2020

Volume 10

APAS MONTHLY

THIS MONTH

Season’s greetings!

In this issue, Mr Sanjay Datta, Chief-Underwriting, Reinsurance & Claims, ICICI Lombard General Insurance Co. Ltd. has presented his thoughts on ‘Health insurance for COVID-19 and pandemics: Experience so far and way forward’. We thank Mr Datta for his contribution to the APAS Monthly.

This month, the APAS column presents its views on ‘Performance of Non-life insurance sector in India’.

The economic indicators showed mixed performance. Manufacturing PMI rose to an over 8.5-year high of 56.8 in September from 52 in August. India’s annual infrastructure output in September contracted by 0.8%. India's Index of Industrial Production (IIP) declined by 8% in August. PMI services rose to 49.8 in September from 41.8 in August, while composite PMI rose to 54.6 in September from 46 in August. CPI inflation accelerated to an 8-month high of 7.34% in September from 6.69% in August. WPI inflation rose to 1.32% in September from 0.16% in August.

The Reserve Bank of India (RBI) announced (1) “State Finances: A Study of Budgets of 2020-21” (2) Scheme for grant of ex-gratia payment (3) Digital Payment Transactions – Streamlining QR Code infrastructure (4) Framework for Recognition of a Self-Regulatory Organization for Payment System Operators (5) On Tap Targeted Long-Term Repo Operations

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The Insurance Regulatory Development Authority of India (IRDAI) announced Agendas and Minutes of the 109th meeting of the Authority. IRDAI announced guidelines on Standard Individual Term Life Insurance Product, "Saral Jeevan Bima".

Cabinet announced Income-tax Exemption for payment of deemed LTC fare for non-Central Government employees. GIFT IFSC prescribed framework for listing of Depository Receipts. IFSCA Authority Board approved two Regulations. IFSCA prescribed regulatory framework for REITs and InvITs in IFSC. IFSCA introduced Framework for Regulatory Sandbox to tap into innovative FinTech solutions. Cabinet announced the Bilateral Netting of Qualified Financial Contracts Act, 2020

Securities and Exchange Board of India released guidelines on (1) Contribution by Issuers of listed or proposed to be listed debt securities towards creation of "Recovery Expense Fund" (2) Additional guidelines on utilization of Fund Created out of the Regulatory Fee Forgone by SEBI (3) Standardization of procedure to be followed by Debenture Trustee(s) in case of 'Default' by Issuers of listed debt securities (4) Inter Scheme Transfers of Securities (5) Issuance, listing and trading of AT1 instruments (6) Product Labeling in Mutual Fund schemes – Risk-o-meter (7) Framework for monitoring of foreign holding in Depository Receipts

Our newsletter is focused on tracking the performance of the economy and the regulations and laws governing the Banking and Financial Services companies. We hope that this APAS Monthly is insightful.

We welcome your inputs and thoughts and encourage you to share them with us.

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On the cover

GUEST COLUMN

Health insurance for COVID-19 and pandemics: Experience so far and way forward

Sanjay Datta
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APAS COLUMN

Performance of Non-life insurance sector in India

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CAPITAL MARKETS

- *Contribution by Issuers of listed or proposed to be listed debt securities towards creation of "Recovery Expense Fund"*
- *Utilization of Fund Created out of the Regulatory Fee Forgone by SEBI – Additional Guidelines*
- *Standardization of procedure to be followed by Debenture Trustee(s) in case of 'Default' by Issuers of listed debt securities*
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CAPITAL MARKETS SNAPSHOT

- *CNX Nifty, BSE Sensex, India VIX, $/₹, GIND 10Y*

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10YGov), Latest
Brazil	-2.9Q3	-3.4	0.9	7.0 Nov	8.3	-1.1	-6.4	11.8
Russia	-0.4Q3	-0.5	1.2	5.8 Nov	7.0	2.4	-3.7	8.60
India	**7.3 Q3**	**7.2**	**7.5**	**3.6 Nov**	**4.9**	**-0.9**	**-3.8**	**6.51**
China	6.7 Q3	6.7	6.4	2.3 Nov	2.0	2.5	-3.8	3.10^
S Africa	0.7 Q3	0.4	1.3	6.6 Nov	6.3	-4.0	-3.4	9.00
USA	1.6 Q3	1.6	2.2	1.7 Nov	1.3	-2.6	-3.2	2.56
Canada	1.3 Q3	1.2	1.9	1.5 Oct	1.5	-3.5	-2.5	1.78
Mexico	2.0 Q3	2.1	1.9	3.3 Nov	2.8	-2.8	-3.0	7.31
Euro Area	1.7 Q3	1.6	1.3	0.6 Nov	0.2	3.2	-1.8	0.25
Germany	1.7 Q3	1.8	1.4	0.8 Nov	0.4	8.8	1.0	0.25
Britain	2.3 Q3	2.0	1.1	1.2 Nov	0.6	-5.7	-3.7	1.55
Australia	1.8 Q3	2.9	2.8	1.3 Q3	1.3	-3.5	-2.1	2.86
Indonesia	5.0 Q3	5.0	5.2	3.6 Nov	3.5	-2.1	-2.6	7.93
Malaysia	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
Singapore	1.1 Q3	1.3	2.0	-0.1 Oct	-0.6	21.5	21.5	2.49
S Korea	2.6 Q3	2.7	2.5	1.5 Nov	0.9	7.2	-1.3	2.17

ECONOMIC DATA SNAPSHOT

- *Global GDP, CPI, Current account balance, budget balance, Interest rates*

Health insurance for COVID-19 and pandemics: Experience so far and way forward

Sanjay Datta
Chief-Underwriting, Reinsurance & Claims
ICICI Lombard General Insurance Co. Ltd

COVID-19 has affected all of us. While we are deeply concerned about its impact on our lives and livelihood it is above all a human tragedy.

The global influenza pandemic of 1918 — the "Spanish flu" — infected an estimated 500 million people and killed as many as 100 million. Since then, despite advances in medicine and health care, several intensifying trends have increased the likelihood and potential reach of infectious disease, including global travel and connectivity and rapid urbanization.

How COVID-19 pandemic might play out in the future will very much depend on the extent social mixing resumes, and what kind of prevention we do. COVID-19 is here to stay, and the future depends on a lot of unknowns, including whether people develop lasting immunity to the virus, whether seasonality affects its spread, and — perhaps most importantly — the choices made by governments and individuals

The pandemic's course next year will depend greatly on the arrival of a vaccine, and on how long the immune system stays protective after vaccination or recovery from infection. The total incidence of SARS-CoV-2 through the next few years will depend crucially on this duration of immunity.

While covid-19 pandemic has pushed businesses across sectors to change, it has undoubtedly had a significant impact on the health insurance sector as well. The pandemic brought an evident change in majorly three aspects – Increased awareness of health insurance, shift towards digitalization and change in customer mindset. In the pandemic, we saw a promising uptick in health insurance adoption by consumers.

The pandemic has changed the way, customers view health insurance, for the better. It has accentuated the gap between the discretionary spends and the essential spends in the minds of the customers. While earlier, customers often viewed health insurance premiums as an avoidable expenditure, they now realize the financial freedom, immunity and peace of mind that is inherent with this cover.

With convenient digital modes of policy issuance at our disposal, customers are now more than eager to avail a comprehensive health cover from the comfort of their homes. All this has led insurers to come up with innovative features and riders to address the different needs of customers. For example, a few months back, ICICI Lombard added benefits related to the treatment of the coronavirus to its existing health insurance indemnity policies, at no extra cost. These include honouring of claims pertaining to treatment at home for Covid-19, no-claim bonus benefit to be maintained even in the event of a hospitalization claim and reduction of a waiting period. Additionally, technological advancements such as doctor-on-call, automated appointment scheduling system, telemedicine, etc., coupled with the government initiatives to promote home health are also fuelling the growth of the home healthcare market.

