

2020

Volume 4

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Ms. Vishakha Mulye, Executive Director, ICICI Bank, has presented her thoughts on 'Is pandemic opening the doors for India to lead the world on economic and geo-political fronts?' We thank Ms. Vishakha Mulye for her contribution to the APAS Monthly.

This month, the APAS column presents its views on 'A Glance at RBI Bazooka 2.0'.

Amidst the global crisis caused by the pandemic COVID – 19, quite a few changes in the economy are taking place and many more to come in the coming months. This edition and the future editions of our newsletter will try to give you the economic snapshot, changing parameters and a snapshot of the regulations and government measures to fight the pandemic and make positive impact on the economy and various sectors.

The economic indicators showed mixed performance. Manufacturing PMI fell to a 4-month low of 51.8 in March from 54.5 in February. India's annual infrastructure output in March contracted by a record 6.5%. India's Index of Industrial Production (IIP) expanded by a 7-month high of 4.5% in February. PMI services fell to 49.3 in March from 57.5 in February, while composite PMI fell to 50.6 in March from 57.6 in February. CPI inflation fell to 5.91% in March from 6.58% in February. WPI inflation eased to 1% in March from 2.26% in February.

Reserve Bank of India (RBI) Governor issued a statement on monetary package to support economy and financial system's various components. RBI announced Targeted Long-Term Repo Operations 2.0 (TLTRO 2.0). RBI announced 'Fully Accessible Route' for Investment by Non-residents in Government Securities. RBI announced INR 50,000 crore Special Liquidity Facility for Mutual Funds (SLF-MF). RBI announced investment limits for investment by Foreign Portfolio Investors (FPIs). RBI announced measures for risk Management in inter-bank dealings by way of hedging of foreign exchange risk. RBI announced scheme for Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans. RBI announced further measures for asset classification and provisioning under COVID-19 regulatory package. RBI announced changes in liquidity coverage ratio (LCR) as required by Basel III Framework on Liquidity standards. RBI guided Banks in regard declaration of dividends by them. RBI released the results of forward looking surveys.

The Insurance Regulatory and Development Authority of India (IRDAI) guided in regard the corporate agency matters of the PSBs that have merged. IRDAI released observations in the form of a report of the working group (WG). IRDAI laid down norms on settlement of health insurance claims. IRDAI issued global pandemic COVID-19 related Instructions to life insurers. Prudent management of financial resources of insurers in the context of COVID-19 pandemic. IRDAI issued revised Insurance Regulatory and Development Authority of India (Insurance Brokers) Regulations, 2018.

Government amended the extant FDI policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic. Cabinet approved INR 15,000 Crore for "India COVID-19 Emergency Response and Health System Preparedness Package". Cabinet extended premium payment period for Postal Life Insurance & Rural Postal Life Insurance till 30th June 2020

Securities and Exchange Board of India (SEBI) introduced SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2020. SEBI reviewed provisions under SEBI (Mutual Funds) Regulations, 1996. SEBI introduced measures to further facilitate fund raising from capital markets in the backdrop of COVID-19 pandemic.

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.

Ashwin parekh

On the cover



GUEST COLUMN

*Vishakha Mulye
Executive Director
ICICI Bank*

Is pandemic opening the doors for India to lead the world on economic and geo-political fronts?



APAS COLUMN

A Glance at RBI Bazooka 2.0



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- ['Fully Accessible Route' for Investment by Non-residents in Government Securities](#)
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INFRASTRUCTURE & OTHER GOVT. INITIATIVES

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- [Cabinet approves INR 15,000 Crore for "India COVID-19 Emergency Response and Health System Preparedness Package"](#)
- [Extension of premium payment period for Postal Life Insurance & Rural Postal Life Insurance till 30th June 2020](#)



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- [Review of provisions under SEBI \(Mutual Funds\) Regulations, 1996](#)
- [Measures to further facilitate fund raising from capital markets in the backdrop of COVID-19 pandemic](#)

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		

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ECONOMIC DATA SNAPSHOT

- [Global GDP, CPI, Current account balance, budget balance, Interest rates](#)



Is pandemic opening the doors for India to lead the world on economic and geo-political fronts?

Ms. Vishakha Mulye
Executive Director
ICICI Bank

As we entered 2020, who would have dreamt that we are entering into a year where the world is going to witness a 'once-in-a-century' event. Developments over the last few months have shaken most of us in more than one way. If one was to clinically break the events of last 5 months (yes, you read it right, we are already into this for close to half year), I believe we are now entering the fourth phase of what I will call the phase of 'getting life back to order' – the first three phases broadly being of 'Ignorance' (Nov 2019), 'Unacceptability' (Dec 2019 - Jan 2020) and 'Paranoid' (Feb – Mar 2020).

As the reality started seeping in, so was the worry. The first sign of nervousness was visible when the FOMC, in first week of March 2020, announced a 50 basis points emergency rate cut in their first such inter-meeting rate cut since October 2008, taking the rates to near zero. But soon the governments and central banks realized that the system would need a lot more money. What is now being called the 'bazooka' stimulus, governments started announcing stimulus packages even upwards of 10% of the GDP. Germany has announced a USD 810 billion package, Japan USD 990 billion and USA 2.30 trillion.

The Indian Government and The Reserve Bank of India together have announced a financial package of close to USD 85 billion. While speed of action and quantum of stimulus are very important, equally important is the direction of liquidity. Addressing the key issues is very important as any splurge of money can have medium to long term adverse impacts like inflation and creation of asset bubbles.

One should therefore give credit to the fact that both fiscal as well as monetary actions by India seem to be very well directed. Of this USD 85 billion, fiscal package constitutes about USD 22 billion. Almost 80% of this USD 22 billion has been earmarked for supplying the essentials. The depth, diversity and detailing of this fiscal package ensures it reaches to a very wide section of the population, be it the senior citizens, poor and the handicapped, women self-help groups, farmers, construction workers, MNREGA wage earners and many more.

Reserve Bank of India was equally swift in taking proactive and prompt actions. As part of the monetary stimulus, RBI also ensured that it addresses the need of a very wide constituency across individuals, exporters, corporates and asset managers. The first major step was aligning the interest rates by bringing the repo rate to 4.40%, a steep 75 basis points reduction on March 27th. This was immediately followed by liquidity infusion

of almost INR 3.74 trillion through multiple measures like TLTRO, CRR cut and increase in Marginal Standing Facility. Further, the moratorium offered to borrowers in servicing the debt has the potential of leaving up to INR 2.10 trillion in the system, should all companies opt for it. With the objective of encouraging banks to increase lending and to ensure maximum transmission of liquidity into the system, RBI, in two tranches cut the reverse repo rate by 115 basis points to 3.75% as the systemic liquidity was getting close to INR 7.00 trillion. It also extended the export repatriation period from 9 months to 15 months.

However, unlike an economic crisis where a liquidity infusion kick-starts the economy, we are in an environment where such liquidity is only 'survival capital'. It is not leading to any revenue generation or asset creation and hence till the time life becomes normal, this 'survival capital' will continue to be required, albeit the quantum required may keep going down as the months pass by.

One heartwarming positive highlight emerging out of this pandemic is that the world has started looking at India with a very different lens. India was one of the first countries to restrict international travels, a bold step taken even before any other country could even imagine. Next came the 21-day lockdown, again one of the global firsts. World leaders were looking up to India to supply Hydroxychloroquine. India again has taken exemplary decision and is now in the process of supplying it to 55 coronavirus hit countries across continents - USA, UK, France, Egypt, Jordan, Kenya, Nigeria, Oman, Jamaica, Peru, Nepal, Bangladesh, to name a few.

In the near term, life will 'appear' to be returning to normal but one is likely to see 2020 being called in the history books as 'the year of redefining business models'. A lockdown of 4-6 weeks has tested the business continuity plans of organizations, it has removed the myth that teams cannot operate from multiple locations, video conferencing will open the mindset of not necessarily having physical meetings, optimal utilization of resources have given a taste to small and large businesses of how costs can be tightened, HR teams will look at edtech as the new way of reskilling employees, cross-functional supply chains will provide a very diverse set of opportunities to e-commerce businesses, currency and cheques may not be as relevant and these are just a few examples. Recently, Facebook announced an acquisition of close to 10% stake in Reliance Jio for USD 5.7 billion. This goes on to reflect the ability of Indian entrepreneurs to build world class, new age, scalable business models. Commerce and transactions (payments) through an integrated platform has the ability to transform the small and medium businesses. I strongly believe that soon, at this pace, the 'digital' world will form its own orbit, hurtling at breakneck speed into hitherto uncharted territory.

The new normal is here, and is here to stay! So let us enjoy the chirping of the birds, the blossoming of the flowers, the twilights of the sunrise and the sunsets from our homes. Nature never looked so beautiful in the midst of our fast-paced life. Economies and life is bound to return to normal. Every calamity has opened up new opportunity and I wish and hope that so would Covid-19. World War II led to industrial revolution, Covid-19 will etch this third decade of twenty-first century as the decade of Digital Revolution.

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



A Glance at RBI Bazooka 2.0

The Reserve Bank of India (RBI) has been closely monitoring the evolving situation surrounding the coronavirus pandemic and has been delivering a myriad of unconventional measures from its arsenal during these unprecedented and uncertain times. After Bazooka 1.0 on March 27, the RBI Governor came up with Bazooka 2.0 on April 17, containing a slew of measures with a more directed approach to alleviate the concerns in the financial sector. It was a second tranche of liquidity boost for the economy.

