2021

Volume 6

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. Manoj Jain, Managing Director, Shriram Life Insurance, has presented his thoughts on 'Life Insurance industry: Trends and Way forward'. We thank Mr. Jain for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Economic assessment and outlook'.

The economic indicators showed mixed performance. Manufacturing PMI fell to a 10-month low of 50.8 in May from 55.5 in April. India's annual infrastructure output in May rose by 16.8%. India's Index of Industrial Production (IIP) surged 134.44% in April. PMI services fell to 46.4 in May from 54 in April, while composite PMI fell to 48.1 in May from 55.4 in April. CPI inflation spiked to a 6-month high of 6.3% in May from 4.23% in April. WPI inflation rose to a record high of 12.94% in May from 10.49% in April.

The Reserve Bank of India (RBI) released (1) Call, Notice and Term Money Markets Directions, 2021 (2) Circular regarding Appointment of Managing Director (MD) / Whole-Time Director (WTD) in Primary (Urban) Co-operative Banks (3) Revised Guidelines on Investment in Entities from FATF Non-compliant Jurisdictions.

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The Insurance Regulatory Development Authority of India (IRDAI) announced Guidelines on standard professional indemnity policy for insurance brokers / corporate agents / web aggregators / IMFs.

Cabinet approved Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) and to enhance the corpus of Emergency Credit Line Guarantee Scheme (ECLGS). Expert Committee on Variable Capital Company submitted its report to the International Financial Services Centres Authority (IFSCA). Cabinet approved Revamped Distribution Sector Scheme: A Reforms based and Results linked Scheme.

Securities and Exchange Board of India (SEBI) announced (1) Norms on Cross Margin in Commodity Index Futures and its underlying constituent futures or its variants (2) Framework for administration and supervision of Investment Advisers under the SEBI (Investment Advisers) Regulations, 2013 (3) Potential Risk Class Matrix for debt schemes based on Interest Rate Risk and Credit Risk (4) Norms for investment and disclosure by Mutual Funds in Derivatives.

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: Trends and way forward

Mr. Manoj Jain
Managing Director
Shriram Life Insurance

APAS COLUMN

Economic assessment and outlook

ECONOMY

- *Index of Industrial Production – April*
- *Inflation update – May*
- *PMI update – May*
- *Core Sector – May*

BANKING

- [Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021]
- [Appointment of Managing Director (MD) / Whole-Time Director (WTD) in Primary (Urban) Co-operative Banks]
- [Investment in Entities from FATF Non-compliant Jurisdictions]

INSURANCE

- [Guidelines on standard professional indemnity policy for insurance brokers / corporate agents / web aggregators / IMF]

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- [Cabinet approves Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) and to enhance the corpus of Emergency Credit Line Guarantee Scheme (ECLGS)]
- [Expert Committee on Variable Capital Company submits its report to the International Financial Services Centres Authority (IFSCA)]
- [Cabinet approves Revamped Distribution Sector Scheme: A Reforms based and Results linked Scheme"]

CAPITAL MARKETS

- *Cross Margin in Commodity Index Futures*
- *Framework for administration and supervision of Investment Advisers under the SEBI (Investment Advisers) Regulations, 2013*
- *Potential Risk Class Matrix for debt schemes based on Interest Rate Risk and Credit Risk*
- *Norms for investment and disclosure by Mutual Funds in Derivatives*

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: Trends and way forward

Mr. Manoj Jain
Managing Director
Shriram Life Insurance

Covid 19 has definitely altered our way of life including work, family and our finances. Work from Home has become a new normal. The second wave of Covid 19 is having much larger impact on the lives and also on the mortality associated with. Although it is said that 85% of the corona patients recover within a week and the balance 15% needs hospitalisation and higher level of treatment.

Awareness on Covid 19 has parallelly pushed the need for insurance through higher awareness for both health and Life insurance needs. It is also reported that the number of death claims for life insurers for the month of April 2021 has been increased by about 7 -10 times, as compared to previous years. This is a significant jump and will have much larger ramification in the pricing and underwriting process followed by life insurers. We have already seen a sharp increase in the premium of pure term life insurance products last year and the current spike in death claims will further accentuate the same.

Reinsurers, who also hold the key to pricing and underwriting process, based on their both domestic and global experience may immediately announce further disclosures, requirements for new business underwriting. Some of the requirements may include requirement of vaccination, Covid declaration, more detailed disclosure of co morbidities by the proposed life assured. These changes will affect both the individual insurance and group business as well. Higher Sum Assured proposals under group insurance schemes will also be subjected more detailed disclosures and documentation requirement.

Secondly, with the increased death claims, the premium on pure term insurance plans may also go up in the coming months and may stay at the higher level for some time to come. It is important for any individual to take pure term plan for a sum assured based on their requirement, dependents and for a longer term.

The insurance market is much more widely open with the awareness on the need for insurance. Although the urban market has got access to online purchase, we observe the need for hybrid insurance model in the non-urban markets. Despite the use of digital applications, the non-urban customer segment has not moved into buying insurance online.

As it is being initiated by the regulator, IRDAI simple and easy to sell insurance products are key in reaching out to the mass market customer segment. The product needs to be simple with easy to understand benefits and should not offer scope for missale or misrepresentation of benefits. Similarly the sales tools like Brochure needs to be simple in explaining the cost and benefit to the customers.

With the limitation on one to one meetings due to Covid protocol, agents and distributors connect with the customers through digital mode and offer them product and services. Digitalisation of new business acquisition process helps in easier on boarding of new customers. Agents and distributors armed with mobile app are finding the process easier to manage in the current situation. Multiple digital touch points are being created to help and support the customers in their service requirements including the renewal premium payment options.

There has been a strong leverage of digital options like SMS, WhatsApp by the insurers in connecting with the customers. All one way communications are being routed through these cost effective digital medium to further strengthen the customer connect with the insurers. Policy documents are also being shared in PDF format through links. Similarly digital mode is being used in the death claim communication, settlement process as well. Usage of these applications including mobility technology is possible by the investments in the tech tools by the insurers.

India still has a long way to go in respect of Insurance Penetration and Insurance density figures as compared with the global averages. The current situation under covid has helped accelerate the awareness on the need for health and life insurance. Secondly, it also has exposed the degree of underinsurance to the customers. With the digitalisation gaining momentum, we expect the industry to leverage on technology in the service of the large customers beyond the urban market.

Economic assessment and outlook

Since April, the global economic recovery has been gaining momentum, driven mainly by major advanced economies (AEs) and powered by massive vaccination programmes and stimulus packages. Activity remains uneven in major emerging market economies (EMEs), with downside risks from renewed waves of infections due to contagious mutants of the virus and the relatively slow progress in vaccination. World merchandise trade continues to recover as external demand resumes, though elevated freight rates and container dislocations are emerging as constraints. CPI inflation is firming up in most AEs, driven by release of pent-up demand, elevated input prices and unfavorable base effects. Inflation in major EMEs has been generally close to or above official targets in recent months, pushed up by the sustained rise in global food and commodity prices. Global financial conditions remain benign.

