2021

Volume 10

APAS MONTHLY

THIS MONTH

Firstly, seasons greetings to all our readers. Festival of lights has lit up the mood and we are seeing business uptick with significant fall of corona cases reported across the country. Hope the year ahead brings in more positivity and things revert to normal or let's say the new normal.

In this issue, Mr. Sunil Mehta, Chief Executive, Indian Bankers' Association has presented his thoughts on 'NARCL: The way it has been conceived and the shape of things to come'. We thank Mr. Mehta for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Global economic scenario and Indian economy'.

The economic indicators showed mixed performance. Manufacturing PMI increased to 53.7 in September from 52.3 in August. India's annual infrastructure output in September rose by 4.4%. India's Index of Industrial Production (IIP) rose 11.9% in August. PMI services declined to 55.2 in September from 56.7 in August, while composite PMI was at 55.3 in September, slight change from 55.4 in August. CPI inflation eased to a 5-month low of 4.35% in September from 5.3% in August. WPI inflation eased to 10.66% in September from 11.39% in August.

The Reserve Bank of India (RBI) announced Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs.

The Insurance Regulatory Development Authority of India (IRDAI) announced Maintenance of Current Accounts in multiple banks by Insurers.

Cabinet approved release of an additional instalment of Dearness Allowance to Central Government employees and Dearness Relief to Pensions. NITI Aayog Releases Report on 'Health Insurance for India's Missing Middle'

Securities and Exchange Board of India (SEBI) announced Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes and Discontinuation of usage of pool accounts by entities including online platforms other than stock exchanges for transactions in the units of Mutual Funds

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.

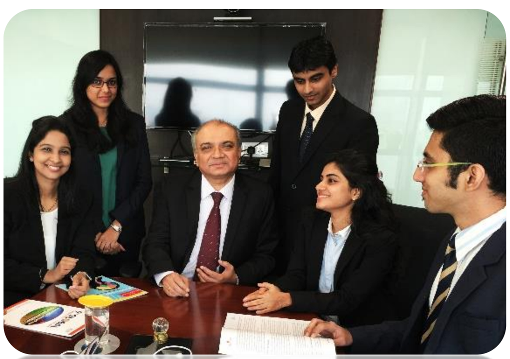
Ashvin parekh

On the cover

GUEST COLUMN

[NARCL: The way it has been conceived and the Shape of things to come]

Sunil Mehta
Chief Executive
Indian Bankers' Association



APAS COLUMN

Global economic scenario and Indian economy

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- *Index of Industrial Production – August*
- *Inflation update – September*
- *PMI update – September*
- *Core Sector – September*

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- *Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs*

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- *Maintenance of Current Accounts in multiple banks by Insurers*

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- *Cabinet approves release of an additional instalment of Dearness Allowance to Central Government employees and Dearness Relief to Pensions*
- *NITI Aayog Releases Report on 'Health Insurance for India's Missing Middle'*

CAPITAL MARKETS

- *Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes*
- *Discontinuation of usage of pool accounts by entities including online platforms other than stock exchanges for transactions in the units of Mutual Funds*

CAPITAL MARKETS SNAPSHOT

- *CNX Nifty, BSE Sensex, India VIX, $/₹, GIND 10Y*

ECONOMIC DATA SNAPSHOT

- *Global GDP, CPI, Current account balance, budget balance, Interest rates*

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

NARCL: The way it has been conceived and the Shape of things to come

Sunil Mehta
Chief Executive
Indian Bankers' Association

Concept of National Asset Reconstruction Company Ltd (NARCL) is grabbing the attention of all stakeholders ever since it was proposed in the budget 2021-22. IBA took the initiative to set up these institutions for the benefit of the banking sector.

It is beneficial to do a background check which eventually led to the birth of this institution. The deterioration in asset quality of Indian banks, especially Public Sector Banks (PSBs), can be traced from a period of FY06 to FY11, when bank credit grew at an average rate of over 20.0%. The banks since then have been facing large overhang of stressed assets and piling up of these assets has constrained the banks from focussing on credit growth. The 'Bad Loans' in the Indian Banking System jumped more than 80% in FY 16, mainly on account of the Asset Quality Review (AQR) conducted by the Reserve Bank of India (RBI) in 2015-16, thereby amplifying the stressed asset scenario in the Indian banking sector. Many of the legacy stressed assets continue to remain unresolved due to various challenges, including lack of a unified approach amongst lenders.

The various resolution approaches such as Insolvency and Bankruptcy Code (IBC), strengthening of Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI Act) and Debt Recovery Tribunals, coupled with setting up of dedicated Stressed Asset Management Verticals (SAMVs) in banks for large-value NPA accounts have brought sharper focus on recovery. However, these efforts have seen limited success due to lack of a) Dedicated & skilled professional set up & b) Fragmented borrowing leading to lack of cohesiveness amongst Lenders. Delays often led to erosion in the economic value during the resolution process, thereby impacting the books of Banks. Further, the existing 28 Asset Reconstruction Companies (ARCs) with limited capital and low recoveries from existing portfolio have been facing challenges in tackling large NPAs and are focused on resolution for smaller value accounts.

