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Volume 9

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. N S Kannan, MD & CEO, ICICI Prudential Life Insurance Company Limited, has presented his thoughts on 'Life Insurance Industry – Pivoting to Purpose'. We thank Mr Kannan for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Recommendations by RBI Expert committee on resolution framework for stress related to COVID-19'

The economic indicators showed mixed performance. Manufacturing PMI rose to 52 in August from 46 in July. India's annual infrastructure output in August contracted by 8.5%. India's Index of Industrial Production (IIP) declined by 10.4% in July. PMI services rose to 41.8 in August from 34.2 in July, while composite PMI rose to 46 in August from 37.2 in July. CPI inflation eased to 6.69% in August. WPI inflation rose to 0.16% in August from (-) 0.58% in July.

The Reserve Bank of India (RBI) announced (1) Monetary Policy Statement (2) Positive Pay System for Cheque Truncation System (2) Marginal Standing Facility (MSF) – Extension of Relaxation (3) Automation of Income Recognition, Asset Classification and Provisioning processes in banks (4) Compliance functions in banks and Role of Chief Compliance Officer (CCO) (5) Report of the Expert Committee on Resolution Framework for COVID-19 related Stress (6) RBI Releases Revised Priority Sector Lending Guidelines (7) RBI Announces Measures to Foster Orderly Market Conditions

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The Insurance Regulatory Development Authority of India (IRDAI) announced (1)Domestic Systemically Important Insurers (D-SIIs) (2) Guidelines on wellness / benefits (3) Video Based Identification Process (VBIP) (4) Issuance of Electronic policies (5) Report on formation of an Indian Pandemic Risk Pool

Ministry of Corporate Affairs released status quo on banking facilities in rural areas. Government issued Advisory to PSBs to moot action against personal guarantors of corporate debtors.

SEBI released (1) Outcome of SEBI Board Meeting (2) Circular on Mutual Funds (3) Circular on Asset allocation on multi-cap funds (4) Clarification on Collection and Reporting of Margins by Trading Member (TM) / Clearing Member (CM) in Cash Segment (5) Operating Guidelines for Portfolio Managers in International Financial Services Centre (IFSC) (6) Alternate Risk Management Framework Applicable in case of Near Zero and Negative Prices (7) Guidelines for Investment Advisers.

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.

Ashvin parekh

On the cover

GUEST COLUMN

[Life Insurance Industry – Pivoting to Purpose]

Mr. N S Kannan,
MD & CEO, ICICI Prudential Life Insurance Company Limited

APAS COLUMN

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- *PMI update – August*
- *Core Sector – August*

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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

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Life Insurance Industry – Pivoting to Purpose

Mr. N S Kannan,
MD & CEO, ICICI Prudential Life Insurance Company Limited

Life insurance is a unique and powerful financial services product, which can ensure fruition of the family's financial goals even in the absence of the bread-winner.

A combination of factors which include a customer-centric approach, innovative products, rise in per capita income, favourable policy interventions and demographics have contributed to the growth of the life insurance industry. According to the World Bank, India's per capita income (inflation adjusted) has grown from US$ 443 in 2000 to US$ 2,104 in 2020. Among policy changes, the move to increase Foreign Direct Investment limit in the sector from 26% to 49% in 2015, paved the way for accessing long-term funds and scale up operations. Later in 2016, the demonetisation initiative by the Indian Government led to a large scale financialisation of savings. According to the Reserve Bank of India and Central Statistics Office (CSO) data, household savings rose from 14.96% in 2016 to 18.70% in 2018. Data from the insurance regulator and the CSO shows the new business premium collection of life insurers has grown at a Compound Annual Growth Rate (CAGR) of 14.4% from FY2002 to FY2020.

The New Normal

Covid-19 is the next big inflexion point for the industry. It has increased awareness levels among consumers about life insurance as a tool to mitigate the risks to both, health and life.

As the country went into lockdown in late March, we immediately pivoted to our purpose and moved beyond just selling policies. We ensured the safety of employees and safeguarded the interests of our customers and distribution partners. The digital transformation initiated in 2012 enabled us to immediately adapt to the new normal and address the challenges of our stakeholders. Our robust technology solutions and training helped our employees to seamlessly transition to working remotely.

The pandemic has changed the contours of the life insurance industry and put the spotlight on organisations and their customer-centric initiatives. Simply put, the current environment is that of 'Pivot or Perish'. Organisations with digital prowess have been able to quickly adapt to the altered business dynamics and serve their customers better. We advised our customers to make use of our digital enablers like WhatsApp, Mobile App, the Website and Chatbots to initiate and conclude service requests as well as lodge claims from the safety of their homes. On request, we also offered to pick-up claim related documents from our customers.

Claims is the “moment of truth” for the life insurance industry and we have always stood by our customers and their families in their hour of need. We made a disproportionate effort to ensure that their claims were not only settled to their satisfaction, but done quickly and in a hassle-free manner. As part of our ‘Claim for Sure’ service initiative, we settle all eligible death claims in one day after receipt of all documents. A total of 1,734 cases amounting to Rs. 1,025 million were settled between April 2020 and August 2020 under this initiative.

Sales in life insurance are predominantly driven by in-person meetings but social distancing norms restricted distributors from meeting customers. As part of our change management strategy, we trained our distribution partners and equipped them to operate remotely. This ensured continuity in both their business operations and delivery of service to customers.

For the industry the loss of lives has highlighted the protection gap in the country. If we juxtapose the number of lives lost with the number of claims received by the industry, the difference is significant. The number of Covid-19 related death claims is a fraction of the number of lives lost, which depicts the vulnerability of Indian families.

Historically, life insurance was purchased to avail tax benefits. Educational initiatives on the need and importance of life insurance to manage risk has steadily gained traction. The current environment of uncertainty has driven consumers to proactively include life insurance in their financial plan.

To its credit, the industry has innovated on both the products and solutions front, to meet the needs of a cross section of consumers. This has led to development of innovative products which provide the benefits of health and life insurance. Such products address the needs of both constituents, where policyholders derive the benefits of health insurance while the life cover component financially secures the family in case of the policyholder’s demise.

Travel restrictions have nudged customers to adopt user-friendly virtual tools which gained acceptance due to the convenience. As a step towards future-proofing ourselves, we began a hyper-personalisation drive which encompasses the 3V’s of Video, Voice and Vernacular. Video calls are now being used to conduct medical underwriting. Similarly, voice-enabled chatbots have been activated on the Google Assistant platform allowing customers to access information on their policies through simple voice commands. Pilot runs on a speech recognition and conversational humanoid Artificial Intelligence tool have also been carried out which can converse with about 50,000 customers in multiple languages in one hour. These and other digitalisation initiatives have been undertaken to offer convenience and empower customers.

Future Outlook

Favourable macros such as demographics, affluence and aspirations along with educational initiatives rolled out by life insurers, over the last two decades, have contributed to the growth of the savings business category. As per the insurance regulator’s statistics, the insurance density in India was at US$ 55 in 2018-19, which is about a sixth of the density in China. In addition, analysing data from the National Statistics Office, India’s retail protection sum assured as a percentage of GDP is only 19%. As against this, Thailand has a sum assured to GDP of 113%, while the figure for South Korea and Malaysia are 131% and 142% respectively. According to Swiss Re, the protection gap for India is at US$ 8.56 trillion and the protection coverage ratio i.e. the ratio between protection gap and protection needs, too is very high at 92%.

Over the next 15 years, assuming a CAGR of 20% and 25%, our analysis projects India's retail protection sum assured as a percentage of GDP should reach 75% and 145% respectively. In FY2020, the total number of policies sold in the industry stood at about 6 million. Assuming a CAGR of 15% and 20% for the next 15 years, the total number of new policies would reach around 70 million and 115 million respectively, leading to a penetration of 45.6% of the target market. This points to a significant headroom for growth for the Indian life insurance industry.

India's biggest advantage is its young working population. We notice a growing trend of nuclear families, which will need life insurance to ensure a financial safety net as well as a tool to build long-term savings. A majority of the country's population is employed in the unorganised sector and the absence of any major social security accentuates the need for savings products which will enable customers to lead a financially independent retired life. The key to harnessing this latent potential is in life insurers designing customised products, which can cater to the specific needs of different customer segments.

The pandemic has thrown up a very pertinent question in the minds of consumers – "Do I have adequate life insurance"? It is this question which has been the catalyst for life insurance moving from a push to a nudge category. As awareness levels about life insurance increase, it could well transition to a pull product eventually.

Recommendations by RBI Expert committee on resolution framework for stress related to COVID-19

Global and Indian economy is reeling under the pressure of economic slowdown induced due to spread of COVID-19. The Governments are at cross-roads on reopening economies and managing public infrastructure while the number of active cases cross a threshold of more than 20 million mark globally. Regulators across the world are faced with a major issue of balancing economic growth and inflation with reviving economy amidst the fear of pandemic spread. One other major problem facing the economy is piling up of bad debts and its steady resolution. The regulator recognized the extended time periods which the usual bankruptcy procedure involve and therefore, wanted to create resolution framework for faster redressal of stressed assets due to COVID-19. This would include assets not in default for a period of 30 days on March 1 2020. In order to address such concerns, Reserve Bank of India (RBI) constituted an expert committee under the leadership of veteran banker, Mr K V Kamath. The Committee, placed before the regulator, a framework of five parameters adjudged across 26 most affected sectors, to classify the accounts as mild, moderate and severe stress accounts. This would assist the banks in formulating action accordingly.

The Committee constitutes of Mr KV Kamath, former chief of New Development Bank, Mr Diwakar Gupta, vice-president, Asian Development Bank, Mr Ashvin Parekh, Managing Partner Ashvin Parekh Advisory Services LLP, Mr TN Manoharan, chairman, Canara Bank, and Mr Sunil Mehta, CEO, Indian Banks Association.

