APAS MONTHLY – VOLUME 2

APAS MONTHLY NEWSLETTER

February 2024 Edition

ashvin parekh

APAS
ashvin parekh advisory services

+91 22 67891000 | info@ap-as.com | www.ap-as.com

EDITORIAL

In this issue, Mr. Abhishek Upadhyay - Senior Vice President & Economist, ICICI Securities Primary Dealership Limited has presented his thoughts on **'RBI monetary policy and liquidity strategy'**. We thank Mr. Upadhyay for her contribution to the APAS Monthly.

This month, the APAS column covers **'The Evolving Landscape of Financial Conglomerates: A Comparative Analysis of India and the World'**.

The economic indicators showed good performance. Manufacturing PMI was revised slightly lower to 56.5 in January 2024 from a flash reading of 56.9. Services PMI was revised higher to 61.8 in January 2024. Infrastructure output in India increased 3.6% year-on-year in January 2024. Industrial production in India rose 3.8% year-on-year in December 2023, up from 2.4% in the previous month. India's retail price inflation (CPI) eased to 5.1% in January 2024, the lowest in three months, from 5.69% in December 2023. India Wholesale Price Index (WPI) number is 0.27% (Provisional) for the month of January 2024.

RBI warns of ongoing KYC update scams where fraudsters use urgency and fake threats to steal your info. The Reserve Bank of India has released the data on External Commercial Borrowings (ECB), Foreign Currency Convertible Bonds (FCCB) and Rupee Denominated Bonds (RDB) both, through Automatic Route and Approval Route, for the month of December 2023. A summary statement on developmental and regulatory policies of RBI was published. RBI invites comments on the "Draft Disclosure framework on Climate-related Financial Risks, 2024". RBI updated 'Enabling Framework for Regulatory Sandbox'.

IRDAI published the life insurance data for January 2024.

SEBI has revised guidelines for institutional placement of Infrastructure Investment Trusts (InvITs), allowing privately placed InvITs to set their institutional placement floor price based on the Net Asset Value (NAV) per unit.

In Feb, RBI is propelling its Central Bank Digital Currency (CBDC) forward with enhanced programmability and offline functionality, catering to diverse transaction needs. The proposed framework for digital payment authentication reflects RBI's commitment to bolstering security amidst rising digital transactions, ensuring customer trust and safety. With increased scrutiny on fintech firms, RBI signals a shift towards stricter regulation, emphasizing compliance and diligence within the sector. The surge of fintechs in India's personal loans market underscores changing consumer preferences and the efficacy of digital platforms in meeting financial needs.

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

Ashvin parekh

On the Cover

GUEST COLUMN

RBI monetary policy and liquidity strategy

Mr. Abhishek Upadhyay
Senior Vice President & Economist
ICICI Securities Primary Dealership Limited

APAS COLUMN

The Evolving Landscape of Financial Conglomerates: A Comparative Analysis of India and the World

ECONOMY

Index of Industrial Production – Dec
Inflation update – Jan
PMI update – Jan
Core Sector – Jan
GDP – Q3- FY 2023-24

ECONOMIC DATA SNAPSHOT

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

APAS
ashvin parekh advisory services

BANKING

[RBI releases data on ECB / FCCB / RDB for December 2023]

[Statement on Developmental and Regulatory Policies]

[RBI invites comments on the "Draft Disclosure framework on Climate-related Financial Risks, 2024"]

[Enabling Framework for Regulatory Sandbox]

INSURANCE

[Life insurance – Jan 2024]

CAPITAL MARKETS

[Revised Pricing Methodology for Institutional Placements of Privately Placed Infrastructure Investment Trust (InvIT)]

CAPITAL MARKETS SNAPSHOT

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

FINTECH NEWS

Highlights of the Month

Guest Column: RBI monetary policy and liquidity strategy

Mr. Abhishek Upadhyay
Senior Vice President & Economist
ICICI Securities Primary Dealership Limited

Stagnant policy rates hide crucial change in RBI's liquidity management strategy
It has been a full year since RBI last hiked the benchmark policy rate. Even the stance of monetary policy has stayed unchanged in this period despite the awkward wording - "withdrawal of accommodation". Such a stance would typically indicate that the RBI led monetary policy committee is actively considering more tightening. However, a prolonged pause and with one external member at the committee dissenting in favor of a rate cut in last meeting points to the contrary. Even the commentary from RBI members have indicated that policy rates have peaked. But there is still a very deep aversion to signal a policy 'pivot' to rate cut(s) is nigh.

To be sure, a shift to 'neutral' monetary policy stance wouldn't indicate monetary policy easing is imminent, although RBI likely worries about that prospect. Such messaging stands in stark contrast to the strategy adopted by other major central banks, most prominently the US federal reserve. Fed speakers have consistently indicated that rate cuts are likely at some point in the current calendar year, even as more data is required to provide confidence that inflation will converge to target. Such a transparent communication style risks premature easing in financial conditions as financial markets price rate cuts into the yield curve quicker than central bank considers appropriate. But to the extent central bank reaction function to the economic data is also made reasonably clear, there should be enough flexibility to respond to economic developments.

RBI monetary policy far less 'restrictive' compared to the US Fed
However, RBI's approach is at least partially justified, given the context differs from US in one very crucial aspect. The culmination of the most aggressive rate hike cycle in US since the 1980s has meant monetary policy is now deeply 'restrictive'. That is because the current level of fed funds rate at 5.25-5.5% is firmly higher than the 2.5% estimate for 'neutral' policy rate revealed by the Fed itself in the last 'dot plot' in Dec meeting. (Neutral policy rate reflects suitable monetary policy setting when economy is judged to be in equilibrium, with zero output gap and near target inflation). To put this gap of near 3% in context, neutral policy rate was likely in the 4 to 5% range when policy rate peaked at 5.25% in 2006 i.e. the previous big rate hike cycle. Even as monetary policy was thus less 'restrictive' in that cycle, fed funds rate was still sufficiently high to prick the housing bubble. In that light, relatively long distance for policy rates to traverse to neutral policy rates in this cycle explains the urgency for Fed to indicate bar for rate cuts is low. After all, at least theoretically, the monetary policy will stay 'restrictive' even if Fed is cutting policy rates, as long as fed funds rate doesn't fall to 2.5%. This is where the situation differs in case of India.

