2021

Volume 5

APAS MONTHLY

THIS MONTH

Season’s greetings!

In this issue, Mr. Anup Bagchi, Executive Director, ICICI Bank, has presented his thoughts on ‘Banking is necessary, banks are not’. We thank Mr. Bagchi for his contribution to the APAS Monthly.

This month, the APAS column presents its views on ‘Economy after Covid vaccination.’

The economic indicators showed mixed performance. Manufacturing PMI rose marginally to 55.5 in April from 55.4 in March. India’s annual infrastructure output in April jumped by 56.1%. India's Index of Industrial Production (IIP) witnessed a jump of 22.4% in March. PMI services fell to a 3-month low of 54 in April from 54.6 in March, while composite PMI fell to 55.4 in April from 56 in March. CPI inflation eased to 4.29% in April from 5.52% in March. WPI inflation rose to an all-time high of 10.49% in April from 7.39% in March.

The Gross Domestic Product (GDP) growth rate for the fourth quarter (January-March) of 2020-21 grew at 1.6%. In the full fiscal year, the GDP shrunk by 7.3%.

The Reserve Bank of India (RBI) announced (1) Resolution of the Monetary Policy Committee (MPC) June 2-4, 2021 (2) Revised Guidelines on Prepaid Payment Instruments (PPIs) (3) On-Tap Term Liquidity Facility to Ease Access to Emergency Health Services (4) Amended Regulations on Payment of margins for transactions in Government Securities by Foreign Portfolio Investors (5) Resolution Framework - 2.0.

APAS
ashvin parekh advisory services

The Insurance Regulatory Development Authority of India (IRDAI) announced Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021.

IFSCA announced Constitution of an Expert Committee on Investment Funds. Cabinet approved strategic disinvestment and transfer of management control in IDBI Bank Limited. Pension Fund Regulatory and Development Authority (PFRDA) announced that its Assets Under Management crossed INR 6 trillion.

Securities and Exchange Board of India (SEBI) announced (1) Enhancement of overall limit for overseas investment by Alternative Investment Funds (AIFs)/Venture Capital Funds (VCFs) (2) Procedure for seeking prior approval for change in control of SEBI registered Portfolio Managers. (3) Format for Business responsibility and sustainability reporting by listed entities.

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

[Banking is necessary, banks are not]

Mr. Anup Bagchi
Executive Director
ICICI Bank

APAS COLUMN

[Economy after Covid vaccination]

ECONOMY

- [Index of Industrial Production – March]
- [Inflation update – April]
- [PMI update – April]
- [Core Sector – April]
- [GDP – Q4 – FY 20-21]

APAS
ashvin parekh advisory services

BANKING

- *Resolution of the Monetary Policy Committee (MPC) June 2-4, 2021*
- *Prepaid Payment Instruments (PPIs)*
- *On-Tap Term Liquidity Facility to Ease Access to Emergency Health Services*
- *Payment of margins for transactions in Government Securities by Foreign Portfolio Investors*
- *Resolution Framework – 2.0*

INSURANCE

- *Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021*

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- *Constitution of an Expert Committee on Investment Funds*
- *Cabinet approves strategic disinvestment and transfer of management control in IDBI Bank Limited*
- *Assets Under Management under Pension Fund Regulatory and Development Authority cross Rs 6 trillion*

CAPITAL MARKETS

- *Enhancement of overall limit for overseas investment by Alternative Investment Funds (AIFs)/Venture Capital Funds (VCFs)*
- *Procedure for seeking prior approval for change in control of SEBI registered Portfolio Managers*
- *Business responsibility and sustainability reporting by listed entities*

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*

APAS
ashvin parekh advisory services

Banking is necessary, Banks are not

Mr. Anup Bagchi
Executive Director
ICICI Bank

In 1994, when fintech was not so popular, Bill Gates said, "Banking is necessary, banks are not." This statement is truer today than ever before. The changes in the environment and the capabilities that have developed since, in the fintech world, have been rapid and disrupting to banking. Also, it has accelerated many times over the last few years.

Now add the brilliant India Stack, which makes most capabilities of identity and payments low-cost and instant, to this. It means an exciting future awaits firms that can evolve and adapt, and there's a risk of being obsolete for firms that cannot embrace these explosive changes. This also means that the polarity of success and failures will only increase going forward.

In the context of retail banking, it is critical to revisit the basics and see what value we are adding to the customer experience and understanding the reason why customers deal with banks. Until a few years back, the retail banks did not have to work so hard to get business as the customers had limited options. The biggest change that has happened over the last few years is the advent of unbundling of services and the move towards open architecture. The move to open architecture made unbundling easy to execute from customers' point of view and gave them complete choice on a level field.

Retail banking must therefore be seen from a demand perspective and then from a supply perspective as to how those demands are rendered. Banks, unlike other providers including fintech, are like superstores offering to fulfil most of the needs of the customer. They include primarily, custodians of the savings, advisor for surplus through investments, increasing affordability through lending, helping in the movement of funds (remittances, debit cards, credit cards, UPI, etc.), or storing value for subsequent consumption (prepaid travel cards) for different end-use including consumption. Additionally, some services are beyond banking as well.

One way to think about the business is whether the nature and magnitude of demand will change. The answer with a fair degree of confidence is no. Banking supports day-to-day activities through barter of services vis-à-vis money. Till there is trade and commerce, till there are transactions, the demand for services will remain. What will however change and is changing rapidly is the servicing of the demand and by who. The big challenge that retail banks are facing and are likely to intensify is the various choices customers have in meeting their needs and the cost of delivery of those services as the revenue pool shrinks.

So how should retail banks architect themselves for the future? First and foremost, the understanding of the customers must be deep and relevant. Due to a much larger customer footprint, the ability to use computation and cognitive models to understand and anticipate needs are better than ever before.

Secondly, one must completely rethink the method of delivery of those services. Due to new capabilities, the old processes must be completely rethought and not retrofitted. For many newer players, new capabilities create a much leaner way of delivering the same services.

Special mention must be made on the lending underwriting business. There are very few businesses that run on an adverse ratio; i.e. the upside being the spread on interest and fee income (3%-5%), while the loss given default might run into multiple times that (20%-30%). This necessitates that the margin of error in underwriting must be exceedingly small; few fintechs have been able to crack this issue. There are a few China models, but the environment of the impact of default is very draconian there and it would be difficult to replicate it in the rest of the world.

Lastly, the UI/UX, the user interface and the user experience has to be of a very high order. Customers have exposure to the best and there is no reason why they will settle for anything less from banks.