Turning to the domestic economy, provisional estimates of national income released by the National Statistical Office (NSO) on May 31, 2021, placed India's GDP contraction at 7.3% for 2020-21, with GDP growth in Q4 at 1.6% y-o-y. On June 1, the IMD has forecast a normal south-west monsoon, with rainfall at 101% of the long period average (LPA). This augurs well for agriculture. With the rise in infections in rural areas, however, indicators of rural demand – tractor sales and two-wheeler sales – posted sequential declines during April.

Industrial production registered a broad-based improvement in March 2021. While mining and electricity output surpassed March 2019 (pre-pandemic) levels, manufacturing did not catch up. The output of core industries registered a double-digit y-o-y growth in April 2021, propelled by a weak base. Although GST collections were at their highest during April 2021, there are indications of moderation in May as reflected in lower E-way bills generation. Other high-frequency indicators – electricity generation; railway freight traffic; port cargo; steel consumption; cement production; and toll collections – recorded sequential moderation during April-May 2021, reflecting the impact of restrictions and localised lockdowns imposed by states with exemptions for specific activities. The manufacturing PMI remained in expansion in May, although it moderated to 50.8 from 55.5 in April due to a slowdown in output and new orders. The services PMI, which was 54 in April, entered into contraction (46.4) in May, after 7 months of sustained expansion.

Headline inflation registered a moderation to 4.3% in April from 5.5% in March, largely on favourable base effects. Food inflation fell to 2.7% in April from 5.2% in March, with prices of cereals, vegetables and sugar continuing to decline on a y-o-y basis. While fuel inflation surged, core (CPI excluding food and fuel) inflation moderated in April across most sub-groups, barring housing and health, mainly due to base effects. Inflation in transport and communication remained in double digits.

System liquidity remained in large surplus in April and May 2021, with average daily net absorption under the liquidity adjustment facility (LAF) amounting to INR 5.2 lakh crore. Reserve money (adjusted for the first-round impact of the change in the cash reserve ratio) expanded by 12.4% y-o-y on May 28, 2021, driven by currency demand. Money supply (M3) and bank credit grew by 9.9% and 6%, respectively, as on May 21, 2021, as compared with growth of 11.7% and 6.2%, respectively, a year ago. India's foreign exchange reserves increased by USD 21.2 billion in 2021-22 (up to May 28) to USD 598.2 billion.

Going forward, the inflation trajectory is likely to be shaped by uncertainties impinging on the upside and the downside. The rising trajectory of international commodity prices, especially of crude, together with logistics costs, pose upside risks to the inflation outlook. Excise duties, cess and taxes imposed by the Centre and States need to be adjusted in a coordinated manner to contain input cost pressures emanating from petrol and diesel prices. A normal south-west monsoon along with comfortable buffer stocks should help to keep cereal price pressures in check. Recent supply side interventions are expected to ameliorate the tightness in the pulses market. Further supply side measures are needed to soften pressures on pulses and edible oil prices. With declining infections, restrictions and localised lockdowns across states could ease gradually and mitigate disruptions to supply chains, reducing cost pressures. Weak demand conditions may also temper the pass-through to core inflation. Taking into consideration all these factors, CPI inflation is projected at 5.1% during 2021-22: 5.2% in Q1; 5.4% in Q2; 4.7% in Q3; and 5.3% in Q4:2021-22; with risks broadly balanced.

Turning to the growth outlook, rural demand remains strong and the expected normal monsoon bodes well for sustaining its buoyancy, going forward. The increased spread of COVID-19 infections in rural areas, however, poses downside risks. Urban demand has been dented by the second wave, but adoption of new COVID-compatible occupational models by businesses for an appropriate working environment may cushion the hit to economic activity, especially in manufacturing and services sectors that are not contact intensive. On the other hand, the strengthening global recovery should support the export sector. Domestic monetary and financial conditions remain highly accommodative and supportive of economic activity. Moreover, the vaccination process is expected to gather steam in the coming months and should help to normalise economic activity quickly. Taking these factors into consideration, real GDP growth is now projected at 9.5% in 2021-22, consisting of 18.5% in Q1; 7.9% in Q2; 7.2% in Q3; and 6.6% in Q4:2021-22.

The second wave of COVID-19 has altered the near-term outlook, necessitating urgent policy interventions, active monitoring and further timely measures to prevent emergence of supply chain bottlenecks and build-up of retail margins. A hastened pace of the vaccination drive and quick ramping up of healthcare infrastructure across both urban and rural areas are critical to preserve lives and livelihoods and prevent a resurgence in new waves of infections. At this juncture, policy support from all sides – fiscal, monetary and sectoral – is required to nurture recovery and expedite return to normalcy. Accordingly, the RBI MPC decided to retain the prevailing repo rate at 4% and continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

-APAS

ECONOMY

IIP (Index of Industrial Production) – April

Index of Industrial Production (IIP) or factory output for the month of April 2021 surged 134.44%, compared to a contraction of 57.31% in April 2020.

The General Index for the month of April 2021 stands at 126.6, which is 134.44% higher as compared to April 2020.

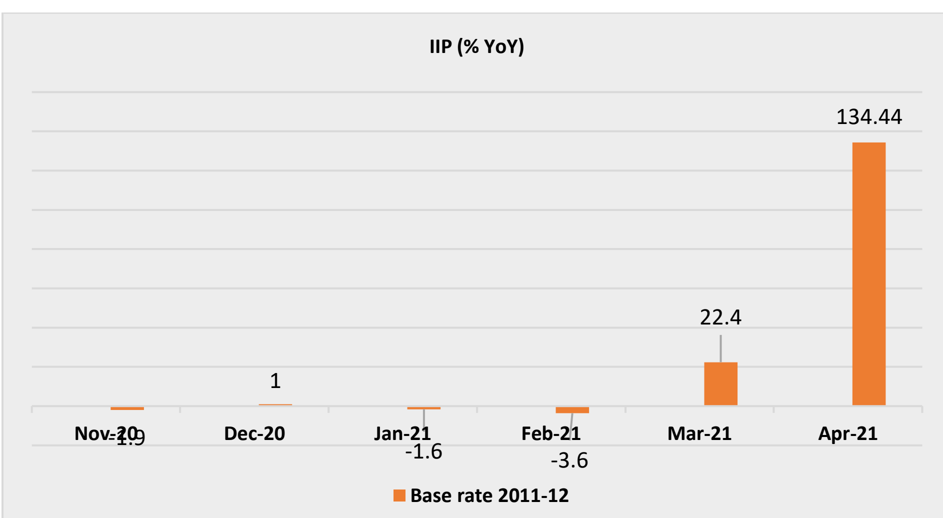
The manufacturing sector, which constitutes 77.63% of the index, zoomed by 197.15% in April, to 125.1.

