NEWSLETTER

# APAS MONTHLY

May 2023 EDITION – VOLUME 5

## ASHVIN PAREKH

## THIS MONTH

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## EDITORIAL

In this issue, **Mr. Mahesh K Sharma, MD & CEO, SBI Life** has presented his thoughts on **Life Insurance: Trends and Challenges**. We thank Mr. Sharma for his contribution to the APAS Monthly.

This month, the APAS column covers Life Insurance Consumer Trends in India.

The economic indicators showed encouraging performance. Manufacturing PMI increased to a four-month high of 57.2 in April 2023 from 56.4 in the previous month. Services PMI increased to 62.0 in April 2023 from 57.8 in the previous month. Infrastructure output in India increased by 3.5% year-on-year in April 2023, the least in six months, easing from an upwardly revised 3.6% growth in the previous month, and well below market forecasts of a 4.5% rise. Index of Industrial Production (IIP) growth went up 1.1 percent year-on-year in March 2023, missing market expectations of a 3.3 percent rise and easing from a 5.6 percent increase in the previous month. India's retail price inflation (CPI) slowed sharply to 4.7% in April of 2023, the lowest since October of 2021, from 5.7% in March. India Wholesale Price Index (WPI) India Wholesale Price Index (WPI) number is (-) 0.92% (Provisional) for the month of April 2023 (over April 2022) against 1.34% recorded in March 2023.

The Reserve Bank of India (RBI) issued Cessation of LIBOR: Complete Transition, ₹2000 Denomination Banknotes – Withdrawal from Circulation. RBI announced the Monetary Policy, keeps repo rate unchanged at 6.5%.

Insurance Regulatory Development Authority of India (IRDAI) published the measures towards developing surety insurance bonds market.

SEBI issued comprehensive guidelines for investor protection fund and investor services fund at stock exchanges and depositories.

We hope that this APAS Monthly is insightful. We welcome your inputs and thoughts and encourage you to share them with us.

*Ashvin parekh*

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*MD & CEO*
*SBI Life Insurance Company Limited*

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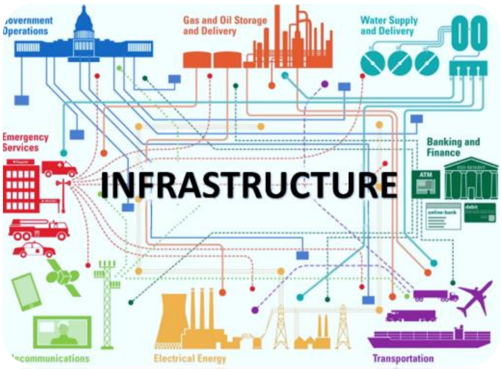


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# CAPITAL MARKETS SNAPSHOT

*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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# Life Insurance: Trends and Challenges

***Mahesh K Sharma***
***MD & CEO***
***SBI Life Insurance Company Limited***

Life insurance has been an essential tool for securing one's financial future for a long time. The insurance industry is constantly evolving. From 2020 March, the industry faced the challenges posed by COVID and the start of a digitalization trend. In 2023-24, we shall be witnessing some interesting trends and challenges in life insurance.

One of the most notable trends in the life insurance industry that will continue this year, is the increased focus on digitalization. As people become more tech-savvy, insurance companies are also trying to provide the platforms that make it easier for customers to buy policies and manage their accounts. Insurance companies today provide mobile apps and web portals that allow customers to purchase insurance policies, pay premiums, and file claims online. AI is powering automated responses on email and there are voicebots and chatbots that give 24/7 customer support, answering queries, and providing policy information.

This trend is not only gaining traction in providing better customer experience at the customer interface, but also by improving and speeding up the underlying processes. eKYC and similar KYC solutions, financial information verification through Account Aggregator models, direct validation from Banks and Tax authorities, Telemedical and Video Medical evaluation of health are already in vogue and contributing to seamless issuance of policies. The application process is almost always through an app which obviates the need for paper applications and the storage thereof, as also the manual input of the data from these paper application forms to a central data system. All this helps auto underwriting and a bulk of the applications are processed automatically by the intelligent software and results in immediate and same day issuance of policies. Similarly, technology has enabled all payments to be made digitally with no time lag for clearing or collection. It also enables registration of auto debit mandates which ensure that subsequent premiums are paid on time and the policy is kept in force.

The next significant trend could be the personalization of insurance with insurance companies coming up with more customization in future. As we move from a strict rules-based approach to a more mature principles based approach to regulation, the flexibility that insurers have today and in the future could trigger the shift to products that suit certain customers or customer segments. In fact, we can foresee a time when the customers may be able to choose policies based on their income, age, health condition, etc. Data analytics coupled with AI technologies and machine learning can also provide the framework for better policies to be offered.

One more trend is that more information about the insurance policies held by individuals is becoming available through sources like IIB, and this is helping the industry in underwriting decisions. There can be another sea change in future if health records and hospital records are stored and can be retrieved with consent, by the insurance companies. Technologies like Blockchain can create a whole new shift in the entire underwriting process and can be very useful in providing customized products and pricing for life insurance.

One of the major challenges is the lack of awareness about the need for insurance in large segments of the population. The industry needs to come together to take this awareness level higher. Favourable policies that can keep life insurance policies affordable need to continue and a long term outlook is required. The media needs to highlight the need for insurance and can play a major role in educating people about this. When schools and colleges start talking about financial products and services and growing children understand the value of insurance, credit, financial inclusion, etc., this challenge will disappear.

One of the challenges the life insurance industry has been tackling successfully, is misspelling. The industry has come a long way and with the regulators watching closely and having various mechanisms, like an online grievance redressal portal, the Ombudsman scheme, and various disclosures required to be made, to ensure that people are sold the products that are suitable and acceptable to them.

The other challenge is to keep the products affordable, while doing all this and more. Insurance is all about claims payment, be it to the nominee on death of the life insured, or to the customer himself on maturity or as a survival or living benefit. The claims process needs to be smooth, and the challenge is to ensure this even as the volumes increase, and products become more complex and customized. This can be achieved only through adoption of the latest technologies. LI companies should partner with fintechs, insuretechs, etc., who can provide simple API based solutions.

Competition is increasing and that is another challenge. Insurance companies need to innovate and offer better products and services. Also, Younger generations are more digital by nature and are used to speed and convenience. They also look for how the companies handle social and environmental issues and would be comfortable with companies that share their values.

To conclude, the life insurance industry has an exciting time ahead in 2023-24. I can only say, Come Join The Ride.