With the brand and the capabilities that we have and are working on, we are confident that we will be able to meet the demands of the customer in the most appropriate manner. Our stance with the fintechs is one of collaboration and we partner with 100s of them to solve specific issues of our customers. We are believers of open architecture and our iMobile pay is fully linkable on both sides to any bank and payment service providers. We feel that it is important to embrace and shape open architecture.

Internally we have worked hard, and it is a continuous journey of aligning culture for the new world. The strength of banks are multi-product and 360 services to our clients; and internally, the culture and measurement systems must reflect that for alignment. One Bank One ROE, fair to the customer and fair to bank by leveraging digital capabilities, keeping customers at the centre of whatever we do, working on process simplification basis market opportunities in the ecosystem and communities in which our customers are the sharp focus that we have.

In Bank, we are looking at the future with great possibilities and excitement. The capabilities enable us to shorten the gap between imagination and execution through the cultural mooring of great teams we have.

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

Economy after Covid vaccination

The Covid-19 pandemic created significant economic challenges dating back to early 2020, including a brief but very steep recession. Starting in the second half of last year, the economy rebounded and showed improvement, till the second wave hit back.

The second wave of the pandemic has hit India hard, with regional lockdowns stalling economic activity. Though the pandemic wave is officially in decline, with the virus spreading rapidly to the hinterlands, economic recovery has been further pushed to uncharted territory.

Rapid development of vaccines that demonstrate an ability to provide a high degree of immunity from Covid-19 is likely to play a significant role in improving the economy. Versions of the vaccine developed by several pharmaceutical companies have received emergency authorisation and are being actively distributed. This has raised hopes for a positive reaction across the Indian economy.

A vaccine allows people to resume economic activities that were restricted or impossible to do. That includes returning to work, along with leisure activities. For example, the polio vaccine allowed children to return to swimming pools.

With the vaccines now being widely distributed, the question is how quickly that can result in something approaching a return to a steady state for the economy. The more widespread the administration of vaccines, the better the result is likely to be for the economy.

Investors remain hopeful that by late 2021, vaccines will reach a significant percentage of the population. The markets will be closely watching other factors as well, such as how the global supply chain holds up, logistical management, the order in which vaccinations are provided to various segments of the general population and the impact of potential health complications.

While vaccines draw major headlines and significant interest, the reality is that India and much of the world are still contending with a major health challenge. There is a general understanding that the vaccine rollout is a long- term proposition that does not resolve the immediate challenge of trying to tamp down the impact of Covid-19. This is borne out in continued high infection rates in some states and in various regions of the world.

While the Indian and the US economies appear well positioned for a continued economic recovery, that is not consistent across the globe. Notably, Europe and parts of South America continue to be hit hard by the pandemic. Vaccine rollout has been slower in many parts of the world than is the case in India and the US. This may limit the upside potential for companies that generate a good portion of their earnings from overseas markets. Many overseas nations will be slower to see economic recovery.

As the economic recovery continues, there are longer term issues to be considered, particularly among specific segments of the economy. Investors are closely watching consumer trends and business practices to see what carries on in a post pandemic world. An area that bears close watching is the demand for office space. There is a possibility that demand could fall in central business districts as many employees begin to work from home more regularly. This would have a dramatic impact on commercial real estate. There could also be a potential decline in business travel, given the increased use of technology to connect with business associates. This could have an impact on the airline industry and other parts of the hospitality market.

There are industries that may be positioned to permanently benefit from changes that took effect with the onset of the pandemic. Cloud computing and video streaming are services that are likely to continue to grow their businesses even when some sense of normal returns. Online retailing, already a growing trend, may have solidified its position in the last year.

The vaccine alone may not provide enough momentum to restore the economy to sustainable growth. The pandemic has created a downward spiral that may be difficult to come out of. Any recovery will depend on having a clearer idea of the return to demand in the services economy – malls, accommodation, entertainment, etc. Consumers may be so psychologically affected that they may not go back.

With nearly half its population of 9.3 million receiving at least one shot, Israel has given more Covid vaccines per capita than anywhere else in the world. It has banked on that rollout to start reopening its economy.

Plans to unlock the UK economy appear on track after data showing Covid vaccines are effective against a worrying variant boosted the government's confidence in its proposed roadmap. The success of the nation's vaccine program, which has now seen over 60 million jabs given out, is a key plank of the government's goal to fully remove restrictions by June 21.

It remains to be seen how soon normalcy returns in these and other countries that reopen their economies after vaccination.

Vaccines can help end recessions under the right circumstances. Enough people must be willing to get vaccinated to achieve herd immunity and once that level is reached, businesses and consumers must return to prior levels of economic activity.

-APAS

ECONOMY

IIP (Index of Industrial Production) – March

Index of Industrial Production (IIP) or factory output for the month of March 2021 witnessed a jump of 22.4%, compared to a contraction of 3.4% in February 2021 and 18.7% in March 2020.

The General Index for the month of March 2021 stands at 143.4, which is 22.4% higher as compared to March 2020.

The manufacturing sector, which constitutes 77.63% of the index, zoomed by 25.8% in March, to 140.4.

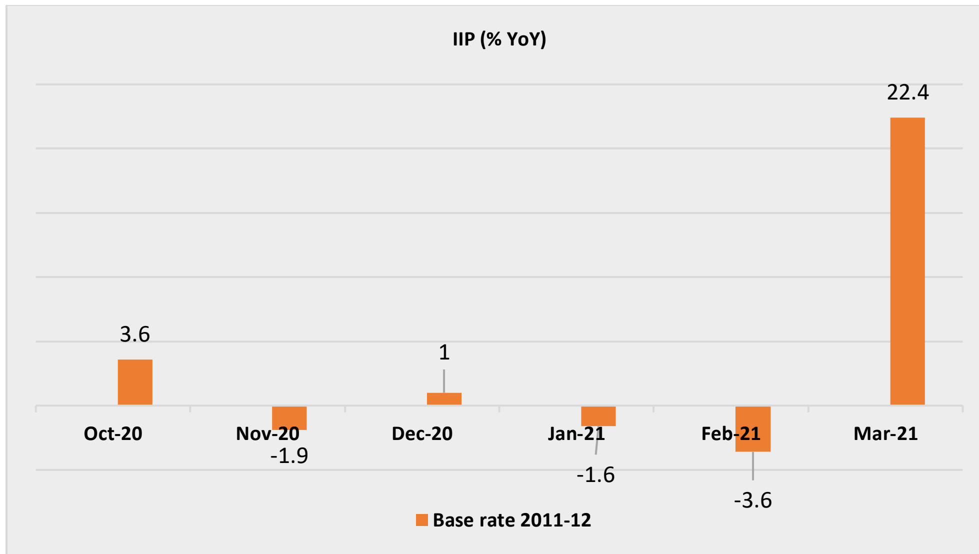
Mining sector output grew by 6.1%, to 139.

