NEWSLETTER

APAS MONTHLY

July 2023 EDITION – VOLUME 7

ASHVIN PAREKH

THIS MONTH

We invite our readers and patrons to visit our wealth of knowledge e by tuning into our APAS podcasts –

"Demystifying Reforms" and "BFSI insights"

We help demystify the latest reforms and bring market insights of the BFSI sector in India.

Hope you will find it insightful.

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EDITORIAL

In this issue, Mr. Sandeep Goradia, Chief - Corporate Solutions, ICICI Lombard General Insurance Company Limited has presented his thoughts on Emerging Horizons: New Opportunities in Commercial General Insurance Segment. We thank Mr. Goradia for his contribution to the APAS Monthly.

This month, the APAS column covers Empowering Fintech through RBI's First Loss Default Guarantee System.

The economic indicators showed mixed performance. Manufacturing PMI dropped to 57.8 in June 2023 from May's 31-month peak of 58.7, less than market estimates of 58.0. Services PMI declined to 58.5 in June 2023 from 61.2 in May, below market forecasts of 60,2, pointing to the slowest expansion in three months. Infrastructure output in India rose to five months high of 8.2% year-on-year in June 2023, from an upwardly revised 5% advance in the previous month. Index of Industrial Production (IIP) rose to 5.2 % year-on-year in May 2023, accelerating from a 4.2 % gain in the previous month. India's retail price inflation (CPI) accelerated for the first time in five months to 4.81% in June of 2023 from an upwardly revised 4.31% in May, and above market forecasts of 4.58%. India Wholesale Price Index (WPI) number is (-) 4.12% (provisional) for the month of June, 2023 (over June 2022) against (-) 3.48% recorded in May, 2023.

RBI announced decision on some of the applications received under Guidelines for 'on tap' Licensing Universal banks and Small Finance Banks. RBI published the report of the Inter-Departmental Group (IDG) on internationalization of INR.

A Keynote address delivered by Shri T Rabi Sankar, Deputy Governor, Reserve Bank of India about RBI & Fintech: The Road Ahead, has been covered.

IRDAI published the life insurance numbers for June 2023.

SEBI at an early stage of considering simplification of the process of on-boarding of clients by adoption of risk-based approach.

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

Ashvin parekh

APAS
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On the cover

GUEST COLUMN

Emerging Horizons: New Opportunities in Commercial General Insurance Segment

Mr. Sandeep Goradia
Chief - Corporate Solutions,
ICICI Lombard General Insurance Company Limited

APAS COLUMN

Empowering Fintech through RBI's First Loss Default Guarantee System

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Report of the Inter-Departmental Group (IDG) on internationalization of INR

FINTECH

RBI & Fintech: The Road Ahead - Keynote by Deputy Governor T Rabi Sankar, Reserve Bank of India

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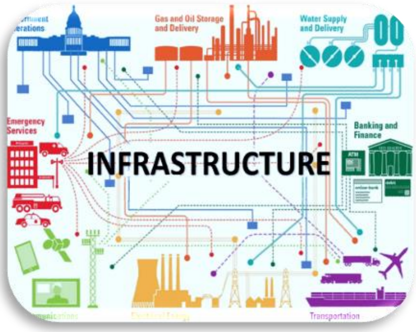
Life Insurance – June 2023



INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Open Network for Digital Commerce to democratize digital commerce

Comprehensive measures by the Government and RBI to recover and to reduce NPAs enables an aggregate recovery of Rs. 10,16,617 crore by SCBs during the last nine financial years

Banks get ₹5,729 crore from "Depositor Education and Awareness" (DEA) Fund towards refund of settling unclaimed deposits

CAPITAL MARKETS

SEBI at an early stage of considering simplification of the process of on-boarding of clients by adoption of risk-based approach

CAPITAL MARKETS SNAPSHOT

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

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

ECONOMIC DATA SNAPSHOT

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

EMERGING HORIZONS: NEW OPPORTUNITIES IN COMMERCIAL GENERAL INSURANCE SEGMENT

Mr. Sandeep Goradia
Chief - Corporate Solutions,
ICICI Lombard General Insurance Company Limited

Emerging Horizons: New Opportunities in Commercial General Insurance Segment

The Indian economy continues to be a beacon of growth and opportunity, attracting both domestic and foreign investments across various sectors. The country's economic reforms and ease of doing business initiatives have further improved the investment climate, fostering entrepreneurial spirit and innovation. India's integration into the global economy has strengthened its position as a key player in international trade and investment with Indian companies making significant contributions on the global stage. As India continues on its path of progress, the economy's resilience, coupled with the contributions of corporates and robust infrastructure development, has emerged as one of the fastest-growing economies worldwide, with a projected growth rate of over 6.0% in FY23-24.

India's ambitious goal of becoming a $5 trillion economy has sparked a wave of capital expansion across the country. Both the government and private sectors are making significant investments in key areas such as manufacturing, technology, healthcare, renewable energy, and digital infrastructure. The recent $10 billion program for semiconductor development attracted global giants, signalling growing confidence in India's capabilities.

As India continues to strengthen corporate governance practices and inclusive growth, it has taken significant strides in promoting renewable energy to combat climate change and has emerged as a front-runner in the adoption of Environmental, Social, and Governance (ESG) initiatives.

General Insurance as a sector is a critical pillar for the Economy

The prime regulatory change by the (IRDAI) and the following slew of reforms announced as part of its vision **'Insurance for All by 2047'** has ensured a favourable environment for growth. According to the Economic Survey 2022-23, insurance penetration in India is 3.2%, while the non-life insurance penetration is 1%of GDP, there is a tremendous opportunity with digital revolution fuelled by the rising middle class, increased digital literacy, and expanding access to the internet.

The recently introduced 'Use and File' procedure allows for the introduction of new products without the need for prior approval. Furthermore, the IRDAI has implemented regulations surrounding the expenses of management (EoM) for insurers, offering them greater flexibility in expense management.

Overall, these crucial reforms are set to expand the realm of innovation in the insurance industry while aiding speedy product, making insurance a more appealing proposition.

The GI industry delivered a GDPI growth of 17.9% for Q1 FY2024. The commercial segment of the general insurance industry is also undergoing a significant transformation fuelled by new opportunities for insurers and other stakeholders.

Insurers need to position itself as a Risk Solution partner for Corporates.
The evolving risk solution landscape demands an equally evolving approach. Forward looking insurers need to establish itself in areas of risk management, wellness, technology, and claims settlement initiatives, and set new standards in the insurance industry. A robust risk management practices ensures that Insurers understand and effectively mitigate potential risks, providing customers with comprehensive coverage tailored to their specific needs. Wellness initiatives, can empower policyholders to take charge of their health and well-being, promoting preventive healthcare and encouraging healthy lifestyle choices.