# APAS Column

## *Life Insurance Consumer Trends in India*

The ever-changing consumer trends that propel the sector forward continuously create the dynamic landscape of life insurance in India. Indian consumers' choices, demands, and expectations in regard to life insurance have undergone substantial changes as a result of the nation's rapid economic growth and societal changes. The consumer trends in India's life insurance market show a desire for creative solutions that fit the contemporary lifestyle and provide comprehensive protection, from embracing digitization and wanting personalised coverage to demanding greater transparency and flexibility. It is essential for insurers to comprehend and respond to these changes if they are to effectively service the sophisticated and diversified Indian market, enabling people to make educated decisions and safeguard their financial futures.

In this article, we will explore some of the key consumer trends that are shaping the life insurance industry in India, and how insurers can leverage them to create value for their customers and stakeholders.

### 1. Increasing awareness and demand for protection

The COVID-19 pandemic has made it clear how crucial it is to have strong defences against unforeseen dangers and uncertainties. A Max Life Insurance study found that 71% of Indians had learned the importance of life insurance during the pandemic and that 57% had either increased their life insurance coverage or planned to do so during the next six months. The survey also revealed that term insurance policies, which offer pure protection without any savings component, are preferred by 65% of Indians over other forms of life insurance plans.

This pattern shows that consumers are looking for items that will give them security and peace of mind as they become more conscious of their financial needs and ambitions. By providing specialised and adaptable term insurance policies that address various consumer demographics and life stages, such as young professionals, married couples, parents, senior citizens, etc., insurers may profit from this trend. To reach out to potential clients and inform them about the advantages and features of term insurance policies, insurers can also make use of digital channels and platforms.

### 2. Growing preference for online channels

The pandemic has also spurred insurers' and consumers' embrace of online channels and digital technology. In FY21, compared to FY20, online sales of life insurance plans increased by 40%, according to a report by Boston Consulting Group (BCG) and FICCI. The survey also predicted that, up from 6% in FY20, online sales will represent 15–18% of all life insurance sales by FY25.

Convenience, speed, transparency, and personalisation are crucial in the digital era, which is reflected in this trend's shifting consumer behaviour and expectations. Customers are increasingly doing their research, comparing, purchasing, and managing their life insurance plans utilising online platforms such websites, mobile applications, aggregators, e-commerce portals, etc. By investing in digital infrastructure and capabilities, insurers can take advantage of this trend and provide their clients with easy and smooth online experiences. Additionally, insurers can make tailored recommendations and offers to their online consumers depending on their interests and behaviour by utilising data analytics and artificial intelligence (AI).

### 3. Rising demand for health and wellness solutions

The growing demand for health and wellness services is another consumer trend that is having an impact on the Indian life insurance market. 80% of Indian customers are willing to spend more for health-related goods and services after the epidemic, according to a survey by EY India. According to the study, 74% of customers are interested in purchasing health insurance plans that include wellness perks including savings on workout equipment, gym memberships, and check-ups.

This pattern suggests that consumers are becoming more proactive in controlling their physical and emotional well-being and more health conscious. By integrating wellness features and incentives into their health insurance plans, insurers can capitalise on this trend and encourage consumers to lead healthier lives. Insurance companies can collaborate with startups and platforms in the health technology space to offer their clients access to wellness services like telemedicine, online consultations, fitness coaching, etc.

### 4. Increasing awareness and demand for retirement planning

The growing knowledge and need for retirement planning is the fourth consumer trend having an impact on India's life insurance market. According to PwC India research, 69% of Indian customers are worried about having enough retirement income after the pandemic. Additionally, according to the study, 61% of consumers are interested in purchasing pension or annuity products that will guarantee them a steady income in retirement.

This pattern indicates the rising demand for financial independence and security among older consumers who deal with issues such rising inflation, historically low interest rates, longevity risk, etc. By providing pension or annuity plans that can give customers secure and reliable income streams after retirement, insurers can meet this requirement. Insurers may help consumers make the best product choices based on their risk tolerance and objectives by educating them about the value and benefits of retirement planning through digital tools and platforms.

### Conclusion

India's life insurance market is changing as a result of shifting consumer trends and tastes. Insurance companies may add value for their stakeholders and consumers as well as gain a competitive edge in the market if they can recognise and address these developments. By utilising digital platforms and technology, insurers may improve customer satisfaction and operational effectiveness while promoting expansion and innovation within the sector.

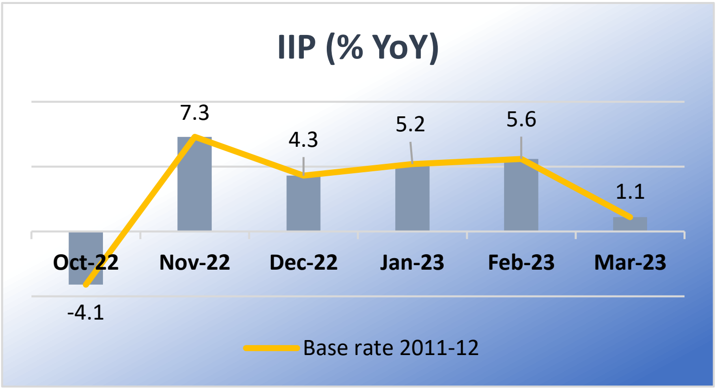
***APAS***

# ECONOMY

## IIP (Index of Industrial Production) – March

Industrial production in India went up 1.1 percent year-on-year in March 2023, missing market expectations of a 3.3 percent rise and easing from a 5.6 percent increase in the previous month.

For the month of March 2023, the Quick Estimates of Index of Industrial Production (IIP) with base 2011-12 stands at 150.5.




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

The manufacturing sector, which constitutes close to 77 % of the index, increased by 0.5% in March, to 146.0. Mining sector grew by 6.8%, to 154.2. Electricity generation dropped by -1.6%, to 188.0.

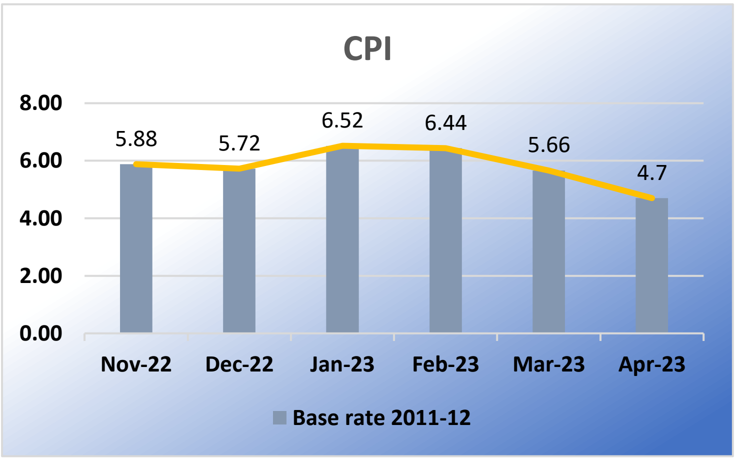
As per Use-based classification, the indices stand at 158.2 for Primary Goods, 120.9 for Capital Goods, 158.2 for Intermediate Goods and 178.7 for Infrastructure/ Construction Goods for the month of March 2023

Further, the indices for Consumer durables and Consumer non-durables stand at 118.1 and 145.6 respectively for the month of March 2023.