These measures included a second round of Targeted Long-Term Repo Operations (TLTRO), a 25 basis points (bps) cut in the reverse repo rate, INR 50,000 crore in refinancing facilities for NABARD, SIDBI and NHB to meet sectoral credit needs, increasing ways and means advances for states and relaxation of a number of compliances for banks.

The infusion of almost INR 75,000 crore till April 15 into the banking system via TLTRO 1.0 significantly widened the banking system's liquidity. On April 17, the RBI proposed to make available liquidity worth INR 50,000 crore under the TLTRO 2.0 for non-banking finance companies (NBFCs) and micro finance institutions (MFIs), with at least 50% of the total amount availed going to small and mid-sized NBFCs and MFIs. The move to announce a special liquidity facility under the TLTRO window for NBFCs and MFIs comes as these companies failed to get funding under the earlier TLTRO scheme. While RBI had released as much as INR 75,000 crore out of the promised INR 1 lakh crore, banks had utilised these funds to invest in high rated corporate papers.

However, unlike TLTRO 1.0, the RBI's first auction under the TLTRO 2.0 on April 23 has elicited a tepid response. The RBI received bids for only about 50% of the offered amount. It received 14 bids, amounting to INR 12,850 crore, as against INR 25,000 crore offered. This shows that banks have turned more risk-averse and do not want to use the cheap funds offered by the RBI to lend to riskier small companies. This risk aversion in the industry has weakened the RBI's efforts to pump liquidity into the banking system to help small NBFCs and MFIs.

The RBI had last cut reverse repo rate by 90 basis points (bps) to 4% on 27 March. Amount under reverse repo window is at INR 6.9 lakh crore as on April 15. That much of surplus is available with banks. To encourage banks to deploy these funds for lending purposes, on April 17, the RBI cut reverse repo rate by another 25 bps to 3.75%. This further disincentivises banks to park money with the RBI. However, it is doubtful whether this reverse flow to RBI can be stemmed easily. Banks are not lending or investing because they fear that under

the current conditions, they may be adversely impacted if they employ the money for investments or lending. If credit growth does not accelerate, the cut in reverse repo rate is expected to continue.

RBI said it will provide a special refinance facility for an amount of INR 50,000 crore to All India Financial Institutions (AIFIs) such as NABARD, SIDBI and NHB. This will comprise INR 25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and MFIs, INR 15,000 crore to SIDBI for on-lending or refinancing and INR 10,000 crore to NHB for supporting housing finance companies (HFCs). This would ease some of the burden on the financial system and aid to keep credit flowing to the weakest segments of the economy.

States had been demanding more funds to fight the Covid-19 pandemic. The RBI has increased the limit under ways and means advances for states to avail short term funds by 60% over and above the existing limit. This would defer supply of state government paper and lower spreads on SDL borrowings, which had shot up recently due to large supply getting bunched up. This will help states to avail more funds to fight the Covid-19 pandemic and plan their borrowings in a better way.

In terms of the extant guidelines for banks, the date for commencement for commercial operations (DCCO) in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters can be extended by an additional one year, over and above the one year extension permitted in normal course, without treating the same as restructuring. RBI has now decided to extend a similar treatment to loans given by NBFCs to commercial real estate. This would provide relief to NBFCs as well as the real estate sector.

RBI also announced an easing of asset classification norms for all accounts where moratorium or deferment has been applied. This means that there will be an asset classification standstill on all loans covered under the moratorium from 1 March to 31 May 2020. However, banks will have to maintain additional 10% provisioning on these standstill accounts over 2 quarters of March and June 2020, thereby putting pressure on their balance sheets. Also, this cushion would not be around for long. The moratorium period will end soon and companies and individual borrowers will have to resume repayments from June. With no business happening, workforce availability remaining an issue and rampant pay cuts, it is doubtful how many borrowers will have repayment capacity.

In the past, it has been observed that the banks had not passed on the benefits of repo rate cut to the borrowers. For these measures to be successful, it is important that the banks pass on the benefits that they get, to their borrowers.

One hindrance to the efficacy of the above measures is that when a company is not in a position to repay old loans, it is unlikely that it would be seeking fresh loans for productive purposes. It is more likely that it could be using cheaper finance to repay old loans. While some companies will be going in for expansion, it is unlikely to be in the first quarter, when there is a lockdown. Therefore, demand for funds for expansion and growth would be limited.

Another hindrance, as mentioned above, is that banks are going to be doubly cautious about lending, as the last NPA episode has caused substantial turmoil in all banks with several controversies being ignited.

The RBI Governor has assured that the RBI will come up with more steps to address the challenges being faced by the economy based on evolving situations.

While all the above measures are positive and steps in the right direction, it remains to be seen how far these measures will help in containing the economic fallout of the virus. The RBI's openness to providing further relief if the situation worsens further is a big relief in these distressed times.

-APAS



ECONOMY

IIP (Index of Industrial Production) – February

Index of Industrial Production (IIP) or factory output for the month of February 2020 expanded by a 7-month high of 4.5%, compared to 2% in January 2020 and 0.2% in February 2019.

The General Index for the month of February 2020 stands at 133.3, which is 4.5% higher as compared to that in February 2019.

The growth was mainly due to uptick in mining and manufacturing activity as well as power generation.

India's economy was showing some signs of recovery, before a spread of the Covid-19 virus brought economic activity to a near standstill. The industries output is likely to fall sharply in March as businesses face a big economic challenge in the wake of the lockdown announced in the view of coronavirus outbreak.

The cumulative growth for the period April-February 2019-20 over the corresponding period of last year was 0.9%, down from 4% a year earlier.

As per Use-based classification, the growth rates in February 2020 over February 2019 are 7.4% in primary goods, (-) 9.7% in capital goods, 22.4% in intermediate goods and 0.1% in infrastructure/construction goods.

Consumer durables output fell 6.4%, while non-durables output remained flat.

The manufacturing sector, which constitutes 77.63% of the index, grew by 3.2% in February, compared to (-) 0.3% last year.

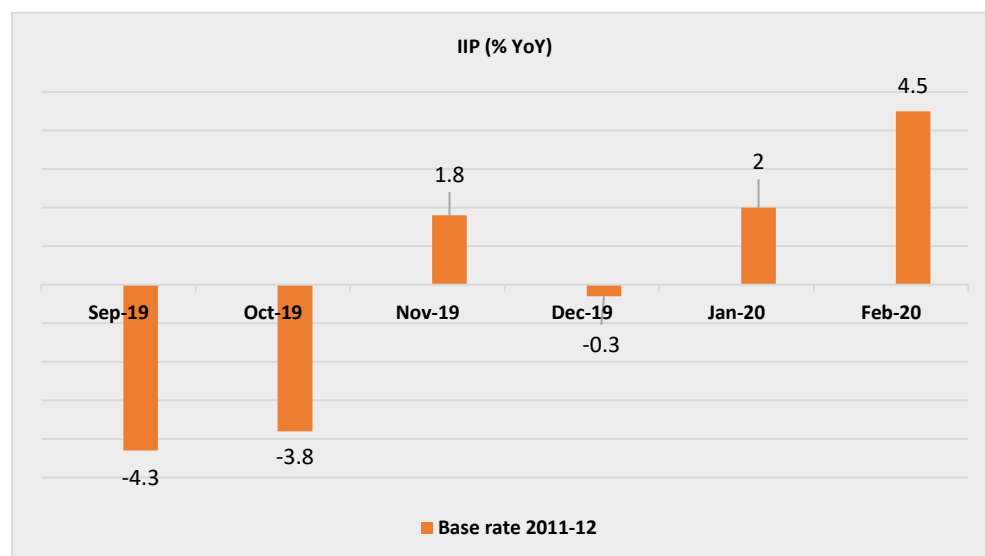
Electricity generation rose by 8.1% in February, compared to 1.3% last year.

Mining sector output grew by 10% in February, compared to 2.2% last year.

In terms of industries, 13 out of 23 industry groups in the manufacturing sector have shown positive growth in February 2020 from February 2019.

The industry group 'Manufacture of basic metals' has shown the highest growth of 18.2%, followed by 8% in 'Manufacture of chemicals and chemical products' and in 'Manufacture of other non-metallic mineral products'.

On the other hand, the industry group 'Manufacture of motor vehicles, trailers and semi-trailers' has declined most, by 15.6%, followed by 14.8% in 'Manufacture of computer, electronic and optical products' and 9.9% in 'Manufacture of fabricated metal products, except machinery and equipment'.



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

CPI (Consumer Price Index) – March

India's consumer price index (CPI) or retail inflation fell to 5.91% in March 2020, compared to 6.58% in February 2020. It was 2.86% in March 2019.

The corresponding provisional inflation rates for rural and urban areas are 6.09% and 5.66% respectively.

The Consumer food price index (CFPI) declined to 8.76% in March 2020 from 10.81% in February 2020 and 0.3% in March 2020.

The core CPI inflation eased to 4.03% in March from 4.08% in February.

This is the first time since November 2019 that inflation fell below the upper limit of 6% set by the Reserve Bank of India (RBI).

