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Volume 11

APAS MONTHLY

THIS MONTH

In this issue, Ms. Vibha Padalkar, MD & CEO, HDFC Life, has presented her thoughts on ‘Trends in life insurance industry and way forward: Shape of things to come.’ We thank Ms. Padalkar for her contribution to the APAS Monthly.

This month, the APAS column presents its views on ‘RBI Retail Direct Scheme’.

The economic indicators showed mixed performance. Manufacturing PMI increased to an 8-month high of 55.9 in October from 53.7 in September. India’s annual infrastructure output in October rose by 7.5%. India's Index of Industrial Production (IIP) rose 3.1% in September. PMI services jumped to a 10.5-year high of 58.4 in October from 55.2 in September, while composite PMI rose to 58.7 in October from 55.3 in September. CPI inflation rose to 4.48% in October from 4.35% in September. WPI inflation rose to 12.54% in October from 10.66% in September.

The Gross Domestic Product (GDP) growth rate for the second quarter (July-September) of 2021-22 grew at 8.4%.

The Reserve Bank of India (RBI) released i) Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee (MPC) December 6-8, 2021 ii) RBI Retail Direct Scheme iii) Report of the Working Group on digital lending including lending through online platforms and mobile apps iv) Recommendations of the IWG to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks.

The Insurance Regulatory Development Authority of India (IRDAI) announced Reconstitution of insurance advisory committee.

NITI Aayog released Discussion Paper on Digital Banks. India, ADB signed USD 300 million loan to improve primary health care in India.

Securities and Exchange Board of India (SEBI) announced Disclosure obligations of listed entities in relation to Related Party Transactions. SEBI announced norms for Silver Exchange Traded Funds (Silver ETFs) and Gold Exchange Traded Funds (Gold ETFs).

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

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Trends in life insurance industry and way forward: Shape of things to come

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MD & CEO
HDFC Life

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- [RBI Retail Direct Scheme]
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- [Reconstitution of insurance advisory committee]

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- [NITI Aayog Releases Discussion Paper on Digital Banks]
- [India, ADB sign $300 million loan to improve primary health care in India]

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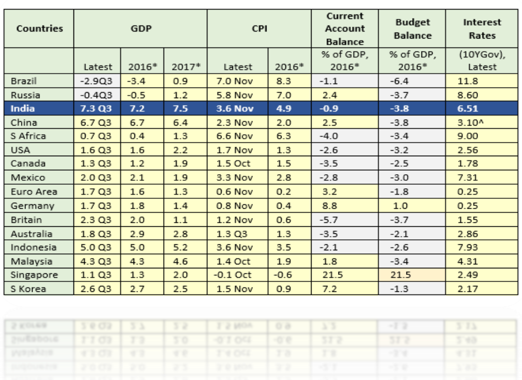
CAPITAL MARKETS

- ***Disclosure obligations of listed entities in relation to Related Party Transactions***
- ***Norms for Silver Exchange Traded Funds (Silver ETFs) and Gold Exchange Traded Funds (Gold ETFs)***

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***

Trends in life insurance industry and way forward: Shape of things to come

Vibha Padalkar
MD & CEO
HDFC Life

After going through a fair bit of uncertainty during the pandemic, the economy now seems to be on a path to recovery. The life insurance industry too is showing early signs of a strong year - in H1 FY21, the overall life insurance industry's retail WRP (weighted received premium) was up 20% YOY, albeit primarily due to the lower base effect. It displayed resilience while dealing with the uncertainties of the pandemic, which is a testament to the strong financial and governance standards of industry players, and the robust regulatory framework developed by IRDAI.

As we look ahead, we see the industry adapt to the new 'normal', but in doing so, its future will likely be shaped by five trends.

Firstly, **customers have become more aware of the importance of life insurance** due to the massive health and economic impact of the pandemic. Owing to the inherent 'protective' nature of life insurance products, even in the pandemic hit FY21, the overall industry's retail WRP grew at 3% YOY. While over 3.4 Cr. Covid cases have been reported in India so far, over 4.6 lac Indians were reported to have lost their lives due to Covid-19. And so far, Indian life insurers have paid more than Rs 11,000 Cr. in Covid related payouts – a substantial sum to protect the financial interests of Indians. Hence, life insurance is now being viewed as a necessity by the customers, rather than an expense. Apart from the rise in customer awareness due to the pandemic, increasing financial literacy will also aid in creating a 'pull' for life insurance products going forward.

Secondly, the customer **preference for tailor-made solutions** is coming to the fore, enabled by the broader shift to digital. Considering customers of different profiles have different requirements, providing more product add-on features are key to addressing the demand for customised insurance solutions. Going forward, enhancements in the field of data analytics will allow even more customisation leading to hyper-personalised solutions designed for each individual. We're also observing the rise of bite size insurance catering to specific needs of the customer. This is currently more prevalent in the general insurance space, but I do believe that there is room to provide innovative bite sized products in the life insurance space too. At HDFC Life, we have recently launched the Sanchay Fixed Maturity Plan with a minimum annual premium of Rs 1000 only (bite-sized compared to the usual size of insurance premiums), currently available through certain digital channels.

In my view, the **shift to digital** will have the most pronounced effect on the life insurance industry in the current decade. Currently, there are 1.18 billion mobile connections and 700 million internet customers in the country, with internet usage expected to double to 25 GB per person / month by 2025. In 2020, over 25 billion real-time online transactions were done in India. The usage of digital mode for purchase is more pronounced among millennials who are twice more likely to purchase insurance online than in person. Considering that millennials form more than a third of the total Indian population, companies would have to change their distribution models and invest in 'digital' infrastructure to cater to this influential demographic cohort.

Another trend is the **gradual shift in customer preference towards holistic financial solutions**. Life insurance companies would have to venture beyond 'just life insurance' and provide financial solutions that cater to the customer's retirement and health insurance needs as well as overall wellbeing. Certain steps have already been taken by the industry players, in this direction. If I were to take an example, at HDFC Life, we have focused on retirement and 'life + health' insurance solutions apart from the traditional products. And the results are quite encouraging – our overall annuity new business premium has grown at a CAGR of 84% over a period of 4 years, from Rs 346 Cr in FY17 to Rs 3927 Cr in FY21!

