2022

Volume 3

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. Nilesh Shah, Group President and Managing Director, Kotak Mahindra Asset Management, has presented his thoughts on 'Emerging Trends in Asset Management industry and way forward: Shape of things to come'. We thank Mr. Shah for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Summary of our Survey: Changes in the Insurance Law Proposed by the Industry'.

The economic indicators showed mixed performance. Manufacturing PMI increased to 54.9 in February from 54 in January. India's annual infrastructure output in February rose by 5.8%. India's Index of Industrial Production (IIP) grew by 1.3% in January. PMI services edged up to 51.8 in February from 51.5 in January, while composite PMI rose to 53.5 in February from 53 in January. CPI inflation rose to an 8-month high of 6.07% in February from 6.01% in January. WPI inflation rose to 13.11% in February from 12.96% in January.

The Reserve Bank of India (RBI) announced (i) RBI Monetary Policy – April 2022 (ii) Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 (iii) Framework for Geo-tagging of Payment System Touch Points.

Insurance Regulatory Development Authority of India (IRDAI) issued Extension of timelines for sale and renewal of short term Covid specific health insurance policies.

Cabinet announced National Action Plan on Climate Change.

Securities and Exchange Board of India (SEBI) announced Product specifications pertaining to the Electronic Gold Receipts (EGR) segment in India and Introduction of Options on Commodity Indices – Product Design and Risk Management Framework.

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 Asset Management Industry and way forward: Shape of things to come

Nilesh Shah
Group President and Managing Director
Kotak Mahindra Asset Management

APAS COLUMN

Summary of our Survey: Changes in the Insurance Law Proposed by the Industry

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- *Index of Industrial Production – January*
- *Inflation update – February*
- *PMI update – February*
- *Core Sector – February*

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- [RBI Monetary Policy – April 2022]
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CAPITAL MARKETS

- *Product specifications pertaining to the Electronic Gold Receipts (EGR) segment in India*
- *Introduction of Options on Commodity Indices – Product Design and Risk Management Framework*

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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Emerging Trends in Asset Management industry and way forward: Shape of things to come

Nilesh Shah
Group President and Managing Director
Kotak Mahindra Asset Management

Mutual Fund Industry has come a long way and has grown well from UTI days of guaranteed return to today. The Asset under Management (AUM) has doubled from ₹ 17.89 trillion as of February 2017 to ₹37.56 trillion as of February 2022 in 5 years. The industry currently caters to an investor base of about 3 Cr with more than 12 Cr folios. Presence in B-30 is around 17% of the AUM and has been increasing. The monthly inflows through SIP were around 3,100 Cr in April 2016 and are currently around Rs 11,500 cr. The bouquet of products offerings has widened across debt, equity and commodities.

The penetration of Mutual Fund in terms of size is around 12% of GDP as compared to the global average of around 75%. The growth of the Mutual Fund industry is linked to savings generation in the economy. The savings rate has been growing at a fast pace. The Savings rate was around 15% of the GDP three decades ago. Today, it has doubled to around 29%.

Few factors which will shape the Indian Mutual Fund industry in the days to come are as follows:

- Mutual Fund industry's growth is attributable to SEBI's well-established regulations. The regulator has been very active in terms of adapting to the changing dynamics around the industry. The Categorization and Rationalization of Mutual Fund Schemes ensured a level playing field across players. The Skin-in-the-game rule aimed to align the interest of the 'Key employees' of the mutual fund house with the investors of its schemes. Further, uniformity in disclosures, enabling segregation of portfolio etc. was introduced keeping in mind the best interest of investors. This has helped gain the investor's confidence in the Mutual fund offerings. Going ahead, SEBI and Industry must ensure that governance and conflict of interest, as well as investor protection, is well managed in a rapidly changing world.
- Mutual Fund investors have got double-digit returns in the last decade across Lump sum & SIP investments. It has been much higher than traditional investment options. This has helped Mutual Fund gain traction with word of mouth publicity from satisfied investors. Further, investor education initiatives led by AMFI attracted new investors. Investors have started to realize that Mutual Fund is not only about investing in Equity Markets and the risks associated with it. Categories in the Hybrid space wherein the Asset Allocation is taken care of by the Mutual Funds have been gaining acceptance and popularity amongst investors. The SIP mode of investment is also gaining popularity. We are

seeing an increase in inflows almost every month. The J curve or Hockey stick effect should now come through as a critical base is achieved.

- Mutual Fund operate in a very low-cost model. This has resulted in better value addition. Mutual Funds will have to be frugal for lowering costs. The Cost structure is also very transparent. An investor knows how much cost or the Total Expense Ratio he is paying for his investment in Mutual Funds. An investor has access to his investment valuations daily. Such transparency should help in gaining investors' confidence in the Mutual Funds more.
- Investor's behavior in buying a product has been changing. More and more people are preferring to buy things online at the click of a button. Mutual Fund should continue to leverage digital technology to connect with the customer for better reach, to reduce cost, for investor convenience and to achieve scale and size.
- The ability of a Mutual Fund scheme to generate returns over and above its benchmark is Alpha. Mutual Funds must continue to focus on Alpha generation for Active funds through the use of quantitative tools as well as by attracting talent. This will help strengthen investor confidence in the Mutual Fund products.
- The Passive Funds have been gaining a lot of attention as they are easy to understand and are low cost in nature. Currently, the AUM is skewed towards the frontline benchmarks. Going forward, Smart beta and thematic indices could help scale up the passive space in a big way.
- There is enough scope for Product innovation. Currently, the Mutual Fund have fixed fee model which go down with an increase in AUM. In the case of Portfolio Management Services & Alternative Investment Funds, the variable profit share model exists which could help attract more investors interest. There is also enough scope of product innovation under leverage products structure which is currently possible via category 3 AIFs. This has the potential to tap the niche segment of investors which could give a boost to this space.