The regulator has proactively initiated many customer centric developments to ensure health insurance has maximum outreach. Insurers have launched the IRDAI approved standardised COVID specific products – Corona Kavach(indemnity product) and Corona Rakshak (benefit product) which are short term, affordable and simple products which ensure that all citizens have the choice of health insurance cover in these pandemic times. This has paved the way for first time buyers of health insurance to avail of short term disease specific policies. In future they may graduate to life time buyers of health cover. Pro-actively, many insurers had even extended the grace period for renewing their policies for their customers.

Considering the gravity of the situation, COVID claims, were handled judiciously by both, insurers and providers alike. COVID claims has been widespread across the ages and have been majorly reported from metros followed by the spread across other tier 2 & 3 locations. Although majority cases (~80%) have been mild, around 5% have been critical which needed serious medical intervention. Associated co-morbid conditions have had a bearing on the clinical progression of COVID infection has been a major contributing factor for enhanced scope for mortality in this population. The silver lining is that recovery rate of COVID cases has been around 88% and the mortality rate has been as low as 1.52%.

Overall, the health insurance segment is currently at a very exciting and promising stage with new innovative products being developed and relevant and additional benefits being added to existing products at no extra premium.

The insurance industry has a crucial role to play, in providing financial protection against such pandemics in future. If we create the right economic incentives for insurers, policyholders, and the government, insurance can serve its traditional function of mitigating risk. Over time, the right risk program can spur new technologies, ways of working, services, insurance products, and processes to ultimately chip away at the enormous losses associated with pandemics. That, in turn, can help make pandemic risk more manageable and enable our economy to build the necessary resilience it needs for the future. We cannot wait until we've fought our way through COVID-19 to build a new solution. We must start now.

*Views are personal. Neither APAS nor any of its employees endorse any view, products or services mentioned in the article.

APAS Article: Performance of Non-life insurance sector in India

Insurance sector has seen steady and consistent growth rate in the financial services industry in India until disruption by COVID 19. Amidst the slowdown, if any industry has picked up pace, it is health insurance industry. The non-life insurance industry has been able to navigate the current macro environment better with industry performance in recent months moving closer to pre-COVID levels. Health insurance has specifically drawn lot of attention with increased awareness of health risks, and proactive regulatory measures to increase an uptake of health insurance. According to industry experts, motor insurance has shown signs of recovery, driven by improving rural sentiment and growing need for personal mobility. Commercial segments such as fire continued to show robust growth, aided by the rate hike that came into force in January 2020, while marine and engineering lines witnessed de-growth.

The industry leaders are expecting a major recovery in second half of 2020, with uptake of vehicle sales and opening up of commercial spaces. As per report by General insurance council (GIC), the General insurance industry registered a growth of 1.4% in H1 FY2021 over H1 FY2020 with the industry GDPI moving up to INR 968.32 billion in H1 FY2021 from INR 955.28 billion in H1 FY2020. Excluding the crop segment, this growth would be at 2.8%. For the quarter, the overall growth and growth excluding crop segment was 5.6% and 9.2% respectively. The combined ratio of the industry was 104.4% in Q1 FY2021 as compared to 113.1% in Q1 FY2020 based on publicly available information. The overall combined ratio of the private multiline general insurers was 103.0% in Q1 FY2021 as compared to 107.7% in Q1 FY2020. This could be majorly attributed to low claims due to lockdown.

According to report by GIC, health segment has seen a growth of 15.85% YoY, in H1 of FY21, which was majorly driven by retail segment, which grew by 34.32%. Motor insurance, however, registered a de-growth of 13.3%, with Motor OD witnessing a de-growth of 13.8% and Motor TP witnessing a de-growth of 12.9%. Fire insurance registered a growth of 33.5% in H1 of FY21. Within health insurance, COVID-19 related claims amounted to INR 4880 crores until October 2020, with a lot of claims arising from semi-urban and rural areas. According to a leading securities company, if COVID-19 claims keep running at a rate of USD 150 million (INR 1105) crores per month from September, the total COVID claims would amount to approximately USD 1.4 bn. Health portfolios are further expected to be impacted, as pent-up demand for elective surgeries picks up.

Within motor insurance segment, the growth rate has been tepid on account of ever-low vehicle sales. In the month of July overall automobile sales slipped 18.7 per cent, the steepest monthly fall in nearly two decades. However, Q2 saw a rise of 17 percent y-o-y for passenger vehicles. For commercial vehicles, however, sales saw a dip of 20.13 per cent y-o-y. With the things normalizing and sales picking up, future quarters might see preference for personal vehicle for day-to-day travel. Insurers are seeing the motor OD claim frequency increasing after lifting of lockdown and are seeing it reaching pre-COVID levels.

Insurers are expecting a sudden rise in claims and increased loss ratios this year. Also, a huge drop in yields and mutual fund performances is expected to bother the investment income of the insurers, impacting solvency ratios. A fallout of which could include hardening rates for both insurance and reinsurance. Fire insurance has already seen the hike this year, while motor TP being postponed for this year. Many insurance companies are now introducing innovative COVID-specific health insurance products. Insurers have also introduced products such as 'pay-as-drive', insurance through 'telemedical', etc. The insurers are stepping up their digitization drive, to ensure seamless sales and customer services in the form of mobile applications, e-KYC and Whatsapp customer support systems. Some of leading insurers are on track to embed artificial intelligence and machine learning in their claims management and customer support systems, which has mechanized the customer support to a great extent.

Insurance delivery channels are seeing an overhaul, with major preference being given to online channels. This trend is being seen majorly in Tier I and II cities. For the semi-urban and rural areas, agency channel and banking correspondent models may play a vital role in connecting the insurers with customers.

The regulator has been proactive in introducing reforms including relaxations and regulations promoting ease of doing business in these trying times. The regulator has granted relaxations on timelines for submissions of returns and other regulatory submissions. The regulator has also done away with the need for physical verification and signatures for insurance contracts. These reforms have greatly facilitated insurance sales. During the quarter, the Authority also issued guidelines on wellness and preventive features wherein insurers may offer reward points to customers meeting set criteria. These features can be offered as an add-on or optional cover. This will enable insurers to endeavor promoting wellness offerings like discount on increase in sum insured, discount on OPD services, redeemable vouchers on health supplements or gym memberships etc. This is also expected to expand scope for the insurers providing wellness and value-added offerings to their customers. Insurers could also see an uptake for business interruption policies amidst the medium to large sized corporates. While most of the products under this category are an extension of property and casualty business, the current pandemic has been helpful in extending the purview to business closures due to lockdown.

According to reports by experts, the non-life insurers have lost out on renewal business in month of April from corporates to the tune of around 15%. However, in the subsequent months, insurers have seen decent inflows for COVID-related policies. An important aspect to be observed now would be the quantum of claims registration and subsequent loss ratios for insurers. However, without any data related to the co-morbidities, pre-existing diseases, etc. the book quality could be a question mark. Within the motor segment, with the pick-up of new vehicle sales and opening up of the economy, the insurance sales are picking up and are returning back to pre-COVID levels. Hereon, one can expect improvisation in delivery channels and improving book quality once the sales return to normal. All this while watching out for expense ratios and capital expenditures in delivery channels.

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ECONOMY

<u>IIP (Index of Industrial Production) – August</u>

Index of Industrial Production (IIP) or factory output for the month of August 2020 declined by 8%, compared to a contraction of 10.8% in July 2020 and 1.4% in August 2019.

The General Index for the month of August 2020 stands at 116.1, which is 8% lower as compared to August 2019.

The manufacturing sector, which constitutes 77.63% of the index, declined by 8.6% in August, compared to 1.7% last year.