India policy rates are not high, whether seen on nominal or on real basis
The benchmark repo rate that appears to have peaked at 6.5% in India is much below the peaks in earlier rate hike cycles. Leaving out the aberration of couple of rate hikes in 2018 that led repo rates back up to

same levels as currently (6.5% from 6%), policy rates in India peaked at 9% in 2008, 8.5% in 2011 and 8% in 2014. Note effective policy rates were much higher than policy rates in 2013 when India was faced with 'taper tantrum'. Interestingly, the current level of policy rate is just about close to the 6.2% average for effective policy rates seen since 2007. Seen in this historical context, policy settings in India are not restrictive and don't need to be normalized like in case of US.

Even when seen on a 'real' basis, policy settings are not tight. Real policy rates, ex ante, are only about 2%, assuming inflation averages close to RBI forecast next year (4.5%). These real policy rates closely match the average for this metric in the pre-pandemic period, after the shift to inflation target regime. Given this backdrop, there may be scope for only a shallow rate cut cycle at best in the next fiscal year in case inflation remains well behaved and Fed eases monetary policy as expected. The hawkish rhetoric from RBI that looks geared to curb any market exuberance about rate cuts looks justified in this light. Given the high inflation vols in India, RBI will need more than soft inflation (and likely weaker growth) to pivot to rate cuts.

RBI shows crucial intent to reverse the 'stealth hike' by easing liquidity conditions

Crucially, despite a hawkish rhetoric otherwise, RBI is silently calibrating an important shift in monetary policy by easing the liquidity conditions and taking away the 'stealth hike'. Note that even as repo rates have stayed unchanged at 6.5%, RBI has modulated the provision of banking system liquidity in the last few months in a way that kept the overnight policy rate at 6.75%. But continued softening in core inflation and the likely 'pivot' from the Fed in Dec has given enough confidence to RBI to strive to normalize the overnight rate back to repo rates. Central bank has grown visibly more active in its daily liquidity interventions recently and started to actively supply 'durable' liquidity into the banking system as well. Indeed, with RBI balance sheet having already normalized after a covid induced surge, central bank looks suitably keen to ensure tight liquidity conditions don't kill away the favorable growth backdrop. Indeed, the key risk to growth outlook next year stems less from RBI abstaining from modest rate cuts in response to lower inflation, and more from keeping liquidity conditions tighter than is warranted. RBI's recent actions suggest Central Bank is cognizant of the risk of dropping the liquidity ball as it juggles between balancing the growth and inflation objectives.

APAS COLUMN

The Evolving Landscape of Financial Conglomerates: A Comparative Analysis of India and the World

Financial conglomerates, entities housing diverse financial service providers under one roof, are increasingly shaping the global financial landscape. These institutions, offering a bouquet of services like banking, insurance, investment, and non-banking financial services, play a multifaceted role in driving financial inclusion, fostering innovation, and enhancing market stability. However, their rise also raises concerns about systemic risks and necessitates robust regulatory frameworks. This article delves into the evolving landscape of financial conglomerates, comparing their role and structure in India with their counterparts in other countries.

Promoting Financial Inclusion: One of the key contributions of financial conglomerates is their ability to promote financial inclusion. By offering a wider range of products and services under one roof, they can reach underserved segments of the population, including those in rural areas or with limited financial literacy. This not only empowers individuals and businesses but also fosters broader economic participation. In India, conglomerates like Tata Group and Aditya Birla Group play a vital role in providing micro-insurance and other financial products to underbanked populations, contributing significantly to the country's financial inclusion agenda.

Enhancing Efficiency and Innovation: Financial conglomerates have the potential to leverage synergies between their various subsidiaries, leading to operational efficiencies and cost optimization. This translates to potentially better product pricing and improved access to credit for customers. Additionally, their diverse range of services allows them to cross-sell products and develop innovative financial solutions that cater to specific customer needs. For instance, conglomerates in developed economies like Citigroup and HSBC have been at the forefront of developing new financial products and services, leveraging their expertise across various financial domains.

Balancing Stability and Risk: While the potential for innovation and efficiency offered by financial conglomerates is undeniable, their sheer size and interconnectedness raise concerns about systemic risk. The failure of a large conglomerate can have cascading effects on the entire financial system, potentially leading to financial crises. This necessitates robust regulatory frameworks that ensure adequate capital adequacy, risk management practices, and effective resolution mechanisms to mitigate potential systemic risks. In the aftermath of the 2008 financial crisis, several countries, including the US and the UK, implemented stricter regulations for financial conglomerates to address these concerns.

The Indian Context: Compared to their counterparts in developed economies, Indian financial conglomerates face unique challenges. The regulatory landscape in India remains fragmented, with different regulators overseeing various segments like banking, insurance, and non-banking financial services. This can lead to challenges in coordinated supervision and potential regulatory arbitrage.

Additionally, Indian conglomerates often operate with a holding company structure, with subsidiaries functioning relatively independently. This limits the full potential for cross-selling and synergy extraction compared to integrated models prevalent in some developed economies.

Focus on Financial Inclusion: Despite these challenges, a key differentiator for Indian financial conglomerates is their strong focus on financial inclusion. Unlike their counterparts in some developed economies that primarily cater to large corporates and high-net-worth individuals, Indian institutions actively develop products and services tailored to the needs of the underbanked population. This focus on financial inclusion aligns with the country's broader developmental goals and contributes to poverty alleviation and economic empowerment.

