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TOP SPEECHES

Building resilient brand India amidst global uncertainty

(Speech by Shri Swaminathan J, Deputy Governor, Reserve Bank of India - December 28, 2023 at the 10th SBI Banking and Economic Conclave in Mumbai)

A very warm good morning to all of you. I am delighted to be here at the 10th edition of the SBI Banking & Economics Conclave, surrounded by industry leaders from banking and financial sectors, leading economists, policy makers, and other stakeholders. This marquee event provides a platform for discussing pertinent issues, sharing insights, and exploring potential solutions for the industry. In a lighter vein, after being a part of its host institution in its past nine editions, I now have the honour of being invited to speak at this prestigious event! I am extremely grateful to Chairman Shri Khara for extending this invitation.

As mentioned by Governor, RBI, Shri Shaktikanta Das in the recent post Monetary Policy Press Conference, the years 2020 to 2023 will perhaps go down in history as a period of 'Great Volatility'1. The global economy today is witnessing a renewed phase of turbulence with fresh headwinds from the banking sector turmoil in some advanced economies. A few bank failures and its contagion risk have brought financial stability and resilience issues to the fore again. Therefore, the theme of this year's conclave 'Building resilient brand India amidst global uncertainty' is highly topical in the current economic scenario.

The term 'brand India', refers to the overall image, perception, and reputation of India as a nation. It encompasses a wide range of elements, including the country's culture, heritage, economy, innovation, tourism, and more. Today, I would like to focus on brand India and its resilience from a financial sector perspective.

Building a resilient brand India from a banking and economy perspective includes the aspects of financial stability, risk management and crisis preparedness, sound corporate governance as well as adaptive regulation complemented by robust supervision, financial inclusion and customer protection.

Today, as compared to the situation five years ago, the Indian banking sector stands tall, reflecting its strength and viability. As of September 2023, the Capital to Risk Weighted Assets Ratio of Scheduled Commercial Banks stood impressively at 16.8 percent, underscoring the sector's resilience. The Gross Non-Performing Assets (GNPA) at 3.2 percent were at a decadal low with Net NPAs at 0.8 percent. The uptrend in profitability has continued into its fourth consecutive year with Return on Assets at a healthy 1.2 per cent and Return on Equity at 12.9 per cent. As compared to 2018 when 12 banks were placed under the Prompt Corrective Action (PCA) framework, today no SCB is under PCA.

As we note the current state of our financial system, it is also imperative to reaffirm our commitment to maintaining and building upon this robust position. Our journey towards resilience should not end with achieving impressive metrics; it requires a continuous dedication to sound financial practices, prudent risk management, transparency and ethics. We need to remain steadfast in our commitment to upholding the elevated standards we have achieved, ensuring that our financial institutions remain resilient in the face of any future challenges.

A vibrant and resilient financial sector is a sine qua non for a country's growth and development. As our economy strives to grow in an evolving and uncertain macro-economic environment, it is imperative that the financial system in general continues to remain resilient through the uncertainties to fuel economic growth. In our financial ecosystem, the strength of individual banks is the bedrock upon which the edifice of financial resilience stands.

I believe a resilient future ready bank needs to be:

i. Financially resilient through adequate capital, liquidity and earnings;

ii. Operationally resilient so as to deliver critical services to customers even in times of disruptions and

iii. Organizationally resilient to anticipate risks early and absorb them efficiently.

In this context, I would like to discuss six aspects that, in my opinion, banks may need to delve deeper into in the upcoming period.

1. Interest Rate Risk

Effective management of interest rate risk is a crucial aspect of prudent banking. Recent regulatory changes, notably, the symmetrical treatment of fair value gains and losses as well as removing restriction on HTM have given banks greater flexibility in managing this risk in their investment portfolios. However, considering the dynamic nature of the interest rate risk, banks must proactively manage and mitigate this risk.

Increasing NIMs that banks are presently enjoying may not be sustained in the future when the interest rate cycle reverses, whenever that happens in future. External benchmark linked loans will be repriced much faster than deposits contracted during the peak of the interest rate cycle resulting in pressure on NIMs and eventually profitability. Therefore, apart from interest rate risk in the trading book, banks must be mindful of the interest rate risk in the banking book as well.

On the liabilities side, banks must endeavour to proactively manage the pricing and duration of their deposits while trying to diversify the sources and optimising the product mix of deposits. Excessive reliance on bulk deposits should be avoided as these are more sensitive to interest rate movements and perpetuate concentration risk while also eroding earnings.

2. Business models

As recent global events have demonstrated, sometimes, even business models once perceived as safe can fail. Therefore, banks need to remain alert to the risks inherent in their business models and mitigate them in a timely manner. In good times like this, financial institutions must review their growth plans while putting in place adequate risk management systems to handle the emerging risks. It is imperative for Boards of banks and NBFCs to fix suitable sectoral and sub sectoral exposure limits and monitor them closely to avoid any sectoral concentration, adverse selection or dilution of underwriting standards.

The growing collaboration between banks, NBFCs, and FinTechs is driving innovation in products, services, and business models. An important consideration is the cautious adoption of model-based lending through analytics. Banks and NBFCs should exercise caution in relying solely on preset algorithms, ensuring that these models are robust, regularly tested, and recalibrated as needed to maintain robust underwriting standards.

3. Operational Resilience

In view of the ever-increasing adoption and usage of digital channels by members of public, it has become imperative for banks and payment system participants to ensure uninterrupted availability of various online and mobile banking channels at all times.

Recently, there have been a few incidents of unscheduled downtimes inconveniencing several customers. It is also observed that many banks have not been spending fully, the budget earmarked for procurement of IT systems and IT security systems. Banks have to proactively commit adequate resources for augmenting their IT infrastructure, commensurate with their business plans and also monitor them for their continued availability and stability.

Banks and other ecosystem participants must have robust Disaster Recovery and Business Continuity Plans in place and test them periodically. Further, IT infrastructure and channels have to be protected from the emerging cyber threats to ensure operational resilience. I would therefore like to reiterate that the Boards and IT Strategy Committees of the banks need to step up their oversight in this matter.

4. Outsourcing Risks – Managing third party dependencies

While we acknowledge the numerous advantages that outsourcing can offer to a bank, such as cost savings and increased efficiencies, it is crucial for banks to maintain vigilance regarding the accompanying risks. These risks include the potential loss of control over critical operations, the risk of data security breaches, heightened dependency on third-party providers, and the possibility of reputation damage stemming from the misconduct of service providers.

As the RBI has time and again reiterated, outsourcing does not absolve a bank of any of its obligations and they continue to remain ultimately responsible for the activities of their service providers including recovery agents. Banks must ensure that their service providers employ the same high standard of care in performing the services as would be employed by the banks. Banks should not engage in any outsourcing that may result in their internal control, business conduct or reputation being compromised or weakened.

5. Climate Risk

It also needs to be appreciated that we are living in an era when climate change and its consequent risks cannot be ignored. Due to its geographic, environmental and economic characteristics India is particularly vulnerable to climate change. Variability in monsoon patterns coupled with temperature change impact crop production and affect our food security. Apart from agriculture, even in other sectors the economic impact of climate change in India could be substantial.

Climate-related financial risks pose both micro and macro-prudential concerns. Climate change risk is ascending the hierarchy of threats to financial stability across advanced and emerging economies alike and consequently, the need for an appropriate framework to identify, assess and manage climate-related risk has become imperative.

6. Customer protection

Lastly, and perhaps most importantly, I would like to discuss the aspect of customer protection which is integral to building a resilient brand India in many ways.

Financial services institutions exist because of their customers. They entrust regulated entities with their hard-earned money, their dreams, and their aspirations. Therefore, customer protection and timely grievance redressal, forms the foundation of trust and reliability, contributing to the overall resilience and reputation of the brand.

I would therefore urge banks to have a proactive approach towards resolving customer grievance issues by identifying and addressing the root cause of these issues. Customer complaints should only be rejected after careful examination by the Internal Ombudsman. To do this effectively, regulated entities must ensure that the Internal Ombudsman is adequately resourced.

Last year the RBI had issued guidelines on digital lending to address concerns relating to delivery of credit products and their servicing through the digital route. These guidelines inter-alia endeavoured to promote transparency by requiring a standardised Key Fact Statement which should contain details of the Annual Percentage Rate, the recovery mechanism, the grievance redressal officer designated specifically to deal with digital lending/ FinTech related matters and the look-up period. Any fees or charges, including penal charges, which are not mentioned in the Key Fact Statement cannot be charged by the Regulated Entity to the borrower at any stage during the tenor of the loan. However, we are still coming across instances of non-compliance with these guidelines, requiring us to take appropriate supervisory action including imposition of business restrictions, where warranted. I would therefore urge the industry to review and strengthen its compliance with all regulatory instructions on customer protection and grievance redress.

Role of Regulation and Supervision

Before I conclude, I would also like to reflect on the role of regulation and supervision, which are essential components of a resilient and stable financial environment.

The regulatory framework lays down prudential standards and guidelines which are designed to mitigate various risks including credit, market, operational and liquidity risks. The RBI is endeavouring to make its regulations more principle based, activity oriented rather than entity oriented and proportionate to the scale of systemic risk. The recent initiatives on scale-based regulation for NBFCs, tiered approach for UCBs and harmonisation of regulations across regulated entities are examples of this regulatory stance. Further, counter-cyclical macro-prudential measures are also used to address systemic issues such as the recent revision in risk weights for certain segments of consumer credit and bank credit to NBFCs.

On the supervisory side, the initiatives taken are aimed at identifying risks and vulnerabilities early, putting in place a structured early supervisory intervention framework to mitigate the risks, increasing the focus on root cause of vulnerabilities, and harmonising the supervisory rigour across various segments of financial system. An endeavour has been made to build a pro-active off-site surveillance mechanism to identify emerging risks and assess the vulnerabilities across the supervised entities for timely action to mitigate or manage these vulnerabilities. The aim is to make supervision more forward-looking, proactive and preventive which will promote resilience and financial stability.

Conclusion

In essence, building resilience in the banking and economy sector for brand India is about establishing a foundation of strength, stability, and adaptability. It requires a holistic and collaborative effort from the financial institutions, regulatory bodies, government, and other stakeholders so that India can not only weather global uncertainties but also emerge as a dynamic and resilient player in the international economic landscape.

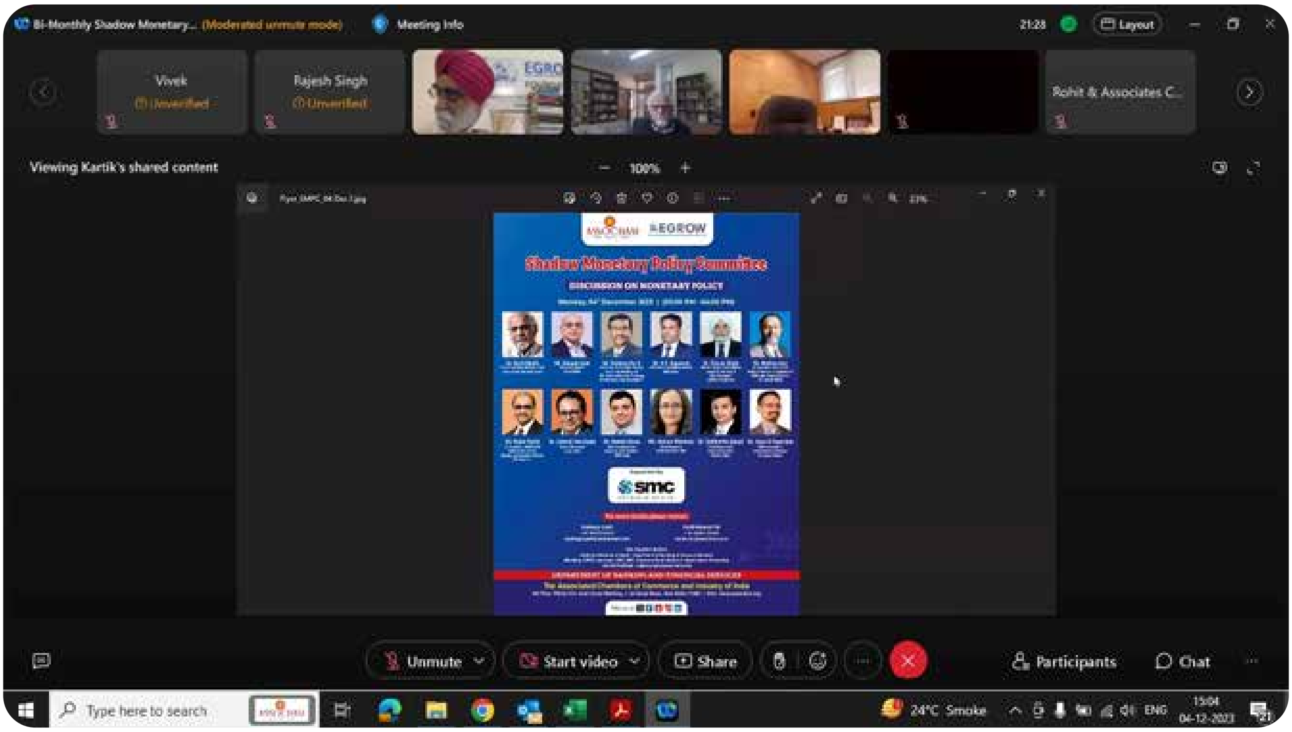
With this I thank you for inviting me and allowing me to share my perspectives in this forum. I am sure that the deliberations during this Conclave will be very productive and result in significant value addition to the participants. My compliments to the organisers for such a well-coordinated event. Thank you!