Electricity generation rose by 22.5%, to 180.

As per Use-based classification, the indices stand at 144.8 for primary goods, 103 for capital goods, 152.3 for intermediate goods and 154.3 for infrastructure/construction goods for March.

Further, the indices for consumer durables and consumer non-durables were at 128.9 and 155.2, respectively.

The IIP for April-March period has contracted by 8.6%. It had registered a contraction of 0.8% during the same period last fiscal.



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

CPI (Consumer Price Index) – April

India's consumer price index (CPI) or retail inflation eased to 4.29% in April 2021, compared to 5.52% in March 2021.

The corresponding provisional inflation rates for rural and urban areas are 3.82% and 4.77% respectively.

The core CPI inflation eased to 5.25% in April 2021 from 5.72% in March 2021.

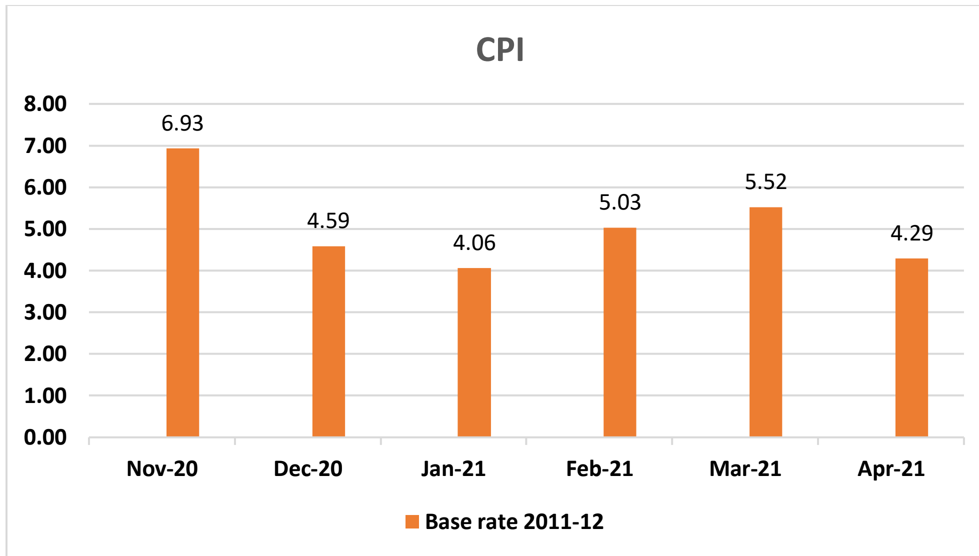
The Consumer Food Price Index (CFPI) fell to 2.02% in April from 4.87% in March.

Among the CPI components, inflation for food and beverages was at 2.66% in April, while the inflation rate of pan, tobacco and intoxicants was at 9.01%.

Within the food items, the prices softened for vegetables by 14.18%, cereals and products by 2.96% and sugar and confectionery items by 5.99%. On the other hand, prices rose for oils and fats by 25.91%, meat and fish by 16.68%, non-alcoholic beverages by 15.2%, pulses and products by 7.51% and egg by 10.55%.

Furthermore, the inflation rate of clothing and footwear was at 3.49%.

The inflation for housing stood 3.73%, while that for fuel and light stood at 7.91% in April.



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

WPI (Wholesale Price Index) – April

India's wholesale price index (WPI) inflation rose to an all time high of 10.49% in April 2021, as compared to 7.39% in March 2021 and (-) 1.57% in April 2020.

The rate of inflation based on WPI Food Index increased to 7.58% in April 2021 from 5.28% in March 2021.

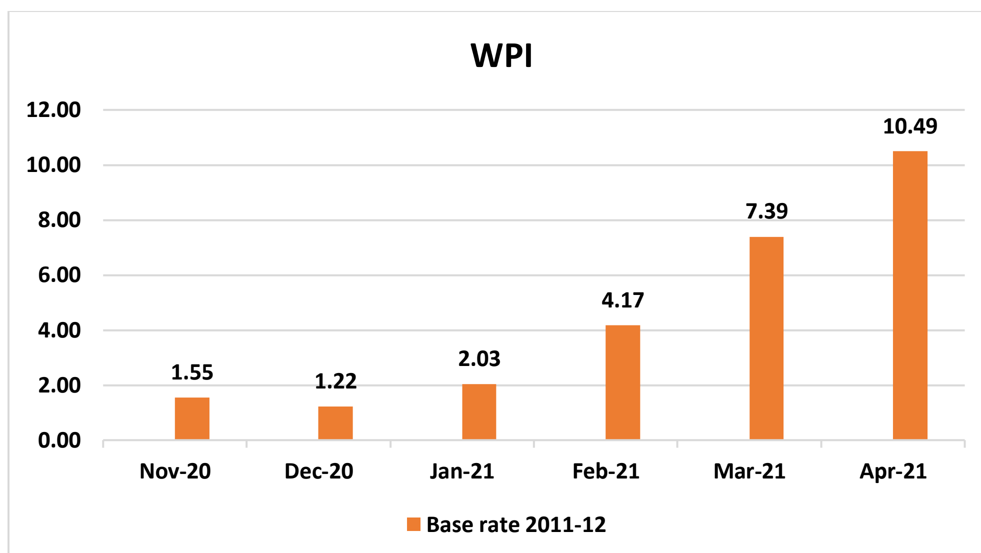
The index for primary articles increased by 3.83% from the previous month.

Prices increased for minerals (6.66%), crude petroleum and natural gas (4.8%), food articles (3.84%) and non-food articles (2.65%).

The index for fuel and power declined by 1% from the previous month.

Prices increased for coal (0.32%) and mineral oils (0.29%), while prices declined for electricity (-4.96%).

The index for manufactured products increased by 1.65% from the previous month.



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

Manufacturing PMI – April

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in April was little changed from March, indicating a solid improvement in the health of the sector.

The Manufacturing PMI rose marginally to 55.5 in April 2021 from 55.4 in March 2021. It stayed above the 50 level, that separates expansion from contraction, for the ninth straight month.

Both new orders and output expanded at the slowest pace in 8 months, due to an intensification of the Covid-19 crisis.