## CPI (Consumer Price Index) – April

Annual inflation rate in India slowed sharply to 4.7% in April of 2023, the lowest since October of 2021, from 5.7% in March, and slightly below forecasts of 4.8%.

Food inflation came in at 3.84%, the lowest since November of 2021, with a fall in prices for vegetables (-6.5%), oils and fats (-12.3%) and meat (-1.2%), partially offsetting a rise in cost for cereals (13.7%), milk (8.9%) and spices (17.4%).




Source: APAS BRT. www.eaindustrv.nic.in

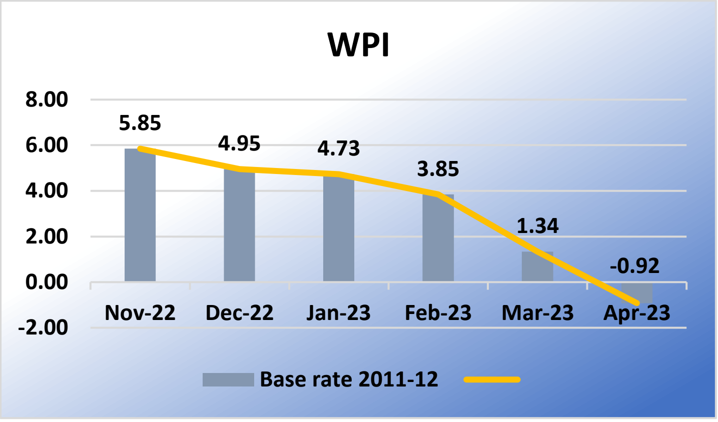
Also, cost of sugar and confectionery went up 1.9%. A slowdown was also seen in cost for fuel and light (5.5% vs 8.9%), miscellaneous (4.9% vs 5.8%), clothing and footwear (7.5% vs 8.2%).

On the other hand, prices rose faster for pan, tobacco, and intoxicants (3.5% vs 3%) and inflation was little changed for housing (4.91% vs 4.96%).

## *WPI (Wholesale Price Index) – April*

India Wholesale Price Index (WPI) number is(-) 0.92% (Provisional) for the month of April 2023 (over April 2022) against 1.34% recorded in March 2023.

Decline in the rate of inflation in April 2023 is primarily contributed by fall in prices of basic metals, food products, mineral oils, textiles, non-food articles, chemical & chemical products, rubber & plastic products, and paper & paper products.




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

The month-over-month change in WPI for the month of April 2023 over March 2023 remained at 0.0%.

The index for primary articles p increased by 1.31% to 177.3 (provisional) in April 2023 from 175.0 (provisional) for the month of March 2023.

Prices of Minerals (2.30%), Crude Petroleum & Natural Gas (3.47%) and Food Articles (1.45%) increased in April 2023 as compared to March 2023.

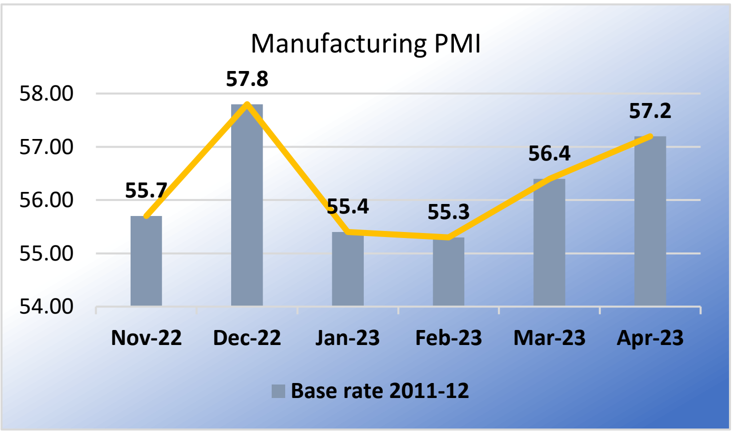
The index for fuel and power p declined by 2.68% to 152.6 (provisional) in April 2023 from 156.8 (provisional) for the month of March 2023.

Prices of Coal (-0.22%), Electricity (-2.20%) and Mineral Oils (-3.33%) declined in April 2023 as compared to March 2023.

The index for manufactured products remains unchanged at 141.2 (provisional) in April 2023.

## *Manufacturing PMI – April*

The S&P Global India Manufacturing PMI increased to a four-month high of 57.2 in April 2023 from 56.4 in the previous month, beating market forecasts of 55.8, as both output and new orders grew the most in four months, amid sustaining expansions in sales.



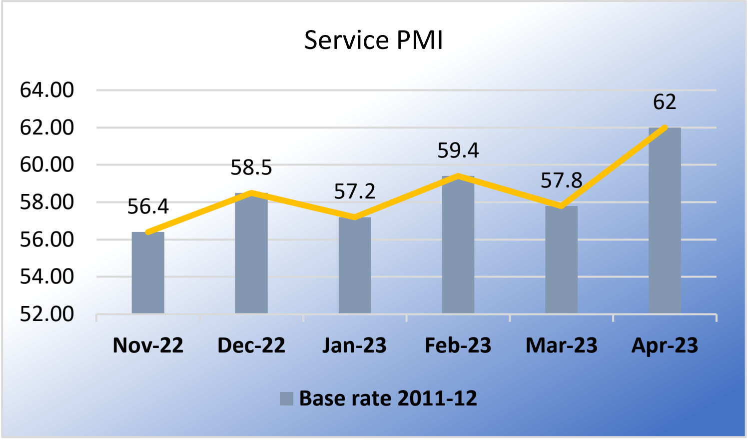

Source: www.tradingeconomics.com

At the same time, employment increased while suppliers were reportedly able to deliver purchased materials in a timely manner, with vendor performance improving to the greatest extent in eight months, though only slightly overall.

On the pricing front, input cost inflation accelerated, due to faster rises in the prices of transportation and raw materials, while output cost inflation rose to a three-month high.

Finally, sentiment improved from March's eight-month low, amid demand resilience, client inquiries, orders pending approval, and marketing efforts.

## Services PMI – April




Source: www.tradingeconomics.com

The S&P Global India Services PMI increased to 62.0 in April 2023 from 57.8 in the previous month, beating market forecasts of 57.