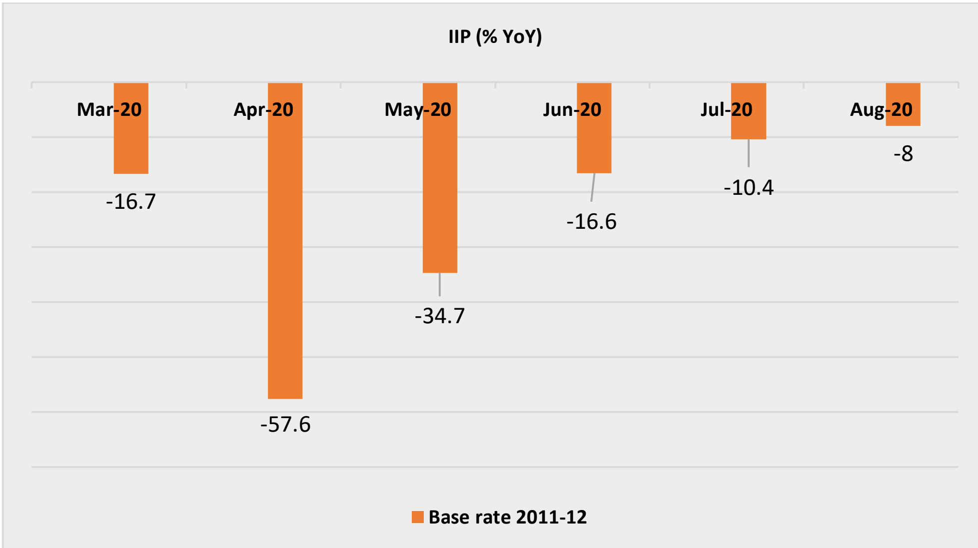
Mining sector output fell by 9.8% in August, compared to a flat growth last year.

Power generation shrank by 1.8% in August, compared to 0.9% last year.

As per Use-based classification, the indices stand at 108.4 for primary goods, 75 for capital goods, 126.6 for intermediate goods and 127.7 for infrastructure/construction goods for August.

Further, the indices for consumer durables and consumer non-durables were at 109.4 and 139.6, respectively.

The IIP for April-August period has contracted by 25%. It had registered a growth of 2.5% during the same period last fiscal.



Source: APAS BRT, www.mospi.gov.in

CPI (Consumer Price Index) – September

India's consumer price index (CPI) or retail inflation accelerated to an 8-month high of 7.34% in September 2020, compared to 6.69% in August 2020 and 4% in September 2019.

The corresponding provisional inflation rates for rural and urban areas are 7.43% and 7.26% respectively.

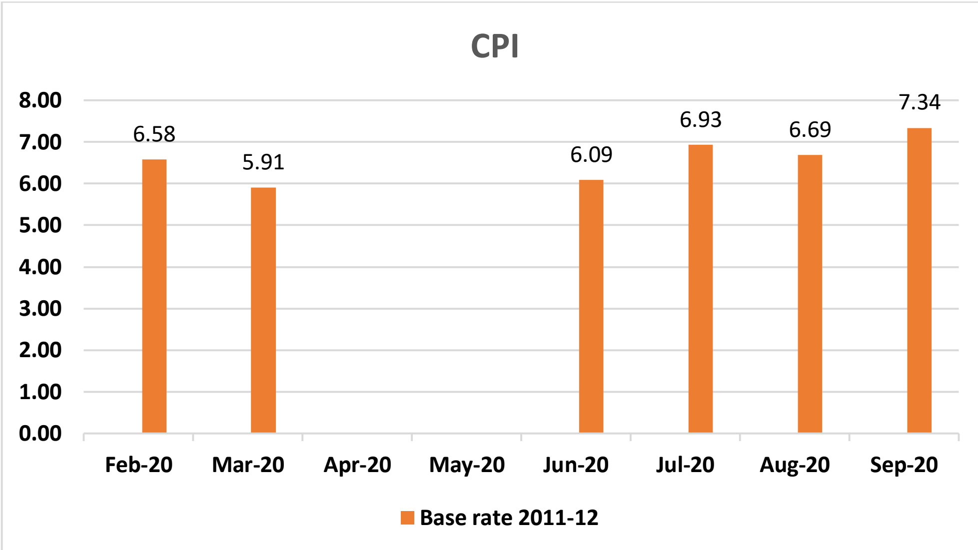
The Consumer Food Price Index (CFPI) rose to 10.68% in September from 9.05% in August.

Among the CPI components, inflation for food and beverages was at 9.73% in September, while that for pan, tobacco and intoxicants was at 10.81%.

Clothing and footwear category witnessed inflation rate of 3.04%.

Meanwhile, the inflation rates for housing and fuel and light categories stood at 2.83% and 2.87%, respectively.

Inflation from the miscellaneous category was at 6.89% in September.



Source: APAS BRT, www.mospi.gov.in

<u>WPI (Wholesale Price Index) – September</u>

India's wholesale price index (WPI) inflation rose to 1.32% in September 2020, as compared to 0.16% in August 2020 and 0.33% in September 2019.

The rate of inflation based on WPI Food Index increased to 6.92% in September 2020 from 4.07% in August 2020.

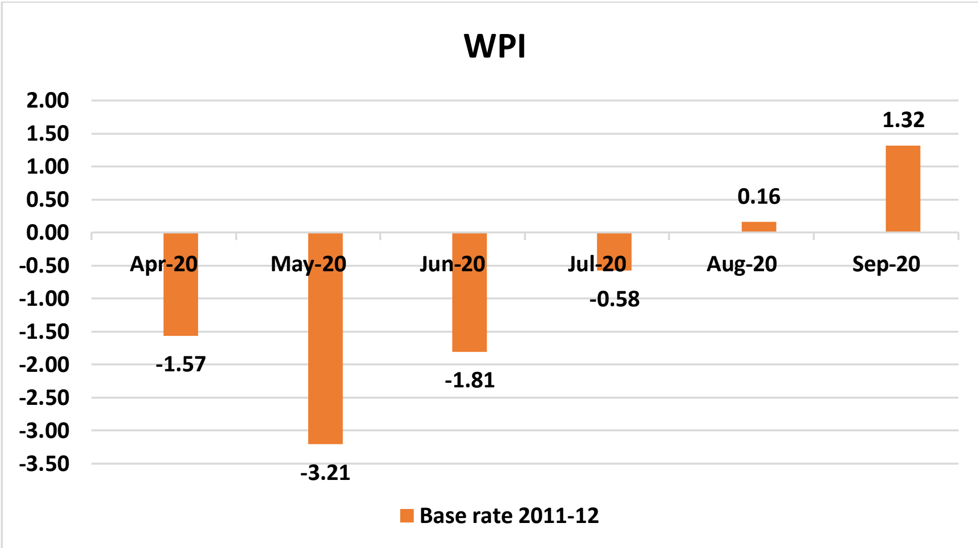
The index for primary articles increased by 2.73% from the previous month.

Prices increased for food articles (3.7%), crude petroleum and natural gas (1.41%) and minerals (0.12%). Prices declined for non-food articles (-0.94%).

The index for fuel and power declined by 0.44% from the previous month.

Prices declined for mineral oils (-0.64%), while prices of coal and electricity remained unchanged.

The index for manufactured products increased by 0.42% from the previous month.



Source: APAS BRT, www.eaindustry.nic.in

Manufacturing PMI – September

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) improved for the second straight month in September and jumped to the highest level in over 8.5 years, supported by accelerated increases in new orders and production, even as firms reduced staff numbers.

The Manufacturing PMI rose to an over 8.5-year high of 56.8 in September 2020 from 52 in August 2020. It stayed above the 50 level, that separates expansion from contraction, for the second straight month.

This is the highest reading since January 2012. It is also the third quickest surge in the survey's history.

The Indian manufacturing industry continued to move in the right direction, with PMI data for September highlighting many positives. Due to loosened Covid-19 restrictions, factories went full steam ahead for production, supported by a surge in new work.

The increase in new business inflows was the fastest since early 2012. Export orders expanded as well. The upturn in total sales was supported by a renewed expansion in new export orders, the first since prior to the escalation of the Covid-19 outbreak.