Technology plays an important role by enabling seamless digital experiences. The insurers have initiated GPS tracking services, which enable real-time monitoring and location tracking of cargo shipments, ensuring enhanced security and timely delivery. This technology-driven approach not only minimizes the risk of theft or damage to goods in transit but also promotes cost minimisation by optimising route planning and reducing operational inefficiencies. Property Risk solutions provides a safety net against fire, natural disasters, and other unforeseen events that could lead to financial losses.

Commercial Segment to drive growth in GI Industry
The future of corporate insurance and corporate business is set to be profoundly influenced by a rapidly changing landscape, emerging risks, and an increased emphasis on risk mitigation and innovation. As the business environment develops, corporations are faced with new and complex risks, including cybersecurity threats, climate change impacts, and geopolitical uncertainties. To address these challenges, insures have to constantly evolve their underwriting practices to offer tailored solutions that cater to the unique risk profiles of corporate clients. Digitisation is playing a pivotal role in transforming the insurance landscape, enabling insurers to streamline processes, enhance data analytics, and offer real-time risk monitoring and management solutions. Product innovation is another critical aspect, with insurers working to develop flexible and customisable policies that align with the specific needs of businesses.

In recent years, industry has evolved from being a service provider to being a strategic advisor and consultant for corporate businesses. Recognising the complexities of modern-day risks and the critical role risk management plays in an organisation's growth; insurers will need to step forward to support businesses in their Enterprise Risk Management (ERM) and Project Risk Management (PRM) endeavours. Through a process of handholding and partnership, insurers have to collaborate closely with corporate clients to identify potential risks, analyse their impact, and devise tailored risk management solutions.

Corporate India is set to play a pivotal role in driving economic expansion. Leading General insurance providers are very well positioned to contribute to this upward economic trajectory. With the commitment to innovation, customer-centricity, digitisation, and risk management focus, we are well positioned to complement and support Corporate India's growth journey.

APAS COLUMN

Empowering Fintech through RBI's First Loss Default Guarantee System

Introduction

The rise of fintech has disrupted traditional financial services, ushering in a new era of innovation and convenience. In India, the fintech sector has experienced exponential growth, empowering consumers with seamless digital transactions, personalized financial products, and improved access to credit. As the heartbeat of India's financial ecosystem, the Reserve Bank of India (RBI) plays a pivotal role in guiding the fintech industry towards sustainable growth. The RBI has always played a pivotal role in fostering the growth of the fintech industry while ensuring the stability and security of the financial system. In a significant move to boost the fintech sector, RBI has recently approved the implementation of the First Loss Default Guarantee System. This innovative framework is poised to bring substantial success to fintech companies by addressing some of the most critical challenges they face. In this article, we will explore how this system can revolutionize the fintech landscape and pave the way for increased growth and development.

Understanding the First Loss Default Guarantee System

The First Loss Default Guarantee System is a risk mitigation mechanism introduced by RBI that aims to bolster lending to unbanked and underserved segments of the population. Under this system, RBI provides a guarantee to lending institutions, covering the initial losses incurred in lending to certain categories of borrowers. This guarantee acts as an incentive for banks and fintech lenders to extend credit to individuals and businesses that have traditionally been excluded from formal financial services due to their perceived high-risk profiles.

How the First Loss Default Guarantee System Benefits Fintech

1. Increased Lending to High-Risk Segments: One of the primary challenges faced by fintech companies is the reluctance to lend to high-risk borrowers due to potential default risks. With the First Loss Default Guarantee System, the fear of bearing the entire loss is mitigated, encouraging fintech lenders to offer credit to previously underserved segments. This increased access to credit can drive financial inclusion and stimulate economic growth.

2. Reduced Risk Exposure: Fintech companies, especially startups, often struggle with limited capital and exposure to high-risk loans. The RBI's guarantee on the first loss acts as a safety net, reducing the risk exposure for fintech lenders. As a result, these companies can focus on scaling their operations and expanding their customer base without the fear of significant losses.

3. Lower Interest Rates and Affordable Loans: With the risk partially absorbed by the RBI, fintech companies can offer loans at lower interest rates to borrowers. This makes credit more affordable for customers, especially those who would have otherwise been subject to exorbitant interest rates charged by informal lenders. Lower interest rates can encourage borrowers to opt for formal financial channels, promoting financial inclusion.

4. Trust and Credibility: RBI's involvement in the First Loss Default Guarantee System lends credibility and trustworthiness to fintech companies participating in the program. Borrowers, particularly those unfamiliar with

digital lending platforms, are more likely to trust lenders endorsed by the central bank, leading to increased adoption of fintech services.

5. Market Growth and Competition: As fintech lenders enter new markets and cater to previously underserved segments, healthy competition in the financial industry increases. Traditional banks may also be motivated to innovate and adopt fintech practices to remain competitive, ultimately benefiting consumers with improved financial services and products.

The RBI's approval of the First Loss Default Guarantee System marks a milestone in the growth and success of the fintech industry in India. By addressing the risk aversion and capital constraints faced by fintech lenders, this system encourages innovation, promotes financial inclusion, and facilitates economic growth. The enhanced access to credit and formal financial services for underserved segments of the population will undoubtedly result in a positive impact on the overall economy, making India's fintech sector more robust, resilient, and dynamic in the years to come.In conclusion, the needs of the fintech sector from the RBI are multifaceted and critical to ensuring its sustained growth and success. As fintech continues to revolutionize the financial landscape, the RBI's role as the central banking institution becomes increasingly vital in providing guidance and support. Addressing these needs will not only nurture the fintech industry but also promote financial inclusion, consumer protection, and economic development.

Team APAS

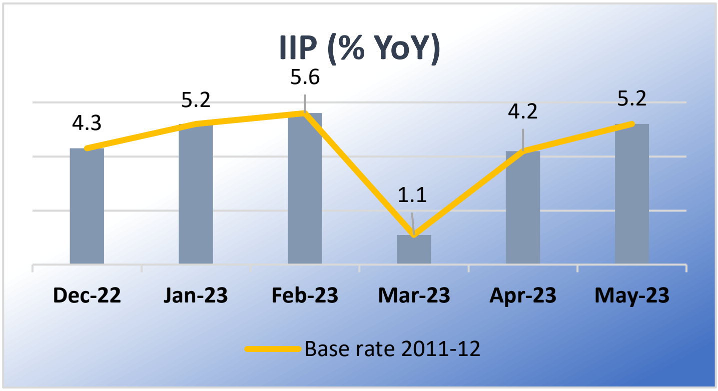
ECONOMY

IIP (Index of Industrial Production) – May

Industrial production in India rose to 5.2 % year-on-year in May 2023, accelerating from a 4.2 % gain in the previous month.

For the month of May 2023, the Quick Estimates of Index of Industrial Production (IIP) with base 2011-12 stands at 145.0.

The manufacturing sector, which constitutes close to 77 % of the index, increased by 5.7% in May, to 142.3. Mining sector grew by 6.4%, to 128.1. Electricity generation increased by 0.9%, to 201.6.



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

As per Use-based classification, the indices stand at 149.8 for Primary Goods, 102.7 for Capital Goods, 154.1 for Intermediate Goods and 174.7 for Infrastructure/ Construction Goods for the month of May 2023.

