2021

Volume 7

APAS MONTHLY

THIS MONTH

Season’s greetings!

In this issue, Mr. Sanjeev Mantri, Executive Director, ICICI Lombard General Insurance Company, has presented his thoughts on ‘Non-Life Insurance: A journey of continuous evolution’.

We also have a special article by Mr. Gopal Balachandran, Chief Financial Officer, ICICI Lombard General Insurance Company, presenting his thoughts on ‘Listing obligations and disclosure requirements: Status update’.

We thank Mr. Mantri and Mr. Balachandran for their contributions to the APAS Monthly.

This month, the APAS column presents its views on ‘General Insurance industry: Current status’.

The economic indicators showed mixed performance. Manufacturing PMI fell to a 11-month low of 48.1 in June from 50.8 in May. India’s annual infrastructure output in June rose by 8.9%. India's Index of Industrial Production (IIP) rose 29.3% in May. PMI services fell to 41.2 in June from 46.4 in May, while composite PMI fell to 43.1 in June from 48.1 in May. CPI inflation eased marginally to 6.26% in June from 6.3% in May. WPI inflation eased marginally to 12.07% in June from 12.94% in May.

The Reserve Bank of India (RBI) announced (1) E-RUPI – Digital currency (2) Framework for Outsourcing of Payment and Settlement-related Activities by Payment System Operators (3) Access for Non-banks to Centralized Payment Systems (4) Digital Payments Index (RBI-DPI) for March

2021(5) Retail Direct Scheme: Allowing Retail Investors to Open Gilt Accounts with RBI (6) Cessation of LIBOR: Transition arrangements.

The Insurance Regulatory Development Authority of India (IRDAI) announced Withdrawal of Guidelines on Indian owned and controlled. IRDAI also announced amendment to Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000.

Cabinet approved continuation of centrally sponsored scheme National AYUSH Mission. Insolvency and Bankruptcy Board of India amended the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016.

Securities and Exchange Board of India (SEBI) announced (1) RTA (Registrar and share-transfer agent) inter-operable Platform for enhancing investors' experience in Mutual Fund transactions / service requests (2) Segregation and Monitoring of Collateral at Client Level (3) Introduction of Expected Loss (EL) based Rating Scale.

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

[*Non-life Insurance – A journey of continuous evolution*]

Sanjeev Mantri
Executive Director
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SPECIAL COLUMN

Listing obligations and disclosure requirements

Gopal Balachandran
Chief Financial Officer
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APAS COLUMN

General insurance industry – current status

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- *Reserve Bank of India announces Digital Payments Index (RBI-DPI) for March 2021*
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- *Cessation of LIBOR: Transition arrangements*

INSURANCE

- *Withdrawal of Guidelines on Indian owned and controlled*
- *Amendment to Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000*

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- *Cabinet approves continuation of centrally sponsored scheme National AYUSH Mission*
- *Insolvency and Bankruptcy Board of India amends the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016*

CAPITAL MARKETS

- *RTA (Registrar and share-transfer agent) inter-operable Platform for enhancing investors' experience in Mutual Fund transactions / service requests*
- *Segregation and Monitoring of Collateral at Client Level*
- *Introduction of Expected Loss (EL) based Rating Scale*

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*

Non-life Insurance – A journey of continuous evolution

Sanjeev Mantri
Executive Director
ICICI Lombard General Insurance

The Origins

Non-Life Insurance has come a long way since its origin in 1660s. It all started with the Great Fire of London that engulfed the central parts of the city in a matter of days. Amid the destruction arose a new industry with Property Insurance. Its sole intent was to preserve and protect Londoners and their properties. In 1680, the first insurance company - 'Fire Office', was set up by Nicholas Barbon. By 1690, one in ten houses in London was insured.

Claim Settlement at the Core

Over the years, insurance firms have grown in stature and reach offering a plethora of coverage options for the consumer to choose from. While expanding their portfolio, their focus has remained the same – to ensure efficient claim settlement. It is the 'moment of truth' for the insurer when the customer submits a claim. Irrespective of whether you provide smooth underwriting, diverse products, and world class customer service, nothing matches the quick settlement of the claim amount. And success for the insurer lies in how soon it can honour the request coupled with efficient and empathic service, thereby demonstrating its promise of protection in the customer's 'hour of need'.

A key Contributor to the Nation's Growth Story

While its role may seem limited, the insurance industry contributes significantly towards shaping lives and society. It dons the protector role by safeguarding people from the uncertainties and risks of life that surround them every day. While it is not possible to protect everyone from life's vicissitudes, what insurance does is to provide a financial buffer to tide over unforeseen calamities.

It also fuels the general economic growth of the nation by providing financial viability for businesses and long-term liquidity. Additionally, the sector generates employment opportunities in millions. This is a critical success factor for a country like India, where savings and employment are crucial for growth and development.

Transforming for the Future

The insurance market is undergoing a transformation in the way it operates and delivers. It is bidding adieu to the business-as-usual format and embracing digitized operations, personalized premiums, usage-based coverage and tapping into Internet of Things, Advanced Analytics, and Machine Learning to usher granular individual risk profiles.

- **On Demand Insurance:** Gone are the days when insurance was all about standard policies and services offered through snail mail. Today's covers are available on smartphones anywhere, anytime, and just when the customer needs a policy. Think pay-as-you-use insurance for your vehicle – insurance which you can buy only when you wish to use your car. Such offerings need to be topped with an attractive interface, customizable coverage, and one-click purchase making the process an effortless task.
- **Personalized Solutions:** Forward thinking insurers are consciously moving away from transactional interactions to a more personalized approach and customer friendly relationships. Offering services are no longer based on standard demographics like age, lifestyle, or financial status. Instead, it goes far beyond by going granular in terms of data-driven personalization.

  The data intelligence guides the internal processes and the external touchpoints leading to efficient operations and delightful customer experiences. Targeted pricing offers are redefining the insurance landscape. Customer data from wearable and smart devices gauges user's lifestyle and is used to suggest proactive tips and rewards for maintaining good health. No wonder new age consumers are finding delight in insurance value added solutions that offer customized wellness offerings.

- **Self Service:** New age consumers prefers DIY (Do-It-Yourself) and timely services that empower them with agile decision-making abilities. Progressive insurers are embellishing their solutions in this direction:
  - 24x7 interface available on web, mobile and app to avail all services across the insurance value chain. This includes registering claims, real time status of the claim, policy purchase, servicing, tele-consultation with doctors, chat with experts like nutritionists etc. Imagine the convenience of consulting a doctor from the safe environment of your home in a contactless manner.
  - Real time notifications that alert the users on policy updates, renewal dates, health related triggers etc. thereby providing solutions proactively to customers. App based policy renewal notifications and one click solutions are becoming the de facto approach for most insurers.
  - A readily accessible and manoeuvrable knowledge base in the form of blogs, advisory communication that empowers them with the requisite information. Several studies reveal that today's customers prefer such online repositories before they contact customer support or their agent.
- **Artificial Intelligence-based solutions** are being introduced to facilitate instant renewal of expired or lapsed motor insurance policies. Similarly, real-time health claim approval using AI engines are providing approvals even in the middle of the night. Health policies are moving forward to times when all hospitalization approvals would be done by AI, within a few minutes.