With **rapidly changing technology**, there is always a **small window of opportunity for industry players to adopt & scale new tech infrastructure** to increase agility, enable streamlining of operations, and reduce capex. For example, at HDFC Life, rapid cloud adoption has enabled business systems to scale on demand. We're agile in launching new projects, which can now be initiated in a matter of hours instead of days, thus helping in faster 'go to market'. Bots were another technology that we adopted quickly and scaled up. Today, more than 9 lac unique users have accessed our conversational bots. To simplify the Claims and Policy loan process for our customers, we have provided related facilities on our WhatsApp bot. However, while we enjoy the fruits of digitisation, we need to safeguard ourselves from the rising risk of cyber threats. As per Dell Technologies 2021 Global Data Protection Index, two-thirds of Indian companies fear that they have inadequate cybersecurity measures in place. Considering that life insurance companies have to safeguard sensitive customer data including customer identity, financial and health records, the severity of such incidences can be relatively higher in our industry. Hence, industry players will have to regularly and frequently invest in upgrading their cybersecurity capabilities.

Overall, given the low insurance penetration and favourable demographics in India, I believe the life insurance industry has ample room for growth in the years to come. The entry of insurtech firms in the life insurance space is adding vibrancy to the industry and increasing the pace of innovation which will ultimately benefit the consumers. At HDFC Life, we have been partnering with insurtechs to create a winning formula by combining our operational experience and data with their innovation, to ensure that HDFC Life is future ready.

RBI Retail Direct Scheme

Retail investors can finally invest in government securities (G-Secs) issued by the Reserve Bank of India (RBI). RBI's retail direct platform was launched on November 12 amid much fanfare by Prime Minister Narendra Modi. After some credit events in highly rated bonds, it comes as a relief that retail investors can now access the risk-free G-Secs too.

Retail investors can invest a minimum of INR 10,000 and in multiples thereof in Central G-Secs (CG), State G-Secs (SG) and Treasury Bills (T-Bills) using the online portal (rbiretaildirect.org.in) by opening a Retail Direct Gilt (RDG) account with RBI. In the case of Sovereign Gold Bond (SGB), the minimum investment unit is 1 gram. The maximum investment limit per bid specified by RBI is INR 2 crore for CG/T-Bill and 1% for SG.

According to RBI sources, investors in SGBs, currently estimated at around 4.5 lakh, are expected to actively invest in G-Secs via RBI RDG, which is envisaged as a one-stop solution for retail investments in G-Secs.

This scheme has a lot of advantages. Onboarding is smooth and takes less than 10 minutes if you have all your details handy. Government bonds are risk free. There is no danger of default on payments as they are guaranteed by the Government of India. The 10-year G-Sec is the most popular in this category. However, G-Secs come in varying tenures, from 91-day T-Bills to 40-year bonds. You can choose the lower maturity securities to park near term money and use long dated maturity G-Secs for goals that come later. Interest is paid twice a year, which helps those who need a regular income. Since you would buy G-Secs directly, there are no intermediary charges.

There are also some disadvantages to this scheme. G-Secs may not have credit risk, but they come with duration or interest rate risk. Bond prices and interest rates have an inverse relationship and high rates pull down bond prices. To avoid interest rate risk completely, you need to hold the bond till it matures.

Small savings instruments (SSIs) pose the biggest challenge to the scheme. Interest rates on one year term deposits of an SSI are higher, as compared to the yields on G-Secs. This makes SSIs far more attractive than directly investing in G-Secs. SSIs are just as safe as G-Secs from a retail investor point of view.

One of the main concerns of this scheme is liquidity. When you want to sell, there should be a buyer. The price may come at a small discount. It entirely depends on the evolution in these bonds. Otherwise, it will become a buy and hold security. For a hold to maturity investor, it is like a fixed deposit (FD). On comparing the bank FD rates with G-Secs, one finds that the yields on G-Secs are attractive on the longer end of the curve.

From a tax perspective, financial planners believe that coupon bearing bonds are not tax effective and investing in mutual funds is far more effective, as the effective tax rate is in single digits. If you sell units after 3 years, you pay a long-term capital gains (LTCG) tax of 20% with indexation benefits. The indexation benefits reduce your cost price and you pay lower taxes. There are no indexation benefits if you sell G-Secs directly. Selling G-Secs directly after a year's time will attract LTCG tax of 10% with no indexation benefits. Besides, in gilt funds, your interest gets reinvested and you get indexation benefits on that amount too. The best part is that the liquidity is assured.

According to Mr. Aashwin Dugal, Co-Chief Business Officer, Nippon Mutual Fund, "The intent of RBI allowing easy access to retail investors is to not only deepen bond market in terms of volume, but also stickiness through smaller tickets and wider participation. Other initiatives such as inclusion of Indian G-Secs as part of global indices and allowing NRI participation through these indices have been long on the anvil. However, in India, finer nuances relating to bond markets are yet to be understood by retail investors in entirety, including taxation (an advantage that mutual funds have). We might see more participation by HNIs to begin with. Having said that, such initiatives only serve to expand investor base for capital markets over the long term. And that is good news for everyone."

According to Mr. Anupam Guha, Head, Private Wealth Management, ICICI Securities, "The RBI-RD was a much-needed offering for Indian retail market participants. It is expected to bring in depth in the Indian bond markets, specifically by increasing the participation. It should find its takers among people who invest in Bank FDs – for fixed and regular pay-outs in terms of interest. This facility offers exposure to sovereign risk at comparable or better yields. For large clients, however, in the absence of any tax incentives for any other bonds apart from the SGBs, debt MFs appear to be a more tax efficient way of allocation into debt markets. Traditionally, the secondary market liquidity in the Indian bond markets has been low and can result in higher impact cost as well, which again is managed by a fund manager in a debt MF. It can also make sense for investors targeting allocation to maturity matching papers in more liquid maturity (10Y for ex), whereby they will avoid the fund management fee. Unlike the current scenario, it will especially make for a case in a low inflation scenario, as the indexed cost is lower and the tax advantage through the debt MF route is reduced."

The scheme comes at a time when interest rates have bottomed out and are expected to go up. Yields have already hardened over the last few months. Buying G-Secs now at low interest rates and locking them away for long tenures would be unwise.

The pickup in direct buying from individual investors remains muted. This may be attributed to the complexity of transacting and trading in bonds. The impact of interest rates on yields is also hard to grasp. While there is liquidity in certain maturities of G-Secs, others are not liquid enough. While cost is an advantage in going direct, without the ease of transaction, both at the time of buying and selling, it may take time for retail investors to warm up to this platform.

-APAS

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ECONOMY

IIP (Index of Industrial Production) – September

Index of Industrial Production (IIP) or factory output for the month of September 2021 rose 3.1%, compared to 11.9% in August 2021 and 1% in September 2020.

The General Index for the month of September 2021 stands at 127.9, which is 3.1% higher as compared to September 2020.