Mining sector output grew by 37.06%, to 108.

Electricity generation rose by 38.54%, to 174.

As per Use-based classification, the indices stand at 126.7 for primary goods, 82.4 for capital goods, 137.9 for intermediate goods and 134.8 for infrastructure/construction goods for April.

Further, the indices for consumer durables and consumer non-durables were at 112.4 and 142.3, respectively.



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

CPI (Consumer Price Index) – May

India's consumer price index (CPI) or retail inflation spiked to a 6-month high of 6.3% in May 2021, compared to 4.23% in April 2021.

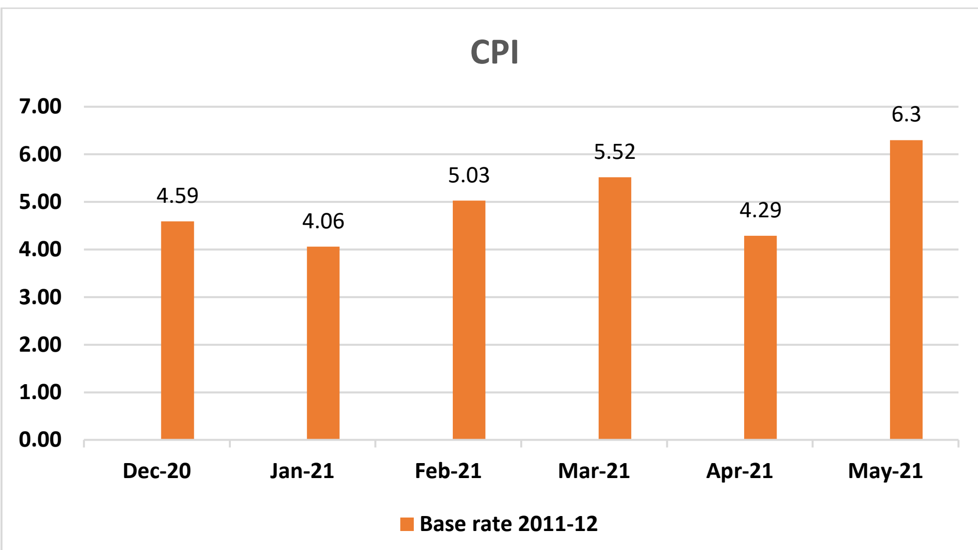
The corresponding provisional inflation rates for rural and urban areas are 6.48% and 6.04% respectively.

The core CPI inflation rose to 6.34% in May 2021 from 5.17% in April 2021.

The Consumer Food Price Index (CFPI) rose to 5.01% in May from 1.96% in April.

Among the CPI components, inflation for food and beverages rose to 5.24% in May. The spike in food basket was due to a sharp rise in prices of oils and fats, which climbed 30.84% in May. Apart from this, the egg prices segment saw a rise of 15.16%, while that of meat and fish gained 9.03% and pulses and products rose 9.39%. The vegetables segment slipped 1.92%. However, fruits grew 11.98%.

Apart from food and beverages, the fuel and light segment rose 11.58%, clothing and footwear gained 5.32% and the housing segment inched up 3.86%.



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

WPI (Wholesale Price Index) – May

India's wholesale price index (WPI) inflation rose to a record high of 12.94% in May 2021, as compared to 10.49% in April 2021 and (-) 3.37% in May 2020.

The rate of inflation based on WPI Food Index increased to 8.11% in May 2021 from 7.58% in April 2021.

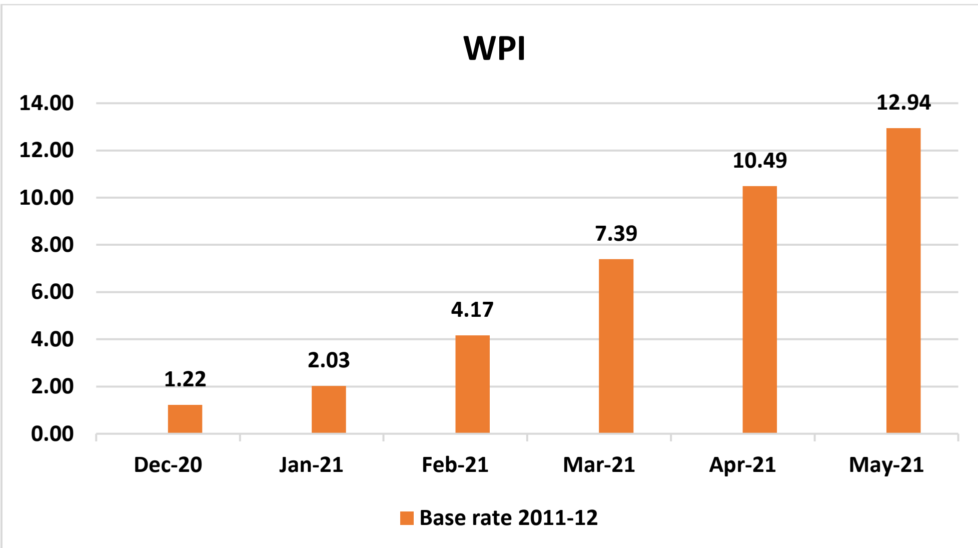
The index for primary articles declined by 0.86% from the previous month.

Prices increased for non-food articles (1.26%) and declined for crude petroleum and natural gas (0.67%) and food articles (1.48%).

The index for fuel and power increased by 1.75% from the previous month.

Prices increased for mineral oils (3.12%).

The index for manufactured products increased by 1.24% from the previous month.



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

Manufacturing PMI – May

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in May fell to the lowest in 10 months amid a harsh resurgence of Covid-19 cases in the country and its detrimental impact on the economy.

The Manufacturing PMI fell to a 10-month low of 50.8 in May 2021 from 55.5 in April 2021. It stayed above the 50 level, that separates expansion from contraction, for the tenth straight month.

Both output and new orders grew the least in 10 months, while there was a substantial slowdown in the growth of input purchasing and another round of job shedding.