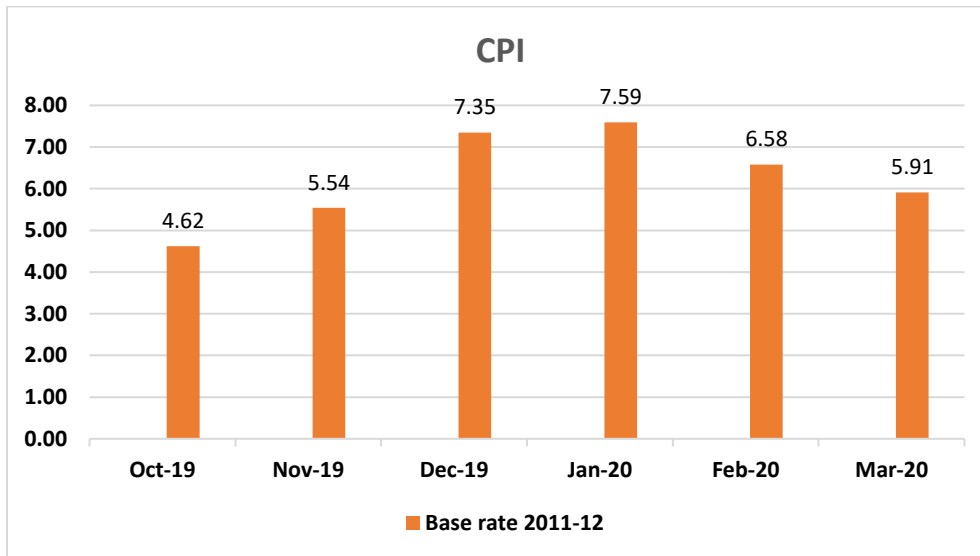
Among the CPI components, inflation for food and beverages declined to 7.82% in March 2020 from 9.45% in February 2020.

Within the food items, the inflation declined for vegetables to 18.63%, meat and fish to 9.15%, pulses and products to 15.85%, fruits to 3.56%, eggs to 5.56%, oils and fats to 7.54% and sugar and confectionery to 3.85%. However, the inflation increased for milk and products to 6.47, spices to 9.82%, prepared meals, snacks, sweets, etc. to 2.84%, cereals and products to 5.3% and non-alcoholic beverages to 2.24% in March 2020.

The inflation for housing was flat at 4.23%, while that for miscellaneous items declined to 4.43% in March.

Within the miscellaneous items, the inflation declined for transport and communication to 4.25%, education to 3.86%, household goods and services to 1.81%, recreation and amusement to 4.36%, while it was flat for health at 4.17% and rose for personal care and effects to 8.85% in March 2020.

The inflation for clothing and footwear increased to 2.11%, while that for fuel and light moved up to 6.59% in March.



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

WPI (Wholesale Price Index) – March

India's wholesale price index (WPI) inflation eased to 1% in March 2020, as compared to 2.26% in February 2020 and 3.1% in March 2019.

The rate of inflation based on WPI Food Index decreased to 5.49% in March 2020 from 7.31% in February 2020.

The index for primary articles declined by 2.5% from the previous month.

Under primary articles, 'Food articles' group declined by 2.1% due to lower prices of egg (17%), poultry chicken (9%), tea (7%), fish-marine, maize and fruits & vegetables (5% each), jowar (4%), bajra and wheat (3% each), gram, paddy, betel leaves and urad (2% each) and fish-inland, arhar, pork, masur and mutton (1% each). However, the prices moved up for beef and buffalo meat (8%), moong and peas/chawali (4% each) and ragi and milk (1% each).

The 'Non-Food Articles' group declined by 4.2% due to lower prices of floriculture (30%), safflower (kardi seed) (12%), soyabean and gaur seed (8% each), sunflower (7%), raw rubber (4%), linseed, coir fibre, rape & mustard seed and hides (raw) (2% each) and niger seed, copra (coconut), raw jute and castor seed (1% each). However, the prices moved up for cotton seed (6%), groundnut seed (5%), skins (raw) and industrial wood, raw silk, fodder and gingelly seed (sesamum) (1% each).

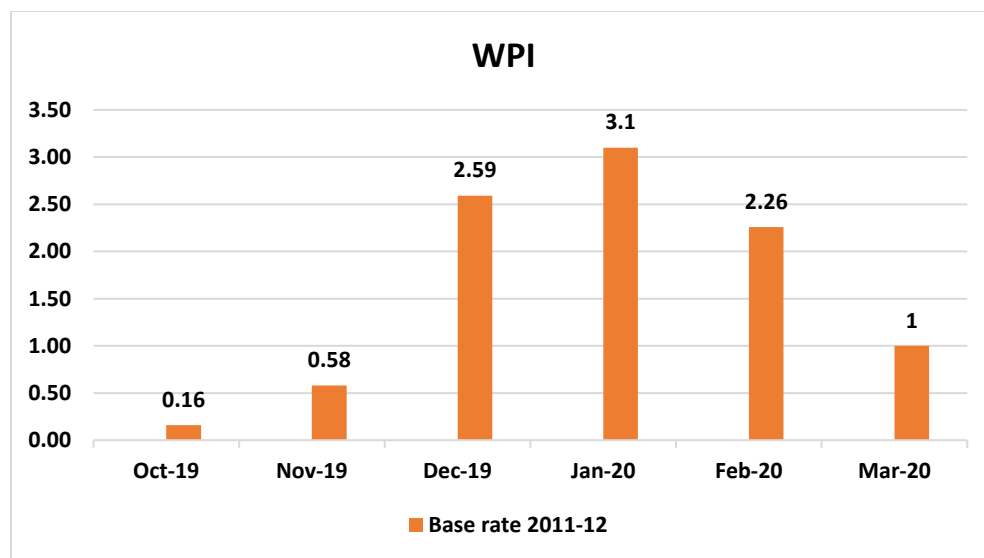
'Minerals' group rose by 4.2% due to higher prices of manganese ore (15%), copper concentrate (7%) and phosphorite (6%). However, the prices declined for chromite (3%), limestone (2%) and bauxite, zinc concentrate and lead concentrate (1% each).

'Crude petroleum and natural gas' group declined by 6.6% due to lower price of crude petroleum (9%).

The index for fuel and power declined by 3.1% from the previous month.

Under fuel and power, 'Mineral oils' group declined by 5.6% due to lower prices of ATF (19%), naphtha (13%), HSD and kerosene (5% each), petrol and furnace oil (4% each) and LPG (3%). However, the price moved up for petroleum coke (7%).

The index for manufactured products remained unchanged from the previous month.



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

Manufacturing PMI – March

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) grew at the slowest pace in 4 months in March, hampered by softer rises in new business as international demand faltered, owing to the coronavirus pandemic.

The Manufacturing PMI fell to a 4-month low of 51.8 in March 2020 from 54.5 in February 2020. It stayed above the 50 level, that separates expansion from contraction, for the 32nd consecutive month.

The Indian manufacturing sector remained relatively sheltered from the negative impact of the global coronavirus outbreak in March. However, there were pockets of disruption and a clear onset of fear amongst firms.

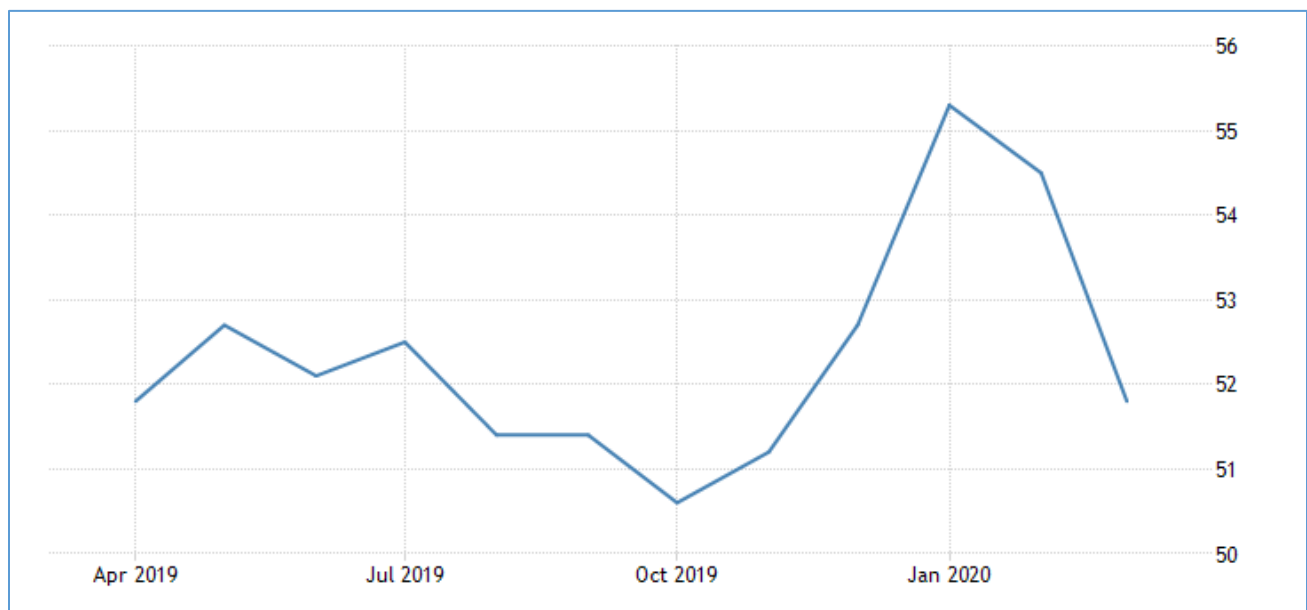
Moreover, the confidence towards the business outlook plummeted to a record low, due to Covid-19 concerns. The sentiment towards the 12-month business outlook weakened in March. There are fears of prolonged shutdowns due to Covid-19 and the associated negative impact on demand.

New orders and output both grew at softer rates, but those readings were relatively tame, compared to those seen at goods producers in Europe and other parts of Asia.

The most prominent signs of trouble came from the new export orders and future activity indices, which respectively indicated tumbling global demand and softening domestic confidence.