Source: https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1399

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

ASSOCHAM & EGROW Foundation Bi-Monthly Shadow Monetary Policy Committee

04th December 2023 (Monday)



Dr. Surjit Bhalla, Former Executive Director, International Monetary Fund: RBI should continue with the pause. However, there are important issues that need to be deliberated upon - Is the CPI weighting diagram outdated? Why is there a significant divergence in estimates and projections? Fiscally, how are states performing? What are the default rates on personal loans? On employment, should alternate data sources be explored to form robust estimates?

Dr. Charan Singh, CEO and Director, EGROW Foundation: The economy is performing well with the GDP figures for 2nd quarter exhibiting a strong trend. The strong economic performance is supported by agriculture, manufacturing and construction activity. The performance of the core sector industries, especially cement, coal, electricity, steel and natural gas are recording large growth. The export sector, despite global slowdown is also performing well. The labor force participation rate is high and unemployment has declined to 6,6 percent as per latest estimates. The central government is supporting domestic demand by continuing the food subsidy program for the next 5 years. The economic growth is ably supported by credit growth through the banking sector. The fiscal performance in terms of collection of direct taxes and GST is also high. The inflationary pressure has waned away with WPI continuing in the negative zone, CPI less than 5 percent and food CPI in the range of 6 to 7 percent. Globally, inflationary pressures are easing and most central banks are holding on to the policy rates though two have started to reduce. It is time to start considering reducing the Repo rate in India. The fear of capital outflow may be unfounded as by now that would have been factored already by the market. But with the latest growth trend in the first half of the year, much higher than the projections made by the RBI, decoupling from the US rate cycle should be considered. Further, there is an aspect of political economy that needs to be considered too - the US would soon enter into their own electoral cycle, politically, and then decoupling could get delayed. The US rate cycle could get delayed for US centric-specific reasons and India could do well to step away from that sooner than later. Also, general elections are just about 6 months away in India and the two budgets in the next year could be interim. Hence, India would need an India-centric monetary policy and not that inter-related to the US. Thus, given the positive trend in growth to continue in the busy season as well as prices in a range-bound band, the RBI could provide a positive impulse to the economy.

Shri Madhav Nair, Co–Chairman ASSOCHAM, National Council for Banking and CEO-India, Bank of Bahrain and Kuwait: Better than expected second quarter GDP growth of 7.6% may result in FY24 growth estimates to be revised upwards. This was on back of the growth in Manufacturing sector which grew at 13.9%. India Inc across sectors also had a robust growth both in terms of topline as well as PAT. Weaker monsoon has led to lower than normal kharif crops output this year. The delayed harvesting of kharif in turn also affected the rabi crop sowing, though the gap as compared to a year ago has significantly narrowed down by end November. Consumer price-based inflation (CPI) eased to 4.87 per cent in October from 5.02 per cent in September. The retail inflation, however, remains above the 4 per cent target of RBI. There is a strong possibility that inflation in the short term may start marginally increasing due to rise in food inflation. In my view the repo rate and stance should remain unchanged for the time being but there is a case for MPC to start thinking about reducing rates early next year as the core inflation eases and the chances of food price shocks are minimized.

Shri Rajan Pental, Co-Chairman, ASSOCHAM, National Council for Banking and Executive Director, YES Bank Ltd: Headline CPI Inflation has cooled off significantly from its peak levels of 7.44% when tomato prices had surged. The last reading for inflation for October 2023 was at 4.87%. On a yoy basis, vegetable prices in October were at 2.7% compared to 37.4% in July 2023. Further, the RBI should take comfort from the fact that core CPI inflation had consistently come down through the financial year till date – from 5.30% in April 2023 it has cooled off to 4.25% in October 2023. However, one cannot be totally confident of the food side price movements in the wake of climate changes that we have seen recently. The El-Nino conditions have intensified, FAO food price index has come down from its peak but is still significantly higher than the pre-COVID levels. In this context, it is likely that the country needs to be ready for more price shocks and the monetary policy will be tasked with addressing the supply side shocks to prevent inflation getting entrenched into the system.

For November, the National Horticulture Board (NHB) data indicates a 2.3% increase in cereals prices (1.2%) last month while pulses prices have risen by 1.7% after a 3.0% rise in the previous month.

There are some fears that the recent rains in Maharashtra could have caused some damage to the Onion crops.

Further, data from department of Agriculture shows that areas sown under rabi wheat, rice and pulses is on the lower side compared to last year. Though it is too early to comment on the same and sowing can pick up, a point to remember would be relatively weaker reservoir levels in India. Rabi crops are pre-dominantly irrigation fed, and a weak reservoir level could be fuelling some worries over the Rabi output.

YES Bank projects inflation at 5.5 percent average for FY24, going down to 5.1 percent average in FY25. On a comparative basis, RBI expects inflation to average at 5.2 percent in FY24 and reducing to an average of 4.5 percent in FY25. The stand that the RBI has taken over the last two policies is that during the period of COVID, they were happy with inflation being within the 4 (+/-2) percent band. Now inflation is below the 6 percent upper band, but the communication of the RBI has changed towards attaining the 4 percent target.

After an upward surprise in GDP growth in Q1FY24 at 7.8%, markets were again surprised with another robust GDP growth for Q2FY24 at 7.6 percent. Industry sector has shown a more robust performance compared to the services sector; especially commendable being the manufacturing sector and the construction sector growth.

We expect growth to slow in H2FY24 compared to H1FY24. Importantly, private investment demand continues to lag while growth is being pushed by government capital expenditure. Within the consumption spectrum, advance indicators point towards robustness in urban consumption vis-à-vis rural consumption. Given an average growth of 7.7 percent in H2FY24, we see the full year average GDP growth to be at 6.6 percent in FY24. For FY25, we currently have a forecast of 6.4 percent for GDP, but see some downside risks to this in the event that global growth slows very sharply.

We do expect that growth will slow in Q3 and Q4 of FY24 as lagged implication of previous monetary policy tightening continues to percolate through. Further, the recent decision of the RBI to increase risk weights on consumer loans and loans from the banking sector towards the NBFCs is likely to lead to a slowing down of the personal loan growth – something that had probably been fueling domestic consumption story.

Gross Fixed Capital Formation is primarily being led by government capital expenditure and can slow in the Q4FY24 owning to the election period setting in.

Given the growth-inflation dynamics that we project, the RBI will be forced to maintain a restrictive monetary policy for a longer period. With RBI's Q1FY25 Headline CPI expectation of 5.2% and the current repo rate of 6.5%, the real interest gap is positive at around 130 bps. This is still lower than positive gap that existed in the pre-Covid period. Thus,

RBI would remain in pause mode so far as rates are concerned. There is also unlikely to be any change in stance, and RBI will maintain its "withdrawal of accommodation" with a relatively hawkish commentary. As long as growth holds-up, monetary policy focus will remain on keeping inflation pressures contained.

Should the RBI tighten given that both in Q1 and Q2 of FY24 growth has surprised on the higher side? We do not think there is any need for the RBI to tighten the nominal repo rate further. Rather, it should wait for inflation to moderate so that the real repo rate moves more on the positive side. The comfort for the RBI has been on the core inflation, while the big nervousness on the food inflation is behind us. Household inflation expectations have softened and should also, therefore, support the pause from the RBI.

Will the RBI be able to cut its policy rate soon? The next move from the RBI is surely a reduction. But that seems to be quite a distance away. As explained earlier, the 4% inflation target eludes, and it is important for the RBI to keep reminding the market of this target from a credibility perspective.

We think that the RBI might only be able to cut in Q2-FY25

However, whenever the RBI is ready to cut rates, the rate cutting cycle is likely to be shallow, probably to the extent of 50-75 bps only from the current Repo levels of 6.50%.

Developments on the global interest front will also be of relevance to the RBI and in this cycle, the RBI might not be able to move before the global interest rates move. Most of the Fed talk has pointed towards an end to the hiking cycle in the US, but also points to a long hold of the policy rates in the restrictive zone. Currently markets are pricing in a May 2024 as a start to the US rate cutting cycle, but this remains a huge uncertainty for the global financial markets.

No action on the liquidity side, but a continued communication that liquidity is likely to be kept restrictive. The policy should also come clear on the RBI's thoughts on OMO – the OMO announcement had led to a sell-off in the G-sec markets when it was indicated in the previous policy. Some indication on the anticipated system liquidity and the factors that might impact it is therefore desired.

The RBI could also provide some clarification with respect to the thought process behind the recent actions taken to increase the risk weights of certain asset classes on the retail lending side.

15th Global Insurance Summit & Awards

"Insuring India by 2047: New Landscape for Insurance Sector"

14th December 2023 (Mumbai)

Insurance sector needs to grow at 3-4 times of country's GDP: Shri B C Patnaik, Member (Life), IRDAI

Mumbai, 14 November 2023: "India's insurance sector will have to grow at 3-4 times the country's GDP growth with the help of technology-led innovative products and cost-effective distribution models across the country. Many companies are now flooding rural areas as they see value in these markets. They say they will have a cost-effective distribution model and saturate the market. Within 5-10 years all these markets will be saturated as companies have become aggressive," said B C Patnaik, Member (Life), IRDAI.

"India has the potential of getting Rs 15 lakh crore premium from the existing model, for which the growth required from current levels is around 200 per cent. If in a single year we do 200 per cent growth and maintain it then perhaps we can bridge the gap. If not 200 per cent if 40-50 per cent then over a period of 10 years the gap will be bridged. Health insurance per capita spend in India is $5 while in China it is $66 so that is the level of consciousness for health insurance apart from affordability. Out of pocket health expenditure is the major reason for pushing people into poverty. World health insurance penetration as a percentage of GDP is 2 per cent but India is only 0.4 per cent," added Patnaik.

To accomplish the vision of Insurance for All, Patnaik said, "We are thinking of adding more metrics based on percentage of population, societies, occupations, villages, muhallas, number of senior citizens covered, number of business owners covered, number of homes covered. We are working at a very fast pace."

Sharing perspective on the insurance industry, Tablesh Pandey - Managing Director, Life Insurance Corporation of India, said, "The Indian economy is showing resilience in face of global uncertainties. However, in terms of the Indian insurance industry, the importance of insurance has been gaining traction. The Indian insurance industry is hailing IRDAI's commitment to enable insurance for all by 2047, this is expected to aid the entire insurance ecosystem to grow rapidly by bolstering the ease of doing business. It will ultimately improve the penetration of insurance with inclusion of women and innovative products for rural folk. The Indian economy is poised to become the world's third largest economy by 2030 and this is positive news for insurers considering the fact that higher economic growth is the main driver of any insurance industry development.