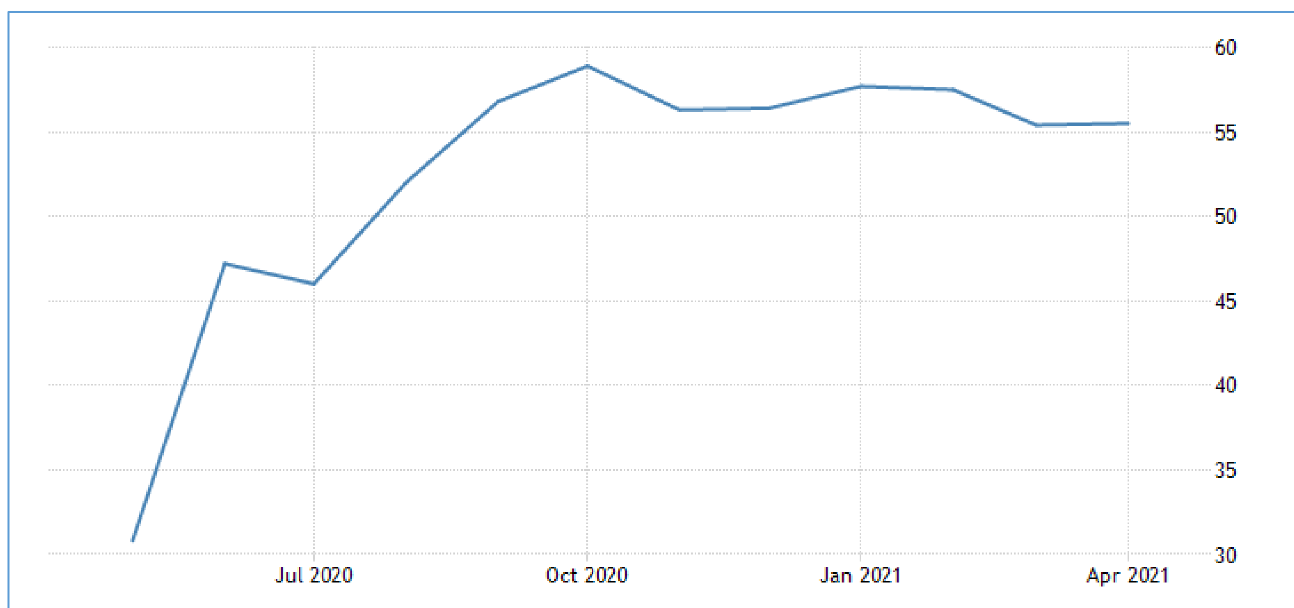
Growth was attributed to a pick-up in demand and marketing efforts, though hampered by the Covid-19 pandemic.

At the same time, new export orders surged to the fastest since last October and buying levels expanded at one of the sharpest rates seen for 9 years.

Meanwhile, employment declined for a 13th straight month and the weakest in the current sequence of job shedding.

On the price front, the rate of input cost inflation accelerated to the fastest pace since July 2014, while selling prices increased to the highest in 7 ½ years.

Finally, business sentiment strengthened in April.



Source: www.tradingeconomics.com

Services PMI – April

The Indian services sector activity slowed down to a 3-month low in April with a surging second wave of Covid-19 and localised lockdowns across the country forcing services businesses to reduce operations.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to a 3-month low of 54 in April 2021 from 54.6 in March 2021. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the seventh straight month.

The reading pointed to the seventh straight month of expansion in the sector, but the weakest pace since January, as output growth eased to a 3-month low, while new orders continued to expand, with the rate of expansion stable.

External demand continued to worsen, with new orders from abroad decreasing for the 14th straight month.

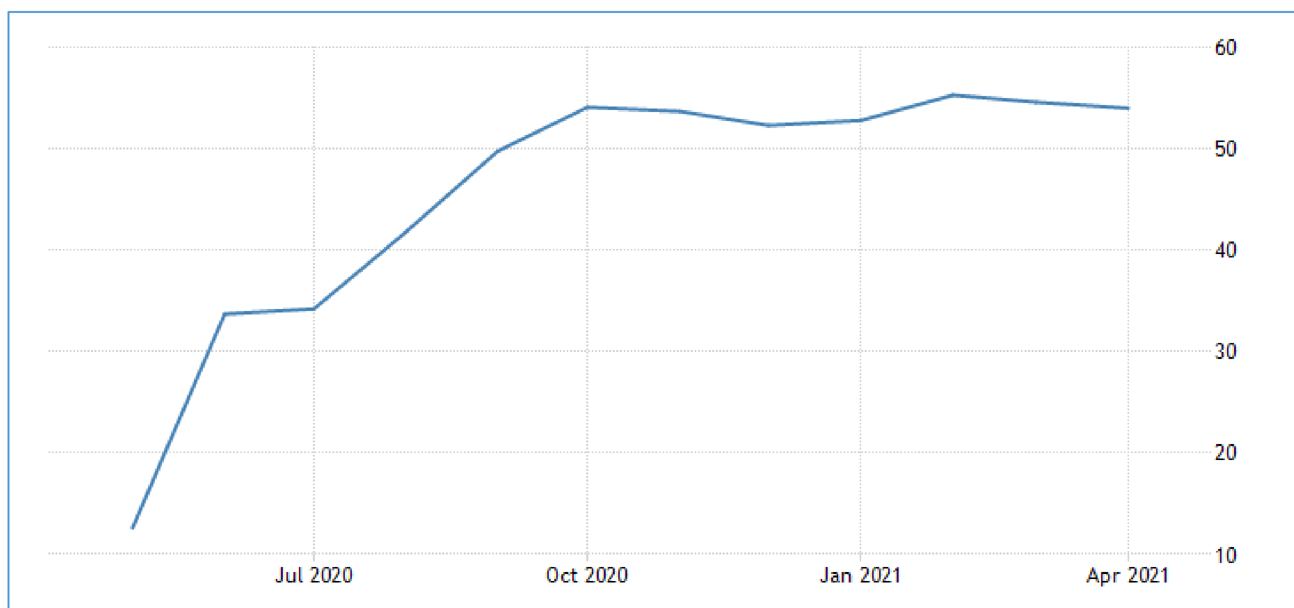
At the same time, the pace of job shedding slowed to the weakest since January.

On the price front, input cost inflation accelerated to a 9 ½-year high.

As a result, selling prices continued to increase.

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

The seasonally adjusted Nikkei India Composite PMI Output Index fell to 55.4 in April from 56 in March.



