2021

Volume 9

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. N S Kannan, MD & CEO, ICICI Prudential Life Insurance, has presented his thoughts on 'Commitment to Care and Climate will differentiate Corporates in the post-Covid World'. We thank Mr. Kannan for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Trends in Insurance'.

The economic indicators showed mixed performance. Manufacturing PMI declined to 52.3 in August from 55.3 in July. India's annual infrastructure output in August rose by 11.6%. India's Index of Industrial Production (IIP) fell 11.5% in July. PMI services jumped to an 18-month high of 56.7 in August from 45.4 in July, while composite PMI rose to 55.4 in August from 49.2 in July. CPI inflation eased to a 4-month low of 5.3% in August from 5.59% in July. WPI inflation rose to 11.39% in August from 11.16% in July.

The Reserve Bank of India (RBI) released (i) Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee (MPC) October 6-8, 2021 (ii) Large Exposures Framework (LEF) – Credit Risk Mitigation (CRM) for offsetting non-centrally cleared derivative transactions of foreign bank branches in India with their Head Office (iii) WMA Limit for Government of India for the second half of the Financial Year 2021-22 (October 2021 to March 2022) (iv) Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (v) Master Direction – Reserve Bank of

India (Securitisation of Standard Assets) Directions, 2021 (vi) Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021.

The Insurance Regulatory Development Authority of India (IRDAI) announced IRDAI (Trade Credit Insurance) Guidelines, 2021 and Product Structure for Cyber Insurance.

PM launched Ayushman Bharat Digital Mission. Cabinet approved major Reforms in Telecom Sector. Cabinet approved Central Government guarantee to back Security Receipts issued by NARCL.

Securities and Exchange Board of India (SEBI) announced (i) Introduction of T+1 rolling settlement on an optional basis (ii) Alignment of interest of Asset Management Companies ('AMCs') with the Unitholders of the Mutual Fund Schemes (iii) Swing pricing framework for mutual fund schemes (iv) Risk Management Framework (RMF) for 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

[Commitment to Care and Climate will differentiate Corporates in the post-Covid World](#)

N S Kannan
MD & CEO
ICICI Prudential Life Insurance

APAS COLUMN

Trends in Insurance

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- *Inflation update – August*
- *PMI update – August*
- *Core Sector – August*

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- *IRDAI (Trade Credit Insurance) Guidelines, 2021*
- *Product Structure for Cyber Insurance*

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- *PM launches Ayushman Bharat Digital Mission*
- *Cabinet approves major Reforms in Telecom Sector*
- *Cabinet approves Central Government guarantee to back Security Receipts issued by NARCL*

CAPITAL MARKETS

- *Introduction of T+1 rolling settlement on an optional basis*
- *Alignment of interest of Asset Management Companies ('AMCs') with the Unitholders of the Mutual Fund Schemes*
- *Swing pricing framework for mutual fund schemes*
- *Risk Management Framework (RMF) for Mutual Funds*

CAPITAL MARKETS SNAPSHOT

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

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10YGov), Latest
Brazil	-2.9Q3	-3.4	0.9	7.0 Nov	8.3	-1.1	-6.4	11.8
Russia	-0.4Q3	-0.5	1.2	5.8 Nov	7.0	2.4	-3.7	8.60
India	**7.3 Q3**	**7.2**	**7.5**	**3.6 Nov**	**4.9**	**-0.9**	**-3.8**	**6.51**
China	6.7 Q3	6.7	6.4	2.3 Nov	2.0	2.5	-3.8	3.10^
S Africa	0.7 Q3	0.4	1.3	6.6 Nov	6.3	-4.0	-3.4	9.00
USA	1.6 Q3	1.6	2.2	1.7 Nov	1.3	-2.6	-3.2	2.56
Canada	1.3 Q3	1.2	1.9	1.5 Oct	1.5	-3.5	-2.5	1.78
Mexico	2.0 Q3	2.1	1.9	3.3 Nov	2.8	-2.8	-3.0	7.31
Euro Area	1.7 Q3	1.6	1.3	0.6 Nov	0.2	3.2	-1.8	0.25
Germany	1.7 Q3	1.8	1.4	0.8 Nov	0.4	8.8	1.0	0.25
Britain	2.3 Q3	2.0	1.1	1.2 Nov	0.6	-5.7	-3.7	1.55
Australia	1.8 Q3	2.9	2.8	1.3 Q3	1.3	-3.5	-2.1	2.86
Indonesia	5.0 Q3	5.0	5.2	3.6 Nov	3.5	-2.1	-2.6	7.93
Malaysia	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
Singapore	1.1 Q3	1.3	2.0	-0.1 Oct	-0.6	21.5	21.5	2.49
S Korea	2.6 Q3	2.7	2.5	1.5 Nov	0.9	7.2	-1.3	2.17

ECONOMIC DATA SNAPSHOT

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

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Commitment to Care and Climate will differentiate Corporates in the post-Covid World

N S Kannan
MD & CEO
ICICI Prudential Life Insurance

It is perhaps our generation's version of the immediate post-war world. As we pick up our lives and businesses after the ravages of the pandemic, we are preparing ourselves for a whole new work life.

For businesses across the world, the pandemic underlined the importance of financial resilience, safety and security of employees and the continuous need to focus on innovation and technology to provide both efficiency as well as superior customer service. While we go back to our businesses with a new vigour, the broader theme at progressive corporates has seamlessly moved to diversity, equity and inclusion. While social responsibility becomes an imperative across businesses now, for the life insurance industry, the pandemic has already reinforced the core purpose of our existence – helping our policyholders in their hour of need.

Pandemic Impact

At ICICI Prudential Life Insurance, I see five 'C's emerging as we take on the challenges of the post-Covid-19 world – Care, Culture, Customer, Commitment and Climate. Our stakeholders are no longer just our shareholders and our family extends beyond our employees to include customers, distribution partners and the society as a whole.

As businesses look forward to growth now, they will have to carry the responsibility of taking that larger family along on their shoulders. Care is the new currency and it will define the culture of an organisation. The unwavering commitment that businesses demonstrate on the new emerging culture will be the big differentiator as we move ahead.

Emerging risks to life

As the world grappled with the spread of the pandemic, natural catastrophes including storms, wildfires and floods generated insurance claims of over $ 81 billion in 2020, according to Swiss Re data. Incidentally, the year was the second hottest on record.

Climate change presents a clear and present danger. Videos on social media show the dramatic footage of floods in various parts of the world, including India. Storm surges are a regular news feature. The intensity of the heat during summers is taking lives in the Americas and parts of Europe known for their temperate conditions. The risk to life due to weather events has never been closer. Preparing for a world fraught with

more natural calamities is a challenge to us as individuals, businesses, and the society. As the pandemic has already established, the need for life insurance is no longer in the realm of a debate any more.

Life insurance – from 'good-to-have' to 'must-have'

In countries like India, where insurance penetration is below the world average, the pandemic creates new challenges and opportunities. As per the Economic Survey 2020-21, the life insurance density measured in terms of premium paid to the population was $ 58 in India against the global average of $ 379 in 2019.

The poor penetration means we need to be spot on with our proposition. There are clear signs of a change of heart from the consumer standpoint as we notice changes in their approach to life insurance. Individuals now view life insurance as a 'must-have' from what used to be just a 'good-to-have' idea, as customers feel the need to protect health, life and incomes by building a robust financial plan. Corporates too are ensuring their employees have sufficient financial protection, further fuelling the need for life insurance. In that sense, life insurance offers a unique proposition of ensuring the fruition of financial goals even in the absence of the earning member.