Talking on the digital transformation and risk management controls, he said apart from using the conventional agent-centric method as the primary way of meeting customers the industry has developed into digital technologies through the use of artificial intelligence, Internet of things, quantum computing, block chain, video calling etc not only for offering digitized marketing and distribution channels but also improving the existing processes and services. With the advent of technology in every area of business the need of greater risk management controls to avoid cyber frauds and tougher cyber security policies are the need of the hour. The passing of the data privacy regulation has highlighted the importance of data privacy and data usage wherein the consumer's rights have to be upheld at all times. The rising customer expectations requires the insurers to work towards shorter processing time, doorstep delivery, niche and customized products to ensure more and more customer engagement.

Anuj Mathur, Chairman, ASSOCHAM, and MD & CEO, Canara HSBC Life Insurance Company Ltd, said, "To be honest, I think if you look at the insurance product as of now, generally I am talking of products, I think it's a very complex kind of a product. I think there is an urgent need for simplification and thanks to the regulator, I think from their side, they have kind of given flexibility to the industry. But still I think we have to, as an industry, we have to come out of that phase where an insurance contract can be maybe 2 pages or 3 pages maximum rather than running into 30-35 pages of complex legal terms and conditions which hardly anyone reads and then we see that customers later on realize that what they've got is different. So I think it is very, very important for us to simplify the entire ecosystem around insurance products. I think BIMA Sugam, BIMA Vistar, BIMA Wahak, these are brilliant initiatives."

G Srinivasan, Advisor, Assocham National Council for Insurance concluded the session with Vote of Thanks.

TOP BANKING NEWS

- **RBI reshuffles classification of domestic systemically important banks; SBI, HDFC Bank move to higher buckets.**

The Reserve Bank of India (RBI) issued its list of Domestic Systemically Important Banks (D-SIBs) on Thursday, December 27, in which it moved State Bank of India (SBI) and HDFC Bank to higher buckets, while ICICI Bank continues to be continues to be in the same bucketing structure as last year.

''SBI and HDFC Bank move to higher buckets – SBI shifts from bucket 3 to bucket 4 and HDFC Bank shifts from bucket 1 to bucket 2,'' said the RBI in its statement issued on Thursday.

For SBI and HDFC Bank, the higher D-SIB buffer requirements on account of the bucket increase will be effective from April 1, 2025. The additional Common Equity Tier 1 (CET1) requirement will be in addition to the capital conservation buffer, according to the central bank.

Since the higher D-SIB surcharge for SBI and HDFC Bank will be applicable from April 1, 2025, hence, up to March 31, 2025, the D-SIB surcharge applicable to SBI and HDFC Bank will be 0.60 per cent and 0.20 per cent respectively.

The D-SIB framework requires the RBI to disclose the names of banks designated as D-SIBs starting from 2015 and place these banks in appropriate buckets depending upon their Systemic Importance Scores (SISs).

Based on the bucket in which a D-SIB is placed, an additional common equity requirement has to be applied to it, according to the central bank.

The central bank had announced SBI and ICICI Bank as D-SIBs in 2015 and 2016. Based on data collected from banks as on March 31, 2017, HDFC Bank was also classified as a D-SIB, along with SBI and ICICI Bank.

The current update is based on the data collected from banks as on March 31, 2023 and factoring in the increased systemic importance of HDFC Bank post the merger of erstwhile HDFC Limited into HDFC Bank on July 1, 2023.

Source: https://www.livemint.com/industry/banking/rbi-reshuffles-classification-of-domestic-systemically-important-banks-sbi-hdfc-bank-moved-to-higher-buckets-11703765173518.html

- **Bandhan Bank to shed home loan NPAs**

Private lender, Bandhan Bank Ltd, will transfer distressed home loans totalling ₹775.6 crore, where repayments were overdue by over six months, to an asset reconstruction company.

"The bank received a binding bid of ₹280.39 crore, or 36.15% of outstanding pool for the said non-performing asset (NPA) portfolio, on (an) outright cash consideration basis," the bank said in a regulatory filing on Thursday, without naming the ARC.

Bandhan Bank said it opted for a Swiss Challenge auction for selling the soured loans.

Under this mechanism, a prospective buyer offers a bid to the lender, which subsequently, calls for counter bids from other potential buyers. New bidders are expected to place higher bids than the original bidder, making the process more competitive

On 4 November, the bank put on sale its housing finance NPAs with outstanding dues worth ₹775.6 crore as on 30 September. The pool of NPAs comprised 8,529 accounts.

On 19 December, the bank sought counter bids from ARCs, non-banking financial companies, banks, and other financial institutions for the same portfolio as part of the Swiss Challenge mechanism. Regulatory guidelines require banks to use the Swiss Challenge method for auctioning bad loans worth ₹100 crore and above. On 1 December, The Economic Times reported that the portfolio was part of the loans Bandhan bank acquired from Gruh Finance.

The Kolkata-based bank acquired Gruh Finance in 2019.

Meanwhile, on 15 December rating agency Crisil downgraded Bandhan Bank's non-convertible debentures (NCDs) of ₹1,295 crore to AA-/stable, from AA/negative, while affirming ratings on ₹6,000 crore of certificate of deposits.

Crisil cited a longer-than-anticipated delay in restoration of its asset quality and the bank's overall profitability to pre-covid levels as reasons for the downgrade. "Despite momentary correction in the fourth quarter of fiscal 2023, the bank's asset quality metrics remained volatile since the pandemic outbreak, thereby constraining its overall profitability.

Source: https://www.livemint.com/industry/banking/bandhan-bank-to-shed-home-loan-npas-11703177880186.html

- **Nirmala Sitharaman directs PSBs to monitor large accounts, streamline loan disbursals**

Finance Minister Nirmala Sitharman on Saturday, December 30, held a meeting with heads of public sector banks (PSBs) and reviewed their financial performance. During the meeting, concerns related to cyber security and the risks on the financial sector were discussed.

Sitharaman directed PSBs to enhance due diligence before loan disbursement to ensure responsible lending practices across the board. The finance minister also asked PSBs to ensure regular monitoring of large loan accounts, and undertake swift and thorough legal action in cases of such default.

PSBs were also directed to adopt proactive cybersecurity measures and implement stringent security protocols to ensure integrity of domestic financial systems remains uncompromised.

On the performance front, PSU banks have earned a net profit of about ₹68,500 crore during the first six months of the current financial year. During 2022-23, it said banks' balance sheets grew at a healthy pace, with both deposits and credit growth accelerating.

The gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) fell to a decade low of 3.9 per cent at the end of March 2023 and further to 3.2 per cent in September. The improvement in asset quality of banks that began in 2018-19 continued during 2022-23. The GNPA ratio stood at 3.2 per cent in the April-September period of the current fiscal.

The issues related to fraud and defaulters and progress on the National Asset Reconstruction Company Ltd (NARCL) also came up for discussion. Sitharaman directed that the acquisition of stressed accounts by NARCL needs to improve further, and necessary efforts must be made in this direction. It was also advised that NARCL and banks should hold regular meetings to expedite the on-boarding of stressed accounts.

NARCL, a government entity, was incorporated in 2021 with a majority stake held by PSBs and the balance by private banks. Canara Bank was the sponsor bank. It is registered with the Reserve Bank of India as an asset reconstruction company under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

Earlier this month, the finance ministry held a review meeting with heads of PSBs and asked them to monitor all cases, especially the top 20 Insolvency and Bankruptcy Code cases as part of the management of their bad assets. During a meeting with managing directors and CEOs of PSBs, Financial Services Secretary Vivek Joshi asked them to review the top 20 cases monthly for their resolution.

Source : https://www.livemint.com/industry/banking/nirmala-sitharaman-directs-psbs-to-ensure-monitoring-of-large-accounts-enhance-diligence-of-loan-disbursement-11703951934565.html

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

The Reserve Bank of India (RBI) is vigilant and ready to act early and decisively to curb any risk building up, governor Shaktikanta Das said on Thursday, adding that some of RBI's recent measures display the central bank's resolve to maintain financial stability while not choking the flow of funds.

"Our recent macroprudential measures to curb lenders' exuberance towards certain segments of retail loans underline our commitment to preserve financial stability without compromising the availability of funds for productive requirements of the economy," Das wrote in the foreword to RBI's half-yearly Financial Stability Report.

Das was referring to the central bank's November decision to raise risk weights on consumption loans, or those not backed by collateral. RBI has been pointing out how its decision to raise the risk weights was a pre-emptive measure.

The report said although delinquency levels across various groups of lenders declined, there are some signs of risk build-up in consumer credit. It presented four points to illustrate its concerns.

First, it found an increase in risk profiling for consumer loans and personal loans, with downgrades exceeding upgrades. Second, relatively high-vintage delinquency – the percentage of accounts that have ever become delinquent within 12 months of origination – of personal loans at 8.2%, it said, indicates declining standards of underwriting. Third, 42.7% of customers availing consumption loans already had three existing loans at the time of origination, and 30.4% have availed more than three loans in the past six months. Last, 7.3% of customers availing a personal loan below ₹50,000 had at least one overdue personal loan.

Das said the health of the financial system is steadily improving on the back of multi-year high earnings, low level of stressed assets, and strong capital and liquidity buffers at financial institutions.

"We have made significant progress since the onset of the covid-19 pandemic in steering the economy and the financial system. Now is the time to consolidate these gains and enable the economy to move to a higher growth trajectory with macroeconomic and financial stability," said Das.

Meanwhile, in its stress analysis, RBI found that the gross non-performing asset (GNPA) ratio of banks might improve to 3.1% by September 2024 under the baseline scenario, from 3.2% reported as on 30 September. In case the external environment worsens to a medium or a severe stress scenario, the GNPA ratio could rise to 3.6% and 4.4%, respectively.

Under the baseline scenario, state-owned banks may see the maximum decline in bad loan ratio—down 30 basis points (bps)—between September 2023 and September 2024, albeit on a higher base.

RBI conducts macro stress tests to assess the resilience of bank balance sheets to unforeseen shocks. The results come with a disclaimer that the adverse scenarios are stringent conservative assessments under hypothetical adverse economic conditions and, therefore, the model outcomes should not be interpreted as forecasts.

As pointed out on Wednesday in the Report on Trends and Progress of Banking in India, gross bad loans as a percentage of total loans fell from 5.8% in 2021-22 to 3.9% in 2022-23, and further to 3.2% as on 30 September. The 3.2% bad loan ratio, RBI said on Thursday, was an 11-year low.

Stress tests for credit risk, the report said, found that banks have enough capital buffers, and their capital ratios will remain above the regulatory minimum even under adverse stress scenarios.

Source: https://www.livemint.com/industry/banking/rbi-flags-rising-risks-in-consumer-lending-11703788166075.html

- **RBI approves appointment of C S Rajan as chairman of Kotak Mahindra Bank for two years**

Kotak Mahindra Bank, on December 27, announced that the Reserve Bank of India (RBI) has granted approval for the appointment of C S Rajan, who currently serves as an Independent Director of the bank, as the Part-time Chairman. This appointment is effective from January 1, 2024, and is slated to last for a period of two years.

C S Rajan assumed the role of Independent Director on the Bank's Board starting from October 22, 2022.

"I am deeply humbled and honoured to accept the appointment as Chairman of the Bank and thank the Board for entrusting me with the responsibility to steer the Bank to new heights and increase stakeholder value. I look forward to working collaboratively with the Board and the entire Team," C S Rajan, Independent Director and Non-Executive Independent Part-Time Chairman, Kotak Mahindra Bank said.

"We thank Mr. Prakash Apte for his contribution to the Bank, first as an Independent Director and subsequently as the Chairman of the Bank's Board. We would like to congratulate Mr. C S Rajan on his appointment as Chairman of the Bank's Board. We are confident that the Bank will benefit immensely from Mr. Rajan's guidance for its next phase of growth," said Dipak Gupta, Managing Director & CEO, Kotak Mahindra Bank.

