2022

Volume 2

APAS MONTHLY

THIS MONTH

We invite our readers and patrons to visit our wealth of knowledge by tuning into our new series of podcasts – "Demystifying Reforms" where we help demystify the latest reforms in the BFSI sector in India. Hope you will find it insightful. Keep tuning in for more.

https://podcasts.google.com/feed/aHR0cHM6Ly9hdWRpb2Jvb20uY29tL2NoYW5uZWxzLzUwNzEwMDMucnNz?sa=X&ved=0CAMQ4aUDahcKEwjIpO6SwP71AhUAAAAAHQAAAAAQOQ

Also, do visit our APAS blog. It is a place where you will find articles on the latest happenings in the financial sector.

https://ap-as.com/apas-blog/

In this issue, Mr. Rakesh Jain, ED & CEO, Reliance General Insurance, has presented his thoughts on 'Emerging Trends in non-life insurance industry and way forward'. We thank Mr. Jain for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Impact of global factors on Indian economy and markets'.

The economic indicators showed mixed performance. Manufacturing PMI decreased to a 4-month low of 54 in January from 55.5 in December. India's annual infrastructure output in January rose by 3.7%. India's Index of Industrial Production (IIP) slowed to a 10-month low of 0.4% in December. PMI services fell to a 6-month low of 51.5 in January from 55.5 in December, while composite PMI eased to 53 in January from 56.4 in December. CPI inflation rose to a 7-month high of 6.01% in January from 5.66% in December. WPI inflation eased to 12.96% in January from 13.56% in December.

The Gross Domestic Product (GDP) growth rate for the third quarter (October-December) of 2021-22 grew at 5.4%.

The Reserve Bank of India (RBI) announced (i) Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022 (ii) Reopening of allotment of investment limit under the Voluntary Retention Route for Investments by Foreign Portfolio Investors (iii) Exemption by RBI to Primary (Urban) co-operative banks to invest beyond non-SLR limits in Umbrella Organization (UO) (iv) Issue of digital rupee starting from 2022-23.

Insurance Regulatory Development Authority of India (IRDAI) proposed amendments to IRDAI (Health Insurance) Regulations, 2016.

Cabinet announced new legislation to replace Special Economic Zones Act.

Securities and Exchange Board of India (SEBI) announced regulations for constituting Audit Committee of Asset Management Companies (AMCs) and Standard Operating Guidelines for the Vault Managers and Depositories – Electronic Gold Receipts (EGR) segment.

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.

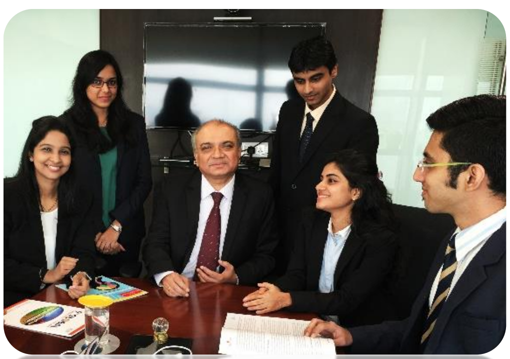
Ashvin parekh

On the cover

GUEST COLUMN

[Emerging Trends in Non-life Insurance and way forward]

Rakesh Jain
ED & CEO
Reliance General Insurance



APAS COLUMN

Impact of global factors on Indian economy and markets

ECONOMY

- *Index of Industrial Production – November*
- *Inflation update – December*
- *PMI update – December*
- *Core Sector – December*

APAS
ashvin parekh advisory services

BANKING

- [Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022]
- RBI reopens allotment of investment limit under the Voluntary Retention Route for Investments by Foreign Portfolio Investors
- Exemption by RBI to Primary (Urban) co-operative banks to invest beyond non-SLR limits in Umbrella Organization (UO)
- RBI to issue digital rupee starting from 2022-23

INSURANCE

- Proposed amendments to IRDAI (Health Insurance) Regulations, 2016

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- New legislation to replace Special Economic Zones Act

CAPITAL MARKETS

- *Regulations on Audit Committee of Asset Management Companies (AMCs)*
- *Standard Operating Guidelines for the Vault Managers and Depositories - Electronic Gold Receipts (EGR) segment*

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*

Emerging Trends in Non-life Insurance and way forward

Rakesh Jain
ED & CEO
Reliance General Insurance

The healthy expansion of Indian Non-life Insurance sector over the last decade & future growth prospects

Over the past decade, the non-life insurance sector has witnessed a 16% CAGR, standing at 1.6 times the GDP growth rate, largely driven by ever-growing private sector participation, improvement in distribution capabilities and substantial advancements in operational efficiencies. Despite the COVID-19 pandemic and a spate of climate-related events that disrupted the normal course of life in India, the sector expanded in FY20-21 as private non-life insurers registered a growth rate of 5% according to IRDAI's annual report 2020-21.

Total gross premiums written off by non-life insurers topped Rs. 1.99 lakh crore (US$ 26.3 billion) in FY21, an increase of 5% from FY20 as per IRDAI data, supporting the Indian economy which shrank by 3% in the same period. This year in the 9 months ended in December 2021, this figure has already touched Rs. 1.61 lakh crore (US$ 21.3 billion), an increase of 11% over the corresponding period last fiscal.

Despite the current growth, total non-life insurance penetration in India is only at just 1.0 % of the GDP for CY20 as reported by Swiss Re Sigma in its March 2021 report. This reflects the vast un-tapped potential in the non-life insurance space, one which is at the cusp of entering the next phase of untethered expansion. As the Indian economy aims at reaching the $5 trillion GDP mark by 2025, the non-life sector will play a role of paramount importance in catapulting India as a formidable force in the global economy landscape.

Staying abreast with trends seen in developed countries

The Indian economy is catching up with developed countries like the U.S.A and will increasingly need to adopt Insurance technology or Insurtech in a bid to enhance insurance penetration and better risk protection at lower costs. Reflecting this, domestic insurers are making significant progress in implementing advanced analytics and artificial intelligence (AI) to make use of data and customize solutions that are more relevant to the end consumer. With $3.66 billion of capital already invested in the InsurTech space so far, India is now the 2nd largest InsurTech market in the APAC region as reported S&P Global in 2021. The National Investment Promotion and Facilitation Agency of the Government of India has estimated that the online individual insurance market will grow from $365 million in FY20 to more than $1.25 billion by FY25, thereby offering the GI sector with immense growth opportunities.