Digitalisation Fast Forward

Digital adoption by both corporates and consumers became an imperative during Covid-19, forced by social distancing and lockdowns. In life insurance, digital transformation has created enablers in both urban India and remote locations. The new-age customer is tech-savvy prompting life insurers to take a digital-first approach. This has also allowed life insurance companies to quickly adapt to the changing business landscape as also provide superior customer service. While we will continue to see a multi-channel approach to reaching out to consumers, it will now be powered by technology.

While the pandemic caused widespread economic disruption, it has also thrown up opportunities for life insurance companies to offer products which can be literally purchased off-the-shelf. Developing short duration products suited for specific purposes like term insurance for international travel, is a clear possibility.

Policy catalysts and the unfinished agenda

Earlier this year, the government increased the FDI limit in the insurance sector to 74%, which will help attract long-term foreign capital into the industry given the under-penetration in the Indian market. The business remains capital intensive, and such investments can help aid further expansion into new markets within the country as well as improve service standards.

But there are still other imperatives which need attention. An essential factor is taxation. The introduction of goods and services tax or GST was a bold and progressive move. However, it pushed up the cost of life insurance for consumers. A quick step to rationalise taxation could further enhance the attractiveness of life insurance for consumers.

Besides, there is a compelling argument for life insurers to be allowed to offer health insurance in tandem with life insurance. Industry too needs to have a meaningful dialogue on the bundling of insurance services. We have found in various consumer surveys that customers prefer bundled insurance proposals for a consolidated premium. We believe anything that serves customers better will not only be a great business proposition but also be transformational for the industry.

Trends in Insurance

The ongoing Covid-19 pandemic has drastically shifted consumer needs, habits and expectations, while compelling virtualisation of operations literally overnight. The coronavirus triggered a galore of structural changes across all sectors and the insurance industry was no exception. Many insurers are evolving to meet changing requirements by policyholders. Several new trends are becoming visible as more insurers adapt to these changes.

- Digitisation

In the last year, we have witnessed a technology-driven shift in the way insurance is sold. The insurers are focussing more on selling insurance products through tele-medical process. This is complemented by e-KYC process for completing the verification process of the customers to buy an insurance plan. The digital shift towards selling insurance policies has gained significant traction.

- New insurance products

The awareness around need for protection has increased by many folds since the onset of the pandemic. The need for insurance has become ubiquitous, with maximum people investing in insurance products as per their requirements. Interestingly, demand for insurance products for a plethora of risks that were usually not covered by insurance companies has started gaining traction. These covers range from protection against a pandemic to protection against seasonal illnesses like dengue.

- Enhanced claim settling

In line with digitisation as well as increasing focus on customer-centred solutions, insurers are now enhancing their claim settlement mechanisms as well. For instance, claims can now be raised more quickly with the policyholders having access to online portals. Insurers can use this increased access efficiently and also leverage it for settling claims more efficiently and in a shorter timeline.

- Rise in demand for standardised products

In 2020, all general and specialised health insurers, on the directions of the IRDAI, came up with a standard health insurance product – Arogya Sanjeevani. Later, the IRDAI guided all life insurers to come up with a

standard term life insurance plan – Saral Jeevan Bima – from January 1, 2021. Later, it asked insurers to come up with a standard personal accident cover and then, it asked them to launch a standard travel insurance from April 1, 2021. With the introduction of standard insurance products across all major insurance sectors, IRDAI is leaving no stone unturned to increase the insurance penetration rate in the country. The regulator aims at bringing maximum people under the insurance umbrella and providing them with maximum financial help.

All these standard products are expected to gain pace, with many more people enrolling themselves under these products. In the last year, people have realised the importance of insurance and the need to stay protected. A majority of people in India are not covered under any insurance product and these standard products would give first time buyers a boost and confidence.

- Adoption of global strategies

With foreign joint ventures and collaborations, the Indian insurance industry is likely to keep inculcating global expertise and international strategies, leading to an overall increase in efficiency and effectivity of the whole insurance sector. The claim process is likely to become faster and more streamlined and the document submission is expected to go online.

- On demand insurance

Another category of insurance products that could be in high demand is switch on and switch off insurance. An example of it is usage-based car insurance. This new type of car insurance policies, launched under the sandbox category of IRDAI, allows car owners to insure their vehicles for kilometres they tend to drive instead of the full year. For drivers who are not constantly on the road, these plans could offer an opportunity to reduce car insurance costs. Moreover, the option to have multiple vehicles covered under one policy makes this policy more value accretive.

- Wellness products and IoT

The coming years would see insurers come up with plans that focus on making customers fit and healthy. Even the IRDAI has issued guidelines to insurers on wellness and preventive features. The insurers are expected to come up with a plethora of exciting benefits to offer to the policyholders. Some such benefits include discounted OPD consultations or treatments, pharmaceuticals, health check-ups/diagnostics, redeemable vouchers to obtain health supplements, memberships in yoga centres, sports clubs and many more.

Yet another prominent technology that would play an important role in shaping the insurance industry in the coming years is Internet of Things (IoT). The technique would help the insurers, especially, the auto insurers, to cut their overall costs, while enabling the customers to automatically initiate the damage repair and claim process. At the same time, a significant focus of the insurers on customer interaction and experience has brought about the need for voice analytics, an efficient voice recognition tool to analyse and record a spoken conversation.

Apart from the above trends, the government of India has also taken a number of initiatives to boost the insurance industry. The future looks promising for the insurance industry with several changes in regulatory framework, which would lead to further change in the way the industry conducts its business and engages with its customers.

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ECONOMY

IIP (Index of Industrial Production) – July

Index of Industrial Production (IIP) or factory output for the month of July 2021 fell to 11.5%, compared to 13.6% in June 2021 and a contraction of 10.5% in July 2020.

The General Index for the month of July 2021 stands at 131.4, which is 11.5% higher as compared to July 2020.

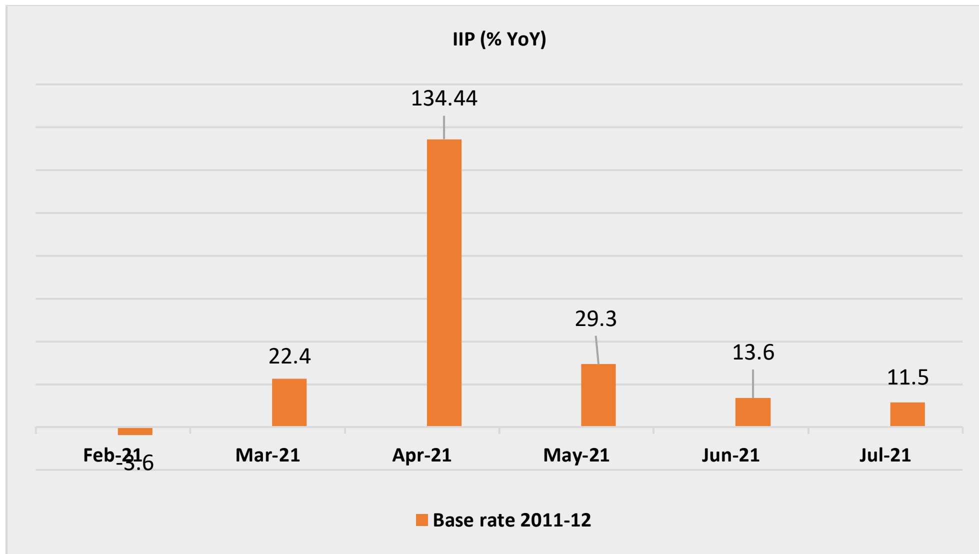
The manufacturing sector, which constitutes 77.63% of the index, went up by 10.5% in July, to 130.9.