Source: www.tradingeconomics.com

Core Sector Data – April

Growth of eight infrastructure sectors jumped by 56.1% in April 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 11.4% in March 2021 and contracted by 37.9% in April 2020.

The production of natural gas, refinery products, steel, cement and electricity jumped by 25%, 30.9%, 400%, 548.8% and 38.7% in April 2021, as against (-) 19.9%, (-) 24.2%, (-) 82.8%, (-) 85.2% and (-) 22.9% in April 2020, respectively.

Coal and fertiliser segments too recorded positive growths, at 9.5% and 1.7%, respectively during April.

However, crude oil output dipped by 2.1% in April, as against (-) 6.4% last year.

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

GDP – Quarter 4 – FY 2020-21

The country's Gross Domestic Product (GDP) growth rate for the fourth quarter (January-March) of fiscal year 2020-21 grew at 1.6%, recording a slight pickup in GDP growth amid the Covid-19 second wave hitting the economy hard.

In the full fiscal year, the economy shrunk by 7.3% as the Covid-19 pandemic ravaged the economy.

This is a marginal improvement from the earlier estimate of 8% contraction in the second advance estimates released in February, largely because of a sharp rise in government expenditure.

The GDP growth rate in Q4 FY 2019-20 was 3% and in Q3 FY 2020-21 was 0.5%.

The GDP growth rate for FY 2019-20 was 4%.

GDP at constant (2011-12) prices in Q4 FY 2020-21 is estimated at INR 38.96 lakh crore, as against INR 38.33 lakh crore in Q4 FY 2019-20, showing a growth of 1.6%.

The uptick in Q4 was driven mainly by the manufacturing sector, even as services remained comparatively sluggish.

Sequentially, in absolute terms, a pickup was seen in gross value added (GVA) for manufacturing and construction sectors.

Manufacturing sector jumped 6.9% in Q4, as against 1.7% in Q3 and 4.2% contraction in Q4 last year.

The construction sector grew 14.5%, as against 6.5% in Q3 and 0.7% last year.

Agricultural growth slowed to 3.1% in Q4 from 4.5% in Q3 and 6.8% in Q4 last year.

The crucial services sector witnessed growth after a gap of 3 quarters in Q4, rising by 1.5%.

The recovery was led by finance, real estate and professional services (5.4% growth) and public administration (2.3% growth).

Mining and trade, hotels, transport and communication sectors remained in negative territory, contracting by 5.7% and 2.3%, respectively.

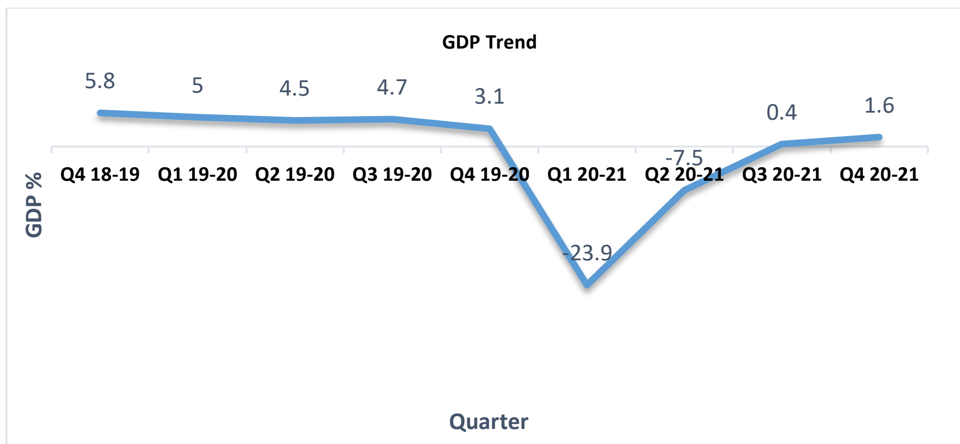
GVA contracted 6.2% in 2020-21, as against 4.1% last year.

GDP in nominal terms is estimated at (-) 3%, lower than 7.8% growth last year.

On the expenditure side, gross fixed capital formation, an indicator for private investment, picked pace to grow 10.9% in Q4, an indicator that the investment momentum was kicking in, alongside a pickup in government expenditure.

Government final consumption expenditure grew 28.3% in Q4.

Other forms of demand in the form of private consumption expenditure grew by 2.7%.



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

BANKING

Resolution of the Monetary Policy Committee (MPC) June 2-4, 2021

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

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

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

- The MPC also decided to continue with the accommodative stance as long as necessary 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.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

Since the MPC's meeting in 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 unfavourable 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.

Domestic Economy

Turning to the domestic economy, provisional estimates of national income released by the National Statistical Office (NSO) on May 31, 2021 placed India's real gross domestic product (GDP) contraction at 7.3 per cent for 2020-21, with GDP growth in Q4 at 1.6 per cent year-on-year (y-o-y). On June 1, the India Meteorological Department (IMD) has forecast a normal south-west monsoon, with rainfall at 101 per cent 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.

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 per cent in 2021-22, consisting of 18.5 per cent in Q1; 7.9 per cent in Q2; 7.2 per cent in Q3; and 6.6 per cent in Q4:2021-22

The MPC notes that 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 MPC decided to retain the prevailing repo rate at 4 per cent 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.

Prepaid Payment Instruments (PPIs) – (i) Mandating Interoperability; (ii) Increasing the Limit to ₹2 lakh for Full-KYC PPIs; and (iii) Permitting Cash Withdrawal from Full-KYC PPIs of Non-Bank PPI Issuers

As per statement in Statement of regulatory and developmental policies, with regard to PPI, it was announced that (a) PPI interoperability shall be made mandatory, (b) the limit for full-KYC PPIs shall be increased from ₹1 lakh to ₹2 lakh, and (c) cash withdrawal shall be permitted using full-KYC PPIs of non-bank PPI issuers.

Accordingly, RBI has the following are advised –

i. It shall be mandatory for PPI issuers to give the holders of full-KYC PPIs (KYC-compliant PPIs) interoperability through authorised card networks (for PPIs in the form of cards) and UPI (for PPIs in the form of electronic wallets);
ii. Interoperability shall be mandatory on the acceptance side as well;
iii. The interoperability shall be enabled by March 31, 2022; and
iv. PPIs for Mass Transit Systems (PPI-MTS) shall remain exempted from interoperability while Gift PPI issuers have the option to offer interoperability.