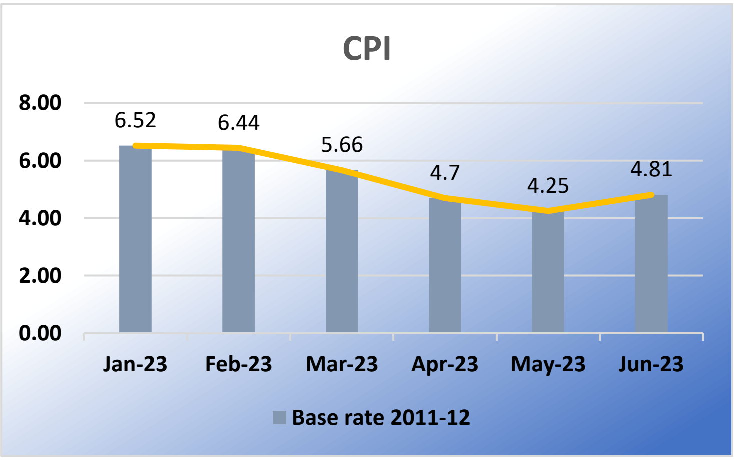
Further, the indices for Consumer durables and Consumer non-durables stand at 115.2 and 148.0 respectively for the month of May 2023.

CPI (Consumer Price Index) – June

India's annual consumer inflation rate accelerated for the first time in five months to 4.81% in June of 2023 from an upwardly revised 4.31% in May, and above market forecasts of 4.58%.

Food inflation increased to 4.99%, from 2.91% in May with the biggest gains reported for (19.19%), cereals (12.7%), pulses (10.5%), and milk (8.6%).

Also, the cost of vegetables declined by only 0.9%, much less than a nearly 8% fall in May, led by a rise in prices of tomatoes and onions.



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

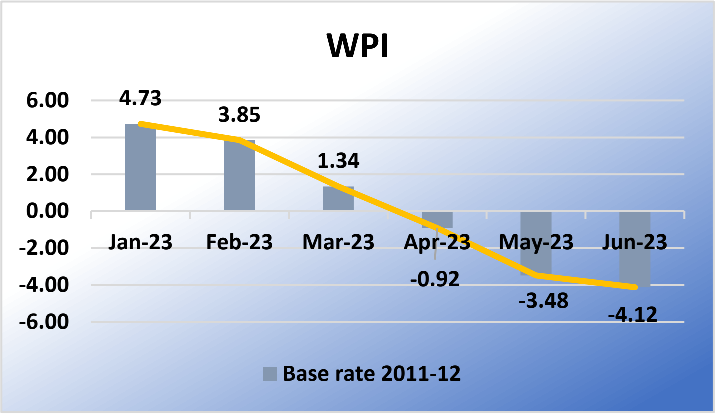
Meanwhile, prices of fuel and light went up 3.9%, housing cost rose 4.6%, miscellaneous increased 5.2% and prices for clothing and footwear surged 6.2%. The Reserve Bank of India targets inflation at 2-6% but aims to bring it to the mid-point of 4%.

WPI (Wholesale Price Index) – June

India Wholesale Price Index (WPI) number is (-) 4.12% (provisional) for the month of June 2023 (over June 2022) against (-) 3.48% recorded in May, 2023.

The decline in the rate of inflation in June 2023 is primarily due to fall in prices of mineral oils, food products, basic metals, crude petroleum & natural gas and textiles.

The month over month change in WPI index for the month of June 2023 stood at (-) 0.40 % as compared to May 2023.



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

The index for this major group increased by 0.57% to 176.3 (provisional) in June 2023 from 175.3 (provisional) for the month of May 2023.

Prices of Food Articles (2.10%) increased in June 2023 as compared to May 2023. Prices of Non-food Articles (-2.40%), Crude Petroleum and Natural Gas (-3.01%), and Minerals (- 4.32%) declined in June 2023 as compared to May 2023.

The index for this major group declined by 1.75% to 146.0 (provisional) in June 2023 from 148.6 (provisional) for the month of May 2023.

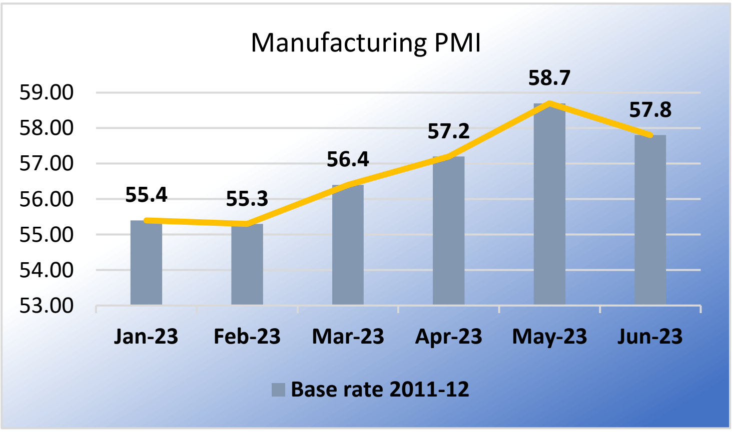
Prices of Coal (2.46%) increased in June 2023 as compared to May 2023. Prices of Mineral Oils (-2.30%) and Electricity (-2.96%) declined in June 2023 as compared to May 2023.

The index for this major group declined by 0.50% to 140.0 (provisional) in June 2023 from 140.7 (provisional) for the month of May 2023.

Manufacturing PMI – June

The S&P Global India Manufacturing PMI dropped to 57.8 in June 2023 from May's 31-month peak of 58.7, less than market estimates of 58.0. That said, the latest print was the 24th straight month of growth in factory activity, as new export orders rose solidly, though at a softer rate, and employment gained at a moderate pace that was broadly similar to May.

New orders expanded sharply, with the rate of rise among the strongest since February 2021. Also, output went up the most in 1-1/2 years, while buying activity rose at the second-strongest pace in over 12 years.



Source: www.tradingeconomics.com

Also, output went up the most in 1-1/2 years, while buying activity rose at the second-strongest pace in over 12 years. Delivery times improved further, as vendor performance strengthened the most in 8-1/2 years. Capacity pressures remained mild, with backlogs of work increasing for the 18th month in a row but only slightly.

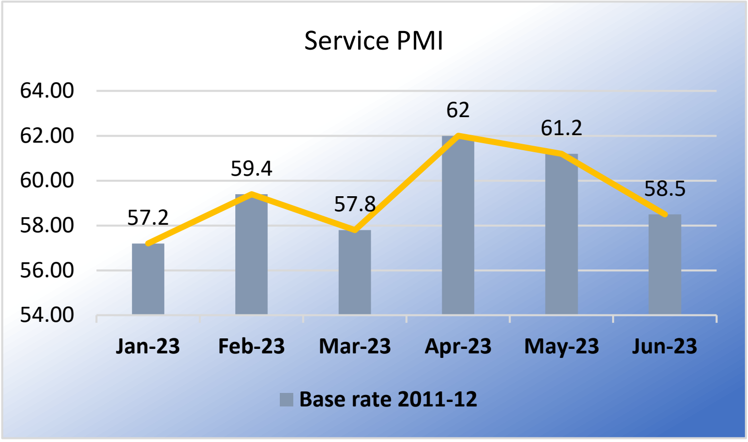
On prices, input cost inflation was among the lowest in three years. However, output charge inflation hit its highest in 13 months.