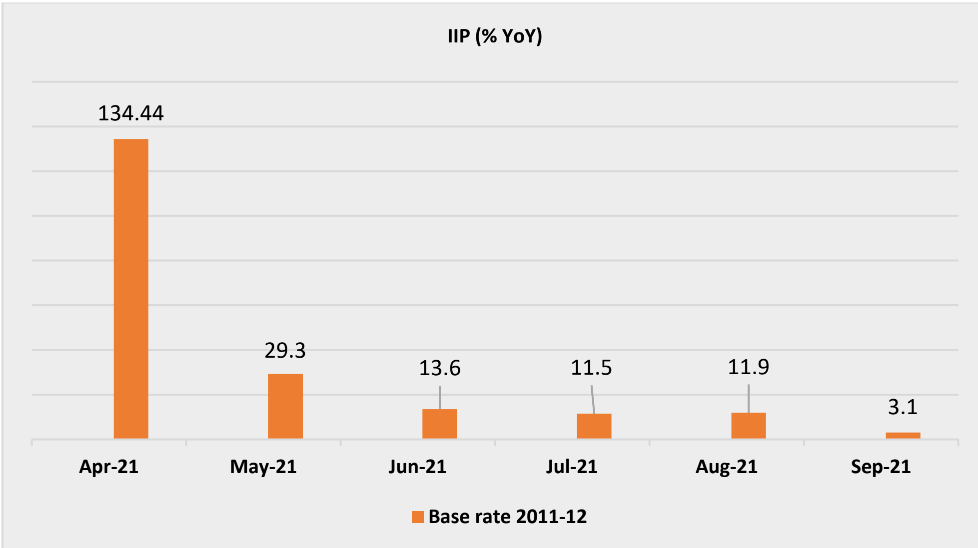
The manufacturing sector, which constitutes 77.63% of the index, went up by 2.7% in September, to 129.9.

Mining sector output grew by 8.6%, to 95.1.

Electricity generation rose by 0.9%, to 167.9.

As per Use-based classification, the indices stand at 117.3 for primary goods, 91.5 for capital goods, 140.2 for intermediate goods and 142.5 for infrastructure/construction goods for September.

Further, the indices for consumer durables and consumer non-durables were at 126.4 and 146.6, respectively.



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

CPI (Consumer Price Index) – October

India's consumer price index (CPI) or retail inflation rose to 4.48% in October 2021, compared to 4.35% in September 2021 and 7.61% in October 2020.

The corresponding provisional inflation rates for rural and urban areas are 4.07% and 5.04% respectively.

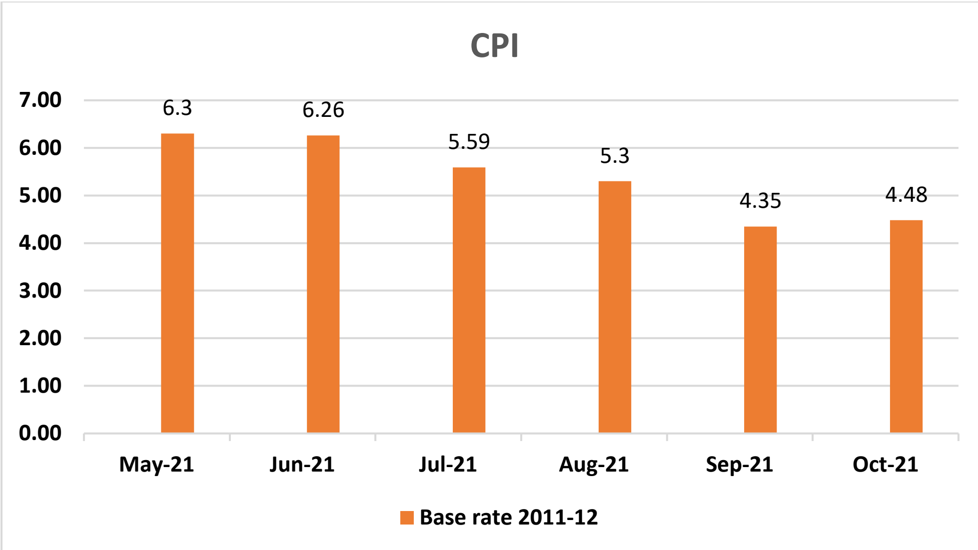
The Consumer Food Price Index (CFPI) rose to 0.85% in October from 0.68% in September.

The core CPI inflation rose to 6.2% in October 2021 from 5.85% in September 2021.

Among the CPI components, inflation for food and beverages was at 1.82% in October, while it was 4.27% for pan, tobacco and intoxicants.

Clothing and footwear inflation was at 7.53% and housing inflation stood at 3.54%.

Fuel and light inflation came in at 14.35% in October.



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

WPI (Wholesale Price Index) – October

India's wholesale price index (WPI) inflation rose to 12.54% in October 2021, as compared to 10.66% in September 2021 and 1.31% in October 2020.

The rate of inflation based on WPI Food Index increased to 3.06% in October 2021 from 1.14% in September 2021.

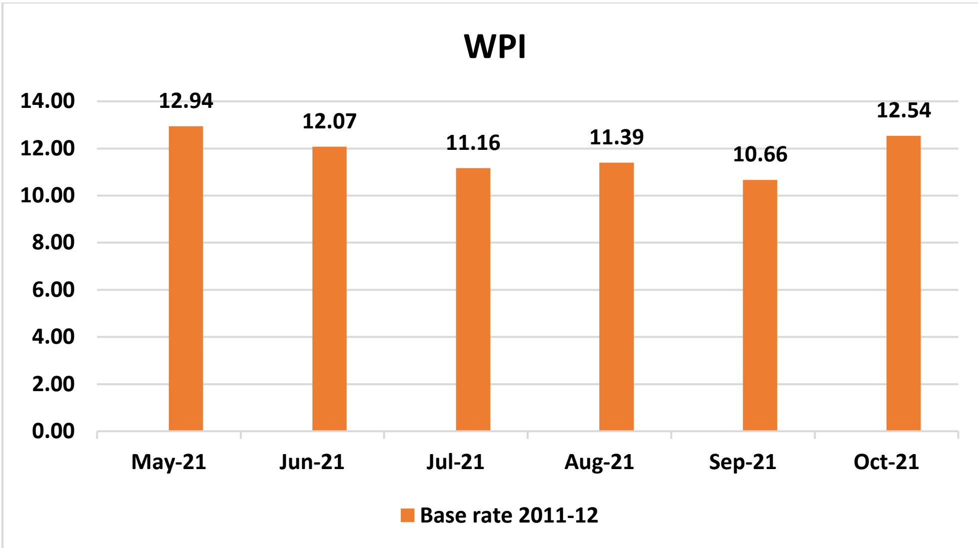
The index for primary articles increased by 3.1% from the previous month.

Prices increased for crude petroleum and natural gas (9.48%) and food articles (5.05%). Prices declined for non-food articles (4.59%) and minerals (4.16%).