C S Rajan has experience of over 40 years across significant government portfolios. He assumed the role of an Independent Director on the Bank's Board on October 22, 2022. A distinguished IAS officer from the 1978 batch, he concluded his service as the Chief Secretary of the Government of Rajasthan in 2016.

During his career, Rajan held leadership positions for 12 years in crucial infrastructure sectors, including Energy, Highways, Water Resources, and Industry, encompassing SSI/MSME. Additionally, he contributed his expertise for 14 years in the domains of Agriculture and Rural Development, as highlighted by the Bank.

In October 2018, the Government of India appointed Rajan to the Board of Infrastructure Leasing and Financial Services Limited (IL & FS). Initially serving as a Director, he later assumed the role of Managing Director for a period of three and a half years, followed by a year as Chairman & Managing Director. Subsequently, he transitioned to the role of Non-Executive Chairman of IL & FS.

Apte emphasized that Rajan's extensive expertise spanning crucial sectors for India's future, including infrastructure, roads, energy, agriculture, rural development, industry, and commerce, will offer a fresh perspective to the discussions and significantly contribute to the Bank's growth.

Source: https://www.livemint.com/industry/banking/rbi-approves-appointment-of-c-s-rajan-as-chairman-of-kotak-mahindra-bank-11703682878601.html

- **Banks' asset quality touches decadal high as GNPA ratio falls to 3.2% in September quarter: RBI Report**

The gross non-performing asset (GNPA) ratio of Indian banks continued to improve in the second quarter of the current financial year, easing to a fresh decadal low, according to a Reserve Bank of India (RBI) report published on Wednesday, December 27.

The improvement in the asset quality of banks that began in 2018-19 continued into the first half of 2023-24, with the gross non-performing asset (GNPA) ratio falling to 3.2 per cent at end-September from 3.9 per cent at end-March, the RBI said in its 'Trend and Progress of Banking' report.

The consolidated balance sheet of banks expanded by 12.2 per cent in FY23 - the highest in nine years, driven by credit to retail and services sectors. The report also showed that higher net interest income and lower provisioning led to a boost in net interest margin (NIM) and profitability in FY23.

The central bank said the banking system and the non-banking financial companies (NBFCs) remain resilient, backed by high capital ratios, improved asset quality and robust earnings growth. "This is supporting double-digit credit growth and domestic economic activity," the RBI said.

“Sustaining this improvement requires further strengthening of governance and risk management practices and building up of additional buffers." The GNPA ratio remained the highest for the agricultural sector and the lowest for retail loans, the report showed. During FY23, the total amount of frauds reported by banks declined to a six-year low, while the average amount involved in frauds was the lowest in a decade, the RBI said.

The balance sheets of non-banking financial companies (NBFCs) expanded at a fast pace in FY23, led by double-digit credit growth. However, notwithstanding the overall robust health of the sector, certain concerns remain, the central bank warned.

The RBI has asked NBFCs to broad-base their fundraising to limit reliance on banks as it called for strengthening balance sheets and guarding against frauds and data breaches. According to the RBI report, the Indian banking system and NBFCs remain sound and resilient, backed by high capital ratios, strengthening asset quality and robust earnings growth.

Given the strategic importance of NBFCs in the financial system, the high level of interconnectedness between banks and non-banks merits close attention, said the RBI. "Although banks are well-capitalised, they need to constantly evaluate their exposure to NBFCs as well as the exposure of individual NBFCs to multiple banks," it added.

NBFCs on their part should focus on broad-basing their funding sources and reduce over-dependence on bank funding. "Overall, banks and NBFCs need to further strengthen their balance sheets through robust governance and risk management practices to meet the growing aspirations of the Indian economy."

Source: https://www.livemint.com/industry/banking/banks-asset-quality-touches-decadal-high-as-gnpa-ratio-falls-to-3-2-in-september-quarter-rbi-report-11703680334343.html

- **Paytm’s Vijay Shekhar Sharma addresses Uday Kotak as ‘Jamie Dimon’ of Indian banking**

Vijay Shekhar Sharma, the Paytm founder and chief executive officer (CEO) on Sunday drew a parallel between Kotak Mahindra Bank’s former MD and CEO Uday Kotak and Jamie Dimon, the long-serving CEO of JP Morgan Chase, a global financial services firm with assets of $3.2 trillion and operations worldwide..

Sharma equated Kotak with Dimon, and called him a true legend of Indian banking industry.

Jamie Dimon is at the helm of the banking giant JP Morgan Chase since 2005. He is a leading figure in banking and finance sector.

“I call fondly sir (Uday Kotak), our Jamie Dimon of India. True legend of Indian Banking," Sharma wrote on X (formerly Twitter) in response to a post from Jay Kotak.

Jay is Uday's son and the co-head of Kotak 811, Kotak Mahindra Bank's mobile banking app.

Uday Kotak’s entrepreneurial journey began in 1985 with Kotak Capital Management Finance (KCMF). He has left an indelible mark on the Indian banking sector.

With KCMF transforming into Kotak Mahindra Bank by 2003, it became India’s first non-banking finance company (NBFC) to become a bank.

Under Uday Kotak’s leadership, the Kotak Mahindra Bank became the fourth largest Indian lender by market capitalisation in the country.

According to a Forbes report, with a net worth of $14 billion Uday Kotak is the fifteenth richest person in India for the year 2023.

In a surprising move in September 2023, Uday Kotak resigned from the post of MD and CEO of the Kotak Mahindra Bank. His term was due to end in December.

Currently, he holds the position of non-executive director on the Mumbai-headquartered Kotak Mahindra Bank's board.

According to JP Morgan Chase's website, Jamie Dimon became CEO on January 1, 2006 and one year later also became chairman of the Board. He was named president and chief operating officer upon the company's merger with Bank One Corporation on July 1, 2004.

Source: https://www.livemint.com/industry/banking/paytms-vijay-shekhar-sharma-addresses-uday-kotak-as-jamie-dimon-of-indian-banking-11703432349032.html

- **Banks' liquidity deficit at near 8-yr high, traders eye repo rollover**

Indian banking system is facing a widening liquidity deficit, reaching levels last seen in 2016, that may prompt the central bank to provide another round of short-term cash infusion.

The Reserve Bank of India (RBI) pumped ₹1 trillion ($12.01 billion) through a seven-day variable rate repo (VRR), marking the first such auction in six months, with one more anticipated on Friday, 10 traders and economists said.

"They should roll over the repo, or else there may be a selloff, at least in the shorter-end, (T-bills and up to three-year bonds), as most banks will face a shortfall," a treasury head at a state-run bank said.

Outflows toward advance tax payments and goods and service taxes have tightened liquidity and the situation is likely to remain unchanged through the month-end.

"The GST impact would be there for some time, so I think the RBI should roll over the repo, at least for a week, until the month-end spending comes in," said A Prasanna, head of research at ICICI Securities Primary Dealership.

Banking system liquidity deficit rose to ₹2.27 trillion as of Dec. 20, registering its highest level since April 1, 2016.

Liquidity deficit is likely to increase in the near-term, and is expected to be comfortable only in the first quarter of 2024, Swati Arora, a senior economist with HDFC Bank, said.

Even after the VRR, overnight rates have stayed above the upper end of the RBI's policy corridor, highlighting the extent of cash squeeze.

Call rates could rise in the absence of a VRR rollover and create confusion on the RBI's liquidity stance, with almost the entire second half of December witnessing tight conditions, ICICI Securities Primary Dealership's Prasanna said.

RBI has largely pursued an aggressive liquidity withdrawal stance since August while ensuring that there is enough cash available for banks to meet their reserve requirement needs.

Banks have also turned to fundraising through certificates of deposit to address their cash needs.

Source: https://www.livemint.com/industry/banking/banks-liquidity-deficit-at-near-8-yr-high-traders-eye-repo-rollover-11703154151136.html

- **RBI tightens norms for banks, NBFCs investing in Alternative Investment Funds**

The Reserve Bank of India (RBI) has clamped down on lenders evergreening loans through the use of alternative investment funds (AIFs), a practice previously red-flagged by the stock market regulator.

From now, a lender will not be allowed to invest in the schemes of any AIF that has invested in a borrower or investee of that lender, a move the regulator said aims to address concerns of evergreening.

Mint reported in November 2022 that the Securities and Exchange Board of India (Sebi) had informed RBI about instances of non-bank financiers evergreening loans through the AIF route.

Evergreening refers to practices to mask the true extent of bad loans by allowing delinquent borrowers to take more loans and repay existing ones.

Tuesday's circular applies to all commercial banks, cooperative banks, non-bank lenders, and all-

India financial institutions. Alternative investment funds are privately pooled investment vehicles, collecting funds from sophisticated investors, either domestic or foreign. Under the latest guidelines, a debtor or a borrower would mean a company to which the lender currently has, or previously had, a loan or investment exposure anytime in the previous 12 months.

RBI said that entities regulated by the central bank invest in units of AIFs as part of their regular investment operations; however, certain transactions have raised regulatory concerns.

“These transactions entail substitution of direct loan exposure of REs (regulated entities) to borrowers, with indirect exposure through investments in units of AIFs," it said.

Experts said the circular would curb evergreening concerns that have been highlighted multiple times by the markets regulator.

Shrishail Kittad, a partner at law firm IndiaLaw LLP, said financial institutions cannot invest in equity of borrowers, but when they invest in AIFs which have downstream investments in the borrower, this rule is circumvented. “This notification targets regulatory concern arising out of such transactions," Kittad said.

“The AIF is invested in riskier debt and other unquoted instruments that have less transparency as regards to end-of-use funds, and there is a likelihood of it being used for payment of existing stressed loans earlier given by the banks," said Jyoti Prakash Gadia, managing director at investment bank Resurgent India.

The central bank also directed lenders, which have invested in AIF schemes that come under the purview of the circular, to liquidate their investments within 30 days. Moreover, if an AIF scheme, in which lenders are already invested, makes a downstream investment in any such borrower or investee, lenders will have to liquidate their holdings within 30 days from the date of such downstream investment by the AIF.

“In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100% provision on such investments," the RBI circular said.

RBI has, in the past, raised the issue of evergreening at banks. Governor Shaktikanta Das said in a speech on 29 May that during the regulator’s supervisory process, it found certain instances of lenders using innovative ways to conceal the real status of stressed loans.

“To mention a few, such methods include bringing two lenders together to evergreen each other’s loans by sale and buyback of loans or debt instruments; good borrowers being persuaded to enter into structured deals with a stressed borrower to conceal the stress…," said Das.

Source: https://www.livemint.com/industry/banking/alternative-investment-funds-rbi-tightens-investment-norms-for-banks-housing-finance-companies-and-nbfcs-11702987810382.html

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

The Reserve Bank of India (RBI) has imposed monetary penalties on five cooperative banks for deficiencies in regulatory compliance. These co-operative banks are: The Manmandir Co-operative Bank Ltd, The Lakhvad Nagarik Sahakari Bank Ltd, Contai Co-operative Bank Limited, Sarvodaya Co-operative Bank Ltd, and Sanmitra Sahakari Bank Ltd.

The Reserve Bank imposed a monetary penalty of ₹3.00 lakh on The Manmandir Co-operative Bank Limited, Vita for non-compliance with the directions issued by RBI on ‘Know Your Customer (KYC) Directions, 2016’ and ‘Maintenance of Deposit Accounts - Primary (Urban) Co-operative Banks’. The apex Bank said The Manmandir Co-operative Bank had not ensured periodic updation of KYC for high-risk customers as mandated by the RBI Directions, and had not conducted periodic review of risk categorization of accounts. The bank had not conducted the annual review of inoperative or dormant accounts, the RBI added.