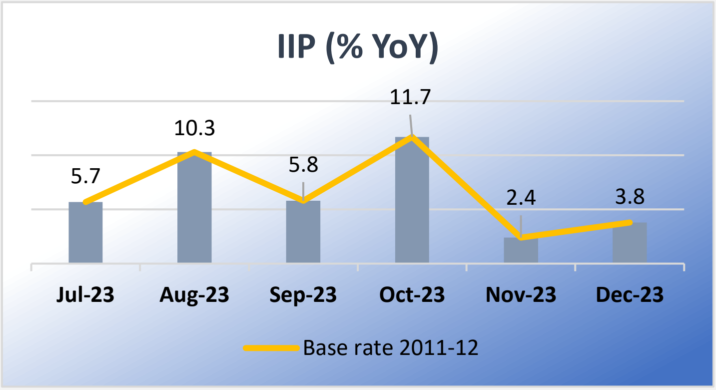
Looking Ahead: As the financial landscape continues to evolve, both domestically and globally, fostering a robust regulatory framework for financial conglomerates will be crucial. This framework should strike a balance between promoting innovation and efficiency while mitigating systemic risks. In India, addressing regulatory fragmentation and fostering deeper integration among subsidiaries within conglomerates can unlock their full potential. Additionally, continuous monitoring and adaptation of regulatory frameworks will be essential to ensure the stability and inclusivity of the financial system in the face of dynamic market conditions and technological advancements.

Conclusion: Financial conglomerates play a significant role in shaping the financial landscape globally, offering both opportunities and challenges. While their potential to promote financial inclusion, enhance efficiency, and drive innovation is undeniable, concerns about systemic risk necessitate robust regulatory frameworks. By understanding the unique context of India and comparing it with other countries, policymakers, regulators, and industry players can make informed decisions to foster a stable, inclusive, and dynamic financial ecosystem that leverages the full potential of financial conglomerates while mitigating associated risks.

ECONOMY

IIP (Index of Industrial Production) – Dec

Industrial production in India rose to 3.8% year-on-year in December 2023, up from 2.4% in the previous month and above market expectations of a 2.4% increase.



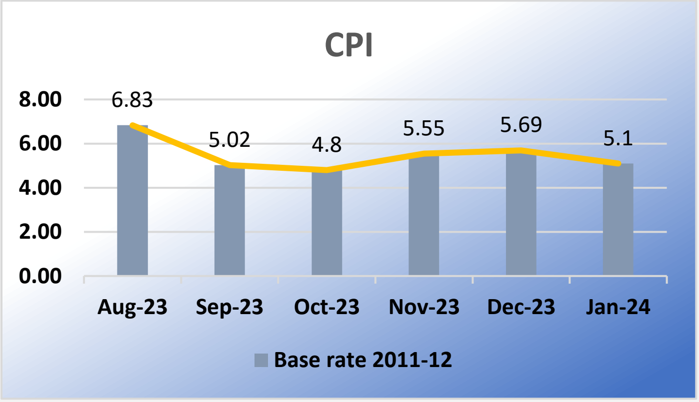
Source: APAS BRT, www.mospi.gov.in

For the month of December 2023, the Quick Estimates of Index of Industrial Production (IIP) with base 2011-12 stands at 151.5. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of December 2023 stand at 139.4, 150.6 and 181.6 respectively.

As per Use-based classification, the indices stand at 151.7 for Primary Goods, 103.3 for Capital Goods, 159.3 for Intermediate Goods and 177.9 for Infrastructure/ Construction Goods for the month of December 2023. Further, the indices for Consumer durables and Consumer non-durables stand at 114.0 and 178.0 respectively for the month of December 2023.

CPI (Consumer Price Index) – Jan

Annual retail inflation in India decreased to 5.1% in January 2024, the lowest in three months, from 5.69% in December 2023, matching market expectations. The slowdown is mostly due to an ease in food inflation and favorable base effects from last year as inflation rose in January 2023.



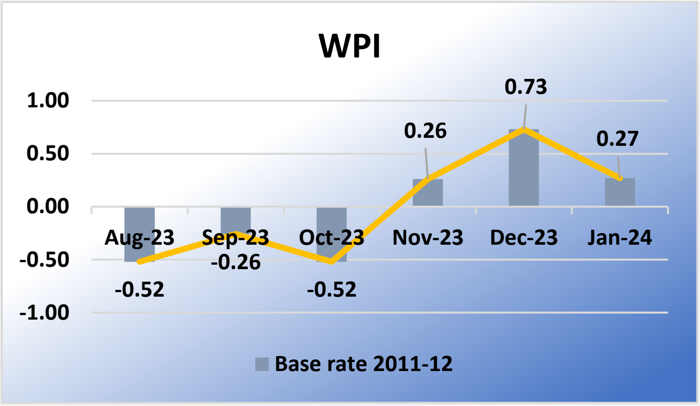
Source: APAS BRT, www.eaindustry.nic.in

Food inflation fell to 8.3% from 9.5%. Prices rose less for vegetables (27% vs 27.6%), pulses (19.5% vs 20.7%), spices (16.4% vs 19.7%) and fruits (8.7% vs 11.1%) and continued to fall for oils and fats (-15% vs -15%). A slowdown was also seen in prices for pan, tobacco, and intoxicants (3.3 vs 3.7%), clothing and footwear (3.4% vs. 3.6%), miscellaneous (3.8% vs. 4.1%) and housing (3.2% vs 3.6%) while prices for fuel and light fell by 0.6% after a 1% drop.

WPI (Wholesale Price Index) – Jan

Wholesale Price Index (WPI) number is 0.27% (Provisional) for the month of January 2024 (over January 2023). Positive rate of inflation in January 2024 is primarily due to an increase in prices of food articles, machinery & equipment, other manufacturing, minerals, other transport equipment etc.

The month over month change in WPI index for the month of January 2024 stood at -0.33 % as compared to December 2023.