The penetration of Mutual Funds although growing fast is still at a nascent stage. Hence, distribution plays an important role in increasing awareness and getting deeper penetration. Going ahead, the banks and National distributors could expand distribution to cater to more High Net worth Individuals. Digital platforms will play an important role for increasing penetrating in the retail segment. The mutual fund distributors (MFDs) and Registered Investment Advisors (RIAs) could look into the middle segment for deeper penetration of Mutual Funds.

Summary of our Survey: Changes in the Insurance Law Proposed by the Industry

Insurance has been one of the youngest contenders in the financial services industry and still remains one of the highly underpenetrated financial avenues. Like all other financial services, the insurance sector in India also remains highly regulated for both companies and intermediaries. Some part of this regulatory structure could become more conducive to industry growth and tapping additional customer segments. We have collated views from the industry in this regard and presented herewith a survey conducted on leadership of life, general and health insurance companies. Industry views are more inclined towards views from general insurance industry. Key areas of assessment are as follows:

1. **Let insurance be a business of management of risk – more than underwriting risk to increase penetration**

The definition of "Insurance business" under the Insurance Act confines the scope of insurance business as "effecting contracts ……………………………… for expenses or benefits" only, which acts as a deterrence for insurers to manage the risks underwritten or 'to be underwritten' and minimize the possibility of losses emanating out of it (preventive risk mitigation activities). Preventive risk mitigation activities on a standalone basis would not only help in popularization and penetration of insurance but will also help to reduce the incidence of losses, thereby resulting in better priced products and lower overall risk for the nation. Having enabled for the same, insurers should be able to provide a comprehensive risk mitigation solution to customers.

To elucidate the above, measures to reduce risk and therefore, the occurrence of loss to policyholders, an insurance company may develop products encouraging, for instance, good quality electric cabling to prevent loss due to fire. Or for that matter, it may develop health management programs enabled by technology to encourage policyholders to conduct good health regime. Insurers, while providing health insurance, have gained enough experience to provide a comprehensive risk mitigation solution to customers, rather than only underwriting and distributing insurance products.

Considering government's Digital India vision and considering today's tech savvy users and digital environment, banking sector users are keener to opt for value added services (VAS) while doing online transactions with banking entities.

In view of the above and to derive better utilization of the knowledge and experience of the Insurers, the definition of “life, general and health insurance business may be modified to include risk management and other value added or ancillary services.

2. **Encourage insurers to enable them to promote, support and incubate insurance startups**

The industry wants the regulations to be conducive to government policy of promoting digital financial services. The industry also expects the regulations to recognize that there are several technology solution developers who have ideas to develop or test or to grow their solutions. These startup solutions will enhance the experience of buying, monitoring and servicing requirements of the policy holders and new customers.

The present regulations discourage such a requirement of the customers. This enabling provision will enhance the life, general and health insurance industries to develop and provide new risk management products, develop more distribution channels, innovate predictive tools for risk management, end-to-end digital processing, and also the customers can link it to their own preventive approach and tools to buy insurance covers in an enhanced and informed manner.

Insurance companies, therefore, could be allowed to promote start-ups.

3. **Highly detailed governance on expenses**

The laws and the regulations require the insurance companies to record, allocate or segregate expenses within the heads of expenses, including commission, remunerations to intermediaries and also allocate it across lines of business.

The industry has to spend resources, including the recording of the expenses as well as to report to the board of directors as well as the authority. This process, in some way, makes all the stakeholders, namely the company itself, the executives of the company and the board of directors, and the regulator’s office responsible and answerable, from the perspective of being informed or made aware of the non-compliance.

The aspect of development and promotion cost also gets challenged. The cost of compliance is also an aspect to be examined.

Considering the role of the Authority of developing and regulating the industry, the aspect of single total cost element may be re-examined. As the industry matures, the Authority may consider entrusting higher order of self-regulation and let the companies closely monitor the cost and therefore, the burden that may be eventually loaded on to the policy holders.

As in case of United Kingdom, governance on expenses of insurers in India can be based upon directives, principles, which insurers can fix/formulate for their business procurement costs and structures to meet the ever-changing insurance needs. The limits of such costs may not be prescribed, and the insurers may be governed on an overall single expense ratio. While under such a framework, the insurers may be made to adhere to the risk-based solvency margin as prescribed by the regulator as an overall governance control over expenses.

Some of the developed insurance markets follow the principle of monitoring the solvency ratio of the insurance business, along with control through risk-based capital mechanisms. Such monitoring ensures that the insurance companies remain stable over a long term, which is beneficial for sustainable development of the insurance sector, while safeguarding the interests of policyholders.

In addition to the above, it may not be out of place to mention that existence of large number of insurance companies plays an important part in the market dynamics. Effective pricing is essential for business sustenance and competitive pressure will keep the price in control, reducing the probability of overcharging or price increase for the sake of managing high expenses.

The law and the regulations may evolve mechanism to control the expenses of the insurance companies through capital adequacy and solvency ratios.

4. **Re-examine laws and regulations associated with formation of subsidiary companies under insurance companies**

In addition to summarizing industry view, below is a comparison of laws and regulations for banking companies and asset management companies. The Banking Regulation Act and the regulations discourage formation of subsidiary companies which are in the businesses to be provided by the banking companies itself. Considering the complexity arising out of laws and regulations associated with general insurance and health insurance, where general insurance and health insurance companies are registered as general insurance companies and yet there are arbitrages in the regulations favoring standalone health insurance companies, if the regulations have an objective of promoting health insurance, then general insurance companies should be enabled to form a separate health insurance subsidiary company.