To begin with, the Committee analysed the stressed assets within the banking sector by way of information from research reports like RBI's Financial Stability Report (FSR). The Committee also conducted detailed discussions with the industry constituents including lenders (bankers, non-banking financing companies, etc.), borrowers (Industry consortiums), rating agencies, etc. Each participant provided a feedback on the hit due to COVID-19 in quantitative and qualitative manner. The Committee also compared financial performance in Q1 FY20 with Q1 FY21 to understand the impact on revenues. Based on the feedback received, the Committee identified 26 key sectors out of 308 sectors, which faced maximum impact on account of lockdown. The Committee also analysed the process compliances of Bankruptcy filing and procedures, which included several filings and took few months' time for clearance of a large sized bankruptcy procedure or in fact any procedure. Given these hindrances, the regulator and committee envisaged an elongated period for bankruptcy redressal, which would impact both borrower and lender. The Committee thus, recommended the standard assets be segmented under mild, moderate and severe stress buckets based on said parameters, applicable across the 26 sectors. Banks being given a freehand on formulating board-level policies for addressing these accounts, based on thresholds provided in the report, and still staying within them after an observation period of 30 days.

The Committee assessed that almost 72 percent of banking sector i.e. 37.7 lakh crore worth of assets were affected due slowdown. This amount ranged across 26 sectors including real estate, cement, auto, hotels and tourism, etc.

The Committee recommended five parameters to be incorporated in resolution frameworks in resolution plan (RP) which included Total outside Liability / Adjusted Tangible Net Worth (TOL / Adjusted TNW), Total Debt / EBIDTA, Current Ratio, Debt Service Coverage Ratio (DSCR) and Average Debt Service Coverage Ratio (ADSCR). The categorization as mild, moderate and severe stress was based on sector-specific threshold limits for the above mentioned parameters, which have been described in the report in detail. For example, while TOL/ATNW threshold for auto and auto components is fixed at <=4 and <=4.5 respectively, for aviation and real estate (commercial) which use more debt financing the limit has been set at a higher <=6 and <=10 respectively.

The sector specific parameters may be considered as guidance for preparation of RP for a borrower in the specified sector. The RP may be prepared based on the pre-COVID-19 operating and financial performance of the borrower and impact of COVID-19 on its operating and financial performance in Q1 and Q2FY21, to assess the cash-flows for FY21 / FY22 and subsequent years. In these financial projections, the threshold TOL/Adjusted TNW and Debt/ EBIDTA ratios should be met by FY23. The other three threshold ratios should be met for each year of the projections starting from FY22. The base case financial projections need to be prepared as part of RP.

The report specifies that the RP shall not be invoked later than 31st December 2020. Also, at least 60 percent by number and 75 percent by value of creditors should be signatories to the Inter creditor agreement (ICA) for invocation. Lenders who have signed the ICA will have to create a provisioning of higher of 10%, or as per IRAC (Income Recognition and Asset Classification) norms, upon 30 days of breach by borrower. Lenders who have not signed, will have to create provisioning of higher of 20% or as per IRAC norms.

As per a report by a rating agency, banking credit of at least INR 210,000 (1.9% of banking credit) of non-corporate loans are likely to undergo restructuring, which would have otherwise slipped into NPAs. The Regulator's prompt response to the foreseeable bankruptcy issue is a step-up on IBC framework. The IBC framework, sure had its shortcomings and is still evolving. However, the current report's recommendations need not be coloured in the same tint. In addition to the relaxations granted by the Regulator during the period of COVID-19, the framework contributes to the quicker resolution of small borrowers' accounts, thus making it the need of the hour to revive the economy. A way forward for the bankruptcy processes would be hassle-free resolution of stressed assets for larger accounts. An environment of easy recovery processes, with adequate infrastructure and manpower, could contribute to such permanent development of bankruptcy processes, and thereby banking sector, leading to availability of more credit. An increased investor confidence and strengthened banking sector, is what the Regulator might also aim at in longer-term.

-APAS

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ECONOMY

IIP (Index of Industrial Production) – July

Index of Industrial Production (IIP) or factory output for the month of July 2020 declined by 10.4%, compared to a contraction of 15.7% in June 2020 and an expansion of 4.9% in July 2019.

The General Index for the month of July 2020 stands at 118.1, which is 10.4% lower as compared to July 2019.

In view of the preventive measures and announcement of nationwide lockdown by the government to contain spread of Covid-19 pandemic, majority of the industrial sector establishments were not operating from the end of March 2020 onwards.

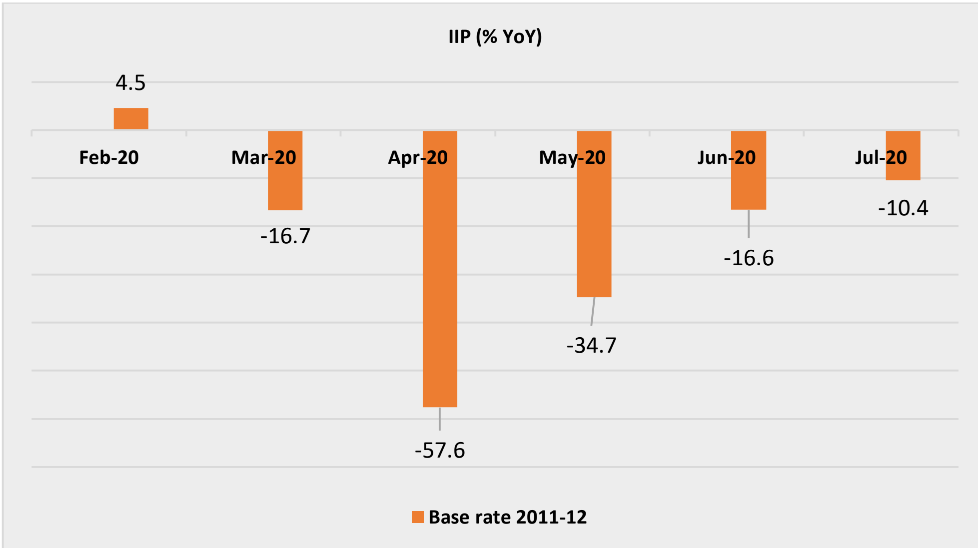
This has had an impact on the items being produced by the establishments during the period of lockdown.

With the lifting of restrictions in the subsequent periods, industrial activity is now resuming.

The manufacturing sector saw a contraction of 11.1% on year to 118.8 during July, while the mining sector slipped 13% to 87.2 and electricity sector witnessed a fall of 2.5% to 166.3.

As per Use-based classification, the indices stand at 114.1 for primary goods, 70.9 for capital goods, 122.9 for intermediate goods and 125.2 for infrastructure/construction goods for July.

Further, the indices for consumer durables and consumer non-durables were at 99.5 and 156.4, respectively.



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

CPI (Consumer Price Index) – August

India's consumer price index (CPI) or retail inflation eased to 6.69% in August 2020.

The CPI for July was also revised to 6.73% from 6.93%.

The government had not released the headline retail inflation data in April and May.

The corresponding provisional inflation rates for rural and urban areas are 6.66% and 6.8% respectively.

The core CPI inflation rose to 5.44% in August 2020, compared with 5.37% in July 2020.

The Consumer Food Price Index (CFPI) eased to 9.05% in the month of August. The CFPI for July was revised to 9.27% from 9.62%.

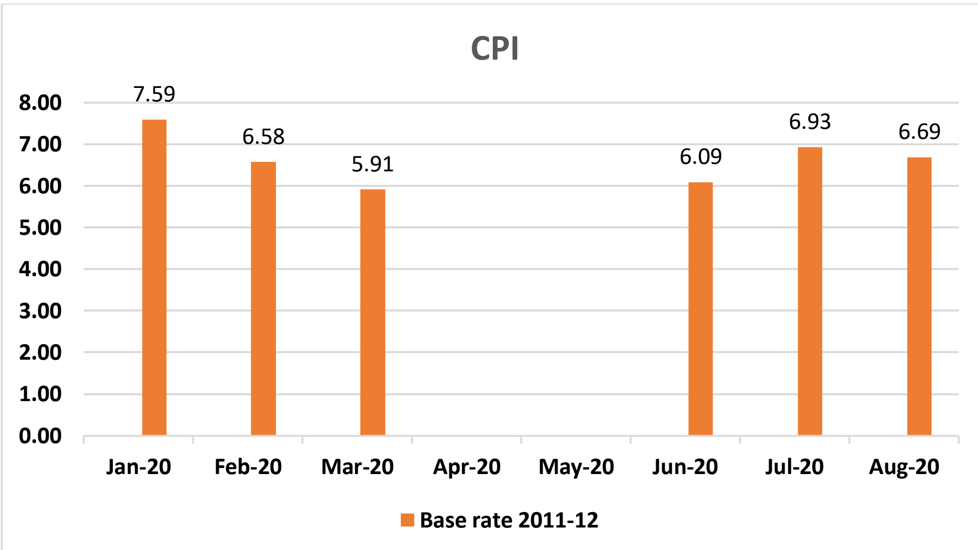
Among the CPI components, inflation for food and beverages eased to 8.29% in August 2020 from 8.5% in July 2020.

Within the food items, the inflation declined for cereals and products to 5.92%, meat and fish to 16.5%, pulses and products to 14.44%, milk and products to 6.15% and spices to 12.34%. However, the inflation increased for vegetables to 11.41%, fruits to 1%, non-alcoholic beverages to 5.34%, eggs to 10.11%, oils and fats to 12.45%, prepared meals, snacks, sweets, etc. to 4.02% and sugar and confectionery to 3.93% in August 2020.

The inflation for housing eased to 3.1%, while that for miscellaneous items rose to 6.99% in August.

Within the miscellaneous items, the inflation increased for transport and communication to 11.05%, personal care and effects to 14.45%, household goods and services to 2.98%, recreation and amusement to 4.05% and education to 1.61%, while it declined for health to 4.71% in August 2020.

The inflation for clothing and footwear was flat at 2.77%, while that for fuel and light moved up to 3.1% in August.



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

WPI (Wholesale Price Index) – August

India's wholesale price index (WPI) inflation rose to 0.16% in August 2020, as compared to (-) 0.58% in July 2020. It was 1.17% in August 2019.

The rate of inflation based on WPI Food Index increased to 4.07% in August 2020 from 4.32% in July 2020.