The index for fuel and power increased by 8.72% from the previous month.

Prices increased for electricity (18.84%), mineral oils (7.74%) and coal (0.94%).

The index for manufactured products increased by 0.82% from the previous month.



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

Manufacturing PMI – October

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in October continued to improve after setting off on the path to recovery as strengthening demand conditions amid the easing of Covid-19 restrictions boosted sales.

The Manufacturing PMI increased to an 8-month high of 55.9 in October 2021 from 53.7 in September 2021. It remained above the 50 level, that separates expansion from contraction, for the fourth straight month.

The expansion was at the strongest pace since February, amid the easing of Covid-19 restrictions, with both output and new orders expanding at the fastest rate in 7 months.

Also, new export orders increased at a solid pace that was the quickest in 3 months.

However, employment continued to decline, with the rate of job shedding marginal.

Prices data showed input cost inflation jumped to a 92-month high, due to a faster rise in prices of chemicals, fabric, electronic component, oil, plastic and transportation costs.

Meanwhile, output prices increased marginally.

Lastly, business confidence improved at a near record rate, amid strong input buying growth.

Source: www.tradingeconomics.com

Services PMI – October

The Indian services sector activity in October accelerated to a 10 and a half year high, even as companies increased prices of their final products due to costly raw materials.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index jumped to a 10.5-year high of 58.4 in October 2021 from 55.2 in September 2021. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the third straight month.

The reading was amid further easing Covid-19 restrictions.

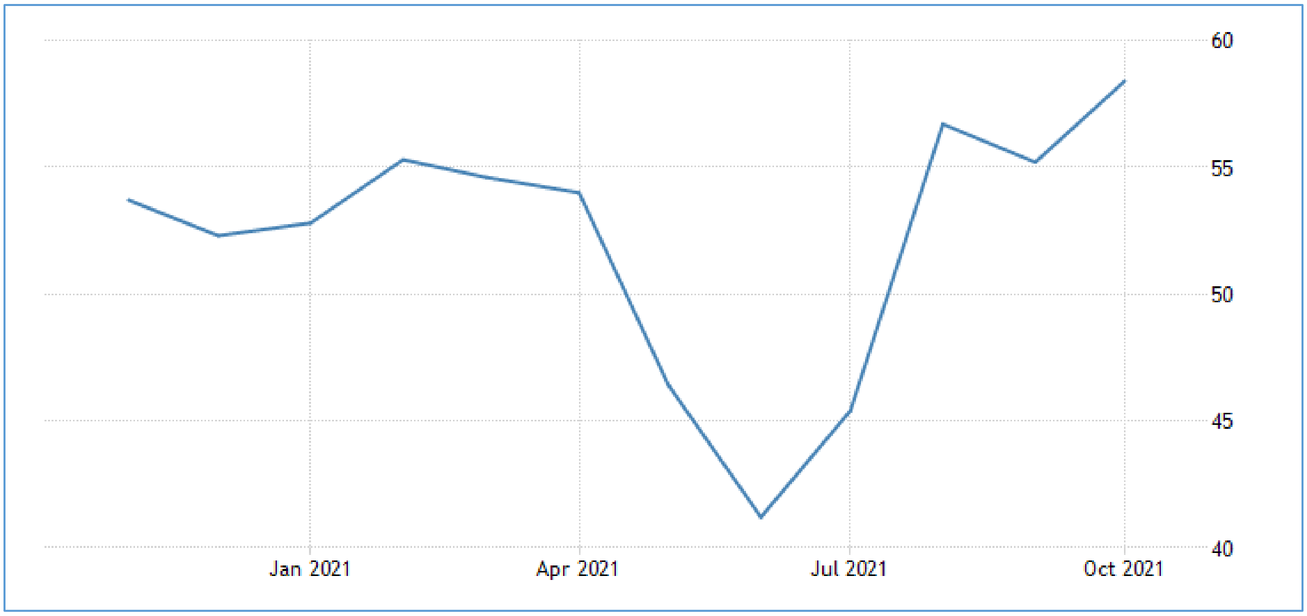
Output grew at the fastest rate in over a decade, while new orders rose at the steepest pace since July 2011, while employment increased to the strongest since February 2020 and the pace of backlog depletion eased and was only slight.

At the same time, new export orders declined at the weakest pace since March.

On the price front, input price inflation accelerated to a 6-month high, due to higher fuel, material, retail, staff and transport costs, while output price inflation rose to the strongest since July 2017.

Looking ahead, business sentiment was little changed, amid worries of impact of inflationary pressures on the recovery.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 58.7 in October from 55.3 in September, signalling the strongest monthly expansion since January 2012.



Source: www.tradingeconomics.com

Core Sector Data – October

Growth of eight infrastructure sectors rose by 7.5% in October 2021, on account of healthy performance by coal, natural gas, refinery products and cement.

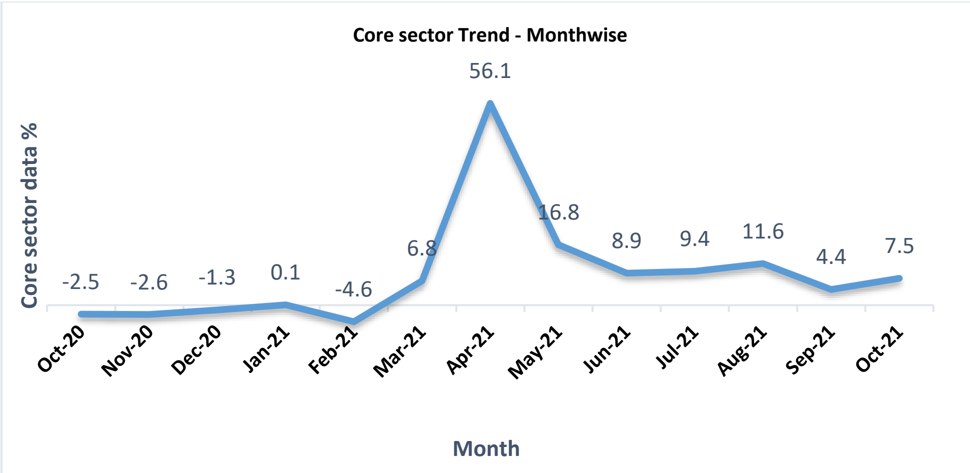
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 4.5% in September 2021 and contracted by 0.5% in October 2020.

Production of natural gas, coal, refinery products and cement increased by 25.8%, 14.6%, 14.4% and 14.5%, respectively in October 2021.

However, crude oil production declined by 2.2% in October.

The production of fertilisers, steel and electricity also registered growth in October, increasing by 0.04%, 0.9% and 2.8%, respectively.