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

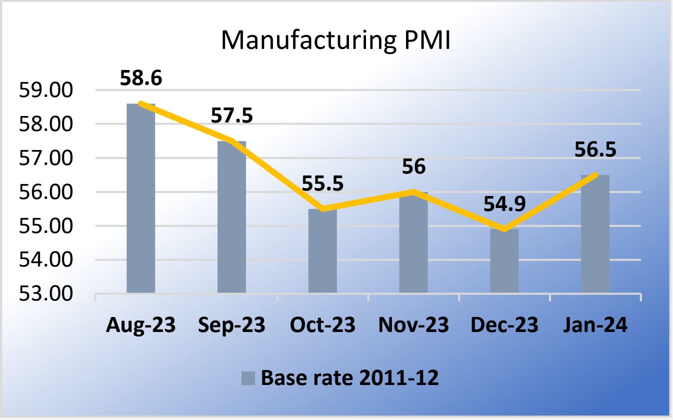
The index for primary articles declined by 1.04% to 181.0 (provisional) in January 2024 from 182.9 (provisional) for the month of December 2023. Prices of Minerals (0.93%) increased in January 2024 as compared to December 2023. Prices of Crude Petroleum & Natural Gas (-0.33%), Non-food Articles (-0.49%) and Food Articles (-1.36%) declined in January 2024 as compared to December 2023.

Prices for Fuel & Power increased by 0.39% to 154.8 (provisional) in January 2024 from 154.2 (provisional) for the month of December 2023. Prices of Electricity (3.30%) increased in January 2024 as compared to December 2023. Prices of Coal (-0.37%) and Mineral Oils (-0.56%) declined in January 2024 as compared to December 2023.

Prices for Manufacturing products declined by (-0.21%) to 139.8 (provisional) in January 2024 from 140.1 (provisional) for the month of December 2023.

Manufacturing PMI – Jan

The HSBC India Manufacturing PMI was revised slightly lower to 56.5 in January 2024 from a flash reading of 56.9 but was notably higher than December's figure of 54.9. It was the strongest growth in the factory sector since last September, as both output and new orders expanded the most in four months while new export orders increased further. Also, buying activity was robust, rising at the fastest rate in four months and considerably above its long-run average.

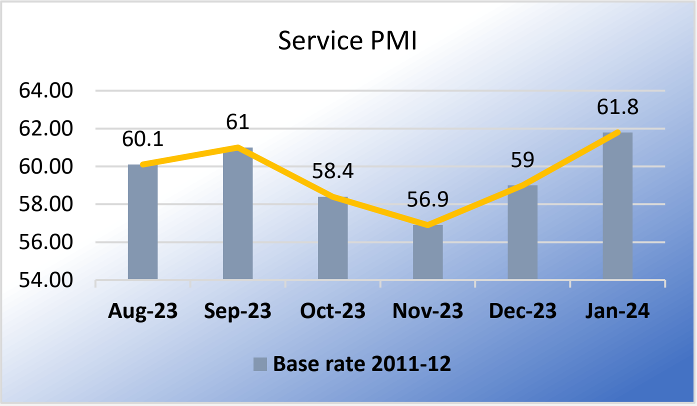


Source: www.tradingeconomics.com

Meanwhile, employment was unchanged amid a moderate accumulation in outstanding business. On the cost front, input price inflation hit a three-month peak, despite the figure being moderate and among the weakest in 3-1/2 years. The rate of charge inflation also quickened to a three-month high and matched its long-run average. Finally, sentiment strengthened to a 13-month top, buoyed by new product inquiries and diversification, demand strength, and publicity efforts.

Services PMI – Jan

The HSBC India Services PMI was revised higher to 61.8 in January 2024 from a preliminary estimate of 61.2, beating forecasts of 60 and higher than December's figures of 59, pointing to the fastest growth in the services sector in six months. New orders expanded at the fastest in six months, with export sales rising the most in three months. Exports grew across the globe, including to Afghanistan, Australia, Brazil, China, Europe, the UAE, and the US. A further expansion in outstanding business volumes continued to support job creation in January, and one that was the most pronounced in three months.

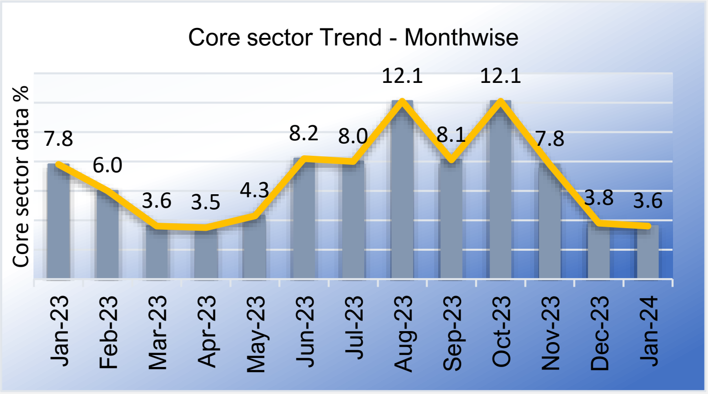


Source: www.tradingeconomics.com

Meanwhile, backlogs of work rose to a five-month high. On the price front, input cost inflation accelerated to a five-month high due to higher food, freight, and salary costs. Meanwhile, output cost inflation eased to the lowest in 11 months. Finally, business sentiment improved to a four-month high amid expectations of investment and productivity gains to induce output growth.

Core Sector Data – Jan

The combined Index of Eight Core Industries (ICI) increased by 3.6% (provisional) in January 2024 as compared to the Index of January 2023. The production of Coal, Steel, Cement, Natural Gas, Electricity and Crude Oil recorded positive growth in January 2024. The ICI measures combined and individual performance of production of eight core industries viz. Cement, Coal, Crude Oil, Electricity, Fertilizers, Natural Gas, Refinery Products and Steel. 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

The final growth rate of Index of Eight Core Industries for October 2023 is revised to 12.7%. The cumulative growth rate of ICI during April to January, 2023-24 is 7.7 % (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 %) increased by 10.2 % in January, 2024 over January, 2023. Its cumulative index increased by 12.2 % during April to January, 2023-24 over corresponding period of the previous year.