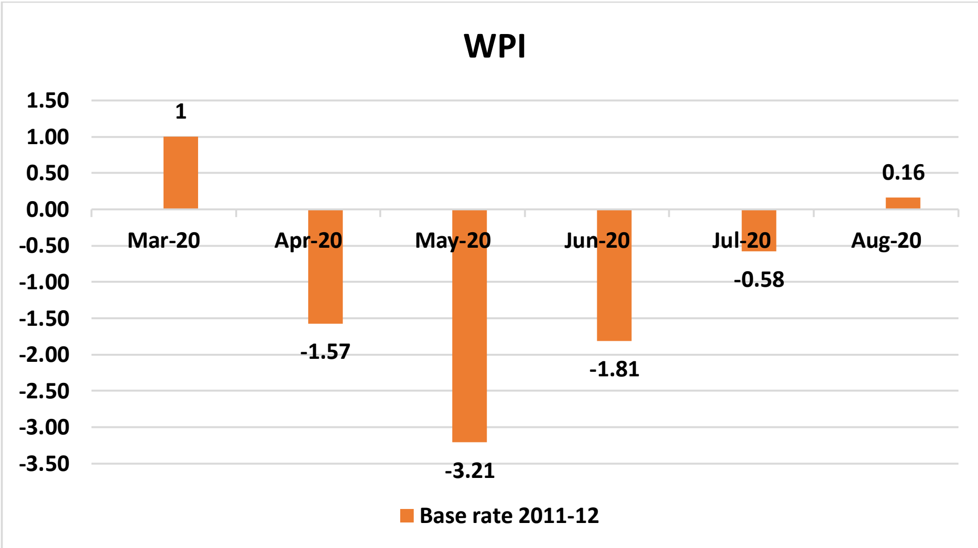
The index for primary articles increased by 1.81% from the previous month.

Prices increased for minerals (10.21%), crude petroleum and natural gas (4.72%), food articles (0.93%) and non-food articles (3.06%) groups.

The index for fuel and power increased by 0.77% from the previous month.

Prices increased for mineral oils group (1.3%), while prices of coal and electricity remained unchanged.

The index for manufactured products increased by 0.59% from the previous month.



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

Manufacturing PMI – August

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) re-entered the growth territory in August, driven by a rebound in production volumes and new work, amid an improvement in customer demand, following the resumption of business operations.

The Manufacturing PMI rose to 52 in August 2020 from 46 in July 2020. It went above the 50 level, that separates expansion from contraction, for the first time in 5 months.

August data highlighted positive developments in the health of the Indian manufacturing sector, signalling moves towards a recovery from the second quarter downturn. The pick-up in demand from domestic markets gave rise to upturns in production and input buying.

However, not all was positive in August. Delivery times lengthened to another marked rate amid ongoing Covid-19 disruption.

Meanwhile, employment continued to fall despite signs of capacity pressures, as firms struggled to find suitable workers.

Despite an expansion in new orders, job shedding continued in the Indian manufacturing sector. The relocation of employees following Covid-19 pandemic was often linked to the reduction in staffing numbers.

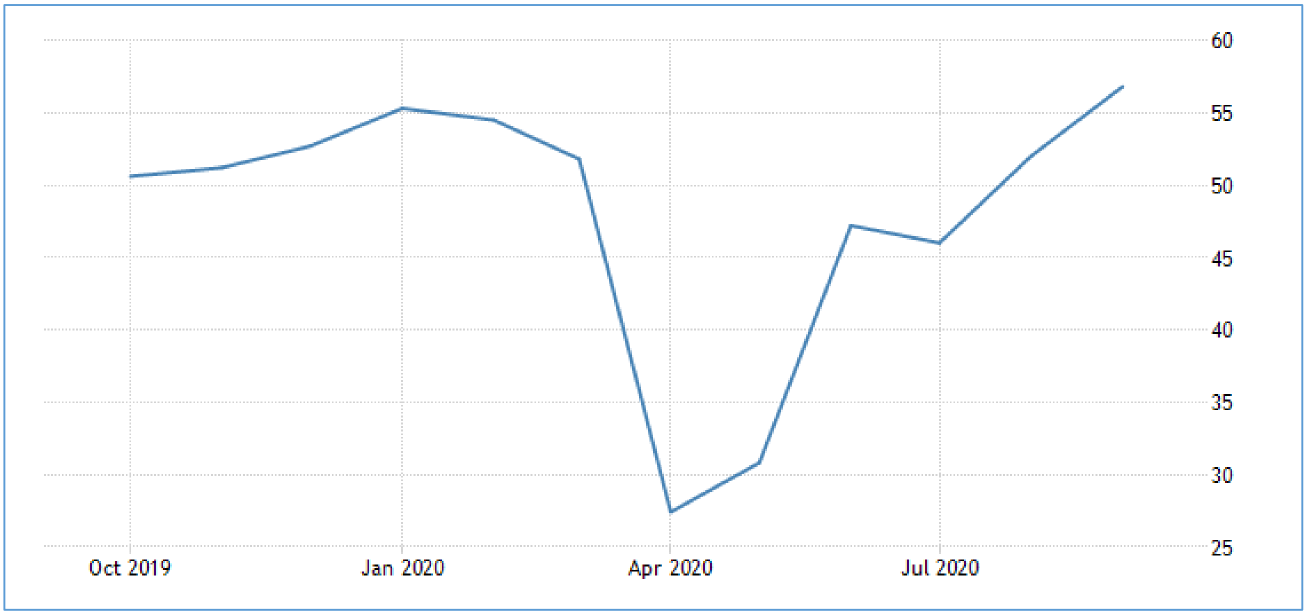
The decline in foreign exports weighed slightly on overall new orders as firms cited subdued demand conditions from abroad.

However, new business received by Indian manufacturers expanded at the fastest pace since February.

On the prices front, higher raw material costs due to supplier shortages and transportation delays stemming from the coronavirus pandemic, resulted in rising input prices during August.

The rate of input price inflation was solid, following 4 monthly declines in cost burdens. Firms, however, continued in their efforts to drive sales amid greater competitive pressure and reduced their selling prices further.

Looking ahead, Indian manufacturers remained optimistic for the next 12 months. Positive sentiment was often attributed to hope of the passing of the coronavirus pandemic, improving client demand and new business wins.



Source: www.tradingeconomics.com

Services PMI – August

The Indian services sector activity saw a pick-up in August, as economic activity gradually improved after the nation eased lockdown restrictions.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to 41.8 in August 2020 from 34.2 in July 2020. The index stayed below the neutral mark of 50, which separates expansion from contraction, for the sixth straight month.

The fall in output was linked to a further weakening of demand conditions in August. While some businesses resumed operations, others remained closed. New business placed at Indian service providers fell for the sixth month running in August, amid weak market demand. But the rate of decline was the slowest in 5 months.

Continuing disruptions to work meant that incomplete work increased for a third month. Moreover, the pace of increase was substantial and the fastest since the survey began in December 2005.

New export orders received by Indian service providers also fell.

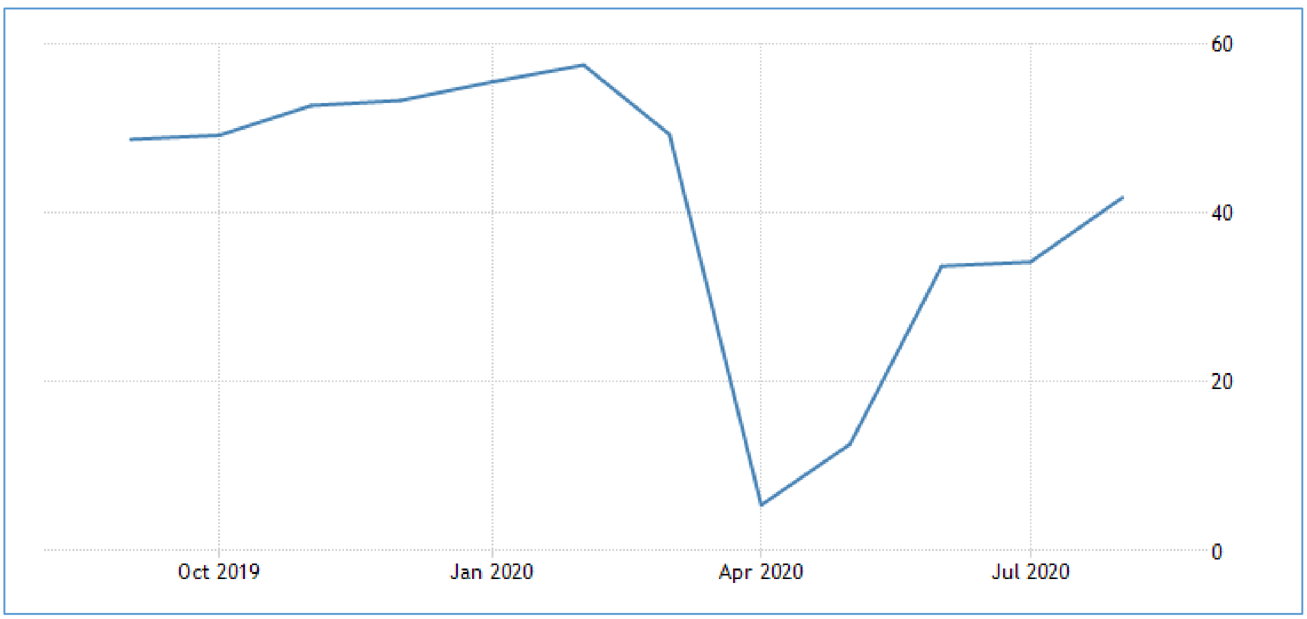
Besides, service providers reported increased cost burdens for the second month running, led by higher fuel costs. Output charges, however, rose at a marginal pace.

With the services sector continuing to operate below capacity, firms reported job shedding for a sixth consecutive month. However, the fall in employment was only modest and much slower than July's record.

August highlights another month of challenging operating conditions in the Indian services sector. Sustained periods of closure and ongoing lockdown restrictions in both domestic and foreign markets have weighed heavily on the health of the industry.

Future sentiment was neutral in August, with output in the year ahead expected to remain unchanged on current levels.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 46 in August from 37.2 in July.