Cumulatively, the growth in the eight core sectors during April-October 2021-22 grew by 15.1%, as against a contraction of 12.6% in the same period last financial year.



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

GDP – Quarter 2 – FY 2021-22

The country's Gross Domestic Product (GDP) growth rate for the second quarter (July-September) of fiscal year 2021-22 grew at 8.4%, with business activities recovering to a large extent, following major relaxations in Covid-related restrictions.

The GDP growth rate in Q2 FY 2020-21 was (-) 7.4% and in Q1 FY 2021-22 was 20.1%.

GDP at constant (2011-12) prices in Q2 FY 2021-22 is estimated at INR 35.73 lakh crore, as against INR 32.97 lakh crore in Q2 FY 2020-21, showing a growth of 8.4%, as compared to a contraction of 7.4% in Q2 FY 2020-21.

Agriculture sector grew by 4.5% in Q2, compared to 3% last year.

Manufacturing, which had contracted 1.5% last year, grew by 5.5% in Q2.

Mining registered a growth of 15.4%, against a contraction of 6.5% last year.

Construction witnessed a 7.5% growth, against a contraction of 7.2%.

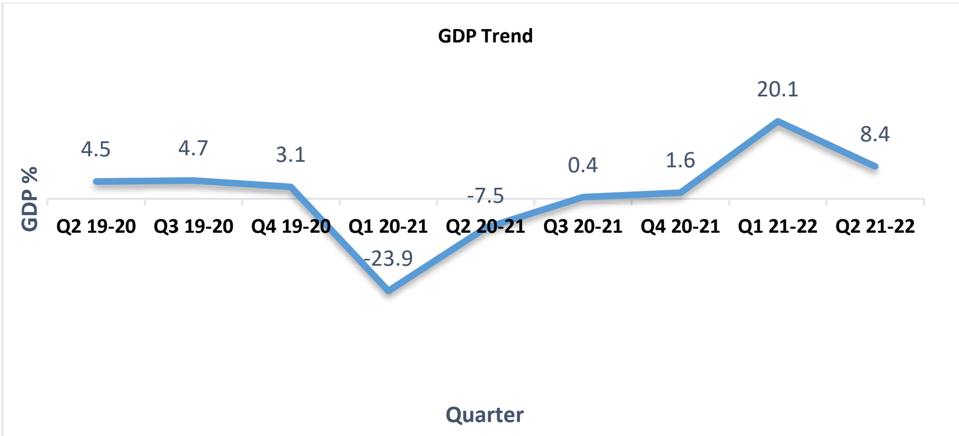
Electricity grew at 8.9%, against 2.3%.

Meanwhile, Gross Value Added (GVA) in the economy recorded an 8.5% growth, as compared to a decline of 7.3% last year and a growth of 18.8% in Q1.

Private final consumption expenditure registered a growth of 8.61% at INR 19,48,346 crore in Q2, against INR 17,93,863 crore last year.

Similarly, government final consumption expenditure went up to INR 3,61,616 crore from INR 3,32,582 crore last year.

Also, gross fixed capital formation witnessed a 11% rise to INR 11,41,907 crore against INR 10,29,574 crore last year.



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

BANKING

Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee (MPC) December 6-8, 2021

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

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

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 during October 6-8, 2021, surges of infections across geographies, emergence of the Omicron variant, the persistence of supply chain disruptions and elevated energy and commodity prices continue to weigh on global economic activity. Global merchandise trade is slowing after a sharp rebound from the pandemic due to the disruptions in port services and turnaround time, elevated freight rates and the global shortage of semiconductor chips, which could dampen future manufacturing output and trade. The composite global purchasing managers' index (PMI), however, improved to a four-month high in November, with services continuing to perform better than manufacturing for eight consecutive months.

Commodity prices remain elevated across the board, though there has been some softening since late October and further drop towards end-November following uncertainties from the new COVID-19 variant, among others. Headline inflation in several advanced economies (AEs) and emerging market economies (EMEs) has soared, prompting a number of central banks to continue tightening and others to bring forward policy normalisation. With the US Federal Reserve commencing tapering of its monthly asset purchases and the possibility of faster taper, renewed bouts of volatility and heightened uncertainties have unsettled global financial markets. Bond yields which had risen in most countries, responding to inflation and monetary policy actions, eased from the last week of November. The US dollar has been trading higher in recent weeks against both AE and EME currencies.

Domestic Economy

On the domestic front, data released by the National Statistical Office (NSO) on November 30, 2021 showed that real gross domestic product (GDP) expanded by 8.4 per cent year-on-year (y-o-y) in Q2:2021-22, following a growth of 20.1 per cent during Q1:2021-22. With the recovery gaining momentum, all constituents of aggregate demand entered the expansion zone, with exports and imports markedly exceeding their pre-COVID-19 levels. On the supply side, real gross value added (GVA) increased by 8.5 per cent y-o-y during Q2:2021-22.

Outlook

The inflation trajectory, going forward, will be conditioned by a number of factors. The flare-up in vegetables prices due to heavy rains in October and November is likely to reverse with the winter arrivals. Rabi sowing is progressing well and is set to exceed last year's acreage. Recent pro-active supply side interventions by the Government continue to restrain the pass-through of elevated international edible oil prices to domestic retail inflation. Crude prices have seen a significant correction in recent period. Cost-push pressures from high industrial raw material prices, transportation costs, and global logistics and supply chain bottlenecks continue to impinge on core inflation. The slack in the economy is muting the pass-through of rising input costs to output prices. Taking into consideration all these factors, CPI inflation is projected at 5.3 per cent for 2021-22; 5.1 per cent in Q3; 5.7 per cent in Q4:2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.0 per cent and for Q2 at 5.0 per cent

RBI Retail Direct Scheme

The Reserve Bank announced the activation of the RBI Retail Direct Scheme. The Scheme was launched in virtual mode by Prime Minister Shri Narendra Modi.

A significant milestone in the development of the Government securities (G-sec) market, the Reserve Bank of India-Retail Direct (RBI-RD) Scheme will bring G-secs within easy reach of the common man by simplifying the process of investment. Under the Scheme, retail individual investors will be able to open a Retail Direct Gilt (RDG) Account with the Reserve Bank of India, using an online portal Investments can be made using the following routes:

a. Primary issuance of government securities: Investors can place bid as per the non-competitive scheme for participation in primary auction of government securities and procedural guidelines for SGB issuance.
b. Secondary market: Investors can buy and sell government securities on NDS-OM ('Odd Lot' and 'Request for Quotes' segments).