Crude Oil - Crude Oil production (weight: 8.98 %) increased by 0.7 % in January, 2024 over January, 2023. Its cumulative index declined by 0.2 % during April to January, 2023-24 over corresponding period of the previous year.

Natural Gas - Natural Gas production (weight: 6.88 %) increased by 5.5 % in January, 2024 over January, 2023. Its cumulative index increased by 5.6 % during April to January, 2023-24 over corresponding period of the previous year.

Petroleum Refinery Products - Petroleum Refinery production (weight: 28.04 %) declined by 4.3 % in January, 2024 over January, 2023. Its cumulative index increased by 3.9 % during April to January, 2023-24 over corresponding period of the previous year.

Fertilizers - Fertilizer production (weight: 2.63 %) declined by 0.6 per cent in January, 2024 over January, 2023. Its cumulative index increased by 5.5 % during April to January, 2023-24 over corresponding period of the previous year.

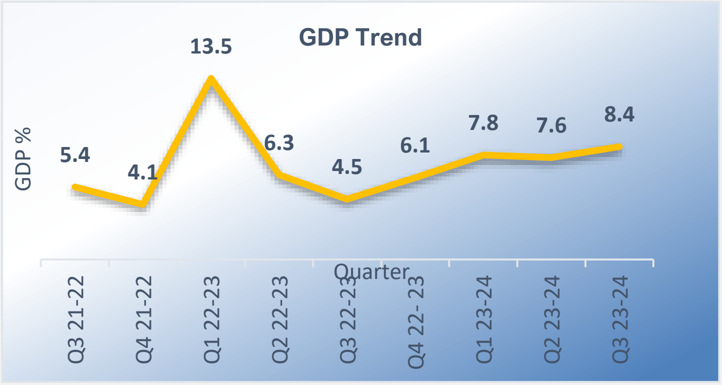
Steel - Steel production (weight: 17.92 per cent) increased by 7.0 % in January, 2024 over January, 2023. Its cumulative index increased by 13.1 % during April to January, 2023-24 over corresponding period of the previous year.

Cement - Cement production (weight: 5.37 %) increased by 5.6 per cent in January, 2024 over January, 2023. Its cumulative index increased by 9.0 % during April to January, 2023-24 over corresponding period of the previous year.

Electricity - Electricity generation (weight: 19.85 %) increased by 5.2 % in January, 2024 over January, 2023. Its cumulative index increased by 6.8 % during April to January, 2023-24 over corresponding period of the previous year.

GDP - Quarter 3 – FY – 2023 - 24

Real GDP or GDP at Constant (2011-12) Prices in the year 2023-24 is estimated to attain a level of ₹172.90 lakh crore, against the First Revised Estimates (FRE) of GDP for the year 2022-23 of ₹160.71 lakh crore. The growth rate of GDP during 2023-24 is estimated at 7.6% as compared to growth rate of 7.0% percent in 2022-23.



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

Nominal GDP or GDP at Current Prices in the year 2023-24 is estimated to attain a level of ₹293.90 lakh crore, against ₹269.50 lakh crore in 2022-23, showing a growth rate of 9.1%.

GDP at Constant (2011-12) Prices in Q3 of 2023-24 is estimated at ₹43.72 lakh crore, against ₹40.35 lakh crore in Q3 of 2022-23, showing a growth rate of 8.4%.

GDP at Current Prices in Q3 of 2023-24 is estimated at ₹75.49 lakh crore, as against ₹68.58 lakh crore in Q3 of 2022-23, showing a growth rate of 10.1%.

ECONOMIC DATA SNAPSHOT

Countries	GDP (% change on year ago)		CPI (%change on year ago)		Current Account Balance	Budget Balance	Interest Rates
	Latest	2023*	Latest	2023*	% of GDP, 2023*	% of GDP, 2023*	(10YGov), Latest,%
Brazil	2.0 Q3	2.9	4.5 Jan	4.6	-1.2	-7.5	10.8
Russia	5.5 Q3	3.0	7.4 Jan	5.9	2.5	-1.9	12.3
India	**8.4 Q3**	**7.0**	**5.1 Jan**	**5.7**	**-0.6**	**-5.8**	**7.1**
China	5.2 Q4	5.2	-0.8 Jan	0.3	1.7	-3.8	2.2
S Africa	-0.7 Q3	0.6	5.4 Jan	6.1	-2.0	-5.2	10.2
USA	3.1 Q4	2.5	3.1 Jan	4.1	-3.0	-6.3	4.3
Canada	0.5 Q3	1.1	2.9 Jan	3.9	-0.4	-1.3	3.5
Mexico	2.5 Q4	3.2	4.9 Jan	5.5	-0.8	-3.3	9.2
Euro Area	0.1 Q4	0.6	2.8 Jan	5.4	2.4	-3.3	2.5
Germany	-0.2 Q4	-0.1	3.1 Jan	6.0	7.2	-2.2	2.5
Britain	-0.2 Q4	0.2	4.0 Jan	6.8	-2.9	-3.9	4.2
Australia	2.1 Q3	1.9	4.1 Q4	5.6	0.5	0.7	4.2
Indonesia	5.0 Q4	5.0	2.6 Jan	3.7	0.4	-2.5	6.6
Malaysia	3.4 Q4	3.8	1.5 Jan	2.5	1.5	-5.1	3.9
Singapore	2.2 Q4	1.2	2.9 Jan	4.8	18.7	-0.7	3.1
S Korea	2.2 Q4	1.3	2.8 Jan	3.6	2.1	-2.9	3.4

BANKING

RBI releases data on ECB / FCCB / RDB for December 2023

The Reserve Bank of India has released the data on External Commercial Borrowings (ECB), Foreign Currency Convertible Bonds (FCCB) and Rupee Denominated Bonds (RDB) both, through Automatic Route and Approval Route, for the month of December 2023.