Public welfare through Insurance

As per UN's projection the population of our country is to become 164 cr by 2050, and it will be extremely crucial to safeguard their health, life, property and other interests in the exciting growth period ahead. Towards this end, our honourable Prime Minister Shri. Narendra Modi has laid the foundation of schemes like the Ayushman Bharat Pradhan Mantri Jan Arogya Yojna (AB PM-JAY) that is the largest health insurance scheme in the world and aims at providing a health cover of INR 5 Lakh per family per year for secondary and tertiary care hospitalization to over 107 million vulnerable families (approximately 500 million beneficiaries). Moreover, the government too has launched flagship schemes like the Pradhan Mantri Fasal Bima Yojna (PMFBY) that is insuring close to 20 million farmers, 80% of whom are marginal farmers. While such Government schemes will help in driving the adoption & penetration of Insurance even in rural hinterlands, the Insurance sector will need to play a larger role going forward driven by innovation, digitalisation, and awareness initiatives.

Resilience of multiline non-life insurers

The support non-life insurance industry has provided to the customers and contribution made in the country's economy during the pandemic and several natural calamities are testaments to the resilience shown by multiline non-life insurance companies in handling unprecedented risks. Insurance companies with varied line of businesses have better ability to handle any risks as they can diversify the risks across various business streams. This enables non-life insurers to be consistent in supporting customers and maintaining stability in the company in challenging times. This will also encourage investors/shareholders

Protecting investor and consumer interests will be a key trend moving ahead

As the larger trend of going public and listing on the country's bourses catches up with the Insurance space, there will be a need for robust stakeholder/shareholder management as individual promoters will give way to multiple shareholders including Private Equity (PE) firms and retail investors. This will involve putting shareholder's interest on par with consumer interests and a careful balancing between both. Additionally, better catastrophe management will be important for all similarly publicly listed firms and will have to be fulfilled by the Insurance sector so as not to let the onus of protection shift towards the Government.

Way forward

Over the next many years, the non-life insurance industry needs to grow at 2X to 3X of the country's GDP growth rate and perhaps doubling it every 5-6 years for the next 2-3 decades. The growth will be driven by increases in per capita income, improving risk awareness among individuals, corporates and SMEs, and improving insurance penetration as InsurTech helps in uncovering greater efficiencies. On its part, the sector will have to step up in personalizing the customer experience and developing ingenious product solutions suitable to the needs of individuals and country at large.

Impact of global factors on Indian economy and markets

The news of a full-blown war has badly hit equity markets that were already reeling for reasons like relentless FII selling, expectation of fall in interest rates, high fuel prices and rising inflation. Nearly INR 29 lakh crore of investors' wealth has been wiped out since the beginning of February.

As the Russia-Ukraine conflict intensifies, we can see a larger impact on Indian economy's growth in the long run. Already crude oil prices had touched USD 100 per barrel even before the conflict. Now after the conflict started, crude oil prices are under more pressure and they are likely to remain at high levels for a long time to come. This would have an impact on India's import bill. If this happens, then in the long run, the Indian economic growth is also likely to slow down.

At the same time, prices of other commodities which India imports, too, would rise in the international market. Due to this pressure on global economy, demand may be impacted, which could affect our exports too. Uncertainty has risen in global trade and this will also impact oil and other commodities. All this will have a direct bearing on Indian economy, as India imports oil from Russia and sunflower oil from Ukraine. As prices are on the rise in global commodity markets, this will impact our import bill and lead to inflation.

The conflict has rattled markets around the world. Russia and Ukraine constitute less than 2% of global trade, but in many commodities, they have a sizable share — 37% of global palladium supply, 17% of natural gas, 13% of wheat, 12% of oil, and 9% of nickel is from the region. The barrage of sanctions imposed on Russia along with the supply chain interlinkages is expected to impact global trade and finance.

The short term impact of this crisis would be through inflationary pressures, since the country is dependent on imported oil. Also fueling inflation fears are possible shortages of essential metals like palladium, aluminium and nickel, creating another disruption to global supply chains already suffering from the pandemic, trucker blockades in Canada and shortages of semiconductors.

Some sectors like oil and gas and both ferrous and non-ferrous metals can gain through this trend, while the ones which depend on oil as a key input, like chemicals, fertilisers, gas utilities, refining and marketing, would have a negative impact.

APAS
ashvin parekh advisory services

India would see an immediate impact on inflation (already ruling at high levels) with rise in fuel and food prices. Other prices would also rise as supply bottlenecks get aggravated due to sanctions and the war situation. The investment climate would deteriorate due to the uncertainty. Capital flows into the country would decline, leading to a further decline in the stock markets. The P/E ratio was already ruling at high levels and such a big shock was bound to hit stock prices.

Demand for gold is likely to increase, leading to its increased import. This, along with the high bill for petroleum goods, would mean that the imports bill would rise. Exports are likely to be hit due to the decline in growth in the world economy and deglobalisation. With capital flows declining, the Balance of Payment (BOP), which was already turning adverse, would deteriorate further. Consequently, the rupee would weaken compared to the dollar, which would aggravate inflation further.

All these factors, uncertainty, increased demand, investment volatility, inflation and BOP, would reduce the rate of growth of the economy which was already hit by the pandemic.

Ratings agency India Ratings said the ongoing geopolitical risks arising from the Russia-Ukraine war would push India's import bills higher for items such as mineral oils and gas, gems and jewellery, edible oils and fertilisers. As a result, merchandise imports may cross USD 600 billion in FY22, up from USD 492.9 billion in the first 10 months. Merchandise trade with Ukraine, which had peaked at USD 3.11 billion in FY13, has declined to USD 2.35 billion so far in FY22 from USD 2.59 billion in FY21. India's merchandise trade with Russia was a bit higher at USD 8-11 billion during FY18-FY21 and stood at USD 9.44 billion so far this fiscal. In 2021, India exported to the tune of USD 3.33 billion worth of goods to Russia, including pharmaceutical products, tea and coffee.

Food prices have climbed to their highest level in more than a decade, largely because of the pandemic's supply chain mess, according to a recent United Nations report. Russia is the world's largest supplier of wheat, and together with Ukraine, accounts for nearly a quarter of total global exports. For some countries, the dependence is much greater. That flow of grain makes up more than 70% of Egypt and Turkey's total wheat imports.

In the United States, the Federal Reserve is already confronting the highest inflation in 40 years, at 7.5% in January, and is expected to start raising interest rates next month. Higher energy prices set off by a conflict in Europe may be transitory, but they could feed worries about a wage-price spiral.

From the standpoint of the Indian economy, the impact on commodities, especially energy is the cause of primary concern. Rising crude prices invariably result in a depreciating rupee, increasing inflation and fiscal deficit, and a reduction in GDP growth. It is estimated that a 10% rise in crude prices reduces our GDP growth by around 20 basis points, increases inflation by around 40 bps, and widens the current account deficit by around 30 bps.