Way Forward:

The shift is real and here. And several insurers, including ICICI Lombard are already redefining themselves as Risk Management Partners, guiding customers to mitigate risks rather than just pay the compensation post an untoward event. Those who stay on this path are set to win the race, to the consumer's heart and in terms of building a profitable business.

Listing obligations and disclosure requirements: Status update

Gopal Balachandran
CFO
ICICI Lombard General Insurance

Introduction

The introduction of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations") provided a comprehensive framework, widening the scope of responsibilities and accountability of listed companies. The amendments and additions to the LODR Regulations during the last two years were in the wake of increased regulatory focus on recalibrating corporate governance in the Indian listed space. The SEBI has introduced these amendments in view of corporate governance failures, questionable promoter conduct, boardroom battles, alleged diversion of funds from listed entities, conflict of interest issues, whistle blower complaints and non-disclosure/insufficient disclosure of information which came to light since the introduction of the LODR Regulations.

Recently, SEBI vide a gazette notification dated May 6, 2021 notified Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021 which are effective from May 06, 2021.

This article discusses the major amendments introduced for the listed entities:

1. Applicability based on market capitalization: The provisions of the LODR Regulations which become applicable to certain listed entities based on the market capitalisation criteria. The Amendment Regulations clarify that the applicability of certain provisions of LODR Regulations based on market capitalisation will continue to apply even where the entities fall below the prescribed threshold.
2. Applicability of corporate governance provisions based on equity share capital and net-worth: Certain provisions of Chapter IV the LODR Regulations which only become applicable to listed entities based on the fulfilling certain equity share capital and net-worth norms, when once become applicable, will continue to apply to such entities unless the equity share capital or net-worth falls and continues to remain below the threshold for a period of three consecutive financial years.
3. Risk Management Committee (RMC): Role enhanced, composition changed, quorum, frequency of meetings prescribed, more companies to constitute RMC, can obtain legal / external advice
4. Requirement to constitute RMC extended to top 1000 companies (earlier 500 listed entities)
5. Changes in Constitution, Frequency and Quorum of RMC:

6. Enhanced mandate of RMC and external assistance: The role of the RMC has been specified which, inter-alia, includes formulation of a detailed risk management policy and monitoring its implementation; periodic review of such policy; review of the appointment, removal and terms of remuneration of the Chief Risk Officer (if any), etc. A new part has been added to Schedule II. In order to fulfil its enhanced roles, the RMC shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.
7. Quarterly compliance report: The timelines for submission of compliance report on corporate governance report has been increased from 15 to 21 days from the end of each quarter.
8. Reclassification of promoters into public – related exemptions and procedural changes: Regulation 31A of the LODR Regulations specifies the conditions and approvals post which the promoters can be re-classified into public shareholders. SEBI had proposed changes to the same in a consultation paper dated November 23, 2020. Amendments have been made on similar lines in Regulation 31A.
9. Additional disclosures on website: Regulation 46 of the LODR Regulations provides the mandatory contents to be placed on the website of a listed entity. Most of the disclosures were already existing under respective regulations viz. Reg 30, 43A etc. However, the same has been consolidated under regulation 46.
    - Newspaper advertisement dispensed with for certain purposes: Requirement of publication of newspaper advertisements for the notice to board meetings where financial results are to be discussed and for quarterly statement on deviation or variation in use of funds, has been dispensed with.
    - Disclosure of financial results where board meeting held for more than one day: In case of board meetings held for more than one day, the financial results shall be disclosed by listed entities within 30 minutes of end of the board meeting for the day on which the financial results are considered.
10. Disclosures in respect of analyst/ institutional investor meets by listed entities

▪ Disclosing audio/video recordings of such meetings on the website of the listed entity and exchanges promptly, before next trading day or within 24 hours, whichever is earlier. The information to be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

▪ Written transcripts of such meetings to be provided within five working days.

▪ The requirement for disclosure(s) of audio/video recordings and transcript to be voluntary with effect from April 01, 2021 and mandatory with effect from April 01, 2022.

11. Alignment with the provisions of the Companies Act, 2013:

Certain amendments have been made to remove the gap between the provisions of LODR Regulations, with that of the Companies Act, 2013 as given below –

- Separate meeting of independent directors –The Companies Act requires one meeting in a financial year, the LODR Regulations required one meeting in a year (calendar year). Therefore, the same has been substituted with a “financial year” so as to align the requirements of both the governing laws.
- Display of Annual Return on website – Section 92 read with allied rules requires the companies, having a website, to display its Annual Return on the website. New clause has been inserted under Regulation 46 of LODR Regulations that requires placing the Annual Return on the website of the company.

12. Consolidation of various SEBI circulars

Certain circulars of SEBI lay down various requirements to be complied with in relation to the LODR Regulations. The Amendment Regulations have consolidated the requirements under the principal LODR Regulations.

- Requirement of Secretarial Compliance Report – While the requirement of Annual Secretarial Compliance report were applicable on the listed entities and its material subsidiaries since a few years back, the same has now been specifically provided under newly inserted sub-regulation (2) of Regulation 24A.
- Requirement of Business responsibility and sustainability report (BRSR)- SEBI had proposed a new format to replace the existing Business Responsibility Report. The proposal was finalised and the BRSR format has been made voluntary from FY2021-22 and mandatory from FY2022-23 onwards, vide SEBI circular dated April, 2021 . The same has also been consolidated under Regulation 34 of the LODR Regulations. Now, SEBI has enhanced its focus on sustainability and ESG related disclosures and therefore introduced new format of BRSR report.

13. Other amendments:

- Clarity on meaning of “working day”: LODR Regulations use the term “working day” in various places, now the term has been defined to mean working day of the stock exchange where the securities of the entity are listed.
- Review of information relating to scheme of arrangement by audit committee:
- Disclosure on resolution plan / restructuring considered as material event without application of threshold
- Additional disclosures in corporate governance section of the annual report related to risk management committee such as (a) brief description of terms of reference; (b) composition, name of members and chairperson; (c) meetings and attendance during the year;
- The frequency of Compliance certificate submission related to share transfer activity is revised to annual instead of half-year;
- Disclosure of beneficial ownership of non-executive directors to shareholders in notice of general meeting;
- Stock exchanges to provide “no-objection” letter, instead of “observation letter”, for scheme of arrangement;
- Dividend distribution policy to be formulated by top 1000 companies (earlier top 500 companies);
- Disclosure of voting results of general meeting in 2 working days instead of 48 hours;

- Approval from stock exchange for change of name of listed entity is now not required.

Conclusion

The Amendment Regulations are very crucial and significant in nature. Uniformity in timelines and relaxation in certain disclosure requirements will encourage ease of doing business, and the coverage of certain provisions extended to listed entities based on market capitalisation will have a remarkable impact on the corporate governance of listed entities.