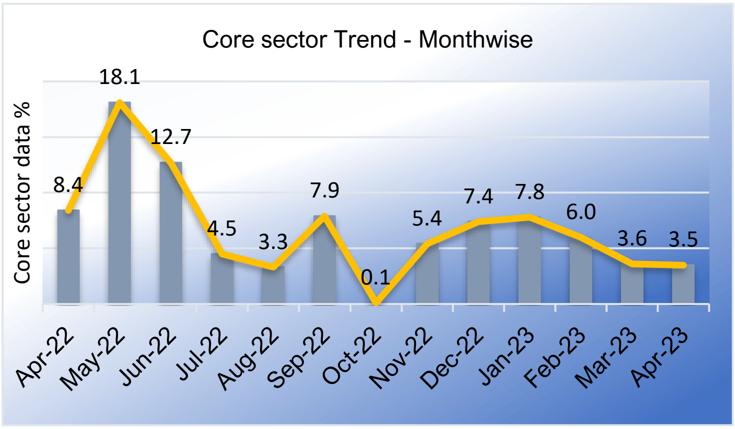
The latest reading pointed to the strongest expansion in the sector since June 2010. Both output and new orders rose fastest since June 2010, with export business gaining for the third month and advancing the most in the sequence.

Also, employment grew for the 11th consecutive period, although only marginally. On the pricing front, input cost inflation accelerated to a three-month high from a 2-1/2-year low in March due to higher costs of food, fuel, medicine, transportation, and wages.

Meanwhile, output cost inflation was the highest in this year.

Looking ahead, business sentiment improved, driven by marketing efforts, plans to price competitively, and an increased focus on customer relations.

## Core Sector Data – April




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

The combined Index of Eight Core Industries (ICI) increased by 3.5 per cent (provisional) in April 2023 as compared to the Index of April 2022. The production of Fertilizers, Steel, Cement and Coal increased in April 2023 over the corresponding month of last year. ICI measures combined and individual performance of production of eight core industries viz. Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement and Electricity. The Eight Core Industries comprise 40.27 percent of the weight of items included in the Index of Industrial Production (IIP).

Final growth rate of Index of Eight Core Industries for January 2023 is recorded 9.7 per cent. The cumulative growth rate of ICI during 2022-23 reported 7.7 per cent (provisional) as compared to the corresponding period of last year.

The summary of the Index of Eight Core Industries is given below:

**Coal** - Coal production (weight: 10.33 per cent) increased by 9.0 per cent in April, 2023 over April, 2022. Its cumulative index increased by 14.9 per cent during 2022-23 over corresponding period of the previous year.

**Crude Oil** Crude Oil production (weight: 8.98 per cent) declined by 3.5 per cent in April, 2023 over April, 2022. Its cumulative index declined by 1.7 per cent during 2022-23 over the corresponding period of previous year.

**Natural Gas -** Natural Gas - Natural Gas production (weight: 6.88 per cent) declined by 2.8 per cent in April, 2023 over April, 2022. Its cumulative index increased by 1.6 per cent during 2022-23 over the corresponding period of previous year.

**Petroleum Refinery Products** - Petroleum Refinery production (weight: 28.04 per cent) declined by 1.5 per cent in April 2023 over April, 2022. Its cumulative index increased by 4.8 per cent during 2022-23 over the corresponding period of previous year.

**Fertilizers** - Fertilizers production (weight: 2.63 per cent) increased by 23.5 per cent in April 2023 over April 2022. Its cumulative index increased by 11.3 per cent during 2022-23 over the corresponding period of previous year.

**Steel** - Steel production (weight: 17.92 per cent) increased by 12.1 per cent in April 2023 over April 2022. Its cumulative index increased by 8.9 per cent during 2022-23 over the corresponding period of previous year.

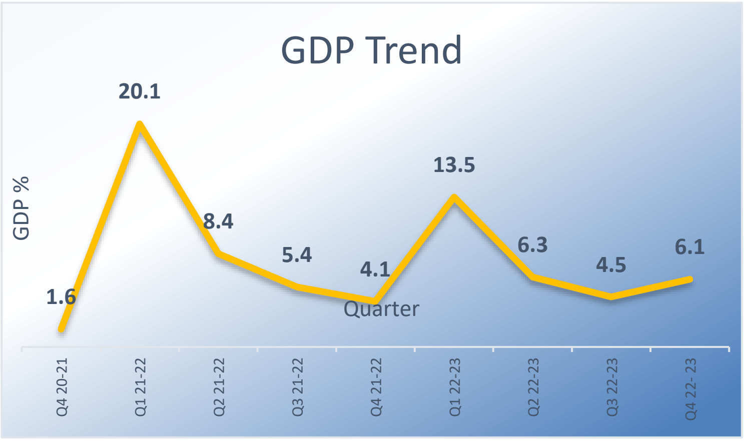
**Cement** - - Cement production (weight: 5.37 per cent) increased by 11.6 per cent in April 2023 over April 2022. Its cumulative index increased by 8.7 per cent during 2022-23 over the corresponding period of previous year.

**Electricity** - Electricity generation (weight: 19.85 per cent) declined by 1.4 per cent in April 2023 over April, 2022. Its cumulative index increased by 8.9 per cent during 2022-23 over the corresponding period of previous year.

## *GDP – Quarter 4 – FY 2022-23*

The estimates of Gross Domestic Product (GDP) for the second quarter (January-March) 2022-23 (Q4) of the ongoing financial year 2022-23 shows a growth of 6.1%.

Annual and quarterly estimates of GVA at Basic Prices by kind of economic activity along with year-on-year percent changes, expenditure components of GDP and annual estimates of Gross/Net National Income and Per Capita Income for the years 2020-21, 2021-22 and 2022-23 at Constant (2011-12) and Current Prices.




Real GDP or GDP at Constant (2011-12) Prices in the year 2022-23 is estimated to attain a level of ₹160.06 lakh crore, as against the First Revised Estimates of GDP for the year 2021-22 of ₹149.26 lakh crore.

Nominal GDP or GDP at Current Prices in the year 2022-23 is estimated to attain a level of ₹272.41 lakh crore, as against ₹234.71 lakh crore in 2021-22, showing a growth rate of 16.1 percent.

GDP at Constant (2011-12) Prices in Q4 2022-23 is estimated at ₹43.62 lakh crore, as against ₹41.12 lakh crore in Q4 2021-22, showing a growth of 6.1 percent. GDP at Current Prices in Q4 2022-23 is estimated at ₹71.82 lakh crore, as against ₹65.05 lakh crore in Q4 2021-22, showing a growth of 10.4 percent.

Provisional and Quarterly Estimates of National Income are compiled using the benchmark-indicator method i.e. the estimates available for the previous year referred to as the benchmark year (2021-22 in this case) are extrapolated using the relevant indicators reflecting the performance of sectors. The Second Advance Estimates (SAE) of National Income for the year 2022-23 were released on 28th February 2023. These estimates have now been revised incorporating latest information on relevant indicators in the financial year.

Improved data coverage and revision in input data made by source agencies would have a bearing on subsequent revisions of these estimates. Estimates are, therefore, likely to undergo revisions for the aforesaid causes in due course, as per the release calendar. Users should take these into consideration while interpreting the figures.