The outbreak of Covid-19 has further added to the woes of Banks due to adverse impact on the economy on multiple fronts. Consequently, an urgent push for reconstruction of the economy through enhancement of credit deployment became a priority.

In this backdrop, a need was felt for a government backed institution to aggregate and resolve stressed assets across sectors. To this end, the Hon'ble Finance Minister, in the Union Budget 2022 announced the formation of the Bad Bank under an ARC-AMC structure, comprising two entities viz. National Asset Reconstruction Company Limited (NARCL), and India Debt Resolution Company Limited (IDRCL) and mandated IBA to facilitate the formation of NARCL and IDRCL. NARCL will be a limited time entity and with the sole objective to resolve legacy stressed assets within a time frame of five years.

NARCL has been incorporated as a government company with minimum 51% stake to be held by PSUs and up to 49% by private players. The governance design is geared to ensure that the structure is fair and a win-win for all stakeholders. NARCL will play the role of aggregator in acquiring legacy stressed assets from Banks and

Non-Banking Financial Companies (NBFCs) through a combination of cash and Security Receipts (SRs) backed by Government guarantee. Recently, the Government has decided to guarantee upto Rs 30,600 crore to back SRs issued by NARCL. Guarantee for these SRs would be available on completion of resolution or liquidation to cover the shortfall between actual realization and face value of the asset. The Guarantee shall provide NARCL a unique advantage vis a vis the other ARCs, thereby enabling easier aggregation, which is very important for value preservation and driving any resolution process. NARCL has already received the certificate of registration from RBI to operate as an ARC. Initiation of asset acquisition is the next step, which is expected to be started by Q4, FY2022. The NARCL is expected to buy up to Rs 2 lakh crore worth bad loans from lenders and will try to resolve them within five years.

IDRCL on the other hand, will have a minimum 51% stake held by private players. It will play a vital role of resolution manager and will formulate and implement the resolution strategy for all the stressed assets held by the various trusts under NARCL. It will engage market expertise for value enhancement and will enable freeing up of personnel in banks to focus on augmenting their core businesses.

Resolution shall be done using existing resolution tools, including RBI framework, IBC, Enforcement along with sale to Alternate Investment Funds and strategic investors. The structure will complement existing resolution mechanisms as decision making will be single point. Once the resolution process is completed, its expected that the 'Bad Bank' which is meant to do “good work” will improve the balance sheet of banks, and the upfront cash payment will aid in providing incremental cash flow.

NARCL-IDRCL is a unique strategic initiative by the Banks and for the Banks, supported by the Government. It intends to benefit the Banks in two ways, firstly through sale of stressed assets to NARCL, leading to release of management bandwidth and capital, and, secondly through investment in NARCL, thereby potentially earning higher returns through better recoveries from aggregation and turnaround of these assets.

While the present structure envisages a step towards cleaning up the Banks’ books through aggregation of legacy stressed assets under one roof, timely resolution to maximize the realisable value for all the stakeholders will be the ultimate goal to reach. As a bankers’ body, for IBA, it is an initiative which will eventually benefit our member banks.

Global economic scenario and Indian economy

After almost six tumultuous quarters of facing COVID, the global economy is on path to recovery. As per estimates by World Bank, the global economy is set to expand by about 5.6 percent in 2021 – the strongest post-recession period pace in 80 years. The recovery is lopsided with developed economies with strong fiscal support garnering a greater share than the low-income countries with minimal fiscal stimulus programs. While the global economy and supply chains have picked up pace, in several developing economies, elevated COVID-19 caseloads, obstacles to vaccination and a partial withdrawal of macroeconomic support are offsetting such strengthening of external demand and elevated commodity prices.

A rapid increase in demand as economies reopen has pushed up prices in key commodities such as oil and metals. Food prices are also rising boosting prices especially in emerging markets. Tensions along supply chains caused by the pandemic have added to cost pressures. At the same time, shipping costs have increased sharply.

The outlook for inflation varies markedly. It has risen sharply in the US and some emerging market economies but remains relatively low in many other advanced economies, particularly in Europe.

As per World Bank, these inflationary pressures are expected to eventually fade. Once bottlenecks are resolved, price increases in durable goods, such as cars, are likely to ease quickly as supply from the manufacturing sector rapidly picks up. Again, as per World Bank, consumer price inflation in G20 countries is projected to peak towards the end of 2021 and slow throughout 2022. Although sizeable pay increases are happening in some sectors that are reopening such as transportation, leisure and hospitality, while overall wage pressure remains moderate.

For emerging economies in general, strengthening domestic revenue mobilization and medium-term fiscal frameworks can help widen fiscal space and bolster policy credibility. As per World Bank, notwithstanding the expected near-term recovery, emerging markets output is likely to remain below its pre-pandemic trend for a prolonged period, as many fundamental drivers of growth have been scarred by the pandemic. A comprehensive set of policies will be required to promote a strong recovery that mitigates inequality and enhances environmental sustainability. When compared with the 2009 crisis, two thirds of countries had regained the pre-recession per capital output levels by 2011 i.e., within 2 years.