General insurance industry – Current status

In the face of adversity put up by COVID-19, General insurance industry was being perceived as something that was faring well in the financial services. However, the industry is right now grappling with its own set of issues, including low sales, distribution issues, higher claims, managing profit and business line margins, etc. Let us understand critical aspects responsible for overall business wise de-growth and how it is expected to fare ahead.

Overall, the industry has grown at a rate of 13.8% in Q1 FY2022 over Q1 FY2021, with the industry GDPI moving up to INR 444.35 billion in Q1 FY2022 from INR 390.55 billion in Q1 FY2021. This was majorly contributed by health insurance on account of increased awareness and change in attitude towards health protection. While motor's growth was muted on account of lockdowns and postponement of purchasing policy. As per a rating agency, PSU insurers are expected to report underwriting losses in range of INR 12,400 crore to INR 13,500 crore in FY22, majorly on account of high health and motor claims. The combined ratio of general insurers rose to 102% in FY21, compared with about 96% due to the rise in claims. As per the Q1FY22 results of a general insurer, the combined ratio was 122%, owing to increased claims in the same quarter. The GIs saw profit margins declining drastically in Q1FY22 in comparison to Q1FY21. A major reason being lower than pre-COVID sales, increased claims and provisioning and decline in margins. For a major general insurer, the PBT and PAT declined to the tune of 61% q-o-q and a consequent decrease in ROE. Despite the wider underwriting losses, the sector may post a 3%-4.5% return on equity, largely supported by investment income.

FY21 saw major headwinds for non-life insurers in the form of elevated health claims, no revision on motor TP rates and catastrophic events. Second wave saw more affluent and insured population from the tier I and II cities being affected. COVID-19 claims reported for Q1 FY2022 has already crossed one million in comparison to 0.98 million cases in the whole of FY21. So far, almost INR 24,000 crore (Including INR 8642 crore for FY21) worth of claims have been paid under medical insurance due to Covid-19 related hospitalization and associated expenses, according to General Insurance Council data.

The higher reported claims resulted in longer and thicker reporting tail than the previous wave, specifically on account of COVID. The anonymity and complications in the health rulebooks were more severe for the second wave – along with prolonged post recovery complications. Further, although the hospital stay period had reduced, lack of critical drugs and infrastructure led to increase in medium to critical cases in the second wave.

The second wave also saw higher number of non-COVID claims. The quarters ahead oversee the increasing risk of non-COVID claims owing to long-deferrals to avoid hospitalization. While overlooking such uncertainties and impending high loss ratios, insurers have started increasing health group rates segment-wise gradually. Going ahead, we could see for quite some time, elongated tail risk looming as well as hit on overall margins owing to more reserves.

Motor insurance segment has seen a dull phase since last year. Lockdowns, having restricted travel to a great extent, led to a general attitude of delaying policy purchase. The policy issuance as well as claims picked up only after partial opening up of economy since Q2FY21. As per a rating agency, the share of motor insurance narrowed to 37% in FY21 from 46% in FY16. Further, it grew only 2% to INR 67,800 crore in FY21, owing to lockdowns and lower sales of new vehicle. Q1FY22 which coincided with the second wave, however, saw higher motor claims as compared to first wave. This was on account of localised lockdowns during second wave as compared to national lockdowns earlier.

Lower operating profit margins in motor business could also be attributed to no revision of motor TP rates by regulator. The regulator had announced in February 2020 that it would revise TP rates. However, it was put on hold on account of pandemic. As per industry leaders, while the regulators haven't revised the prevailing third-party rates, the costs of spare parts and servicing have gone up, leading to rise in claim costs. Consumer sentiment is at its lowest, leading to price pressures on account of low sales of assets like motor vehicles further contributing to low sales.

Traditionally, the insurance industry has been employee centric. With the advent of digital disruption of the industry, there will be an impact on its vast employee bases in the foreseeable future. However, despite the switch to digital mode, a vast majority of the business will require one on one communication or face to face interactions. As a result, companies need to ensure that their agents have access not only to safety equipment in the office, but also required data and applications to safely work from home.

The insurance industry rides on the back of other industries. Hence, unless the overall economy bounces back or the insurance industry finds business in hitherto uncovered areas, the industry is likely to struggle in maintaining its momentum. The Covid-19 crisis has given rise to both immediate and potential challenges for the insurance industry. Immediate challenges before the insurers remain managing distribution channels while containing cost and margin pressures. Current impact on books would be in terms of low sales, high IBNR loss reserves, high claim ratios and ultimately high combined ratios. The ultimate impact on profit lines will remain looming over the years to come in the form of tail risk and reserves. The silver lining in the cloud is the positive sentiment towards purchasing health and life insurance policies, which could lay a foundation for the health insurance wave in India.

-APAS

ECONOMY

IIP (Index of Industrial Production) – May

Index of Industrial Production (IIP) or factory output for the month of May 2021 rose 29.3%, compared to 134.44% in April 2021 and a contraction of 33.4% in May 2020.

The General Index for the month of May 2021 stands at 116.6, which is 29.3% higher as compared to May 2020.

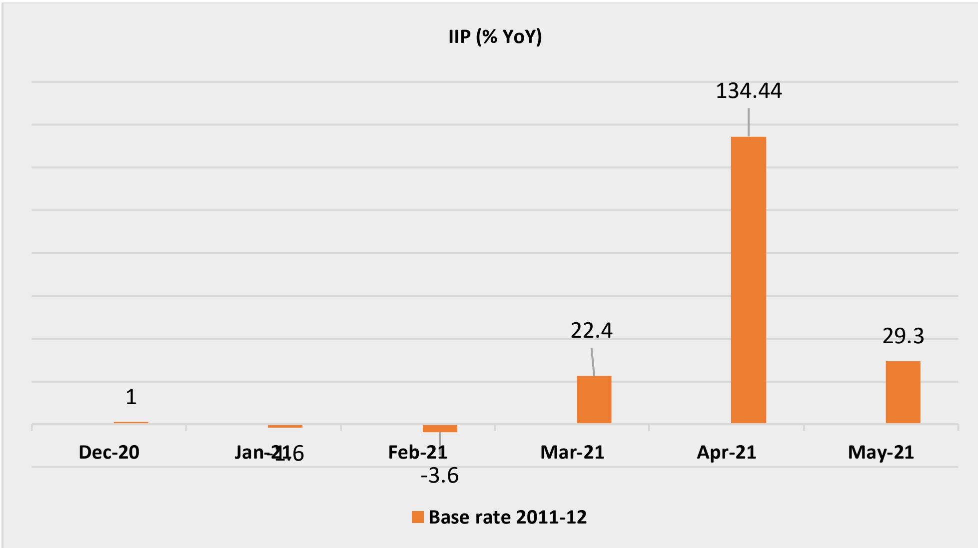
The manufacturing sector, which constitutes 77.63% of the index, went up by 34.5% in May, to 113.5.

Mining sector output grew by 23.3%, to 108.

Electricity generation rose by 7.5%, to 161.9.

As per Use-based classification, the indices stand at 122.7 for primary goods, 65.6 for capital goods, 129.9 for intermediate goods and 129.8 for infrastructure/construction goods for May.

Further, the indices for consumer durables and consumer non-durables were at 78.7 and 136.4, respectively.