Alternatively, the arbitrages need to be removed. There is a conflict of stated objectives and the regulations.

The industry expects the regulations to be conducive to form the subsidiary companies under the insurance companies to enhance selling or service-related offerings through technology companies or skilled services demanding a separate entity from the point of view of compensation and skill development. Startups mentioned in point number 2 above is a case in point.

Insurance companies could be allowed to establish subsidiary companies. The regulations may examine mechanism such as a holding company or a control in the shareholding of the subsidiary companies. IRDAI could look at the banking sector laws and regulations and evaluate the applicability to insurance sector.

The above suggestions aim to take an important step towards the growth of the insurance sector in line with global standards, with an objective to create a supporting operational ecosystem for greater innovation, healthy competition and increased transparency, thereby catering to the changing needs of policyholders in the friendliest manner. The suggestions are also targeted to nurture the sector for further development, along with the growing larger economy and improving demographics of the country, while contributing towards the overall growth and job creation.

-APAS

ECONOMY

IIP (Index of Industrial Production) – January

Index of Industrial Production (IIP) or factory output for the month of January 2022 grew by 1.3%, compared to 0.7% in December 2021 and (-) 0.6% in January 2021.

The General Index for the month of January 2022 stands at 138.4, which is 1.3% higher as compared to January 2021.

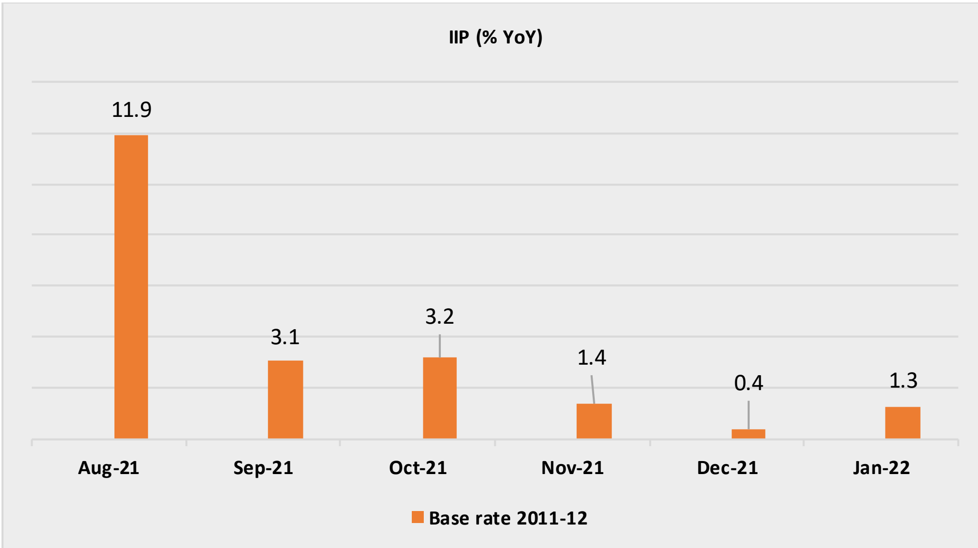
The manufacturing sector, which constitutes 77.63% of the index, grew by 1.1% in January, to 138.1.

Mining sector output grew by 2.8%, to 124.7.

Electricity generation rose by 0.9%, to 165.6.

As per Use-based classification, the indices stand at 136.5 for primary goods, 91.9 for capital goods, 151.1 for intermediate goods and 158.2 for infrastructure/construction goods for January.

Further, the indices for consumer durables and consumer non-durables were at 119.8 and 152.9, respectively.



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

CPI (Consumer Price Index) – February

India's consumer price index (CPI) or retail inflation rose to an 8-month high of 6.07% in February 2022, compared to 6.01% in January 2022 and 5.03% in February 2021.

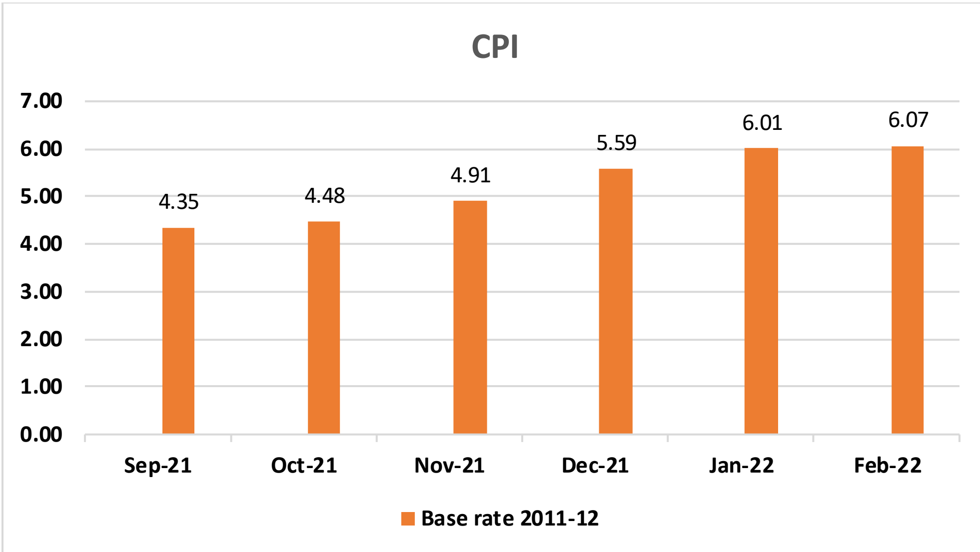
The corresponding provisional inflation rates for rural and urban areas are 6.38% and 5.75% respectively.