Source: www.tradingeconomics.com

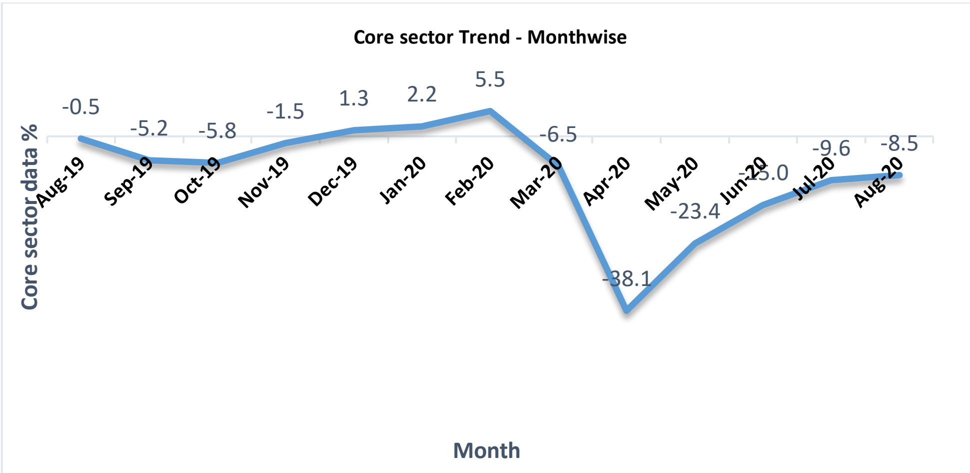
Core Sector Data – August

Growth of eight infrastructure sectors contracted by 8.5% in August 2020, shrinking for the sixth straight month.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had declined by 8% in July 2020 and by 0.2% in August 2019.

Barring coal and fertiliser, all other sectors recorded negative growth in August.

Cumulatively, the growth in the eight core sectors during April-August 2020-21 contracted by 17.8%, as against an expansion of 2.5% in the same period last financial year.



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

BANKING

Monetary Policy Statement, 2020-21 Resolution of the Monetary Policy Committee (MPC)

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting (October 9, 2020) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

Incoming data point to a recovery in global economic activity in Q3 of 2020 in sequential terms, although downside risks have risen with the renewed surge in infections in many countries. Global trade is expected to be subdued. The rebound could turn out to be stronger among advanced economies (AEs) than in emerging market economies (EMEs). Global financial markets remain supported by highly accommodative monetary and liquidity conditions. Soft fuel prices and weak aggregate demand have kept inflation below target in AEs, although in some EMEs, supply disruptions have imparted upward price pressures.

Domestic Economy

On the domestic front, high frequency indicators suggest that economic activity is stabilising in Q2:2020-21 after the 23.9 per cent year-on-year (y-o-y) decline in real GDP in Q1 (April-June). Cushioned by government spending and rural demand, manufacturing – especially consumer non-durables – and some categories 2 of services, such as passenger vehicles and railway freight, have gradually recovered in Q2. The outlook for agriculture is robust. With merchandise exports slowly catching up to pre-COVID levels and some moderation in the pace of contraction of imports, the trade deficit widened marginally sequentially in Q2.

Considering above factors, the MPC was of the view that revival of the economy from an unprecedented COVID-19 pandemic assumes the highest priority in the conduct of monetary policy. While inflation has been above the tolerance band for several months, the MPC judged that the underlying factors are essentially supply shocks which should dissipate over the ensuing months as the economy unlocks, supply chains are restored, and activity normalises. Accordingly, they can be looked through at this juncture while setting the stance of monetary policy. Taking into account all these factors, the MPC decided to maintain status quo on the policy rate in this meeting and await the easing of inflationary pressures to use the space available for supporting growth further.

Positive Pay System for Cheque Truncation System

Reserve Bank of India (RBI) had announced in its Statement for Development and Regulatory policies Positive Pay System for Cheque Truncation System.

The concept of Positive Pay involves a process of reconfirming key details of large value cheques. Under this process, the issuer of the cheque submits electronically, through channels like SMS, mobile app, internet banking, ATM, etc., certain minimum details of that cheque (like date, name of the beneficiary / payee, amount, etc.) to the drawee bank, details of which are cross checked with the presented cheque by CTS. Any discrepancy is flagged by CTS to the drawee bank and presenting bank, who would take redressal measures.

National Payments Corporation of India (NPCI) shall develop the facility of Positive Pay in CTS and make it available to participant banks. Banks, in turn, shall enable it for all account holders issuing cheques for amounts of ₹50,000 and above. While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of ₹5, 00,000 and above.

Only those cheques which are compliant with above instructions will be accepted under dispute resolution mechanism at the CTS grids. Member banks may implement similar arrangements for cheques cleared / collected outside CTS as well.

Banks have been guided by RBI to create adequate awareness among their customers on features of Positive Pay System through SMS alerts, display in branches, ATMs as well as through their web-site and internet banking.

Positive Pay System shall be implemented from January 01, 2021.

Marginal Standing Facility (MSF) – Extension of Relaxation

On March 27, 2020 banks were allowed to avail of funds under the marginal standing facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) by up to an additional one per cent of net demand and time liabilities (NDTL), i.e., cumulatively up to 3 per cent of NDTL. This facility, which was initially available up to June 30, 2020 was extended on June 26, 2020 up to September 30, 2020, in view of disruptions imposed by COVID-19. This dispensation provides increased access to funds to the extent of ₹1.49 lakh crore, and also qualifies as high-quality liquid assets (HQLA) for the Liquidity Coverage ratio (LCR). With a view to providing comfort to banks on their liquidity requirements as also to enable to continue to meet LCR requirements, RBI decided to continue with the MSF relaxation for a further period of six months, i.e., up to March 31, 2021.

Automation of Income Recognition, Asset Classification and Provisioning processes in banks

RBI has advised Banks to put in place appropriate frameworks for processes for NPA identification, income recognition, provisioning and generation of related returns. Banks are still not compliant with such processes and adhere to manual identification of NPA and also over-riding the system generated asset classification by manual intervention in a routine manner.

In order to ensure the completeness and integrity of the automated Asset Classification (classification of advances/investments as NPA/NPI and their up gradation), Provisioning calculation and Income Recognition processes, RBI has advised banks to put in place / upgrade their systems to conform to the following guidelines latest by June 30, 2021.

The detailed guidelines include directives in areas of:

1. Coverage
2. Frequency
3. Exceptions
4. System requirements and system audit
5. General guidelines

The Annexure to the circular includes guidance on baseline requirements for the NPA classification solution.

Compliance functions in banks and Role of Chief Compliance Officer (CCO)

As part of robust compliance system, banks are required, inter-alia, to have an effective compliance culture, independent corporate compliance function and a strong compliance risk management programme at bank and group level. Such an independent compliance function is required to be headed by a designated Chief Compliance Officer (CCO) selected through a suitable process with an appropriate 'fit and proper' evaluation/selection criteria to manage compliance risk effectively.

Various banks follow diverse processes with regard to policies and procedures. In order to bring uniformity in the processes, RBI has decided to implement following guidelines:

I. Policy - A bank shall lay down a Board-approved compliance policy clearly spelling out its compliance philosophy, expectations on compliance culture covering Tone from the Top, Accountability, Incentive Structure and Effective Communication & Challenges thereof, structure and role of the compliance function, role of CCO, processes for identifying, assessing, monitoring, managing and reporting on compliance risk throughout the bank. This shall, inter-alia, adequately reflect the size, complexity and compliance risk profile of the bank, expectations on ensuring compliance to all applicable statutory provisions, rules and regulations, various codes of conducts (including the voluntary ones) and the bank's own internal rules, policies and procedures, and creating a disincentive structure for compliance breaches. The bank shall also develop and maintain a quality assurance and improvement program covering all aspects of the compliance function. The quality assurance and improvement program shall be subject to independent external review periodically (at least once in three years). The policy should lay special thrust on building up compliance culture; vetting of the quality of supervisory / regulatory compliance reports to RBI by the top executives, non-executive Chairman / Chairman and ACB of the bank, as the case may be. The policy shall be reviewed at least once a year;

II. Tenor for appointment of CCO - The CCO shall be appointed for a minimum fixed tenure of not less than 3 years. The Audit Committee of the Board (ACB) / Managing Director (MD) & CEO should factor this requirement while appointing CCO

III. Transfer / Removal of CCO - The CCO may be transferred / removed before completion of the tenure only in exceptional circumstances with the explicit prior approval of the Board after following a well-defined and transparent internal administrative procedure;

IV. Eligibility Criteria for appointment as CCO –

a. Rank - The CCO shall be a senior executive of the bank, preferably in the rank of a General Manager or an equivalent position (not below two levels from the CEO). The CCO could also be recruited from market;
b. Age - Not more than 55 years;

c. Experience - The CCO shall have an overall experience of at least 15 years in the banking or financial services, out of which minimum 5 years shall be in the Audit / Finance / Compliance / Legal / Risk Management functions;
d. Skills - The CCO shall have good understanding of industry and risk management, knowledge of regulations, legal framework and sensitivity to supervisors' expectations;
e. Stature - The CCO shall have the ability to independently exercise judgement. He should have the freedom and sufficient authority to interact with regulators/supervisors directly and ensure compliance;
f. Others - No vigilance case or adverse observation from RBI, shall be pending against the candidate identified for appointment as the CCO.

V. Selection Process - Selection of the candidate for the post of the CCO shall be done on the basis of a well-defined selection process and recommendations made by the senior executive level selection committee constituted by the Board for the purpose. The selection committee shall recommend the names of candidates suitable for the post of the CCO as per the rank in order of merit and Board shall take final decision in the appointment of CCO;

VI. Reporting Requirements - A prior intimation to the Department of Supervision, Reserve Bank of India, Central Office, Mumbai, shall be provided before appointment, premature transfer/removal of the CCO. Such information should be supported by a detailed profile of the candidate along with the fit and proper certification by the MD & CEO of the bank, confirming that the person meets the above supervisory requirements, and detailed rationale for changes, if any;

VII. Reporting Line - The CCO shall have direct reporting lines to the MD & CEO and/or Board/Board Committee (ACB) of the bank. In case the CCO reports to the MD & CEO, the Audit Committee of the Board shall meet the CCO quarterly on one-to-one basis, without the presence of the senior management including MD & CEO. The CCO shall not have any reporting relationship with the business verticals of the bank and shall not be given any business targets. Further, the performance appraisal of the CCO shall be reviewed by the Board/ACB;

VIII. Authority - The CCO and compliance function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to enable him/her to carry out entrusted responsibilities in respect of compliance issues. This authority should flow from the compliance policy of the bank;

IX. The duties and responsibilities of the compliance function - These shall include at least the following activities:

- To apprise the Board and senior management on regulations, rules and standards and any further developments.
- To provide clarification on any compliance related issues.