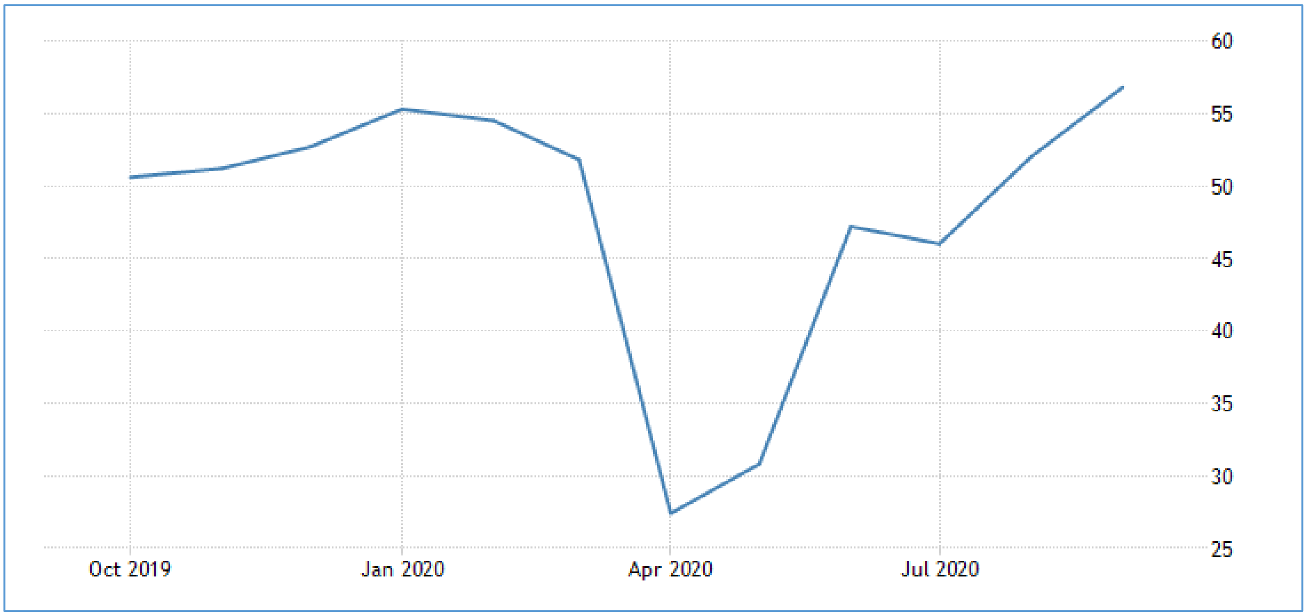
Despite strong growth of order book volumes, Indian goods producers signalled another reduction in payroll numbers. In many cases, this was attributed to efforts to observe social distancing guidelines. Employment has now decreased for 6 consecutive months.

With slower execution of orders, the backlog increased in September. Manufacturers stepped up purchase of inputs to meet the backlog and new orders. This placed additional pressure on supply chains as evident by a further increase in delivery times.

Holdings of inputs increased for the first time in 6 months, but inventories of finished goods decreased at a sharp and accelerated rate as companies utilised stocks to follow through on their sales contracts.

On the price front, input costs rose at a softer rate, except in the case of a few materials such as aluminium and steel. Meanwhile, output charges broadly stabilised, following 5 successive months of reduction.

In the coming 12 months, almost one third of manufacturers expect output growth, against 8% that foresee a contraction, resulting in the strongest degree of overall optimism in over 4 years. Upbeat projections reflected hopes of fewer coronavirus cases, projects in the pipeline and enquiries from new clients.



Source: www.tradingeconomics.com

Services PMI – September

The Indian services sector activity broadly stabilised in September amid relaxations in the Covid-19 restrictions.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose for the fifth straight month to 49.8 in September 2020 from 41.8 in August 2020. The index stayed below the neutral mark of 50, which separates expansion from contraction.

Incoming new business fell moderately and at the slowest rate since March.

Meanwhile, input costs rose at a quicker pace, while the rate of charge inflation was broadly similar to August.

The relaxation of lockdown rules in India helped the service sector move towards a recovery in September.

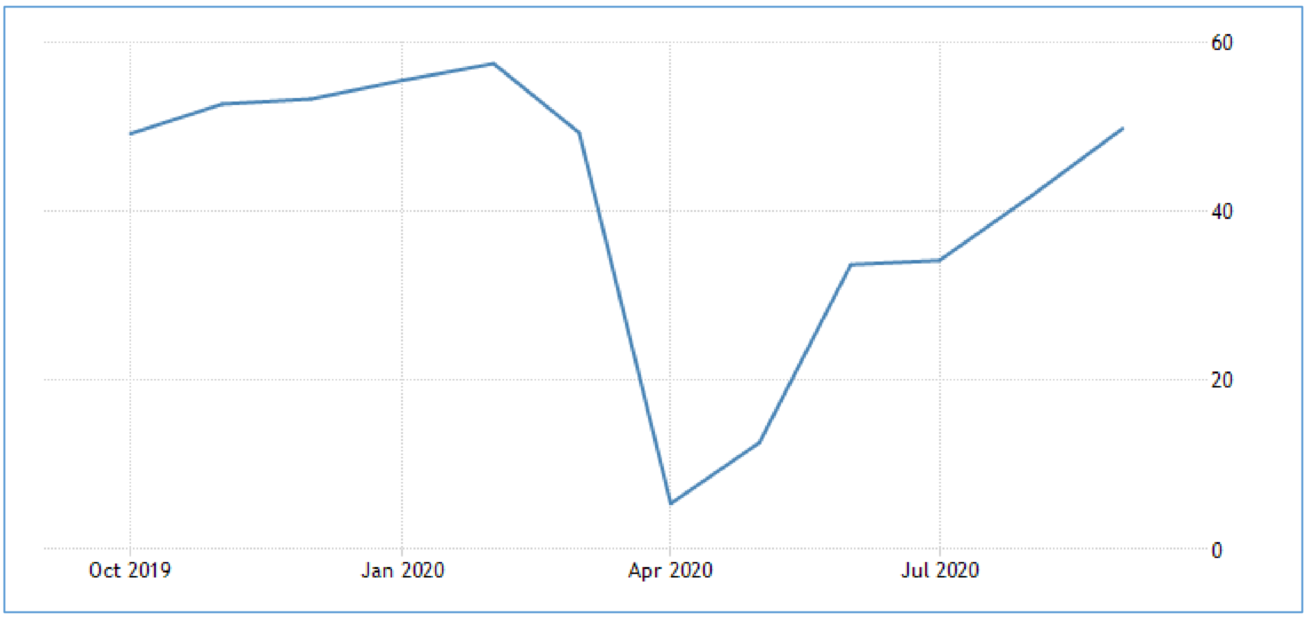
Employment declined for the seventh month in a row and at a quicker rate than in August.

Several firms reported that attempts to take on extra workers were hampered by a lack of available labour.

Backlogs data suggest that hiring efforts will continue in the near term, however, so we could see a better employment trend in coming months, provided that people are willing to leave their hometown in search of vacancies.

In line with hopes that a vaccine for Covid-19 will be rolled out, companies were optimistic about the year ahead outlook for business activity. September marked the first month since April in which service providers were confident towards growth prospects.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 54.6 in September from 46 in August, signalling a marked rate of activity growth across the private sector economy.