New orders placed with Indian manufacturers rose at a slower pace in March, while new export business fell sharply.

The decline in international sales was the fastest since September 2013 amid widespread lockdowns due to the Covid-19 pandemic.



Source: www.tradingeconomics.com

Services PMI – March

The Indian services sector activity contracted in March after registering the strongest rise in business activity in over 7 years in February, as the Covid-19 outbreak dented client demand, particularly in overseas markets.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to 49.3 in March 2020 from 57.5 in February 2020. The index fell below the neutral mark of 50, which separates expansion from contraction.

Services companies responded by reducing their workforces as intakes of new business were insufficient to maintain payroll numbers.

Poor conditions in overseas markets led to the sharpest deterioration in foreign demand since exports data were first collected in September 2014. The global Covid-19 pandemic had a far-reaching impact on the ability of firms to source new work intakes from abroad.

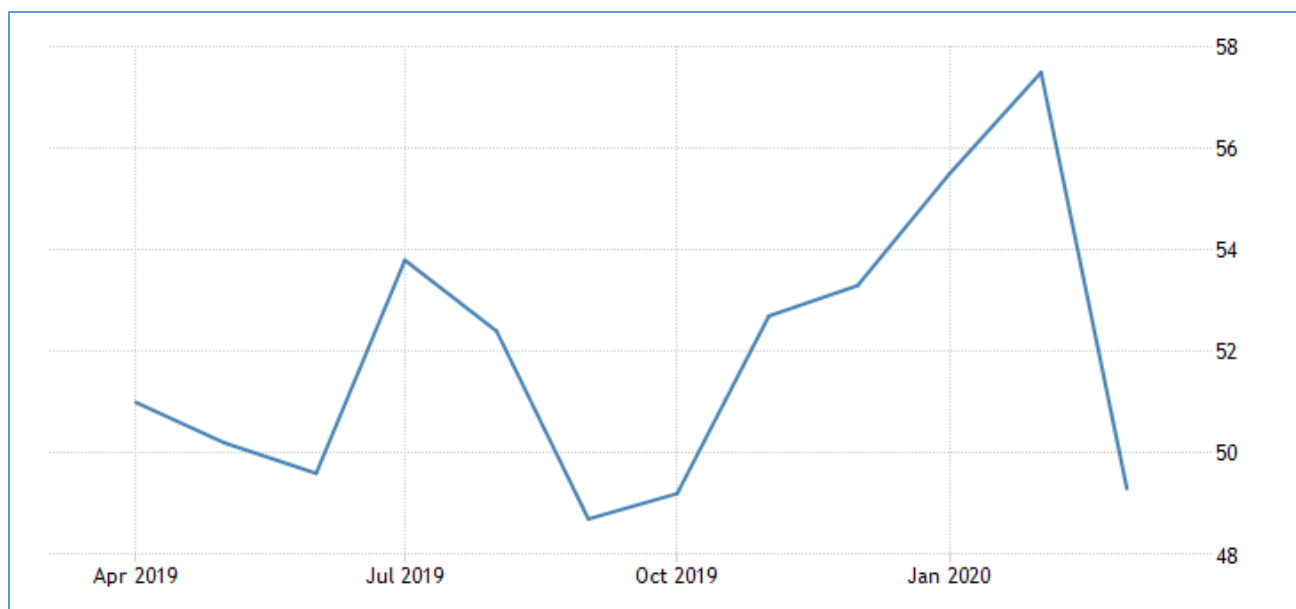
The impact of the global Covid-19 pandemic on India's services economy has not been fully realised yet.

March PMI data showed business activity falling mildly. Crucially, however, the data collection (12-27 March) was concluding just as Prime Minister Modi ordered a complete lockdown of the country. Strong growth momentum seen so far in 2019 was halted in March as demand conditions deteriorated, particularly overseas, leading to a reduction in business activity. Clearly, the worse is yet to come as nationwide store closures and prohibition to leave the house will weigh heavily on the services economy, as has been seen elsewhere in the world. Pressure now fully lies on the government to combat the economic challenges the lockdown will cause.

In response to reduced business requirements, the level of employment across the Indian services sector fell as firms cut workforce numbers to keep operating costs tight. However, the rate of job shedding was mild as the large majority of firms left payroll counts unchanged.

But firms are optimistic activity would rise over the next 12 months as the extreme measures to curb the spread of Covid-19 are lifted and global demand begins to recover. That said, the level of confidence dipped to a 5-month low.

The seasonally adjusted Nikkei India Composite PMI Output Index fell to 50.6 in March from 57.6 in February, to signal a sharp slowdown in private sector output growth and bringing an abrupt end to the recent strong upward moving expansion trend.



Source: www.tradingeconomics.com

Core Sector Data – March

Growth of eight infrastructure sectors contracted by a record 6.5% in March 2020, hit by a nationwide lockdown to contain the spread of Covid-19.

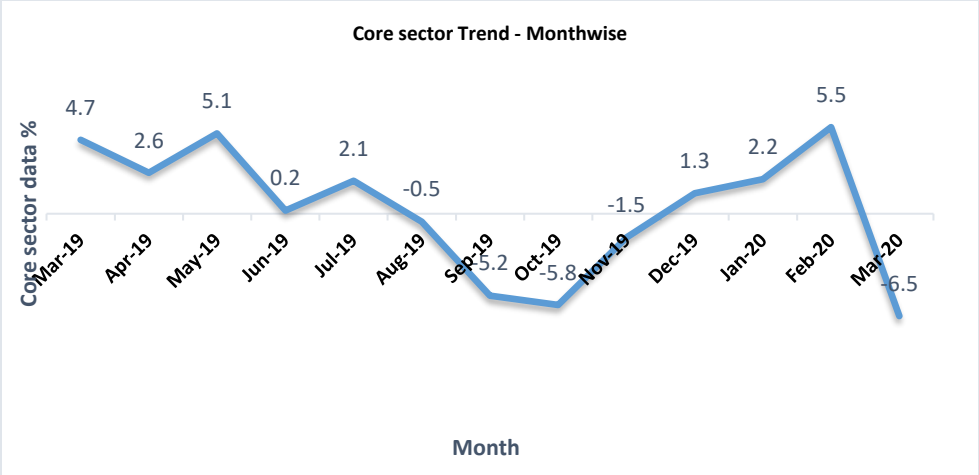
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had expanded by an 11-month high of 7.1% in February 2020 and 5.8% in March 2019.

The combined index of eight core industries stood at 137 in March 2020.

Output contracted for crude oil by 5.5%, natural gas by 15.2%, refinery products by 0.5%, fertilisers by 11.9%, steel by 13%, cement by 24.7% and electricity by 7.2% during March.

Coal was the only sector that grew, by 4%.

Cumulatively, the growth in the eight core sectors during April-March 2019-20 was 0.6%, as against 4.4% in the same period last financial year.



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



BANKING

Governor's Statement, April 17, 2020

Relief measures announced by the RBI:

1. Targeted Long-Term Repos Operations (TLTROs)

In order to mitigate their adverse effects on economic activity leading to pressures on cash flows, RBI has decided that it will conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to ₹ 1,00,000 crore at a floating rate linked to the policy repo rate.

2. Cash Reserve Ratio

As a one-time measure to help banks tide over the disruption caused by COVID-19, RBI has decided to reduce the cash reserve ratio (CRR) of all banks by 100 basis points to 3.0 per cent of net demand and time liabilities (NDTL) with effect from the reporting fortnight beginning March 28, 2020. This reduction in the CRR would release primary liquidity of about ₹ 1, 37,000 crore uniformly across the banking system in proportion to liabilities of constituents rather than in relation to holdings of excess SLR. This dispensation will be available for a period of one year ending on March 26, 2021.

3. Marginal Standing Facility

Under the marginal standing facility (MSF), banks can borrow overnight at their discretion by dipping up to 2 per cent into the Statutory Liquidity Ratio (SLR). In view of the exceptionally high volatility in domestic financial markets which bring in phases of liquidity stress and to provide comfort to the banking system, RBI has decided to increase the limit of 2 per cent to 3 per cent with immediate effect. This measure will be applicable up to June 30, 2020. This is intended to provide comfort to the banking system by allowing it to avail an additional ₹ 1, 37,000 crore of liquidity under the LAF window in times of stress at the reduced MSF rate announced in the MPC's resolution.

4. Widening of the Monetary Policy Rate Corridor

In view of persistent excess liquidity, RBI has decided to widen the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 bps lower than the policy repo rate. The marginal standing facility (MSF) rate would continue to be 25 bps above the policy repo rate.

5. Moratorium on Term Loans

All term loans (including agricultural term loans, retail and crop loans), all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial

Institutions, and NBFCs (including housing finance companies) (“lending institutions”) have been permitted to grant a moratorium of three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020. The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

6. Deferment of Interest on Working Capital Facilities

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions have been permitted to allow a deferment of three months on payment of interest in respect of all such facilities outstanding as on March 1, 2020. The accumulated interest for the period will be paid after the expiry of the deferment period.

7. Easing of Working Capital Financing

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. Also, lending institution have been permitted to defer the recovery of interest applied in respect of all such facilities during the period from March 1, 2020 up to May 31, 2020 (‘deferment’). Such changes in credit terms permitted to the borrowers to specifically tide over the economic fallout from COVID-19 will not be treated as concessions granted due to financial difficulties of the borrower, and consequently, will not result in asset classification downgrade. The accumulated accrued interest shall be recovered immediately after the completion of this period.