By 2022, global output is expected to remain about 2 percent below pre-pandemic projections, and per capita income losses incurred last year will not be fully unwound in about two-thirds of emerging markets. The global outlook remains subject to significant downside risks, which include the possibility of large COVID-19 waves in the context of new virus variants and financial stress amid high emerging market debt levels.

The legacies of the pandemic exacerbate the challenges facing policy makers as they balance the need to support the recovery while safeguarding price stability and fiscal sustainability. As the recovery becomes more entrenched, policy makers also need to continue efforts toward promoting growth-enhancing reforms and steering their economies onto a green, resilient, and inclusive development path.

In the present day, China has become an important anchor for the global growth rate on account of its huge influence on global trade and commodity supply. Several economists have forecasted growth rates in the range of 5-7.5% for China for FY21. They are attributing this to focus on stabilization of debt growth to curb financial risks and direct the financial resources towards high-tech manufacturing to counter threats of technology restrictions from US. Among those at risk from less investment in China are commodity exporters such as Australia, South Africa and Brazil. Slower trade could also hit the likes of Malaysia, Singapore and Thailand.

China's realignment of its focus with a debt-control policy from real estate sector to regulate technology and education, has companies like Evergrande feeling the heat. The policy focus has evidently shifted from real-estate to financial stability and environment protection. Evergrande could represent an imminent disaster, unless for the sovereign bailout. As per analysts though, the implications of Evergrande failure could be less due to limited exposure of global funding to the tune of USD 18 billion of outstanding foreign currency bonds and USD 215 billion worth of land and partially completed projects. However, the contagion risk is nevertheless present, mainly on account of debt-laden Chinese property sector. The company's exposure has been to the tune of USD 310 billion in the form of outstanding debts to bondholders, banks, construction contractors and other creditors.

Domestic economic activity is normalizing after the ferocious second wave retarded momentum. The outlook remains overcast by the future path of the pandemic; the accelerated pace of vaccination and release of pent-up demand provide an upside to the baseline growth path. Headline inflation has fallen back into the tolerance band and the trajectory is expected to be driven by supply-side factors. For example, Australian coal, which was bought at much cheaper price has brought down the overall costs for coal.

Thus, a faster resolution of supply chain disruptions, good food grains production and effective supply management could cause inflation to undershoot the baseline, contingent on the evolution of the pandemic and the efficacy of vaccines.

The fiscal stimulus provided by RBI and Government in India has helped economy stay afloat in times of need. Further, the focused repo operations for small banking institutions have also helped in reviving the much-needed growth at ground level. The government's Atmanirbhar Bharat should act as a key navigating point for strengthening domestic revenue mobilization. The industry is witnessing a revived confidence and pent-up demand manifesting. All these factors have contributed to a better transmission of the accommodative policy measures and status quo rates. In a pessimistic scenario, the regulator and government may have to face increased debt servicing costs amid heightened rollover risks forcing to cut consumption and delay investment projects. For now, the Government is avoiding such scenario by resorting to privatization.

A significant divergence has been observed between the growth rate patterns of developed and developing economies. Reliance on the developed economies and global institutions seem like a last resort for the low-income countries where the pandemic has affected severely. In India, global headwinds are highly responsible in stabilizing Indian economy, as does the Chinese performance and policies thereby. However, a deeper penetration of programs like Atmanirbhar Bharat coupled with favorable policy rates should guide revival of growth sentiments. Managing the heightened commodity prices, managing bond yields and tackling the inflationary pressures remain a key focus area for the policymakers right now.

-APAS

ECONOMY

IIP (Index of Industrial Production) – August

Index of Industrial Production (IIP) or factory output for the month of August 2021 rose 11.9%, compared to 11.5% in July 2021 and a contraction of 7.1% in August 2020.

The General Index for the month of August 2021 stands at 131.1, which is 11.9% higher as compared to August 2020.

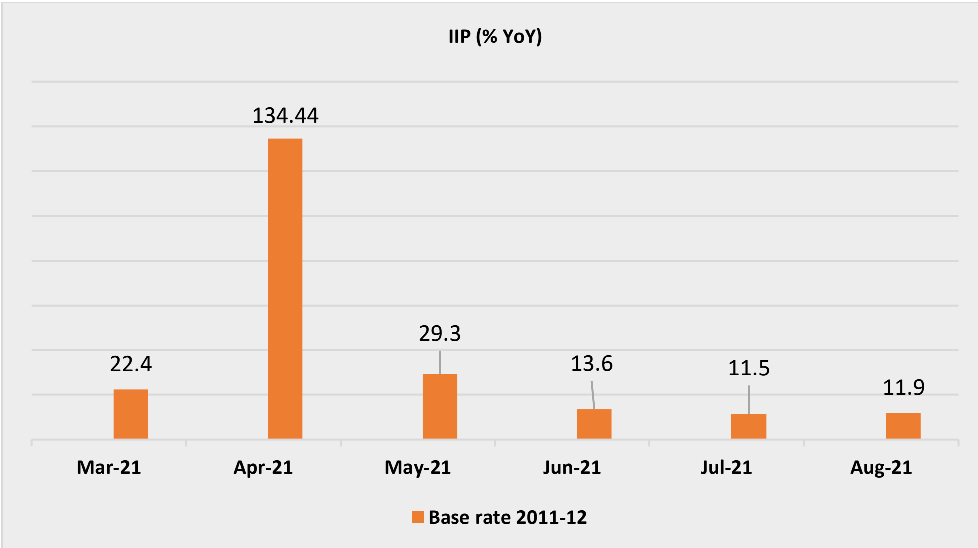
The manufacturing sector, which constitutes 77.63% of the index, went up by 9.7% in August, to 130.2.