The next release of quarterly GDP estimates for the quarter April-June of 2023-24 (Q1 2023-24) will be on 31.08.2023.


# BANKING

## *Cessation of LIBOR: Complete Transition*

The Reserve Bank of India (RBI) has issued an advisory to banks and other RBI-regulated entities, emphasizing the need to take steps to ensure a complete transition away from the London Interbank Offered Rate (LIBOR) from July 01, 2023. The key messages in the advisory include:

i. Banks / Financial Institutions (FIs) are advised to ensure that no new transaction undertaken by them or their customers rely on or are priced using the US$ LIBOR or the Mumbai Interbank Forward Outright Rate (MIFOR).
ii. The Financial Benchmarks India Pvt. Ltd. (FBIL) will cease to publish MIFOR after June 30, 2023.
iii. Banks/FIs are advised to take all necessary steps to ensure insertion of fallbacks at the earliest in all remaining legacy financial contracts that reference US$ LIBOR (including transactions that reference MIFOR).
iv. Banks/FIs are expected to have developed the systems and processes to manage the complete transition away from LIBOR.

The Reserve Bank will continue to monitor the efforts of banks/FIs for ensuring a smooth transition from LIBOR.

**Background**

The Financial Conduct Authority (FCA), UK, in a press statement dated March 05, 2021 announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- Immediately after December 31, 2021, in the case of all Pound sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- Immediately after June 30, 2023, in the case of the remaining US dollar settings.

The complete transition from LIBOR is a significant event in the global financial markets which requires continued attention from all stakeholders to mitigate operational risks and ensure an orderly transition. The Reserve Bank has been proactively taking steps to deal with the issues around LIBOR transition and had issued an advisory on "Roadmap for LIBOR Transition" dated July 08, 2021 wherein banks/FIs, inter-alia, were encouraged to undertake transactions using widely accepted Alternative Reference Rate (ARR), as soon as practicable and in any case by December 31, 2021 and insert robust fallback clauses in relevant LIBOR linked financial contracts.

## *₹2000 Denomination Banknotes – Withdrawal from Circulation; Will continue as Legal Tender*

The ₹2000 denomination banknote was introduced in November 2016 under Section 24(1) of RBI Act, 1934, primarily to meet the currency requirement of the economy in an expeditious manner after the withdrawal of legal tender status of all ₹500 and ₹1000 banknotes in circulation at that time. The objective of introducing ₹2000 banknotes was met once banknotes in other denominations became available in adequate quantities. Therefore, printing of ₹2000 banknotes was stopped in 2018-19.

2. About 89% of the ₹2000 denomination banknotes were issued prior to March 2017 and are at the end of their estimated life-span of 4-5 years. The total value of these banknotes in circulation has declined from ₹6.73 lakh crore at its peak as on March 31, 2018 (37.3% of Notes in Circulation) to ₹3.62 lakh crore constituting only 10.8%

of Notes in Circulation on March 31, 2023. It has also been observed that this denomination is not commonly used for transactions. Further, the stock of banknotes in other denominations continues to be adequate to meet the currency requirement of the public.

3. In view of the above, and in pursuance of the "Clean Note Policy" of the Reserve Bank of India, it has been decided to withdraw the ₹2000 denomination banknotes from circulation.

4. The banknotes in ₹2000 denomination will continue to be legal tender.

5. It may be noted that RBI had undertaken a similar withdrawal of notes from circulation in 2013-2014.

6. Accordingly, members of the public may deposit ₹2000 banknotes into their bank accounts and/or exchange them into banknotes of other denominations at any bank branch. Deposit into bank accounts can be made in the usual manner, that is, without restrictions and subject to extant instructions and other applicable statutory provisions.

7. In order to ensure operational convenience and to avoid disruption of regular activities of bank branches, exchange of ₹2000 banknotes into banknotes of other denominations can be made up to a limit of ₹20,000/- at a time at any bank starting from May 23, 2023.

8. To complete the exercise in a time-bound manner and to provide adequate time to the members of public, all banks shall provide deposit and/or exchange facility for ₹2000 banknotes until September 30, 2023. Separate guidelines have been issued to the banks.

9. The facility for exchange of ₹2000 banknotes up to the limit of ₹20,000/- at a time shall also be provided at the 19 Regional Offices (ROs) of RBI having Issue Departments1 from May 23, 2023.

10. The Reserve Bank of India has advised banks to stop issuing ₹2000 denomination banknotes with immediate effect.

11. Members of the public are encouraged to utilise the time up to September 30, 2023, to deposit and/or exchange the ₹2000 banknotes. A document on Frequently Asked Questions (FAQs) in the matter has been hosted on the RBI website for information and convenience of the public.

## *Monetary Policy Statement, 2023-24 Resolution of the Monetary Policy Committee (MPC) June 6-8, 2023*

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on June 8, 2023) decided to:

- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent.

The standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, 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

2. In the second quarter of 2023, the global economy is sustaining the momentum gained in the preceding quarter in spite of still elevated though moderating inflation, tighter financial conditions, banking sector stress, and lingering geopolitical conflicts. Sovereign bond yields are trading sideways on expectations of the imminent peaking of the tightening cycle of monetary policy while the US dollar has appreciated. Equity markets have remained range bound since the last MPC meeting. For several emerging market economies (EMEs), weak external demand, elevated debt levels and geoeconomic disintegration amidst tighter external financial conditions pose risks to growth prospects, although capital flows are cautiously returning to them on renewed risk appetite.

Domestic Economy

3. According to the provisional estimates released by the National Statistical Office (NSO) on May 31, 2023, India's real gross domestic product (GDP) growth accelerated from 4.5 per cent (year-on-year, y-o-y) in Q3:2022-23 to 6.1 per cent in Q4, supported by fixed investment and higher net exports. Real GDP growth for 2022-23 was placed at 7.2 per cent, higher than the second advance estimate of 7.0 per cent.

4. Domestic economic activity remains resilient in Q1:2023-24 as reflected in high frequency indicators. Purchasing managers' indices (PMI) for manufacturing and services indicated sustained expansion, with the manufacturing PMI at a 31-month high in May and services PMI at a 13-year high in April-May. In the services sector, domestic air passenger traffic, e-way bills, toll collections and diesel consumption exhibited buoyancy in April-May, while railway freight and port traffic registered modest growth.

5. On the demand side, urban spending remains robust as reflected in indicators such as passenger vehicle sales and domestic air passenger traffic which recorded double digit growth in April. Rural demand is gradually improving though unevenly – motorcycle sales expanded in April, while tractor sales contracted partly owing to unseasonal rains. Investment activity is picking up as reflected in the healthy expansion in steel consumption and cement output in April. Merchandise exports and non-oil non-gold imports remained in contraction mode in April while services exports sustained a robust expansion.