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

CPI (Consumer Price Index) – June

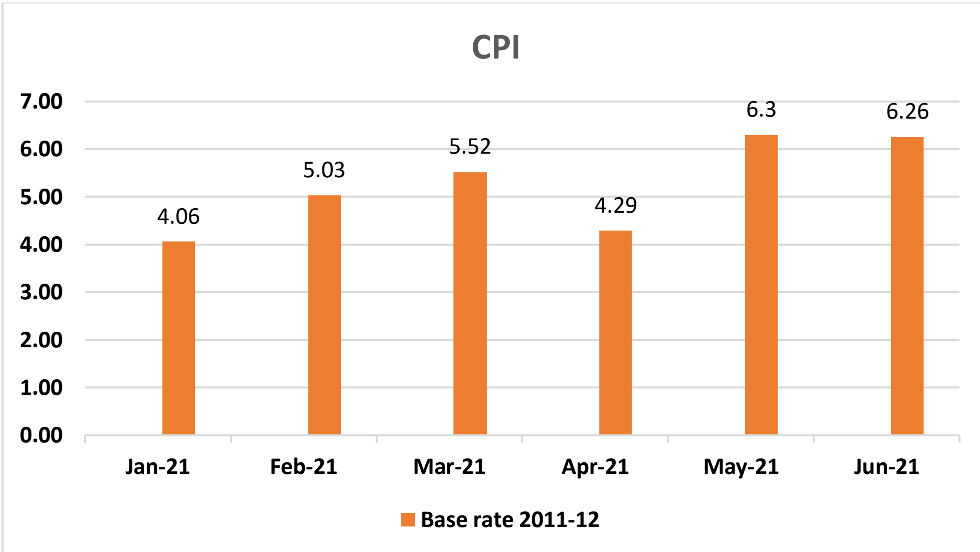
India's consumer price index (CPI) or retail inflation eased marginally to 6.26% in June 2021, compared to 6.3% in May 2021.

The corresponding provisional inflation rates for rural and urban areas are 6.16% and 6.37% respectively.

The Consumer Food Price Index (CFPI) rose to 5.15% in June from 5.01% in May.

Among the CPI components, inflation for food and beverages rose to 5.58% in June. The spike in food basket was mainly due to a sharp rise in prices of oils and fats, which climbed 34.78% in June. Apart from this, the egg prices segment saw a rise of 19.35%, while that of fruits gained 11.82% and pulses and products rose 10.01%. Non-alcoholic beverages climbed 14.71%. On the other hand, the vegetables segment slipped 0.7% and cereals and products declined 1.94%.

Apart from food and beverages, the inflation rate for pan, tobacco and intoxicants was at 3.98%, the fuel and light segment rose 12.68%, clothing and footwear gained 6.21% and the housing segment inched up 3.75%.



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

WPI (Wholesale Price Index) – June

India's wholesale price index (WPI) inflation eased marginally to 12.07% in June 2021, as compared to 12.94% in May 2021 and (-) 1.81% in June 2020.

The rate of inflation based on WPI Food Index decreased to 6.66% in June 2021 from 8.11% in May 2021.

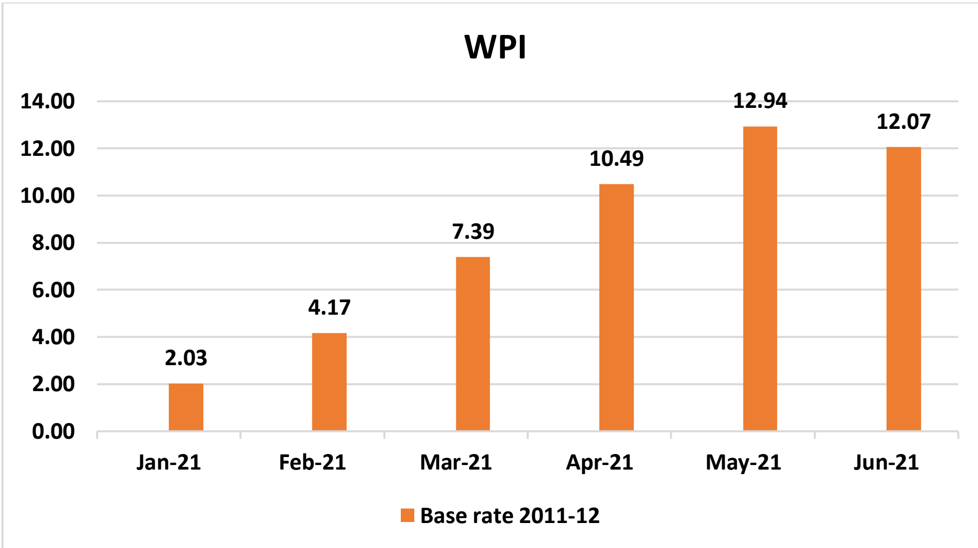
The index for primary articles increased by 0.86% from the previous month.

Prices increased for non-food articles (2.55%), crude petroleum and natural gas (2.33%), minerals (0.98%) and food articles (0.31%).

The index for fuel and power increased by 2.9% from the previous month.

Prices increased for mineral oils (4.91%).

The index for manufactured products increased by 0.38% from the previous month.



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

Manufacturing PMI – June

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in June contracted for the first time in 11 months, as the intensification of the Covid pandemic and strict containment measures put the sector into the reverse gear.

The Manufacturing PMI fell to a 11-month low of 48.1 in June 2021 from 50.8 in May 2021. It fell below the 50 level, that separates expansion from contraction.

This was the first contraction in the manufacturing sector since July last year, as a harsh resurgence of Covid-19 and stricter lockdown measures negatively impacted demand.

Both output and new orders shrank.

New export orders decreased for the first time in 10 months.

Also, buying levels dropped the most since the series began in March 2005.

At the same time, employment fell marginally, with backlogs decreasing for the second consecutive month.

June data continued to signal lengthened supplier delivery times, with vendor performance worsening for the fourth straight month.

Prices data showed input cost inflation easing to a 5-month low, while selling prices inflation slowed to a 3-month low.

Lastly, confidence dropped over uncertainty when the pandemic can be brought under control.

Source: www.tradingeconomics.com

Services PMI – June

The Indian services sector activity in June contracted further as the intensification of the Covid crisis and reintroduction of containment measures restricted demand.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to 41.2 in June 2021 from 46.4 in May 2021. The index remained below the neutral mark of 50, which separates expansion from contraction, for the second straight month.

The reading pointed to the second straight month of contraction in the sector and the fastest pace of contraction since July 2020, amid a resurgence of Covid-19 cases.

Both output and new orders fell at the fastest pace since July 2020, due to the reintroduction of restrictions to contain the spread of the coronavirus.

External demand continued to worsen, with the new export orders falling for the 16th consecutive month, with the pace of contraction remaining sharp, despite easing from May.