8. Deferment of Implementation of Net Stable Funding Ratio (NSFR)

As part of reforms undertaken in the years following the global financial crisis, the Basel Committee on Banking Supervision (BCBS) had introduced the Net Stable Funding Ratio (NSFR) which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year in order to mitigate the risk of future funding stress. As per the prescribed timeline, banks in India were required to maintain NSFR of 100 per cent from April 1, 2020. RBI has now decided to defer the implementation of NSFR by six months from April 1, 2020 to October 1, 2020.

9. Deferment of Last Tranche of Capital Conservation Buffer

Considering the potential stress on account of COVID-19, RBI has decided to further defer the implementation of the last tranche of 0.625 per cent of the CCB from March 31, 2020 to September 30, 2020. Consequently, the pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.5 per cent of risk-weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020.

10. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

Since the moratorium/deferment/recalculation of the ‘drawing power’ is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower. Consequently, such a measure, by itself, shall not result in asset classification downgrade.

11. Targeted Long-Term Repo Operations (TLTRO) 2.0

RBI has decided to conduct targeted long-term repo operations (TLTRO 2.0) for an aggregate amount of ₹50,000 crore, to begin with, in tranches of appropriate sizes. The funds availed by banks under TLTRO 2.0

should be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50 per cent of the total amount availed going to small and mid-sized NBFCs and MFIs.

12. Refinancing Facilities for All India Financial Institutions (AIFIs)

RBI has decided to provide special refinance facilities for a total amount of ₹50,000 crore to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs. This will comprise ₹25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); ₹15,000 crore to SIDBI for on-lending/refinancing; and ₹ 10,000 crore to NHB for supporting housing finance companies (HFCs). Advances under this facility will be charged at the RBI's policy repo rate at the time of availment.

13. Ways and Means Advances for States

On 1st April, 2020 the RBI had announced an increase in the ways and means advances (WMA) limit of states by 30%. RBI has now decided to increase the WMA limit of states by 60% over and above the level as on 31st March, 2020 to provide greater comfort to the states for undertaking COVID-19 containment and mitigation efforts, and to plan their market borrowing programmes better. The increased limit will be available till 30th September, 2020.

14. Asset Classification

In respect of all accounts for which lending institutions decide to grant moratorium or deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall exclude the moratorium period, i.e., there would be an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. NBFCs, which are required to comply with Indian Accounting Standards (IndAS), may be guided by the guidelines duly approved by their boards and as per advisories of the Institute of Chartered Accountants of India (ICAI) in recognition of impairments. In other words, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

15. Liquidity Coverage Ratio

In order to ease the liquidity position at the level of individual institutions, the LCR requirement for Scheduled Commercial Banks is being brought down from 100% to 80% with immediate effect. The requirement shall be gradually restored back in two phases – 90% by October 1, 2020 and 100% by April 1, 2021.

Reserve Bank Announces Targeted Long-Term Repo Operations 2.0 (TLTRO 2.0)

The Reserve Bank of India (RBI) has sought to engender conducive financial conditions and normal functioning of financial markets and institutions by providing adequate system level liquidity as well as targeted liquidity provision to sectors and entities experiencing liquidity constraints and/or hindrances to market access. In order to channel liquidity to small and mid-sized corporates, including non-banking financial companies (NBFCs) and micro finance institutions (MFIs), that have been impacted by COVID-19 disruptions, RBI has decided to conduct Targeted Long-Term Repo Operations ([TLTRO](#)) 2.0 at the policy repo rate for tenors up to three years for a total amount of up to INR 50,000 crores, to begin with, in tranches of appropriate sizes.

The funds availed under TLTRO 2.0 shall be deployed in investment grade bonds, commercial paper (CPs) and non-convertible debentures (NCDs) of Non-Banking Financial Companies (NBFCs). At least 50 percent of the total funds availed shall be apportioned as given below:

- a. 10 per cent in securities/instruments issued by Micro Finance Institutions (MFIs);
- b. 15 per cent in securities/instruments issued by NBFCs with asset size of ₹ 500 crore and below; and
- c. 25 per cent in securities/instruments issued by NBFCs with assets size between ₹ 500 crores and ₹ 5,000 crores.

The asset size shall be determined as per the latest audited balance sheet of the investee institution/company.

Investments made under this facility will be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will not be reckoned under the Large Exposure Framework (LEF).

'Fully Accessible Route' for Investment by Non-residents in Government Securities

As per announcement in the Union Budget 2020-21, that certain specified categories of Central Government securities would be opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well. Accordingly, RBI has decided, in consultation with the Government of India, to introduce a separate route viz., Fully Accessible Route (FAR) for investment by non-residents in securities issued by the Government of India.

The details of the scheme are mentioned [here](#).

RBI Announces ₹ 50,000 crore Special Liquidity Facility for Mutual Funds (SLF-MF)

Heightened volatility in capital markets in reaction to COVID-19 has imposed liquidity strains on mutual funds (MFs), which have intensified in the wake of redemption pressures related to closure of some debt MFs and potential contagious effects therefrom. The stress is, however, confined to the high-risk debt MF segment at this stage; the larger industry remains liquid.

The RBI has stated that it remains vigilant and will take whatever steps are necessary to mitigate the economic impact of COVID-19 and preserve financial stability. With a view to easing liquidity pressures on MFs, RBI has been decided to open a [special liquidity facility](#) for mutual funds of ₹ 50,000 crore.

Under the SLF-MF, the RBI shall conduct repo operations of 90 days tenor at the fixed repo rate. The SLF-MF is on-tap and open-ended, and banks can submit their bids to avail funding on any day from Monday to Friday (excluding holidays). The scheme is available from today i.e., April 27, 2020 till May 11, 2020 or up to utilization of the allocated amount, whichever is earlier. The Reserve Bank will review the timeline and amount, depending upon market conditions.

Funds availed under the SLF-MF shall be used by banks exclusively for meeting the liquidity requirements of MFs by (1) extending loans, and (2) undertaking outright purchase of and/or repos against the collateral of

investment grade corporate bonds, commercial papers (CPs), debentures and certificates of Deposit (CDs) held by MFs.

Liquidity support availed under the SLF-MF would be eligible to be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will not be reckoned under the Large Exposure Framework (LEF). The face value of securities acquired under the SLF-MF and kept in the HTM category will not be reckoned for computation of adjusted non-food bank credit (ANBC) for the purpose of determining priority sector targets/sub-targets. Support extended to MFs under the SLF-MF shall be exempted from banks' capital market exposure limits.

Investment by Foreign Portfolio Investors (FPI): Investment limits

RBI has amended the investment limits by [foreign portfolio investors](#).

The limit for FPI investment in corporate bonds is increased to 15% of outstanding stock for FY 2020-21. Accordingly, the revised limits for FPI investment in corporate bonds, after rounding off, shall be as under:

Limits for FPI investment in corporate bonds for FY 2020-21	
(₹ Crore)	
Current FPI limit	3,17,000
Revised limit for HY Apr 2020-Sep 2020	4,29,244
Revised limit for HY Oct 2020-Mar 2021	5,41,488

The revised limits for FPI investment in Central Government securities (G-secs) and State Development Loans (SDLs) for FY 2020-21 will be advised separately. Till such time, the current limits, shall continue to be applicable.

Limits for FPI investments in G-Sec and SDL				
(₹ Crore)				
	G-Sec General	G-Sec Long Term	SDL General	SDL Long Term
FPI investment limits	2,46,100	1,15,100	61,200	7,100

Risk Management and Inter-bank Dealings – Hedging of foreign exchange risk

RBI has announced final directions to be followed by Authorize Dealers Category – I with regard to risk management and inter-bank dealings related to [hedging of foreign exchange risk](#).

The existing facilities for non-residents and residents to hedge their foreign exchange risk on account of transactions permitted under Foreign Exchange Management Act (FEMA), 1999 have been revised. The revised directions are provided at Annexure to the above circular. All previous operational guidelines, terms and conditions in this regard shall stand withdrawn from the date that these directions come into effect.

Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans

As per an earlier circular by RBI, RBI decided the continuation of [interest subvention \(IS\)](#) and Prompt Repayment Incentive (PRI) schemes.

In the wake of the nationwide lockdown due to outbreak of COVID -19 pandemic and the resultant restrictions imposed on movement of people, many farmers are not able to travel to bank branches for payment of their short term crop loan dues. As per earlier RBI circular regarding COVID 19-Regulatory Package, RBI has granted moratorium for three months on payment of installments falling due between March 1, 2020 and May 31, 2020 in respect of all term loans including short term crop loans.

Accordingly, to ensure that farmers do not have to pay penal interest and at the same time continue getting the benefits of interest subvention scheme, Government has decided to continue the availability of 2% IS and 3% PRI to farmers for the extended period of repayment up to 31.05.2020 or date of repayment, whichever is earlier, for short term crop loans up to ₹3 lakh per farmer which have become due between March 01, 2020 and May 31, 2020.

RBI has advised Banks to extend the benefit of IS of 2% and PRI of 3% for short term crop loans up to ₹3 lakh to farmers whose accounts have become due or shall become due between March 1, 2020 and May 31, 2020.

COVID19 Regulatory Package - Asset Classification and Provisioning

As announced in Governor's statement above, regarding certain additional regulatory measures aimed at alleviating the lingering impact of COVID-19 pandemic on the businesses and financial institutions in India, consistent with the globally coordinated action committed by the Basel Committee on Banking Supervision. In this regard, RBI has announced detailed instructions with regard to [asset classification and provisioning](#) as follows:

(i) Asset Classification under the prudential norms on Income Recognition, Asset Classification (IRAC)

As per announcement related to regulatory package, RBI has permitted the lending institutions to grant a moratorium of three months on payment of all term loan instalments falling due between March 1, 2020 and May 31, 2020 ('moratorium period'). As such, in line with the clarification provided by the Basel Committee on Banking Supervision, in respect of all accounts classified as standard as on February 29, 2020, even if

overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms.