Mining sector output grew by 19.5%, to 104.6.

Electricity generation rose by 11.1%, to 184.7.

As per Use-based classification, the indices stand at 128.5 for primary goods, 91.8 for capital goods, 143.1 for intermediate goods and 143.5 for infrastructure/construction goods for July.

Further, the indices for consumer durables and consumer non-durables were at 119.5 and 146.6, respectively.



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

CPI (Consumer Price Index) – August

India's consumer price index (CPI) or retail inflation eased to a 4-month low of 5.3% in August 2021, compared to 5.59% in July 2021 and 6.69% in August 2020.

The corresponding provisional inflation rates for rural and urban areas are 5.28% and 5.32% respectively.

The Consumer Food Price Index (CFPI) fell to 3.11% in August from 3.96% in July.

The core CPI inflation eased to 5.89% in August 2021 from 6.01% in July 2021.

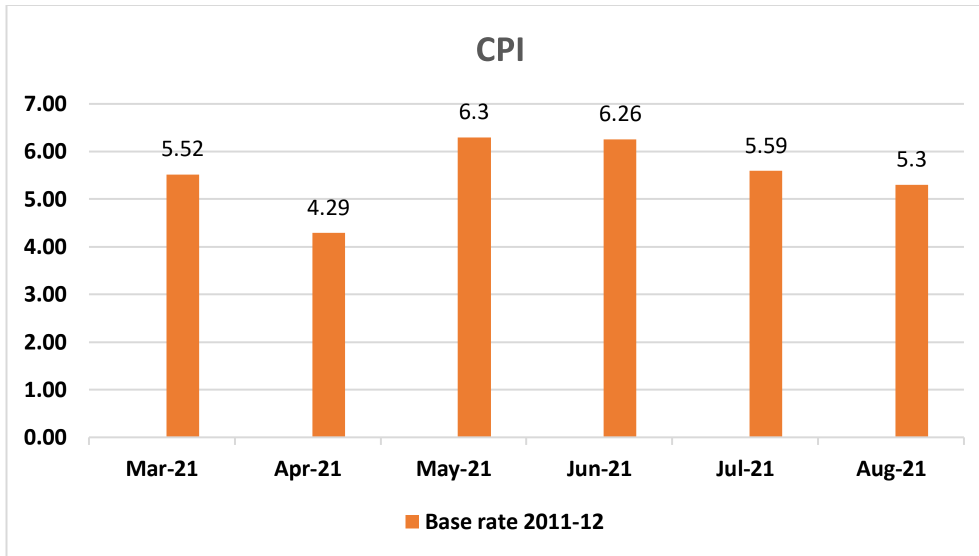
Among the CPI components, inflation for food and beverages fell to 3.8% in August from 4.46% in July.

Within the food items, the inflation fell for vegetables to (-) 11.68%, fruits to 6.69%, eggs to 16.33%, pulses and products to 8.81%, non-alcoholic beverages to 13.85%, spices to 5.05% and sugar and confectionery to (-) 0.6%. However, the inflation rose for meat and fish to 9.19%, cereals and products to (-) 1.42%, oils and fats to 33%, milk and products to 2.86% and prepared meals, snacks, sweets, etc. to 6.14%.

The inflation for housing rose to 3.9%, while that for miscellaneous items declined to 6.4% in August.

Within the miscellaneous items, the inflation eased for personal care and effects to 1.01% and education to 3.81%, while it rose for household goods and services to 5.45%, health to 7.78%, transport and communication to 10.24% and recreation and amusement to 6.48% in August 2021.

The inflation for clothing and footwear galloped to 6.84%, while that for fuel and light also rose to 12.95% in August.



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

WPI (Wholesale Price Index) – August

India's wholesale price index (WPI) inflation rose to 11.39% in August 2021, as compared to 11.16% in July 2021 and 0.41% in August 2020.

The rate of inflation based on WPI Food Index decreased to 3.43% in August 2021 from 4.46% in July 2021.

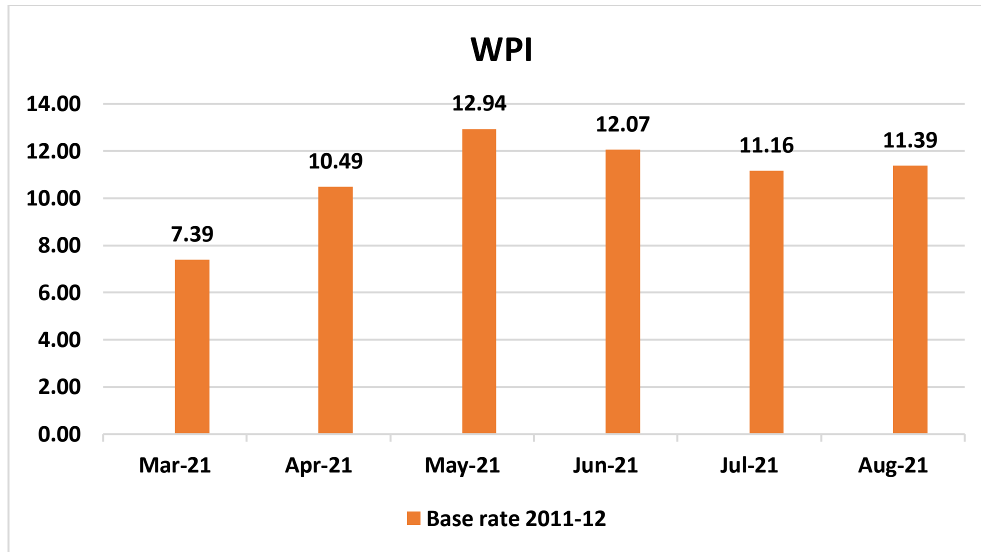
The index for primary articles increased by 1.56% from the previous month.

Prices increased for minerals (12.22%), non-food articles (6.18%) and crude petroleum and natural gas (1.51%). Prices declined for food articles (0.25%).

The index for fuel and power increased by 1.49% from the previous month.

Prices increased for mineral oils (2.31%) and coal (0.31%). Prices of electricity remained unchanged.

The index for manufactured products increased by 0.76% from the previous month.



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

Manufacturing PMI – August

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in August declined, indicating a softer rate of growth that was subdued in the context of historical survey data.

The Manufacturing PMI declined to 52.3 in August 2021 from 55.3 in July 2021. It remained above the 50 level, that separates expansion from contraction, for the second straight month.

Both output and new orders growth eased, amid the coronavirus pandemic and rising input prices.

Meanwhile, new export orders increased, with the pace of expansion only marginal.

At the same time, employment slipped back into contraction in August, after growing in July for the first time in 16 months, with backlogs declining at a slight pace.

Prices data showed input cost inflation eased, while output cost inflation accelerated to a 3-month high, but was below that seen for input costs.

Lastly, business confidence remained subdued, due to concerns surrounding the damaging impact of Covid-19 on demand and firms' finances.

Source: www.tradingeconomics.com

Services PMI – August

The Indian services sector activity in August rose to its highest since February 2020 on account of inflows of new work and improving demand.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index jumped to an 18-month high of 56.7 in August 2021 from 45.4 in July 2021. The index went above the neutral mark of 50, which separates expansion from contraction.

The reading pointed to the first expansion in the sector since April and the strongest growth since February 2020, due to the pandemic continuing to recede and vaccine access improving.

New orders expanded at the fastest pace since January 2013, while output grew for first time in 4 months.