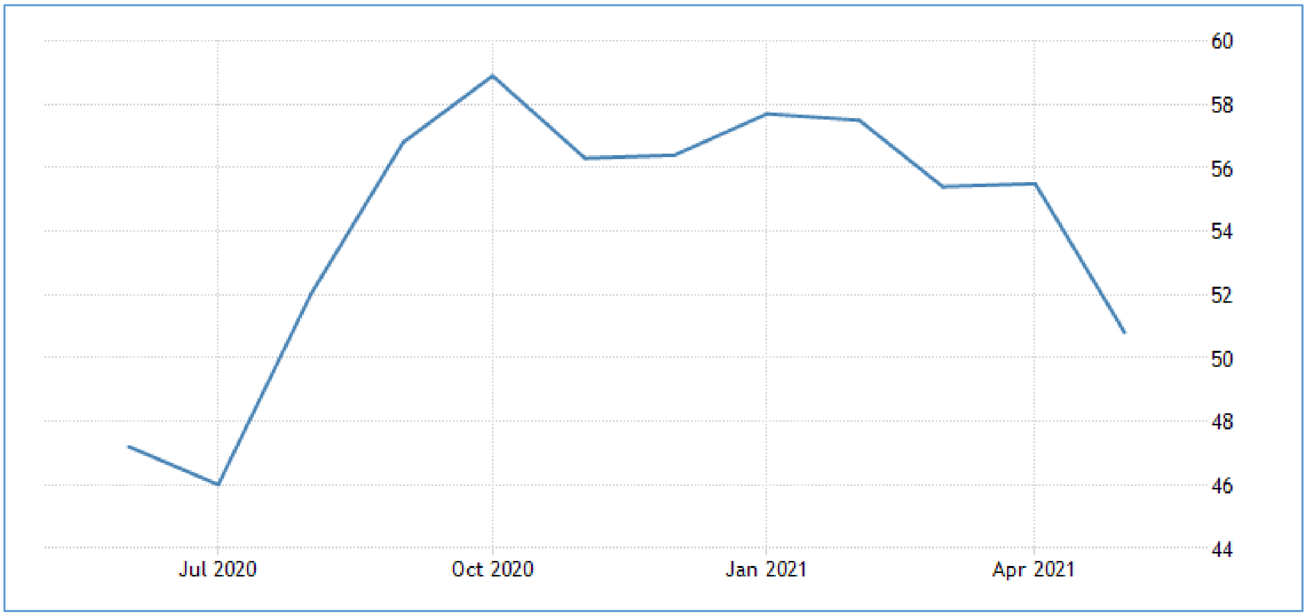
May data continued to signal to lengthen supplier delivery times, with vendor performance worsening for the third straight month.

The deterioration was linked to global shortages of raw materials amid the pandemic.

Prices data showed input cost inflation easing to a 4-month low, but remaining sharp and above its long run average.

Meanwhile, firms lifted their selling prices again to protect margins, with the rate of charge inflation solid, but softening from April.

Finally, the overall degree of optimism towards the year ahead outlook for the output was at a 10-month low.



Source: www.tradingeconomics.com

Services PMI – May

The Indian services sector activity in May slumped into contraction territory for the first time in 8 months, amid renewed decline in new work intakes due to the escalation of the pandemic and the reintroduction of restrictions.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to 46.4 in May 2021 from 54 in April 2021. The index fell below the neutral mark of 50, which separates expansion from contraction.

The reading pointed to the first contraction in the sector since last September, amid a resurgence of Covid-19 cases.

Both output and new orders declined due to the reintroduction of restrictions to contain the spread of the coronavirus.

External demand continued to worsen, with the new export orders falling at the fastest pace in 6 months, due to the international restrictions and business closures.

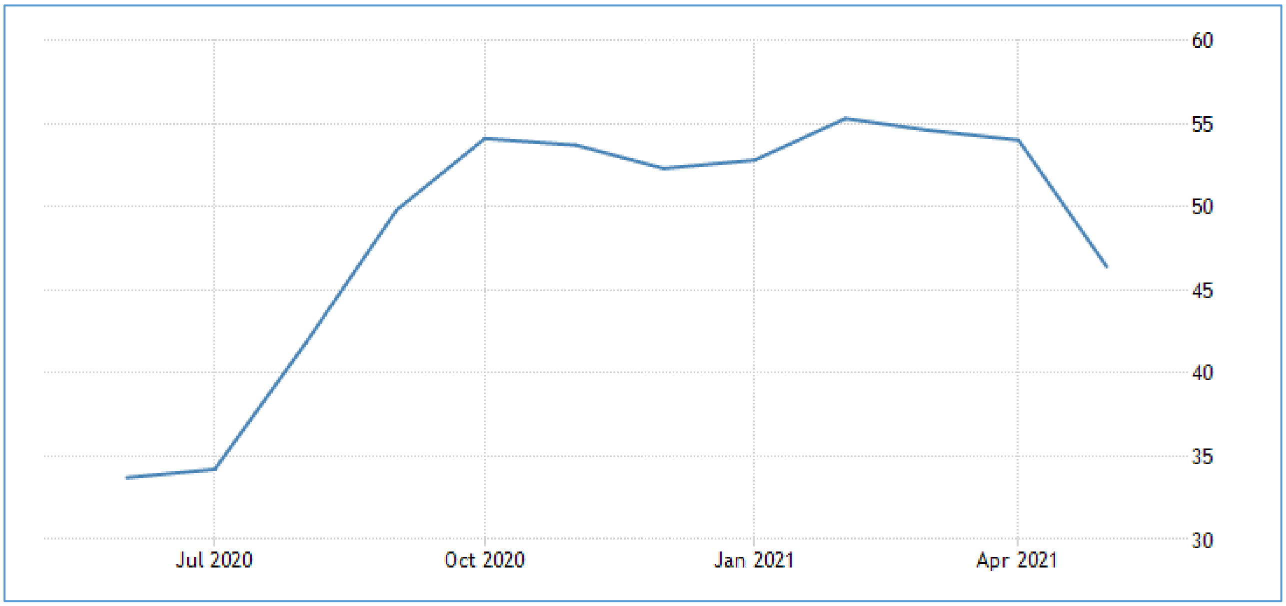
Meanwhile, the pace of job shedding accelerated to the fastest in the current 6-month sequence.

On the price front, input cost inflation eased to a 4-month low.

As a result, selling prices rose moderately.

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 48.1 in May from 55.4 in April, pointing to a renewed decline in private sector activity across India.



Source: www.tradingeconomics.com

Core Sector Data – May

Growth of eight infrastructure sectors rose by 16.8% in May 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 60.9% in April 2021 and contracted by 21.4% in May 2020.

The production of natural gas rose 20.1% in May 2021.

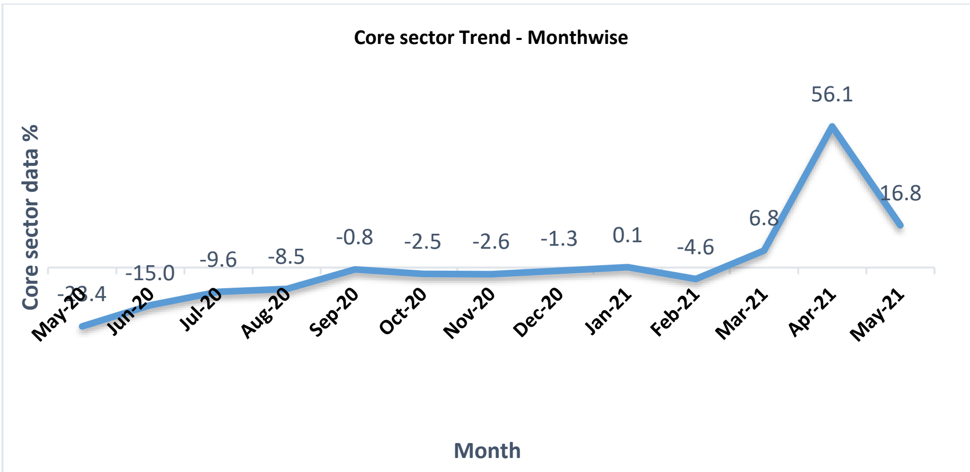
Petroleum refinery products saw an increase of 15.3%, while steel output grew 59.3%.

