled by Moneycontrol from BSE and NSE shows

Corporates and banks raised Rs 32,560.00 crore on NSE-EBP and Rs 28,315.75 crore on BSE-EBP.

The borrowing cost on the corporate bond in the domestic market fell in January by 5-7 basis points (bps), tracking easing bond yields.

One basis point is one hundredth of percentage point.

Yield on corporate bonds maturing in three years fell three-four bps in the secondary market, five-year bond fell two- three bps and 10-year fell by six-seven bps

Source: https://www.moneycontrol.com/news/business/ugro-capital-raises-rs-250-crore-from-asian-development-bank-12162001.html

- **NABARD to float bonds worth Rs 7,000 crore on January 31**

National Bank for Agriculture and Rural Development (NABARD) plans to raise up to Rs 7,000 crore through bonds maturing in five years, two months and 29 days, market sources have said.

The bonds have a base issue of Rs 2,000 crore and oversubscription of Rs 5,000 crore as a greenshoe option. A greenshoe option gives the underwriter the right to sell investors more bonds than planned if the demand is higher than expected.

The bidding for these bonds will take place on January 31 between 10.30 and and 11:30 am on the electronic bidding platform of BSE.

The exchange of bonds and money between issuers and investors will be done on February 1, which will be the pay-in date.

The bonds have been rated "AAA" with "Stable" outlook by India Ratings and CRISIL

Source: https://www.moneycontrol.com/news/business/nabard-to-float-bonds-worth-rs-7000-crore-on-january-31-12151851.html

- **Bank of Baroda raises Rs 5,000 crore through issue of 10-year bonds at 7.57%**

State-owned lender, Bank of Baroda on January 25 said it has raised Rs 5,000 crore through 10-year infrastructure bonds at a coupon rate of 7.57 percent, release said.

The Bank received a total of 128 bids amounting to Rs 14,950 crore against the total issue size of Rs 5,000 crore, the lender said in a release.

On January 23, Moneycontrol reported that Bank of Baroda will on January 24 issue infrastructure bonds worth Rs 5,000 crore maturing in 10 years.

The bonds have a base issue of Rs 1,000 crore, with retain oversubscription of Rs 4,000 crore as a greenshoe option. It is a provision in an underwriting agreement that grants the underwriter the right to sell investors more bonds than initially planned by the issuer if the demand for a security issue proves higher than expected.

The Bank said that the private placement of long-term infrastructure bonds received an overwhelming response, resulting in over-subscription which allowed it to price the issue at a competitive 7.57 percent.

"This is despite tight liquidity conditions prevalent in the market," the release added.

The allotment of these bonds took place on 25th January 2024. The bonds are rated AAA with a Stable outlook by CRISIL and India Ratings.

On January 25, Mahindra & Mahindra Financial Services, Edel Finance Company, PCBL, Advaya Chemicals Industries, SMFG India Credit Company, L&T Finance Holdings, and Axis Finance raised funds.

Source: https://www.moneycontrol.com/news/business/bank-of-baroda-raises-rs-5000-crore-through-issue-of-10-year-bonds-at-7-57-12127111.html

- **Five NBFCs plan to raise Rs 2,750 crore through public issue of bonds**

Five non-banking finance companies are planning to float bonds worth Rs 2,750 crore in January to raise funds through public issues, data available on the exchange showed.

These non-banking finance companies (NBFC) are Kosamattam Finance, Muthoot Finance, Edelweiss Financial Services, 360 ONE Prime, and Muthoot Fincorp.

Firms are rushing to raise funds enthused by better pricing, transparency, and market access, experts said, adding that smaller lot size provides liquidity and ease secondary market trading

Public issue of bonds means an offer by an issuer to the general public to subscribe to its debt securities which are not private placement. The procedure through which an entity issues bonds to the general public is known as a public issue of bonds.

Kosamattam Finance is aiming to raise up to Rs 200 crore, Muthoot Finance up to Rs 1,000 crore, and Edelweiss Financial Services up to Rs 1,000 crore. Similarly, 360 ONE Prime and Muthoot Fincorp are looking at Rs 1,000 crore and Rs 300 crore.

The subscription of public issue of bonds of Kosamattam Finance, Muthoot Finance, Edelweiss Financial Services is active and will end on January 12, January 19, and January 22, respectively. While, 360 ONE Prime subscription of bonds will start from January 11 and Muthoot Fincorp's on January 12, the exchange data showed

Apart from this, on the private placement front, Shreshta Infra Projects Pvt Ltd will raise Rs 350 crore through bonds maturing in 41 months and 15 days. Bidding for these bonds will take place on January 16 between 10:30am and 12:30pm on the electronic bidding platform of the BSE.

The pay-in date of the bonds will be on January 17. Pay-in date is when exchange of bonds and money takes places between issuer and investors.

The company has a pre-decided coupon for the bonds of 20.05 percent per annum, which is payable monthly.

Source: https://www.moneycontrol.com/news/business/five-nbfcs-plan-to-raise-rs-2750-crore-through-public-issue-of-bonds-12028401.html

- **RBI changes norms on redemption funds, buyback of CPs**

The Reserve Bank of India (RBI) on January 3 made changes in the norms related to redemption funds and buyback of commercial papers (CPs).

The central bank has issued directions on CPs and non-convertible debentures (NCDs) of original or initial maturity up to one year on January, which have been reviewed based on market feedback.

As per the directions, issuers of CPs can make buyback only after seven days from the date of issue.

Earlier, the buyback offer may not be made before 30 days from the date of issue, as per the Operational Guidelines for Commercial Paper issued by Fixed Income Money Market and Derivatives Association of India in 2020.

The current directions also said that The buyback offer shall be extended to all investors in a particular issue on identical terms and conditions. The investors shall have the option to accept or reject the buyback offer

Source: https://www.moneycontrol.com/news/business/rbi-changes-norms-on-redemption-funds-buyback-of-cps-11994391.html

- **Ahmedabad, Vadodara municipal corps to raise Rs 300 cr via green bonds in January: Sources**

The Ahmedabad and Vadodara Municipal Corporations plan to raise a combined Rs 300 crore through green municipal bonds in January, people aware of the development told Moneycontrol.

The Ahmedabad Municipal Corporation may raise Rs 150 crore to Rs 200 crore through the bonds maturing in five years, they said. The Vadodara Municipal Corporation will raise Rs 100 crore via five-year green bonds.

"Ahmedabad Municipal Corp has already filed the papers for the issue and Vadodara is expected to file this week," one person said.

The bidding dates have not been decided and officials are in talks with merchant bankers and investors, the people said.

"The funds raised through these bonds will be utilised for green initiatives," they added.

Municipal bonds are similar to corporate bonds, the only difference being that they are issued by civic bodies to finance urban infrastructure.

Municipal corporations raise funds from individuals and institutions. Investors are promised a specified interest and return of the principal amount on the maturity date. Such bonds are issued by states, cities, counties, utility providers, transit authorities, school districts and hospitals.

Source: https://www.moneycontrol.com/news/business/ahmedabad-vadodara-municipal-corps-to-raise-rs-300-cr-via-green-bonds-in-january-sources-12052991.html

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