Source: www.tradingeconomics.com

Core Sector Data – September

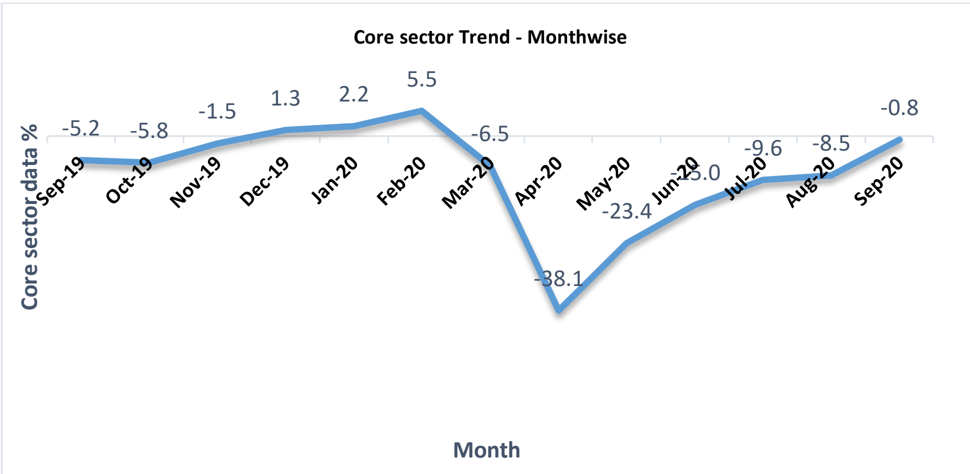
Growth of eight infrastructure sectors contracted by 0.8% in September 2020, shrinking for the seventh straight month.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had declined by 7.3% in August 2020 and by 5.1% in September 2019.

The decline in output during the month was lowest since March.

Barring coal, electricity and steel, all other sectors recorded negative growth in September.

Cumulatively, the growth in the eight core sectors during April-September 2020-21 contracted by 14.9%, as against an expansion of 1.3% in the same period last financial year.



Source: APAS BRT, www.eaindustry.nic.in

BANKING

RBI releases "State Finances: A Study of Budgets of 2020-21"

The Reserve Bank of India (RBI) released the report titled "State Finances: A Study of Budgets of 2020-21", an annual publication that provides information, analysis and an assessment of the finances of state governments for 2020-21 against the backdrop of actual and revised (or provisional accounts) outcomes for 2018-19 and 2019-20, respectively. The theme of this year's Report is "COVID-19 and its Spatial Dimensions in India".
The highlights of the report are:

- States' consolidated gross fiscal deficit (GFD) is placed at 2.8 per cent of GDP for 2020-21; however, the COVID-19 pandemic may alter budget estimates substantially.
- The consequent rising levels of debt and guarantees pose risks to state finances, going forward.
- Sustaining the recovery from the pandemic will entail boosting investment in health care systems consistent with demographic and co-morbidity profiles; building digital infrastructure for more efficient provision of public services; upgrading the urban infrastructure; and increasing engagement of local governments.

Scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020)

The Government of India has announced the Scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020) (the 'Scheme') on October 23, 2020, which mandates ex-gratia payment to certain categories of borrowers by way of crediting the difference between simple interest and compound interest for the period between March 1, 2020 to August 31, 2020 by respective lending institutions. The details of the Scheme are available here.

As per the link above, the loan portfolios under consideration here are:

i. MSME Loans
ii. Education loans
iii. Housing loans
iv. Consumer durable loans

v. Credit card dues
vi. Automobile loans
vii. Personal loans to professionals
viii. Consumption loans

Digital Payment Transactions – Streamlining QR Code infrastructure

Reserve Bank had constituted a Committee (Chairperson: Prof Deepak Phatak) to review the current system of Quick Response (QR) Codes in India and suggest measures for moving towards interoperable QR Codes.

After examining the recommendations and the feedback received, RBI has decided the following:

i. The two interoperable QR codes in existence – UPI QR and Bharat QR – shall continue as at present.
ii. Payment System Operators (PSOs) that use proprietary QR codes shall shift to one or more interoperable QR codes; the process of migration shall be completed by March 31, 2022.
iii. No new proprietary QR codes shall henceforth be launched by any PSO for any payment transaction.
iv. RBI shall continue a consultative process to standardize and improve interoperable QR codes, to enable beneficial features identified by the Phatak Committee.
v. PSOs may take initiative to increase awareness about interoperable QR codes.

The above measures are expected to reinforce the acceptance infrastructure, provide better user convenience due to interoperability and enhance system efficiency.

Framework for Recognition of a Self-Regulatory Organization for Payment System Operators

Industry self-governance helps in industry-wide smooth operations and ecosystem development. Reserve Bank of India's Payment and Settlement Systems Vision 2019-21, therefore, envisaged the setting up of a Self-Regulatory Organization (SRO) for Payment System Operators (PSOs).

Key topics covered in the framework include:

i. Introduction
ii. Characteristics of an SRO
iii. Eligibility for recognition of an SRO by RBI
iv. Requirements related to management of affairs of the SRO
v. Grant of recognition as an SRO
vi. Functions and Responsibilities of the Recognized SRO

Reserve Bank announces On Tap Targeted Long-Term Repo Operations

RBI has decided to conduct on tap Targeted Long-term Repo Operations of up to three years tenor for a total amount of up to ₹1, 00,000 crore at a floating rate linked to the policy repo rate.

Liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial paper and non-convertible debentures issued by the entities in specific sectors (Annex 1) over and above the outstanding level of their investments in such instruments as on September 30, 2020. Liquidity availed under the scheme can also be used to extend loans and advances to these sectors.

Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25 percent of total investment permitted to be included in the HTM portfolio. All exposures under this facility will also be exempted from reckoning under the large exposure framework (LEF).

The list of eligible sectors for deployment of funds availed under on tap TLTRO:

a) Agriculture

b) Agri-Infrastructure

c) Secured Retail

d) Micro, Small and Medium Enterprises (MSMEs)

e) Drugs, Pharmaceuticals and Healthcare

The Bilateral Netting of Qualified Financial Contracts Act, 2020

The Parliament enacted the Bilateral Netting of qualified financial act 2020. It is an act to ensure financial stability and promote competitiveness in Indian financial markets by providing enforceability of bilateral netting of qualified financial contracts and for matters connected therewith or incidental thereto.

The key sections of the act are as follows:

I. Preliminary
II. Application of Act
III. Invocation of close out netting
IV. Limitations on powers of administration practitioner
V. Miscellaneous

INSURANCE

Agendas and Minutes of the 109th meeting of the Authority

The 109th Meeting of the Insurance Regulatory Development Authority of India (IRDAI) was conducted. The major items of discussion for the meeting were as follows:

1. Reconstitution of Insurance Advisory Committee

The Authority agreed to the proposal to include MD & CEO, Central Bank of India as a Member of the IAC for the remaining term of the IAC, i.e., till 24th July, 2021 in place of MD & CEO, Syndicate Bank as Syndicate Bank has got merged with Canara Bank.

2. Relaxation of Dividend criteria - Equity shares - Approved Investment

The Authority considered the agenda item and approved substitution of the criteria of "for at least 2 consecutive years immediately preceding" required in regulations with "for at least 2 years out of 3 consecutive years immediately preceding" to classify Investments in Preference Shares and Equity Shares under "Approved Investment" with effect from 1st April, 2020 for a period of one year, i.e., till 31st March, 2021.

3. Delegation of powers of the Authority vested under IRDAI (Third Party Administrator - Health Services) Regulations, 2016

The Authority restated that the power to grant Certificate of Registration (COR) to Third Party Administrators (TPAs) vests with the Member as per delegation approved in the 96th meeting of the Authority and the current proposals were in the nature of operational functions related to TPAs, and should be vested with the Member.

Guidelines on Standard Individual Term Life Insurance Product, "Saral Jeevan Bima"

The Authority has directed life insurers to offer "Saral Jeevan Bima". Saral Jeevan Bima is a non-linked non-participating individual pure risk premium life insurance plan, which provides for payment of Sum Assured in lump sum to the nominee in case of the Life Assured's unfortunate death during the policy term.

The key features of this product are:

The Standard Term Life Insurance Product:

1) The standard individual term life insurance product shall be called, “Saral Jeevan Bima”; the Insurer’s name shall have to be prefixed to the product name.