Statement on Developmental and Regulatory Policies

Summary of RBI Policy Measures:

Financial Markets:
The RBI will review the regulations for electronic trading platforms (ETPs) to adapt to market changes and consider allowing access to offshore ETPs offering Indian Rupee products.

Resident entities can now hedge gold price risk in both the exchange and over-the-counter (OTC) markets within the International Financial Services Centre (IFSC), providing more flexibility and access to derivative products.

Regulations:
All lenders will now be required to provide a Key Fact Statement (KFS) to borrowers for all retail and MSME loans, offering more transparency on loan terms and costs.

Payment Systems and Fintech:
Aadhaar Enabled Payment System (AePS) security will be enhanced with stricter onboarding processes and potential fraud prevention measures.

A principle-based framework for authenticating digital payments will be introduced, allowing adoption of new secure technologies beyond just SMS-based OTPs.

Central Bank Digital Currency (CBDC) pilot will be expanded to include programmable payments for specific purposes and offline functionality for areas with limited internet access.

RBI invites comments on the "Draft Disclosure framework on Climate-related Financial Risks, 2024"

In pursuance of the announcement made in the Statement on Developmental and Regulatory Policies released along with the Monetary Policy Statement on February 08, 2023, the Reserve Bank of India has today placed on its website the Draft guidelines on Disclosure framework on Climate-related Financial Risks,

2024. These guidelines shall be applicable to all Scheduled Commercial Banks (excluding Local Area Banks, Payments Banks and Regional Rural Banks), All Tier-IV Primary (Urban) Co-operative Banks, All All-India Financial Institutions (viz. EXIM Bank, NABARD, NaBFID, NHB and SIDBI) and All Top and Upper Layer Non-Banking Financial Companies (NBFCs)

Enabling Framework for Regulatory Sandbox

Reserve Bank of India today placed on its website the updated 'Enabling Framework for Regulatory Sandbox'. The framework has been revised based on the experience gained over the last four and half years in running four cohorts and feedback received from FinTechs, banking partners and other stakeholders. Among others, the timelines of the various stages of the Regulatory Sandbox process have been revised from seven months to nine months. The updated framework also requires sandbox entities to ensure compliance with provisions of the Digital Personal Data Protection Act, 2023.

INSURANCE

Life Insurance

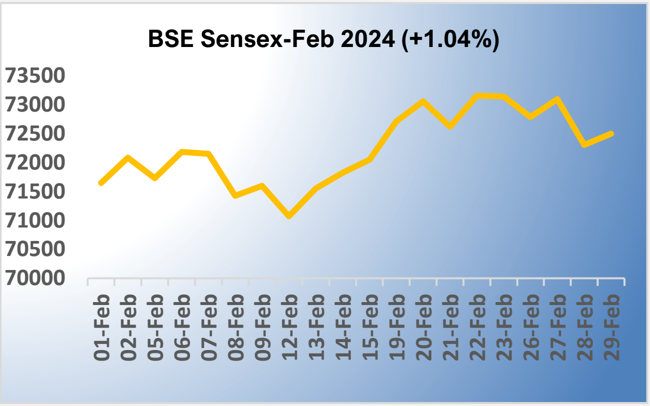
	New Business Statement of Life Insurers for the Period ended 31st January 2024							(Premium & sum assured in Crs)		
Sl No.	Insurer	First year Premium			No of policies/schemes			Sum assured		
		Up to 31st January, 2024	Growth in %	Market Share	Up to 31st January, 2024	Growth in %	Market Share	Up to 31st January, 2024	Growth in %	Market Share
1	Aditya Birla Sun Life	5780.10	-0.83	2.04	215987.00	17.83	1.01	258949.22	-6.38	3.63
2	Acko Life Insurance	21.72		0.01	20.00		0.00	1755.71		0.02
3	Aegon Life	84.90	1599.94	0.03	17870.00	935.34	0.08	11582.04	1155.66	0.16
4	Ageas Federal Life	863.58	22.89	0.30	43257.00	17.93	0.20	17114.99	34.16	0.24
5	Aviva Life	276.92	24.38	0.10	21822.00	6.71	0.10	47983.21	150.98	0.67
6	Bajaj Allianz Life	8489.51	4.41	2.99	558142.00	20.19	2.62	457118.91	4.94	6.42
7	Bharti Axa Life	600.01	-18.85	0.21	69178.00	-11.87	0.32	12240.29	-30.91	0.17
8	Canara HSBC OBC Life	2232.43	-24.24	0.79	143392.00	6.18	0.67	201989.10	46.15	2.83
9	CreditAccess Life	53.65		0.02	98.00		0.00	3208.86		0.05
10	Edelweiss Tokio Life	377.41	11.77	0.13	39338.00	5.91	0.18	7807.51	-1.30	0.11
11	Exide Life*		-100.00	0.00		-100.00	0.00		-100.00	0.00
12	Future Generali Life	338.40	-33.55	0.12	25758.00	-16.25	0.12	22968.17	-8.66	0.32
13	Go Digit Life	280.01		0.10	438.00		0.00	155065.97		2.18
14	HDFC Life	22744.50	9.36	8.01	865265.00	18.25	4.06	1089944.01	42.96	15.30
15	ICICI Prudential Life	13091.88	2.87	4.61	454663.00	-0.24	2.13	830467.34	-0.39	11.65
16	India First Life	2611.86	20.25	0.92	218497.00	-11.51	1.03	268153.78	121.08	3.76
17	Kotak Mahindra Life	5817.25	6.00	2.05	223563.00	-4.88	1.05	251379.34	-5.88	3.53
18	Max Life	7882.53	26.20	2.78	538596.00	25.71	2.53	394483.32	78.91	5.54
19	PNB Met Life	2522.92	4.55	0.89	217999.00	-2.31	1.02	112378.04	-46.85	1.58
20	Pramerica Life	851.77	74.29	0.30	28750.00	6.76	0.13	71715.53	73.79	1.01
21	Reliance Nippon Life	909.85	7.90	0.32	140046.00	15.69	0.66	22273.54	4.63	0.31
22	SBI Life	31218.85	29.63	11.00	1831548.00	4.70	8.60	635861.25	33.98	8.92
23	Shriram Life	1415.62	66.81	0.50	315751.00	41.96	1.48	82159.77	56.40	1.15
24	Star Union Dai-ichi Life	2480.99	-3.10	0.87	148842.00	-2.32	0.70	135061.13	-10.91	1.90
25	Tata AIA Life	6560.49	13.43	2.31	578672.00	17.12	2.72	685703.89	40.07	9.62
	Private Total	**117507.15**	**12.65**	**41.40**	**6697492**	**9.14**	**31.43**	**5777365**	**24.67**	**81.08**
26	LIC of India	166326.37	-13.06	58.60	14610786.00	-1.23	68.57	1348184.73	48.93	18.92
	Grand Total	**283833.52**	**-3.99**	**100.00**	**21308278**	**1.81**	**100.00**	**7125550**	**28.64**	**100.00**