The feature of cash withdrawal shall be permitted in respect of full-KYC PPIs issued by non-bank PPI issuers as well. The following conditions shall, however, be applicable –

v. Maximum limit of ₹2,000 per transaction with an overall limit of ₹10,000 per month per PPI;
vi. All cash withdrawal transactions performed using a card / wallet, shall be authenticated by an Additional Factor of Authentication (AFA) / PIN;
vii. Any PPI issuer offering this facility shall put in place proper customer redressal mechanisms. Complaints in this regard shall fall under the ambit of the respective ombudsmen schemes and instructions on limiting liability of customers; and
viii. PPI issuers shall put in place suitable cooling period for cash withdrawal upon opening the PPIs or loading / re-loading of funds into PPIs to mitigate the risk of fraudulent use of PPIs.

The cash withdrawal limit from Points of Sale (PoS) terminals using debit cards and open system prepaid cards issued by banks in India as per Master circular has also been rationalized to ₹2,000 per transaction within an overall monthly limit of ₹10,000 across all locations (Tier 1 to 6 centers).

On-Tap Term Liquidity Facility to Ease Access to Emergency Health Services

As per earlier announcement by RBI, RBI has decided to open an on-tap liquidity window of ₹50,000 crore with tenors of up to three years at the repo rate till March 31, 2022 to boost provision of immediate liquidity for ramping up COVID-related healthcare infrastructure and services in the country. Under the scheme, banks can provide fresh lending support to a wide range of entities including vaccine manufacturers; importers/suppliers of vaccine and priority medical devices; hospitals/dispensaries; pathology labs and diagnostic centres; manufacturers and suppliers of oxygen and ventilators; importers of vaccines and COVID-related drugs; COVID-related logistics firms and also patients for treatment.

Banks are being incentivized for quick delivery of credit under the scheme through extension of priority sector lending (PSL) classification to such lending up to March 31, 2022. These loans will continue to be classified under PSL till repayment/maturity, whichever is earlier. Banks may deliver these loans to borrowers directly or through intermediary financial entities regulated by the RBI.

Under the scheme, banks are expected to create a COVID loan book. By way of an additional incentive, such banks will be eligible to park their surplus liquidity up to the size of the COVID loan book with the RBI under the reverse repo window at a rate which is 25 bps lower than the repo rate.

Banks desirous of deploying their own resources without availing funds from the RBI under the scheme for lending to the specified segments mentioned above will also be eligible for the incentives stipulated in paras above.

The operational details of the scheme are described in detail in annexure in the above link.

Payment of margins for transactions in Government Securities by Foreign Portfolio Investors

This refers in detail to Foreign Exchange Management (Borrowing and Lending) Regulations, 2018, which has been amended accordingly.

All transactions in government securities concluded outside the recognized stock exchanges are settled on a guaranteed basis by the Clearing Corporation of India Ltd. (CCIL) which acts as the central counter party. Based on requests received, RBI has decided to allow banks in India having an Authorised Dealer Category-1 licence under FEMA, 1999 to lend to Foreign Portfolio Investors (FPIs) in accordance with their credit risk management frameworks for the purpose of placing margins with CCIL in respect of settlement of transactions involving Government Securities (including Treasury Bills and State Development Loans) by the FPIs.

Resolution Framework – 2.0: Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) – Revision in the threshold for aggregate exposure

This is in reference to "Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)" dated May 5, 2021.

Section of the above circular specifies the eligibility conditions for MSME accounts to be considered for restructuring under the framework, which inter alia includes that the aggregate exposure, including non-fund-based facilities, of all lending institutions to the MSME borrower should not exceed ₹25 crore as on March 31, 2021.

Similarly, it applies to Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021. Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSME as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021.

Based on a review, RBI has decided to enhance the above limit from ₹25 crore to ₹50 crore.

INSURANCE

Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021

The Budget 2021 announced amendments in Indian insurance companies (Foreign investment) act. The key amendments in earlier circular are as follows:

a. Limit for foreign investment in an Indian insurance company has been revised from 49% to 74%.
b. "An Indian Insurance Company shall ensure that its ownership and control shall remain at all times in the hands of resident Indian entities" shall be substituted by:

   (1) 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.
c. 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 per cent. 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.".

APAS
ashvin parekh advisory services

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Constitution of an Expert Committee on Investment Funds

The International Financial Services Centres Authority (IFSCA) has been established as a unified regulator to develop and regulate financial products, financial services and financial institutions in the International Financial Service Centres (IFSCs) in India.

The Fund Industry has been playing an increasingly important role in intermediating between seekers of capital and investors. IFSC has been actively engaging with stakeholders to enhance the Global reach of GIFT-IFSC. The regulatory approach has been to benchmark with Global Standards and adopt a facilitative framework to provide ease of operations for seeker as well as provider of capital.

IFSCA, in its endeavour to develop a comprehensive and consistent regulatory framework based on global best practices with a special focus on ease of doing business, has constituted an Expert Committee on Investment Funds to recommend to IFSCA on the road map for the funds industry in the IFSCs. The Committee has been constituted under the Chairmanship of Mr. Nilesh Shah, MD, Kotak Mahindra Asset Management Co. Ltd. The Committee comprises of leaders from the entire Fund Management ecosystem including from areas such as technology, distribution, legal, compliance, and operations.

The constitution of the committee can be accessed through the following weblink:

https://ifsca.gov.in/IFSCACommittees

While the committee has been constituted to holistically review the Global best practices and make recommendations to IFSCA on the roadmap for the industry, the following shall be the specific terms of reference of the Expert Committee:

a. To recommend IFSCA on long term vision for operations of Investment Funds in IFSC.

b. To make recommendations with respect to structure of Investment Funds in IFSC. The recommendations may be two-fold:

i. Short term in nature that can be implemented by IFSCA immediately (i.e. less than 3 months). Such suggestions may fall under the exclusive regulatory purview of IFSCA.

ii. Recommendations that may be implemented in mid-term (6 months to 1 year). Such suggestions may also pertain to regulatory purview of other regulators.

c. To identify issues that may be critical for development of the Investment Funds industry at IFSCs including inter-regulatory issues.

d. Any other relevant item on building the ecosystem *inter-alia* on asset managers, hedge funds, PE, VC, sovereign funds, family offices, and the accompanying professional services.

Cabinet approves strategic disinvestment and transfer of management control in IDBI Bank Limited

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi, has given its in-principle approval for strategic disinvestment along with transfer of management control in IDBI Bank Ltd. The extent of respective shareholding to be divested by GoI and LIC shall be decided at the time of structuring of transaction in consultation with RBI.