Payments for transactions can be done conveniently using saving bank account through internet-banking or Unified Payments Interface (UPI). Investors can obtain help and other support facilities on the portal itself. Investor services include provisions for transaction and balance statements, nomination facility, pledge or lien of securities and gift transactions. No fees will be charged for facilities provided under the scheme.

The Scheme aims to provide a safe, simple, direct and secured platform to investors.

This creates an avenue to directly invest in the Government bonds and treasury securities. The minimum denomination of the securities has been decided to be around INR 10,000.

RBI releases the Report of the Working Group on digital lending including lending through online platforms and mobile apps

The Reserve Bank of India had constituted a Working Group (WG) on digital lending including lending through online platforms and mobile apps on January 13, 2021, with Shri Jayant Kumar Dash, Executive Director, RBI as the Chairman.

The WG was set up in the backdrop of business conduct and customer protection concerns arising out of the spurt in digital lending activities. The WG has since submitted its report. The thrust of the report has been on enhancing customer protection and making the digital lending ecosystem safe and sound while encouraging innovation. The following are a gist of the key recommendations:

i. Subjecting the Digital Lending Apps to a verification process by a nodal agency to be setup in consultation with stakeholders.
ii. Setting up of a Self-Regulatory Organisation (SRO) covering the participants in the digital lending ecosystem.
iii. A separate legislation to prevent illegal digital lending activities.
iv. Development of certain baseline technology standards and compliance with those standards as a pre-condition for offering digital lending solutions.
v. Disbursement of loans directly into the bank accounts of borrowers; disbursement and servicing of loans only through bank accounts of the digital lenders.
vi. Data collection with prior and explicit consent of borrowers with verifiable audit trails.
vii. All data to be stored in servers located in India.
viii. Algorithmic features used in digital lending to be documented to ensure necessary transparency.
ix. Each digital lender to provide a key fact statement in a standardised format including the Annual Percentage Rate.
x. Use of unsolicited commercial communications for digital loans to be governed by a Code of Conduct to be put in place by the proposed SRO.
xi. Maintenance of a ‘negative list’ of Lending Service Providers by the proposed SRO.
xii. Standardised code of conduct for recovery to be framed by the proposed SRO in consultation with RBI.

As per the report, the above recommendations are based on principles of technology neutrality, principle backed-regulation rather than rule-based regulation and addressing regulatory arbitrage to provide level-playing field to all players.

Digital lending has become a large part of the fintech space in India. In economies like UK, China, digital lending has its roots deep. For a country like India, where the parallel economy and unorganized lending is a huge part, RBI has initiated to proactively regulate digital lending through these recommendations. In future, this could be a guiding path for formation of digital-only banks. Only caution would be for the sector to not be dominated by few players and there remains a room for innovation.

Recommendations of the IWG to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks

The RBI on November 20 had released the report on the working group recommendations on private bank ownership and corporate structure. A year ago an RBI working group recommended that banking regulations be amended to allow large industrial groups to act as bank promoters and own big stakes in a lender along with other recommendations. The group reviewed the eligibility criteria for individuals/ entities to apply for banking license; preferred corporate structure for banks and harmonization of norms in this regard; and the norms for long-term shareholding in banks by the promoters and other shareholders, among others.

Key highlights within the accepted recommendations include RBI allowing raising the cap on promoter's stake from 15 percent to 26 percent.

On the lock-in period for promoters' initial shareholding, limits on shareholding in long run, dilution requirement and voting rights, no change may be required in the extant instructions related to initial lock-in requirements, which may continue as minimum 40% of the paid-up voting equity share capital of the bank for first five years.

It has also tweaked limits for non-promoter shareholding in private banks.

Further, RBI has accepted the recommendation to disallow pledge of promoter shares during lock-in period.

INSURANCE

Reconstitution of insurance advisory committee

The Insurance Regulatory Development Authority of India reconstituted the Insurance Advisory Committee (IAC).

The reconstituted committee comprises a mix of industry, distribution channels, actuarial, ombudsmen, industry consortiums representations. The reconstituted Insurance Advisory Committee is as under:

1. Chairperson, Life Insurance Corporation of India
2. Chairman-cum-Managing Director, The Oriental Insurance Company Limited
3. Chairman-cum-Managing Director, General Insurance Corporation of India
4. Chief Executive Officer, Kotak Mahindra Life Insurance Company Limited
5. Chief Executive Officer, ICICI Lombard General Insurance Company Limited
6. Chairman-cum-Chief Executive Officer, Star Health & Allied Insurance Company Limited
7. Director, National Insurance Academy
8. President, Institute of Actuaries of India
9. Secretary General, Insurance Institute of India
10. President, Insurance Brokers' Association of India
11. President, Indian Institute of Insurance Surveyors & Loss Assessors
12. Insurance Ombudsman, Guwahati
13. Secretary, Executive Committee of General Insurance Council
14. Secretary, Executive Committee of Life Insurance Council
15. Managing Director, Medi Assist Insurance TPA Private Limited
16. Chairman, CII, National Committee on Insurance and Pensions
17. Managing Director & Chief Executive Officer, Central Bank of India
18. Chief Executive Officer, NSDL Database Management Limited
19. Chief Executive Officer, Swiss Reinsurance Company Limited, India Branch
20. Registrar, NALSAR University of Law, Hyderabad
21. Saurabh Mishra, Joint Secretary, DFS, MoF, GOI
22. P.K. Dash
23. Pushpa Girimaji
24. Dr. Chiranjeevi Reddy Sannareddy

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

NITI Aayog Releases Discussion Paper on Digital Banks

NITI Aayog has released a Discussion Paper titled "**Digital Banks: A Proposal for Licensing & Regulatory Regime for India**" seeking comments.

The Discussion Paper has been prepared by NITI Aayog, in consultation with eminent experts in the field of finance, technology and law and based on inter-ministerial consultations.

Context for the Case of Digital Banks in India: Financial Inclusion

India has made rapid strides towards enabling financial inclusion catalyzed by PMJDY and India stack. However, credit penetration remains a public policy challenge, especially for the nation's 63 million odd MSMEs that contribute approx. 30 % to the Gross Domestic Product, about 45% to manufacturing output, more than 40% of exports, while creating employment for a significant section of the population, which in terms of volume stands next to agricultural sector[1]. This is hindering the development of a conducive business environment for expansion of the MSME sector.