The RBI imposed a monetary penalty of ₹2.00 lakh on The Lakhvad Nagarik Sahakari Bank Ltd, Lakhvad, Dist. Mehsana, Gujarat for non-compliance with the directions issued by RBI on 'Loans and advances to directors, relatives and firms/concerns in which they are interested' read with 'Loans and Advances to directors etc. - directors as surety/guarantors – Clarification', and 'Placement of Deposits with Other Banks by Primary (Urban) Co-operative Banks (UCBs)'. The RBI said The Lakhvad Nagarik Sahakari Bank Ltd had sanctioned a loan to the relative of one of its directors and also sanctioned certain loans wherein the relatives of its directors stood as guarantors. The apex bank further said the Sahakari Bank breached the prudential inter-bank gross exposure limit as well as the prudential inter-bank counterparty exposure limit.

The Reserve Bank imposed a monetary penalty of ₹1.00 lakh on Contai Co-operative Bank Ltd. for non-compliance with the directions issued by RBI on 'Know Your Customer (KYC) Directions, 2016'. The banking regulator said the Contai Co-operative Bank had failed to put in place a system of periodic review of risk categorisation of accounts.

The RBI imposed a monetary penalty of ₹1.00 lakh on Sarvodaya Co-operative Bank Limited, Mumbai for non-compliance with the specific directions issued by RBI under Supervisory Action Framework (SAF). The RBI said the bank had sanctioned fresh loans in violation of specific directions issued under SAF.

The apex bank imposed a monetary penalty of ₹1.00 lakh on Sanmitra Sahakari Bank Ltd., Pune for non-compliance with the directions issued by RBI on 'Maintenance of Deposit Accounts - Primary (Urban) Co-operative Banks'. The banking regulator said the Sanmitra Sahakari Bank had collected fixed penal charges for the shortfall in maintenance of minimum balance in savings bank accounts, instead of proportionate to the extent of the shortfall.

Source: https://www.livemint.com/industry/banking/rbi-imposes-monetary-penalty-on-five-co-operative-banks-details-here-11702989588638.html

SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2023-2024/103 DOR.LRG.REC.62/ 03.10.001/2023-24	29.12.2023	Department of Regulation	Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Review of National Development Banks	All Scheduled Commercial Banks (excluding Payments Banks and Regional Rural Banks)
RBI/2023-2024/102 DoR.MCS.REC.61/ 01.01.001/2023-24	29.12.2023	Department of Regulation	Fair Lending Practice - Penal Charges in Loan Accounts: Extension of Timeline for Implementation of Instructions	All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, excluding Payments Banks) All Primary (Urban) Co-operative Banks All NBFCs (including HFCs) and All India Financial Institutions (EXIM Bank, NABARD, NHB, SIDBI and NaBFID)
RBI/2023-2024/101 CO.DPSS.POLC. No.S940/02-29-005/2023-24	29.12.2023	Department of Payment and Settlement Systems	Payments Infrastructure Development Fund – Extension of Scheme and Enhancements	The Chairman / Managing Director/Chief Executive Officer Card Issuing and Acquiring Banks and Non-banks/Authorised Card Networks
RBI/2023-2024/100 FIDD.MSME & NFS.BC.No.13/ 06.02.31/2023-24	28.12.2023	Financial Inclusion and Development Department	Classification of MSMEs	The Chairman/ Managing Director/Chief Executive Officer All Scheduled Commercial Banks (except RRBs) (including Small Finance Banks and Local Area Banks)
RBI/2023-2024/99 DOR.STR.REC.60/ 21.04.048/2023-24	28.12.2023	Department of Regulation	MHP Exemption for Transfer of Receivables	All Scheduled Commercial Banks (excluding Regional Rural Banks) All All-India Financial Institutions All Non-Banking Financial Companies (including Housing Finance Companies)
RBI/2023-2024/98 FMRD.FMSD.07/ 03.07.35/2023-24	28.12.2023	Financial Markets Regulation Department	Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023	All eligible market participants

RBI/2023-2024/97 FMRD.DIRD.No.05/ 14.03.061/2023-2024	27.12.2023	Financial Markets Regulation Department	Reserve Bank of India (Government Securities Lending) Directions, 2023	All participants in Government Securities market
RBI/2023-2024/96 A.P. (DIR Series) Circular No. 10	22.12.2023	Foreign Exchange Department	Trade Credit for imports into India – Submission of return on issuance of bank guarantees for Trade Credits on the Centralised Information Management System (CIMS)	All Category - I Authorised Dealer Banks
RBI/2023-2024/95 A.P. (DIR Series) Circular No.09	22.12.2023	Foreign Exchange Department	Rupee Drawing Arrangement - Submission of statement/return on CIMS Portal	All Authorised Dealer Category - I Banks
RBI/2023-2024/94 A.P. (DIR Series) Circular No.12	22.12.2023	Foreign Exchange Department	CIMS Project implementation - Discontinuation of submission in legacy XBRL	All Category-I Authorised Dealer Banks
RBI/2023-2024/93 A.P. (DIR Series) Circular No.11	22.12.2023	Foreign Exchange Department	Liberalised Remittance Scheme (LRS) for Resident Individuals- Reporting of monthly return and daily transactions	All Category-I Authorised Dealer Banks
RBI/2023-2024/92 DoR.RET.REC.59/ 12.01.001/2023-24	22.12.2023	Department of Regulation	Reverse Repo transactions - Reporting in Form 'A' Return	The Chairperson/CEOs of all Commercial Banks
RBI/2023-2024/91 CO.DPSS.POLC. No.S-919/02-14-003/2023-24	20.12.2023	Department of Payment and Settlement Systems	Card-on-File Tokenisation (CoFT) – Enabling Tokenisation through Card Issuing Banks	All Payment System Providers and Payment System Participants

RBI/2023-2024/90 DOR.STR.REC.58/ 21.04.048/2023-24	19.12.2023	Department of Regulation	Investments in Alternative Investment Funds (AIFs)	All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including Housing Finance Companies)
RBI/2023-2024/89 FIDD.CO.LBS. BC.No.12/ 02.08.001/2023-24	18.12.2023	Financial Inclusion and Development Department	Formation of new district Mauganj in the State of Madhya Pradesh – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned
RBI/2023-2024/88 CO.DPSS.POLC. No.S-882/ 02.14.003/2023-24	12.12.2023	Department of Payment and Settlement Systems	Processing of e-mandates for recurring transactions	The Chairman/Managing Director/Chief Executive Officer All Scheduled Commercial Banks, including Regional Rural Banks/Urban Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks/ Payments Banks/Small Finance Banks/Local Area Banks/Non-bank Prepaid Payment Instrument issuers/ Authorised Card Payment Networks/National Payments Corporation of India
RBI/2023-2024/87 IDMD.CDD. No.2128/ 14.04.050/2023-24	11.12.2023	Internal Debt Management Department	Sovereign Gold Bond (SGB) Scheme 2023-24	Scheduled Commercial Banks (as per the list attached), Designated Post Offices (as per the list attached) Stock Holding Corporation of India Ltd. National Stock Exchange of India Ltd, Bombay Stock Exchange Ltd. Clearing Corporation of India Ltd.

STATISTICAL SUPPLEMENT – RBI

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
					(₹ Crore)
Item	2022	2023		Variation	
	Dec. 23	Dec. 15	Dec. 22	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	0	0	0	0	0
4.2 State Governments	9669	15212	2294	-12918	-7375

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

2. Foreign Exchange Reserves*

Item	As on December 22, 2023		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	5158895	620441	46853	4471	404630	41992	495165	57634
1.1 Foreign Currency Assets #	4571034	549747	47672	4698	381901	40055	440276	51257
1.2 Gold	394739	47474	-99	-102	23239	2274	55247	6505
1.3 SDRs	152383	18327	323	4	1219	-65	1654	137
1.4 Reserve Position in the IMF	40739	4894	-1042	-129	-1729	-272	-2011	-265

** 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 Dec. 15, 2023	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2022-23	2023-24	2022	2023
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	19791557	-94939	889066	1747643	1486946	2437178
	(19667586)			(1623673)		(2313207)
2.1a Growth (Per cent)		-0.5	5.4	9.7	9.4	14.0
				(9.0)		(13.3)
2.1.1 Demand	2319503	-14661	-40315	139073	174447	287072
2.1.2 Time	17472053	-80278	929381	1608570	1312499	2150106
2.2 Borrowings	761992	-80273	187203	316663	191492	300195
2.3 Other Demand and Time Liabilities	1032671	79819	115489	243020	133776	276333
7 Bank Credit	15805276	-20179	1263128	2130041	1952296	2650834
	(15229870)			(1554635)		(2075428)
7.1a Growth (Per cent)		-0.1	10.6	15.6	17.4	20.2
				(11.4)		(15.8)
7a.1 Food Credit	42499	807	-437	22594	-31006	-12075
7a.2 Non-food credit	15762777	-20986	1263565	2107447	1983302	2662909

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	Fortnight	Financial Year so far		Year-on-Year				Year-on-Year			
					2022-23		2023-24		2022		2023	
	Mar. 31	Dec. 15	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	22343760	23968277	-71004	-0.3	990789	4.8	1624516	7.3	1743116	8.8	2483758	11.6
		(24092247)	(-73126)	(-0.3)			(1748487)	(7.8)			(2607729)	(12.1)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3276436	3271577	21416	0.7	92006	3.0	-4859	-0.1	233370	8.1	143882	4.6
1.2 Demand Deposits with Banks	2320598	2462242	-13509	-0.5	-39708	-1.8	141644	6.1	179008	9.0	288959	13.3
1.3 Time Deposits with Banks	16668966	18159363	-78421	-0.4	932790	6.1	1490397	8.9	1315048	8.9	2039968	12.7
		(18283333)	(-80543)	(-0.4)			(1614367)	(9.7)			(2163938)	(13.4)
1.4 'Other' Deposits with Reserve Bank	77761	75095	-489	-0.6	5701	9.8	-2666	-3.4	15689	32.4	10950	17.1
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7165533	7275741	-123897	-1.7	47502	0.7	110208	1.5	500654	8.3	750609	11.5
		(7376546)	(-127454)	(-1.7)			(211014)	(2.9)			(851415)	(13.0)
2.1.1 Reserve Bank	1451126	1113339	-56348		-352639		-337787		-29273		15382	
2.1.2 Other Banks	5714407	6162402	-67549	-1.1	400142	8.0	447995	7.8	529927	10.8	735227	13.5
		(6263207)	(-71106)	(-1.1)			(548800)	(9.6)			(836033)	(15.4)
2.2 Bank Credit to Commercial Sector	14429636	15975736	-15694	-0.1	1272349	10.1	1546100	10.7	1977739	16.6	2086867	15.0
		(16551142)	(-18481)	(-0.1)			(2121506)	(14.7)			(2662273)	(19.2)
2.2.1 Reserve Bank	26549	5231	0		-2289		-21318		12337		-9052	
2.2.2 Other Banks	14403087	15970506	-15694	-0.1	1274638	10.1	1567419	10.9	1965403	16.5	2095919	15.1
		(16545912)	(-18481)	(-0.1)			(2142825)	(14.9)			(2671324)	(19.3)

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

5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Dec. 18, 2023	-	-	-	-	151680	65190	-	-	-	86490
Dec. 19, 2023	-	-	-	-	118258	51491	-	-	-	66767
Dec. 20, 2023	-	-	-	-	152884	41478	-	-	-	111406
Dec. 21, 2023	-	-	-	-	195948	52771	-	10	10	143177
Dec. 22, 2023	-	-	175013	-	124344	52837	-	-	-	246520
Dec. 23, 2023	-	-	-	-	8447	3699	-	-	-	4748
Dec. 24, 2023	-	-	-	-	3016	1707	-	-	-	1309

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

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

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

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

Ajit Prasad
Director (Communications)

Press Release: 2023-2024/1587

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

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **NBFC-MFI assets rise 39% y-o-y**

  The assets under management of non-banking financial company – microfinance institutions (NBFC-MFIs) rose 39.2% year-on-year to Rupees 1.3 trillion as on September 30, a release from microfinance institutions network (MFIN) showed.

  The AUM includes an owned portfolio of Rupees 1.1 trillion, and a managed portfolio of Rupees 24,501 crore. The gross loan portfolio of the overall microfinance industry rose 25% y-o-y to Rupees 3.8 trillion as on September 30.