6. CPI inflation fell sharply to 4.7 per cent in April 2023 from 6.4 per cent in February on the back of large favourable base effects, with softening observed across all the three major groups. Food group inflation eased, with moderation in cereals, eggs, milk, fruits, meat and fish, spices and prepared meals inflation and deepening of deflation in edible oils. In the fuel group, inflation in LPG and firewood and chips prices fell and kerosene prices slipped into deflation. Core inflation (i.e., CPI inflation excluding food and fuel) dipped, driven down by clothing and footwear, household goods and services, health, transport and communication, personal care and effects and recreation and amusement sub-groups.

7. The average daily absorption under the LAF increased to ₹1.7 lakh crore during April-May from ₹1.4 lakh crore in February-March. Money supply (M3) expanded by 10.1 per cent y-o-y and non-food bank credit by 15.6 per cent as on May 19, 2023. India's foreign exchange reserves were placed at US$ 595.1 billion as on June 2, 2023.

**Outlook**

8. Going forward, the headline inflation trajectory is likely to be shaped by food price dynamics. Wheat prices could see some correction on robust mandi arrivals and procurement. Milk prices, on the other hand, are likely to remain under pressure due to supply shortfalls and high fodder costs. The forecast of a normal south-west monsoon by the India Meteorological Department (IMD) augurs well for kharif crops; however, the spatial and temporal distribution of the monsoon would need to be closely monitored to assess the prospects for agricultural production. Crude oil prices have eased but the outlook remains uncertain. According to the early results from the Reserve Bank's surveys, manufacturing, services and infrastructure firms polled expect input costs and output prices to harden. A clearer picture will emerge when the final survey results are available. Taking into account these factors and assuming a normal monsoon, CPI inflation is projected at 5.1 per cent for 2023-24, with Q1 at 4.6 per cent, Q2 at 5.2 per cent, Q3 at 5.4 per cent and Q4 at 5.2 per cent. The risks are evenly balanced (Chart 1).

9. The higher rabi crop production in 2022-23, the expected normal monsoon, and the sustained buoyancy in services should support private consumption and overall economic activity in the current year. The government's thrust on capital expenditure, moderation in commodity prices and robust credit growth are expected to nurture investment activity. Weak external demand, geoeconomic fragmentation, and protracted geopolitical tensions, however, pose risks to the outlook. Taking all these factors into consideration, real GDP growth for 2023-24 is projected at 6.5 per cent with Q1 at 8.0 per cent, Q2 at 6.5 per cent, Q3 at 6.0 per cent, and Q4 at 5.7 per cent, with risks evenly balanced (Chart 2).

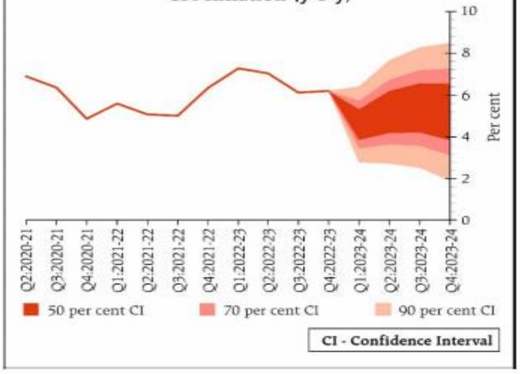



Chart 1: Quarterly Projection of CPI Inflation (y-o-y)

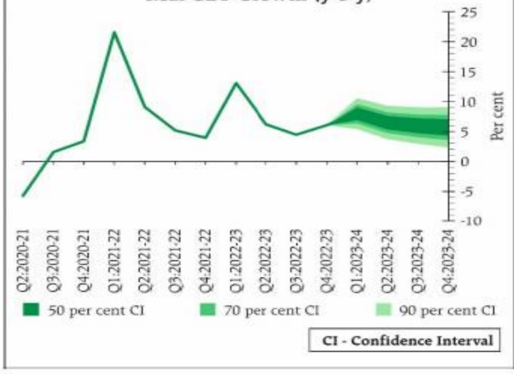



Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)

10. The MPC took note of the moderation in CPI headline inflation in March-April into the tolerance band, in line with projections, reflecting the combined impact of monetary tightening and supply augmenting measures. Headline inflation is projected to decline in 2023-24 from its level in 2022-23 but would still be above the target, warranting continuous vigil. The progress of the south west monsoon is critical in this regard. Domestic economic activity is holding up well. Consumer confidence is improving and businesses remain optimistic about the future. The cumulative rate hike of 250 basis points undertaken by the MPC is transmitting through the economy and its fuller impact should keep inflationary pressures contained in the coming months. Monetary policy would need to be carefully calibrated for alignment of inflation with the target. Against this backdrop, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent. The MPC resolved to continue keeping a close vigil on the evolving inflation and growth outlook. It will take further monetary actions promptly and appropriately as required to keep inflation expectations firmly anchored and to bring down inflation to the target. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

11. All members of the MPC – Dr. Shashanka Bhide, Dr. Ashima Goyal, Prof. Jayanth R. Varma, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra and Shri Shaktikanta Das – unanimously voted to keep the policy repo rate unchanged at 6.50 per cent.

12. Dr. Shashanka Bhide, Dr. Ashima Goyal, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra and Shri Shaktikanta Das voted to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. Prof. Jayanth R. Varma expressed reservations on this part of the resolution.

13. The minutes of the MPC's meeting will be published on June 22, 2023.

14. The next meeting of the MPC is scheduled during August 8-10, 2023.

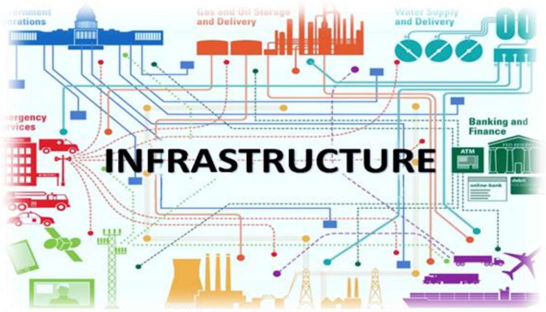
# INSURANCE

## ***Measures towards developing Surety Insurance Bonds market***

Surety Bonds are a type of insurance policy protecting parties involved in a transaction or contract from potential financial losses due to a breach of contract or other types of non-performance. They serve as a risk mitigation tool for maintaining integrity, quality, and adherence to contractual terms, ultimately contributing to the smooth functioning of projects especially in infrastructure sector and fostering a healthy business environment.

Recognizing the importance of Surety Insurance Bonds, IRDAI had issued 'IRDAI (Surety Insurance Contracts) Guidelines' in January 2022. Basis the evaluation of various representations received; the solvency requirement applicable for such products has now been reduced to control level of 1.5 times from 1.875 previously prescribed. Further, the prevailing 30% exposure limit applicable on each contract underwritten by an insurer, has also been removed. These amendments follow the earlier notification removing the cap on premiums that could be underwritten in a financial year by monoline insurers transacting only Surety Insurance Business.