Mining sector output grew by 23.6%, to 103.8.

Electricity generation rose by 16%, to 188.7.

As per Use-based classification, the indices stand at 127.3 for primary goods, 91 for capital goods, 142.7 for intermediate goods and 145.2 for infrastructure/construction goods for August.

Further, the indices for consumer durables and consumer non-durables were at 118.3 and 147.3, respectively.



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

CPI (Consumer Price Index) – September

India's consumer price index (CPI) or retail inflation eased to a 5-month low of 4.35% in September 2021, compared to 5.3% in August 2021 and 7.27% in September 2020.

The corresponding provisional inflation rates for rural and urban areas are 4.13% and 4.57% respectively.

The Consumer Food Price Index (CFPI) fell to 0.68% in September from 3.11% in August.

The core CPI inflation eased to 5.85% in September 2021 from 5.89% in August 2021.

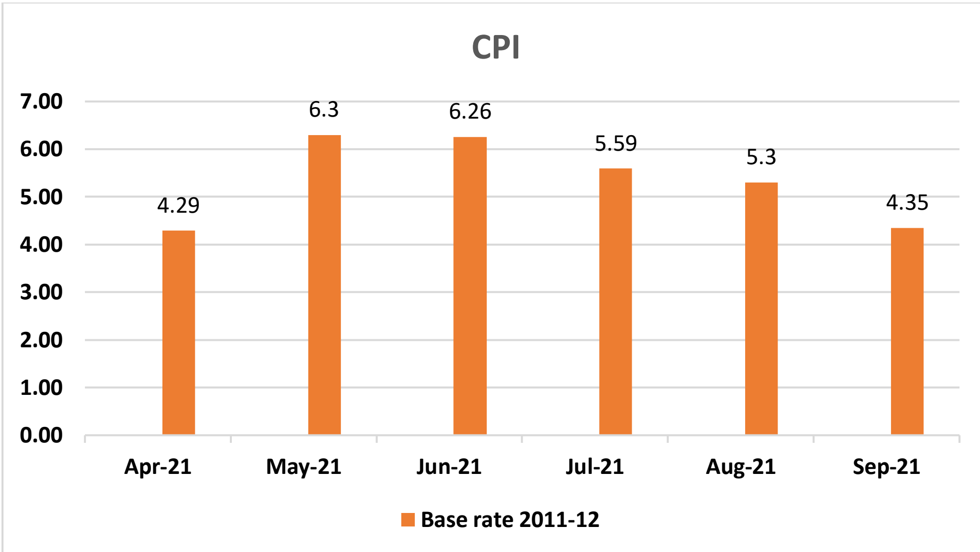
Among the CPI components, inflation for food and beverages fell to 1.61% in September from 3.8% in August.

Within the food items, the inflation fell for eggs, meat and fish, fruits and vegetables, while it rose for oils, pulses and sugar.

The inflation for housing was at 3.58%

The inflation in transport and communication was at 9.53%.

The inflation for clothing and footwear rose to 7.16%, while that for fuel and light rose to 13.63% in September.



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

WPI (Wholesale Price Index) – September

India's wholesale price index (WPI) inflation eased to 10.66% in September 2021, as compared to 11.39% in August 2021 and 1.32% in September 2020.

The rate of inflation based on WPI Food Index decreased to 1.14% in September 2021 from 3.43% in August 2021.

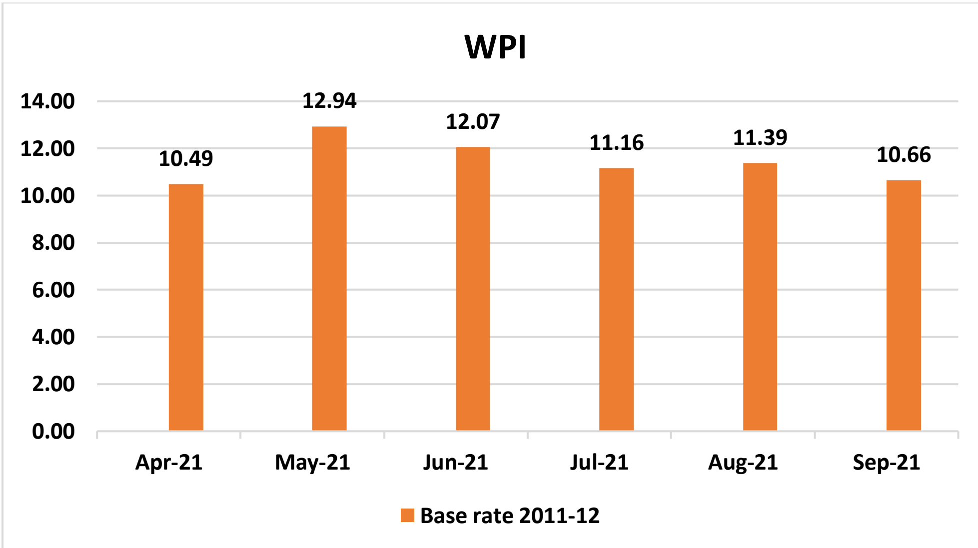
The index for primary articles declined by 0.58% from the previous month.