Finally, sentiment rose to a 6-month top, linked to forecasts toward growth prospects.

Services PMI – June

The S&P Global India Services PMI declined to 58.5 in June 2023 from 61.2 in May, below market forecasts of 60,2, pointing to the slowest expansion in three months.

The latest reading also marked the 23rd straight of growth in the sector supported by a stronger increase in new business and further job creation. The new export business grew for the fifth successive month, but modestly and slower than in May.



Source: www.tradingeconomics.com

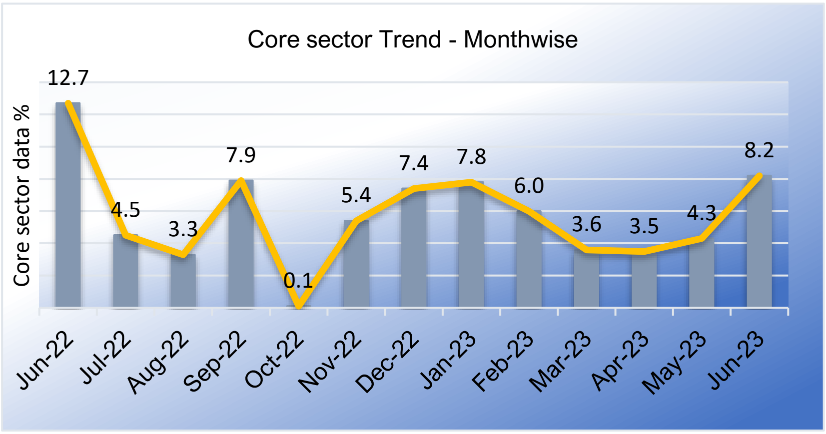
Meanwhile, employment continued to increase, with the rate of job creation being slight and the joint-fastest in six months.

On the pricing front, input cost inflation eased while output cost inflation rose to the sharpest pace in a nearly six-year high, due to higher staff costs.

Looking ahead, business sentiment improved amid predictions of further demand strength and favourable market conditions.

Core Sector Data – June

The combined Index of Eight Core Industries (ICI) increased by 8.2 per cent (provisional) in June 2023 as compared to the Index of June 2022. The production of Steel, Coal, Cement, Refinery Products, Natural Gas, Fertilizers and Electricity increased in June 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 % of the weight of items included in the Index of Industrial Production (IIP).



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

Final growth rate of Index of Eight Core Industries for March 2023 is revised to 4.2 per cent from its provisional level 3.6 per cent. The cumulative growth rate of ICI during the quarter April to June, 2023-24 reported 5.8 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 9.8 per cent in June 2023 over June, 2022. Its cumulative index increased by 8.7 per cent during the quarter April to June, 2023-24 over corresponding period of the previous year.

Crude Oil - Crude Oil production (weight: 8.98 per cent) declined by 0.6 per cent in June, 2023 over June, 2022. Its cumulative index declined by 2.0 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

Natural Gas - Natural Gas production (weight: 6.88 per cent) increased by 3.6 per cent in June, 2023 over June, 2022. Its cumulative index increased by 0.1 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

Petroleum Refinery Products - Petroleum Refinery production (weight: 28.04 per cent) increased by 4.6 per cent in June 2023 over June 2022. Its cumulative index increased by 1.9 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

Fertilizers - Fertilizer production (weight: 2.63 per cent) increased by 3.4 per cent in June 2023 over June 2022. Its cumulative index increased by 11.3 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

Steel - Steel production (weight: 17.92 per cent) increased by 21.9 per cent in June 2023 over June 2022. Its cumulative index increased by 15.9 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

Cement - Cement production (weight: 5.37 per cent) increased by 9.4 per cent in June 2023 over June 2022. Its cumulative index increased by 12.2 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

Electricity - Electricity generation (weight: 19.85 per cent) increased by 3.3 per cent in June 2023 over June, 2022. Its cumulative index increased by 1.0 per cent during the quarter April to June, 2023-24 over the corresponding period of previous year.

BANKING

RBI announces Decision on three applications received under Guidelines for 'on tap' Licensing of Small Finance Banks

The Reserve Bank has received 12 applications to set up bank under the Guidelines for 'on tap' Licensing of Universal Banks and Small Finance Banks. The names of these applicants were announced vide press releases on April 15, August 30, December 31, 2021 and January 04, 2023. The decision on six of these applications was announced vide press release on May 17, 2022.

The examination of three more applications for setting up a small finance bank has been completed as per the procedure laid down under extant guidelines. Based on the assessment of the applications, there were a few applicants were not found suitable for granting of in-principal approval to set up a small finance bank:

The remaining applications are under examination.

Report of the Inter-Departmental Group (IDG) on internationalization of INR

The Reserve Bank of India placed on its website the report of Inter-Departmental Group (IDG).

The report and its recommendations reflect the views of the IDG and do not in any way reflect the official position of the Reserve Bank of India. The recommendations of the report will be examined for implementation.

An Inter-Departmental Group (IDG) of the Reserve Bank of India (RBI) was formed to examine the internationalization of INR. The objective of the IDG was to review the extant position of INR as an international currency and to frame a road map for the internationalization of INR. The IDG has since submitted its report containing its final set of recommendations.

Over the short term, the IDG recommends the following:

- Designing a template and adopting a standardized approach for examining the proposals on bilateral and multilateral trade arrangements for invoicing, settlement and payment in INR and local currencies.
- Making efforts to enable INR as an additional settlement currency in existing multilateral mechanisms such as ACU.
- Facilitating LCS framework for bilateral transactions in local currencies and operationalizing bilateral swap arrangements with the counterpart countries in local currencies.
- Encouraging opening of INR accounts for non-residents (other than nostro accounts of overseas banks) both in India and outside India.
- Integrating Indian payment systems with other countries for cross-border transactions.
- Strengthening financial markets by fostering a global 24x5 INR market and promoting India as the hub for INR transactions and price discovery.
- Facilitating launch of BIS Investment Pools (BISIP) in INR and inclusion of G-Secs in global bond indices.

- Recalibrating the FPI regime and rationalizing/harmonizing the extant Know Your Customer (KYC) guidelines.
- Providing equitable incentives to exporters for INR trade settlement.

Over the medium-term horizon, the IDG has recommended:

- A review of taxes on Masala bonds.
- International use of Real Time Gross Settlement (RTGS) for cross border trade transactions and inclusion of INR as a direct settlement currency in the Continuous Linked Settlement (CLS) system.
- Examination of taxation issues in financial markets to harmonize tax regimes of India and other financial centres.
- Allowing banking services in INR outside India through offshore branches of Indian banks.