  Alok Misra, chief executive officer and director, MFIN, said the growth momentum of the microfinance industry has continued in Q2 FY 23-24 taking the portfolio to Rupees 3.8 trillion. "The portfolio quality is also near pre-Covid levels with PAR (portfolio at risk) 30 days to 180 days at 2.0%," Misra said.

  NBFC-MFIs disbursed loans worth Rupees 32,732 crore in July-September through 7.9 million accounts. They had disbursed loans worth Rupees 28,029 crore through 6.8 million accounts a year ago.

  However, the average loan amount disbursed by NBFC-MFIs fell 0.4% y-o-y to Rupees 41,373 in the September quarter. With an outstanding portfolio of Rupees 1.5 trillion, NBFC-MFIs account for 39.3% of the total microfinance industry. Banks, small finance banks, and diversified non-bank lenders account for 31.6%, 19.4%, and 9.1% of the overall portfolio in the industry. Active loan accounts in the microfinance industry rose 13.9% y-o-y to 139 million as on September 30.

  In terms of regional distribution of the gross loan portfolio, east, northeast and south account for 63% of the total portfolio. Bihar is the largest state in terms of portfolio outstanding followed by Tamil Nadu and Uttar Pradesh.

  Source: https://www.financialexpress.com/business/banking-finance-nbfc-mfi-assets-rise-39-y-o-y-3329062/

- **Microfinance loans up 5.75% to ₹76,054 crore in Q2 FY2024: MFIN report**

  Microfinance loans in India grew by 5.75% to ₹76,054 crore during the second quarter of FY 2024, industry data showed. Last year, ₹71.916 crore of loans were disbursed in the same period.

  In terms of volume, a total of 1.69 crore were disbursed during Q2 FY2023-24, as against ₹1.81 crore loans in Q2 FY 2022-2023, as per the latest data by Microfinance Institutions of India (MFIN).

  According to the MFIN Micrometer report for Q2 FY 23-24, India's microfinance loan portfolio stood at ₹3,76,110 crore as of 30 September 2023, serving 7.1 crore unique borrowers with 13.9 crore loan accounts.

  Of the total microloans outstanding, the largest share of 39.3% is held by 91 NBFC-MFIs amounting to ₹1,47,829 crore.

  While 13 banks are the second-largest provider of micro-credit with a loan amount outstanding of ₹1,18,846, that is 31.6% of the total industry portfolio.

  SFB's share on micro-credit was 19.4% at ₹73,118 crore in the second quarter of the current fiscal year. NBFCs accounted for another 9.1% and Other MFIs accounted for 0.5% of the overall industry.

  In terms of regional distribution of the gross loan portfolio, East, Northeast, and South India accounted for 63% of the total portfolio.

  Bihar continues to be the largest state for Microfinance operations with Tamil Nadu and Uttar Pradesh occupying the second and third spot respectively.

"Microfinance continues to contribute to the Financial Inclusion landscape by adding another 1.9 Crore unique clients over the last financial year to its fold. Growth momentum of the Microfinance industry has continued in Q2 FY 23-24 taking the portfolio to ₹3,76,110 crore. This is a stellar growth of 25% on a YoY basis. The portfolio quality has also come near pre-COVID levels with PAR 30 days to 180 days at 2.0%," Dr Alok Misra - CEO and Director at MFIN said.

Source: https://www.livemint.com/industry/microfinance-loans-up-5-75-to-rs-76-054-crore-in-q2-fy2024-mfin-report-11701766132726.html

- **No of MFI loans extended by lenders dips in Q2, average ticket sizes grow**

The number of microfinance loans extended by all lenders declined in the September quarter, but an increase in the average ticket sizes helped in the quantum of lending to grow, a report said on Tuesday.

The industry's self-regulatory body Microfinance Industry Network (MFIN) said the overall loan portfolio grew to Rs 3,76,110 crore at the end of September, up from Rs 3,55,977 crore in the previous quarter and Rs 3,00,974 crore in the year-ago period.

The financiers made loans of Rs 76,054 crore in the September quarter as compared to Rs 71,916 crore in the year-ago period, but the number of loans declined to 1.69 crore from 1.81 crore.

The average loan size increased to Rs 45,124 at the end of September as against Rs 39,725 in the year-ago period, and Rs 43,298 in the quarter-ago period, the report said.

MFIN's chief executive and director Alok Misra said the industry added 1.9 crore unique borrowers in the first six months of the new fiscal, helping the wider agenda of financial inclusion.

Among the lenders, the dedicated Non-Banking Financial Company-MFIs (NBFC-MFIs) continued to lead the pack with a 39.3 per cent share of the overall loan portfolio, and was followed by banks at 31.6 per cent and small finance banks at 19.4 per cent.

However, on the asset quality front, the NBFC-MFIs segment reported a slip, with the proportion of loans unserviced for over 30 days by borrowers doubling to 0.6 per cent in September from 0.3 per cent in June 2023.

All other segments beyond the NBFC-MFIs showed an improvement in asset quality.

From a geographical spread perspective, the East, Northeast, and South India together account for 63 per cent of the total portfolio, the report said, adding that Bihar is the largest state in terms of portfolio outstanding followed by Tamil Nadu, and Uttar Pradesh

Source: https://www.business-standard.com/finance/news/no-of-mfi-loans-extended-by-lenders-dips-in-q2-average-ticket-sizes-grow-123120500914_1.html

- **Microfinance short on foreign funds, long on loans**

Microfinance Institutions (MFIs) in Bangladesh are experiencing a rise in foreign loans and a reduction in foreign funds, impacting their operations and growth.

As of the end of June 2023, the share of foreign funds in the sources of funds for MFIs in Bangladesh is 0.2%, amounting to Tk344 crore. Four years ago, in 2019, the fund's share was 0.62%, totalling Tk546 crore, according to Annual Statistics for Microfinance in Bangladesh, June 2023.

As of June 2023, the total amount of funds in MFIs was Tk1.62 lakh crore. In June 2019, the amount of fund was Tk88,467 crore.

A workshop on the June 2023 publications of Micro Credit Regulatory Authority (MRA) was held at CIRDAP Auditorium in the capital on Sunday. Sheikh Mohammad Salim Ullah, secretary of the finance ministry, was chief guest at the workshop presided over by Md Fashiullah, executive vice chairman of MRA.

Speaking at the event, the finance secretary emphasised the significance of highlighting positive stories within the MFI sector.

"We should showcase successful and impactful initiatives within the sector to inspire further positive developments," he stated.

Salim Ullah also stressed the need for alleviating the suffering of individuals involved in the sector to address the challenges and hardships they face, aiming to enhance the overall growth of the sector.

Yakub Hossain, executive director of the MRA, said, "In our country, at one time, the funds for small loan institutions were primarily sourced from foreign funds; these funds used to come as foreign aid. Now, our country is progressing from a least developed country to a middle-income country, which is why foreign funds are decreasing."

He further added, "Even though foreign funds are decreasing, overall, the audited amount of our small loan institutions is increasing. Currently, despite receiving less aid from foreign funds, the amount of foreign loans is increasing significantly."

The main sources of assets for microfinance institutions are clients' savings, loans from the Palli Karma-Sahayak Foundation (PKSF), loans from commercial banks, donor funds, cumulative surplus, and other funds, including government funds and foreign loans.

At the end of June 2023, other funds of MFIs amounted to Tk9,018 crore or 5.6% of the total funds, a part of these funds being foreign loans. However, during the same period in 2019, the fund amounted to Tk1,571 crore, constituting 1.78% of the total funds.

Md Fashiullah said, "Our efforts extend beyond financial services, as we actively work to raise awareness about crucial issues, including vaccination."

He emphasised that the MFI has played a pivotal role in social development and mentioned that the Microfinance Credit Information Bureau (MF-CIB) is set to be formed shortly.

Furthermore, he shared that the MRA is going to establish common operating software - IMS (Integrated Microfinance Solution) soon.

Loan disbursements and savings in MFIs rise in FY23

The MFIs registered an increase in loan disbursements by 30% in fiscal year 2022-23, while their savings increased by 25.11%.

According to the report, loan disbursements at the end of June of FY23 stood at Tk2.49 lakh crore as against Tk1.91 lakh crore in the previous fiscal year.

The amount of savings of the institutions at the end of June 2023 stood at Tk62,000 crore, as compared to Tk49,000 crore in the same period of the previous year.

MRA Executive Director Yakub Hossain told The Business Standard that although the growth of loans in the banking sector has decreased, the scenario in the microfinance institutions is different. Explaining the reason he said, "Our extensive publicity is making it easier for customers to get loans without collateral, meeting their demands more effectively."

He further said, "Currently, people are afraid to go to the bank. However, microfinance institutions are reaching customers more effectively."

Source: https://www.tbsnews.net/economy/banking/microfinance-short-foreign-funds-long-loans-742294

- **Microfinance company Satin Creditcare raises Rs 250 crore via QIP**

Satin Creditcare is present in 24 states & union territories and 96,000 villages and caters to the financially under-served community. It offers a bouquet of financial products in the non-MFI segment, comprising loans to MSMEs, affordable housing loans, and business correspondent services.

Microfinance provider Satin Creditcare has raised Rs 250 crore through Qualified Institutional Placement (QIP), the company announced on Thursday. Launched on December 14, the issue received a ‘good response’ from institutional investors including ICICI Prudential Life Insurance, Bandhan Mutual Fund, Bajaj Allianz Life Insurance etc., and was oversubscribed 1.9 times, the company said.

Satin Creditcare had issued and allotted 1,08,36,584 equity shares of face value of Rs 10 each to eligible Qualified Institutional Buyers (QIB) at an issue price of Rs 230.70 per equity share (including a premium of Rs. 220.70 per equity share). This included a discount of Rs 12.11 per equity share, that is, 4.99 per cent on the floor price of Rs 242.81, as determined under Regulation 176(1) of SEBI ICDR Regulations aggregating to Rs 250 crores, according to the issue.

Commenting on the QIP, the company’s CMD HP Singh, said the QIP proceeds will aid the company’s growth guidance, long-term capital growth and funding requirements for its subsidiaries.

“The company already has a healthy capital adequacy ratio, and this issue will further bolster the balance sheet, underscoring Satin’s growth-oriented performance coupled with strong asset quality,” he said

Satin Creditcare is present in 24 states & union territories and 96,000 villages and caters to the financially under-served community. It offers a bouquet of financial products in the non-MFI segment, comprising loans to MSMEs, affordable housing loans, and business correspondent services.

In April 2017, the company incorporated a wholly owned housing finance subsidiary Satin Housing Finance Limited for loans to the affordable housing segment. In January 2019, the company received a separate NBFC license to commence MSME business through Satin Finserv. As of September 30, 2023, Satin Creditcare had 1,335 branches and 32.1 lakh clients.

India’s microfinance sector grew 17.9 per cent year-on-year (YoY) in gross loan portfolio as of March 2023 to Rs 3.37 lakh crore from Rs 2.86 lakh crore as of March 20222, according to a report by credit bureau Crif High Mark, FE Aspire had reported. In FY23, NBFC-MFIs dominated the market with a portfolio share of 37.3 per cent amounting to Rs 1.26 lakh crore followed by banks with 33.1 per cent share worth Rs 1.11 lakh crore and small finance banks with 16.6 per cent share.

Source: https://www.financialexpress.com/business/sme/microfinance-company-satin-creditcare-raises-rs-250-crore-via-qip/3344150/

TOP INSURANCE NEWS

- **Life Insurance Corporation: Here's why India's largest insurer has slipped to the 11th spot in the BT500 list**

  Life Insurance Corporation, the country's biggest life insurance company, has slipped to the 11th spot in the BT500 2023 list from No. 9 last year. In fact, among the Top 4 life insurance firms, only one has improved its rank

  The life insurance sector has faced a challenging year, with leading companies—including Life Insurance Corporation of India (LIC), HDFC Life Insurance Company and ICICI Prudential Life Insurance Company—witnessing a slump in their average market capitalisation.