- To conduct assessment of the compliance risk (at least once a year) and to develop a risk-oriented activity plan for compliance assessment. The activity plan should be submitted to the ACB for approval and be made available to the internal audit.
- To report promptly to the Board / ACB / MD & CEO about any major changes / observations relating to the compliance risk.
- To periodically report on compliance failures/breaches to the Board/ACB and circulating to the concerned functional heads.
- To monitor and periodically test compliance by performing sufficient and representative compliance testing. The results of the compliance testing should be placed to Board/ACB/MD & CEO.
- To examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.
- To ensure compliance of Supervisory observations made by RBI and/or any other directions in both letter and spirit in a time bound and sustainable manner.

X. Internal Audit - The compliance function shall be subject to internal audit;

XI. Dual Hatting - There shall not be any 'dual hatting' i.e. the CCO shall not be given any responsibility which brings elements of conflict of interest, especially the role relating to business. Roles which do not attract direct conflict of interest like role of anti-money laundering officer, etc. can be performed by the CCO in those banks where principle of proportionality in terms of bank's size, complexity, risk management strategy and structures justify that;

XII. The CCO shall not be member of any committee which brings his/her role in conflict with responsibility as member of the committee, including any committee dealing with purchases / sanctions. In case the CCO is member of a committee, he/she may have only advisory role;

XIII. Typical core elements of the mandate of CCO must include the design and maintenance of compliance framework, training on the regulatory and conduct risks, and effective communication of compliance expectations, etc.;

XIV. The bank's Board of Directors shall be overall responsible for overseeing the effective management of the bank's compliance function and compliance risk. The MD & CEO shall ensure the presence of independent compliance function and adherence to the compliance policy of the bank.

Report of the Expert Committee on Resolution Framework for COVID-19 related Stress

RBI via its announcement in Statement of Development and regulatory framework, announced the recommendations by expert committee on resolution framework for COVID-19 related stress.

The Committee examined banking scenario, sectors where level of stressed assets would be high, views of ratings agencies on such sectors, etc. Post such assessment, the Committee provided set of parameters, broadly applicable across 26 highest affected sectors which included: i. Total Outside Liability / Adjusted Tangible Net Worth (TOL / Adjusted TNW) ii. Total Debt / EBIDTA iii. Current Ratio iv. Debt Service Coverage Ratio (DSCR) v. Average Debt Service Coverage Ratio (ADSCR).

These parameters would enable the banks to categorize the exposure into mild, moderate and severely stressed. The banks could then formulate policies for action as per their risk policy, leading to faster recovery of the assets slipped into the regions.

The Committee also provided sector specific thresholds for the given parameters, beyond which the projects / assets would be recognized as stressed assets, and stay in observation for 30 days.

The report details out other nuances related to accounts which are eligible to be categorized.

RBI Releases Revised Priority Sector Lending Guidelines

Reserve Bank of India has comprehensively reviewed the Priority Sector Lending (PSL) Guidelines to align it with emerging national priorities and bring sharper focus on inclusive development, after having wide ranging discussions with all stakeholders.

Revised PSL guidelines will enable better credit penetration to credit deficient areas; increase the lending to small and marginal farmers and weaker sections; boost credit to renewable energy, and health infrastructure. Bank finance to start-ups (up to ₹50 crore); loans to farmers for installation of solar power plants for solarisation of grid connected agriculture pumps and loans for setting up Compressed Bio Gas (CBG) plants have been included as fresh categories eligible for finance under priority sector. Some of the salient features of revised PSL guidelines are:

- To address regional disparities in the flow of priority sector credit, higher weightage have been assigned to incremental priority sector credit in 'identified districts' where priority sector credit flow is comparatively low.
- The targets prescribed for "small and marginal farmers" and "weaker sections" are being increased in a phased manner.
- Higher credit limit has been specified for Farmers Producers Organisations (FPOs)/Farmers Producers Companies (FPCs) undertaking farming with assured marketing of their produce at a pre-determined price.
- Loan limits for renewable energy have been increased (doubled).

- For improvement of health infrastructure, credit limit for health infrastructure (including those under 'Ayushman Bharat') has been doubled.

RBI Announces Measures to Foster Orderly Market Conditions

While announcing special open market operations, the RBI stated that it would continue to monitor evolving liquidity and market conditions and take measures as appropriate to ensure orderly functioning of financial markets.

Recently, market sentiment has been impacted by concerns relating to the inflation outlook and the fiscal situation amidst global developments that have firmed up yields abroad.

On the outlook for inflation, the resolution of the Monetary Policy Committee (MPC) identified the sources of inflation pressures and expected that although headline inflation may remain elevated in Q2:2020-21, it would moderate in H2:2020-21. Accordingly, the MPC decided to pause and remain watchful and use the available space judiciously to support the revival of the economy. There are indications that food and fuel prices are stabilizing and cost push factors are moderating. In addition, the recent appreciation of the rupee is working towards containing imported inflationary pressures. Notwithstanding an augmented market borrowing programme for 2020-21, the RBI has managed the borrowing calendar for the first half of the year seamlessly, completing more than 90 per cent of scheduled borrowings of the Centre and States in H1:2020-21.

In order to continue to ensure orderly market conditions and congenial financial conditions, RBI has announced the following measures:

i. The Reserve Bank will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of ₹20,000 crore in two tranches of ₹10,000 crore each. The auctions would be conducted on September 10, 2020 and September 17, 2020.
ii. The Reserve Bank will conduct term repo operations for an aggregate amount of ₹100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity. Thus, the banks may reduce their interest liability by returning funds taken at the repo rate prevailing at that time (5.15 per cent) and availing funds at the current repo rate of 4 per cent.
iii. Currently, banks are required to maintain 18 per cent of their net demand and time liabilities (NDTL) in SLR securities. The extant limit for investments that can be held in HTM category is 25 per cent of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5 per cent of NDTL. SLR securities held in HTM category by major banks amount to around 17.3 per cent of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5 per cent of NDTL limit. Accordingly, RBI has decided to allow banks to hold fresh acquisitions of SLR securities acquired from September 1, 2020 under HTM up to an overall limit of 22 per cent of NDTL up to March 31, 2021 which shall be reviewed thereafter.

INSURANCE

Domestic Systemically Important Insurers (D-SIIs)

Domestic Systemically Important Insurers (D-SIIs) refer to insurers of such size, market importance and domestic and global inter connectedness whose distress or failure would cause a significant dislocation in the domestic financial system. Therefore, the continued functioning of D-SIIs is critical for the uninterrupted availability of insurance services to the national economy.

D-SIIs are perceived as insurers that are 'too big or too important to fail' (TBTF). This perception and the perceived expectation of government support may amplify risk taking, reduce market discipline, create competitive distortions, and increase the possibility of distress in future. These considerations require that D-SIIs should be subjected to additional regulatory measures to deal with the systemic risks and moral hazard issues.

In order to identify such insurers and to put such insurers to enhanced monitoring mechanism, the Insurance Regulatory and Development Authority of India (IRDAI) has developed a methodology for identification and supervision of D-SIIs. The parameters, as per the methodology for identification of D-SIIs, inter alia include the following:

1. The size of operations in terms of total revenue, including premium underwritten and the value of assets under management;
2. Global activities across more than one jurisdiction;
3. Lack of substitutability of their products and/or operations; and
4. Interconnectedness through counterparty exposure and macro-economic exposure.

These parameters were assigned weights to cover various aspects of their operations. The Authority would identify D-SIIs on an annual basis and disclose the names of these insurers for public information.

After analysis of data, the Authority has identified for the year 2020-21, the following insurers as D-SIIs:

a. Life Insurance Corporation of India;

b. General Insurance Corporation of India; and

c. The New India Assurance Co. Ltd.

Given the nature of their operations and the systemic importance of the D-SIIs, these insurers have been asked by IRDAI to carry out the following:

(i) Raise the level of corporate governance;

(ii) Identify all relevant risk and promote a sound risk management culture.

D-SIIs will also be subjected to enhanced regulatory supervision.

Guidelines on wellness / benefits

In addition to norms prescribed earlier on wellness and benefits, IRDAI has further issued norms for the said products:

A. Any wellness and preventive feature shall be designed only with the objective of maintaining and improving good health, thereby enabling affordable health insurance.
B. As part of promoting wellness and preventive regime, insurers may offer reward points to those policyholders who comply with or meet the set criteria of wellness and preventive features.
C. No Wellness and preventive feature shall be offered without it being filed or incorporated as part of the product in terms of the Product Filing Guidelines. The methodology and criteria to be used for arriving at the reward points and corresponding reward points to be awarded need to be filed.
D. Wellness and preventive features under a policy may also be offered either as optional or add-on cover.
E. There shall be no discrimination in providing any of the wellness and preventive features offered and in granting the reward points thereunder to the same or similarly placed categories of policyholders of the underlying health insurance product.
F. Every Insurer shall assess the pricing impact of wellness and preventive features offered, if any, and the same shall be disclosed upfront in the File and Use or Use and File application, as may be the case, as specified in the Product Filing Guidelines.
G. Based on criteria stipulated for wellness and fitness, insurers may endeavor promoting wellness amongst health insurance policyholders by offering the following services:
    a. Health specific services provided by Network providers or other empanelled hospitals / service providers for the following (in addition to any such benefits already offered):
        i. Outpatient consultations or treatments
        ii. Pharmaceuticals
        iii. Health check-ups/diagnostics

    Including discounts on all the above.

    b. Redeemable vouchers to obtain health supplements.
    c. Redeemable vouchers for membership in:
        i. Yoga centre
        ii. Gymnasiums
        iii. Sports clubs
        iv. Fitness centers for participating in fitness activities.

d. Discounts on premiums and/or increase in sum insured at the time of renewals based on wellness regime followed by policyholders in the preceding policy period; provided increase in sum insured shall be independent and shall not be linked to the cumulative bonus offered, if any.
e. Coverage of cost of treatment of any admissible claim in respect of non-payable items that are specified under the terms and conditions of the base policy.