The current revisions are aimed to expand the Surety Insurance market by increasing the availability of such products and creating the opportunity for more Insurers to service the increasing demand from various sectors of the economy. Surety Insurance will increase liquidity of contractors and provide strong boost especially to the infrastructure sector.




# INFRASTRUCTURE & OTHER GOVT. INITIATIVES

## *Cabinet approves City Investments to Innovate, Integrate and Sustain 2.0 (CITIIS 2.0) from 2023 to 2027*

The Union Cabinet chaired by the Hon'ble Prime Minister Shri Narendra Modi, has approved the **City Investments to Innovate, Integrate and Sustain 2.0 (CITIIS 2.0).** CITIIS 2.0 is a program conceived by the Ministry of Housing and Urban Affairs (MoHUA) in partnership with the French Development Agency (AFD), Kreditanstalt für Wiederaufbau (KfW), the European Union (EU), and National Institute of Urban Affairs (NIUA). The program will run for a period of four years, i.e., from 2023 till 2027.

The program envisages to support competitively selected projects promoting circular economy with focus on integrated waste management at the city level, climate-oriented reform actions at the State level, and institutional strengthening and knowledge dissemination at the National level.

The funding for CITIIS 2.0 would include a loan of Rs.1760 crore (EUR 200 million) from AFD and KfW (EUR 100 million each) and a technical assistance grant of Rs.106 cr. (EUR 12 million) from the EU.

CITIIS 2.0 aims to leverage and scale up the learnings and successes of CITIIS 1.0. CITIIS 1.0 was launched jointly in 2018 by MoHUA, AFD, EU, and NIUA, with a total outlay of ₹933 crore (EUR 106 million). CITIIS 1.0 consisted of three components:

**Component 1**: 12 city-level projects selected through a competitive process.

**Component 2**: Capacity-development activities in the State of Odisha.

**Component 3**: Promoting integrated urban management at the national level through activities undertaken by NIUA, which was the Program Management Unit (PMU) for CITIIS 1.0

Technical assistance was made available under the program at all three levels through domestic experts, international experts, and transversal experts. It has resulted in the mainstreaming of innovative, integrated and sustainable urban development practices through a unique challenge-driven financing model based on the principles of competitive and cooperative federalism.

Following the CITIIS 1.0 model, CITIIS 2.0 has three major components:

**Component 1**: Financial and technical support for developing projects focused on building climate resilience, adaptation and mitigation in up to 18 smart cities through selection of competitively selected projects promoting circular economy with focus on integrated waste management.

**Component 2**: All States and UTs will be eligible for support on demand basis. The States will be provided support to (a) set-up/strengthen their existing State climate centres/ Climate cells/ equivalents (b) create State and city level Climate Data Observatories (c) facilitate climate-data driven planning, develop climate action plans and (d) build capacities of municipal functionaries. To achieve these objectives, the PMU at NIUA will coordinate provision of technical assistance and strategic support to State Governments.

**Component 3**: Interventions at all three levels; Centre, State and City to further climate governance in urban India through institutional strengthening, knowledge dissemination, partnerships, building capacity, research and development to support scale up across all States and Cities.

CITIIS 2.0 will supplement the climate actions of Government of India through its ongoing National programs (National Mission on Sustainable Habitat, AMRUT 2.0, Swachh Bharat Mission 2.0 and Smart Cities Mission), as well as contributing positively to India's Intended Nationally Determined Contributions (INDCs) and Conference of the Parties (COP26) commitments.

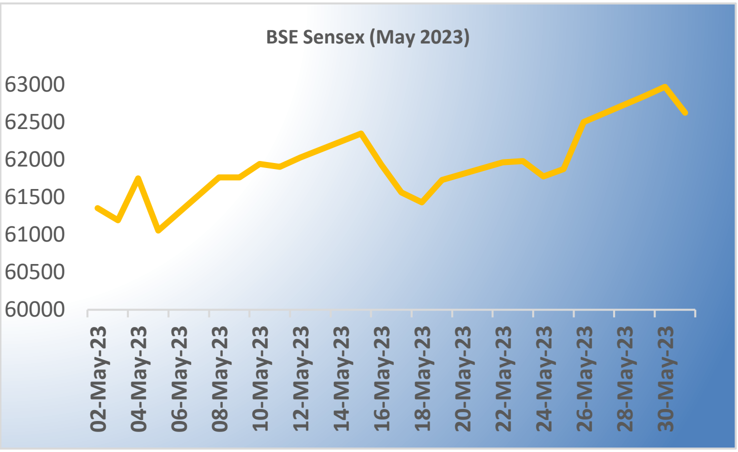

# CAPITAL MARKETS

## *Comprehensive guidelines for Investor Protection Fund and Investor Services Fund at Stock Exchanges and Depositories*

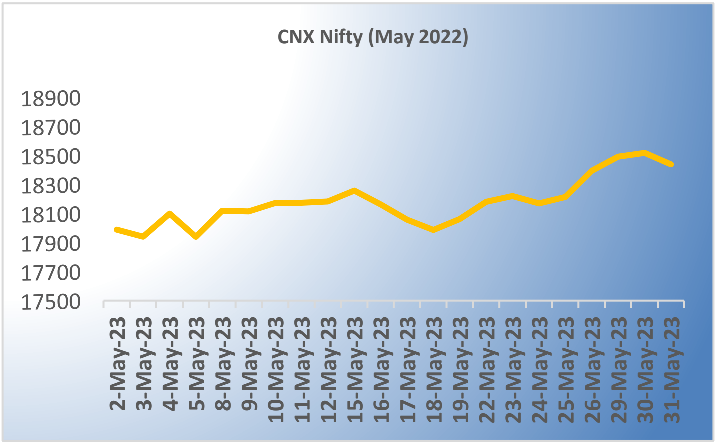
1. SEBI vide circular no. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004, had issued comprehensive guidelines for Investor Protection Fund (IPF) to be maintained by Stock Exchanges. SEBI vide circular No.SE/10118 dated October 12, 1992, had also advised stock exchanges to establish an Investor Services Fund (ISF). These guidelines have been modified from time to time through various subsequent circulars.
2. Based on the feedback received from various market participants, discussions with Stock Exchanges, Depositories and deliberations in Secondary Market Advisory Committee (SMAC) of SEBI, it has been decided to modify certain provisions of the existing guidelines for IPF and ISF.
3. The comprehensive guidelines for IPF and ISF are attached in the link below:

   Comprehensive Guidelines for IPF and ISF

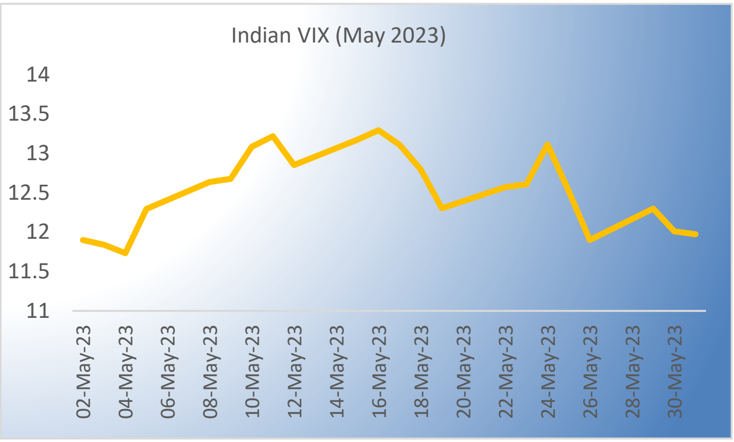
# CAPITAL MARKETS SNAPSHOT



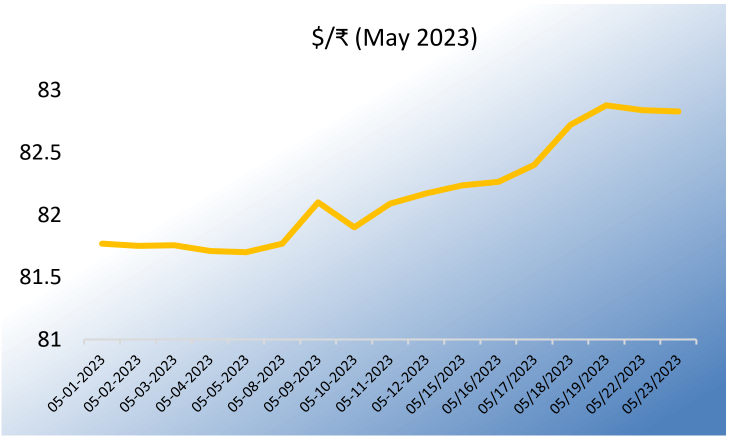

*Sources: Bombay Stock Exchange*



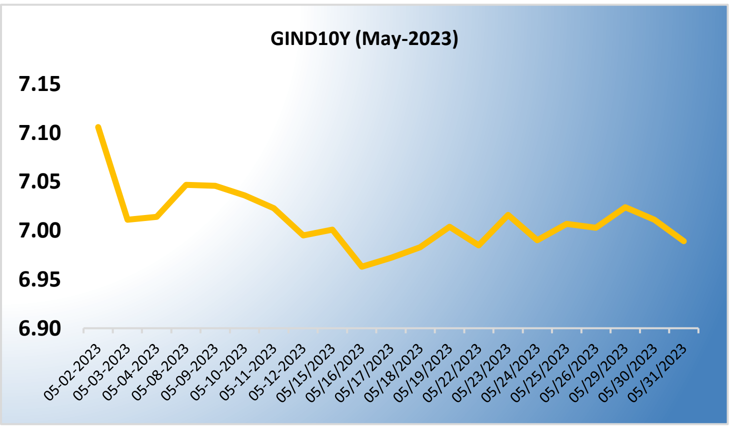

*Sources: Bombay Stock Exchange*




*Source: National Stock Exchange*




*Sources: APAS Business Research Team*




*Sources: APAS Business Research Team*

Indian benchmark equity indices, the Sensex and Nifty, ended in the red on Wednesday due to weak global markets, with banks and financials being the biggest decliners. Despite experiencing a robust recovery recently, the negative signals from global peers such as weak factory activity data from China and concerns over a recession and potential interest rate hikes in western markets are impacting the domestic market. Moreover, profit booking was prevalent in bank and financial services stocks after four days of consecutive rallies. MSCI's rebalancing also affected the market, with Adani Transmission and Adani Total Gas seeing a decline.

Equities finished lower on the last trading day of the month, but benchmark Nifty 50 has managed to clock over 2% gains in May.

The Indian rupee ended nearly flat but logged its worst monthly performance so far in 2023, weighed mainly by broad strength in the U.S. currency.

# ECONOMIC DATA SNAPSHOT

| Countries | GDP | | CPI | | Current Account Balance | Budget Balance | Interest Rates |
|---|---|---|---|---|---|---|---|
| | Latest | 2023* | Latest | 2023* | % of GDP, 2023* | % of GDP, 2023* | (10YGov), Latest |
| Brazil | 1.9 Q4 | 1.7 | 4.2 Apr | 5.2 | -2.6 | -7.6 | 11.6 |
| Russia | -1.9 Q1 | -2.2 | 2.3 Apr | 7.3 | 6.0 | -4.4 | 10.9 |
| **India** | **4.4 Q4** | **6.1** | **4.7 Apr** | **5.6** | **-1.4** | **-5.7** | **7.0** |
| China | 4.5 Q1 | 6.1 | 0.1 Apr | 1.7 | 2.5 | -2.9 | 2.5 |
| S Africa | 0.9 Q4 | 0.5 | 7.1 Apr | 5.2 | -2.0 | -4.7 | 11.1 |
| USA | 1.6 Q1 | 1.0 | 4.9 Apr | 3.8 | -3.0 | -5.4 | 3.7 |
| Canada | 2.1 Q4 | 0.7 | 4.4 Apr | 3.3 | -1.0 | -1.5 | 3.3 |
| Mexico | 3.9 Q1 | 2.1 | 6.3 Apr | 5.5 | -1.1 | -3.7 | 8.9 |
| Euro Area | 1.3 Q1 | 1.0 | 7.0 Apr | 5.7 | 1.6 | -3.6 | 2.5 |
| Germany | -0.1 Q1 | 0.3 | 7.2 Apr | 6.2 | 3.5 | -2.1 | 2.4 |
| Britain | 0.2 Q1 | -0.2 | 8.7 Apr | 6.0 | -2.9 | -5.4 | 4.1 |
| Australia | 2.7 Q4 | 1.6 | 7.0 Q1 | 5.5 | 0.8 | -0.5 | 3.6 |
| Indonesia | 5.0 Q1 | 4.5 | 4.3 Apr | 4.0 | 0.7 | -2.6 | 6.4 |
| Malaysia | 5.6 Q1 | 3.9 | 3.4 Mar | 2.7 | 3.2 | -5.0 | 3.9 |
| Singapore | 0.4 Q1 | 0.9 | 5.7 Arp | 5.2 | 18.7 | -0.1 | 3.0 |
| S Korea | 0.9 Q1 | 1.5 | 3.7 Apr | 2.8 | 2.5 | -2.1 | 3.5 |

*Sources: The Economist*

***** The Economist poll or Economist Intelligence Unit estimate/forecast.**
***^ 5-year yield***

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

# ABOUT APAS

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

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