Similarly in respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), the Regulatory Package permitted the recovery of interest applied during the period from March 1, 2020 up to May 31, 2020 to be deferred (‘deferment period’). Such deferment period, wherever granted in respect of all facilities classified as standard, including SMA, as on February 29, 2020, shall be excluded for the determination of out of order status.

NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall, as hitherto, continue to be guided by the guidelines duly approved by their Boards and as per ICAI Advisories for recognition of the impairments.

(ii) Provisioning

RBI has also announced relaxations related to provisioning to types of accounts mentioned above. Detailed relaxation to provisioning are described in the link above.

Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR)

As part of post Global Financial Crisis (GFC) reforms, Basel Committee on Banking Supervision (BCBS) had introduced [Liquidity Coverage Ratio \(LCR\)](#), which requires banks to maintain High Quality Liquid Assets (HQLAs) to meet 30 days net outgo under stressed conditions. Further, as per Banking Regulation Act, 1949, the banks in India are required to hold liquid assets to maintain Statutory Liquidity Ratio (SLR). In view of the fact that liquid assets under SLR and HQLAs under LCR are largely the same, RBI has allowed banks to use a progressively increasing proportion of the SLR securities for being considered as HQLAs for LCR so that the need to maintain liquid assets for both the requirements is optimized.

At present the assets allowed as Level 1 High Quality Liquid Assets (HQLAs), inter alia, includes among others within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) Marginal Standing Facility (MSF) and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [15 per cent of the bank’s NDTL with effect from April 1, 2020]. Given that SLR has now been reduced to 18 per cent of NDTL from April 11, 2020, and with increase in MSF from 2 per cent to 3 per cent of the banks’ NDTL (with effect from March 27, 2020 and applicable up to June 30, 2020), entire SLR-eligible assets held by banks are now permitted to be reckoned as HQLAs for meeting LCR.

Further, banks are required by RBI to maintain LCR of 100 per cent with effect from January 1, 2019. In order to accommodate the burden on banks’ cash flows on account of the COVID-19 pandemic, banks have been permitted to maintain LCR as under:

From date of circular to September 30, 2020 -	80 per cent
Oct 1, 2020 to March 31, 2021 -	90 per cent
April 1, 2021 onwards -	100 per cent

Declaration of dividends by banks

As per an earlier circular, banks in India are permitted to declare [dividends](#), subject to compliance with the guidelines issued in the said circular.

In an environment of heightened uncertainty caused by COVID-19, RBI deems it important that banks conserve capital to retain their capacity to support the economy and absorb losses. Accordingly, RBI has decided that all banks shall not make any further dividend payout from the profits pertaining to the financial year ended March 31, 2020 until further instructions. This restriction shall be reassessed by the Reserve Bank based on the financial results of banks for the quarter ending September 30, 2020.

RBI releases the results of forward looking Surveys

The Reserve Bank of India today released on its website the results of the following Surveys:

- i. [Consumer Confidence Survey \(CCS\) – March 2020](#)
- ii. [Inflation Expectations Survey of Households \(IESH\) – March 2020](#)
- iii. [OBICUS Survey on manufacturing sector – Q3:2019-20](#)
- iv. [Industrial Outlook Survey of the Manufacturing Sector for Q4:2019-20](#)
- v. [Survey of Professional Forecasters on Macroeconomic Indicators–Round¹ 63rd](#)



INSURANCE

Corporate Agency matters of the PSBs that have merged

1. Scope of the circular

This circular is applicable to the four banks emerging from the [mega merger exercise](#) effected from 1st April, 2020; i.e. Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank and concerned insurers. In this circular, the four banks are referred as 'Acquiring Bank' and the banks that were merged with the acquiring bank are referred as 'Acquired Bank'.

2. Surrender of Certification of Registration (COR)

Acquiring bank shall retain the existing COR to act as a corporate agent and surrender COR(s) held by acquired banks by submitting written request to the Authority. The surrender shall be allowed subject to undertaking from the acquiring bank regarding servicing of existing policyholders of acquired banks by entering into suitable arrangement with the insurers that had arrangement with acquired banks. In case of non-agreement between concerned insurer and acquiring bank, the insurer shall be responsible for servicing existing policyholders of acquired banks till expiry of the policy term.

3. Harmonization of corporate agency agreements between acquiring banks and insurers

A. The acquiring bank may continue arrangement with more than 3 entities in each of the life, general and health categories of insurers for a period of 12 months from the date of merger by transfer of the existing insurance arrangements of the acquired banks to their name by way of an addendum to the existing corporate agency agreement executed by the acquired banks.

B. The acquiring banks shall submit to Authority duly revised Board approved policy on adoption of open architecture and on the manner of soliciting and servicing insurance policies, within 60 days of completion of the merger.

4. Transfer of Specified Persons (SPs) of acquired banks to the acquiring bank

Transfer of SPs to the acquiring bank shall be automatically recognised by the Authority on approval of surrender of CORs of acquired banks. No fee will be charged for issuance of revised SP certificates. Only the

principal officer (PO) of acquiring bank shall be allowed to retain the PO certificate and the certificates granted to principal officers of acquired banks shall be automatically cancelled.

5. Renewal commission applicable to acquiring banks

The acquiring banks may receive renewal commissions under the life insurance arrangements of acquired banks only after entering suitable arrangements for servicing of the policyholders.

Report of the Working Group (WG)

IRDAI had constituted a [working group](#) to revisit the IRDAI (Obligation of Insurer in respect of Motor Third Party Insurance business) Regulations, 2015

The WG has come up to a conclusion that the MTP Obligation should be a function of “number of vehicles insured/uninsured” instead of “premium derived from motor third party insurance business” and accordingly a simple & equitable formula for calculating the MTP Obligation has been proposed.

The following is a summary of the recommendations of the WG:

A. The Obligation of an Insurer ‘**O(n)**’ in respect to Motor Third Party insurance business for a ‘**Financial Year(n)**’ should be arrived, for each category of vehicles defined in (B), as below:

- a) Obligation of the insurer in the (n-1) th financial year = $O(n-1)^*$
- b) Percentage Market Share of the insurer as on 31st March of the (n-2)th financial year based on Gross Domestic Premium Income (GDPI) = $M(n-2)$
- c) Number of uninsured vehicles as determined by IIBI for the (n-2)th financial year expressed in absolute numbers independently for each category of vehicles defined in (B) = $V(n-2)$
- d) Percentage of the uninsured vehicles (Insurance factor) intended to be insured in the financial year under consideration. The Insurance factor shall be determined and declared by the Authority every year for each category of vehicles defined in (B) taking into consideration the contribution of that class to the total uninsured vehicles in the country in the (n-2)th financial year = I
- e) Obligation of the insurer to be met in a financial year

$$O(n) = O(n-1) + \{M(n-2) \times V(n-2) \times I\}$$

** MTP Obligations in each category for the 1st year (say for the FY 2020-21): Since obligations in terms of number of policies for the (n-1)th financial year (i.e in this case 2019-20) are not available, the actual MTP policies of the (n-2)th financial year may be considered for calculating the MTP obligations for the year 2020-21.*

B. The categories of Vehicles on which the above obligations shall be applicable are:

- i) Two-wheelers,
- ii) Private cars, and
- iii) Others

- C. For long term policies, the Insurers may take credit for
 - i) five/three/two years for two wheelers depending on the remaining term of the policy for which it is in force and,
 - ii) three years for private cars depending on the remaining term of the policy for which it is in force.
- D. The existing exemptions may be continued.

Norms on settlement of health insurance claims

In light of prevailing conditions owing to COVID-19 as also taking into consideration the need for alleviating the pressure on the healthcare infrastructure, IRDAI has directed all the insurers to decide [health insurance claims](#) expeditiously. In order to ensure all health insurance claims are responded to quickly, insurers are have been guided as follows:

- a. Decision on authorization for cashless treatment shall be communicated to the network provider (hospital) within two hours from the time of receipt of authorization request and last necessary requirement from the hospital either to the insurer or to the TPA whichever is earlier.
- b. Decision on final discharge shall be communicated to the network provider within two hours from the time of receipt of final bill and last necessary requirement from the hospital either to the insurer or to the TPA whichever is earlier.
- c Insurers have been advised to issue appropriate guidelines to their respective Third Party Administrators.

Global Pandemic COVID-19 related Instructions to Life Insurers

In regard to several representations received by IRDAI from [life insurance companies](#) and life insurance council, expressing various operational constraints and difficulties being faced by policyholders due to nationwide three week lockdown and social distancing norms, IRDAI has introduced following norms in continuation to its earlier circular released on 23rd March 2020:

1. Additional Grace Period

For life insurance policies whose premiums fall due in March and April 2020: 30 days

2. Settlement Options for maturity payout of Unit Linked Policies

Where unit linked policies mature and fund value is to be paid in lump sum, Life Insurers may offer settlement options. This onetime option is regardless of whether such option exists or not in the specific product. The Life Insurers however have to exercise all due care and diligence to explain clearly the possible downside risk of continued fluctuation of fund value based on daily NAV and clear consent has to be obtained from the policyholder. This is allowed for unit linked policies maturing up to 31st May 2020.