Prices declined for crude petroleum and natural gas (4.06%), minerals (2.34%), food articles (0.25%) and non-food articles (0.31%).

The index for fuel and power declined by 1.12% from the previous month.

Prices declined for mineral oils (1.75%). Prices of coal and electricity remained unchanged.

The index for manufactured products increased by 0.6% from the previous month.



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

Manufacturing PMI – September

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in September increased, indicating a stronger expansion in overall business conditions across the sector.

The Manufacturing PMI increased to 53.7 in September 2021 from 52.3 in August 2021. It remained above the 50 level, that separates expansion from contraction, for the third straight month.

Both output and new orders expanded at a faster rate, amid the easing of Covid-19 restrictions.

Meanwhile, new export orders increased at a faster pace, though one that was modest overall.

At the same time, employment little changed, as many firms reported the compliance of government guidelines surrounding shift work.

Prices data showed input cost inflation accelerated to a 5-month high, due to a faster rise in fuel, raw material and transportation prices.

Output prices, however, increased at a slower and only moderate rate.

Lastly, business confidence improved.

Source: www.tradingeconomics.com

Services PMI – September

The Indian services sector activity in September continued to expand, supported by favourable underlying demand amid the easing of Covid-19 restrictions, but lost some momentum from August's 18-month high level.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index declined to 55.2 in September 2021 from 56.7 in August 2021. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the second straight month.

The reading pointed to the second straight expansion in the sector, amid the easing of Covid-19 restrictions.

Output continued to grow, while new orders expanded, with the rate of expansion marked and the second fastest since February 2020.

Meanwhile, employment increased for the first time in 10 months, but was marginal overall, with the pace of backlog depletion eased and only slight.

On the price front, input price inflation eased to an 8-month low.

As a result, output price inflation slowed and was negligible by historical standards.

Looking ahead, business sentiment weakened amid worries of inflationary pressures.

The seasonally adjusted Nikkei India Composite PMI Output Index was at 55.3 in September, little changed from 55.4 in August, pointing to a marked rate of growth.

Source: www.tradingeconomics.com

Core Sector Data – September

Growth of eight infrastructure sectors rose by 4.4% in September 2021, on account of healthy performance by 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 11.5% in August 2021 and 0.6% in September 2020.

Production of natural gas, refinery products and cement increased by 27.5%, 6% and 10.8%, respectively in September 2021.

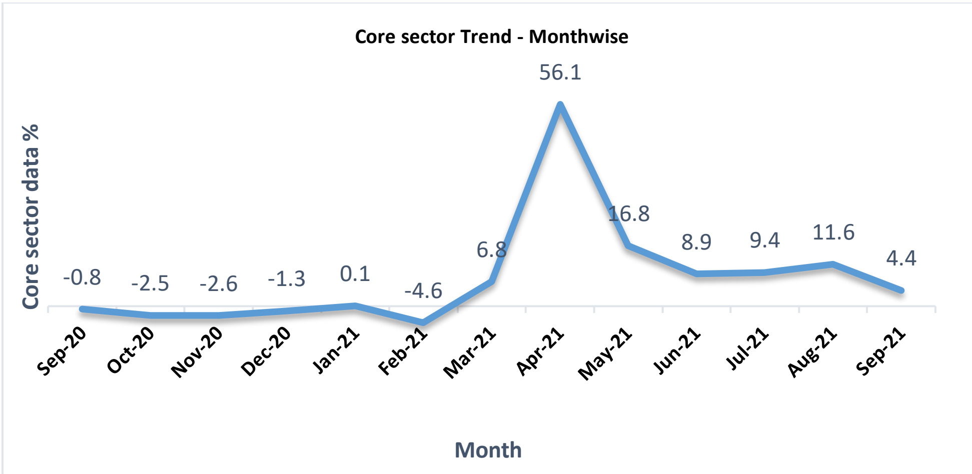
However, crude oil production declined by 1.7% in September.

The growth rate of coal and steel output in September declined to 8.1% and 3% from 21% and 6.2%, respectively, last year.

Similarly, the growth rate in electricity generation moderated to 0.3% from 4.8% last year.

Fertiliser output rose marginally by 0.02% in September from (-) 0.3% last year.

Cumulatively, the growth in the eight core sectors during April-September 2021-22 grew by 16.6%, as against a contraction of 14.5% in the same period last financial year.