The present macroeconomic developments are leading to volatility in all major asset classes, including equity and debt. The volatility is here to stay for some time before a market direction can be concluded.

-APAS

APAS
ashvin parekh advisory services

ECONOMY

<u>IIP (Index of Industrial Production) – December</u>

Index of Industrial Production (IIP) or factory output for the month of December 2021 slowed to a 10-month low of 0.4%, compared to 1.3% in November 2021 and 2.2% in December 2020.

The General Index for the month of December 2021 stands at 138, which is 0.4% higher as compared to December 2020.

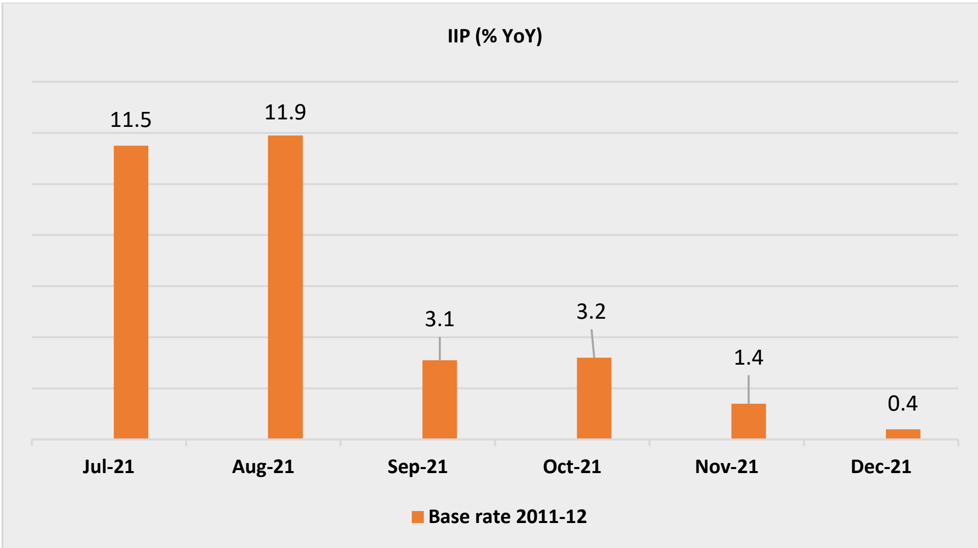
The manufacturing sector, which constitutes 77.63% of the index, contracted by 0.1% in December, to 138.8.

Mining sector output grew by 2.6%, to 120.3.

Electricity generation rose by 2.8%, to 162.5.

As per Use-based classification, the indices stand at 133.7 for primary goods, 91.4 for capital goods, 150.7 for intermediate goods and 153.5 for infrastructure/construction goods for December.

Further, the indices for consumer durables and consumer non-durables were at 121.5 and 160.2, respectively.



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

CPI (Consumer Price Index) – January

India's consumer price index (CPI) or retail inflation rose to a 7-month high of 6.01% in January 2022, compared to 5.66% in December 2021 and 4.06% in January 2021.

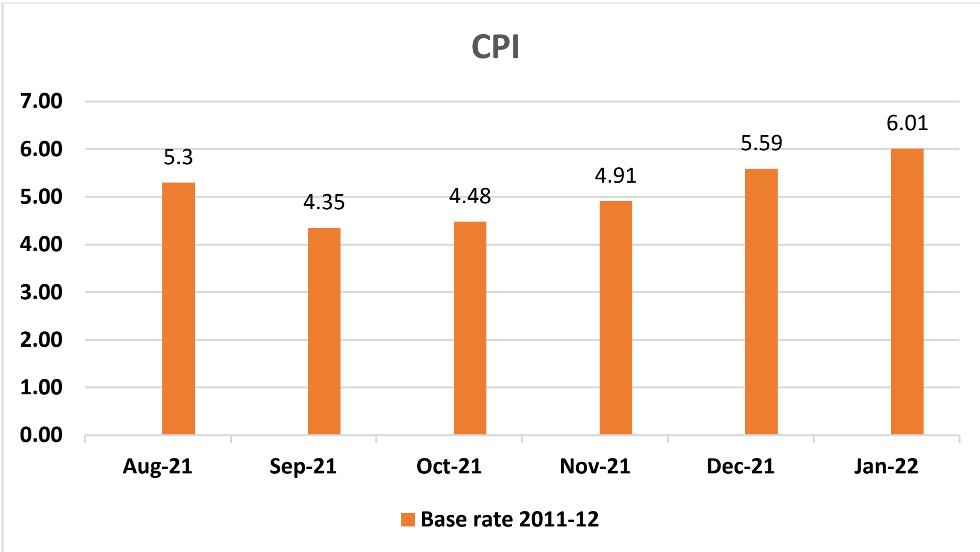
The corresponding provisional inflation rates for rural and urban areas are 6.12% and 5.91% respectively.

The Consumer Food Price Index (CFPI) rose to 5.43% in January from 4.05% in December.

The core CPI inflation remained largely unchanged at 6% in January 2022.

Food inflation soared for the 4th consecutive month, to the highest since October 2020, with prices of pulses rising 3.02%, vegetables 5.19% and oils and fats 18.7%.

Other upward pressure came from cost of fuel and light (9.32%), clothing and footwear (8.84%), miscellaneous (6.55%), housing (3.52%) and pan and tobacco (2.45%).



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

WPI (Wholesale Price Index) – January

India's wholesale price index (WPI) inflation eased to 12.96% in January 2022, as compared to 13.56% in December 2021. It was 2.51% in January 2021.

The rate of inflation based on WPI Food Index increased to 9.55% in January 2022 from 9.24% in December 2021.

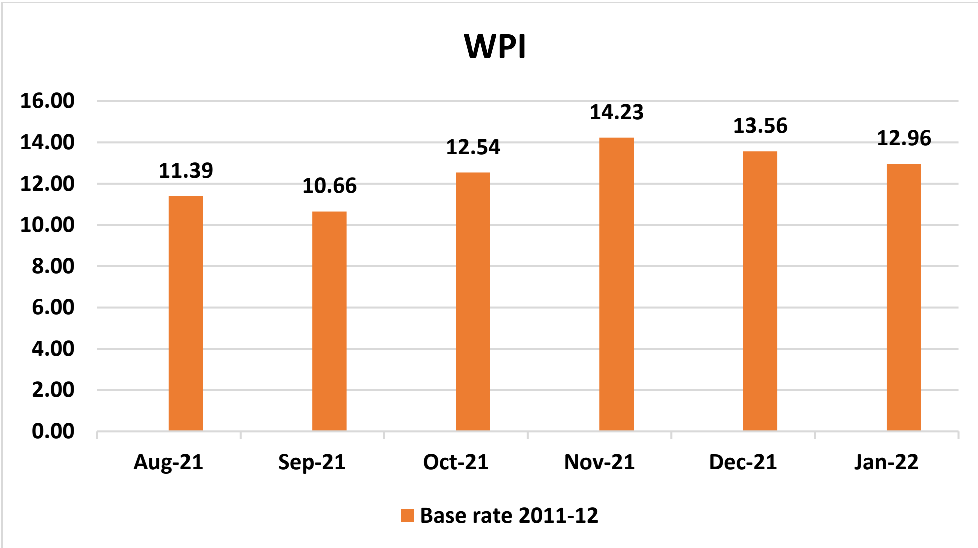
The index for primary articles declined by 1.67% from the previous month.