Prudent management of financial resources of insurers in the context of COVID-19 pandemic

In light of COVID-19 and lockdown, Indian insurers need to prepare strategies and action plans for [business continuity](#) to ensure enhanced protection to the policyholders. Due to the stress experienced by the economy, sufficiency of capital and liquidity position of the insurers may be adversely impacted and all the insurers need to guard against the same.

It is critical in these difficult times for all the Indian insurers to ensure that at all times they protect the interests of policyholders and provide necessary financial security to them.

In the light of the above, the Authority has advised all insurers to take following steps:

- (i) Board of insurers are advised to critically examine their capital availability and solvency margin as required in the current financial year 2020-21 and devise strategies to ensure that they have adequate capital and resources available with them;
- (ii) To align the dividend pay-out for the FY 2019-20 with prudence adopted as mentioned above
- (iii) Rationalize the expenses of management for the FY 2020-21
- (iv) As part of measures to prudently manage their financial resources, all insurers have been directed to align dividend pay-out for the FY 2019-20 so as to be in conformity with their strategies to ensure that they have adequate capital and resources available with them to ensure protection of the interests of the policyholders.
- (v) In view of the emerging market conditions, and to conserve capital with the insurance companies in the interests of the policyholders and of the economy at large, insurers are urged to take a conscious call to refrain from dividend pay-outs from profits pertaining to the financial year ending 31st March 2020, till further instructions. This position shall be reassessed by the Authority based on financial results of insurers for the quarter ending 30th September, 2020.
- (vi) The necessary relaxations on recognition of 'approved investments', arising out of the above measures will be separately considered.

Insurance Regulatory and Development Authority of India (Insurance Brokers) Regulations, 2018

IRDAI released the revised regulations for monitoring and supervising [insurance brokers](#) in India. These regulations shall come into force on the day they are published on official gazette. Key components of these regulations are as follows:

1. Chapter I: Definitions
2. Chapter II: Registration and renewal of certificate of registration
 - a. PART – A: New Certificate of Registration
 - b. PART – B: Renewal of Certificate of Registration
 - c. PART – C: Duplicate certificate of registration
3. Chapter – III: Corporate Governance
4. Chapter – IV: Online sales, telemarketing and distance marketing
5. Chapter – V: Approach in case of non-compliance of regulations
6. Chapter – VI: Miscellaneous



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INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Government amends the extant FDI policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic

The Government of India has reviewed the extant Foreign Direct Investment(FDI) policy for curbing [opportunistic takeovers/acquisitions](#) of Indian companies due to the current COVID-19 pandemic and amended para 3.1.1 of extant FDI policy (given below) as contained in Consolidated FDI Policy, 2017. The present position and revised position in the matters will be as under:

Present Position (Paragraph as mentioned in above regulation)

Para 3.1.1: A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, a citizen of Bangladesh or an entity incorporated in Bangladesh can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defense, space, atomic energy and sectors/activities prohibited for foreign investment.

Revised Position

Para 3.1.1:

3.1.1(a) A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, an entity of a country, which shares land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defense, space, atomic energy and sectors/activities prohibited for foreign investment.

3.1.1(b) In the event of the transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction/purview of the para 3.1.1(a), such subsequent change in beneficial ownership will also require Government approval.

Cabinet approves INR 15,000 Crore for "India COVID-19 Emergency Response and Health System Preparedness Package"

The Union Cabinet chaired by the Prime Minister, Shri Narendra Modi has approved significant investments to the tune of INR 15,000 crore for 'India [COVID-19 Emergency Response](#) and Health System Preparedness Package'. The funds sanctioned will be utilized in 3 Phases and for immediate COVID-19 Emergency Response (an amount of INR 7,774 Crore) has been provisioned and rest for medium-term support (1-4 years) to be provided under mission mode approach.

The key objectives of the package include mounting emergency response to slow and limit COVID-19 in India through the development of diagnostics and COVID-dedicated treatment facilities, centralized procurement of essential medical equipment and drugs required for treatment of infected patients, strengthen and build resilient National and State health systems to support prevention and preparedness for future disease outbreaks, setting up of laboratories and bolster surveillance activities, bio-security preparedness, pandemic research and proactively engage communities and conduct risk communication activities. These interventions and initiatives would be implemented under the overall umbrella of the Ministry of Health and Family Welfare.

In Phase 1, the Ministry of Health & Family Welfare with the support of all the other line ministries has already undertaken several activities like:

- i. Additional funds to the tune of INR 3,000 Cr have been released under the Package to State/UTs, for strengthening of existing health facilities as COVID Dedicated Hospitals, Dedicated COVID Health Center and Dedicated COVID Care Centers. Detailed guidelines, protocols and advisory for quarantine, isolation, testing, treatment, disease containment, decontamination, social distancing and surveillance. Hotspots have been identified and appropriate containment strategies are being implemented.
- ii. Diagnostics laboratories network has been expanded and our testing capacity increasing every day. In fact, leveraging on the existing multi-disease testing platforms under National TB Elimination Programme, orders for procurement of 13 lakhs diagnostic kits have been placed to augment COVID 19 testing.
- iii. All health workers including Community Health Volunteers (ASHAs) have been covered with insurance under the "Pradhan Mantri Garib Kalyan Package: Insurance Scheme for Health Workers lighting COVID-19". Personal Protection Equipment (PPE), N95 masks and ventilators, testing kits and drugs for treatment are being procured centrally.

The major share of the expenditure will be used for mounting robust emergency response, strengthening National and State health systems followed by strengthening pandemic research and multi-sector national institutions and platforms for One-Health, community engagement and risk communications and implementation, management, capacity building, monitoring and evaluation component. M/o Health & Family Welfare has been authorized to re-appropriate resources among components of the package and among the various implementation agencies (National Health Mission, Central Procurement, Railways, Dept. of Health Research/ICMR, National Centre for Disease Control) as per the evolving emergent situation.

Extension of premium payment period for Postal Life Insurance & Rural Postal Life Insurance till 30th June 2020

In view of the threat posed by the outbreak of Corona Virus (COVID-19), and the complete lockdown across India, Central/State Governments have issued several advisories and imposed restrictions on the movement of general public. [Postal Life Insurance/Rural Postal Life Insurance](#) customers are facing difficulty in approaching post offices for payment of premia inspite of the fact that many Post Offices are functional as part of essential services.

As a measure of convenience to all the PLI / RPLI customers, Directorate of Postal Life Insurance, Department of Posts, Ministry of Communications has given an extension of period for payment of their due premium of March 2020, April 2020 & May 2020 up to 30th June 2020 without charging any penalty/default fee. The decision has been taken because The Department has advised Customers registered on portal to pay premium online using PLI customer Portal.



CAPITAL MARKETS

SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2020

In the Securities and Exchange Board of India ([Foreign Portfolio Investors](#)) Regulations, 2019, below given **clause in bold** shall be inserted:

Categories of foreign portfolio investor.

5. An applicant seeking registration as a foreign portfolio investor may apply in one of the categories mentioned hereunder or any other category as may be specified by the Board from time to time – (a) "Category I foreign portfolio investor" which shall include –

(i) Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);

(ii) Pension funds and university funds;

(iii) Appropriately regulated entities such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers;

(iv) Entities from the Financial Action Task Force member countries which are **or from any country specified by the Central Government by an order or by way of an agreement or treaty with other sovereign Governments -**

- I. Appropriately regulated funds;
- II. Unregulated funds whose investment manager is appropriately regulated and registered as a Category I foreign portfolio investor: Provided that the investment manager undertakes the responsibility of all the acts of commission or omission of such unregulated fund;
- III. University related endowments of such universities that have been in existence for more than five years;

Review of provisions under SEBI (Mutual Funds) Regulations, 1996

In light of current situation of pandemic, SEBI has formulated regulations to review the [valuation approach](#) for mutual funds. Currently, Valuation agencies appointed by AMFI recognize default of security as per original circular issued i.e. SEBI (Mutual Funds) Regulations, 1996

In view of the nationwide lockdown and the three-month moratorium/ deferment on payment permitted by RBI, a differentiation in treatment of default, on a case to case basis, shall be made as to whether such default occurred solely due to the lockdown or loan moratorium.

Accordingly, based on assessment, if the valuation agencies appointed by AMFI are of the view that the delay in payment of interest/principal or extension of maturity of a security by the issuer has arisen solely due to COVID-19 pandemic lockdown and/or in light of the moratorium permitted by Reserve Bank of India (RBI) creating temporary operational challenges in servicing debt, then valuation agencies may not consider the same as a default for the purpose of valuation of money market or debt securities held by Mutual Funds.

However, in the scenario as stated above, if there is any difference in the valuation of securities provided by two valuation agencies, the conservative valuation shall be accepted.

Measures to further facilitate fund raising from capital markets in the backdrop of COVID-19 pandemic

In the wake of challenges for the Indian economy arising out of the COVID-19 pandemic and with a view to improving access to [funding to the corporates](#) through capital markets, SEBI has granted certain temporary relaxations from the regulatory provisions related to rights/ public issuances by listed entities.

A. Rights Issues

1. Fast track Rights issuances towards expanding the universe of listed entities for the purpose of fast track rights issuances, SEBI has relaxed the following conditions:

- The eligibility requirement of average market capitalization of public shareholding of INR 250 crores has been reduced to INR 100 crores.
- The requirement related to period of listing of equity shares of the issuer for at least three years has been reduced to listing for eighteen months only.
- The condition related to no audit qualifications on issuer's audited accounts has been replaced with the requirement to disclose the impact of audit qualifications on issuer's financials.
- Certain other eligibility conditions with respect to period of compliance with the provisions of the listing regulations, ongoing action initiated by SEBI against the issuer / promoters / directors and settlement of violation of securities laws have also been relaxed.