The Consumer Food Price Index (CFPI) rose to 5.85% in February from 5.43% in January.

The core CPI inflation remained largely unchanged at 6.18% in February 2022.

Food inflation increased to 5.85%, the highest since November 2020, with cost of oils and fats (16.44%), meat and fish (7.45%) and vegetables (6.13%) recording the biggest rises.

Other upward pressure came from prices of fuel and light (8.37%), miscellaneous (6.52%), clothing and footwear (8.86%), housing (3.57%) and pan and tobacco (2.39%).



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

WPI (Wholesale Price Index) – February

India's wholesale price index (WPI) inflation rose to 13.11% in February 2022, as compared to 12.96% in January 2022. It was 4.83% in February 2021.

The rate of inflation based on WPI Food Index decreased to 8.47% in February 2022 from 9.55% in January 2022.

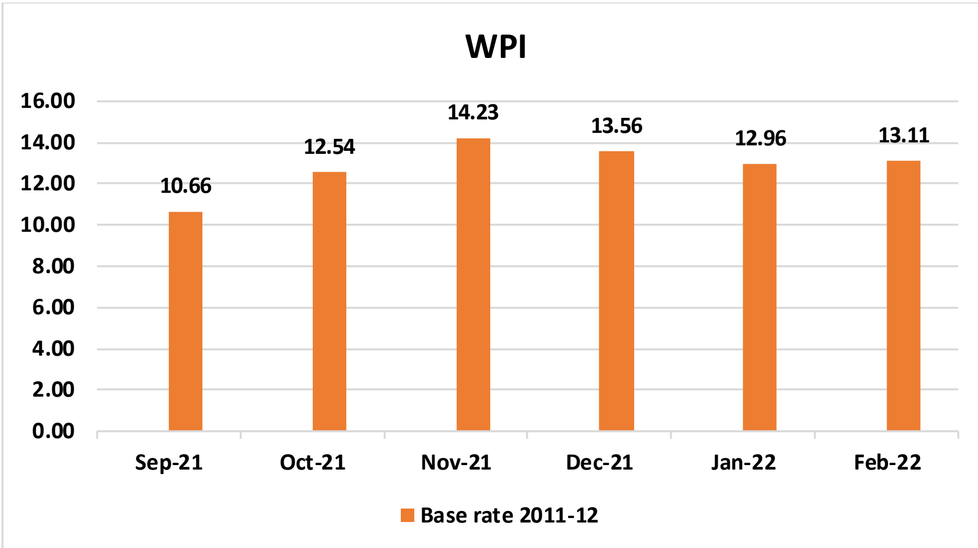
The index for primary articles increased by 1.09% from the previous month.

Prices increased for crude petroleum & natural gas (14.25%), non-food articles (3.28%) and minerals (3.17%). Prices declined for food articles (0.87%).

The index for fuel and power increased by 4.35% from the previous month.

Prices increased for mineral oils (7.22%). Prices remained unchanged for coal and electricity.

The index for manufactured products increased by 0.95% from the previous month.



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

Manufacturing PMI – February

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in February expanded as output and new orders grew at accelerated rates, supported by favourable demand conditions.

The Manufacturing PMI increased to 54.9 in February 2022 from 54 in January 2022. It remained above the 50 level, that separates expansion from contraction, for the eighth straight month.

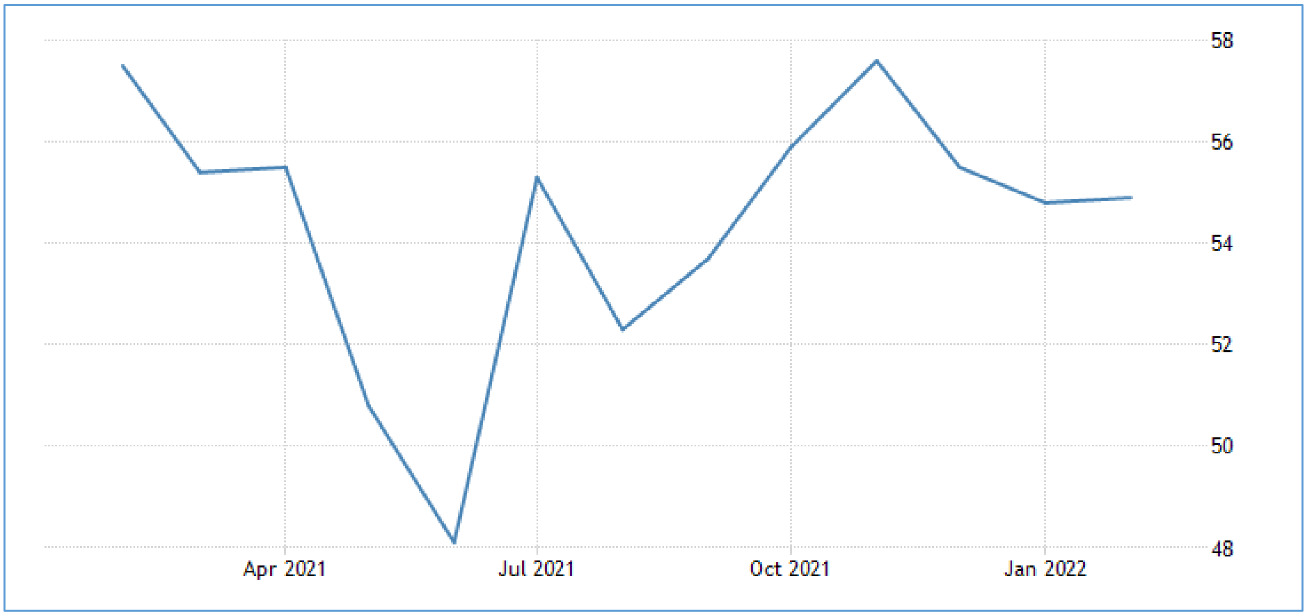
Output and new orders expanded at stronger rates, demand from international clients rose the most in 3 months and buying activity continued to expand.