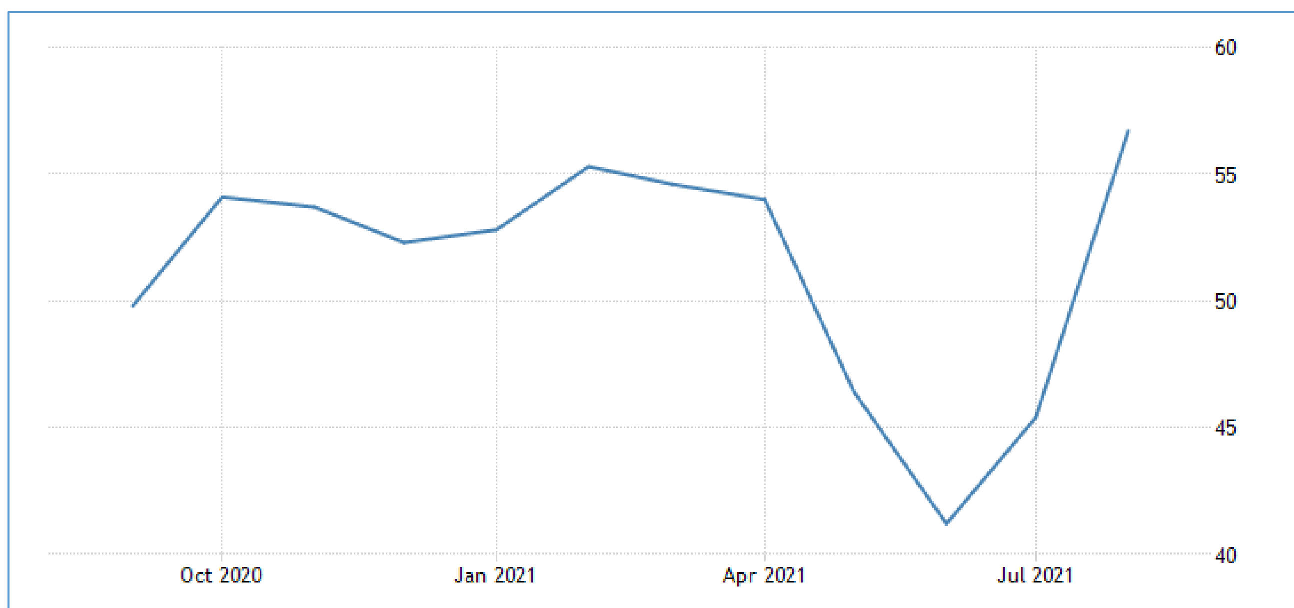
Meanwhile, the rate of job shedding was marginal and the weakest since January.

On the price front, input prices increased at the highest rate in 4 months, due to a faster rise in prices of fuel, retail and transport.

As a result, output prices rose, despite the rate of inflation softening to the weakest since March and was only marginal.

Looking ahead, business sentiment strengthened to a 5-month high.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 55.4 in August from 49.2 in July, signalling a robust rate of expansion.



Source: www.tradingeconomics.com

Core Sector Data – August

Growth of eight infrastructure sectors rose by 11.6% in August 2021, even as the base effect was less beneficial.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 9.9% in July 2021 and contracted by 6.9% in August 2020.

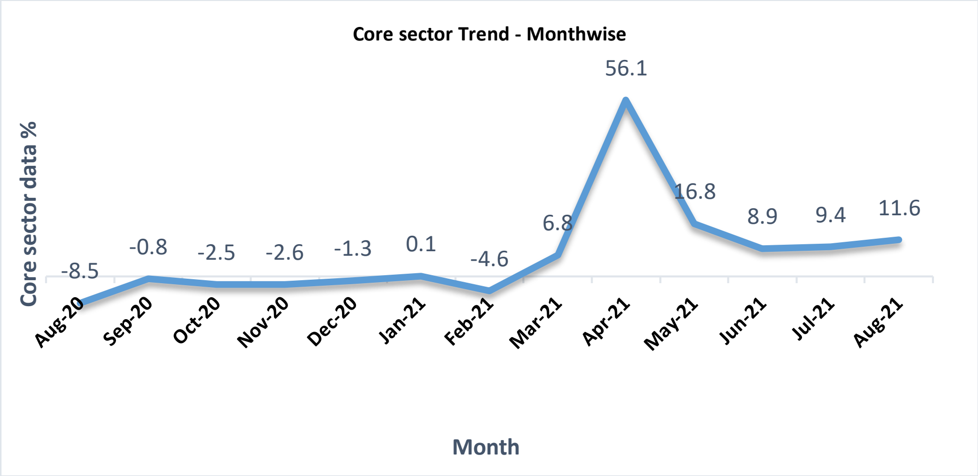
Coal and natural gas registered a 20.6% surge in August.

The petroleum refinery production climbed 9.1% and electricity generation surged by 15.3%.

Cement production jumped 36% and steel output grew 5.1%.

On the other hand, output of crude oil and fertiliser industries contracted by 2.3% and 3.1%, respectively.

Cumulatively, the growth in the eight core sectors during April-August 2021-22 grew by 19.3%, as against a contraction of 17.3% in the same period last financial year.



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

BANKING

Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee (MPC) October 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.

RBI's 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.

Assessment

Global Economy

Since the MPC's meeting during August 4-6, 2021, the momentum of the global recovery has ebbed across geographies with the rapid spread of the delta variant of COVID-19, including in some countries with relatively high vaccination rates. After sliding to a seven-month low in August, the global purchasing managers' index (PMI) rose marginally in September. World merchandise trade volumes remained resilient in Q2:2021, but more recently there has been a loss of momentum with the persistence of supply and logistics bottlenecks.

Commodity prices remain elevated, and consequently, inflationary pressures have accentuated in most advanced economies (AEs) and emerging market economies (EMEs), prompting monetary tightening by a few central banks in the former group and several in the latter. Change in monetary policy stances, in conjunction with a likely tapering of bond purchases in major advanced economies later this year, is beginning to strain the international financial markets with a sharp rise in bond yields in major AEs and EMEs after remaining range-bound in August. The US dollar has strengthened sharply, while the EME currencies have weakened since early-September with capital outflows in recent weeks.

Domestic economy

The rebound in economic activity gained traction in August-September, facilitated by the ebbing of infections, easing of restrictions and a sharp pick-up in the pace of vaccination. The south-west monsoon, after a lull in August, picked up in September, narrowing the deficit in the cumulative seasonal rainfall to 0.7 per cent below the long period average and kharif sowing exceeded the previous year's level. Record kharif foodgrains production of 150.5 million tonnes as per the first advance estimates augurs well for the overall agricultural sector. By end-September, reservoir levels at 80 per cent of the full reservoir level were above the decadal average, which is expected to boost rabi production prospects.

After a prolonged slowdown, industrial production posted a high y-o-y growth for the fifth consecutive month in July. The manufacturing PMI at 53.7 in September remained in positive territory. Services activity gained ground with support from the pent-up demand for contact-intensive activities. The services PMI continued in expansion zone in September at 55.2, although some sub-components moderated. High-frequency indicators for August-September – railway freight traffic; cement production; electricity demand; port cargo; e-way bills; GST and toll collections – suggest progress in the normalisation of economic activity relative to pre-pandemic levels; however, indicators such as domestic air traffic, two-wheeler sales and steel consumption continue to lag. Non-oil export growth remained strong on buoyant external demand.

Large Exposures Framework (LEF) – Credit Risk Mitigation (CRM) for offsetting non-centrally cleared derivative transactions of foreign bank branches in India with their Head Office

The RBI's Large Exposure Framework (LEF) regulations for banks came into effect from April 2019, finalising a draft framework introduced in December 2016, as part of India's implementation of global Basel 3 norms in the domestic banking system.