Prices increased for minerals (11.08%) and non-food articles (0.37%). Prices declined for food articles (2.61%) and crude petroleum & natural gas (5.11%).

The index for fuel and power increased by 3.9% from the previous month.

Prices increased for electricity (15.94%) and mineral oils (0.83%). Prices remained unchanged for coal.

The index for manufactured products increased by 0.51% from the previous month.



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

Manufacturing PMI – January

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in January moderated for the second consecutive month, primarily due to the renewed restrictions across states to contain the third wave of Covid-19.

The Manufacturing PMI decreased to a 4-month low of 54 in January 2022 from 55.5 in December 2021. It remained above the 50 level, that separates expansion from contraction, for the seventh straight month.

The reading pointed to the weakest growth in the sector since last September amid Covid-19 disruptions, but stayed above its long-run average at 53.6.

Both output and new orders grew the least in 4 months, but rates of expansion remained historically elevated.

At the same time, foreign sales slowed, while employment fell modestly.

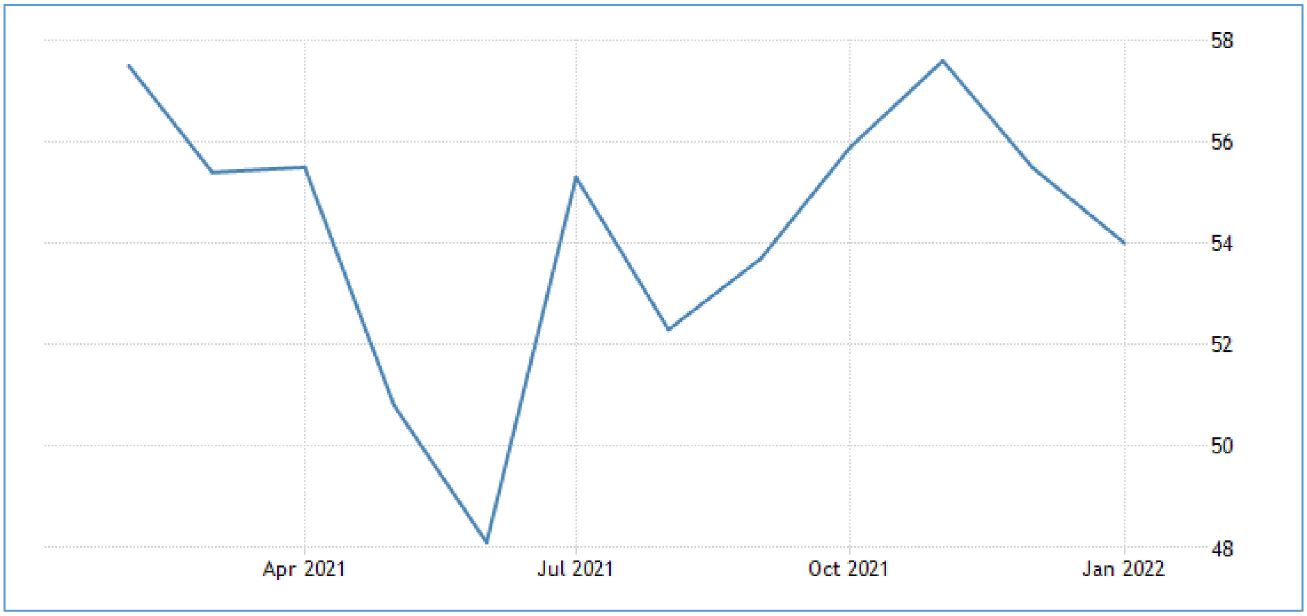
Firms sought to rebuild input stocks by purchasing additional raw materials and semi-finished items.

Average lead times lengthened moderately and to a lesser extent than in December, suggesting pressure on suppliers remained mild.

On the price front, input cost inflation eased to a 4-month low, but remained above its long run average.

Meanwhile, output cost inflation accelerated, albeit one that was moderate overall.

Finally, confidence weakened to a 19-month low, amid pandemic uncertainty and inflation expectations.



Source: www.tradingeconomics.com

Services PMI – January

The Indian services sector activity in January moderated further, as new business rose at a noticeably slower rate amid the escalation of the pandemic, reintroduction of restrictions and inflationary pressures.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to a 6-month low of 51.5 in January 2022 from 55.5 in December 2021. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the sixth straight month.

This was the weakest reading since July, with both output and new orders rising at slight rates that were the weakest in 6 months.

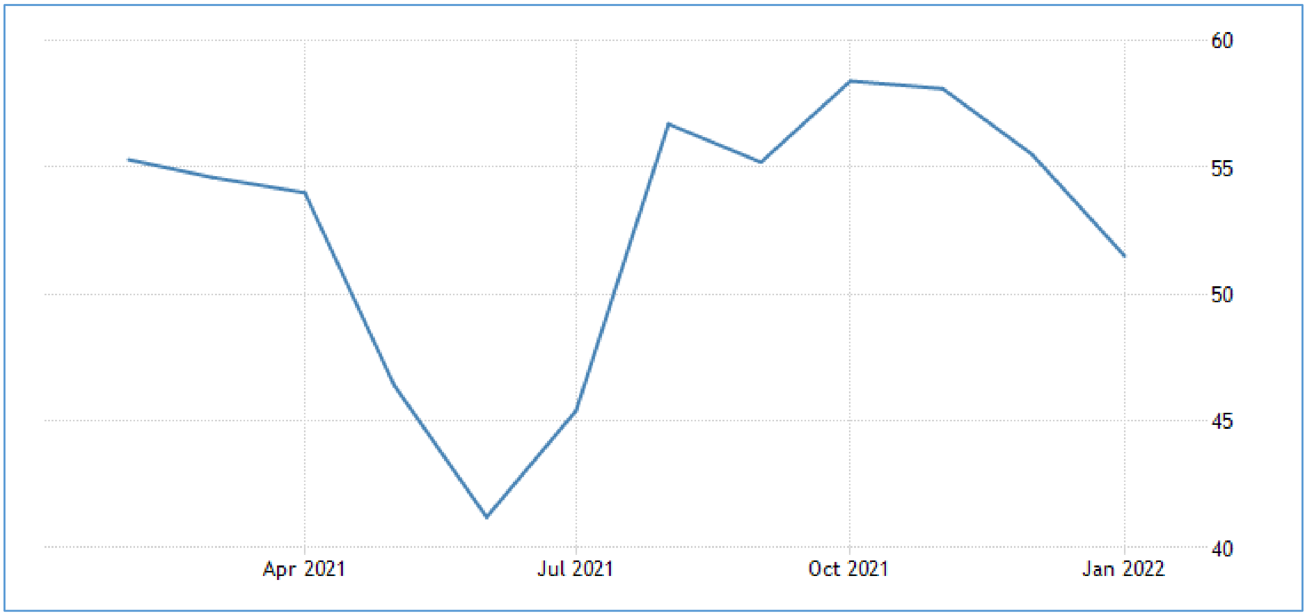
At the same time, employment declined for the second month running, with the rate of backlog accumulation only slight and in line with its long run average.