Finally, the IDG feels that over the long term, India will achieve higher level of trade linkages with other countries and improved macro-economic parameters, and INR may ascend to a level where it would be widely used and preferred by other economies as a "vehicle currency". Thus, the IDG recommends that in the long run, efforts should be made for inclusion of INR in IMF's SDR basket.

FINTECH

RBI & Fintech: The Road Ahead - Keynote by Deputy Governor T Rabi Sankar, Reserve Bank of India

The emergence of FinTechs

FinTechs are transforming financial services across sectors, including credit, payment systems, wealth management, investment advice, insurance, financial inclusion, and even financial sector supervision. The COVID-19 pandemic has given a strong boost to digitization - the fusion of technology and finance played a crucial role by facilitating smooth loan disbursals, robust 24x7 payment systems, uninterrupted access to financial services, and direct benefit transfers. New and innovative technologies brought by FinTechs are helping in driving down cost, refocusing products and services and improving customer reach and experience. The ongoing developments, innovations, and emergence of new technologies will significantly shape the trends in the financial world of tomorrow. As a principal regulator of the financial system and with a mandate for ensuring financial stability, the RBI is closely watching the fast-evolving world of FinTechs. In fact, to provide necessary support to the nascent sector, more than a year ago, we had set up a FinTech Department to give dedicated focus to this sector and to foster innovation. I will take the opportunity today to share with you, how, we in the Reserve Bank, view the changes in the financial services space, caused by absorption of new and innovative technologies and the resulting issues like regulatory level playing field, consumer protection, innovation, and central bank digital currencies (CBDCs).

Regulation and Fintech

We believe that the fintech sector will play a crucial role in achieving objectives of greater financial inclusion, cost and time efficiency and so we play the role of someone who encourages development of this sector. One way of looking at fintech innovation is in terms of three variables – Time, Access and Data. Many innovations, in essence, enable saving time, that is, transactions to be done with speed, e.g., fast payment systems. The second element of innovation is about access, that is they take services to people who are not exposed to financial services, promoting inclusion in both senses – equity as well as formalisation of economic activity. The third element of innovation is data – using available data to create new processes and generating further data that can incentivise further innovation – think of cash-flow based lending or using tax data for credit assessment. Increased penetration of internet, processing speed and data availability has given a huge boost to financial innovation in the last decade or so. These three elements are driving innovation in the Fintech space.

While these innovations are paradigmatic changes, financial products remain exactly what they are. There are still deposits, there is still credit or lending, and there are still investments, personal investments, personal finances, and so forth. These financial products have been in existence for a very long time. What has changed is the delivery of these products – channels of delivery, speed of delivery and price of these products. We often hear that these changes are disruptive. When we talk of disruption, we are not talking of new products but basically talking of disruption of existing institutions and processes. Conceptually therefore, a Fintech entity providing characteristic banking services like loans or payments is pretty much doing a banking activity – it just looks different. Such entities may not require a banking license, but they need to be regulated similar to how such activities are regulated for a bank.

Financial services are among the most regulated industries, if not the most regulated. For good reasons as well – they are key to growth and development, they involve the use of public money, and they are the conduit through which financial integrity is enforced. Fintech firms should therefore be subject to similar regulatory oversight. Regulation might lag in responding to the speed and complexity of changing processes. Eventually, however, regulatory gaps will get filled and uniformity in regulation will be ensured. Fintech firms would therefore be more stable as a long-term business proposition if business strategies include regulatory compliance as a basic requirement. Innovation should not be about exploiting regulatory arbitrage. The usual complaint one hears, for example when authorities globally are clamping down on cryptocurrencies, that innovation is being stifled, is not really valid.

Undoubtedly, we see a critical role for the fintech ecosystem to act as a force multiplier as we seek to achieve our goals of financial inclusion, digitalization and customer protection. RBI has taken several steps to create a nurturing environment to foster innovation. In 2016, we issued guidelines for Account Aggregators (AAs), recognizing their potential. In 2017, regulations were established for Peer-to-Peer (P2P) lending, even at a time when the sector was nascent in India. The regulatory sandbox framework released by the Reserve Bank in August 2019 was intended for the purpose of fostering innovation. The response to the regulatory sandbox has been encouraging to say the least. An Interoperable Regulatory Sandbox (IoRS), to facilitate testing of hybrid products/ services falling within the regulatory ambit of more than one financial regulator is in place. In November 2021, the Reserve Bank launched its first global hackathon - "HARBINGER with the theme 'Smarter Digital Payments'. The hackathon received encouraging response with 363 proposals submitted by teams from within India and from 22 other countries across the globe. As a sequel, we have also announced the second hackathon with the theme "Inclusive Digital Services".

In 2021, the Reserve Bank established its own Innovation Hub called the RBIH here in Bengaluru to support creation of an innovation ecosystem through collaboration among financial institutions, the technology industry, and academia. RBI and the Innovation Hub have commenced pilots in the states of Madhya Pradesh, Tamil Nadu, UP and Maharashtra for fully digitalized Kisan Credit Card loan, which is being disbursed in minutes. Similarly, pilot on fully digital dairy loan based on milk pouring data has commenced in Gujarat.

RBI has launched the Rupee Central Bank Digital Currency (CBDC) pilot. Currently, 10 banks are participating in the wholesale pilot and 13 banks are part of the retail pilot. Both the pilots have been going on successfully and we have been able to test various technical architecture, design choices and use cases. As on June 30th, in the retail pilot, we had crossed more than one million users and more than 262,000 merchants. The digital form of currency brings along the multiple possibilities which can bring innovation and efficiency such as features of offline, programmability, cross border transactions in current systems and may create altogether new frameworks for financial system to operate in. I believe, like in the case of UPI, we will witness a lot of innovation on this tokenized form of money in the days to come.

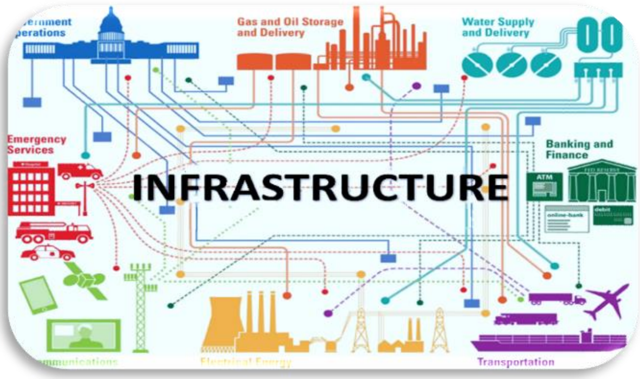
The RBI is mindful of the fact that innovation has potential to make finance more inclusive, the financial system more competitive and healthier, and regulation more effective and efficient. While innovation is crucial, it is necessary for these innovations to be responsible and even more beneficial if they address actual challenges faced by people in their day to day lives. It is also important for these innovations to be scalable and interoperable, allowing for expansion and providing advantages to a wider network of participants. Bearing these principles in mind, I would urge fintech players to contribute to development of the sustainability of the sector and ensure responsible digital innovations. While focus on short-term valuation gains may look attractive, creating long term value should be the basic goal. Fintech companies can prioritize several key areas, like improving customer protection, enhancing cybersecurity and resilience, effectively managing financial integrity, and robust data protection. It is also essential for every player in the fintech industry to devote sufficient attention to governance, business conduct, compliance, and risk mitigation frameworks, as these aspects are vital for long term sustainability.