The LEF's principal objective is to reduce counterparty concentration risk in the banking system by defining a limit (25 per cent of Tier 1 capital) on the amount a bank can lend to any single counterparty or group of connected counterparties. In the 2019, LEF regulations were to involve inclusion of non-centrally cleared derivative exposures into the exposure calculation (from April 2020). Historically, the branches of foreign banks operating in India have hedged eligible risks from derivative trades with clients, through permissible offsetting back-to-back transactions with their head offices. This has been an effective mechanism from the standpoint of both risk management as well as providing more liquidity in these markets. Additionally, foreign banks also frequently deploy their surplus foreign currency balances with head offices as part of their liquidity management strategy. This, in combination with inclusion of non-centrally cleared derivative exposures, led to possibility and risk of breaching their HO exposure limits under the LEF. This poses a risk to Indian markets, as foreign banks become restricted in their ability to effectively offset risk offered to clients, in deeper and more liquid global markets through their head office.

The volatility in FX forward markets caused due to this over the May-June '19 period has been broadly discussed in terms of the risk of negative second order effects on inward FDI flows and ECB issuances, which generate large foreign currency inflows into the banking system. Presently, RBI's treatment of derivatives exposures under LEF differs from other Asian financial centers and is much conservative as compared to the Basel LEF guidelines.

The large exposure framework credit risk mitigation for offsetting non-centrally cleared derivative transactions was to be implemented on March 31, 2020. RBI reviewed these regulations on March 23rd, 2021 and decided that non-centrally cleared derivative transactions could be kept out of purview of exposure limits till September 31st,2021.

RBI has now permitted the Indian branches of foreign banks, *receiving interest-free funds from Head office or remittable surplus to reckon cash/unencumbered approved securities retained in Indian books (reserve*s) as CRM for offsetting non-centrally cleared derivative transactions within the required LEF limits.

The amount so held shall not be included in regulatory capital. (i.e., no double counting of the fund placed under Section 11(2) as both capital and CRM). Accordingly, while assessing the capital adequacy of a bank, the amount will form part of regulatory adjustments made to Common Equity Tier 1 Capital.

WMA Limit for Government of India for the second half of the Financial Year 2021-22 (October 2021 to March 2022)

Ways and means advances are temporary advances given by the RBI to the States to tide over any mismatch in receipts and payments. There are two types of WMA — normal and special. While normal WMA are clean advances, special WMA are secured advances provided against the pledge of the Government of India dated securities.

RBI, in consultation with the Government of India, that the limit for Ways and Means Advances (WMA) for the second half of the financial year 2021-22 (October 2021 to March 2022) be fixed at ₹50,000 crore.

The Reserve Bank may trigger fresh floatation of market loans when the Government of India utilizes 75 per cent of the WMA limit.

The interest rate on WMA/overdraft will be:

a. WMA: Repo Rate
b. Overdraft: Two percent above the Repo Rate

Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

Introduction

The term loan transfer has been defined to mean a transfer of economic interest in loan exposures by the transferor to the transferee(s), *with or without the transfer of the underlying loan contract*, in the manner permitted in the Directions. Loan transfers are resorted to by lending institutions for multitude of reasons ranging from liquidity management, rebalancing their exposures or strategic sales.

The regulations have been streamlined with regulations on Insolvency and Bankruptcy Code 2016, Securitization of stressed assets and prudential framework for stressed assets resolution.

Key inclusions in these regulations are as follows:

i. Chapter I: Scope and Definitions
ii. Chapter II: General Conditions applicable for all loan transfers
iii. Chapter III: Transfer of Loans which are not in default
iv. Chapter IV: Transfer of stressed loans
v. Chapter V: Disclosures and Reporting

The RBI has consolidated the guidelines with respect to transfer of standard assets as well as stressed assets by regulated financial entities under a common regulation named Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 ("Directions").

The Directions specified the permitted transferors and transferees thereby prohibiting any loan transfers outside the purview of the Directions. This in turn would also restrict covered bonds transactions wherein the loan pool was assigned to an SPV- unless the same is specifically permitted by the RBI. Directions shall be applicable even in case of sale of loans through novation or assignment, and loan participation.

In cases of loan transfers other than loan participation, legal ownership of the loan shall be mandatorily transferred to the transferee(s) to the extent of economic interest transferred.

The Directions specifically require that the due diligence in respect of the loans cannot be outsourced by the transferee(s) and should be carried out by its own staff, at the level of each loan, with the same rigour and as per the same policies as would have been done for originating any loan.

However, in case of loans acquired as a portfolio, in case a transferee is unable to perform due diligence at the individual loan level for the entire portfolio, the transferor has to retain at least 10% of economic interest in the transferred loans. In such a case as well, the transferee shall perform due diligence at the individual loan level for not less than one-third of the portfolio by value and number of loans in the portfolio and at the portfolio level for the remaining.

Under the erstwhile framework, there were three blocks of minimum holding periods, however under the new Directions there are two major brackets – one for loans with original maturity less than 2 years and one with more than 2 years.

Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021

Introduction

RBI introduced guidelines in May 2012, for scheduled commercial banks and All India Term-Lending and Refinancing Institutions in order to develop an orderly and healthy securitisation market. The purpose of the regulations could be to specify criteria to *inter alia* bring securitisation in line with Basel III requirements and to deepen the secondary loan trading market. Some of the amendments to the securitisation guidelines were overdue, in view of the revisions introduced under Basel III.

Securitisation involves transactions where credit risk in assets is redistributed by repackaging them into tradeable securities with different risk profiles which may give investors of various classes access to exposures which they otherwise might be unable to access directly. While complicated and opaque securitisation

structures could be undesirable from the point of view of financial stability, prudentially structured securitisation transactions can be an important facilitator in a well-functioning financial market in that it improves risk distribution and liquidity of lenders in originating fresh loan exposures.

Few key revisions include:

As per previous guidelines, securitization transactions did not have any classifications. As per revised guidelines, the transactions would be classified into STC (Simple, transparent and comparable) and non-STC.

Previous guidelines stated the risk weights to be linked only to the rating of securitization exposure. Revised guidelines prescribe the Securitisation External Ratings Based approach (SEC-ERBA) for calculation of risk weighted assets for credit risk of securitisation exposures. Under SEC-ERBA approach, risk weights are determined on basis of - i) STC (compliance; ii) Seniority of tranche; iii) Tenure of the tranche; and iv) Rating of tranche.

These regulations include following areas:

i. Chapter I: Scope and Definitions
ii. Chapter II: General requirements for securitisation
iii. Chapter III: Simple, transparent and comparable (STC) securitisations
iv. Chapter IV: Provision of facilities supporting securitisation structures
v. Chapter V: Requirements to be met by lenders who are investors in securitisation exposures
vi. Chapter VI: Capital requirements for securitisation exposures

Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021

Dealers act as market makers by quoting prices at which they will sell (ask or offer) or buy (bid) to other dealers and to their clients or customers. That does not mean they quote the same prices to other dealers as they post to customers, and they do not necessarily quote the same prices to all customers. Moreover, dealers in an OTC security can withdraw from market making at any time, which can cause liquidity to dry up, disrupting the ability of market participants to buy or sell. Therefore, RBI has issued master directions for market makers in OTC derivatives to be read in consonance with Foreign Exchange Management Act, 1999 (42 of 1999) and Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000.