At the same time, there were some signs of capacity pressures, with backlogs rising marginally, amid a fractional drop in employment.

Delivery times lengthened again, linked to pandemic curbs and persistent supply issues.

On inflation, input cost rose the least in 6 months, while selling charges went up modestly as parts of additional cost burdens were passed on to customers.

Finally, confidence strengthened sharply, underpinned by business expansion plans, a return to normality and hopes for fruitful marketing.



Source: www.tradingeconomics.com

Services PMI – February

The Indian services sector activity in February picked up only marginally after declining for 3 consecutive months, following lifting of restrictions on contact intensive sectors as the third wave of the pandemic waned.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index edged up to 51.8 in February 2022 from 51.5 in January 2022. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the seventh straight month.

This reading stayed subdued by historical standards, amid the ongoing pandemic and higher prices.

Both output and new orders expanded faster, but below their respective long run averages, while foreign demand fell the most since last September.

Also, employment declined for the third month running and the fastest since July 2021, amid stable outstanding businesses.

On the price front, input price inflation eased from January's 10-year high, but remained sharp, while output charges rose the least in 5 months, which was below its long run average.

Looking ahead, sentiment improved despite the reading remaining muted historically, amid lingering concerns surrounding inflationary pressures and Covid-19.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 53.5 in February from 53 in January, signalling a solid rate of expansion that was below its long run average.

Source: www.tradingeconomics.com

Core Sector Data – February

Growth of eight infrastructure sectors rose by 5.8% in February 2022.

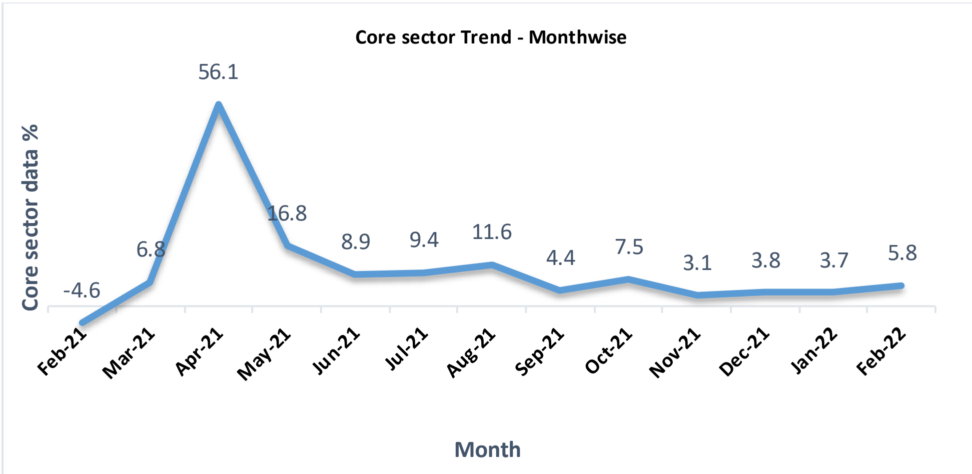
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 4% in January 2022 and contracted by 3.3% in February 2021.

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

The production of coal, natural gas, refinery products, steel, cement and electricity rose by 6.6%, 12.5%, 8.8%, 5.7%, 5% and 4%, respectively.

The output of crude oil and fertiliser declined by 2.2% and 1.4%, respectively.

Cumulatively, the growth in the eight core sectors during April-February 2021-22 stood at 11%, as against a contraction of 8.1% in the same period last financial year.



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

BANKING

RBI Monetary Policy – April 2022

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

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

The marginal standing facility (MSF) rate and the Bank Rate remain unchanged at 4.25 per cent. The standing deposit facility (SDF) rate, which will now be the floor of the LAF corridor, will be at 3.75 per cent.

The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

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

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

Assessment

Global Economy

Since the MPC's meeting in February 2022, the global economic and financial environment has worsened with the escalation of geopolitical conflict and accompanying sanctions. Commodity prices have shot up substantially across the board amidst heightened volatility, with adverse fallouts on net commodity importers. Financial markets have exhibited increased volatility. Crude oil prices jumped to 14-year high in early March; despite some correction, they remain volatile at elevated levels. Supply chain pressures, which were set to ease, are rising again. The broad-based jump in global commodity prices has exacerbated inflationary pressures across advanced economies (AEs) and emerging market economies (EMEs) alike causing a sharp revision in their inflation projections. The global composite purchasing managers' index (PMI) eased to 52.7 in March from 53.5 in February with output growth slowing in both manufacturing and services sectors. World merchandise trade momentum has weakened.

Several central banks, especially systemic ones, continue to be on the path of normalisation and tightening of monetary policy stances. Resultantly, sovereign bond yields in major AEs have been hardening. Bullion prices had buoyed to near 2020 highs on safe haven flows, with some recent correction as bond yields rose. Global equity markets fell, although more recently they have recovered some ground. In recent weeks, strong capital outflows from the EMEs have moderated thus curbing the downward pressures on their currencies, even as the US dollar has strengthened. Overall, the global economy faces major headwinds from several fronts, including continuing uncertainty about the pandemic's trajectory.