He concluded by emphasizing that it is crucial for regulators, the fintech industry, and established institutions to engage in open and meaningful dialogue. This dialogue is necessary to establish a shared understanding of fintech activities, business models, and the rationale behind regulatory measures. Such collaboration among stakeholders will play a key role in ensuring effective regulation and fostering a conducive environment for FinTech innovation.

INSURANCE

Life Insurance – June 2023

	New Business Statement of Life Insurers for the Period ended 30th june 2023									
Sl No.	Insurer	First Year Premium			No of Policies/Schemes			No of lives covered under Group Schemes		
		Up to 30th June, 2023	*Growth in %*	*Market Share*	Up to 30th June, 2023	*Growth in %*	*Market Share*	Up to 30th June, 2023	*Growth in %*	*Market Share*
1	Aditya Birla Sun LifeB4B4:K15	1661.46	*24.55*	*2.28*	55299.00	*26.57*	*1.15*	1224855	*29.10*	*1.75*
2	Aegon Life	12.92	*1795.14*	*0.02*	3468.00	*466.67*	*0.07*	92173	*2543.33*	*0.13*
3	Ageas Federal Life	166.23	*17.33*	*0.23*	9505.00	*18.95*	*0.20*	114621	*1962.64*	*0.16*
4	Aviva Life	88.28	*55.88*	*0.12*	6421.00	*80.47*	*0.13*	349607	*275.65*	*0.50*
5	Bajaj Allianz Life	2156.58	*-26.05*	*2.95*	143910.00	*18.23*	*3.00*	4733380	*-13.84*	*6.75*
6	Bharti Axa Life	167.81	*-14.14*	*0.23*	20385.00	*0.10*	*0.42*	126466	*68.35*	*0.18*
7	Canara HSBC OBC Life	611.07	*-0.75*	*0.84*	26637.00	*-12.03*	*0.56*	4902279	*42.17*	*6.99*
8	CreditAccess Life	1.90		*0.00*	5.00		*0.00*	27702.00		*0.04*
9	Edelweiss Tokio Life	70.31	*-8.10*	*0.10*	8914.00	*-22.73*	*0.19*	58912	*405.08*	*0.08*
10	Exide Life*		*-100.00*	*0.00*		*-100.00*	*0.00*		*-100.00*	*0.00*
11	Future Generali Life	74.55	*-54.52*	*0.10*	6090.00	*-13.89*	*0.13*	17078	*-55.20*	*0.02*
12	Go Digit Life	0.02		*0.00*	1.00		*0.00*	6		*0.00*
13	HDFC Life	5990.10	*23.48*	*8.21*	206989.00	*24.38*	*4.31*	16171485	*32.83*	*23.07*
14	ICICI Prudential Life	3051.23	*-4.17*	*4.18*	115291.00	*-4.45*	*2.40*	9454832	*13.16*	*13.49*
15	India First Life	735.95	*46.98*	*1.01*	56056.00	*-4.44*	*1.17*	7357127	*446.52*	*10.50*
16	Kotak Mahindra Life	1424.94	*16.81*	*1.95*	49281.00	*-14.24*	*1.03*	6229576	*28.60*	*8.89*
17	Max Life	1853.46	*24.90*	*2.54*	119426.00	*5.80*	*2.49*	1558175	*131.70*	*2.22*
18	PNB Met Life	619.16	*24.40*	*0.85*	58239.00	*3.46*	*1.21*	458924	*-36.78*	*0.65*
19	Pramerica Life	220.99	*125.83*	*0.30*	6630.00	*-4.62*	*0.14*	989734	*805.24*	*1.41*
20	Reliance Nippon Life	266.49	*6.45*	*0.37*	40000.00	*8.59*	*0.83*	37416	*-10.71*	*0.05*
21	SBI Life	6205.71	*11.00*	*8.50*	418855.00	*1.16*	*8.73*	4013182	*108.30*	*5.73*
22	Shriram Life	495.53	*136.79*	*0.68*	56517.00	*-2.69*	*1.18*	4125047	*285.78*	*5.89*
23	Star Union Dai-ichi Life	674.77	*7.84*	*0.92*	31098.00	*5.20*	*0.65*	426514	*-36.70*	*0.61*
24	Tata AIA Life	1618.21	*25.62*	*2.22*	136353.00	*7.17*	*2.84*	707684	*85.60*	*1.01*
	Private Total	**28167.64**	***10.58***	***38.58***	**1575369**	***3.90***	***32.83***	**63176769**	***48.70***	***90.14***
25	LIC of India	44837.20	*-6.98*	*61.42*	3222557.00	*-12.61*	*67.17*	6912326	*39.62*	*9.86*
	Grand Total	**73004.85**	***-0.91***	***100.00***	**4797926**	***-7.80***	***100.00***	**70089095**	***47.75***	***100.00***



INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Open Network for Digital Commerce to democratize digital commerce

The Open Network for Digital Commerce (ONDC) is a Section 8 company, under the initiative of DPIIT, with a mission to democratize digital commerce. ONDC develops and maintains the ONDC Protocol, an open technical standard similar to UPI, HTTP and SMTP. Any two platforms that are compliant with the ONDC Protocol can interoperate without specifically integrating with each other's systems. The ONDC Protocol compliant applications together constitute the ONDC Network. Just as UPI enables interoperability of banks and payment platforms to transfer money, or SMTP allows people to exchange emails without worrying about which email service the recipient uses, the ONDC Protocol allows buyers and sellers to trade goods or services no matter which /platform they use, as long as the platforms are part of the ONDC Network.

The benefits of the ONDC Network include lower entry-barriers to digital commerce, providing Level playing field for all e- Commerce models and unbundling of various stages of e-commerce transactions to allow new business models and opportunities. Hence, ONDC ensures an expansion of digital commerce, making it more inclusive.

The challenges with the adoption of ONDC are that the ONDC Network is enabling offline businesses to move online for the first time, and hence this transition can be challenging. However, ONDC is providing systems for assistance and capacity building initiatives to make this transition smooth and hassle free.

ONDC promotes transparency, trust and efficiency through its design as well as operational practices including free and open-source standards and systems, decentralization and privacy by design, participatory approach and transparency, level playing field, clear audit trail and protecting buyer and seller rights.

ONDC Network is based on open specifications namely the ONDC Protocol. Thus, any two platforms that are compliant with the ONDC Protocol can interact with each other without having to learn the other platform's specific language for handling messages and processes.