Provided, where more than one reward is offered, choice shall be given to the policyholder to choose as per his/her requirement or need.

H. Insurers shall not publish the trade names or trade logos of third party merchandize in any of the insurance advertisements, but may refer the services in generic term. However, Insurers shall disclose the specific items of services in their website with necessary details and may provide a link to this in their insurance advertisement and policy contracts.

Provided insurers shall not promote products or services of any particular third party service provider.

Provided further, where multiple service providers are engaged by the insurers for providing benefits / services, the policyholders shall be allowed to choose a service provider of their choice for availing the wellness benefits / services.

I. Insurers shall endeavour to engage multiple service providers for providing benefits / services under wellness and preventive features and the list of service providers may be constantly expanded by the Insurers. Insurers shall not accept any liability towards quality of the services made available by third parties and shall specify upfront that the said third party is responsible for providing the services stipulated under the wellness features and insurer is not liable for any defects or deficiencies on the part of the service provider. Insurers shall monitor the quality of service offered by service providers under wellness / preventive programs and ensure that they have put in place appropriate mechanism to discharge their obligations provided under wellness program of the applicable health insurance product.
J. Other than the monetized value of the reward points redeemed by the policyholders, no payments shall be made by insurers to the third party merchants.
K. Insurers shall not receive any consideration amount for offering the third party services.
L. The operational costs, if any, for administering wellness and preventive features shall be factored into the pricing of the underlying health insurance product and costs factored shall be disclosed in the prospectus or sales literature (invitation to contract) wherever wellness and preventive features are offered.
M. In case of Family Floater Plans, Insurers shall clearly define and disclose in policy document, the manner in which accrual and redemption of rewards is considered in respect of all members covered.
N. Insurers shall clearly specify in the policy contract as to whether the accrued rewards can be carried forward or not when the policy is renewed with the Insurer and the period of validity of the accrued rewards under both the scenarios. In case of expiry of policy, the accrued rewards may be carried forward for a period not exceeding three months.

O. The rewards accrued shall be at periodic intervals at rates/amounts declared upfront at the commencement of the policy and shall not be linked to any dynamic factor such as interest rate. The same shall be specified in the Policy Document.
P. Insurer shall notify the rewards accrued to the credit of a Policyholder and entitlements of the policyholders under the wellness and preventive features at periodic intervals, at least once in a year.
Q. Insurer shall specify in the policy contract and prospectus, the mode of communication that the Insurer adopts for notification of various services offered under the wellness and preventive features.
R. Insurers shall specify the manner of redeeming the rewards accrued under the wellness and preventive features in the prospectus, policy wordings and shall disclose updated information in their website
S. Insurer shall be responsible for any errors or omission in calculation of accrued rewards and shall address the same through their in-house Grievance Redressal Mechanism.

Video Based Identification Process (VBIP)

Video Based Identification Process (VBIP) is an alternative (optional)electronic process of Identification / KYC in paperless form, carried out by the insurer/authorized person (person authorised by the insurer and specifically trained for face-to-face VBIP) by undertaking seamless, secure, real-time, consent based audio-visual interaction with the customer/beneficiary to obtain identification information including the necessary KYC documents required for the purpose of client due diligence and to ascertain the veracity of the information furnished by the customer/ beneficiary.

Insurers may undertake live VBIP by developing an application which facilitates KYC process either online or face-to-face in-person verification through video. This may be used for establishment/continuation/ verification of an account based relationship or for any other services with an individual customer/beneficiary, as the case may be, after obtaining his/her informed consent and shall adhere to the following stipulations:

i. The Insurer/authorised person while performing the VBIP for KYC shall record clear live video of the customer/beneficiary present for identification and obtain the identification information in the form as below:
   a. Aadhaar Authentication if voluntarily submitted by the Customer/ beneficiary, subject to notification by the government under Section 11 A of Prevention of Money-Laundering Act (PMLA) or
   b. Offline Verification of Aadhaar for identification, if voluntarily submitted by the Customer/beneficiary, or
   c. OVD (As defined in rule 2(d) under PML Rules 2005) provided in the following manner -

      (1) As digitally signed document of the OVD, issued to the DigiLocker by the issuing authority

      or

      (2) As a clear photograph or scanned copy of the original OVD, through the eSign mechanism.

ii. The insurer/authorised person shall ensure that the online video is clear and the customer/beneficiary along with the authorised person in the video shall be easily recognisable and shall not be covering their face in any manner.
iii. Live location of the customer/beneficiary (Geotagging) shall be captured (both for online/ face-to-face VBIP) to ensure that customer/beneficiary is physically present in India.
iv. The authorised person/ Insurer shall ensure that the photograph and other necessary details of the customer/beneficiary in the Aadhaar/ OVD matches with the customer/beneficiary present for the VBIP.
v. The authorised person/ Insurer shall ensure that the sequence and/or type of questions during video interactions are varied in order to establish that the interactions are real-time and not pre-recorded.
vi. In case of offline verification of Aadhaar using XML file or Aadhaar Secure QR Code, if voluntarily submitted by the Customer/ beneficiary, it shall be ensured that the generation of XML file or QR code is recent and not older than 3 days from the date of carrying out VBIP.
vii. All accounts opened or any service provided based on VBIP shall be activated only after being subject to proper verification by the insurer to ensure that the integrity of process is maintained and is beyond doubt.
viii. Insurers shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audio-visual interaction with the customer/beneficiary and the quality of the communication is adequate to allow identification of the customer/ beneficiary beyond doubt. Insurers shall carry out the liveliness check in order to guard against spoofing and such other fraudulent manipulations.
ix. To ensure security, robustness and end to end encryption, the insurers shall carry out software and security audit and validation of the VBIP application as per extant norms before rolling it out and thereafter from time to time.
x. The audio-visual interaction shall be triggered from the domain of the insurers itself, and not from third party service provider. The VBIP process shall be operated by the Insurer/authorized persons. The activity log along with the credentials of the official performing the VBIP shall be preserved.
xi. Insurers shall ensure that the video recording bears the GPS coordinates, date (DD:MM:YY) and time stamp (HH:MM:SS) along with other necessary details, which shall be stored in a safe and secure manner as per Prevention of Money-Laundering (PML) Rules.

    While exercising Online VBIP, the Insurer shall exercise extra caution and the additional necessary details viz. IP address etc. shall be preserved by the insurer to substantiate the evidence at the time of need.
xii. Insurers are encouraged to take assistance of the latest available technology (including Artificial Intelligence (AI) and face matching technologies etc.) to strengthen and ensure the integrity of the process as well as the confidentiality of the information furnished by the customer/beneficiary. However, the responsibility of identification shall rest with the insurer
xiii. Authorized person of the insurer shall facilitate face to face VBIP process only at the customer/beneficiary end.
xiv. However, the ultimate responsibility for client due diligence will be with the insurer.
xv. Insurer shall maintain the details of the concerned Authorised person, who is facilitating the VBIP.
xvi. Insurers shall ensure to redact or blackout the Aadhaar number as per extant PML Rules

xvii. Insurer will adhere to the IRDAI Cyber security guidelines as amended from time-to-time along with the necessary security features and standard

Issuance of Electronic Policies and dispensing with physical documents and wet signature on the proposal form in respect of health insurance policies

In the wake of COVID-19 pandemic, IRDAI has provided an exemption to all individual / retail health insurance policies issued by general and health insurance companies (the insurers) from the requirement to issue physical policy document and hard copy of proposal form.

Issue of electronic health insurance policies:

IRDAI has authorized issuance of electronic health insurance policies, subject to following conditions:

i. Insurers shall send the policy document and a copy of the proposal form through digital/electronic mode. They shall be sent to the registered e-mail id or mobile number provided by the customer only on the specific consent provided by the policyholder

ii. Simultaneously the policyholders shall be informed through SMS that policy document /copy of the proposal form have been sent to their e-mail id or any other digital / electronic mode (as may be the case).

iii. Insurers shall put in place proper mechanism to ensure that the documents are delivered to the designated e-mail Id / mobile number of the policyholder and an acknowledgement is appropriately obtained / auto-collected on delivery.

iv. When documents are forwarded by electronic means, the mechanism of policyholder having received the document or the electronic platform having delivered the documents shall be maintained. It shall be clearly informed to the policyholder that the date of delivery of the document is reckoned for the purpose of considering any applicable free look requests.

v. Insurers shall preserve the records of such acknowledgements for further reference.

vi. The policy document sent electronically shall contain all the schedules, terms and conditions, benefits etc that are otherwise available in the physical document.

vii. Policyholders shall be also informed that printing of physical policy document and dispatch of the same along with the copy of proposal form may be delayed due to operational difficulties in the wake of ongoing COVID-19 pandemic situation.

viii. The policy document sent electronically is as valid as the physical policy contract / document. Wherever the policy holder demands the physical version of the policy document / copy of the proposal, the same shall be made available.

ix. Wherever policy documents could not be sent through electronic means due to any reasons, the companies shall compulsorily forward the physical documents to the policyholders.

Dispensing of wet signature on proposal form for Health Insurance Policies:

In terms of Regulation 8 (1) of IRDAI (Protection of Policyholders' Interests) Regulations, 2017, where proposal forms are collected, Insurers shall also be allowed to obtain the customer's consent without requiring wet signature on the hard copy of the proposal form subject to following:

i. The completed proposal form shall be sent to the prospect on his / her registered e-mail ID or mobile number by means of a message with a link, as the case may be.
ii. If the proposer wishes to give consent to the proposal, the same may be permitted by providing a link for confirmation or through One Time Password (OTP) duly validated.
iii. Insurers shall maintain verifiable, legally valid evidence for the proposer's consent received for the fully completed proposal form
iv. Insurers shall be responsible for the following:
    a. Providing approved digital sales material to insurance agents / intermediaries and ensure that only that material is used while soliciting the business
    b. Authenticating the e-mail IDs / mobile numbers of the proposers including through de-duplication of the data and such other means;
    c. Ensuring the suitability of the product being sold.