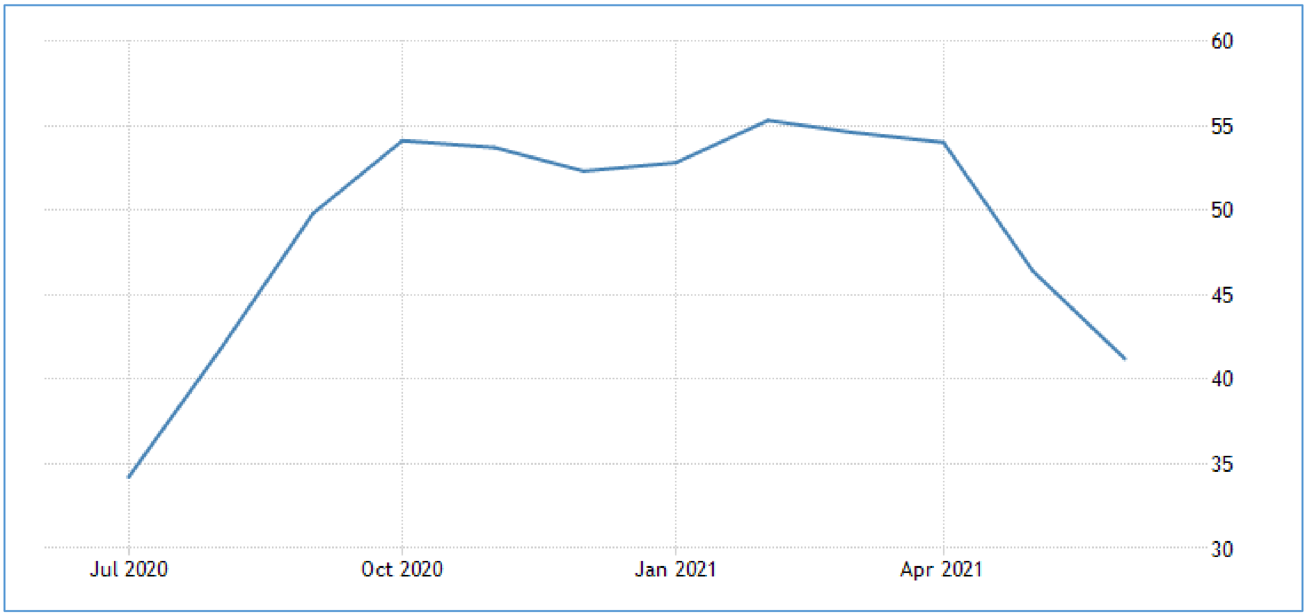
At the same time, employment declined for the seventh straight month and the fastest over this period.

On the price front, input cost inflation eased to a 5-month low.

As a result, selling prices continued to rise.

Looking ahead, business sentiment weakened to the lowest since last August, due to the escalation of the pandemic.

The seasonally adjusted Nikkei India Composite PMI Output Index fell to 43.1 in June from 48.1 in May, signalling the sharpest rate of reduction since July 2020.



Source: www.tradingeconomics.com

Core Sector Data – June

Growth of eight infrastructure sectors rose by 8.9% in June 2021, mainly due to low base effect.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 16.3% in May 2021 and contracted by 12.4% in June 2020.

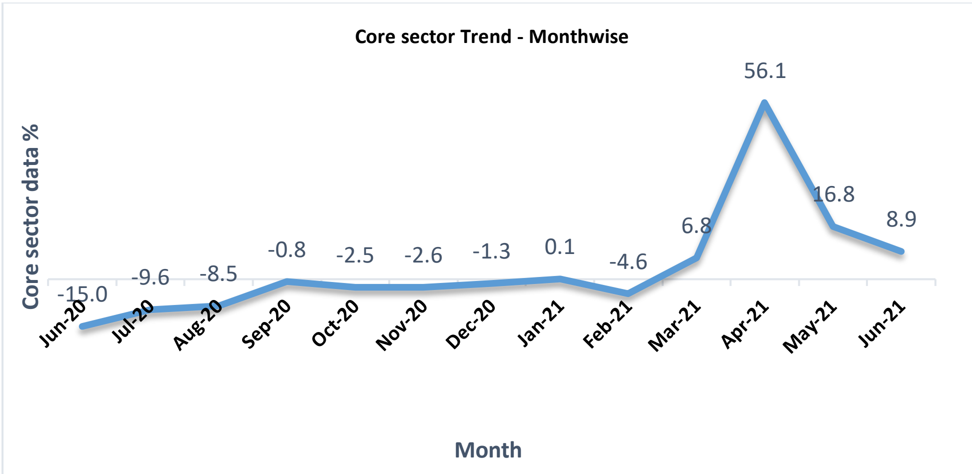
Positive growth was seen in 7 out of 8 sectors, with crude oil continuing to remain in negative territory.

Production of coal, natural gas, refinery products, steel, cement and electricity jumped by 7.4%, 20.6%, 2.4%, 25%, 4.3% and 7.2%, respectively, in June, as against (-) 15.5%, (-) 12%, (-) 8.9%, (-) 23.2%, (-) 6.8% and (-) 10% last year.

Crude oil output contracted by 1.8%, as against (-) 6% last year.

Fertiliser segment recorded a growth of 2% in June.

Cumulatively, the growth in the eight core sectors during April-June 2021-22 grew by 25.3%, as against a contraction of 23.8% in the same period last financial year.



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

BANKING

E-RUPI – Digital currency

National Payments Corporation of India (NPCI) in association with Department of Financial Services (DFS), National Health Authority (NHA), Ministry of Health and Family Welfare (MoHFW), and partner banks, has launched an innovative digital solution – 'e-RUPI'.

The users of this seamless one-time payment mechanism will be able to redeem the voucher without a card, digital payments app or internet banking access, at the merchants accepting e-RUPI. e-RUPI would be shared with the beneficiaries for a specific purpose or activity by organizations or Government via SMS or QR code.

Framework for Outsourcing of Payment and Settlement-related Activities by Payment System Operators

The Payment System Operators (PSOs), by virtue of services they provide and the construct of models on which they operate, largely outsource their payment and settlement-related activities to various other entities.

In order to enable effective management of attendant risks in outsourcing of such activities, it was announced in the Statement on Developmental and Regulatory Policies released with the bi-monthly Monetary Policy Statement 2020-21 on February 05, 2021, that a framework for outsourcing of payment and settlement-related activities by PSOs, will be issued by the Reserve Bank of India. Accordingly, a framework for the same is provided by RBI in the above mentioned link.

Access for Non-banks to Centralized Payment Systems

As per an announcement in Statement on developmental and regulatory policies, it was announced that the Reserve Bank shall encourage participation of non-banks in Reserve Bank of India-operated Centralised Payment Systems (CPS) viz. Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems, in a phased manner.

Direct access for non-banks to CPS lowers the overall risk in the payments ecosystem. It also brings advantages to non-banks like reduction in cost of payments, minimizing dependence on banks, reducing the time taken for completing payments, eliminating the uncertainty in finality of the payments as the settlement is carried out in central bank money, etc. The risk of failure or delay in execution of fund transfers can also be avoided when the transactions are directly initiated and processed by the non-bank entities.