This is achieved through the ONDC Registry. The Registry is like a phonebook which one can use to find other ONDC Protocol-compliant platforms. Details of all the registered platforms are in the registry after certification of the compliance to the protocol and signing the agreement of participation.

The Protocol and the Registry together create a collection of e- commerce platforms that can discover, connect and interact with each other. The ONDC Network includes multiple buyer applications and seller applications all working seamlessly with each other. With this open network, buyers can discover and purchase products/services from sellers using any seller application, through a single buyer application of their choice.

Comprehensive measures by the Government and RBI to recover and to reduce NPAs enables an aggregate recovery of Rs. 10,16,617 crore by SCBs during the last nine financial years

As per the Central Repository of Information on Large Credits (CRILC) data, the total funded – amount outstanding of scheduled commercial banks (SCBs) to corporate company borrowers, classified as non-performing assets (NPA) and having amount outstanding of Rs. 1,000 crore or more was Rs. 1,03,975 crore as on 31.3.2023. This was stated by Union Minister off State for Finance Dr Bhagwat Kisanrao Karad in a written reply to a question in Lok Sabha today.

The Minister further stated that the Reserve Bank of India (RBI) has apprised that the total loan amount recovered from corporate company borrowers classified as NPAs is not maintained by it.

Giving out more information, the Minister stated that comprehensive measures have been taken by the Government and RBI to recover and to reduce NPAs, including those pertaining to corporate companies, which has enabled an aggregate recovery of Rs. 10,16,617 crore (RBI provisional data for FY 2022-23) by SCBs during the last nine financial years. These measures include, *inter alia*, the following:

i. Change in credit culture has been effected, with the Insolvency and Bankruptcy Code, 2016 (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners, and debarring wilful defaulters from the resolution process. To make the process more stringent, personal guarantor to corporate debtor has also been brought under the ambit of IBC.

ii. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 has been amended to make it more effective.

iii. National Asset Reconstruction Company Limited has been set up as an asset reconstruction company with an aim to resolve stressed assets above Rs. 500 crores.

iv. each. Government has also approved extending a guarantee of up to Rs. 30,600 crores to back Security Receipts issued by NARCL to Lending Institutions for acquiring stressed loan assets.

v. PSBs have also created Stressed Asset Management Verticals for stringent recovery, segregated pre- and post-sanction follow-up roles for clean and effective monitoring, and engaging specialised monitoring agencies for monitoring of large-value accounts.

vi. CRILC collects, stores and disseminates credit data to lenders, and banks are required to submit report on weekly basis to CRILC, in case of any default by borrowing entities with exposure of Rs. 5 crore and above.

vii. Under the PSB Reforms Agenda, comprehensive and automated Early Warning Systems (EWS) were instituted in PSBs, with ~80 EWS triggers and use of third- party data for time-bound remedial actions in the borrowing accounts.

viii. Wilful defaulters are not sanctioned any additional facilities by banks or financial institutions, and their unit is debarred from floating new ventures for five years.

ix. Wilful defaulters and companies with wilful defaulters as promoters/directors have been debarred from accessing capital markets to raise funds.

x. Prudential Framework for Resolution of Stressed Assets was issued by RBI in 2019 to provide a framework for early recognition, reporting and time bound resolution of stressed assets, with a build-in incentive to lenders for early adoption of a resolution plan.

Banks get ₹5,729 crore from "Depositor Education and Awareness" (DEA) Fund towards refund of settling unclaimed deposits

The "Depositor Education and Awareness Fund Scheme, 2014", was notified by Reserve Bank of India (RBI), which covers norms related to unclaimed deposits and outlines details of utilization of fund including, *inter alia,* promotion of depositors' interests and other purposes as may be specified by the RBI. This was stated by Union Minister of State for Finance Dr Bhagwat Kisanrao Karad in a written reply to a question in Lok Sabha today.

The Minister stated that as a result of various steps undertaken to return the unclaimed deposits to their rightful owners/claimants, total ₹5,729 crore has been transferred from "Depositor Education and Awareness" (DEA) Fund to banks towards refund of settling unclaimed deposits, in last five-years. The details of unclaimed deposits of public and private sector banks transferred to DEA Fund as on 31st March of last five-years, are at **Annex**.

Giving more information, Dr Karad stated that RBI has taken various steps to reduce the quantum of unclaimed deposits and return such deposits to rightful claimants. Banks are, *inter-alia,* advised to –

i. Display the list of unclaimed deposits which are inactive/inoperative for ten years or more on the bank's websites.
ii. Find the whereabouts of the customers and their legal heirs to return unclaimed deposits to the rightful claimants.
iii. Formulate board approved policy on classification of unclaimed deposits; and
iv. Put in place a grievance redressal mechanism for quick resolution of complaints, record keeping, and periodic review of unclaimed deposit accounts.

Further, the Minister stated, RBI has announced to set-up a Centralized Web portal for public to search unclaimed deposits across multiple banks.

RBI has also launched a campaign "100 Days 100 Pays" for banks to trace and settle top 100 unclaimed deposits of every bank in every district of the country within 100 days, commencing from 1.6.2023 to 8.9.2023, the Minister stated.

CAPITAL MARKETS

SEBI at an early stage of considering simplification of the process of on-boarding of clients by adoption of risk-based approach.

This is with reference to some media articles speculating that SEBI is seeking to curb retail participation in derivative markets.

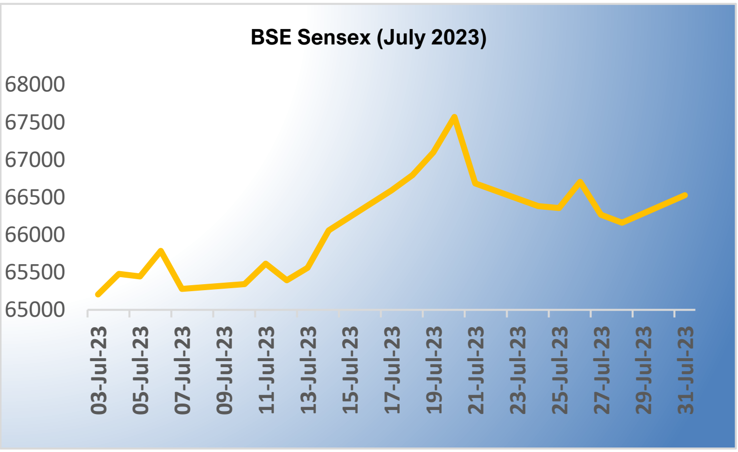
In this regard, it is clarified that there is no proposal to curb retail participation in derivative markets.

Currently, for trading in the derivative segment, SEBI Circular dated December 03, 2009(now incorporated under Master Circular for Stockbrokers dated May 17, 2023), inter alia, prescribes that the stockbroker shall have documentary evidence of financial capability for all clients.