The above exemptions shall be valid till 31.3.2021.

Report on formation of an Indian Pandemic Risk Pool

Background

The world has witnessed several disease outbreaks and epidemics in the past years such as Spanish Flu, H1N1, SARS, Ebola etc., among which some have taken the form of a pandemic as well. This has affected both human life and economies across the globe. The COVID-19 pandemic is no exception, albeit this being on a much larger scale and followed by a worldwide lockdown has unsettled an overwhelming proportion of society at an individual and group level.

Impact of COVID-19 in India

- All business houses suffered immense financial setbacks which will take years to recover.
- The Medium, Small and Micro Enterprises, who were unable to handle the financial burden were forced to make tough decision like furlough staff or close their business altogether. As per CMIE Reports, Unemployment rate saw a steep rise from 8.75% in March to 23.52% in April 2020. The spike in unemployment rate has been unprecedented in the months of April and May. With businesses shuttered causing a huge wave of reverse migration, the country's overall unemployment rate rose as high as 27.11% for the week that ended May 7, 2020.
- The daily wage earners, who are often migrants, lost their livelihood due to lockdown which led to limited access to basic facilities like food, accommodation and health.
- The economy has faced a huge financial loss and our growth rates have been revised down by various international agencies. Though Government introduced provisions of extended moratoriums on loan,

it hasn't served enough. Government also announced a major financial stimulus equivalent of 10% of India's GDP amounting to Rs. 20 lakh Crore. However, this one-time stimulus was ad-hoc and took a huge toll on the Government's coffers. Possibility of occurrence of such future pandemics can no longer be ruled out. Doling out one-time ex gratia packages is not a viable long-term solution to such occurrences.

- Though business groups have suffered huge losses due to business interruption, they can't get insurance claims as most of their policies exclude pandemic cover.
- One-time stimulus by Government equivalent to such huge proportion of GDP is not economically viable each time a pandemic occurs. Thus arises the need for systematically designed well-structured pandemic pool.

The core recommendations of the Committee are as follows:

1. Formation, Structure and Administration of the Pool
   The quantum of loss due to an epidemic/pandemic risk event is huge and hence is beyond the capacity of public and/ or private companies and/or government alone. Hence a risk pooling mechanism with public-private-government participation would be an appropriate resolution to address this similar concern in future. Indian Reinsurer, GIC Re, who has experience of managing the Indian Terrorism Pool and Indian Nuclear pool in India shall be an apt administrator for the proposed pandemic pool.

2. Participation
   The participation shall be mandatory for the sectors which have been covered under the pool. This can be with as a Standalone Product providing coverage for the event or as an add-on with the existing products.

3. Trigger & Claim payment
   Multiple trigger mechanism shall be set separately for an epidemic and a pandemic event. Claim payment shall be parametric in nature.

4. Size and Financial capacity
   An ideal size to start the pandemic pool could be designed to cater approximate 4 crore MSME workers which would lead to a pool capacity of appx INR 75,000 crores wherein a capacity of approximate INR 2000 crores could be expected from the industry participants and a substantial part coming from government in the form of backstop. The pool premium collection is proposed to be invested in government securities or specifically designed bonds by Indian government. The premiums accumulated over the years and the Investment surplus would help in gradually reducing the government backstop.

5. Government backstop
   The Working Group believes that for pandemic pool to have an adequate purpose, it needs to cover at least 4-5 crores MSME workers in first phase and to accomplish that, the assurance from government to provide a backstop is necessary. It is pertinent to note that the backstop triggers only

at the event of pandemic striking and the total loss payouts are higher than the capacity garnered by the local insurance/reinsurance and international market. Globally all pandemic pool (including USA, France, Germany) proposals are heavily hinged on their national government's support in form of similar backstop and are at different stages of approval. The Working Group has proposed a government backstop of appx. INR 75000 crores at the initial stages.

6. Coverage

   The pool shall provide coverage in a phased manner. As MSME and the unorganized sector are the worst affected segments of society during the current COVID-19 pandemic in India, first phase of the pool shall cover Income losses due to non-damage business interruption resulting from a future pandemic event and subsequent lockdown. Pandemic losses are covered under presently available health insurance products, hence the coverage for losses in health segment caused due to a Pandemic event, beyond a threshold, may be covered under the Pool in the second phase. The coverage under the pool may be expanded to life insurance segment also in the later phases.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Banking facilities in rural areas

To ensure availability of banking outlet (Bank branch/Business Correspondent (BC), within 5 kilometers of all inhabited villages the Government has launched a Geographic Information System (GIS) based app., namely, Jan Dhan Darshak app (JDD app) developed by National Informatics Centre (NIC).

Banks have been provided login credentials to upload the GIS location of their branches, Business Correspondents and ATMs on the app. As per JDD app, there are 1.66 lakh branches, 4.35 lakh BCs and 2.07 lakhs ATMs mapped by the banks. Further, as per data uploaded by the banks on JDD app, out of the 5.53 lakh mapped villages on the app, 5.52 lakh (99.8%) villages are having branch or BC within 5 kilometers distance

As per extant guidelines dated 18.5.2017 on rationalisation of Branch Authorisation Policy, Reserve Bank of India (RBI) has granted general permission to domestic Scheduled Commercial Banks (excluding Regional Rural Banks), to open banking outlets at any place in the country, without seeking prior approval of RBI in each case, subject to at least 25 percent of the total number of banking outlets opened during a financial year being in unbanked rural centres i.e. centres having population less than 10,000 (Tier 5 and Tier 6 centres). Further, 10 Small Finance banks and six Payment Banks have been licensed by RBI for providing banking services across the country including the rural centres.

Under Pradhan Mantri Jan-Dhan Yojana (PMJDY), all villages were mapped by banks into 1.59 lakh Sub-Service Areas (SSAs) with one SSA catering to 1,000 to 1,500 households. While 0.33 lakh SSAs have been covered with bank branches, 1.26 lakh SSAs, have been covered by deployment of interoperable Business Correspondents (BCs).

In pursuance of RBI guidelines, rolling out of banking outlets in uncovered areas is a continuous process and looked after by State Level Banker's Committee (SLBC), in consultation with the concerned State Government, member banks and other stakeholders. Banks, inter-alia, consider proposals for opening banking outlets in the light of RBI's instructions, their business plans and their commercial viability. To further assess the viability for opening a banking outlet, banks carry out survey as required.

As informed by SLBC, Haryana and SLBC Bihar, all the Gram Panchayats and Blocks in these States are covered with banking services by bank branches/ Business Correspondents.

Government issued Advisory to PSBs to moot action against personal guarantors of corporate debtors

The Insolvency and Bankruptcy (Application to Adjudicating Authority for Insolvency Resolution Process for Personal Guarantors to Corporate Debtors) Rules, 2019 empowering creditors to file insolvency application against personal guarantors to corporate debtors before the National Company Law Tribunal (NCLT) under the Insolvency and Bankruptcy Code, 2016.

In the context of the above, the Department of Financial Services had issued as advisory to Public Sector Banks that they may consider putting in place a mechanism for monitoring the cases which may require initiation of individual insolvency process before NCLT against personal guarantors to corporate debtors, and that they may also consider setting up an information technology system to collate data regarding personal guarantors to corporate debtors for requisite follow-up and consequential action.

CAPITAL MARKETS

SEBI Board Meeting

Key decisions regarding following were taken at the SEBI Board meeting:

1. Amendments to SEBI (Debenture Trustee) Regulations, 1993, SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and SEBI (Listing Obligations and Disclosure Requirements), 2015
2. Amendments to Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009
3. Setting up of a Limited Purpose Repo Clearing Corporation
4. Amendments to SEBI (Mutual Funds) Regulations, 1996
5. Amendment to SEBI (Alternative Investment Funds) Regulations, 2012
6. Disclosure of information related to forensic audit of listed entities
7. Amendments to the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015

Circular on Mutual Funds

Securities Exchange Board of India (SEBI) has introduced certain amendments and incorporated following items for mutual funds. The key changes are in following areas:

1. Uniformity in applicability of Net Asset Value (NAV) across various schemes upon realization of funds
2. Trade Execution and Allocation
3. Orders pertaining to equity and equity related instruments
4. Requirements with respect to investments in all instruments:
5. Monitoring of Compliance

Asset allocation on multi-cap funds

In order to diversify the underlying investments of Multi Cap Funds across the large, mid and small cap companies and be true to label, SEBI has decided to partially modify the scheme characteristics of Multi Cap Fund.

Thereby, the minimum investment in equity & equity related instruments -75% of total assets shall be placed in the following manner:

- Minimum investment in equity & equity related instruments of large cap companies - 25% of total assets
- Minimum investment in equity & equity related instruments of mid cap companies - 25% of total assets
- Minimum investment in equity & equity related instruments of small cap companies - 25% of total assets

Collection and Reporting of Margins by Trading Member (TM) / Clearing Member (CM) in Cash Segment – Clarification

As per an earlier circular, SEBI had issued guidelines with regard to collection of margins from clients and reporting of short-collection / non-collection of margins by Trading Member (TM) / Clearing Member (CM).

SEBI has issued clarification regarding following provisions of the circular:

The 'margins' for this purpose shall mean VaR margin, extreme loss margin (ELM), mark to market margin (MTM), delivery margin, special / additional margin or any other margin as prescribed by the Exchange to be collected by TM/CM from their clients.

Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs / CMs will have time till 'T+2' working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges / TMs / CMs. The period of T+2 days has been allowed to TMs / CMs to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)

And

If TM / CM collects minimum 20% upfront margin in lieu of VaR and ELM from the client, then penalty for short-collection / non-collection of margin shall not be applicable.

With regard to levy of penalty for non-collection of "other margins" (other than VaR and ELM) on or before T+2 days from clients by TM / CM, SEBI clarified that,

1. If pay-in (both funds and securities) is made by T+2 working days, the other margins would deemed to have been collected and penalty for short / non collection of other margins shall not arise.