On a review of extant arrangements and after detailed discussions with Payment System Providers (PSPs), RBI has decided that, in the first phase, authorized non-bank PSPs, viz. PPI Issuers, Card Networks and White Label ATM Operators shall be eligible to participate in CPS as direct members as per the approach presented in the link mentioned above.

Reserve Bank of India announces Digital Payments Index (RBI-DPI) for March 2021

The Reserve Bank had earlier announced construction of a composite Reserve Bank of India – Digital Payments Index (RBI-DPI) with March 2018 as base to capture the extent of digitization of payments across the country. The index for March 2021 stands at 270.59 as against 207.84 for March 2020, announced while launching the index on January 1, 2021.

The RBI-DPI index has demonstrated significant growth in the index representing the rapid adoption and deepening of digital payments across the country in recent years. The index series since its inception is as under:

Period	RBI- DPI Index
March 2018 (Base)	100
March 2019	153.47
September 2019	173.49
March 2020	207.84
September 2020	217.74
March 2021	270.59

Retail Direct Scheme: Allowing Retail Investors to Open Gilt Accounts with RBI

RBI in its Statement of Developmental and regulatory policies had announced '[The RBI Retail Direct'] facility for improving ease of access by retail investors through online access to the government securities market – both primary and secondary - along with the facility to open their gilt securities account ('Retail Direct') with the RBI.

In pursuance of this announcement, the 'RBI Retail Direct' scheme, which is a one-stop solution to facilitate investment in Government Securities by individual investors has been issued by RBI. The highlights of the 'RBI Retail Direct' scheme are:

i. Retail investors (individuals) will have the facility to open and maintain the 'Retail Direct Gilt Account' (RDG Account) with RBI.

ii. RDG Account can be opened through an 'Online portal' provided for the purpose of the scheme.

iii. The 'Online portal' will also give the registered users the following facilities:

- Access to primary issuance of Government securities
- Access to NDS-OM.

Cessation of LIBOR: Transition arrangements

The (RBI) has issued an advisory to banks and other RBI-regulated entities emphasizing the need for preparedness for the transition away from London Interbank Offered Rate (LIBOR). The key steps to be taken in this regard include:

i. Banks and financial institutions are encouraged to cease entering into new financial contracts that reference LIBOR as a benchmark and instead use any widely accepted alternative reference rate (ARR), as soon as practicable and in any case by December 31, 2021.
ii. Banks and financial institutions are urged to incorporate robust fallback clauses in all financial contracts that reference LIBOR and the maturity of which is after the announced cessation date of the LIBOR settings.
iii. Banks and financial institutions are encouraged to ensure that new contracts entered into before December 31, 2021 that reference LIBOR and the maturity of which is after the date on which LIBOR ceases or becomes non-representative include fallback clauses.
iv. Banks have also been advised to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), a benchmark which references the LIBOR, as soon as practicable and in any event by December 31, 2021. In this context, Financial Benchmarks India Pvt Ltd (FBIL) has started publishing daily adjusted MIFOR rates from June 15, 2021 and modified MIFOR rates from June 30, 2021 which can be used for legacy contracts and fresh contracts respectively.
v. Contracts referencing LIBOR / MIFOR may generally be undertaken after December 31, 2021 only for the purpose of managing risks arising out of LIBOR / MIFOR referenced contracts undertaken on or before December 31, 2021.

Reserve Bank will continue to monitor the evolving global and domestic situation with regard to the transition away from LIBOR and proactively take steps, as necessary, to mitigate associated risks in order to ensure a smooth transition.

Background

The Financial Conduct Authority (FCA), UK, in a press statement dated March 05, 2021 announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- Immediately after December 31, 2021, in the case of all Pound sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- Immediately after June 30, 2023, in the case of the remaining US dollar settings.

The transition away from LIBOR and the adoption of ARRs developed in various jurisdictions is a significant event which needs to be carefully prepared for in order to manage potential customer protection, reputational and litigation risks as well as avoid disruptions to the safety and resilience of financial institutions and overall financial stability of the economy. In August 2020, the Reserve Bank had advised banks and financial institutions to assess their LIBOR exposures which will mature after the cessation of the LIBOR as also frame a Board-approved plan for the steps to be taken to address the risks arising from the LIBOR transition.

INSURANCE

Withdrawal of Guidelines on Indian owned and controlled

The Authority had issued Guidelines on "Indian owned and controlled" with an objective to bring more clarity on the issue of compliance with the aspect of "Indian owned and controlled" for insurance companies.

In this regard, the following may be noted:

(i) Insurance (Amendment) Act, 2021, notified on 25.03.2021, made the following amendments to sub-clause (b) of clause (7A) of section 2 of Insurance Act, 1938:

(a) Foreign investment ceiling has been increased from existing 49 percent to 74 percent;

(b) Explanation to sub-clause (b) of clause (7A) of Section 2, which mandated the requirement of "Indian owned and controlled" has been omitted.

(ii) The definitions of "Control", "Indian Control of an Indian Insurance Company" and "Indian Ownership" provided under Indian Insurance Companies (Foreign Investment) Rules, 2015 have been omitted vide Indian Insurance Companies (Foreign Investment) (Amendment) Rules, 2021.

Accordingly, the Authority has hereby withdrawn the Guidelines on "Indian owned and controlled" dated October 19, 2015 with immediate effect.

Amendment to Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000

In the Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 Act, the following has been inserted by IRDAI:

I. "Requirement of Resident Indian citizenship for Directors, Key Management Persons, etc. 5A. In an Indian Insurance Company having foreign investment, —

(a) a majority of its directors,

(b) a majority of its Key Management Persons, and

(c) at least one among the chairperson of its Board, its managing director and its Chief Executive Officer, shall be Resident Indian Citizens.

II. In an Indian Insurance Company having foreign investment exceeding forty-nine per cent. ,—

(a) for a financial year for which dividend is paid on equity shares and for which at any time the solvency margin is less than 1.2 times the control level of solvency, not less than fifty percent of the net profit for the financial year shall be retained in general reserve; and

(b) not less than fifty per cent of its directors shall be independent directors, unless the chairperson of its Board is an independent director, in which case at least one-third of its Board shall comprise of independent directors.".

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Cabinet approves continuation of centrally sponsored scheme National AYUSH Mission

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved the continuation of National AYUSH Mission (NAM) as a Centrally Sponsored Scheme from 01-04-2021 to 31-03-2026 with financial implication of Rs. 4607.30 crore (Rs 3,000 crore as Central Share and Rs. 1607.30 crore as State Share). The Mission was launched on 15-09-2014.

Centrally Sponsored Scheme of National AYUSH Mission is being implemented by Ministry of AYUSH, Government of India with the objectives of providing cost effective AYUSH Services, with a universal access through upgrading AYUSH Hospitals and Dispensaries, co-location of AYUSH facilities at Primary Health Centers (PHCs), Community Health Centers (CHCs) and District Hospitals (DHs), strengthening institutional capacity at the State level through upgrading AYUSH educational institutions, setting up of new upto 50 bedded integrated AYUSH Hospital, AYUSH Public Health programs and operationalization of 12,500 AYUSH Health and Wellness Centres to provide services of a holistic wellness model based on AYUSH principles and practices so as to empower masses for "self-care" to reduce the disease burden, and out of pocket expenditure.