The key contents of these regulations are as follows:

i. Governance
ii. Products
iii. User dealing conduct
iv. Risk management
v. Internal control
vi. Internal audit
vii. Preservation of records

INSURANCE

IRDAI (Trade Credit Insurance) Guidelines, 2021

Trade credit insurance protects businesses against the risk of non-payment for goods and services by buyers. It usually covers a portfolio of buyers and indemnifies an agreed percentage of an invoice or invoices that remain unpaid as a result of protracted default, insolvency / bankruptcy. It contributes to the economic growth of a country by facilitating trade and helps in improving economic stability by addressing the trade losses due to payment risks.

These guidelines set out the regulatory framework.

(a) to promote sustainable and healthy development of trade credit insurance business.

(b) to facilitate general insurance companies to offer trade credit insurance covers to suppliers as well as licensed banks and other financial institutions to help businesses manage country risk, open access to new markets and to manage non-payment risk associated with trade financing portfolio.

(c) to enable general insurance companies to offer trade credit insurance with customized covers to improve businesses for the SMEs and MSMEs, considering the evolving insurance risk needs of these sectors.

Key components of these regulations are as follows:

a. Scope and Applicability
b. Requirements of underwriting Trade Credit Insurance Business
c. Claims handling
d. Product filing procedure
e. Maintenance of Data / Furnishing of Information
f. Powers of authority

Product Structure for Cyber Insurance

There are rising incidences of cyber attacks along with a growing number of high profile data breaches. The online exposures for individuals, business organizations, offices and other establishments continue to increase more so in the current pandemic situation. The Authority had, therefore, constituted a working group with a focus to examine the possibility of bringing standardization of Cyber Liability Insurance policy wording.

The Working Group, after conducting wide consultations with various stakeholders, and after internal deliberations concluded that standardization of policy wording is not desirable at this juncture keeping in view of the evolving nature of legislative frameworks in dealing with cyber risk, fast growing digital ecosystem, increasing interconnectedness globally and complexity of IT systems and emergence of new risks.

The main objectives of the guidance document on product structure for Cyber Insurance are;

a) to enable insurers to evaluate new technologies posing heightened cyber risk, identify protection gaps in the existing products and address the changing needs of market.

b) to facilitate insurers in developing stand-alone cyber insurance products, specifically designed to address the evolving cyber risks.

c) to provide a set of recommendations on maximum possible coverages that could be included in the cyber insurance products.

d) to encourage insurers to adopt best practices and provide additional covers in response to customer needs.

e) to improve the development of the cyber insurance market with new products and enhance benefits for policyholders.

General insurers who have already developed some cyber insurance products with exclusive coverage for individuals to protect against cyber perils and currently offering the products that mainly focused on commercial business, may review the product structure based on the coverages advocated in the document. The filing of such product/s may be undertaken at the earliest to respond to the needs of customers who are increasingly exposed to the cyber threat of digital services.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

PM launches Ayushman Bharat Digital Mission

Prime Minister Shri Narendra Modi launched the Ayushman Bharat Digital Mission through a video conference.

Ayushman Bharat – Digital Mission, will now connect the digital health solutions of hospitals across the country with each other. The Mission will not only make the processes of hospitals simplified but also will increase ease of living. Under this, every citizen will now get a digital health ID and their health record will be digitally protected.

The Prime Minister informed that India is working on a health model that is holistic and inclusive. A model which stresses preventive healthcare and, in case of disease, easy, affordable and accessible treatment. He also discussed unprecedented reforms in health education and said a much larger number of doctors and par medical manpower is being created in India now as compared to 7-8 years ago. A comprehensive network of AIIMS and other modern health institutions is being established in the country and work on establishing one medical college in every three Lok Sabha constituencies is going on. He also talked about strengthening health facilities in villages and informed that in the villages, primary health centre networks and wellness centres are being strengthened. More than 80 thousand such centres have already been operationalized, said the Prime Minister.

Cabinet approves major Reforms in Telecom Sector

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, approved a number of structural and process reforms in the Telecom sector. These are expected to protect and generate employment opportunities, promote healthy competition, protect interests of consumers, infuse liquidity, encourage investment and reduce regulatory burden on Telecom Service Providers (TSPs).

In the backdrop of the outstanding performance of the Telecom Sector in meeting COVID-19 challenges, with huge surge in data consumption, online education, work from home, interpersonal connect through social media, virtual meetings etc., the Reform measures will further boost the proliferation and penetration of broadband and telecom connectivity.

Nine structural reforms and Five procedural reforms plus relief measures for the Telecom Service Providers are as below:

Structural Reforms

1. Rationalization of Adjusted Gross Revenue: Non-telecom revenue will be excluded on prospective basis from the definition of AGR.
2. Bank Guarantees (BGs) rationalized: Huge reduction in BG requirements (80%) against License Fee (LF) and other similar Levies. No requirements for multiple BGs in different Licenced Service Areas (LSAs) regions in the country. Instead, One BG will be enough.
3. Interest rates rationalized/ Penalties removed: From 1st October 2021, Delayed payments of License Fee (LF)/Spectrum Usage Charge (SUC) will attract interest rate of SBI's MCLR plus 2% instead of MCLR plus 4%; interest compounded annually instead of monthly; penalty and interest on penalty removed.
4. For Auctions held henceforth, no BGs will be required to secure instalment payments. Industry has matured and the past practice of BG is no longer required.
5. Spectrum Tenure: In future Auctions, tenure of spectrum increased from 20 to 30 years.
6. Surrender of spectrum will be permitted after 10 years for spectrum acquired in the future auctions.
7. No Spectrum Usage Charge (SUC) for spectrum acquired in future spectrum auctions.
8. Spectrum sharing encouraged- additional SUC of 0.5% for spectrum sharing removed.
9. To encourage investment, 100% Foreign Direct Investment (FDI) under automatic route permitted in Telecom Sector. All safeguards will apply.

Procedural Reforms

1. Auction calendar fixed - Spectrum auctions to be normally held in the last quarter of every financial year.
2. Ease of doing business promoted - cumbersome requirement of licenses under 1953 Customs Notification for wireless equipment removed. Replaced with self-declaration.
3. Know Your Customers (KYC) reforms: Self-KYC (App based) permitted. E-KYC rate revised to only One Rupee. Shifting from Prepaid to Post-paid and vice-versa will not require fresh KYC.
4. Paper Customer Acquisition Forms (CAF) will be replaced by digital storage of data. Nearly 300-400 crore paper CAFs lying in various warehouses of TSPs will not be required. Warehouse audit of CAF will not be required.

5. SACFA clearance for telecom towers eased. DOT will accept data on a portal based on self-declaration basis. Portals of other Agencies (such as Civil Aviation) will be linked with DOT Portal.

Addressing Liquidity requirements of Telecom Service Providers

The Cabinet approved the following for all the Telecom Service Providers (TSPs):

1. Moratorium/Deferment of upto four years in annual payments of dues arising out of the AGR judgement, with however by protecting the Net Present Value (NPV) of the due amounts being protected.
2. Moratorium/Deferment on due payments of spectrum purchased in past auctions (excluding the auction of 2021) for upto four years with NPV protected at the interest rate stipulated in the respective auctions.
3. Option to the TSPs to pay the interest amount arising due to the said deferment of payment by way of equity.
4. At the option of the Government, to convert the due amount pertaining to the said deferred payment by way of equity at the end of the Moratorium/Deferment period, guidelines for which will be finalized by the Ministry of Finance.

The above will be applicable for all TSPs and will provide relief by easing liquidity and cash flow. This will also help various banks having substantial exposure to the Telecom sector.