  LIC, which dominates the segment, saw its average market cap decline by about 10.8 per cent (from Rs 4.42 lakh crore to Rs 3.84 lakh crore) for the period of the BT500 study, while HDFC Life's market cap dropped by 1.3 per cent (from Rs 1.25 lakh crore to Rs 1.23 lakh crore) and ICICI Pru Life's by 11.4 per cent (from around Rs 79,000 crore to about Rs 70,000 crore), per this year's BT500 list.

  Among the top firms, SBI Life Insurance alone saw its market cap grow. Its average market cap increased by about 5.4 per cent (from Rs 1.16 lakh crore to Rs 1.23 lakh crore). Market capitalisation refers to the overall value of a company's shares.

  This is reflected in the ranking on the BT500 2023 list. LIC fell to No. 11 from No. 9 last year, HDFC Life slipped to No. 41 from No. 39, and ICICI Pru dropped to No. 74 from No. 59. SBI Life, meanwhile, climbed one spot to 42 from 43 last year.

  Since it was established in 1956, LIC has become synonymous with the life insurance segment thanks to its near monopoly status for many years. And yet it wasn't until May 2022 that the behemoth was listed on the bourses. In the subsequent year and a half, the corporation has experienced a decline in its share price. This has also been mirrored in its declining market share, which fell sharply to 58.5 per cent in September 2023 from 68.25 per cent in September 2022, according to data from the Life Insurance Council, a forum for life insurers. For context, just a decade ago in FY14, LIC's market share was around 75 per cent.

  In this changed environment, one that is marked by significant volatility, LIC is set to face stiff competition from private insurers. Their innovative products and robust marketing strategies pose a significant challenge to LIC, highlighting the need for it to revamp its offerings and distribution channels to sustain its dominance.

  According to Sonam Srivastava, Founder and CEO of investment advisory and research firm Wright Research, the decline in insurance market share can be attributed to multiple factors. "LIC has been criticised for its outdated products and distribution methods, making it challenging to compete against private insurers with innovative solutions. Private insurers have seized this opportunity, aggressively marketing to the younger and affluent demographic, effectively increasing their market share.

  Additionally, LIC's stock has displayed a fair bit of volatility this year, with share prices varying from Rs 709.5 on January 2 to Rs 600 on November 1. At this lower price, LIC's shares are trading at a 36 per cent discount from its issue price of Rs 949 per share.

  Source: https://www.businesstoday.in/magazine/deep-dive/story/life-insurance-corporation-heres-why-indias-largest-insurer-has-slipped-to-the-11th-spot-in-the-bt500-list-407245-2023-11-27

- **LIC Stages A Smart Comeback In New Business In December 2023**

  New business grows in December; as LIC takes the lead

  The IRDAI has just released the full month data stack in terms of new business premium (NBP) collections for the December 2023. The IRDAI has also released data on the number of policies sold by individual insurance companies and also at a macro level. In addition to these monthly numbers and the yoy comparison, there is also the cumulative performance that has been put out by IRDAI for the first 9 months of FY24. While the monthly data captures the high frequency story of insurance business flows, it is the cumulative data that captures the picture of the secular trend more effectively.

If the first 8 months of FY24 saw the new business gravitate towards the private insurers, the month of December 2023 saw LIC back in the game with a bang. If you compare the first nine months of FY24 with the first nine months of FY23, the LIC share of new business premiums (NBP) has improved marginally to 58.90%, compared to 58.78% at the end of November. However, it is still sharply lower from the year ago level of 65.38% of NBP that LIC had cornered. A clearer high frequency picture emerges if you look at the NBP (new business premium) figure for December 2023 at 59.56%, sharply higher than the corresponding December 2022 NBP share for LIC of 44.158%.

For a change, LIC dominated the NBP, not number of policies

In the last few months, LIC was dominant in terms of the number of sold, but not in terms of the new business premiums (NBP). For a change, the month of December has seen LIC dominating on NBP, although not so much on the number of policies. In the February 2023 Union Budget, the Finance Minister made the new tax regime (NTR) a lot more attractive for the salaried persons. Also, the NTR still allowed the tax payers to claim some of the exemptions, so it was still attractive. However, that had a major downside for LIC. For years, LIC has thrived on people buying life insurance policies to save on tax. The vast agent network of LIC had literally thrived on that. With the NTR in place, there was a sudden loss of momentum for the feet on street (FOS) agents of LIC. That impacted NBP, although December 2023 is showing the first signs that LIC is reconciling to the new reality

First year Premium (NBP) Growth for December 2023

The table below captures the performance of LIC, private insurers and the overall insurance sector for the month of December 2023 in terms of first year premiums and the yoy growth in premiums over December 2022. Premiums flows, here, refer to first year premiums only.

- The overall insurance sector saw sharp growth in first year premiums by 43.76% in December 2023. This can be attributed to a low base in December 2022. However, the dichotomy of the last few months shifted in favour of LIC in December 2023. The private insures saw NBP expand by 4.15% in terms of first year premium collections in December 2023 while LIC saw first year premium collections expand sharply by 43.76% yoy; a sharp contrast to the contraction seen in the last few months.
- If you look at the overall premium collections for the month of December 2023 at Rs38,583 crore, the contributions of LIC and private insurers have turned. LIC gained market share. Private insurers accounted for 40.44% in December against 41.66% in October; while LIC accounted for 59.56% in December against 58.34% in October.

There has been some consolation for LIC in November and December 2023 in terms of NBP, but that is small respite for the loss of market share, they have seen in FY24 so far.

First year Premium Growth for FY24 (Apr-23 to Dec-23)

Source: https://www.indiainfoline.com/article/general-blog/lic-stages-a-smart-comeback-in-new-business-in-december--1704861119570_1.html

- **Premiums of non-life insurance companies rise 14.74% YoY in Dec 2023**

The monthly premiums of non-life insurance companies grew by 14.74 per cent in December 2023 to Rs 25,098.18 crore from Rs 21,874.61 crore in the year-ago month.

According to the General Insurance Council (GIC)'s monthly data, public-sector general insurance companies grew 13.10 per cent. The overall premium of the companies comprising The New India Assurance Company, National Insurance Company, The Oriental Insurance Company, and United India Insurance Company increased to Rs 8,314.54 crore from Rs 7,351.51 crore in the year-ago period.

The Oriental Insurance Company posted the highest growth of 29.40 per cent among public-sector companies to Rs 1,711.14 crore from Rs 1,322.34 crore. National Insurance Company posted a 17 per cent fall in the premium to Rs 956.21 crore from Rs 1,153.28 crore a year ago. The growth of the private general insurers increased by 16.16 per cent to Rs 12,696.27 crore as compared to Rs 10,929.52 crore across the time period.

Among the leading insurance companies, industry leader New India Assurance saw 14.47 per cent rise in premium to Rs 4,070.17 crore. The leading private sector players, ICICI Lombard General Insurance, clocked 19.92 per cent growth whereas Bajaj Allianz General Insurance grew by 17.85 per cent in its premium.

Among other key players, while HDFC Ergo General Insurance grew by 13.20 per cent, United India Insurance Company rose by 19.46 per cent across the time period.

Premiums of the Standalone Health Insurance (SAHI) increased 26.24 per cent in December 2023 to Rs 2,915.37 crore from Rs 2,309.35 crore in December 2022.

In terms of the market share, the public-sector general insurers stood at 31.76 per cent of the overall insurance industry in December 2023 as against 33.16 per cent in December 2022. The private insurers, on the other hand, witnessed slight rise in market share to 53.85 per cent in the reported month as compared to 51.41 per cent in the year ago period.

Sources- https://www.business-standard.com/finance/insurance/premiums-of-non-life-insurance-companies-rise-14-74-yoy-in-dec-2023-124010501146_1.html

- **Standalone health insurers sizzle in December 2023**

Retail APE of SAHI companies went up 26% y-o-y in December 2023

Standalone Health Insurers (SAHI) have recorded 26 per cent growth in retail annual premium equivalent (APE) in December 2023 at ₹2900 crore (₹2,300 crore). For the year ended December 2023, retail APE was up 25 per cent at ₹22,500 crore (₹17,900 crore), official IRDAI and General Insurance Council data showed.

All the five standalone health insurers—Star Health, Care Insurance, Niva Bupa, Aditya Birla Health Insurance and ManipalCigna-recorded double digit growth for both December 2023 and year-to-date as of December 2023.

Among these five standalone health insurers, the best performing company was Star Health, which recorded 15 per cent y-o-y growth in retail APE at ₹1,300 crore in December 2023 and 18 per cent growth year-to-date in end December 2023 at ₹10,300 crore (₹8,800 crore).

For December 2023, general insurance sector premium growth improved 13 per cent y-o-y against 11 per cent in October-November 2023. Private players grew 15 per cent y-o-y (11 per cent over Oct-Nov), slightly better than public sector insurers.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/lic-keen-to-keep-part-of-its-stake-in-idbi-bank-to-reap-benefit-of-bancassurance/articleshow/105537779.cms

- **LIC records strong premium growth in December, up by 93.80%**

Life Insurance Corporation (LIC) saw a substantial surge in December, with group premiums soaring by 178% and total premiums by an impressive 93.80%.

Group premium for December stood at Rs 17,812.46 crore against Rs 6,407.37 crore for the same month last year, and total premium for the month stood at Rs 22,981.28 crore, against Rs 11,858.50 crore collected in the previous year for the same month, per Life Insurance Council December 2023 Data.

Over the nine-month period ended December 31, 2023, LIC's group yearly renewal premium collection amounted to Rs 1,348.27 crore, a 155.01% rise from the Rs 528.72 crore collected during the first nine months of the 2022 fiscal year.

In December 2023, Individual Premium saw a fall of 4.91% to Rs 5,111.52 crore, from Rs 5,375.19 crore collected during the same period in the previous year. For the nine months ending December 2023, Individual Premiums totalled Rs 38,608.34 crore, compared to Rs 38,760.92 crore collected during the corresponding period in the previous year, per Life Insurance Council December 2023 Data.

December 2023 vs December 2022

In December 2023, LIC's policies and schemes for the individual category reached a total of 16,97,075, showing afall compared to the 18,66,500 policies and schemes recorded in the same month of the previous year.

For the group yearly renewable segment, the number of policies and schemes in December 2023 stood at 3,169, marking a 4.83% decrease from the 3,330 policies and schemes reported in December 2022.

The total number of policies in December 2023, across all categories, experienced a 9.07% fall, reaching a total of 17,00,607 policies, as compared to the 18,70,310 policies reported in the same month of the previous year.

Between April 2023 – December 2023

LIC's individual premium collection amounted to Rs 38,608.34 crore.

The number of policies under the Individual Category held by LIC totalled 1,25,56,046.

Policies and schemes in the group yearly renewable segment experienced a notable surge of 6.53%, reaching 22,231 from 20,868

However, the total number of policies witnessed a decrease of 2.59%, dropping to 1,25,81,555.

In December, private life insurers gathered a total individual premium of Rs 10,897.36 crore, marking an impressive surge of 8.24% from the previous year's Rs 10,067.97 crore. However, group premiums for the same month witnessed a decline of 3.73%, dropping to Rs 4,095.60 crore from Rs 4,254.43 crore compared to the previous year. The overall December 2023 Total Premium amounted to Rs 15,601.85 crore, showing a 4.15% increase from Rs 14,979.79 crore reported in the corresponding month the previous year.

Source- https://www.businesstoday.in/personal-finance/insurance/story/lic-records-strong-premium-growth-in-december-up-by-9380-412797-2024-01-11

- **You may not have to pay high surrender charges on your insurance policy from next year; here is what Irdai proposes**

Abandoning life insurance policies midway through the term often results in a significant financial setback due to the high surrender costs associated with the early years of the policy. Recognising this, the Insurance Regulatory and Development Authority of India (Irdai) has proposed measures to increase the surrender value of non-linked policies in an exposure draft released on December 12. Non-linked policies or traditional insurance plans are not connected to the stock market. They offer low-risk returns, along with a defined maturity amount and bonuses.