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

BANKING

Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

With the changing financial scenario for NBFC sector, the RBI has decided to revise the framework for regulating NBFCs. Such framework had been introduced by way of a paper placed for industry feedback. Post such feedback, RBI has introduced revised regulatory framework for NBFCs. As the SBR framework encompasses different facets of regulation of NBFCs covering capital requirements, governance standards, prudential regulation, etc., RBI has decided to first issue an integrated regulatory framework for NBFCs under SBR, providing a holistic view of the SBR structure, set of fresh regulations being introduced and respective timelines.

Regulatory Structure for NBFCs

Regulatory structure for NBFCs shall comprise of four layers based on their size, activity, and perceived riskiness. NBFCs in the lowest layer shall be known as NBFC - Base Layer (NBFC-BL). NBFCs in middle layer and upper layer shall be known as NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) respectively. The Top Layer is ideally expected to be empty and will be known as NBFC - Top Layer (NBFC-TL). The descriptions of the three layers are given as below:

Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface1.

Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Appendix to this circular. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

Categorization of NBFCs carrying out specific activity

As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the NBFCs

- NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.
- NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.
- The remaining NBFCs, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.
- Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

The regulations further comprise of level-specific regulations, transition path for compliance with such regulations, etc.

INSURANCE

Maintenance of Current Accounts in multiple banks by Insurers

Insurers maintain separate current accounts with banks at different operational levels, i.e., Branch offices, Controlling offices, corporate office, etc., for the purpose of premium collection, management expenses, policy payments, investment operations, etc. Maintenance of current accounts at different operational levels for specific purposes helps the insurers in managing funds, reconciliation of transactions and servicing claims of policyholders efficiently.

In this regard, RBI has permitted banks to open specific accounts which are stipulated under various statutes and instructions of other regulators/regulatory departments, without any restrictions.

Based on the requests received by the Authority, to avoid hardships, if any, faced by the insurers in maintaining current accounts with banks, IRDAI has clarified that the respective insurers may maintain current accounts in appropriate number of banks for the purpose of premium collection, management expenses, policy payments, investment operations, etc., for the convenience of the policyholders and for the ease of doing business.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Cabinet approves release of an additional instalment of Dearness Allowance to Central Government employees and Dearness Relief to Pensions

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has approved to release an additional instalment of Dearness Allowance to Central Government employees and Dearness Relief (DR) to pensioners representing an increase of 3% over the existing rate of 28% of the Basic Pay / Pension, to compensate for price rise.

This increase is in accordance with the accepted formula, which is based on the recommendations of the 7th Central Pay Commission. The combined impact on the exchequer on account of both Dearness Allowance and Dearness Relief would be INR 9,488.70 crore per annum. This will benefit about 47.14 lakh Central Government employees and 68.62 lakh pensioners.

NITI Aayog Releases Report on 'Health Insurance for India's Missing Middle'

NITI Aayog released a comprehensive report titled Health Insurance for India's Missing Middle, which brings out the gaps in the health insurance coverage across the Indian population and offers solutions to address the situation.

NITI Aayog CEO Amitabh Kant mentioned, "This report is an effort to re-invigorate the dialogue on increasing financial protection for health and the broader goal of Universal Health Coverage. It outlines the current landscape, existing gaps and articulates broad recommendations and pathways to increase health insurance coverage."

The Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana—a flagship scheme towards Universal Health Coverage, and State Government extension schemes—provides comprehensive hospitalization cover to the bottom 50% of the population. Around 20% of the population is covered through social health insurance, and private voluntary health insurance primarily designed for high-income groups. The remaining 30% of the population, devoid of health insurance, is termed as the "missing middle". The missing middle contains multiple groups across all expenditure quintiles and is spread across both urban and rural areas.

The report highlights the need for designing a low-cost comprehensive health insurance product for the missing middle. It primarily recognizes the policy issue of low financial protection for health for the missing middle segment and highlights health insurance as a potential pathway in addressing that. In doing so, the report offers a starting point for broader discussions on solutions, and specific products, to improve insurance coverage for the missing middle.

The report proposes wider industry and government stakeholder consultations, and discussion with consumer groups to delve deeper into the specifics of the problem, and potential solutions.

CAPITAL MARKETS

Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes

In order to standardize and bring uniformity in the Benchmarks of Mutual Fund Schemes and taking into account the recommendations of Mutual Fund Advisory Committee (MFAC), SEBI has decided that there would be two-tiered structure for benchmarking of schemes for certain categories of schemes.

The first-tier benchmark shall be reflective of the category of the scheme, and the second-tier benchmark should be demonstrative of the investment style / strategy of the Fund Manager within the category. All the benchmarks followed should necessarily be Total Return Indices.