Over the past few years, with the help of unprecedented level of technology-led digitization and digital disruption heralded by Jan Dan-Aadhar-Mobile (JAM) trinity, biometric Aadhar system, etc., financial inclusion has become a viable reality for the citizens of India. This has been furthered by the Unified Payments Interface (UPI) which has witnessed extraordinary adoption. UPI recorded over 4.2 billion transactions worth over ₹ 7.7 trillion in just October 2021. The platform approach taken by the government in conceptualizing UPI has resulted in valuable payments products being developed on top of it, as a result of which payments can be made with the click of a mobile phone not just at retail outlets but also peer to peer, completely redefining the way in which money is transferred between individuals. A "whole of India approach" towards financial inclusion has also resulted in Direct Benefit Transfer (DBT) through apps such as PM-KISAN and extending microcredit facility to street vendors through PM-SVANIDHI apps. In parallel, India has also taken steps towards operationalizing its own version of "Open banking" through the Account Aggregator ("AA") regulatory framework enacted by the RBI. Once commercially deployed, the AA framework is envisaged to catalyse credit deepening among groups that have hitherto been under-served.

The success that India has witnessed on the retail payments and credit front, has failed to replicate when it comes to payments and credit needs of its micro small and medium businesses. The current credit gap and the business and policy constraints reveal a need for leveraging technology effectively to cater to the needs of this segment and bring them further within the formal financial fold.

Summary of Reforms Proposed – Digital Banks:

The Discussion Paper makes a case and offers a template and roadmap for a Digital Bank licensing and regulatory regime for India.

The Discussion Paper also recommends regulatory innovations such as Digital Bank license that hold the promise of solving for as well as mitigating the financial deepening challenges faced. The Paper starts by defining the concept of "Digital Bank" and points out the promise it holds while mapping the prevalent business models. It goes on to highlight the challenges presented by the "partnership model" of neo-banking that has emerged in India as a function of regulatory vacuum and absence of a Digital Bank license.

In terms of the methodology for licensing and regulatory template offered by NITI Aayog, the Paper constructs an equal-weighted "Digital Bank Regulatory Index" comprising of 4 factors: **Entry barriers; Competition; Business Restrictions and Technological Neutrality** and maps the elements of these indices against the 5 benchmark jurisdictions of Singapore, Hong Kong, United Kingdom, Malaysia, Australia and South Korea.

The Paper also recommends a two-stage approach with a Digital Business Bank license to begin with a suggestion for Digital (Universal) Bank license after policymakers and regulators have gained experience from the former. Focus on avoiding any regulatory or policy arbitrage and giving a level playing field is an important recommendation.

Moreover, even with the Digital Business Bank license, it recommends a carefully calibrated approach comprising of following steps:

- Issue of a *restricted* Digital Business Bank license (to a given applicant) (the license will be restricted in terms of volume/ value of customers serviced and the like).
- Enlistment (of the licensee) in a regulatory sandbox framework enacted by the RBI.
- Issue of a "full-stack" Digital Business Bank license (contingent on satisfactory performance of the licensee in the regulatory sandbox including saliently, prudential and technological risk management).

India, ADB sign $300 million loan to improve primary health care in India

The Government of India and the Asian Development Bank (ADB) yesterday signed a $300 million loan to strengthen and improve access to comprehensive primary health care in urban areas of 13 states that will benefit over 256 million urban dwellers including 51 million from slum areas.

Ayushman Bharat programme, launched in 2018, aims to improve access to comprehensive primary health care as a key strategy to achieve universal health coverage in India. With the spread of the coronavirus disease (COVID-19) pandemic that put additional pressure on the country's health system, the government launched PM-ASBY later renamed as PM-ABHIM in October 2021 to adopt a long-term approach to system strengthening to prepare for future pandemics and other emergencies.

The programme will be implemented in urban areas across 13 states: Andhra Pradesh, Assam, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Telangana, and West Bengal. Beside the pandemic response, interventions through the program promote increased utilization of urban HWCs with provision of comprehensive primary health care packages including noncommunicable diseases and community outreach services such as awareness raising activities on health care options, particularly for women. Delivery and health information systems for primary health care will be upgraded through digital tools, quality assurance mechanisms, and engagement and partnership with the private sector.

The programme is supported by a $2 million technical assistance grant from ADB's Japan Fund for Poverty Reduction to provide support for programme implementation and coordination, capacity building, innovation, knowledge sharing and application of scalable best practices across the healthcare system.

CAPITAL MARKETS

Disclosure obligations of listed entities in relation to Related Party Transactions

An earlier SEBI circular listed companies to submit to exchanges the disclosures on related party transactions.

Further, SEBI has decided to prescribe the information to be placed before the audit committee and the shareholders for consideration of RPTs. Thereby following kind of information shall be placed before the audit committee and shareholders respectively.

Audit committee:

i. Type, material terms and particulars of the proposed transaction
ii. Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise)
iii. Tenure of the proposed transaction (particular tenure shall be specified)
iv. Value of the proposed transaction
v. Others

Shareholders:

vi. A summary of the information provided by the management of the listed entity to the audit committee
vii. A statement that the valuation or other external report, if any, relied upon by the listed entity in relation to the proposed transaction will be made available through the registered email address of the shareholders
viii. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis
ix. Any other information that may be relevant.

Norms for Silver Exchange Traded Funds (Silver ETFs) and Gold Exchange Traded Funds (Gold ETFs)

SEBI has introduced operating norms for silver ETF, whereby such scheme will have to invest at least 95 per cent in silver and silver-related instruments.

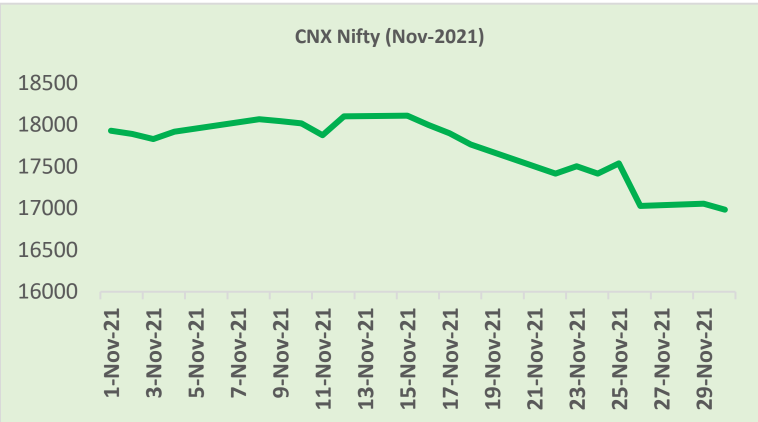
With the introduction of norms for silver exchange traded funds (ETFs), investors will be able to invest in silver in a more liquid manner and can help in diversification of the portfolio, experts said on Sunday.

Currently, Indian mutual funds are allowed to launch ETFs tracking on gold. Experts believe that this will play as an instrument for diversification of investor portfolios.