Cabinet approves Central Government guarantee to back Security Receipts issued by National Asset Reconstruction Company Limited for acquiring of stressed loan assets

The Union Cabinet, chaired by Prime Minister Shri Narendra Modi, has approved Central Government guarantee of Rs.30,600 crore to back Security Receipts (SRs) issued by National Asset Reconstruction Company Limited (NARCL) for acquiring stressed loan assets. This is in line with Budget announcement for the FY 2021-22.

The SRs issued by NARCL shall be backed by sovereign guarantee of Government of India. The GoI's guarantee shall be for Rs.30,600 crore and shall be valid for five years. GoI's guarantee can be invoked by NARCL for meeting the shortfall between the face value of the SR and the actual realization upon resolution / liquidation. NARCL shall be liable to pay annual guarantee fee.

Benefits:

The NARCL - IDMCL structure will assist in consolidation of debt, currently fragmented across various lenders, thus leading to faster, single point decision making including through IBC processes, where applicable. It will incentivize quicker action on resolving stressed assets thereby helping in better value realization. India Debt Resolution Company Limited (IDRCL) will engage market expertise for value enhancement. This approach will also permit freeing up of personnel in banks to focus on increasing business and credit growth. As the holders of these stressed assets and SRs, banks will receive the gains. GoI's guarantee will also enhance liquidity of SRs as such SRs are tradable.

Background:

Government's 4 R strategy of Recognition, Resolution, Recapitalisation and Reform has led to a turnaround in performance of Public Sector Banks (PSBs). High levels of provisioning of legacy NPAs have presented an opportunity for additional measures for faster resolution. The Union Budget 2021-22 had accordingly announced Government's intention to set up an Asset Reconstruction Company (ARC) along with an Asset management Company AMC to consolidate and take over existing stressed debt and thereafter manage and dispose it off to buyers for value realization.

The National Asset Reconstruction Company Limited (NARCL) and India Debt Resolution Company Limited (IDRCL) have since been set up by banks. NARCL proposes to acquire stressed assets of about Rs. 2 Lakh crore in phases within extant regulations of RBI. It intends to acquire these through 15% Cash and 85% in Security Receipts (SRs).

CAPITAL MARKETS

Introduction of T+1 rolling settlement on an optional basis

SEBI, via an earlier circular, dated February 6, 2003, shortened the settlement cycle from T+3 rolling settlement to T+2 w.e.f. April 01, 2003.

SEBI has been receiving request from various stakeholders to further shorten the settlement cycle. Based on discussions with Market Infrastructure Institutions (Stock Exchanges, Clearing Corporations and Depositories), SEBI has decided to provide flexibility to Stock Exchanges to offer either T+1 or T+2 settlement cycle.

Accordingly, a Stock Exchange may choose to offer T+1 settlement cycle on any of the scrips, after giving an advance notice of at least one month, regarding change in the settlement cycle, to all stakeholders, including the public at large, and also disseminating the same on its website.

After opting for T+1 settlement cycle for a scrip, the Stock Exchange shall have to mandatorily continue with the same for a minimum period of 6 months. Thereafter, in case, the Stock Exchange intends to switch back to T+2 settlement cycle, it shall do so by giving 1-month advance notice to the market.

Any subsequent switch (from T+1 to T+2 or vice versa) shall be subject to minimum period and notice period as mentioned above.

There shall be no netting between T+1 and T+2 settlements.

The settlement option for security shall be applicable to all types of transactions in the security on that Stock Exchange. For example, if a security is placed under T+1 settlement on a Stock Exchange, the regular market deals as well as block deals will follow the T+1 settlement cycle on that Stock Exchange.

Alignment of interest of Asset Management Companies ('AMCs') with the Unitholders of the Mutual Fund Schemes

As per SEBI's earlier circular Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2021 ('MF Amendment Regulations') and its primary version 16(A) in Regulation 25 of SEBI (Mutual Funds) Regulations,1996 ('MF Regulations'), asset management companies ('AMCs') are required to invest such amount in such scheme(s) of the mutual fund, based on the risk associated with the scheme, as may be specified by the Board from time to time.

Thereby SEBI has decided that based on the risk value assigned to the scheme(s) AMCs shall invest minimum amount as a percentage of assets under management ('AUM') in their scheme(s).

Therefore, in terms of above, following guidelines shall be followed:

a) The risk value of the scheme as per the risk-o-meter of the immediately preceding month shall be considered.

b) The investment shall be maintained at all points of time till the completion of tenure of the scheme or till the scheme is wound up.

c) AMCs shall, except in case of close ended scheme(s), conduct a quarterly review to ensure compliance with the requirement of investment of minimum amount in the scheme(s) which may change either due to change in value of the AUM or in the risk value assigned to the scheme. Further, based on review of quarterly average AUM, shortfall in value of the investment in scheme(s), if any, shall be made good within 7 days of such review. AMC shall have the option to withdraw any excess investment than what is required pursuant to such review.

d) AMCs may invest from their net worth or the sponsor may fund the AMC to fulfil the aforesaid obligations, if required. However, the AMCs shall be required to make good the shortfall in the minimum net worth to comply with the requirement of the MF Regulations in case of sustenance of temporary Mark to Market loss for two consecutive quarters. AMC shall ensure that such temporariness of the Mark to Market loss is certified by the statutory auditor.

e) AMCs shall not be required to invest in ETFs, Index Funds, Overnight Funds, Funds of Funds scheme(s) and in case of close ended funds wherein the subscription period has closed as on date of coming into force of MF Amendment Regulations.

The mandatory contribution already made by the AMCs in compliance with the applicable MF Regulations shall not be withdrawn. However, such contribution can be adjusted against the investment required by the AMC as per this circular.

Swing pricing framework for mutual fund schemes

SEBI floated a consultation paper on introduction of swing pricing framework for mutual fund schemes. Pursuant to the feedback received on the said consultation paper and subsequent deliberations in the Mutual Fund Advisory Committee (MFAC), SEBI has decided to introduce swing pricing framework for open ended debt mutual fund schemes (except overnight funds, Gilt funds and Gilt with 10-year maturity funds).

Under this framework, to begin with, the swing pricing framework will be made applicable only for scenarios related to net outflows from the schemes. The framework shall be a hybrid framework with:

a. a partial swing during normal times and

b. a mandatory full swing during market dislocation times for high-risk open ended debt schemes.

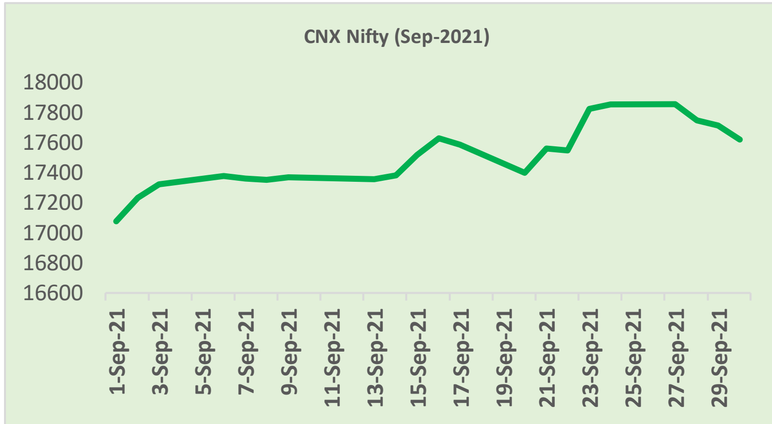
Risk Management Framework (RMF) for Mutual Funds

In order to ensure that mutual funds render, at all times, high standards of service, exercise due diligence, ensure proper care in their operations and to protect the interests of investors, SEBI via an earlier circular prescribed certain systems, procedures and practices that must be followed by all mutual funds with regard to risk management in various areas like fund management, operations, customer service, marketing and distribution, disaster recovery and business contingency, etc.