Output in the cement and electricity sectors grew 7.9% and 7.3%, respectively.

Coal output rose 6.9%.

The output in fertilisers and crude oil sectors declined in May. Fertiliser production contracted 9.6%, while crude oil output reduced by 6.3%.

Cumulatively, the growth in the eight core sectors during April-May 2021-22 grew by 35.8%, as against a contraction of 29.4% in the same period last financial year.



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

BANKING

Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021

RBI has revised the prudential borrowing limits for transactions in Call, Notice and Term Money Markets. The revised borrowing limits are as per the following table:

Sr. No.	Participant Category	Prudential Limit
1	Scheduled Commercial Banks (including Small Finance Banks)	**Call and Notice Money:** (i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day. **Term Money:** (i) Internal board approved limit within the prudential limits for inter-bank liabilities.
2	Payment Banks and Regional Rural Banks	**Call, Notice and Term Money:** (i) 100% of capital funds, on a daily average basis in a reporting fortnight, and (ii) 125% of capital funds on any given day.
3	Co-operative Banks	**Call, Notice and Term Money:** (i) 2.0% of aggregate deposits as at the end of the previous financial year.
4	Primary Dealers	**Call and Notice Money:** (i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year on a daily average basis in a reporting fortnight. **Term Money:** (i) 225% of Net Owned Fund (NOF) as at the end of the previous financial year.

Appointment of Managing Director (MD) / Whole-Time Director (WTD) in Primary (Urban) Co-operative Banks

RBI has issued circular regarding exempting UCBs with a deposit size of less than ₹100 crore as per preceding year's audited balance sheet from the requirement of seeking prior approval of the Reserve Bank for appointment / re-appointment / termination of appointment of MD or WTD.

While the exempted UCBs are not required to obtain prior approval, they are required to formulate a Board approved policy based on all the other provisions of these directions for appointment / re-appointment / termination of appointment of MD or WTD.

UCBs which have appointed CEO with the prior approval of the Reserve Bank in terms of earlier guidelines may continue with the CEO so appointed till completion of his / her tenure or for a period of three years from the date of initial appointment, whichever is earlier. After the aforesaid period, UCBs shall follow the directions issued for appointment / re-appointment of MD.

As per the regulations, the key criteria for the appointment of the MD / WTD includes:

a. Fit and proper criteria
b. Eligibility criteria
c. Propriety criteria
d. Tenure of MD / WTD
e. Nomination and remuneration committee (NRC)
f. Reappointment
g. Termination and temporary appointment of MD / WTD

Investment in Entities from FATF Non-compliant Jurisdictions

As per earlier guidelines, RBI had issued guidelines regarding investment from entities from (Financial action task force) FATF non-compliant jurisdictions for NBFCs. In line with such regulations, RBI has issued revised guidelines for payment system operators (PSOs).

The Financial Action Task Force (FATF) periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML / CFT) in its publications: i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring. A jurisdiction whose name does not appear in these two lists is referred to as a FATF compliant jurisdiction. Investments in PSOs from FATF non-compliant jurisdictions shall not be treated at par with that from compliant jurisdictions.

Investors in existing PSOs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

New investors from or through non-compliant FATF jurisdictions, whether in existing PSOs or in entities seeking authorization as PSOs, are not permitted to acquire, directly or indirectly, 'significant influence' as defined in the applicable accounting standards in the concerned PSO. In other words, fresh investments (directly or indirectly) from such jurisdictions, in aggregate, should account for less than 20 per cent of the voting power (including potential1 voting power) of the PSO.

INSURANCE

Guidelines on standard professional indemnity policy for insurance brokers / corporate agents / web aggregators / IMF

The insurance intermediaries engaged in the solicitation and distribution of insurance products like insurance brokers, corporate agents, insurance web aggregators, insurance marketing firms are required to take professional indemnity insurance policies in order to get themselves indemnified from the claims lodged against them, arising out of the contingencies mentioned in the regulations governing them.

The objective of these guidelines is to specify the professional indemnity policy that meets the regulatory requirements.

The key areas covered in these guidelines include:

1. General rules and regulations
2. Standard proposal form
3. Standard policy form

I. General rules and regulations include important areas like:

a. Liabilities covered
b. Policy period
c. Premium rates
d. Retroactive date
e. Penalty

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Cabinet approves Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) and to enhance the corpus of Emergency Credit Line Guarantee Scheme (ECLGS)

On account of the disruptions caused by the second wave of COVID 19 specially on healthcare sector, the Union Cabinet, chaired by the Prime Minister Shri Narendra Modi has approved Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS) enabling funding to the tune of Rs. 50,000 crore to provide financial guarantee cover for brownfield expansion and greenfield projects related to health/ medical infrastructure.

The Cabinet has also approved introduction of a scheme for other sectors/lenders including those allied to better healthcare. Detailed modalities would be finalized in due course depending upon the evolving situation.

In addition, the Cabinet has also approved additional funding up to Rs. 1,50,000 crore under Emergency Credit Line Guarantee Scheme (ECLGS).

Targets:

LGSCAS: The Scheme would be applicable to all eligible loans sanctioned up to 31.03.2022, or till an amount of Rs. 50,000 crore is sanctioned, whichever is earlier.

ECLGS: It is a continuing scheme. The Scheme would be applicable to all eligible loans sanctioned under Guaranteed Emergency Credit Line (GECL)till 30.09.2021, or till an amount of rupees four lakh fifty thousand crore is sanctioned under the GECL, whichever is earlier.

Impact:

LGSCAS: The LGSCAS has been formulated as a specific response to an exceptional situation the country has witnessed due to lack of adequate health infrastructure in the light of second wave of Covid-19. The approved scheme is expected to help the country in shoring up its much-needed healthcare infrastructure along with creating more employment opportunities. The main objective of LGSCAS is to partially mitigate credit risk (primarily construction risk) and facilitate bank credit at lower rates of interest.

ECLGS: It is a continuing scheme and recently, on account of the disruptions caused by the second wave of COVID 19 pandemic to businesses across various sectors of the economy, Government has further enlarged the scope of ECLGS. The enhancement is expected to provide much needed relief to various sectors of the economy by incentivizing lending institutions to provide additional credit of up to Rs. 1.5 lakh crore at low cost, thereby enabling business enterprises to meet their operational liabilities and continue their businesses. Besides supporting MSMEs to continue functioning during the current unprecedented situation, the Scheme is also expected to have a positive impact on the economy and support its revival.