On the price front, input price inflation hit an over a decade high, boosted by rise in food, fuel, material, staff and transportation costs.

Meanwhile, output charges inflation moderated and in line with its long run average.

Looking ahead, sentiment weakened to a 6-month low.

The seasonally adjusted Nikkei India Composite PMI Output Index eased to 53 in January from 56.4 in December, signalling the slowest rate of expansion in the current 6-month period of growth.



Source: www.tradingeconomics.com

Core Sector Data – January

Growth of eight infrastructure sectors rose by 3.7% in January 2022.

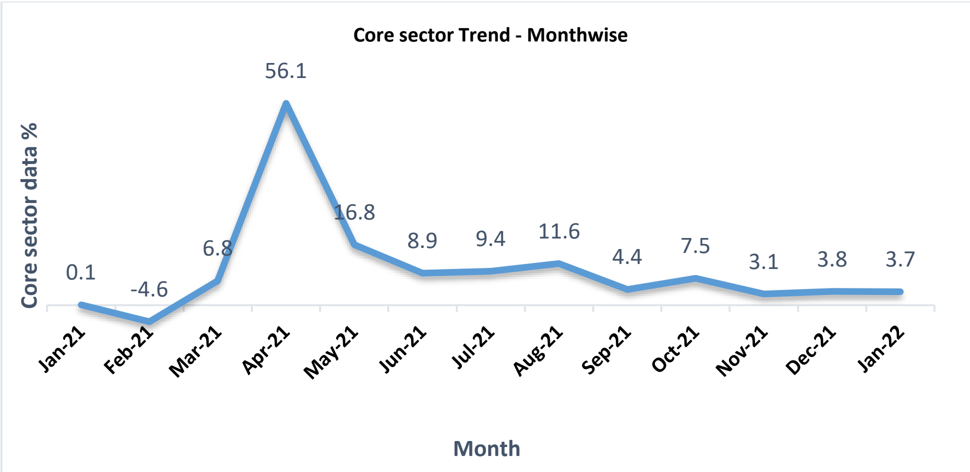
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 4.1% in December 2021 and 1.3% in January 2021.

Barring crude oil and fertilisers, all sectors recorded positive growth in January 2022.

The production of coal, natural gas, refinery products, steel, cement and electricity r ose by 8.2%, 11.7%, 3.7%, 2.8%, 13.6% and 0.5%, respectively.

The output of crude oil and fertiliser declined by 2.4% and 2%, respectively.

Cumulatively, the growth in the eight core sectors during April-January 2021-22 stood at 11.6%, as against a contraction of 8.6% in the same period last financial year.



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

GDP – Quarter 3 – FY 2021-22

The country's Gross Domestic Product (GDP) for the third quarter (October-December) of fiscal year 2021-22 grew at 5.4%, however, slowed from the previous 2 quarters.

The GDP growth rate in Q3 FY 2020-21 was 0.7%, in Q1 FY 2021-22 was 20.3% and in Q2 FY 2021-22 was 8.5%.

GDP at constant (2011-12) prices in Q3 FY 2021-22 is estimated at INR 38.22 lakh crore, as against INR 36.26 lakh crore in Q3 FY 2020-21, showing a growth of 5.4%.

The growth in GDP during 2021-22 is estimated at 8.9%, as compared to a contraction of 6.6% in 2020-21.

Nominal GDP or GDP at current prices in 2021-22 is estimated to attain a level of INR 236.44 lakh crore, as against INR 198 lakh crore in 2020-21, showing a growth rate of 19.4%.

Gross Value Added (GVA) growth in the manufacturing sector remained almost flat at 0.2% in Q3, compared to 8.4% last year.

Farm sector GVA was slow at 2.6%, compared to 4.1% last year.

Construction sector GVA declined by 2.8%, as against a growth of 6.6% last year.

Mining sector grew by 8.8%, as against a contraction of 5.3% last year.

Electricity, gas, water supply and other utility services segment grew at 3.7%, against 1.5%.

Trade, hotel, transport, communication and services related to broadcasting grew by 6.1%, compared to a contraction of 10.1%.

Financial, real estate and professional services growth stood at 4.6%, compared to 10.3%.

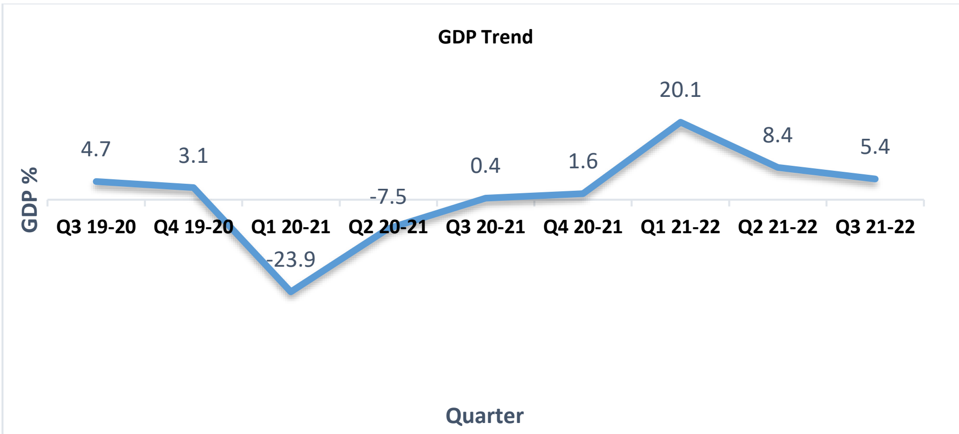
Public administration, defence and other services grew at 16.8%, compared to a contraction of 2.9%.