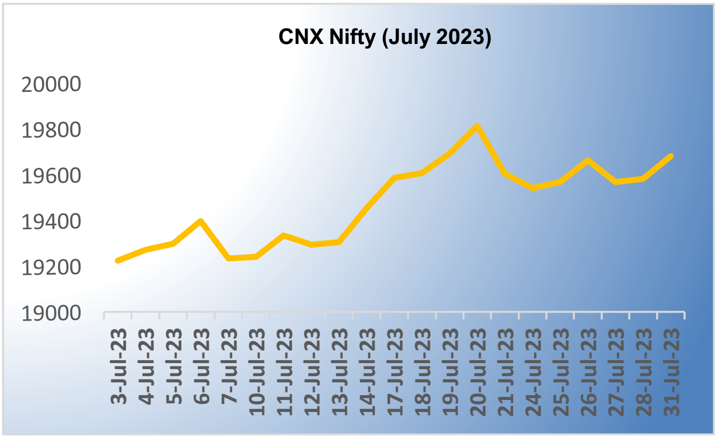
SEBI, in line with the objective of ease of doing business, is at an early stage of evaluating if the aforesaid circular can be made applicable based on risk assessment of the clients. This would promote ease of compliance for brokers and investors. Further, SEBI's focus has always been on adequate risk management, while ensuring ease of doing business and compliance, rather than on placing any curbs on trading.

It is reiterated that proposals which result in any change in the regulatory framework, go through a process of comprehensive consultation with all stakeholders including the public, before any decision is taken by the Board.

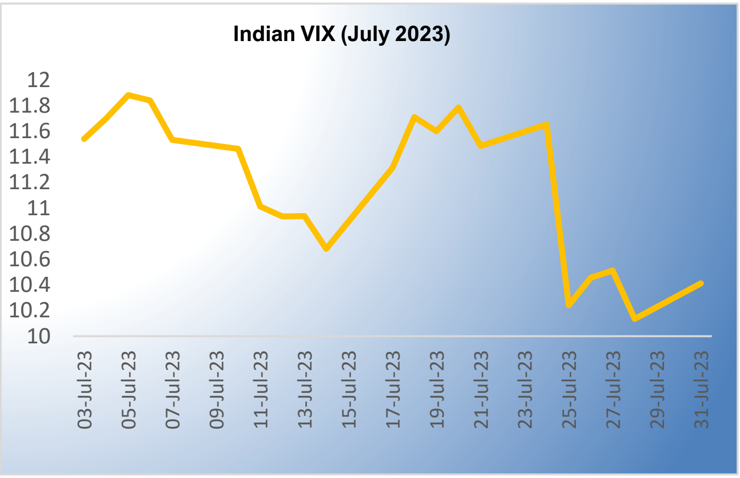
CAPITAL MARKETS SNAPSHOT



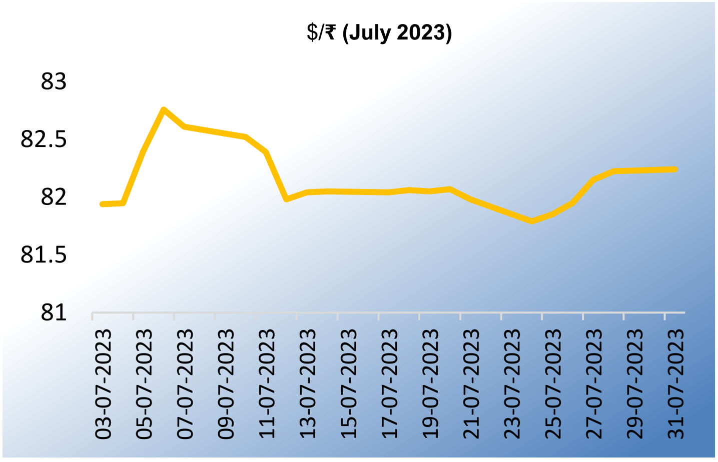
Sources: Bombay Stock Exchange



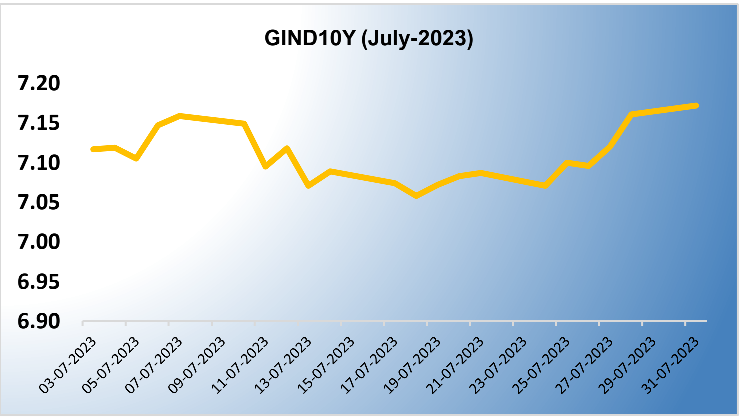
Sources: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Market ended on a positive note, with Nifty reaching around 19,750.

At the close, the Sensex was up by 367.47 points or 0.56% at 66,527.67, and the Nifty rose by 107.80 points or 0.55% to 19,753.80. Among the listed stocks, 2,163 shares advanced, 1,414 shares declined, and 187 shares remained unchanged.

In terms of sectors, the auto, oil & gas, power, metal, capital goods, and information technology sectors witnessed gains of 1-2%, while the FMCG index experienced a decline of 0.5%.

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	4.0 Q1	2.4	3.2 Jun	4.8	-1.9	-7.5	10.8
Russia	-1.8 Q1	-1.6	3.2 Jun	6.0	5.4	-4.2	11.2
India	**6.1 Q1**	**6.2**	**4.8 Jun**	**5.3**	**-1.3**	**-5.7**	**7.1**
China	6.3 Q2	5.5	nil Jun	1.2	2.4	-3.0	2.5
S Africa	0.2 Q1	0.5	5.7 Jun	5.7	-1.8	-5.7	10.3
USA	1.8 Q1	1.3	3.0 Jun	3.9	-2.9	-5.7	3.9
Canada	2.2 Q1	1.2	2.8 Jun	3.5	-0.1	-1.0	3.5
Mexico	3.7 Q1	2.4	5.1 Jun	5.0	-1.9	-3.5	8.8
Euro Area	1.1 Q1	0.8	5.5 June	5.6	1.7	-3.3	2.4
Germany	-0.5 Q1	-0.2	6.4 June	6.0	5.1	-2.3	2.4
Britain	0.2 Q1	0.3	7.9 Jun	6.7	-3.3	-4.3	4.3
Australia	2.3 Q1	1.5	6.0 Q2	5.5	1.0	0.2	4.0
Indonesia	5.0 Q1	4.9	3.5 Jun	3.8	0.9	-2.6	6.3
Malaysia	5.6 Q1	3.9	2.4 Jun	2.7	3.1	-5.0	3.9
Singapore	0.7 Q2	1.0	4.5 Jun	5.0	16.3	-0.7	3.0
S Korea	0.8 Q2	1.3	2.7 Jun	3.0	1.9	-2.4	3.7

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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