2. If Early Pay-In of securities has been made to the Clearing Corporation (CC), then all margins would deemed to have been collected and penalty for short / non-collection of margin including other margins shall not arise.
3. If client fails to make pay-in by T+2 working days and TM / CM do not collect other margins from the client by T+2 working days, the same shall also result in levy of penalty as applicable.

Operating Guidelines for Portfolio Managers in International Financial Services Centre (IFSC)

SEBI has earlier issued guidelines on International finance services centre (IFSC). SEBI issued an annexure to the guidelines on operational guidelines for portfolio managers in IFSCs. The guidelines cover areas of:

1. Applicability
2. Registration of portfolio managers
3. Operational compliances
4. Amount of fees to be paid

Alternate Risk Management Framework Applicable in case of Near Zero and Negative Prices

In recent times, extreme volatility has been observed in commodity prices globally, particularly in the case of Crude Oil, wherein the prices had unprecedentedly gone down to zero and subsequently, even negative. In such a scenario, margins equivalent to even 100% of the futures price would not have been sufficient to cover the steep upward or downward price variations in the futures market

In order to enable risk management framework to handle such a scenario of 'near zero' and negative prices, SEBI constituted a Task Force of Clearing Corporations (CCs) and market participants to review the risk management framework in such cases. SEBI has decided the following based upon the recommendations of the said task Force: -

- Alternate Risk Management Framework (ARMF) shall be applicable in such cases of near zero and negative prices for any underlying commodities/futures.
- To begin with, the commodities having the following characteristics may be in principle treated as susceptible to the possibility of near zero and negative prices: -
- Commodities that need specialized storage space in physical markets, which, if not followed, may cause environmental hazards or have other external implications
- Commodities that can't be disposed of/ destroyed with ease i.e. disposal/destruction of such commodities may cause an environmental hazard or may incur significant cost.

The circular covers areas such as:

1. Activation of Alternate Risk Management Framework (ARMF)
2. Characteristics of the ARMF
3. Deactivation of ARMF

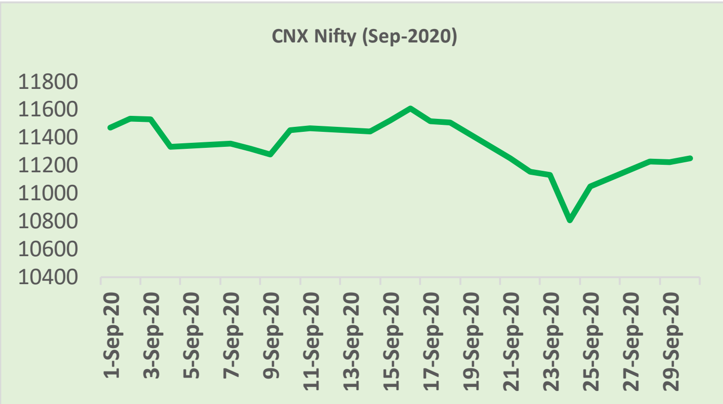
Guidelines for Investment Advisers

SEBI has earlier issued guidelines for investment advisers (IA). In addition to those guidelines, SEBI has issued additional guidelines to be complied by investment advisers.

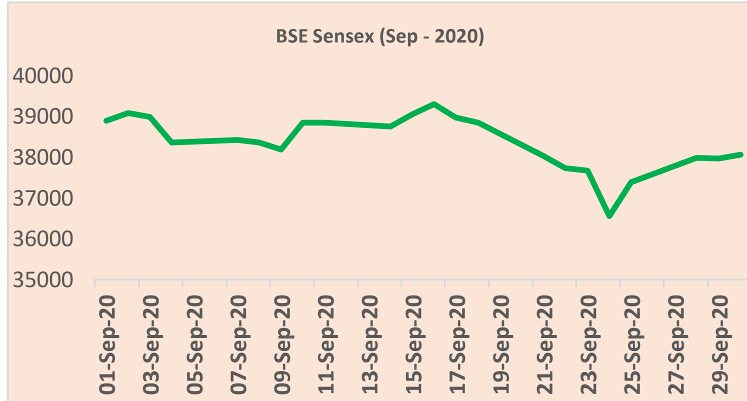
The guidelines pan out in areas of:

i. Client Level Segregation of Advisory and Distribution Activities
ii. Agreement between IA and the client
iii. Fees
    a. Assets under Advice (AUA) mode
    b. Fixed fee mode
iv. Qualification and certification requirement
v. Registration as Non Individual Investment Advisor
vi. Maintenance of record
vii. Audit
viii. Risk profiling and suitability for non-individual clients
ix. Display of details on website and in other communication channels

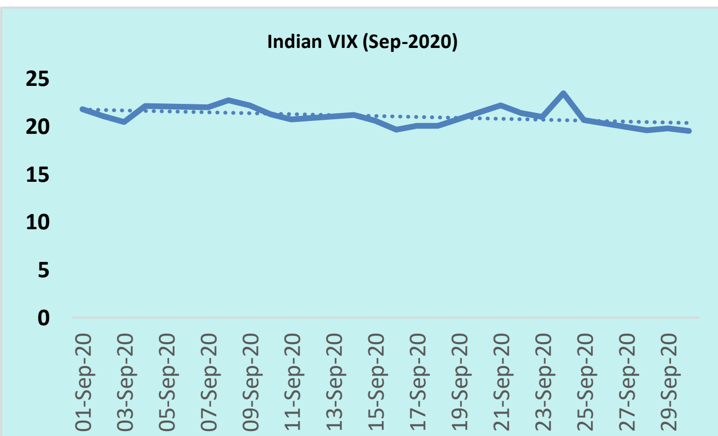
CAPITAL MARKETS SNAPSHOT



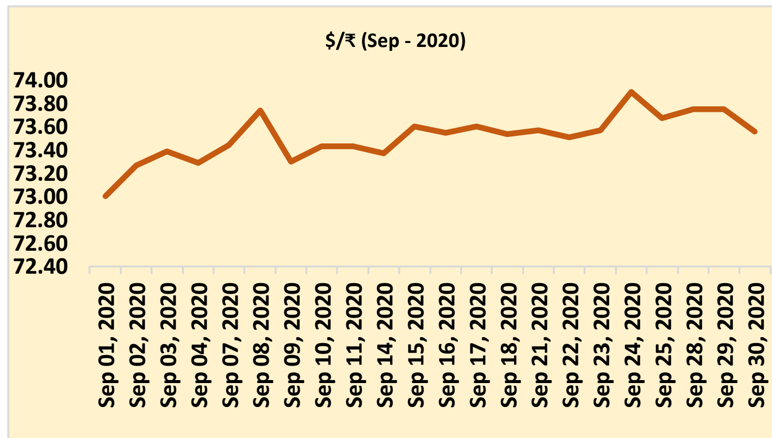
Source: National Stock Exchange



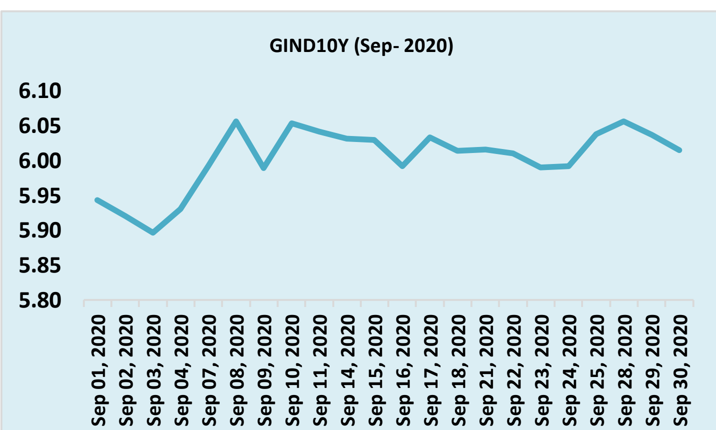
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Geopolitical tensions between India and China induced further selling in the market. Warning from the US Federal Reserve chief that the US economic recovery would suffer if lawmakers failed to pass a new fiscal package and introduction of the new lockdown restrictions in the UK also dented the sentiments. According to the Ministry of Finance's estimates, Indian economy might rebound 19% in the next fiscal without adjusting for inflation. Sentiments were primarily boosted by robust domestic factory activity COVID-19-related restrictions on various businesses.

Sources: APAS Business Research Team

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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	2.4 Aug	2.8	-0.7	-15.7	2.03
Russia	-8.0 Q2	-5.7	3.0	3.7 Sep	3.4	1.8	-4.3	6.26
India	**-23.9 Q2**	**-8.5**	**6.7**	**6.7 Aug**	**5.2**	**0.9**	**-7.9**	**6.01**
China	3.2 Q2	1.7	7.3	2.4 Aug	3.5	1.8	-5.6	3.01^
S Africa	-17.1 Q2	-8.0	1.5	3.0 Aug	3.3	-2.3	-16.0	9.58
USA	-9.0 Q2	-5.3	4.0	1.3 Aug	0.7	-1.8	-15.3	0.81
Canada	-13.0 Q2	-5.8	4.0	0.1 Aug	0.7	-2.1	-13.0	0.62
Mexico	-18.7 Q2	-9.1	3.3	4.0 Sep	3.4	0.4	-4.5	5.83
Euro Area	-14.7 Q2	-8.4	5.5	-0.3 Sep	0.3	2.2	-9.2	0.0
Germany	-11.3 Q2	-5.8	4.6	-0.2 Sep	0.5	5.4	-7.2	0.0
Britain	-21.5 Q2	-9.5	6.9	0.2 Aug	0.8	-1.7	-18.2	0.36
Australia	-6.3 Q2	-4.5	1.6	-0.3 Q2	1.6	1.3	-7.6	0.84
Indonesia	-5.3 Q2	-2.2	4.3	1.4 Sep	1.9	-1.1	-7.1	6.88
Malaysia	-17.1 Q1	-8.0	5.0	-1.4 Aug	-1.1	0.5	-8.0	2.69
Singapore	-13.2 Q2	-6.0	3.9	-0.4 Jul	-0.2	18.9	-13.6	0.91
S Korea	-2.8 Q2	-1.8	2.4	1.0 Sep	0.5	2.8	-6.0	1.53

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

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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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