Private final consumption expenditure grew by 7% in Q3.

However, gross fixed capital formation, an indicator of investment activity, grew by just 2%.

Government final consumption expenditure provided support by growing at 3.4%.

The growth in GVA is seen at 8.3% for FY 22, as against 8.6% earlier.



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

BANKING

Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022

The RBI, post discussions with the industry stakeholders released guidelines on credit derivatives. These Directions shall apply to credit derivatives transactions undertaken in over the Counter (OTC) markets and on recognized stock exchanges in India.

The eligible participants shall include:

a. Residents; and
b. Non-residents, who are eligible to invest in corporate bonds and debentures

As per RBI, following categories of investors shall be classified as **non-retail investors:**

i. NBFCs, including SPDs and HFCs, other than market-makers.
ii. Insurance Companies regulated by Insurance Regulatory and Development Authority of India (IRDAI);
iii. Pension Funds regulated by Pension Fund Regulatory and Development Authority (PFRDA);
iv. Mutual Funds regulated by Securities and Exchange Board of India (SEBI);
v. Alternative Investment Funds regulated by Securities and Exchange Board of India (SEBI);
vi. Resident companies with minimum net worth of ₹500 crore as per the latest audited balance sheet; and
vii. Foreign Portfolio Investors (FPIs) registered with SEBI.

Permitted products in the OTC market: Market-makers and users may undertake transactions in single-name CDS contracts.

Protection buyers and sellers for Credit Default Swaps in OTC market

Retail users shall be allowed to buy protection only for the purpose of hedging. Non-retail users shall be allowed to buy protection for hedging or otherwise. The following non-retail users shall be eligible to act as protection sellers:

- Insurance Companies regulated by IRDAI.
- Pension Funds regulated by PFRDA.
- Mutual Funds regulated by SEBI.

- Alternative Investment Funds regulated by SEBI; and
- Foreign Portfolio Investors (FPIs) registered with SEBI.

The guidelines include operational guidelines on the purchasing and processing of credit derivatives and role of Fixed Income Money Market and Derivatives Association of India (FIMMDA).

The directions said the Fixed Income Money Market and Derivatives Association of India (FIMMDA), in consultation with market participants and based on international best practices, will be devising standard master agreements for the Indian CDS (credit default swaps) market which shall include credit event definitions and settlement procedures.

RBI reopens allotment of investment limit under the Voluntary Retention Route for Investments by Foreign Portfolio Investors

The Reserve Bank of India introduced the Voluntary Retention Route (VRR) for investments by Foreign Portfolio Investors (FPIs) on March 01, 2019. An amount of ₹1,50,000 crore was offered for investment through VRR, in three tranches so far; of which around ₹1,49,995 crore have been availed as on February 10, 2022. Based on the feedback received, and in consultation with the Government, RBI has increased the investment limits available under the VRR.

The increased investment limits shall be open for allotment from April 01, 2022, as per the following details:

- The investment limit under VRR has been increased to ₹2,50,000 crore.
- The investment limit available for fresh allotment shall accordingly be ₹1,04,800 crore (net of extant allotments and adjustments); and shall be allotted under the VRR–Combined category.
- The minimum retention period shall be three years.
- Investment limits shall be available 'on tap' and allotted on 'first come, first served' basis.
- The 'tap' shall be kept open till the limit is fully allotted.
- FPIs may apply for investment limits online to Clearing Corporation of India Ltd. (CCIL) through their respective custodians.

Voluntary Retention Route (VRR) is a channel introduced by the Reserve Bank of India (RBI) to enable FPIs to invest in debt markets in India. All the investments made through this channel are free of the macro-prudential and other regulatory prescriptions applicable to FPI investments in debt markets. However, FPIs must voluntarily commit to retaining a required minimum percentage of their investments in India for a period of their choice. This could lead to inflow from FPIs in the corporate bond segment.

Exemption by RBI to Primary (Urban) co-operative banks to invest beyond non-SLR limits in Umbrella Organization (UO)

As per RBI's current regulations, Primary (Urban) co-operative banks are permitted to invest up to ten percent of total deposits in non-SLR investments (as of March 31 of the previous year). Further, investments in unlisted securities shall not exceed ten per cent of the total non-SLR investments at any time.

RBI has recently accorded regulatory approval to National Federation of Urban Co-operative Banks and credit societies Ltd. (NAFCUB) in June 2019 for formation of Umbrella Organization (UO) for the UCB Sector. The approval inter-alia permits UCBs to subscribe to capital of the UO on voluntary basis. Thereby, RBI has stated that the investment made for subscribing to the capital of the UO, for acquiring its membership, shall be exempt from the limits of non-SLR investment mentioned above.

RBI to issue digital rupee starting from 2022-23

Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman proposed to introduce Digital Rupee, using blockchain and other technologies, to be issued by the Reserve Bank of India starting 2022-23.

She further proposed various other initiatives to boost investment and credit availability in the country.

Infrastructure Status

Smt. Sitharaman proposed that the Data Centres and Energy Storage Systems including dense charging infrastructure and grid-scale battery systems would be included in the harmonized list of infrastructure.

Venture Capital and Private Equity Investment

The finance minister proposed setting up of an expert committee to examine and suggest appropriate measures to scale up Venture Capital and Private Equity investment. She noted that the Venture Capital and Private Equity invested more than Rs. 5.5 lakh crore last year facilitating one of the largest start-up and growth ecosystems.

Blended Finance

Smt. Sitharaman said that the Government backed Funds NIIF and SIDBI Fund of Funds had provided scale capital creating a multiplier effect. She said that for encouraging important sunrise sectors such as Climate Action, Deep-Tech, Digital Economy, Pharma and Agri-Tech, the government would promote thematic funds for blended finance with the government share being limited to 20 per cent and the funds being managed by private fund managers.

Financial Viability of Infrastructure Projects

The finance minister said that for financing the infrastructure needs, measures would be taken to enhance financial viability of projects including PPP, with technical and knowledge assistance from multi-lateral agencies. She further said that enhancing financial viability shall also be obtained by adopting global best practices, innovative ways of financing, and balanced risk allocation.

INSURANCE

Proposed amendments to IRDAI (Health Insurance) Regulations, 2016

Taking into consideration the dynamics of the insurance industry, the IRDAI (Health Insurance) Regulations, 2016 have been comprehensively reviewed by IRDAI in order to examine the scope for allowing operational freedom to both insurers and TPAs while protecting the interests of policyholders. Key amendments in the regulations are as follows:

Discount On Renewal Premiums

The sector regulator has proposed to include the word 'discount', besides 'loading', on renewals of existing health policies to encourage insurers to grant reductions in premiums on renewal in case of improvement in risk profile. Loading is top-up for risk and age on renewal.