2) Apart from the benefits and riders stated in the Annexure, no other riders / benefits / options / variants shall be offered. There shall be no exclusions under the product other than the suicide exclusion.

3) The product shall be offered to individuals without restrictions on gender, place of residence, travel, occupation or educational qualifications.

4) The Insurers shall have to file the product as per the above parameters and in compliance with the extant regulatory provisions through File and Use (F&U). The policy document and the terms and conditions of the Standard Product shall be in the format specified in Annexure to the circular above.

The plan features and parameters, described in the circular include details on minimum age, maximum age for entry, policy term, maximum maturity age, sum assured, premium payment option, etc.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Income-tax Exemption for payment of deemed LTC fare for non-Central Government employees

In view of the COVID-19 pandemic and resultant nationwide lockdown as well as disruption of transport and hospitality sector, as also the need for observing social distancing, a number of employees are not able to avail of Leave Travel Concession (LTC) in the current Block of 2018-21.

With a view to compensate Central Government employees and incentivise consumption, thereby giving a boost to consumption expenditure, the Government of India allowed payment of cash allowance equivalent to LTC fare to Central Government employees subject to fulfilment of certain conditions provided in link above. Government has also provided that since the cash allowance of LTC fare is in lieu of deemed actual travel, the same shall be eligible for income-tax exemption on the lines of existing income-tax exemption available for LTC fare.

In order to provide the benefits to other employees (i.e. non-Central Government employees) who are not covered by the above mentioned OM, Government has decided to provide similar income-tax exemption for the payment of cash equivalent of LTC fare to the non-Central Government employees also. Accordingly, the payment of cash allowance, subject to maximum of INR 36,000 per person as Deemed LTC fare per person (Round Trip) to non-Central Government employees, shall be allowed income-tax exemption subject to fulfilment of conditions specified below.

GIFT IFSC prescribes framework for listing of Depository Receipts

The International Financial Services Centres Authority (IFSCA), with an objective to develop the financial products and financial services in the Gujarat International Finance Tec-City International Financial Services Centre (GIFT IFSC) has prescribed the regulatory framework for listing of Depository Receipts (DRs).

The framework provides for listing of DRs by companies that are listed in FATF compliant jurisdictions (including India). The framework enables the eligible listed companies to raise capital through issuance and listing of DRs on the stock exchanges in GIFT IFSC.

Additionally, the framework enables eligible companies having DRs listed on any exchange in a FATF compliant jurisdiction to list and trade such DRs on the stock exchange(s) in GIFT IFSC as an additional venue for trading, without any fresh public offering.

While IFSCA has prescribed the framework for essential disclosure requirements such as financial statements, material or price sensitive information, shareholding pattern, change of depository and corporate actions, the listed companies shall continue to comply with the applicable requirements of their respective home jurisdictions with respect to corporate governance norms and several other disclosure requirements, without additional regulatory burden. The listed companies will be required to release all the disclosures made in the home jurisdiction to the stock exchange(s) in GIFT IFSC.

IFSCA Authority Board approves two Regulations

The International Financial Services Centers Authority (IFSCA) Board, after detailed deliberations, approved the following regulations:

a) International Financial Services Centers Authority (Bullion Exchange) Regulations, 2020

The Government of India, on the recommendation of IFSCA, notified the bullion spot delivery contract and bullion depository receipt (with bullion as underlying) as Financial Products and related services as Financial Services under the IFSCA Act, 2019 on August 31, 2020.

IFSCA has been tasked with the responsibility of operationalization of this bullion Exchange. For the first time in India a single regulator will be regulating both the bullion spot and derivative contracts that would be traded on the Exchange.

The Authority approved the draft bullion regulations, which paves the way for setting up the entire ecosystem for bullion trading, namely, bullion exchange, depository, clearing house and vaults.

The salient aspects of the Bullion Exchange Regulations include:

- Functions and general obligations of a bullion exchange and clearing corporation
- Ownership and governance structure of a bullion exchange and clearing corporation
- Rights and Obligations of Bullion Depositories, Participants and Beneficial Owners
- The grant of registration to a vault manager by the Authority
- The role of bullion depositories
- Other operational aspects of the bullion exchange

The Bullion Exchange Regulations envisage to provide an integrated platform for all the market intermediaries including trading members/ clearing members, bullion depositories, vault managers, etc. so as to facilitate transparency and traceability in the bullion market and standardisation of bullion contracts.

b) International Financial Services Centres Authority (Global In-House Centres) Regulations, 2020

On October 16, 2020, Government of India, on the recommendation of IFSCA, had notified Global In-House Centres (GIC) as financial service to provide services relating to financial products and financial services.

Some of the salient features of the regulations approved by the Authority are as follows:

- A GIC may conduct its business in any mode permitted by the Authority, including branch mode
- The applicant entity shall exclusively cater to its financial services group wherein the entities served must be located in a Financial Action Task Force (FATF) compliant jurisdiction
- A financial services group is defined as any entity which is regulated by a financial services regulator or any other competent body regulating financial services activities in its home jurisdiction and include its holding, subsidiary or associate companies, branch, or subsidiary of a holding company to which it is also a subsidiary
- The support services provided by the applicant entity to its financial services group should be for the purpose of carrying out a financial service in respect of a financial product
- A GIC set up within the IFSC shall be entitled to avail itself of all concessions including tax holiday applicable to IFSC units

In recent years, GICs in India have been contributing to development of highly skilled talent pool in the country. India is emerging as world's leading centre of digitization, with one of largest pool of digital talents. These GIC regulations issued by IFSCA has the potential to put GIFT-IFSC in the leagues of leading FinTech cities, generating significant employment opportunities.

IFSCA prescribes regulatory framework for REITs and InvITs in IFSC

The International Financial Services Centres Authority (IFSCA), with an objective to develop the financial products and services in the Gujarat International Finance Tec-City International Financial Services Centre (GIFT IFSC) has prescribed the regulatory framework for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) in IFSC.

IFSCA has permitted global participants i.e. REITs and InvITs incorporated in FATF compliant jurisdictions to list on the stock exchanges in GIFT IFSC. Additionally, InvITs have been permitted to raise funds through private placements also.

The REITs and InvITs registered in IFSC have been permitted to invest in real estate assets and infrastructure projects respectively in IFSC, India and other foreign jurisdictions, which is in line with the framework provided in the global financial centres.

Additionally, the REITs and InvITs that are already listed in any of the permissible jurisdictions other than IFSC (currently USA, Japan, South Korea, United Kingdom excluding British Overseas Territories, France, Germany, Canada and India) or India have been permitted to list and trade on the recognised stock exchanges in IFSC, subject to compliance with their respective laws of home jurisdiction.

The listing of REITs and InvITs in IFSC shall be in accordance with the requirements of the stock exchanges in IFSC.

The entities in IFSC can participate and benefit from the growth of real estate and infrastructure sector in international jurisdictions.

IFSCA introduces Framework for Regulatory Sandbox to tap into innovative FinTech solutions

The International Financial Services Centres Authority (IFSCA), with an objective to develop a world class FinTech hub at the IFSC located at GIFT City in Gandhinagar (Gujarat, India), endeavors to encourage the promotion of financial technologies ('FinTech') initiatives in financial products and financial services across the spectrum of banking, insurance, securities and fund management.

As a step towards attaining this vision, IFSCA has introduced a framework for "Regulatory Sandbox". Under this Sandbox framework, entities operating in the capital market, banking, insurance and financial services space shall be granted certain facilities and flexibilities to experiment with innovative FinTech solutions in a live environment with a limited set of real customers for a limited time frame. These features shall be fortified with necessary safeguards for investor protection and risk mitigation. The Regulatory Sandbox shall operate within the IFSC located at GIFT City.