Domestic Economy

The second advance estimates (SAE) for 2021-22 released by the National Statistical Office (NSO) on February 28, 2022 placed India's real gross domestic product (GDP) growth at 8.9 per cent, 1.8 per cent above the pre-pandemic (2019-20) level. On the supply side, real gross value added (GVA) rose by 8.3 per cent in 2021-22, with its major components, including services, exceeding pre-pandemic levels. GDP growth in Q3:2021-22 decelerated to 5.4 per cent.

In Q4:2021-22, available high frequency indicators exhibit signs of recovery with the fast ebbing of the third wave, but the picture is mixed. Urban demand reflected in domestic air traffic rebounded in March and the pace of contraction in passenger vehicle sales moderated in February. On the other hand, rural demand mirrored in two-wheeler and tractor sales contracted in February. Import of capital goods increased robustly in February, although domestic production continued to contract. Merchandise exports remained buoyant and clocked double-digit growth for the thirteenth successive month in March 2022 and reached US$ 417.8 billion in 2021-22 surpassing the target of US$ 400 billion. All categories of imports, however, have risen even faster, leading to merchandise trade deficit at a record annual level of US $ 192 billion in 2021-22 or 6.1 per cent of GDP.

Outlook

Looking ahead, the inflation trajectory will depend critically upon the evolving geopolitical situation and its impact on global commodity prices and logistics. On food prices, domestic prices of cereals have registered increases in sympathy with international prices, though record foodgrains production and buffer stock levels should prevent a major flare up in domestic prices. Elevated global price pressures in key food items such as edible oils, and in animal and poultry feed due to global supply shortages impart high uncertainty to the food price outlook, warranting continuous monitoring.

In this scenario, pro-active supply management is critical to contain inflation. International crude oil prices remain volatile and elevated, with considerable uncertainties surrounding global supplies. With the broad-based surge in prices of key industrial inputs and global supply chain disruptions, input cost push pressures appear likely to persist for longer than expected earlier. Their pass-through to retail prices, though limited till now given the continuing slack in the economy, needs to be monitored carefully. Manufacturing sector firms polled in the Reserve Bank's industrial outlook survey expect higher input and output price pressures going forward. Taking into account these factors and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US$ 100 per barrel, inflation is now projected at 5.7 per cent in 2022-23, with Q1 at 6.3 per cent; Q2 at 5.8 per cent; Q3 at 5.4 per cent; and Q4 at 5.1 per cent.

Given the evolving risks and uncertainties, the MPC decided to keep the policy repo rate unchanged at 4 per cent. The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

RBI has introduced a regulatory framework for microfinance loans to formalize and regulate microfinance lending. A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

The regulations include a detailed guidance on areas such as definition of microfinance, method of assessment of household income, limit on loan repayment obligations on households, pricing of loans, guidance on conduct of towards household borrowers, training of staff, outsourcing, recovery and net owned fund requirements of companies providing microfinance loans.

The Reserve Bank of India (RBI) has removed caps on the pricing of small loans given by non-banking financial company-microfinance institutions (NBFC-MFIs), bringing them to the same level as other such lenders, including banks. With this, the underwriting of loans will be done on a risk-based analysis, and a risk premium will be charged based on the borrower.

The existing guidelines prescribe a maximum interest rate that a microfinance lender could charge on loans. This is 10-12 percentage points above the institution's cost of funds, or 2.75 times the average base rate of the five-largest commercial banks, whichever is lower.

RBI has also raised the annual household income level to ₹3 lakh for classification of eligibility to avail of microfinance loans, thus increasing the market size. Earlier, the income caps were kept at ₹.25 lakh in rural areas and ₹2 lakh in other areas.

The new framework will ensure better delivery of microfinance loans to targeted customer segment, risk management and financial inclusion.

Framework for Geo-tagging of Payment System Touch Points

RBI has introduced framework for geo-tagging of payment system touch points.

In recent years, the payments ecosystem in India has witnessed rapid developments with a bouquet of payment systems, platforms, products and services available for consumers. RBI as a regulator, is focused on deepening of digital payments and providing inclusive access to all citizens of the country, irrespective of their location or digital literacy. To ensure this, it is imperative that a robust payment acceptance infrastructure with multiple types of touch points exists across the length and breadth of the country and is available and accessible at all times. Capturing the accurate location of existing payment system touch points / acceptance infrastructure, is essential to upscaling and chalking out intervention strategies. This requirement can be effectively facilitated by geo-tagging of payment touch points.

Geo-tagging refers to capturing the geographical coordinates (latitude and longitude) of payment touch points deployed by merchants to receive payments from their customers. Geo-tagging has various benefits, such as, provide insights on regional penetration of digital payments; monitor infrastructure density across different locations; identify scope for deploying additional payment touch points; facilitate focused digital literacy programmes.

Key highlights of the framework are as follows:

i. Infrastructure: Includes banking infrastructure and payments acceptance infrastructure
ii. Capturing payment touch points: Guidelines on use of geo-tagging to capture locational data of payments acceptance infrastructure
iii. Reporting guidelines

INSURANCE

<u>Extension of timelines for sale and renewal of short term Covid specific health insurance policies</u>

Corona Kavach Policies offered as per Guidelines on Covid Standard Indemnity based Health Policy. Corona Rakshak Policies offered as per Guidelines on Covid Standard benefit-based Health Policy.

Corona Kavach policies were one of important insurance products introduced by IRDAI to assist customers in addressing their COVID-specific insurance cover. All the insurance companies in India have been mandated by IRDAI to issue COVID-specific cover and insurance policy.