The following are the guiding principles for first tier benchmarks:

i. For Income / Debt Oriented Schemes First Tier: One Broad Market Index per Index Provider for each category

ii. For Growth / Equity Oriented Schemes First Tier: One Broad Market Index per Index Provider for each category

iii. For Hybrid and Solution Oriented Schemes: There would be a single benchmark, i.e., Broad Market Benchmark wherever available or bespoke to be created for schemes, which would then be applicable across industry.

iv. For Thematic / Sectoral schemes: There would be a single benchmark as characteristics of the schemes are already tapered according to the theme/sector.

v. For Index Funds and Exchange Traded Funds (ETFs): There would be a single benchmark as these schemes replicate an underlying index.

vi. For Fund of Funds Schemes (FoFs): Similar to Index Fund and ETFs, if a FoF scheme is investing in a single fund, then benchmark of the underlying scheme shall be used for corresponding FoF. However, in case a FoF scheme invests in multiple schemes, then Broad Market Index shall be applied.

vii. For Other Schemes: Depending on underlying asset allocation, Broad Market benchmark may be arrived at.

Discontinuation of usage of pool accounts by entities including online platforms other than stock exchanges for transactions in the units of Mutual Funds

SEBI via its earlier circulars allowed Mutual Fund Distributors (‘MFDs’) and SEBI registered Investment Advisers (‘IAs’) to use the infrastructure of recognized stock exchanges to purchase and redeem Mutual Fund (‘MF’) units on behalf of their clients.

MFDs, IAs, Mutual Fund Utilities (‘MFU’), channel partners and other entities including online platforms (‘service providers’/ ‘platforms’) are providing services to investors to transact in mutual fund units. It is observed that based on bilateral understanding with AMCs, a few platforms pool the clients’ funds into a nodal account and subsequently transfer to AMCs either on per transaction basis or lump sum basis.

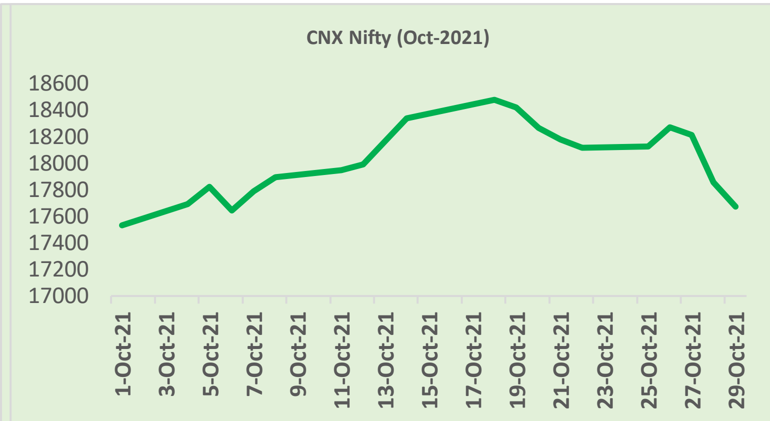
As per discussions with the stakeholders, SEBI has now further decided to:

1. AMCs shall ensure that the transactions (financial/ non-financial) can be executed only if there is a service agreement between the AMC and the service provider / platform.

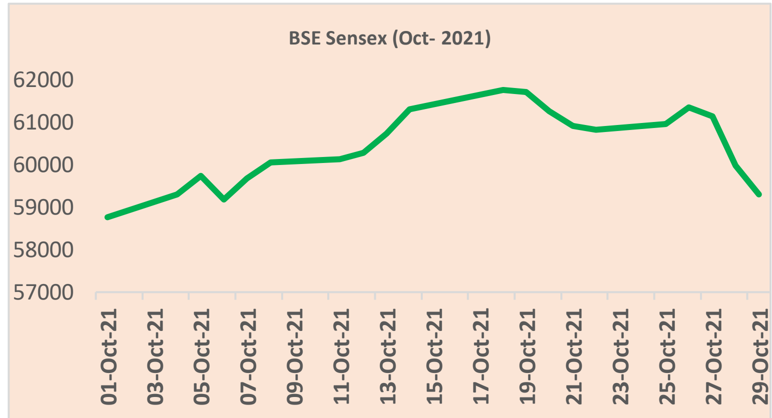
2. AMCs shall ensure that intermediate pooling of funds and/or units in any manner by MFDs, IAs, MFU, channel partners or any other service providers/ platforms, by whatsoever name called, are discontinued for MF transactions. However, this requirement shall not apply to the SEBI registered Portfolio Managers subject to compliance with SEBI (Portfolio Managers) Regulations, 2020 and circulars issued thereunder.

Apart from these, SEBI has put in place other regulations including subscription method, redemption, payments, co-mingling of funds at intermediary level, etc.