The Mission is addressing the gaps in health services through supporting the efforts of State/UT Governments for providing AYUSH health services/education in the country, particularly in vulnerable and far-flung areas. Under NAM special focus is given for specific needs of such areas and for allocation of higher resources in their Annual Plans.

The expected outcomes of the mission are as follows:

- Better access to AYUSH healthcare services through increased healthcare facilities offering AYUSH services and better availability of medicines and trained manpower,
- Improvement in AYUSH education through a well-equipped enhanced number of AYUSH Educational institutions,
- To focus on reducing communicable/non-communicable diseases through targeted public health programmes using AYUSH systems of healthcare.

Insolvency and Bankruptcy Board of India amends the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016

The Insolvency and Bankruptcy Board of India (IBBI) notified the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) (Second Amendment) Regulations, 2016 on 14th July, 2021.

The amendment regulations enhance the discipline, transparency, and accountability in corporate insolvency proceedings:

- A corporate debtor (CD) may have changed its name or registered office address prior to commencement of insolvency. The stakeholders may find it difficult to relate to the new name or registered office address and consequently fail to participate in the CIRP. The amendment requires an insolvency professional (IP) conducting CIRP to disclose all former names and registered office address(es) so changed in the two years preceding the commencement of insolvency along with the current name and registered office address of the CD, in all its communications and records.
- The interim resolution professional (IRP) or resolution professional (RP) may appoint any professional, including registered valuers, to assist him in discharge of his duties in conduct of the CIRP. The amendment provides that the IRP/RP may appoint a professional, other than registered valuers, if he is of the opinion that the services of such professional are required and such services are not available with the CD. Such appointments shall be made on an arm's length basis following an objective and transparent process. The invoice for fee shall be raised in the name of the professional and be paid into his bank account.
- The RP is duty bound to find out if a CD has been subject to avoidance transactions, namely, preferential transactions, undervalued transactions, extortionate credit transactions, fraudulent trading and wrongful trading, and file applications with the Adjudicating Authority seeking appropriate relief. This not only claws back the value lost in such transactions increasing the possibility of reorganisation of the CD through a resolution plan, but also disincentivizes such transactions preventing stress to the CD. For effective monitoring, the amendment requires the RP to file Form CIRP 8 on the electronic platform of the Board, intimating details of his opinion and determination in respect of avoidance transactions.

CAPITAL MARKETS

RTA (Registrar and share-transfer agent) inter-operable Platform for enhancing investors' experience in Mutual Fund transactions / service requests

In order to make it more convenient to the existing and future investors to transact and avail services while invested in Mutual Funds and pursuant to discussions with various stakeholders including AMFI, Depositories and the RTAs, SEBI has decided the following:

1. RTAs shall implement standardized practices, system interoperability amongst themselves to jointly develop a common industry wide platform that will deliver an integrated, harmonized, elevated experience to the investors across the industry. AMCs and Depositories shall facilitate the RTAs for development of the proposed platform.

2. The aforesaid platform shall, inter alia in phases, enable a user-friendly interface for investors for execution of mutual fund transactions viz. purchase, redemption, switch etc., initiation and tracking of service requests viz. change of email id / contact number / bank account details etc., initiation and tracking of queries and complaints, access investment related reports viz. mutual fund holdings (both in demat and standard Statement of Account), transactions reports (including historic transactions), capital gains/loss report, details of unclaimed dividend/redemption etc. Through this platform, investors will be able to access these services for all Mutual Funds in an integrated manner.

3. The platform may also over time, provide services to the distributors, registered investment advisors, AMCs, Stock Exchange platforms and digital platforms for transacting in mutual funds to further augment ease of investing and servicing of investors through the above stakeholders in consultation with SEBI.

6. The Platform should be scalable with robust cyber security protocols and supported through an API-based architecture. In this regard, the platform shall adopt the Cyber Security and Cyber Resilience framework specified by SEBI from time to time to "MIIs" (Market Infrastructure Institutions such as Stock Exchanges, Depositories and Clearing Corporations) and "Qualified RTAs" (QRTAs). Further, on request basis, APIs could be exposed to other industry stakeholders such as distributors, registered investment advisors, Stock Exchange platforms and digital platforms etc. with due approval of the concerned Mutual Fund on mutually agreed terms.

Segregation and Monitoring of Collateral at Client Level

SEBI via an earlier circular put in place a framework of 'Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System' to mitigate the risk of misappropriation or misuse of client's securities available with the Trading Member (TM) / Clearing Member (CM) / Depository Participant (DP), including use of one client's securities to meet the exposure, margin or settlement obligations of another client or of the TM / CM.

In order to further strengthen the mechanism of protection of client collateral from (i) misappropriation/ misuse by TM/ CM and (ii) default of TM/CM and/or other clients, SEBI issued a consultation paper on May 10, 2021 requesting market participants to provide their comments/ views on the proposed framework for segregation and monitoring of collateral at client level.

In light of the public comments and discussions with the stakeholders, SEBI has decided to adopt the following framework for segregation and monitoring of collateral at client level.

The framework shall consist of:

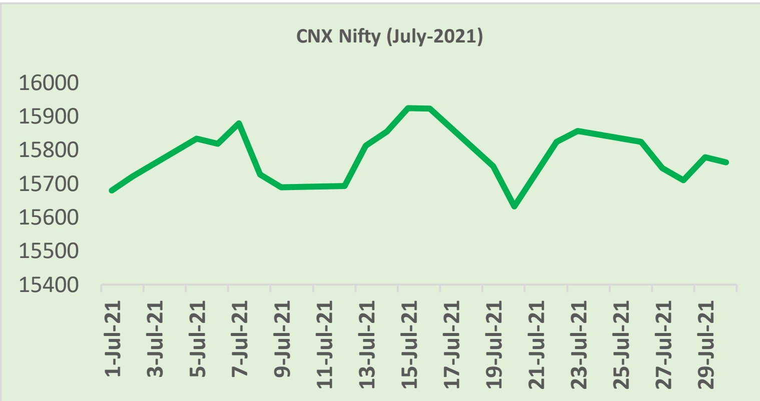
1. Reporting Mechanism by TMs and CMs
2. Collateral Deposit and Allocation
3. Collateral Valuation
4. Blocking of Margins
5. Change of Allocation
6. Client Margin Reporting
7. Settlement
8. Withdrawal of Collateral
9. Default Management Process