The COVID-specific products have been introduced by the regulator for specific time period and the validity of these products has been regularly revised for the past 2 years. On the same lines, the regulator has now extended the timelines for sale and renewal of Corona Kavach till September 2022.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

National Action Plan on Climate Change

The National Action Plan on Climate Change (NAPCC) encompasses eight missions in the specific areas of Solar Energy, Enhanced Energy Efficiency, Sustainable Habitat, Water, Sustaining the Himalayan Eco-system, Strategic Knowledge for Climate Change, Green India, and Sustainable Agriculture. These specific areas tackle core issues pertaining to climate change, outlining steps to simultaneously advance India's development and climate change related objectives of adaptation and mitigation.

NAPCC is guided by the principles –

(i) protecting the poor and vulnerable sections of society through an inclusive and sustainable development strategy, sensitive to climate change;
(ii) achieving national growth through ecological sustainability
(iii) devising efficient and cost-effective strategies for end use Demand Side Management
(iv) deploying appropriate technologies for both adaptation and mitigation of greenhouse gases emissions
(v) engineering new and innovative forms of market, regulatory and voluntary mechanisms to promote sustainable development
(vi) effecting implementation of programmes by including civil society and local government institutions and through public-private partnership; and
(vii) welcoming international cooperation for research, development, sharing and transfer of technologies. Under the NAPCC Government has initiated several activities, schemes, programmes under the national Missions. The activities in the areas of solar energy, energy efficiency and forestry sector are linked with reduction in carbon emissions. Other Missions also support carbon emissions reduction as co-benefit.

Consistent with the approach of NAPCC, State Action Plans on Climate Change (SAPCCs) are already in place for 33 States and Union Territories of the country, including the State of Gujarat. States and Union Territories have indicated their sector specific and cross sectoral priority actions for combating climate change in its SAPCC. Gujarat's SAPCC has identified priority areas for the State like water, agriculture, health, forests and biodiversity, coastal regions, infrastructure, energy efficiency and renewable energy, transport, waste, urban development and rural livelihood.

The share of coal in the energy basket is going to remain significant in years ahead, while there is push for renewable/non-fossil based energy.

CAPITAL MARKETS

Product specifications pertaining to the Electronic Gold Receipts (EGR) segment in India

SEBI, by way of its earlier circular had issued framework on operationalizing the gold exchange in India. Further, in February 2022, SEBI issued standard operating guidelines for the vault managers and depositories of EGR segment. Further, SEBI has introduced product specifications pertaining to the EGR segment in India.

The framework states that the entire transaction in EGR segment has been divided into three tranches. In tranche 1, physical gold will be converted into EGR; in tranche 2, EGR shall be traded on stock exchanges; and in tranche 3 – EGR can be converted into physical gold. The framework also states that stock exchanges may launch contracts with different denomination for trading and / or conversion of EGR into gold.

The 'settlement unit' of EGR shall be same as 'trading unit', which shall be specified by the stock exchanges.

In previous month, SEBI had introduced standard operating guidelines for vault managers and depositories – electronic gold receipts segment. The guidelines specified norms on quantum, use of FSD and corporate governance.

Introduction of Options on Commodity Indices – Product Design and Risk Management Framework

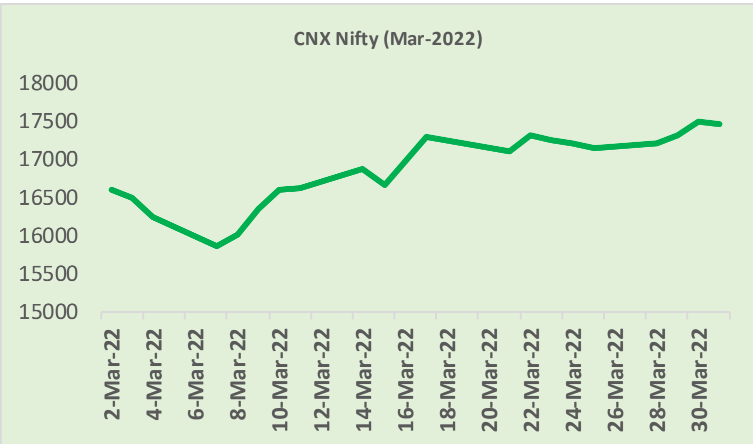
In an endeavor to have more products in the Commodity Derivatives Market and based on the recommendation of Commodity Derivatives Advisory Committee (CDAC) and proposal from Stock Exchanges, SEBI has decided to permit recognized stock exchanges having a Commodity Derivative segment, to introduce options on commodity indices.

Within these guidelines, SEBI has also stated guidelines for such product design and risk management framework.

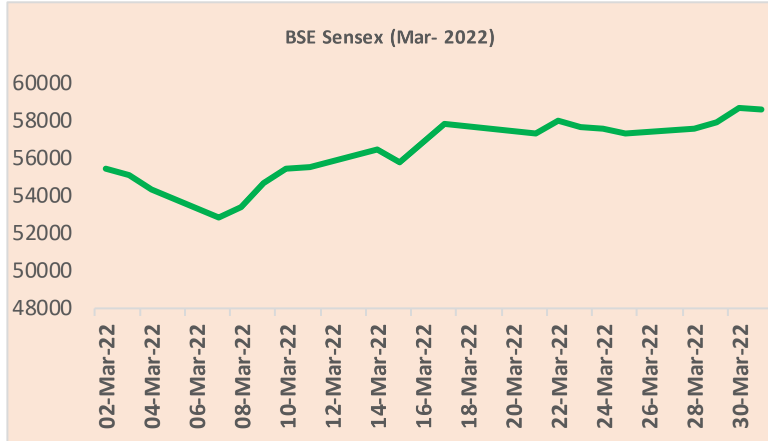
Key guidelines on product design and risk management include underlying, eligibility criteria, settlement mechanism, exercise style, minimum strikes, size of the contract, exercise mechanism, risk management, tenor of the contract, etc.