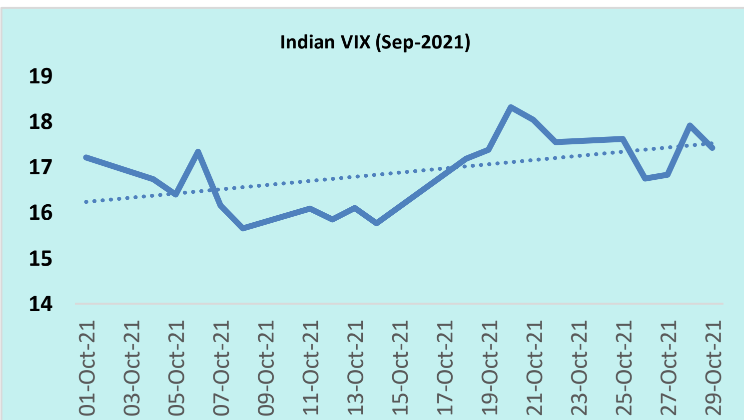
CAPITAL MARKETS SNAPSHOT



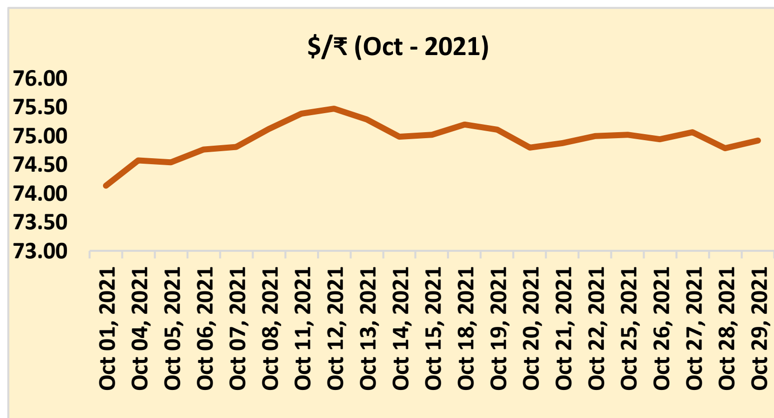
Source: National Stock Exchange



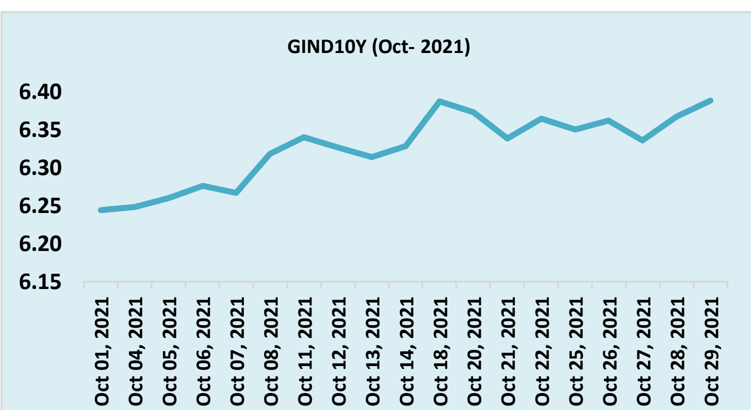
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Weak global cues following slow growth in the US and Europe, coupled with the crisis engulfing Chinese developers, kept markets under pressure. Investors cheered after Goods and Services Tax (GST) collection surged to Rs 1.3 lakh crore in October 2021, the second highest since GST was rolled out in 2017, and as data from IHS Markit showed India's manufacturing activity grew 55.9 in October after rising 53.7 in September. According to the data released by the Controller General of Accounts (CGA), the government's fiscal deficit worked out to be Rs 5.26 lakh crore or 35% of the budget estimates at the end of September 2021 compared to 114.8% of the estimates over the corresponding period of the previous fiscal

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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	12.4 Q2	5.0	1.2	10.2 Sep	8.0	0.5	-5.4	12
Russia	10.5 Q2	4.2	2.4	8.1 Oct	6.6	5.2	-0.7	8.29
India	**20.1 Q2**	**8.2**	**7.8**	**4.3 Sep**	**5.4**	**-0.9**	**-7.2**	**6.36**
China	4.9 Q3	7.9	5.3	0.7 Sep	0.8	2.8	-4.9	2.77^
S Africa	19.3 Q2	4.9	2.4	5.1 Sep	4.4	1.8	-8.5	9.55
USA	4.9 Q3	5.5	3.8	5.4 Sep	4.4	-3.4	-12.4	1.53
Canada	12.7 Q2	5.4	3.6	4.4 Sep	3.1	-2.3	-9.5	1.65
Mexico	4.6 Q3	6.4	2.7	6.0 Sep	5.3	1.8	-3.3	7.49
Euro Area	3.7 Q3	4.9	4.3	4.1 Oct	2.1	3.1	-7.1	0.0
Germany	2.5 Q3	3.1	4.2	4.5 Oct	2.9	6.9	-5.7	0.0
Britain	23.6 Q2	6.4	4.1	3.1 Sep	2.8	-3.9	-10.9	1.09
Australia	9.6 Q2	4.2	2.2	3.0 Q3	2.4	1.8	-5.9	1.83
Indonesia	3.5 Q3	3.0	5.0	1.7 Oct	1.7	-0.2	-6.0	6.18
Malaysia	16.1 Q2	3.8	4.0	2.2 Sep	2.4	2.6	-6.0	3.63
Singapore	6.5 Q3	6.1	3.8	2.5 Sep	1.9	18.1	-4.2	1.77
S Korea	4.0 Q3	4.1	2.8	3.2 Oct	2.2	4.6	-4.4	2.43

Sources: The Economist

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

^ 5-year yield

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

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ABOUT APAS

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

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