Government of India (GoI) and LIC together own more than 94% of equity of IDBI Bank (GoI 45.48%, LIC 49.24%). LIC is currently the promoter of IDBI Bank with Management Control and GoI is the co-promoter.

LIC's Board has passed a resolution to the effect that LIC may reduce its shareholding in IDBI Bank Ltd. through divesting its stake along with strategic stake sale envisaged by the Govt. with an intent to relinquish management control and by taking into consideration price, market outlook, statutory stipulation and interest of policy holders.

This decision of LIC's Board is also consistent with the regulatory mandate to it to reduce its stake in the Bank.

It is expected that strategic buyer will infuse funds, new technology and best management practices for optimal development of business potential and growth of IDBI Bank Ltd. and shall generate more business without any dependence on LIC and Government assistance/funds. Resources through strategic disinvestment of Govt. equity from the transaction would be used to finance developmental programmes of the Government benefiting the citizens.

Assets Under Management under Pension Fund Regulatory and Development Authority cross Rs 6 trillion

The Pension Fund Regulatory and Development Authority (PFRDA) announced crossing the milestone of Rs 6 lakh crore (Rs 6 trillion) of Assets Under Management (AUM) under the National Pension System (NPS) and Atal Pension Yojana (APY), after 13 years. The AUM growth of last Rs 1 trillion has been achieved in just 7 months.

PFRDA has witnessed remarkable growth in NPS subscribers over the years with 74.10 lakh government employees in the scheme and 28.37 lakh individuals joining from the non-government sector. The total subscriber base of PFRDA has increased to 4.28 crore.

As on 21st May 2021, the total number of subscribers under NPS and Atal Pension Yojana has crossed 4.28 crore and the Asset under Management (AUM) has grown to Rs 603,667.02 crore.

About PFRDA

Pension Fund Regulatory and Development Authority (PFRDA) is the statutory authority established by an enactment of the Parliament, to regulate, promote and ensure orderly growth of the National Pension System (NPS) and pension schemes to which this Act applies. NPS was initially notified for central government employees recruits w.e.f. 1st January 2004 and subsequently adopted by almost all State Governments for its employees. NPS was extended to all Indian citizens (resident/non-resident/overseas) on a voluntary basis and to corporates for its employees.

CAPITAL MARKETS

Enhancement of overall limit for overseas investment by Alternative Investment Funds (AIFs)/Venture Capital Funds (VCFs)

As per earlier circular, dated July 3, 2018, SEBI registered AIFs and VCFs are permitted to invest overseas, subject to an overall limit of USD 750 million.

In consultation with the Reserve Bank of India, the said limit has now been enhanced to USD 1,500 million. Further, all other regulations governing such overseas investment by eligible AIFs/VCFs shall remain unchanged. All other requirements, terms and conditions specified in the aforesaid SEBI Circulars shall remain unchanged.

Procedure for seeking prior approval for change in control of SEBI registered Portfolio Managers

As per Regulation 11 of the SEBI (Portfolio Managers) Regulations, 2020 the conditions for registration as a Portfolio Manager are prescribed.

Regulation 11(aa) provides that a Portfolio Manager shall obtain prior approval of SEBI in case of change in control in such manner as may be specified by SEBI. Accordingly, SEBI has decided that all SEBI registered Portfolio Managers shall comply with the following in case they propose a change in control:

a. An online application shall be made to SEBI for prior approval through the SEBI Intermediary Portal (https://siportal.sebi.gov.in).

b. The prior approval granted by SEBI shall be valid for a period of six months from the date of such approval.

c. Applications for fresh registration pursuant to change in control shall be made to SEBI within six months from the date of prior approval. d. Pursuant to grant of prior approval by SEBI, all the existing investors/ clients shall be informed about the proposed change prior to effecting the same, in order to enable them to take well informed decision regarding their continuance or otherwise with the changed management.

Business responsibility and sustainability reporting by listed entities

In recent times, adapting to and mitigating climate change impact, inclusive growth and transitioning to a sustainable economy have emerged as major issues globally. There is an increased focus of investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society. Thus, reporting of company's performance on sustainability related factors has become as vital as reporting on financial and operational performance.

SEBI via its earlier circular has prescribed the format for the Business Responsibility Report (BRR) in respect of reporting on ESG (Environment, Social and Governance) parameters by listed entities.

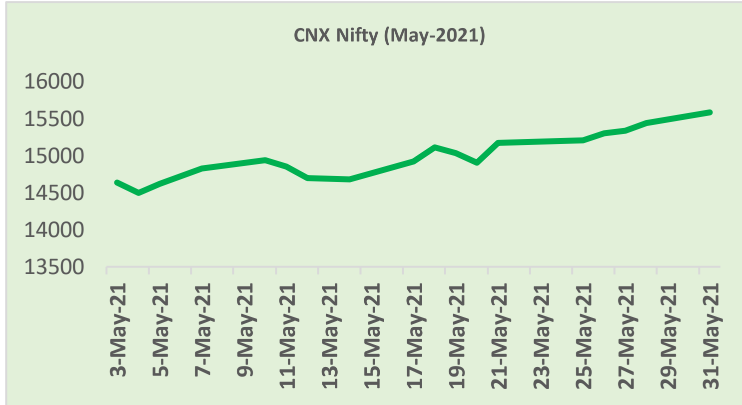
SEBI has decided to introduce new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR). The BRSR is accompanied with a guidance note to enable the companies to interpret the scope of disclosures. The format of the BRSR and the guidance note are detailed in the circular.

The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators. The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavor to report the leadership indictors also.

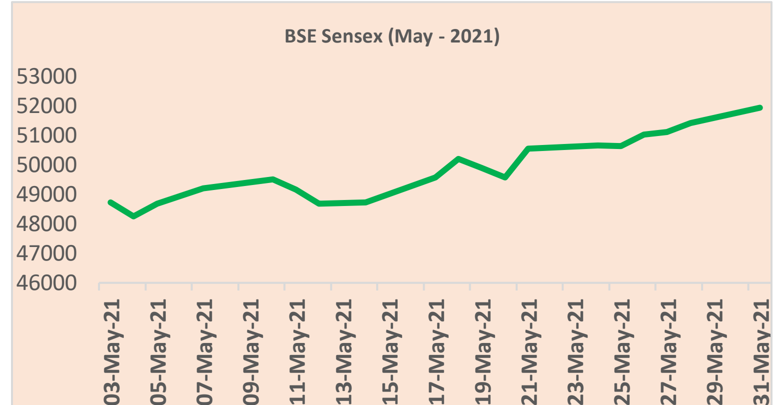
The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

The listed entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks may cross-reference the disclosures made under such framework to the disclosures sought under the BRSR.