Non-Repudiation of Claims and Time-Bound Portability

In January 2020, the IRDAI had introduced guidelines on portability of health insurance policies that allowed all individual indemnity health insurance policyholders, including family floater policies, to migrate to a new insurer. For policyholders wishing to port to a new insurance provider, the modified regulation ensures that no subsequent claim related to that already made with the existing insurer shall be rejected by the new insurer under "non-disclosure" clause after portability. The insurance company is also required to obtain all necessary details of medical history and claim history of the policyholder concerned from the existing insurance company through the web portal of the IRDAI within five days, thus making it time-bound unlike in the past.

Exclusion Of Minimum Group Size Mandated for Obtaining Group Health Cover

From a minimum group size requirement of seven, the IRDAI has proposed that the group health insurance policy may be offered based on guidelines specified from time to time.

Revision In Cashless Facility Clause

The IRDAI has proposed rewording of the clause that caters to cashless facility being made available at network providers. While the current regulations mandate bipartite/ tripartite agreements by insurers with network providers (hospitals or clinics and such other establishments), the revision proposes to shift the onus of ensuring availability of cashless facility by insurer without prescribing a specific manner to do so.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

New legislation to replace Special Economic Zones Act

"The Special Economic Zones Act will be replaced with a new legislation that will enable the states to become partners in Development of Enterprise and Service Hubs", said the union minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, while presenting the Union Budget for 2022-23. She added that this would cover all large existing and new industrial enclaves to optimally utilize available infrastructure and enhance competitiveness of exports.

She also proposed various initiatives to make GIFT City more attractive.

GIFT-IFSC

The finance minister proposed that World-class foreign universities and institutions would be allowed in the GIFT City to offer courses in Financial Management, FinTech, Science, Technology, Engineering and Mathematics free from domestic regulations, except those by IFSCA to facilitate availability of high-end human resources for financial services and technology.

Smt. Sitharaman also proposed an International Arbitration Centre which would be set up in the GIFT City for timely settlement of disputes under international jurisprudence. Further, she said that services for global capital for sustainable & climate finance in the country would be facilitated in the GIFT City.

CAPITAL MARKETS

Regulations on Audit Committee of Asset Management Companies (AMCs)

A working group constituted for the purpose of the regulatory revamp exercise of SEBI (Mutual Funds) Regulations, 1996 and various other circulars, suggested that an Audit Committee may be constituted at AMC level.

Currently, the requirement for an Audit Committee is at the level of trustees of Mutual Funds.

Thereby, after discussions with Mutual fund advisory committee, it has been finalized that the AMC of mutual fund should constitute an Audit Committee.

The audit committee of the AMC will be responsible for oversight of financial reporting process, audit process, company's system of internal controls, compliance to laws and regulations and other related process, with specific reference to operation of its mutual fund business.

The audit committee will be mandated to review the financial reporting processes, the system of internal controls and the audit processes for the mutual fund operations of the AMC and ensure that the rectifications, if any, suggested by internal and external auditors, etc. are acted upon.

Further, the committee will have minimum three directors as members and at least two-third members of will be independent directors of AMC. The members will be appointed by the Board of AMCs.

The chairperson of the audit committee must be an independent director and he or she should call at least four meetings in a financial year and not more than one hundred and twenty days must elapse between two meetings.

Standard Operating Guidelines for the Vault Managers and Depositories - Electronic Gold Receipts (EGR) segment

SEBI has issued standard operating guidelines for the vault managers and depositories – Electronic Gold Receipts (EGR) segment in order to ensure ease of compliance for the market participants in the EGR ecosystem as well as effective implementation of the Regulations.

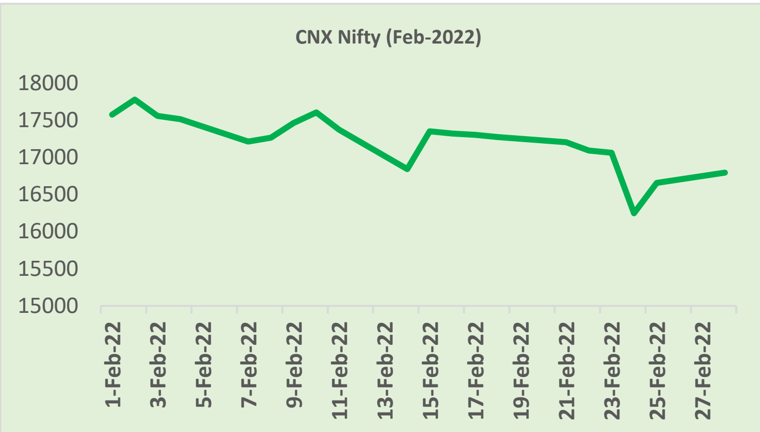
An EGR will be issued in exchange for physical gold, which will be similar to a company's equity shares for trading. EGRs will be notified as securities and will certainly avail of all the benefits as any other securities. The EGRs are expected to be a bridge in integrating spot gold trade with the derivatives markets in the Indian domestic periphery.

Quantum: The Vault Manager shall furnish FSD of Rs. 10 lakhs to any one of the two Depositories (viz. NSDL or CDSL) before obtaining a certificate of registration from SEBI. This is the minimum amount of FSD which has to be maintained with Depository at all points of time.

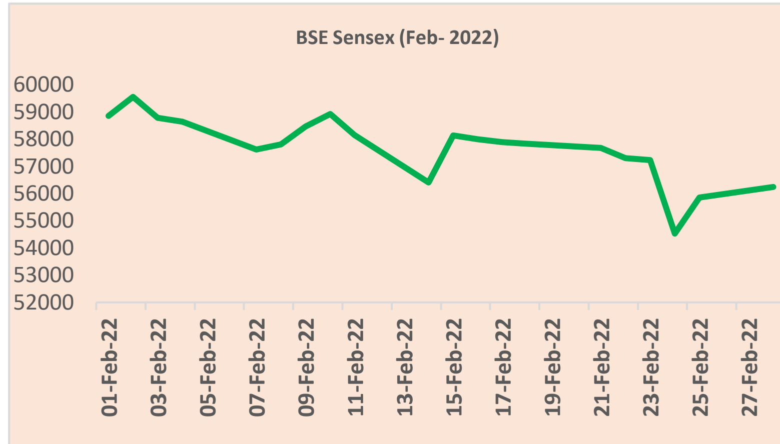
Use of FSD: The Depository shall put in place a procedure to utilize the FSD for compensating the aggrieved client, in any such losses caused to a client that have been appropriately established by the Depository against the Vault Manager; or in case of loss arising from any action or inaction of the Vault Manager that prevents the client from exercising, in whole or in part, their rights while availing vaulting services.