All entities (regulated as well as unregulated) operating in the capital market, banking, insurance and pension sectors as well as individuals and startups from India and FATF compliant jurisdictions, shall be eligible for participation in the Regulatory Sandbox. Entities desirous of participating in the sandbox to showcase their innovative FinTech solutions, concepts and business models shall apply to IFSCA.

IFSCA shall assess the applications and extend suitable regulatory relaxations to commence limited purpose testing in the Sandbox. The details on the eligibility criteria, the application and approval process and other operational aspects of the Sandbox have been provided in the circular.

As an additional steps towards creating an innovation-centric ecosystem in the IFSC, IFSCA has proposed the creation of an "Innovation Sandbox", which will be a testing environment where FinTech firms can test their solutions in isolation from the live market, based on market related data made available by the Market Infrastructure Institutions (MIIs) operating in the IFSC. The Innovation Sandbox will be managed and facilitated by the MIIs operating within the IFSC.

CAPITAL MARKETS

Contribution by Issuers of listed or proposed to be listed debt securities towards creation of "Recovery Expense Fund"

In order to enable the Debenture Trustee(s) to take prompt action for enforcement of security in case of 'default' in listed debt securities, a 'Recovery Expense Fund' (REF) shall have to be created which shall be used in the manner as decided in the meeting of the holders of debt securities with Securities and Exchange Board of India (SEBI). Key items in the regulations include

A. Manner of creation and operation of REF

B. Manner of utilization of Recovery Expense Fund

C. Refund of Recovery Expense Fund to the issuer

Standardization of procedure to be followed by Debenture Trustee(s) in case of 'Default' by Issuers of listed debt securities

This circular prescribes the process to be followed by the Debenture Trustee(s) in case of 'Default' by issuers of listed debt securities including seeking consent from the investors for enforcement of security and/or entering into an Inter-Creditor Agreement ("ICA").

Event of default

In the manner of calling 'event of default', due to the presence of multiple ISIN's (International security identification number) which may have been issued under the same Information Memorandum(s) ("IM(s)") or a single ISIN which may have been split across multiple IM(s), SEBI clarified that 'event of default' shall be reckoned at the ISIN level, as all terms and conditions of issuance of security are same under a single ISIN even though it might have been issued under multiple IMs.

Consent of investors for enforcement of security and for signing the ICA

The regulations stated process to be followed by debenture trustees for seeking consent of investors for enforcement of security and for signing the ICA.

Conditions for signing of ICA by Debenture Trustee(s) on behalf of investors

The regulations stated the conditions under which the debenture trustee(s) could sign the ICA on behalf of the investors

Guidelines on Inter Scheme Transfers of Securities

Presently, transfers of securities from one scheme to another scheme in the same mutual fund is allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis and the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made.

In order to ensure that such Inter Schemes Transfers (ISTs) of securities are in conformity with the above objective, the following additional safeguards have been prescribed:

1. In case of Close Ended Schemes, IST purchases would be allowed within "three" business days of allotment pursuant to New Fund Offer (NFO) and thereafter, no ISTs shall be permitted to/from Close Ended Schemes.

2. In case of Open Ended Schemes, ISTs may be allowed in scenarios such as below:

    a) For meeting liquidity requirement in a scheme in case of unanticipated redemption pressure

    b) For Duration/ Issuer/ Sector/ Group rebalancing

Issuance, listing and trading of Perpetual Non-Cumulative Preference Shares (PNCPS) and Innovative Perpetual Debt Instruments (IPDIs)/ Perpetual Debt Instruments (PDIs) (commonly referred to as Additional Tier 1 (AT 1) instruments)

1. Perpetual Non-Cumulative Preference Shares (PNCPS') and Innovative Perpetual Debt Instruments (IPDIs) / Perpetual Debt Instruments (PDIs) (commonly referred to as AT 1 instruments) are essentially non-equity regulatory instruments, forming part of a bank's capital, governed by Reserve Bank of India (RBI)

2. These instruments have certain unique features which, inter-alia, grant the issuer (i.e. banks, in consultation with RBI) a discretion in terms of writing down the principal / interest, to skip interest payments, to make an early recall etc. without commensurate right for investors to legal recourse, even if such actions of the issuer might result in potential loss to investors.

3. Given the nature and contingency impact of these AT 1 instruments and the fact that full import of the discretion is available to an issuer, may not be understood in the truest form by retail individual investors, the matter was discussed in SEBI's advisory committee on the development of corporate bond market in India viz. Corporate Bonds and Securitization Advisory Committee (CoBoSAC). Based on the recommendations of the CoBoSAC, the following shall be the additional framework related to issuance, listing and trading of PNCPS and IPDIs which are proposed to be listed :

a. Manner of Issuance:

i. The issuance of AT1 instruments shall be done mandatorily on the Electronic Book Provider (EBP) platform irrespective of the issue size in terms of earlier SEBI circulars

b. Investors Issuers and Stock Exchanges shall ensure that only QIBs are allowed to participate in the issuance of AT1 instruments.

c. Allotment size: The minimum allotment of AT1 instruments shall not be less than Rs.1 crore.

d. Trading lot size: The minimum trading lot size for AT1 instruments shall be Rs.1 crore.

e. Other requirements:

Issuers shall also comply with the following:

i. Disclosures as specified in detail in regulations
ii. Specific disclosures about:

a) Details of all the conditions upon which the call option will be exercised by them for AT1 instruments, in the Information /Private Placement Memorandum.
b) Risk factors, to include all the inherent features of these AT1 instruments highlighted at para 2 above. c) Point of Non Viability (PONV) clause: The absolute right, given to the RBI, to direct a bank to write down the entire value of its outstanding AT1 instruments/bonds, if it thinks the bank has passed the Point of Non Viability (PONV), or requires a public sector capital infusion to remain a going concern.

Product Labeling in Mutual Fund schemes – Risk-o-meter

SEBI, based on the recommendation of Mutual Fund Advisory Committee (MFAC), has reviewed the guidelines for product labeling in mutual funds, SEBI has decided the following:

Risk Level of a scheme will be depicted by "Risk-o-meter", and include differentiation in following terms:

i. Low
ii. Low to moderate
iii. Moderate
iv. Moderately high
v. High
vi. Very high

The regulations mentioned in above link describe the differentiation criteria in detail.

Mutual Funds shall publish the following details of scheme wise changes in Risk-o-meter in scheme wise Annual Reports and Abridged summary:

i. Scheme name
ii. Risk-o-meter level at start of the financial year

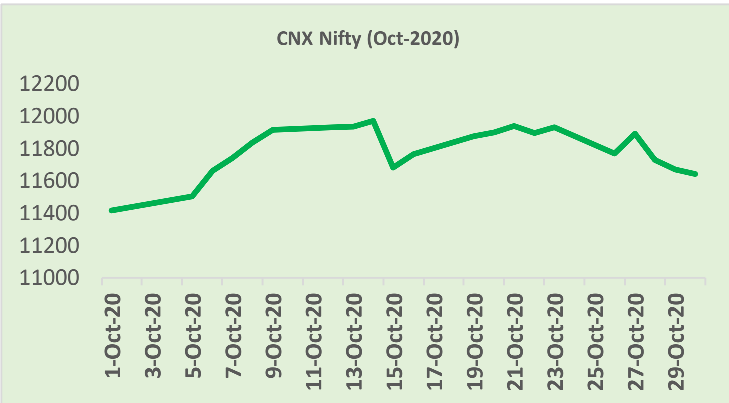
iii. Risk-o-meter level at end of the financial year
iv. Number of changes in Risk-o-meter during the financial year

Framework for monitoring of foreign holding in Depository Receipts

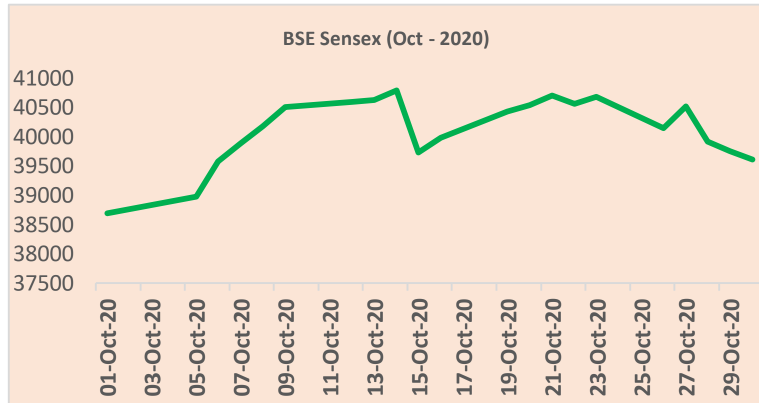
SEBI via its earlier circular had defined framework for issuance of depository receipts (DR). The circular required Indian depositories to monitor foreign shareholding in depository receipts.