Background:

LGSCAS: Government has taken various measures to combat the crisis caused due to Covid-19 pandemic which has been upended by the second wave of COVID-19. This wave has placed enormous stress on health facilities as well as livelihoods and business enterprises in many sectors. This wave has sharply brought out the need to enhance public and private investments in the health sector. This is necessary across the country, from metro cities to tier V and VI towns as well as rural areas. The requirements include additional hospital beds, ICUs, diagnostic centers, oxygen facilities, telephone or internet based medical advice and supervision, testing facilities and supplies, cold chain facilities for vaccines, modem warehousing for medicines and vaccines, isolation facilities for triage, ramping up of production of ancillary supplies such as syringes and vials etc. The proposed LGSCAS is aimed at up scaling the medical infrastructure in the country, specifically targeting underserved areas. LGSCAS would provide a guarantee of 50 percent for brownfield projects and 75 per cent to Greenfield projects for loans sanctioned up to Rs.100 crore, set up at urban or rural locations other than 8 Metropolitan Tier 1 cities (Class X cities). For aspirational districts, the guarantee cover for both brownfield expansion and Greenfield projects shall be 75%.

ECLGS: The resurgence of COVID-19 pandemic in India in recent weeks and the associated containment measures adopted at local/regional levels have created new uncertainties and impacted the nascent economic revival that was taking shape. In this environment the most vulnerable category of borrowers are individual borrowers, small businesses and MSMEs, for which, ECLGS, as a targeted policy response was introduced by GoI. The design of ECGLS provides flexibility to quickly respond to emerging needs, as has been evidenced by the introduction of ECLGS 2.0, 3.0 and 4.0 as well as changes announced on 30.05.2021, all of which were within available headroom of Rs 3 lakh crore. Currently, about Rs. 2.6 lakh crore of loans have been sanctioned under ECLGS. A further uptick is expected due to changes announced recently, extension of limit of one time restructuring to Rs. 50 crore by RBI on 04.06.2021 and the continuing adverse impact of COVID on businesses.

Expert Committee on Variable Capital Company submits its report to the International Financial Services Centres Authority (IFSCA)

Dr. K.P. Krishnan headed expert committee on Variable Capital Company has submitted its report on the feasibility of Variable Capital Companies in the International Financial Services Centres to the Chairperson of the International Financial Services Centres Authority (IFSCA), Shri. Injeti Srinivas.

International Financial Services Centres Authority constituted a Committee of Experts (‘the Committee’) to examine the feasibility of the Variable Capital Company (‘VCC’) in India to examine the suitability of the Variable Capital Company as a vehicle for fund management in the International Financial Services Centre in India.

The IFSCA set up this Committee to explore the potential for allowing another legal structure – popularly known as a variable capital company (VCC) – as an additional option through which asset managers could pool the investors' funds. The VCC structure dispenses with some of the key limitations of companies and LLPs and provides for higher regulatory standards than those applicable to trusts.

Fund management activities are an important pillar of the overall financial services ecosystem. In line with the mandate given to the Committee, it examined the relevance and adaptability of the VCC for the IFSC in India or alternative structures to attract fund business in the IFSC. Conventionally, pooling of funds in India is undertaken through three types of entities, namely, limited liability companies governed under the Companies Act, 2013; limited liability partnerships under the Limited Liability Partnership Act; and trusts governed under the Indian Trusts Act, 1882.

The Committee assessed the features of a VCC or its equivalent, in other jurisdictions such as the UK, Singapore, Ireland and Luxembourg. The Committee recommended the adoption of a VCC-like legal structure for the purpose of conducting fund management activity in IFSCs

The Committee recognized that the legal framework governing entities that undertake fund management should provide for certainty and clarity to investors, effective segregation and ring fencing of different pools of asset, the ability to issue different classes of shares, alterations to the funds' capital structure without regulatory approvals and the freedom to choose the appropriate accounting standards applicable to funds with different characteristics, the ability to wind up quickly.

Cabinet approves Revamped Distribution Sector Scheme: A Reforms based and Results linked Scheme

The Union Cabinet, chaired by the Prime Minister, Shri Narendra Modi has approved a Reforms-based and Results-linked, Revamped Distribution Sector Scheme. The Scheme seeks to improve the operational efficiencies and financial sustainability of all DISCOMs/ Power Departments excluding Private Sector DISCOMs by providing conditional financial assistance to DISCOMs for strengthening of supply infrastructure. The assistance will be based on meeting pre-qualifying criteria as well as upon achievement of basic minimum benchmarks by the DISCOM evaluated on the basis of agreed evaluation framework tied to financial improvements. Implementation of the Scheme would be based on the action plan worked out for each state rather than a "one-size-fits-all" approach.

The Scheme will have an outlay of Rs.3,03,758 crore with an estimated GBS from Central Government of Rs.97,631 crore. It is proposed that the currently ongoing approved projects under the Schemes of IPDS, DDUGJY along with PMDP-2015 for the Union Territories of Jammu & Kashmir (J&K) and Ladakh would be subsumed in this Scheme, and the savings of their GBS (approx. Rs. 17000 crore) would be part of the total outlay of the Revamped Distribution Sector Scheme under the existing terms and conditions till their sunset on 31 March 2022. The funds under these Schemes would be available for the identified projects under IPDS and for the approved ongoing projects under Prime Minister's Development Program (PMDP) for the Union Territories of J&K and Ladakh under IPDS and DDUGJY till 31 March, 2023.

The Revamped Distribution Sector Scheme aims to improve operational efficiencies and financial sustainability, by providing result-linked financial assistance to DISCOMs for strengthening of supply infrastructure based on meeting pre-qualifying criteria and achieving basic minimum benchmarks. The Scheme would be available till the year 2025-26. REC and PFC have been nominated as nodal agencies for facilitating implementation of the Scheme.

CAPITAL MARKETS

Cross Margin in Commodity Index Futures and its underlying constituent futures or its variants

SEBI has prescribed norms, inter-alia, for providing margin benefit on spread positions in commodity futures contracts, vide various circulars. In order to improve the efficiency of the use of the margin capital by market participants, SEBI has decided to introduce cross margin benefit between Commodity Index futures and futures of its underlying constituents or its variants. This shall reduce the cost of trading and may lead to enhanced liquidity in both the Commodity index futures and its underlying constituent futures or its variants.

The following provisions have been provided by SEBI:

Computation of cross margin benefit:

- Cross margin benefit of 75 % on Initial Margin may be allowed for eligible offsetting positions of index futures and futures of its underlying constituents or its variants. The Extreme Loss Margin and Market to Market Margin shall continue to be levied.
- Cross margin benefit shall be computed at the client level on an online real time basis and provided to the trading member / clearing member, as the case may be. This benefit in turn shall be passed on to the client

Separate Accounts

- Clients may be allowed to maintain two accounts with trading member/clearing member, viz arbitrage account (which holds fully replicated portfolio) and a non-arbitrage account.
- However, for the purpose of compliance and reporting requirements, the positions across both the accounts shall be taken together and the client shall continue to have a unique client code.