2. Minimum Subscription

To provide greater flexibility in fund raising, the threshold for minimum subscription requirements for a rights issue has been reduced from existing 90% to 75% of the offer size.

3. Threshold for not filing draft letter of offer with SEBI

To reduce the time involved in fund raising and ease compliance requirements, listed entities raising funds up to INR 25 crores in a rights issue will not be required to file draft offer document. The existing threshold in this regard is INR 10 crores. These relaxations are applicable to right issues that open on or before March 31, 2021. It may be recalled that last year SEBI had amended ICDR regulations to significantly reduce the timeline for the completion of the Rights Issue from T+ 55 days to T+ 31 days as well as introduced the dematerialization and trading of rights entitlements. These measures would make the rights issue framework more effective and efficient.

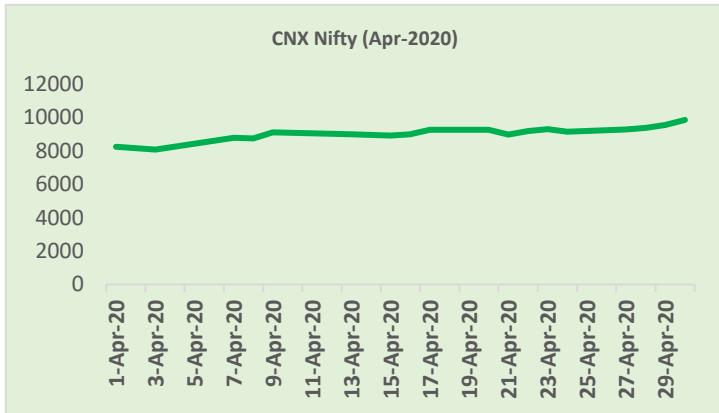
B. Flexibility on Issue size

An issuer, whose offer document is pending receipt of SEBI observation, shall be permitted to increase or decrease the fresh issue size by up to 50% of the estimated issue size (instead of the present limit of 20%) without requiring to file fresh draft offer document with the Board. The relaxation shall be applicable for all offer documents pending receipt of SEBI observations up to December 31, 2020.

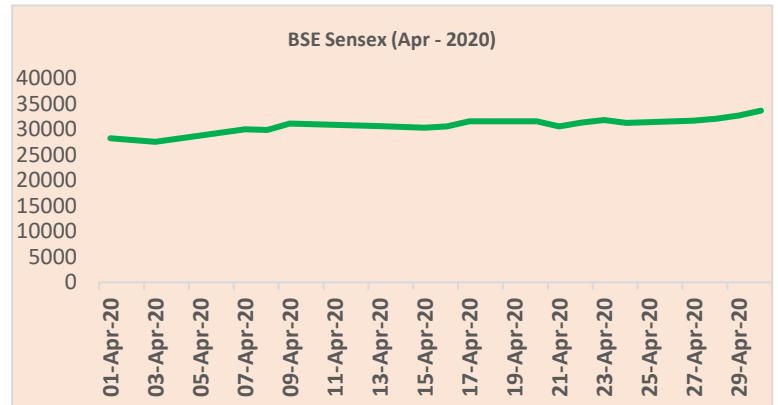
C. Validity of SEBI observations

Considering the prevailing economic scenario and based on requests from various industry bodies, SEBI has decided to extend the validity of SEBI observations on all public issues/ rights issues by six months from the date of expiry for issuers whose observation has expired/ shall expire between March 01, 2020 and September 30, 2020.

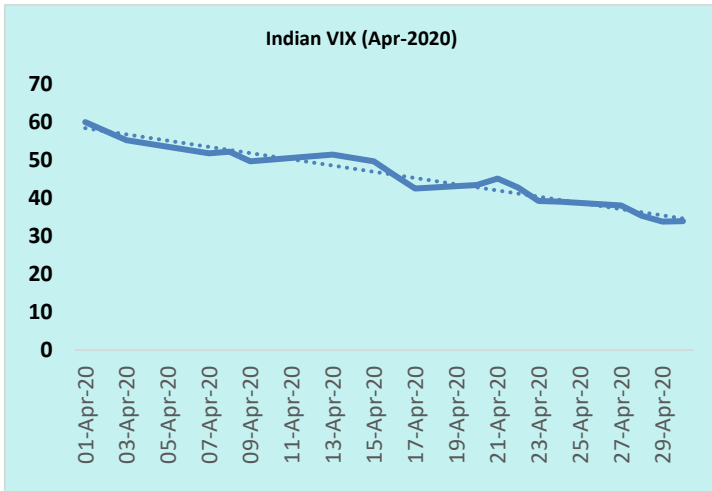
CAPITAL MARKETS SNAPSHOT



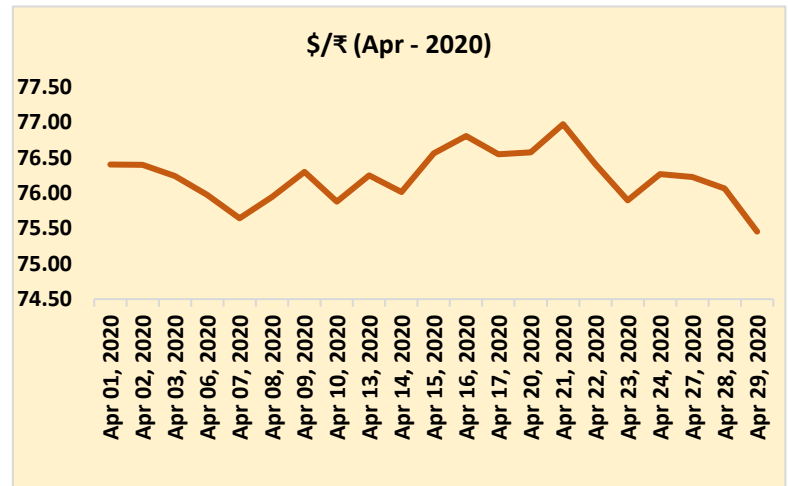
Source: National Stock Exchange



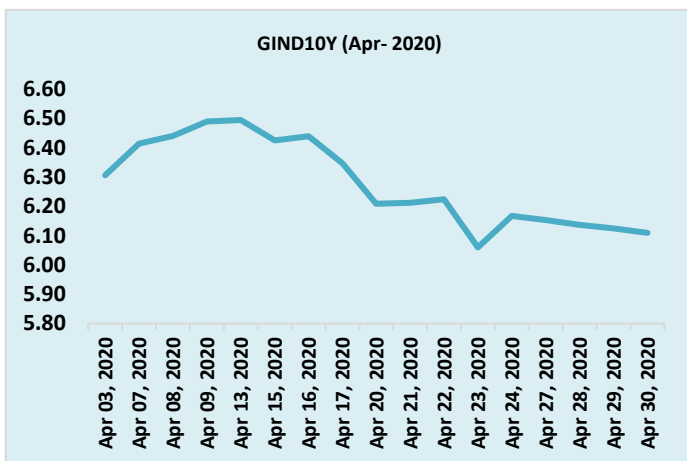
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Worries over lack of progress in Covid-19 drug development, wariness about domestic corporate earnings, and lack of more economic stimulus measures by the government dented the sentiments further. S&P cut its current fiscal growth estimate for India to 1.8% from 3.5% projected last month, on Covid-19 concerns. Most global equities ended in the red on concerns over economic damage from the Covid-19 pandemic and sharp fall in crude oil prices. As a result, demand for the safe-haven US treasuries strengthened, thereby boosting their prices. Crude oil prices declined on worries over a global supply glut, tight storage space and lower demand due to the pandemic.

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	1.7 Q4	-5.5	3.7	3.3 Mar	3.7	-2.3	-12.0	2.90
Russia	2.1 Q4	-5.2	1.3	2.5 Mar	4.2	1.7	-3.1	6.17
India	4.7 Q4	2.1	5.1	5.9 Mar	5.7	-0.3	-5.1	6.11
China	-6.8 Q1	-4.0	1.2	4.1 Mar	4.0	0.8	-5.5	1.74^
S Africa	-0.5 Q4	0.7	1.2	4.5 Feb	4.5	-2.5	-10.3	10.0
USA	0.3 Q1	-3.5	2.4	1.5 Mar	0.6	-1.9	-13.2	0.64
Canada	1.5 Q4	-4.3	3.4	0.9 Mar	0.7	-3.9	-7.2	0.55
Mexico	-1.6 Q1	-6.5	2.4	3.2 Mar	2.9	-2.0	-4.2	6.59
Euro Area	-3.3 Q1	-6.0	3.7	0.4 Apr	0.3	1.6	-5.8	0.0
Germany	0.5 Q4	-6.0	3.6	0.8 Apr	0.8	5.2	-5.2	0.0
Britain	1.1 Q4	-4.7	3.0	1.5 Mar	1.2	-2.2	-14.8	0.33
Australia	2.2 Q4	-0.5	2.4	2.2 Q1	1.7	-1.1	-4.8	0.89
Indonesia	5.0 Q4	1.0	5.1	3.0 Mar	1.3	-1.5	-5.4	7.8
Malaysia	3.6 Q4	-1.0	4.6	-0.2 Mar	1.5	3.3	-6.2	2.87
Singapore	-2.2 Q1	-3.2	2.1	Nil Mar	1.3	19.1	-6.1	0.9
S Korea	1.3 Q1	-1.8	3.2	1.0 Mar	0.5	6.1	-4.3	1.52

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

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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