CAPITAL MARKET

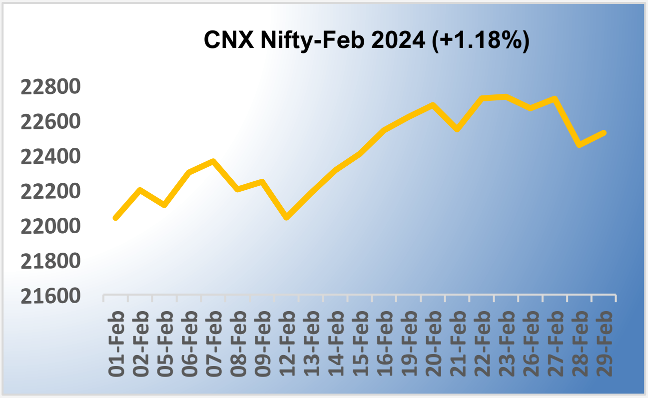
Revised Pricing Methodology for Institutional Placements of Privately Placed Infrastructure Investment Trust (InvIT)

SEBI has revised guidelines for institutional placement of Infrastructure Investment Trusts (InvITs), allowing privately placed InvITs to set their institutional placement floor price based on the Net Asset Value (NAV) per unit. The modification aims to promote Ease of Doing Business and is based on industry requests and recommendations from the Hybrid Securities Advisory Committee. The revised pricing mechanism allows public InvITs to offer a discount of up to five percent, subject to unitholder approval, while privately placed InvITs must adhere to NAV per unit pricing based on full asset valuation.

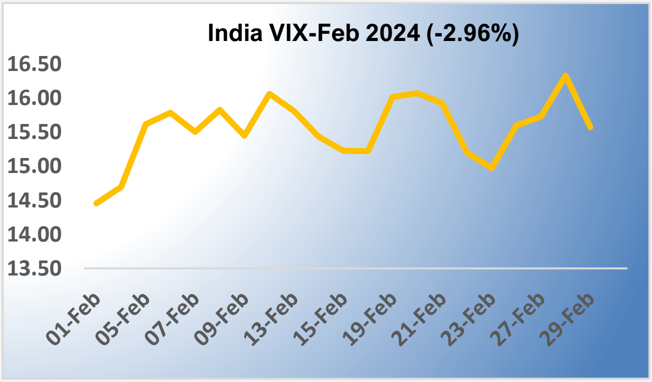
CAPITAL MARKET SNAPSHOT



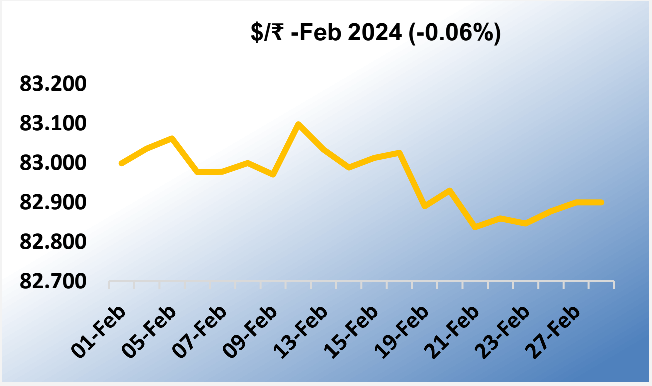
Sources: *Bombay Stock Exchange*



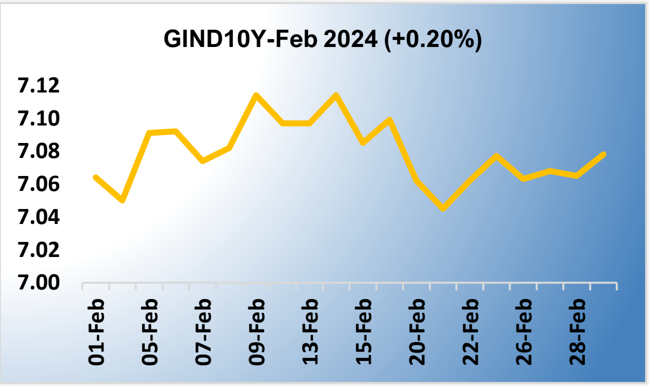
Source: National Stock Exchange



Sources: Bombay Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

In February, the stock market experienced a whirlwind of activity as concerns about valuations prompted investors to capitalize on gains in smallcaps and PSUs. Additionally, regulatory caution towards smallcap mutual funds dampened overall market sentiment.