In the draft regulations, Irdai has proposed the concept of a premium threshold for each product. Beyond this threshold, no surrender charges would be levied on the remaining premium, irrespective of when the policy is surrendered. Stakeholders are requested to submit any comments or suggestions on the proposed regulations by January 3.

To illustrate, consider an endowment policy with an annual premium of Rs 1 lakh and a policy term of 20 years. Assuming a threshold limit of Rs 25,000, the guaranteed surrender value after the payment of the third annual premium could be computed as follows:

1) The guaranteed surrender value for the threshold premium would be Rs. 25,000 x 3 x 35% equating to Rs 26,250.
2) The premium refund surpassing the threshold premium would be Rs 1,00,000–Rs 25,000 x 3, or Rs 2,25,000.
3) Therefore, the adjusted guaranteed surrender value would sum (1+2) up to Rs 2,51,250.
4) The surrender value would be the higher of the Adjusted Guaranteed Surrender Value or the Special Surrender Value.

It would be a significant jump in surrender value because as per the existing regulations, one would qualify for 35% of the premium paid, equivalent to Rs 1,05,000.

Currently, the policy can be surrendered by the policyholder at any time during the policy term provided two full years' premiums have been paid. Before that surrendering a policy can incur heavy costs as no money is refunded. Post 2 years policyholders are only entitled to the Guaranteed Surrender Value, which carries significant costs. For instance, if you surrender after the second or third year, 30-35% of the total premium is refunded, excluding survival benefits such as bonuses. This proportion increases with the term of the policy. For example, 50% is paid if surrendered between the fourth and seventh year and 90% if surrendered in the last two years.

The good part is even for the policy surrendered in the first year the IRDAI proposes to offer Adjusted Surrender Value to the policyholder. Consider a non-linked savings insurance policy with an annualised premium of Rs 1 lakh and policy term of 20 years. Assuming a threshold limit of Rs 25000, if the policy is surrendered in the first policy year, the adjusted guaranteed surrender value after payment of first annualised premium may be as follows:

1) Guaranteed surrender value for threshold premium: Zero
2) Premium refund beyond threshold premium: Rs (1,00,000 – 25,000) x 1 = 75,000
3) Adjusted guaranteed surrender value: (1) +(2), i.e. Rs. 75,000
4) Surrender value shall be higher of (adjusted guaranteed surrender value, special surrender value).

If a policyholder discontinues premium payment, surrendering the policy is one option. Although it might seem like a simple solution, it carries considerable financial implications. The Irdai's proposed regulations aim to alleviate this burden, providing policyholders with a more fair and equitable way to exit their policies.

Source- https://www.businesstoday.in/personal-finance/insurance/story/you-may-not-have-to-pay-high-surrender-charges-on-your-insurance-policy-from-next-year-here-is-what-irdai-proposes-409430-2023-12-14

TOP CORPORATE BOND MARKET NEWS

- **Best small cap mutual funds to invest in 2024**

mall cap schemes are in focus these days. These schemes that invest in the stocks of very small companies have given over 40.44% in 2023. No wonder, investors are in love with these schemes. They invested Rs 3,699.24 crore in small cap funds in November.

The talk about the higher valuations in the small cap space and the recent volatility in the market are forcing many investors to accept that a correction may be around the corner. Mutual fund managers and advisors say the valuations are rich but investors can continue to invest in small cap schemes to create wealth over a long period According to advisors, even though the small cap segment has run up a lot in the last six months, investors can still invest in these schemes in a staggered manner to create wealth over a long period.

Small cap schemes invest in very small companies or their stocks. As per the Sebi mandate, small cap schemes must invest in companies that are ranked below 250 in terms of market capitalisation. These schemes also will have to invest at least 65% in small cap stocks. Small companies go through many ups and downs - more than the established companies in the large and mid cap segments.

That is why investing in small cap stocks is considered extremely risky; the small cap segment can also be extremely volatile, especially in the short term. That is why small cap schemes are recommended only to aggressive investors with a very high risk appetite and very long investment horizon.

Source: https://economictimes.indiatimes.com/mf/analysis/best-small-cap-mutual-funds-to-invest-in-2024/articleshow/106366613.cms

- **RBI Policy: Best investment strategy for mutual fund investors**

The Reserve Bank of India (RBI) continued with its stance of pause in the bi-monthly policy review on Friday. The central bank held the Repo Rate (or the rate at which lends money to banks) at 6.5%, in line with the expectations of money market participants. What does the continued pause mean to mutual fund investors?

The Reserve Bank of India has been holding policy rates since February this year. The apex bank had raised policy rates by 2.5% before the pause, starting from May 2022, to contain the inflationary pressure in the economy. Central banks raise interest rates to control inflation by suppressing demand for loans.

According to money market analysts, the policy pause is likely to be a long one as the central bank is extremely vigilant about the inflationary pressure in the economy. Most of these analysts rule out a rate cut before June 2024.

Higher interest rates are bad news for mutual fund investors, especially debt mutual fund investors. It can dampen the positive sentiment in the stock market. It can also adversely impact the debt market. Bond yields and prices move in opposite directions. That means when the interest rates or bond yields go up, the NAV or net asset value of debt funds go down. In other words, your debt mutual funds will offer lower returns.

However, since the RBI policy stance was in the expected line, it doesn't call for any change in your investment strategy. You may stick to your investment strategy. However, you should proceed with caution, especially if you are getting ready to invest more money in long term debt funds and gilt funds to gain from possible rate cuts.

According to debt mutual fund managers, investors should stick to debt funds that invest in short term bonds and papers as these schemes fare better in a long policy pause. Long term debt funds and gilt funds may face volatility and short-term losses.

Mutual fund advisors are recommending dynamic bond funds, corporate bond funds, and banking & PSU funds to investors to take care of their goals that are away by three years or more. This is not the time to be adventurous and chase returns, they say. If you are planning to allocate money to long-term debt funds and gilt funds benefit from a fall in interest rates, proceed with caution. It is still not clear when the RBI will start cutting interest rates. So, you may have to wait longer for the double-digit returns.

Investors should always choose funds based on their goals and risk-taking ability. For example, if you have a very short-term goal, you should park the money in a bank deposit or very short -term debt mutual funds like liquid funds, ultra short term funds, etc. Similarly, if you have a slightly longer goal that needs to be met in two or three years, you need to invest in short duration funds, corporate bond funds, banking & PSU funds, etc.

Source: https://economictimes.indiatimes.com/mf/analysis/rbi-policy-best-investment-strategy-for-mutual-fund-investors/articleshow/105828902.cms

- **PNB raises Rs 1,153 crore from Basel-III AT1 bonds at 8.55% coupon**

On December 21, Punjab National Bank was planning to raise up to Rs 3,000 crore by issuing the bonds. The issue comprised a base size of Rs 500 crore, with a greenshoe option of Rs 2,500 crore. A greenshoe option allows companies to issue more bonds or raise more funds than the base issue size.

The bonds have a call option on the fifth anniversary from the deemed date of allotment or any anniversary date thereafter with prior approval of the Reserve Bank of India (RBI).

The lender has set a pay-in date for the bonds on December 2. This is the date when the exchange of funds and bonds takes place between the issuer and investors.

The bonds have been rated 'AA+' with a 'stable' outlook by India Ratings, CARE and CRISIL.

On December 26, Manba Finance and TVS Credit Services Ltd raised Rs 500 crore and Rs 25 crore. Manba Finance raised through two-year bonds at a coupon rate of 12.60 percent and TVS Credit raised funds through five-year bonds at 9.30 percent coupon.

Source: https://www.moneycontrol.com/news/business/pnb-raises-rs-1153-crore-from-basel-iii-at1-bonds-at-8-55-coupon-11962231.html

- **Muthoot FinCorp raises Rs 200 cr through private placement of NCDs**

Muthoot FinCorp has raised Rs 200 crore from the State Bank of India through private placement of non-convertible debentures maturing in five years, the company said on December 26.

The company has set a 9.75 percent coupon on these bonds and the frequency of the interest payment will be half-yearly, officials told Moneycontrol.

The lender will use these proceeds for onward lending, business operations and further expansion and growth plan, said Shaji Varghese, CEO of Muthoot FinCorp. "The entire amount of the issue has been invested by SBI in the private placement of bonds," he told Moneycontrol.

The secured issued non-convertible debentures have been rated 'AA-' with a 'stable' outlook by CRISIL and it will be listed on the debt market segment of the BSE. These bonds were issued by the company with Rs 1 lakh face value, release said.

Muthoot FinCorp offers a host of products such as gold loans, Vyapar Mitra Business Loans, two-wheeler loans, used car loans, home loans, loans against property, domestic and international money transfer, foreign exchange, insurance products and services, and wealth management services.

Source: https://www.moneycontrol.com/news/business/muthoot-fincorp-raises-rs-200-cr-through-private-placement-of-ncds-11956571.html

- **Bank of Baroda, NABARD, IREDA to float Rs 14,500-cr bonds on Dec 20** ank of Baroda, National Bank for Agriculture and Rural Development (NABARD), and the Indian Renewable Energy Development Agency (IREDA) will float bonds aggregating to Rs 14,500 crore on December 20, market sources said.

As per the term sheet, Bank of Baroda have a base issue of Rs 1,000 crore, with retain oversubscription of Rs 1,500 crore. NABARD have Rs 5,000 crore each in base issue and greenshoe option.

IREDA's bond issue consists Rs 500 crore in base issue and Rs 1,500 crore in greenshoe, sources said.

A greenshoe is the over-allotment option that allows companies to issue more bonds or raise more funds than the base issue size.

The bonds of IREDA will mature in 10 years or on December 22, 2033, NABARD's bonds will mature after 10 years 4 months and 7 days on April 28, 2034. Similarly, Bank of Baroda will issue Basel-III Tier-II bonds maturing in 10-year or on December 21, 2033.

IREDA and NABARD's bonds were rated 'AAA' with 'stable' outlook by India Ratings and ICRA.

Market sources said that on December 21 that National Bank for Financing Infrastructure and Development (NaBFID) will also issue bonds worth Rs 10,000 crore. These bonds will mature in 15 years or on December 22, 2038.

Source: https://www.moneycontrol.com/news/business/bank-of-baroda-nabard-ireda-to-float-rs-14500-cr-bonds-on-dec-20-11926341.html

- **EBI proposal to cut corporate bonds' face value can boost retail participation: Zerodha CEO**

The Securities and Exchange Board of India's proposal to reduce the face value of corporate bonds, as mentioned in a recent consultation paper, can boost retail participation in the bonds market, said Nithin Kamath, the chief executive officer of discount broker Zerodha, on December 11.

The consultation paper released by SEBI on December 9 proposes reducing the denomination to a face value of Rs 10,000 from Rs 1 lakh at present.

This "can lead to greater retail participation" and make corporate bonds "affordable for retail investors", Kamath said.

The Zerodha CEO further suggested that for majority of the country, equities may not be the right instruments as they can be "scary because of the volatility".

The right product could be government bonds and "relatively safe corporate bonds" from quality issuers like public sector-undertakings and AAA-rated entities, Kamath posted on X. "These are good instruments for them to accumulate some savings and then invest in equity mutual funds and direct equities," he added.

The SEBI paper comes over a year after the market regulator, in October 2022, slashed the face value of corporate bonds to Rs 1 lakh from Rs 10 lakh earlier. The decision along with the mainstreaming of Online Bond Platforms (OBPs) has helped in enhancing the participation of non-institutional investors in the bond market.

SEBI's consultation paper on bond market also looks at introduce the concept of 'fast track' public issuance for debt securities.

"The main intention of a fast track public issuance of debt securities is to facilitate frequent issuers with a consistent track record, to make public issues of debt securities with reduced time, cost and effort," the paper stated.

Disclaimer: The views and investment tips expressed by experts on Moneycontrol.com are their own and not those of the website or its management. Moneycontrol.com advises users to check with certified experts before making any investment decisions.

Source: https://www.moneycontrol.com/news/business/markets/sebi-proposal-to-cut-corporate-bonds-face-value-can-boost-retail-participation-zerodha-ceo-11888371.html

Department of Banking & Financial Services Upcoming Programme

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