Corporate governance: The Vault Manager shall designate one of its employees as a Compliance Officer who would be responsible for monitoring the compliance with relevant Acts, rules and regulations, notifications, guidelines and circulars issued by relevant authorities from time to time. The Compliance Officer would also be responsible for ensuring that all applicable norms are followed by the Vault Manager and should issue a declaration to that effect to the Depository for every quarter, within seven working days from the end of the quarter.

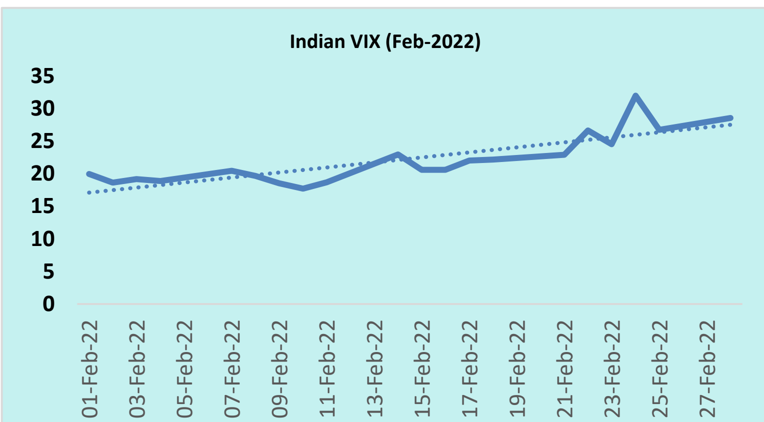
CAPITAL MARKETS SNAPSHOT



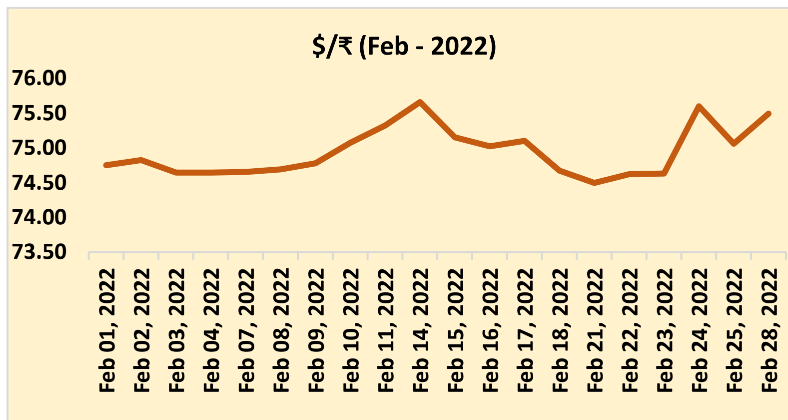
Source: National Stock Exchange



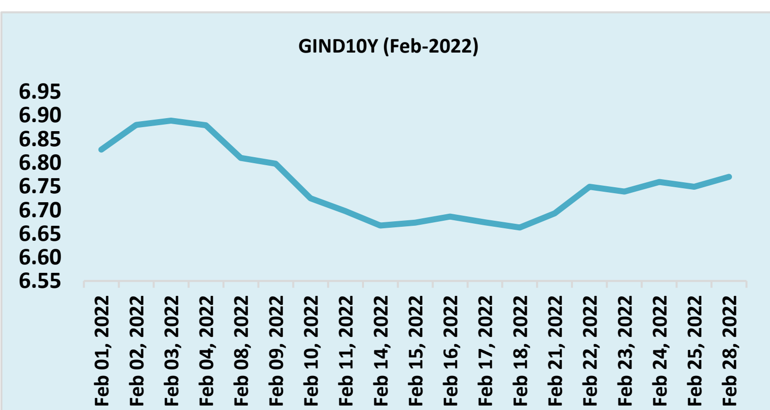
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Indian equity indices extended mid-February's losses owing to persistent worries over Russia-Ukraine geopolitical tensions. S&P BSE Sensex and Nifty 50 fell around 0.5% each. Markets also fell after the US Federal Reserve's (Fed) January policy meet minutes hinted at a sooner-than-expected rate hike. India's consumer price inflation increased to a 7-month high of 6.01% on year in January, compared with 5.66% rise in December, following a rise in prices of food and manufactured items.

ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2022*	2023*	Latest	2022*	% of GDP, 2022*	% of GDP, 2022*	(10YGov), Latest
Brazil	1.6 Q4	0.3	1.6	10.4Jan	7.6	-2.0	-7.7	12
Russia	4.3 Q3	-10.1	4.5	9.2 Feb	15.0	8.5	-6.7	12
India	**5.4 Q3**	**7.0**	**5.2**	**6.0 Jan**	**4.6**	**-1.6**	**-5.9**	**6.80**
China	4.0 Q4	5.2	5.0	0.9 Feb	2.4	1.8	-5.0	2.57^
S Africa	1.7 Q4	2.1	2.5	5.7 Jan	2.8	-0.6	-6.0	9.88
USA	5.6 Q4	3.4	2.1	7.5 Jan	5.2	-3.3	-7.4	1.94
Canada	3.3 Q4	3.8	3.3	5.1 Jan	3.8	0.0	-7.5	1.90
Mexico	1.1 Q4	1.9	2.6	7.3 Feb	5.1	-0.9	-3.3	8.35
Euro Area	4.6 Q4	4.0	2.7	5.8 Feb	3.6	3.2	-4.0	0.22
Germany	1.8 Q4	3.2	2.8	5.1 Feb	4.2	6.5	-2.6	0.22
Britain	6.5 Q4	4.1	2.3	5.5 Jan	5.4	-3.3	-5.4	1.32
Australia	4.2 Q4	3.3	2.5	3.5 Q4	3.8	1.3	-3.2	2.30
Indonesia	5.0 Q4	5.1	4.9	2.1 Feb	3.6	-0.6	-4.9	6.76
Malaysia	3.6 Q4	4.5	4.3	2.3 Jan	2.8	3.2	-6.1	3.68
Singapore	6.1 Q4	3.8	3.2	4.0 Dec	2.9	17.5	-0.9	1.86
S Korea	4.1 Q4	2.9	2.5	3.7 Feb	2.3	4.1	-2.9	2.72

Sources: The Economist

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

^ 5-year yield

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

APAS
ashvin parekh advisory services

ABOUT APAS

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

Contact Us: 022-6789 1000

info@ap-as.com

www.ap-as.com

APAS
ashvin parekh advisory services