Both the Nifty Smallcap 100 and Nifty Midcap 100 indices saw their first monthly declines in three months, with the Nifty Midcap 100 dropping by -0.48% and the Nifty Smallcap 100 by -0.31%. In contrast, the Sensex and Nifty 50 gained modestly, with the Nifty 50 rising by 1.18% and the BSE Sensex up by 1.04% compared to the previous month.

Throughout the month, India's market capitalization reached a new all-time high, nearly reaching the Rs 400-trillion milestone before settling at Rs 388 trillion.

FINTECH

Highlights of the Month

Decline in M&A in fintech sector, 30 acquisitions in 2023

In 2023, there was a slight decline in mergers and acquisitions (M&A) within the Indian Fintech sector, with 30 acquisitions compared to 37 and 29 in 2022 and 2021, respectively, as per Growthpal's report. Key M&A deals included Bridge2Capital, FinFort, and ORO Wealth acquisitions. The decline in fintech startup incorporations was significant, with only 20 startups established in 2023, down from 45 in 2022 and 73 in 2021. Regulatory scrutiny and compliance measures have contributed to the challenging environment for new fintech ventures, impacting the sector's growth and reliance on venture capital funding.

FinTech funding witnesses significant uptick in January, total $438 mn raised

In January, India's fintech sector experienced a surge in investments, with a total funding of USD 438.1 million from 20 deals, a significant increase from the previous month's USD 96 million from 10 deals. SK Finance led the way, securing USD 160 million, followed by BharatPe with USD 100 million. Despite this, overall fintech funding in 2023 witnessed a 63% decline globally and a 76% drop in India, compared to the previous year. According to Tracxn report, India ranked 3rd globally in fintech startup funding in 2023, but the industry is experiencing a downward trend in funding.

RBI adds increased functionality to CBDC

RBI is advancing its Central Bank Digital Currency (CBDC) by introducing programmability and offline functionality to enhance its utility. The CBDC-R pilot enables Person to Person (P2P) and Person to Merchant (P2M) transactions, with plans to include government agencies and companies for specific payments and expense allocations. To address concerns about fungibility, RBI ensures limited fungibility during programmed periods, with Deputy Governor T Rabi Sankar providing examples. The phased introduction of these features aims to expand participation among more banks, users, and locations, facilitating transactions similar to physical cash without accruing interest.

RBI proposes framework for authentication of digital payments

RBI has proposed a framework for the authentication of digital payments to enhance security and reduce fraud. The framework suggests a multi-factor authentication process for various types of digital payments, aiming to bolster customer protection and trust in the digital payment ecosystem. RBI's move comes amid the increasing adoption of digital payment methods in India and the need for robust security measures to safeguard users' financial transactions.

RBI ups scrutiny of fintechs with more inspections

RBI is intensifying oversight of fintech firms, signalling an end to light regulation. Inspections revealed lax adherence to regulations, prompting actions like directing Paytm to shut down its banking unit. RBI is concerned about fintech firms' digital customer identification processes, urging compliance with stricter due diligence measures. The regulatory scrutiny is increasing globally, potentially leading to consolidation in the sector but also incentivizing compliance and deeper diligence among fintech companies.

FinTechs increase their share in personal loans market, account for 62% of sanction volume
Fintech companies are gaining ground in India's personal loans market, now constituting 62% of the total sanction volume, according to a recent report. This significant increase underscores the growing influence of fintech firms in offering financial services. The report highlights a shift towards digital platforms for personal loan acquisition, indicating changing consumer preferences and the effectiveness of fintech in meeting their needs.

Consumer, fintech top sectors for venture debt funding in 2023
In 2023, the consumer and fintech sectors led venture debt fundraising in India, with 190 startups raising $1.2 billion, a 50% increase. Fintech dominated with over 55% of total investment. The India Venture Debt report 2024 by Stride Ventures anticipates clean tech, consumer, and fintech to lead venture debt fundraising in 2024. The success in India is attributed to the sector's relative novelty and a predominantly domestic investor base. Venture debt is seen as a crucial alternative financing source, especially during funding shortages. Key players in the Indian venture debt landscape include Stride Ventures, Trifecta Capital, Alteria Capital, and InnoVen.

RBI permits banks, non-banks to issue PPIs for making payments in public transport systems
RBI has allowed banks and non-banking financial institutions to issue prepaid payment instruments (PPIs) for use in public transport systems. This move aims to enhance digital payments in public transportation and promote cashless transactions. The decision is part of RBI's efforts to bolster the adoption of digital payment methods and modernize payment systems in India's transportation sector. It is expected to streamline payment processes and provide commuters with more convenient and efficient payment options.

FM Nirmala Sitharaman tells regulators to meet fintechs, startups every month
FM urged regulators to engage in monthly meetings with startups and fintech firms to address concerns and ensure regulatory compliance. The meeting, attended by senior govt officials, focused on issues such as simplifying KYC processes and addressing cybercrime concerns in the new Digital India Act. Amidst RBI actions against Paytm Payments Bank (PPBL), the ministry highlighted the significant growth of India's fintech ecosystem and pledged to facilitate dialogue between regulators and industry stakeholders to address operational challenges like common KYC requirements.

RBI updates framework for its fintech sandbox, extends certain process timelines
RBI has updated its 'Enabling Framework for Regulatory Sandbox', extending the timelines for various stages and permitting pre-application partnerships. These adjustments stem from insights gained over four cohorts and feedback from fintechs and banking partners. The revised framework mandates compliance with the DPDP Act, 2023. Notably, RBI now allows entities to form "in-principle partnerships" upon sandbox application and may reject proposals resembling already-tested innovations. This marks the third update to the framework since its inception in 2019, aimed at encouraging responsible financial innovation and streamlining processes for applicants.

ABOUT APAS

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

Contact Us: 022-6789 1000

info@ap-as.com

www.ap-as.com

APAS
ashvin parekh advisory services