In continuation to above circular, SEBI has notified mechanism for monitoring depository receipts as attached in the Annex to the given circular above.

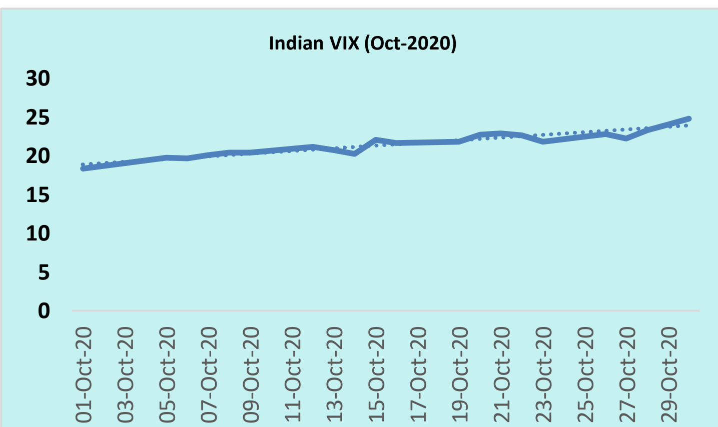
CAPITAL MARKETS SNAPSHOT



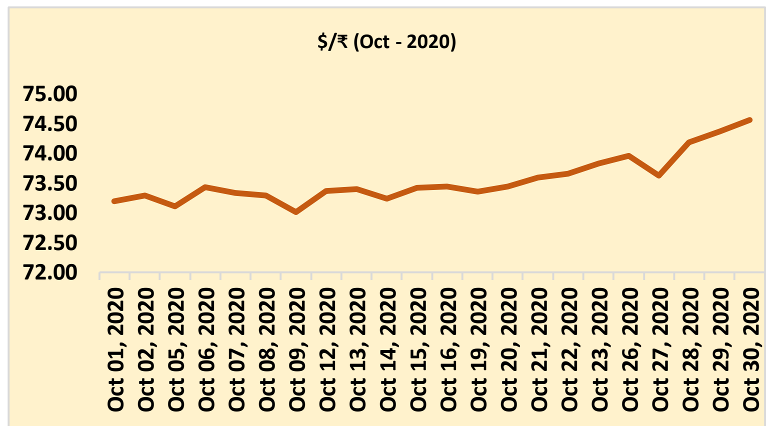
Source: National Stock Exchange



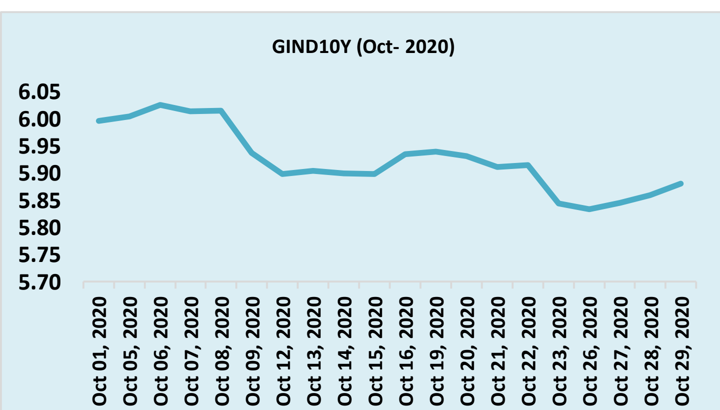
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The growth sentiment was dented by a relentless rise in new Covid-19 cases across the globe, lack of progress on the US stimulus package and uncertainty over US elections. Finance Minister Nirmala Sitharaman said there are visible signs of a revival in the economy, but the GDP growth may be in the negative zone or near zero in the current fiscal. She also said the economy will bounce back to be the fastest growing economy next year. The government rolled out the new series of Consumer Price Index for Industrial Workers (CPI-IW) with a new base year of 2016 from 2001 earlier.

ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2020*	2021*	Latest	2020*	% of GDP, 2020*	% of GDP, 2020*	(10YGov), Latest
Brazil	-11.4 Q2	-5.2	3.0	3.1 Sep	2.8	-0.7	-15.7	1.94
Russia	-8.0 Q2	-4.4	2.8	3.7 Sep	3.3	1.9	-4.1	6.50
India	**-23.9 Q2**	**-9.8**	**6.9**	**7.3 Sep**	**6.3**	**0.9**	**-7.8**	**5.90**
China	4.9 Q3	1.8	7.3	1.7 Jul	2.9	1.7	-5.6	3.02^
S Africa	-17.1 Q2	-7.7	1.8	2.9 Sep	3.5	-2.1	-16.0	9.32
USA	-2.9 Q3	-4.6	3.6	1.4 Sep	1.1	-2.2	-15.3	0.90
Canada	-13.0 Q2	-5.8	4.0	0.5 Sep	0.7	-2.1	-13.0	0.69
Mexico	-8.6 Q3	-9.1	3.3	4.0 Sep	3.4	0.4	-4.5	6.00
Euro Area	-4.3 Q3	-8.3	5.3	-0.3 Oct	0.3	2.1	-9.0	0.0
Germany	-4.2 Q2	-5.8	4.6	-0.2 Oct	0.5	5.5	-7.2	0.0
Britain	-21.5 Q2	-10.6	7.2	0.5 Sep	0.6	-1.5	-18.9	0.30
Australia	-6.3 Q2	-4.5	1.3	0.7 Q3	0.3	1.3	-7.6	0.77
Indonesia	-5.3 Q2	-2.2	4.3	1.4 Oct	1.9	-1.1	-7.1	6.57
Malaysia	-17.1 Q1	-8.0	5.0	-1.4 Sep	-1.1	0.5	-8.0	2.70
Singapore	-7.0 Q3	-6.0	3.9	nil Sep	-0.4	18.0	-13.9	0.82
S Korea	-1.3 Q3	-1.5	2.9	0.1 Oct	0.5	3.0	-5.8	1.61

Sources: The Economist

**** The Economist poll or Economist Intelligence Unit estimate/forecast;***

^ 5-year yield

Quarter represents a three-month period of a financial year beginning 1st April

APAS
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ABOUT APAS

APAS is a management advisory firm specializing in banking, financial services and the insurance space. APAS assists business leaders of some of the leading domestic and global organizations, acting as an extended arm to the management in coping with the ever changing internal and external dynamics. Leveraging deep business insights APAS develops business and operational strategy for its clients. APAS provides transaction advisory services (Buy, sell and merge), and also specializes in governance and board training. APAS facilitates investors and sellers with directional guidelines of pursuing transactions, by utilizing subject knowledge, vast experience and deep market outreach. APAS has capability to identify and analyze key transaction drivers, recognize possible partnerships, and initiate discussions with them for possible growth opportunity. We help major insurance companies, payment institutions, and other financial organizations to identify their growth potential, innovative opportunity and possible benefits of consolidation, and hence comprehend the possible merger or acquisition. Buying or selling a major asset or a business, undertaking a merger, or performing an IPO can be risky and complex especially in this globalization era. Hence, the need of a trusted advisor who can help clients preserve, create and enhance value in transactions.

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