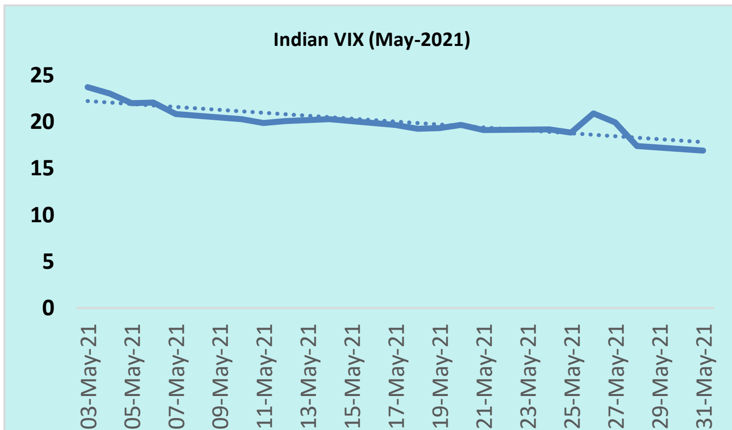
CAPITAL MARKETS SNAPSHOT



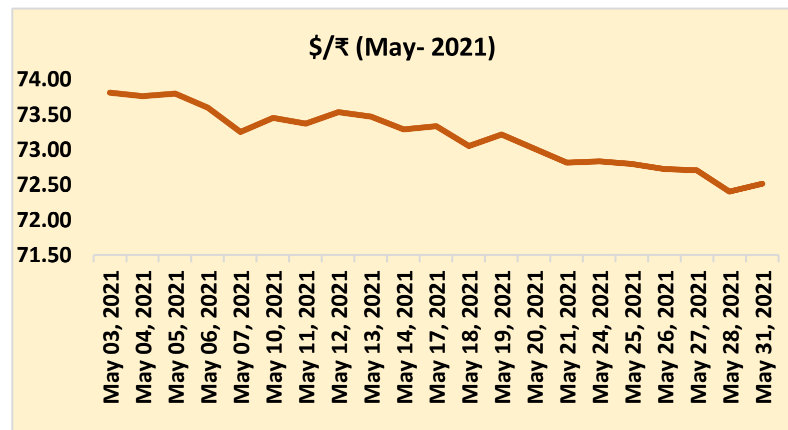
Source: National Stock Exchange



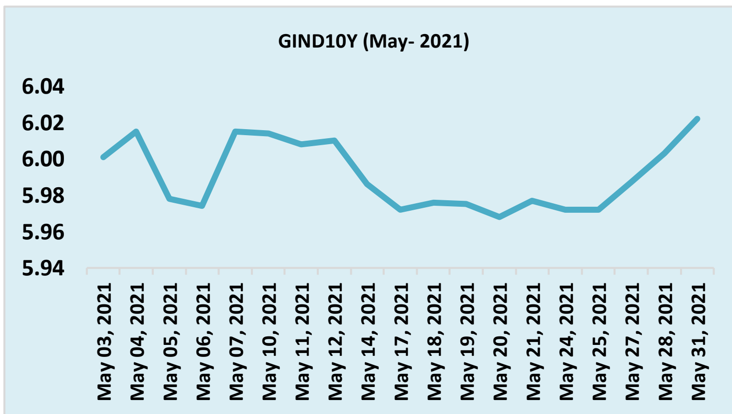
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The OECD reduced India's growth projection for fiscal 2022 to 9.9% from 12.6% estimated in March and the RBI to 9.5% from 10.5% forecasted earlier. The commerce and industry ministry said that FDI equity inflows grew 19% to $59.64 billion during 2020-21 due to the government measures in terms of policy reforms, investment facilitation and ease of doing business. The US government suspended for six months punitive tariffs on Britain, India and four European nations in digital tax dispute.

APAS
ashvin parekh advisory services

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	6.8 Apr	6.8	-0.2	-7.3	9.01
Russia	-1.0 Q1	3.2	2.3	6.0 May	5.3	3.6	-1.7	7.30
India	**1.6 Q1**	**10.4**	**5.2**	**4.3 Apr**	**5.2**	**-1.0**	**-7.0**	**6.02**
China	18.3 Q1	8.5	5.2	0.9 Apr	1.6	2.7	-4.7	2.98^
S Africa	-4.1 Q4	2.4	2.2	4.5 Apr	3.7	1.5	-9.2	8.75
USA	0.4 Q1	6.0	3.7	4.2 Apr	2.7	-2.7	-13.5	1.63
Canada	0.3 Q1	-4.8	4.0	3.4 Apr	2.2	-2.0	-9.2	1.52
Mexico	-3.6 Q1	5.7	3.0	6.1 Apr	4.5	2.0	-2.8	6.55
Euro Area	-1.8 Q1	4.2	4.1	2.0 May	1.5	3.1	-6.8	0.0
Germany	-3.1 Q1	3.5	4.0	2.5 May	1.9	6.8	-3.6	0.0
Britain	-6.1 Q1	5.3	5.6	1.5 Apr	1.5	-4.2	-12.3	0.92
Australia	1.1 Q1	3.4	2.3	1.1 Q1	2.1	1.9	-7.3	1.54
Indonesia	-0.7 Q1	3.9	5.0	1.7 May	2.5	-0.3	-6.4	6.41
Malaysia	-0.5 Q1	4.4	3.8	4.7 Apr	2.4	4.7	-5.9	3.24
Singapore	1.3 Q1	4.5	3.5	2.1 Apr	1.8	17.5	-4.3	1.50
S Korea	1.7 Q1	3.6	2.7	2.6 May	1.9	4.6	-4.7	2.16

Sources: The Economist

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

^ 5-year yield

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

APAS
ashvin parekh advisory services

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.

Contact Us: 022-6789 1000

info@ap-as.com

www.ap-as.com

Disclaimer – This informative APAS Monthly has been sent only for reader's reference. Contents have been prepared on the basis of publicly available information which has not been independently verified by APAS. Neither APAS, nor any person associated with it, makes any expressed or implied representation or warranty with respect to the sufficiency, accuracy, completeness or reasonableness of the information set forth in this note, nor do they owe any duty of care to any recipient of this note in relation to this APAS Monthly. Reader should not pursue any information provided in the Monthly as an investment advice. Neither APAS nor any person associated with it are responsible for any loss due to such persuasion.

APAS
ashvin parekh advisory services