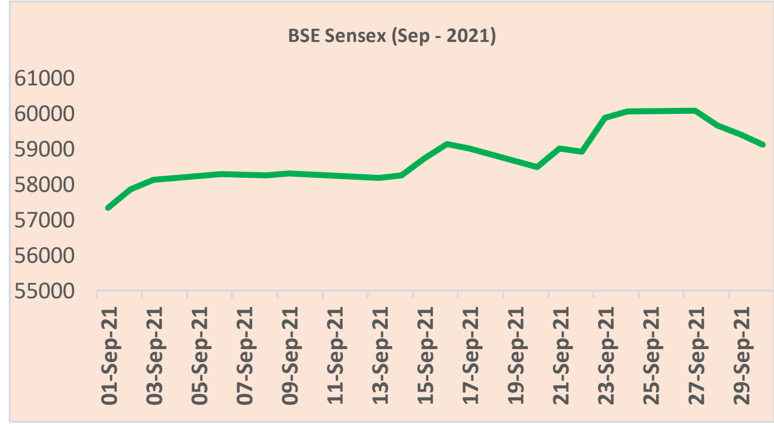
Since the date of issuance of the aforesaid circular, there have been significant developments in the mutual fund industry and in the financial markets as a whole, including in the area of product innovation, investment in newer asset classes, distribution landscape, technological evolution, investor penetration and awareness, increase in risk elements, etc. Accordingly, it has been decided to review the extant Risk Management Framework for Mutual Funds. The matter was deliberated in the Mutual Funds Advisory Committee (MFAC) based on the inputs received from the mutual fund industry. The recommendations of MFAC have been suitably incorporated in the Risk Management Framework for mutual funds.

With the overall objective of management of key risks involved in mutual fund operation, the revised Risk Management Framework (RMF) shall provide a set of principles or standards, which inter alia comprise the policies, procedures, risk management functions and roles & responsibilities of the management, the Board of AMC and the Board of Trustees.

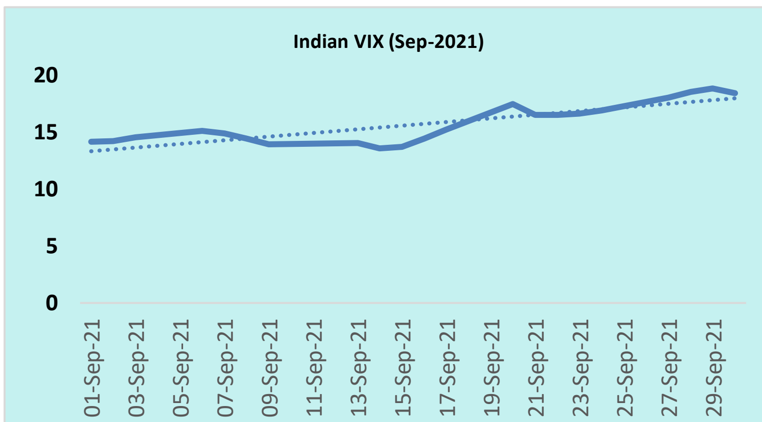
CAPITAL MARKETS SNAPSHOT



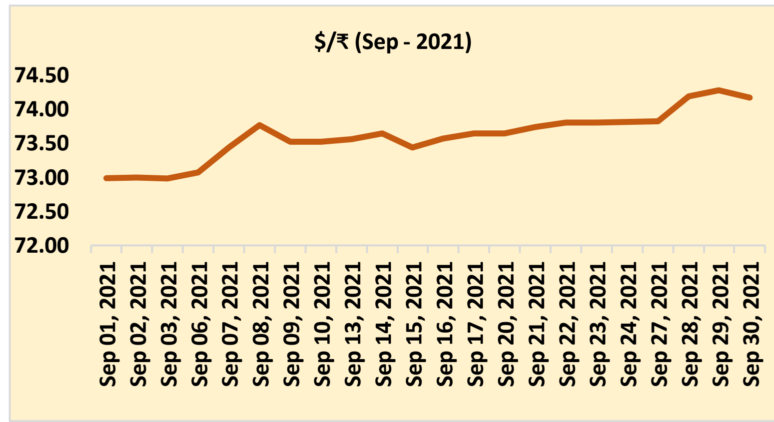
Source: National Stock Exchange



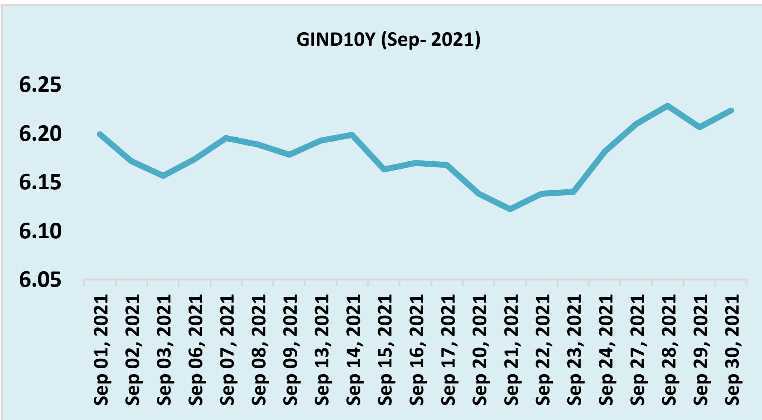
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The government's fiscal deficit stood at Rs 4.68 lakh crore, or 31.1% of the budget estimates, at the end of August. Higher crude oil prices raised concerns about the domestic inflation outlook and put the rupee under more pressure. Weak global cues, including rising US treasury yields amid tapering concerns by the Federal Reserve, and China's growth concerns due to the power crisis and Evergrande Group's debt default issue, pressurized the domestic market.

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	11
Russia	10.5 Q2	3.8	2.7	7.4 Sep	5.9	4.5	-1.8	7.57
India	**20.1 Q2**	**8.2**	**7.8**	**5.3 Aug**	**5.4**	**-0.9**	**-7.2**	**6.27**
China	7.9 Q2	8.0	5.3	0.8 Aug	1.2	2.8	-4.9	2.70^
S Africa	19.3 Q2	4.5	2.4	5.1 Aug	4.3	1.8	-9.0	9.43
USA	12.2 Q2	6.0	3.7	5.3 Aug	4.3	-3.4	-12.6	1.58
Canada	12.7 Q2	5.4	3.6	4.1 Aug	3.0	-2.6	-9.4	1.57
Mexico	19.6 Q2	6.4	2.7	6.0 Sep	5.3	1.8	-3.3	7.51
Euro Area	14.3 Q2	4.8	4.3	3.4 Sep	1.9	3.3	-7.2	0.0
Germany	9.4 Q2	3.1	4.2	4.1 Sep	2.5	6.7	-5.7	0.0
Britain	23.6 Q2	6.6	5.6	4.1 Aug	3.0	-4.5	-10.9	1.07
Australia	9.6 Q2	4.2	2.2	3.8 Q2	2.4	1.8	-5.9	1.59
Indonesia	7.1 Q2	3.0	5.0	1.6 Sep	1.7	-0.2	-6.0	6.34
Malaysia	16.1 Q2	3.8	4.0	2.0 Aug	2.4	4.0	-6.0	3.59
Singapore	14.7 Q2	5.4	3.7	2.4 Aug	1.8	19.4	-4.2	1.72
S Korea	6.0 Q2	4.0	2.8	2.5 Sep	2.2	4.7	-4.4	2.39

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

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