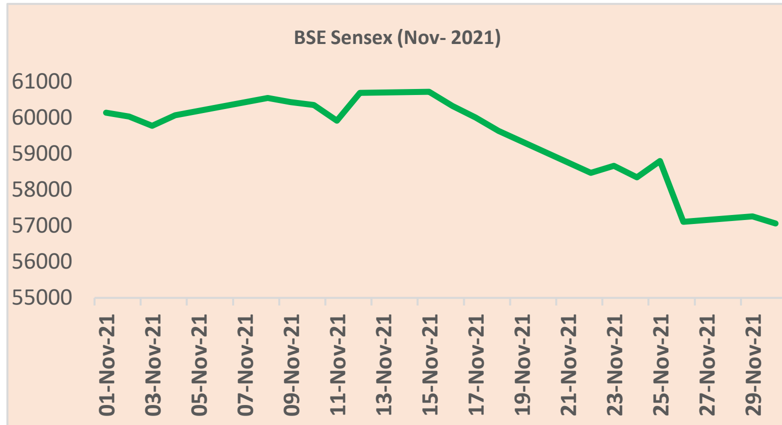
Under the norms, silver ETF scheme will be benchmarked to the price of silver (based on London Bullion Market Association or LBMA silver daily spot-fixing price) and the net asset value (NAV) of such ETFs will be reported on a daily basis on the AMC's website.

The above norms are in line with SEBI norms for gold ETFs.

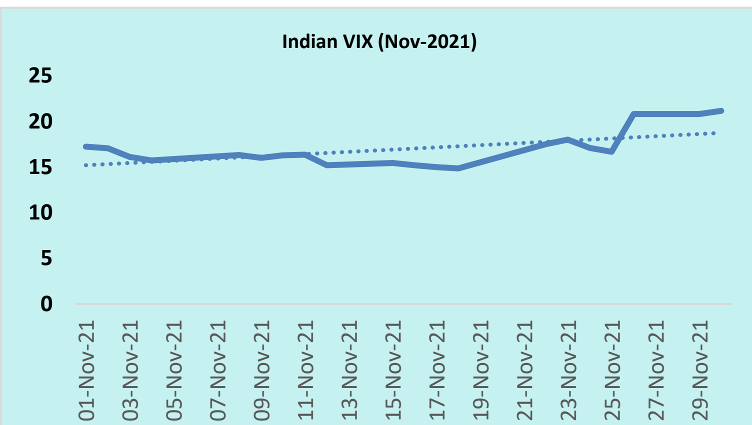
CAPITAL MARKETS SNAPSHOT



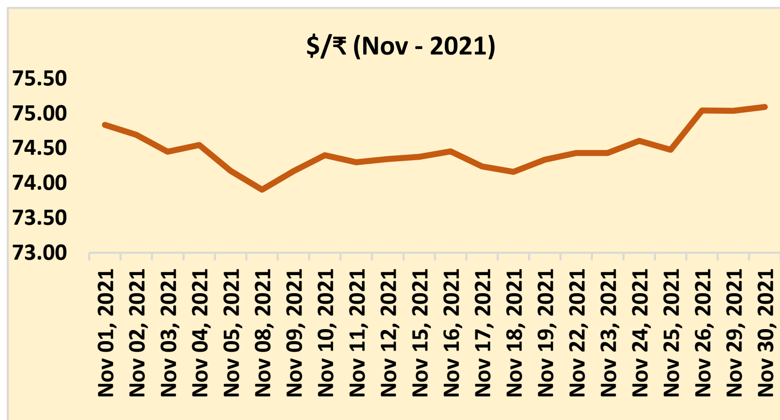
Source: National Stock Exchange



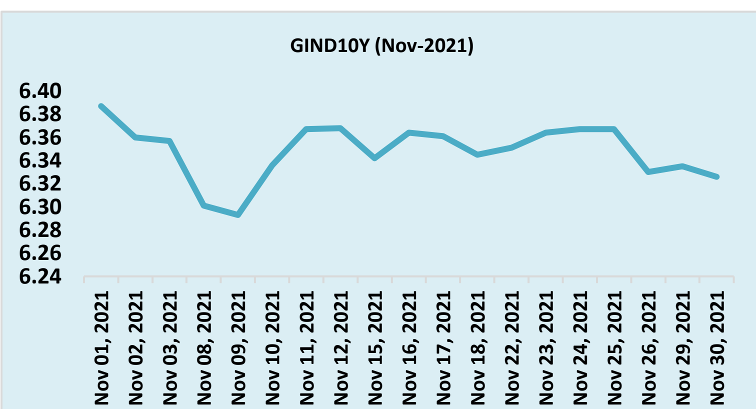
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Investors cheered healthy macroeconomic data, including strong domestic growth numbers, rise in output of eight core sectors, 10-month high manufacturing data, and a surge in November's Goods and Services Tax (GST) revenue collection. India's gross domestic product (GDP) growth rate for the second quarter of fiscal 2022 printed at 8.4% compared with 20.1% growth in the first quarter and a contraction of 7.4% in the second quarter of the previous fiscal year.

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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	4.0 Q3	5.0	1.0	10.7Nov	8.2	0.5	-6.1	10
Russia	4.3 Q3	4.2	2.4	8.4 Nov	6.7	5.3	-0.5	8.50
India	**8.4 Q3**	**9.2**	**7.0**	**4.5 Oct**	**5.0**	**-0.8**	**-7.0**	**6.35**
China	4.9 Q3	7.9	5.3	2.3 Nov	0.8	2.8	-4.9	2.71^
S Africa	2.9 Q3	4.9	2.4	5.1 Oct	4.4	2.8	-8.0	9.46
USA	4.9 Q3	5.5	3.8	6.8 Nov	4.4	-3.4	-12.4	1.49
Canada	4.0 Q3	5.0	3.5	4.7 Oct	3.2	0.8	-9.5	1.52
Mexico	4.5 Q3	6.1	2.9	7.4 Nov	5.6	1.7	-3.3	7.35
Euro Area	3.9 Q3	4.9	4.0	4.9 Nov	2.4	3.1	-7.2	0.0
Germany	2.6 Q3	2.7	3.3	5.2 Nov	3.0	6.5	-6.2	0.0
Britain	6.6 Q3	6.7	3.6	4.2 Oct	2.7	-2.8	-10.9	0.77
Australia	3.9 Q3	3.8	3.1	3.0 Q3	2.7	4.1	-5.8	1.68
Indonesia	3.5 Q3	3.1	5.3	1.7 Nov	1.7	-0.1	-6.0	6.29
Malaysia	-4.5 Q3	3.0	4.5	2.9 Oct	2.3	3.5	-6.5	3.55
Singapore	7.1 Q3	6.1	3.8	3.2 Oct	1.9	18.1	-4.2	1.68
S Korea	4.0 Q3	4.1	2.8	3.7 Nov	2.2	4.6	-4.4	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

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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