The move is a part of efforts to have more products in the commodity derivatives markets.

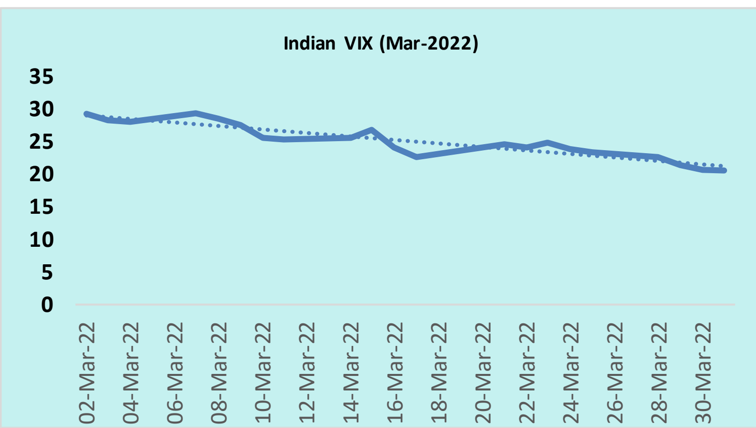
CAPITAL MARKETS SNAPSHOT



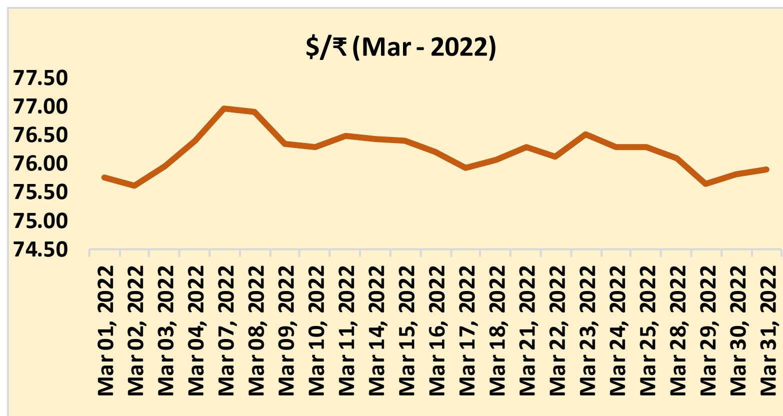
Source: National Stock Exchange



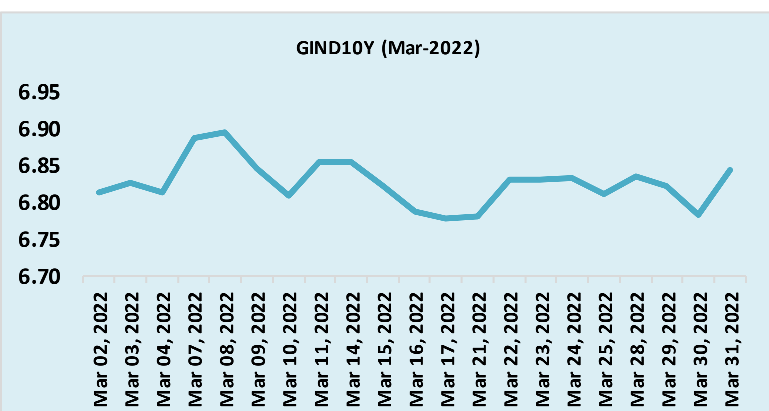
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Investors' concerns about inflationary pressures were allayed after global crude oil prices declined. India's core sector grew 5.8% on-year in February, higher than 4% rise in January and 3.3% contraction in February 2021. India current account deficit stood at $23 billion or 2.7% of GDP in the third quarter of fiscal 2022 compared with a deficit of $2.2 billion or 0.3% of GDP in the same quarter a year ago.

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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	1.3	11.3Mar	9.5	-0.9	-7.7	11
Russia	4.3 Q3	2.1	2.4	9.2 Feb	15.0	8.5	-6.7	11
India	**5.4 Q4**	**7.2**	**5.3**	**6.1 Feb**	**4.9**	**-1.1**	**-6.4**	**6.91**
China	4.0 Q4	5.5	5.0	0.9 Feb	2.0	1.8	-5.4	2.50^
S Africa	1.7 Q4	2.1	2.4	5.7 Feb	4.8	-0.9	-6.0	9.56
USA	5.5 Q4	3.0	1.9	7.9 Feb	6.6	-3.4	-7.5	2.66
Canada	3.3 Q4	3.8	3.3	5.7 Feb	4.5	0.3	-4.8	2.58
Mexico	1.1 Q4	1.9	2.6	7.5 Mar	7.4	-0.9	-3.5	8.52
Euro Area	4.6 Q4	3.3	2.3	7.5 Mar	3.6	2.4	-4.3	0.67
Germany	1.8 Q4	2.5	2.2	7.3 Mar	5.3	5.5	-2.4	0.67
Britain	6.6 Q4	4.1	2.3	6.2 Feb	5.4	-3.3	-5.4	1.77
Australia	4.2 Q4	3.3	2.5	3.5 Q4	3.8	1.3	-3.2	2.91
Indonesia	5.0 Q4	5.1	4.9	2.6 Mar	3.6	0.2	-4.9	6.80
Malaysia	3.6 Q4	4.0	4.2	2.2 Feb	2.9	2.9	-6.1	4.01
Singapore	6.1 Q4	3.8	3.2	4.3 Feb	2.9	17.5	-0.9	2.55
S Korea	4.1 Q4	2.7	2.5	4.1 Mar	3.2	2.2	-3.0	3.13

Sources: The Economist

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

^ 5-year yield

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

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ABOUT APAS

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

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