Introduction of Expected Loss (EL) based Rating Scale

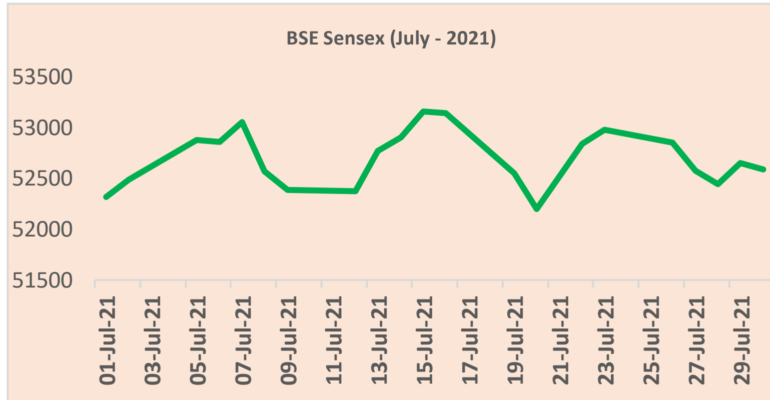
In addition to the standardized rating scales prescribed by aforementioned circulars, subsequent to discussions with various stakeholders, the following rating scale viz. Expected Loss (EL) based Rating Scale may be used by CRAs (Credit rating agencies) for ratings of projects/ instruments associated with infrastructure sector to begin with:

Rating symbols should have CRA's first name as prefix	
Rating symbol	Definition
EL1	Instruments rated "EL 1" are considered to have the lowest expected loss, over the life of the instrument
EL2	Instruments rated "EL 2" are considered to have very low expected loss, over the life of the instrument
EL3	Instruments rated "EL 3" are considered to have low expected loss, over the life of the instrument
EL4	Instruments rated "EL 4" are considered to have moderate expected loss over the life of the instrument.
EL5	Instruments rated "EL 5" are considered to have high expected loss, over the life of the instrument
EL6	Instruments rated "EL 6" are considered to have very high expected loss, over the life of the instrument
EL7	Instruments rated "EL 7" are considered to have highest expected loss, over the life of the instrument

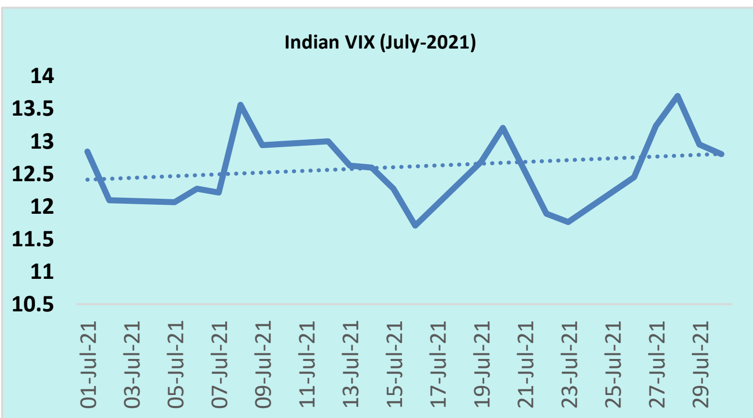
CAPITAL MARKETS SNAPSHOT



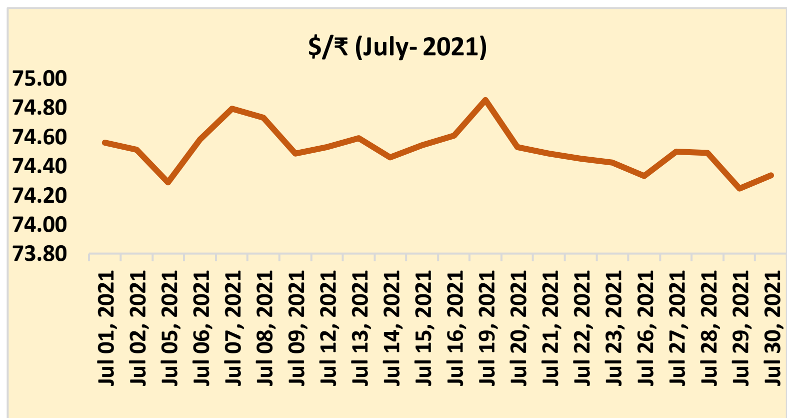
Source: National Stock Exchange



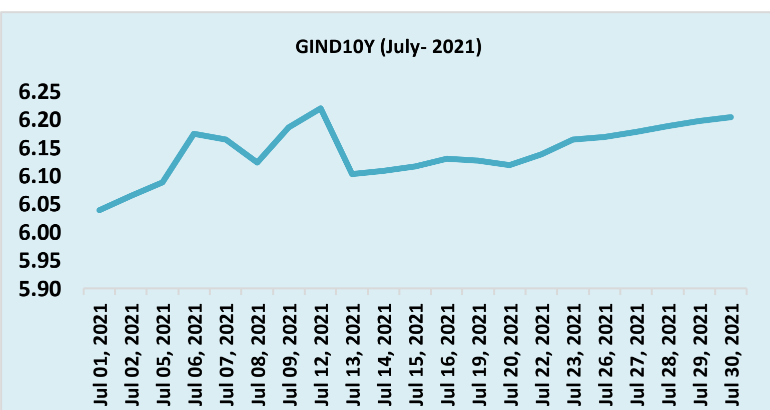
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The market rose initially as robust July auto sales numbers indicated a pickup in economic activity. Encouraging domestic manufacturing and services activity data and upbeat corporate earnings boosted the sentiments further. The International Monetary Fund cut India's growth forecast to 9.5% for fiscal 2022 from its previous projection of 12.5% owing to the second wave of Covid-19 during March-May.

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ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2021*	2022*	Latest	2021*	% of GDP, 2021*	% of GDP, 2021*	(10YGov), Latest
Brazil	1.0 Q1	5.5	2.1	8.3 Jun	7.2	0.0	-5.9	9.93
Russia	-0.7 Q1	3.4	2.4	6.5 Jul	5.7	3.8	-1.8	7.04
India	**1.6 Q1**	**10.4**	**7.0**	**6.3 Jun**	**5.2**	**-0.9**	**-7.2**	**6.23**
China	7.9 Q2	8.5	5.2	1.0 Jul	1.3	2.8	-4.9	2.65^
S Africa	-3.2 Q1	3.0	2.4	5.1 Jun	4.0	1.2	-9.4	8.96
USA	12.2 Q2	6.0	3.7	5.4 Jun	3.6	-2.0	-12.7	1.31
Canada	0.3 Q1	5.4	4.2	3.1 Jun	2.6	-2.0	-8.8	1.24
Mexico	19.7 Q2	6.4	2.8	5.8 Jul	5.1	1.6	-2.8	7.02
Euro Area	13.7 Q2	4.4	4.5	2.2 Jul	1.8	3.3	-7.1	0.0
Germany	9.2 Q2	3.5	4.0	3.8 Jul	2.5	6.8	-5.4	0.0
Britain	-6.1 Q1	5.7	5.6	2.5 Jun	3.1	-4.5	-10.8	0.60
Australia	1.1 Q1	4.3	2.3	3.8 Q2	2.6	1.9	-6.1	1.15
Indonesia	7.1 Q2	3.9	5.0	1.5 Jul	2.4	-0.1	-5.7	6.30
Malaysia	-0.5 Q1	4.4	3.3	3.4 Jun	2.4	4.4	-5.8	3.20
Singapore	14.3 Q2	5.4	3.7	2.4 Jun	1.8	17.3	-4.4	1.36
S Korea	5.9 Q2	3.8	2.6	2.6 Jul	2.0	4.6	-3.2	1.90

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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