Eligibility

- To be eligible for cross margin benefit, contracts belonging to Index futures and underlying constituents or its variants shall belong to same expiry month or to the nearest expiry month and should be from amongst the first three expiring contracts only.
- Cross Margin benefit on the eligible positions shall be entirely withdrawn latest by the start of the tender period for the constituent futures of the index or its variants or start of the expiry day, whichever is earlier.

- Clearing Corporations/Exchanges may introduce cross margin benefit, after back testing for adequacy of cross margin to cover Mark to Market losses (MTM) for a minimum period of six months. Initial margin after cross margin benefit should be able to cover MTM on at least 99% of the days as per back testing

Default

In the event of a default by a trading member / clearing member, as the case may be, whose clients have availed cross margin benefit, the Clearing Corporation shall have the option to:

- Hold the positions in the cross margin account till expiry, in its own name.
- Liquidate the positions / collateral and use the proceeds to meet the default obligation

Agreement

The Exchange / Clearing Corporation shall enter into an agreement with the trading member / clearing member, as the case may be, clearly laying down the distribution of liability / responsibility in the event of a default.

Framework for administration and supervision of Investment Advisers under the SEBI (Investment Advisers) Regulations, 2013

As per Regulation 14 of the SEBI (Investment Advisers) Regulations 2013 ("IA Regulations"), SEBI may inter-alia recognize any body or body corporate for the purpose of regulating Investment Advisers ("IA") and delegate administration and supervision of the IAs on such terms and conditions as may be specified. Accordingly, an entity granted recognition under the aforesaid Regulation shall be designated as "Investment Adviser Administration and Supervisory Body" ("IAASB") and shall be entrusted with the administration and supervision of IAs.

In this regard, BSE Administration & Supervision Limited (BASL), a wholly owned subsidiary of BSE Limited, has been granted recognition as IAASB for a period of three years from June 01, 2021.

IAASB shall inter-alia have following responsibilities:

i. Supervision of IAs including both on-site and offsite
ii. Grievance redressal of clients and IAs
iii. Administrative action including issuing warning and referring to SEBI for enforcement action
iv. Monitoring activities of IAs by obtaining periodical reports
v. Submission of periodical reports to SEBI
vi. Maintenance of database of IAs

The Board of the IAASB shall, at all times, be chaired by a Public Interest Director and shall also have, at all times, a Director who will bring investor perspective. SEBI shall continue to concurrently administer and supervise all registered IAs and IAASB shall be subject to periodic inspection by SEBI.

Pursuant to grant of aforementioned recognition, SEBI registered IAs are required to ensure compliance with the following:

a. Membership of IAASB
b. Payment of fees
c. Reporting

Potential Risk Class Matrix for debt schemes based on Interest Rate Risk and Credit Risk

As per the recommendation of the Mutual Fund Advisory Committee (MFAC) and discussions held with the mutual fund industry, SEBI has decided that all debt schemes also be classified in terms of a Potential Risk Class matrix consisting of parameters based on maximum interest rate risk (measured by Macaulay Duration (MD) of the scheme) and maximum credit risk (measured by Credit Risk Value (CRV) of the scheme).

While the AMCs will continue to retain the same category of their schemes, they shall have full flexibility to place single/multiple schemes in any cell of the Potential Risk Class matrix (PRC).

The thresholds for the values of the interest rate risk and the credit risk dimensions would progress in a flexible manner for drawing out the categorization matrix. The thresholds across the matrix would determine the maximum interest rate risk and the maximum credit risk which the scheme would be permitted to take but the scheme would have the flexibility to move downwards on the risk scale.

The thresholds along with an illustration of the concept outlined above are given below:

Thresholds

i. Maximum Weighted Average Interest Rate Risk of the scheme (measured in terms of Macaulay Duration):
1. Class I: MD<= 1 year;

2. Class II: MD<=3 years;

3. Class III: Any Macaulay duration

ii. Maximum Weighted Average Credit Risk (Credit risk value CRV) of the scheme

1. Class A: CRV >=12

2. Class B: CRV >=10

3. Class C: CRV<10

The Credit Risk Value of the scheme shall be the weighted average of the credit risk value of each instrument in the portfolio of the scheme, the weights based on their proportion to the AUM. Similarly, Macaulay Duration at the scheme level shall be the weighted average of the Macaulay Duration of each instrument in the portfolio with the weights being based on their proportion to the AUM. The value of the debt instrument to be considered for calculating AUM shall include the accrued interest i.e. dirty price of the instrument.

Other details on the implementation of the methodologies can be sought in the link above.

Norms for investment and disclosure by Mutual Funds in Derivatives

SEBI has earlier prescribed the guidelines for participation of mutual fund schemes in Interest Rate Swaps (IRS). In this regard, the Section 8 of the circular, which states as:

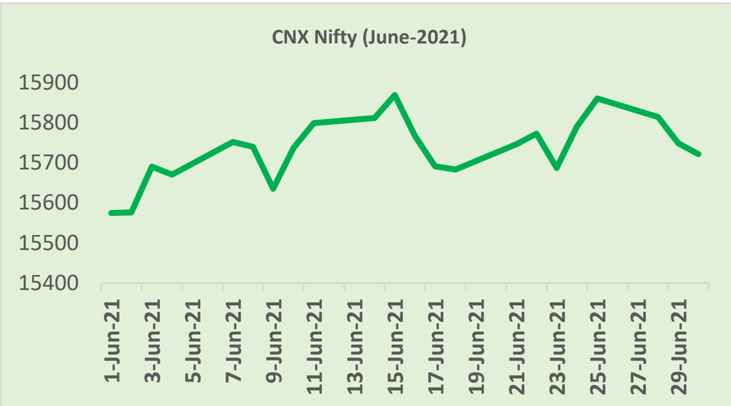
"Mutual Funds may enter into plain vanilla interest rate swaps for hedging purposes. The counter party in such transactions has to be an entity recognized as a market maker by RBI. Further, the value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme. Exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme"

Shall be replaced as follows:

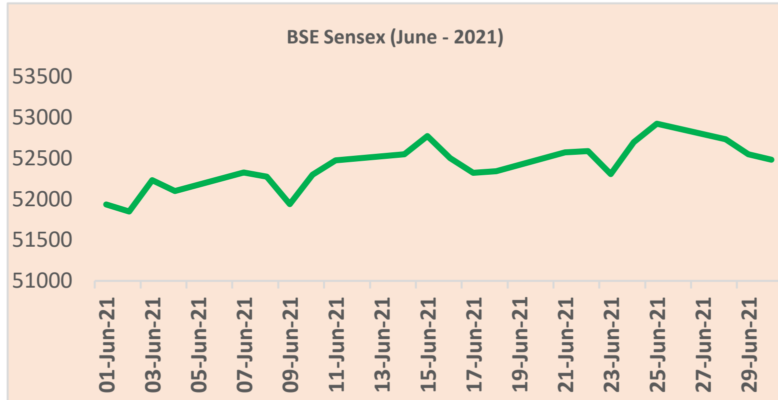
"8. (a) Mutual Funds may enter into plain vanilla Interest Rate Swaps (IRS) for hedging purposes. The value of the notional principal in such cases must not exceed the value of respective existing assets being hedged by the scheme.

(b) In case of participation in IRS is through over the counter transactions, the counter party has to be an entity recognized as a market maker by RBI and exposure to a single counterparty in such transactions should not exceed 10% of the net assets of the scheme. However, if mutual funds are transacting in IRS through an electronic trading platform offered by the Clearing Corporation of India Ltd. (CCIL) and CCIL is the central counterparty for such transactions guaranteeing settlement, the single counterparty limit of 10% shall not be applicable."

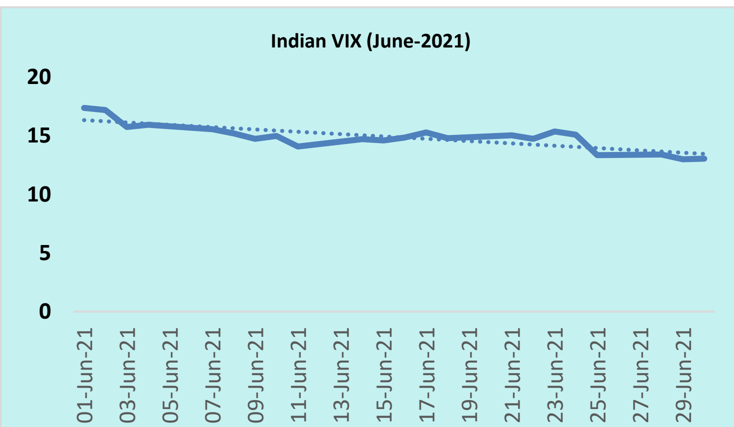
CAPITAL MARKETS SNAPSHOT



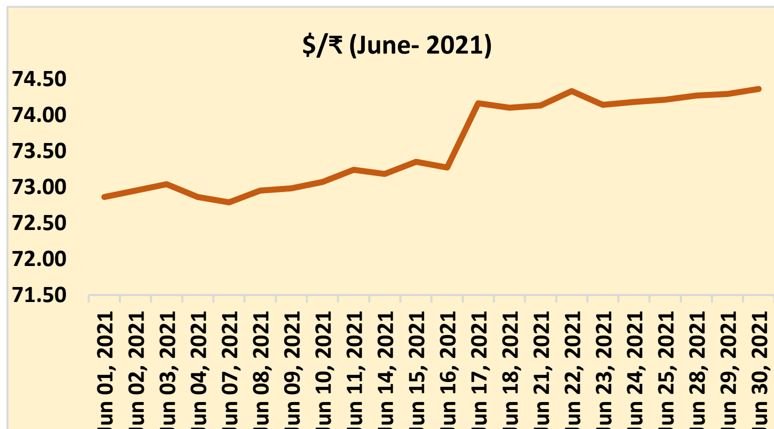
Source: National Stock Exchange



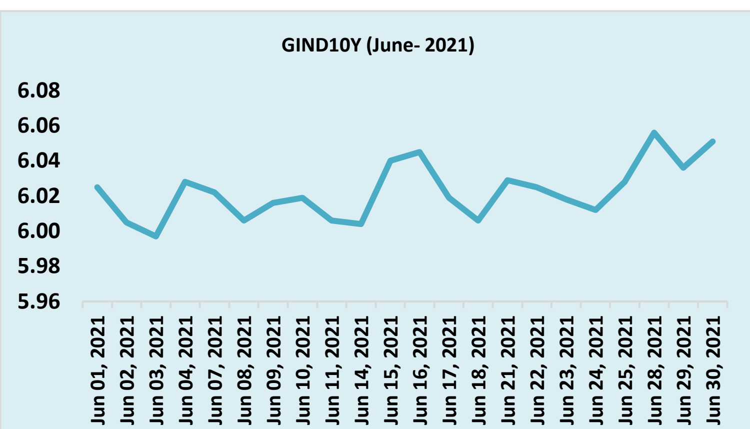
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Indian equities ended on a negative note in last week of June owing to the rise in cases of the more virulent Delta variant of Covid-19 globally. S&P BSE Sensex and Nifty 50 declined about 1% each. Markets sentiments were also dented after a cut in India's gross domestic product (GDP) growth forecast by a global credit rating agency, and a brokerage firm's valuation concerns regarding domestic equities. The government said that total foreign direct investment (FDI) inflows into India in April rose 38% on-year to $6.24 billion, while equity inflows surged 60% on-year to $4.44 billion.

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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	4.8	1.8	8.1 May	6.8	-0.2	-7.3	9.28
Russia	-0.7 Q1	3.2	2.3	8.0 May	5.5	3.7	-1.7	7.19
India	**1.6 Q1**	**10.4**	**7.0**	**6.3 May**	**5.2**	**-1.0**	**-7.2**	**6.09**
China	18.3 Q1	8.5	5.2	1.3 May	1.6	2.8	-4.7	2.93^
S Africa	-3.2 Q1	3.0	2.4	5.2 May	4.0	1.5	-9.4	8.90
USA	0.4 Q1	6.0	3.7	5.0 May	3.1	-3.0	-13.5	1.44
Canada	0.3 Q1	5.4	4.2	3.6 May	2.2	-2.0	-9.0	1.40
Mexico	-3.6 Q1	5.9	3.1	5.9 May	4.5	1.4	-2.8	7.03
Euro Area	-1.3 Q1	4.4	4.4	1.9 Jun	1.7	3.3	-6.6	0.0
Germany	-3.1 Q1	3.5	4.0	2.3 Jun	2.5	6.8	-3.6	0.0
Britain	-6.1 Q1	5.8	5.5	2.1 May	3.0	-4.5	-11.5	0.80
Australia	1.1 Q1	4.4	2.5	1.1 Q1	2.1	1.6	-5.9	1.39
Indonesia	-0.7 Q1	3.9	5.0	1.3 Jun	2.4	-0.1	-5.7	6.54
Malaysia	-0.5 Q1	4.4	3.8	4.4 May	2.4	4.7	-5.9	3.21
Singapore	1.3 Q1	4.6	3.7	2.4 May	1.8	17.8	-4.4	1.51
S Korea	1.9 Q1	3.8	2.6	2.4 Jun	2.0	4.6	-3.2	2.09

Sources: The Economist

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

^ 5-year yield

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

ABOUT APAS

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

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