APAS MONTHLY NEWSLETTER

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EDITORIAL

In this issue, **Ms. Vishakha RM -** Managing Director & CEO, IndiaFirst Life Insurance Company Ltd. has presented his thoughts on **'Shaping the Future of Insurance: Trust & Transparency – Making "Insurance for All" by 2047 A Reality'**. We thank Ms. Vishakha RM for her contribution to the APAS Monthly.

This month, the APAS column covers '**Monetary Policy Meeting of RBI: A Split Verdict'.**

The economic indicators showed mixed performance. Manufacturing PMI came in at 57.5 in May 2024, below preliminary estimates and market forecasts of 58.4, down from 58.8 in the previous month. Services PMI was revised lower to 60.4 in May 2024. Infrastructure output in India expanded by 6.3% annually in May of 2024, accelerating slightly from the 6.2% growth in the previous month and extending the robust construction activity in India. Industrial output in India rose by 5% on an annual basis in April 2024. India's annual retail inflation rate eased to 4.67% in May of 2024 from 4.83% in the previous month, below expectations that the rate would rise to 4.9%, to mark the slowest increase in consumer prices in one year. India Wholesale Price Index (WPI) number is 2.61 % (Provisional) for the month of May 2024 (over May, 2023).

According to RBI data deposits with Scheduled Commercial Banks in March 2024 saw a notable increase, growing by 13.0% year-on-year, adjusted for mergers which pushed the growth to 13.5%. The recent Statement on Developmental and Regulatory Policies by the RBI outlines several key measures aimed at enhancing regulatory frameworks and promoting innovation in payment systems and fintech. The RBI released data relating to India's International Investment Position for end-March 2024. RBI released data on sectoral deployment of bank credit for the month of May 2024.

Insurance Regulatory and Development Authority of India (IRDAI) has introduced a comprehensive Master Circular on General Insurance Business, marking a significant shift towards customer-centric reforms in the insurance sector. It has introduced a Master Circular on Life Insurance business aimed at simplifying and enhancing transparency in the sector. IRDAI has taken up a comprehensive review of regulatory framework for the insurance sector, to facilitate a favorable environment for ease of doing business and reducing compliance burden.

SEBI has issued a circular to enhance operational efficiency and reduce risks by ensuring the direct pay-out of securities to clients' demat accounts. SEBI Board Meeting on June 27, 2024, approved several regulatory measures, including amendments to the SEBI LODR Regulations, frameworks for sustainable finance, and changes to streamline the processing of investors' complaints. (SEBI) has issued a circular modifying the duration of the call auction in the pre-open session for Initial Public Offers (IPOs) and relisted scrips. SEBI introduced a special call auction mechanism to enhance price discovery for scrips of listed Investment Companies (ICs) and listed Investment Holding Companies (IHCs).

India's fintech sector is booming, with over 10 crore digital loans disbursed in FY24, a 35% increase from last year, totalling Rs 1.46 lakh crore. The industry is gearing up for the 9th Global Economic Summit, spotlighting innovations and global collaborations. The RBI's initiatives, including a Digital Payments Intelligence Platform and 'Finquiry,' aim to enhance security and regulatory transparency. Despite challenges like high delinquency rates in small-value loans, fintech firms raised $186 million in May 2024, with future unicorns likely to dominate the market. Projections suggest India's fintech market could reach $1.5 trillion by 2030, with embedded finance potentially exceeding $320 billion.

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

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Guest Column: Shaping The Future of Insurance: Trust & Transparency – Making "Insurance for All" by 2047 A Reality

Ms. Vishakha RM
Managing Director & CEO
IndiaFirst Life Insurance Company Ltd.

Shaping The Future of Insurance: Trust & Transparency – Making "Insurance for All" by 2047 A Reality

India's dynamic insurance landscape is undergoing a transformation, driven by the government's ambitious vision of achieving "Insurance for All" by 2047. This process rests on two critical pillars: Trust and Transparency. The foundation of these pillars' rests on awareness of insurance, its need, and its advantages. Regulatory and government support to achieve this target is already under way.

Insurance penetration[i] in India stood at 4.2% in 2021, lower than the world average of 6.8%. The government plans to cover this untapped potential over the next 24 years, insuring every Indian. It's an ambitious plan, but not an impossible one.

"Insurance for All" by 2047

The "Insurance for All" by 2047 objective not only serves as a catalyst for industry growth but also broadens the horizons of the insurance market. The government's commitment to the vision is evident through several regulatory changes that have been recently implemented, ushering in a new era for the sector.

Let's look at the two main factors that are likely to drive the vision – A Conducive Regulatory Environment and Awareness & Willingness to buy insurance.

A Conducive Regulatory Environment

- **Regulatory Changes**: The government has introduced several changes for the insurance industry, including:
  - Facilitating capital availability by allowing Private Equity investments of up to 25% under investor status[ii].
  - Expanding distribution channels by granting corporate agents, including banks, the option to have nine partners each in the Life, General, and Health insurance categories.
  - Liberating commissions from micromanagement constraints by relaxing Expense of Management (EOM)[iii] limits.

- **Easing Product Norms Under the Use and File Model**:[iv] IRDAI has expanded the 'Use and File' procedure to include a wider range of life insurance products, allowing insurers to introduce products first and submit details to the regulator later. This move facilitates business ease, fosters quicker market responsiveness, promotes innovation, and provides customers with better product choices.

- **Regulator Approval for 20 New Licenses in 2023:** [v] IRDAI's approval of 20 new licenses in 2023 indicates the regulator's resolve towards increasing insurance coverage. This will compel insurers to elevate their product quality, customer service, and overall operational efficiency, ultimately fuelling industry growth. IRDAI emphasizes the need for existing insurers to expand, new entrants to enter the market, diversification of distribution networks, broadening of product portfolios, and the adoption of advanced technology to address the emerging risks and fostering innovation.

Awareness & Willingness to Buy

While the government is taking definite steps to enable last mile availability, the bigger challenge is awareness and willingness. People are hesitant as they are unaware of the importance and benefits of life insurance. Indians let emotions guide their investments. They tend to largely buy savings-linked products that have elements of savings, money back or interest income.

Let's look at some of the factors that are likely to drive and influence awareness and willingness:

- **Product Simplification & Standardisation to Reach the Last Mile:**[vi] IRDAI's IRDAI's recent initiative to establish a committee for simplifying insurance policy language reflects the dedication to enhance insurance accessibility and transparency. To support the rural population to make informed decisions about insurance, the regulator has also been encouraging standardization of products like Saral Jeevan Bima for life insurance and Arogya Sanjeevani for health coverage. Government initiatives, like Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Rashtriya Swasthya Bima Yojana, Pradhan Mantri Jan Arogya Yojana, Ayushman Bharat, Aam Aadmi Bima Yojana, and Central Government Health Scheme have further expanded insurance access to underserved populations. With simple, standardized products, insurance penetration is likely to continue rising and help establish trust and transparency.

- **Digital & Tech-Enabled Ecosystems:** Almost 65% of India's population resides in rural regions. The advent of technology has made it possible to distribute insurance safely and affordably to the last mile by reducing costs, increasing efficiency, and providing better service models to customers. With the widespread availability of the internet and smartphones, it is now possible to facilitate secure, remote buying to through multi-factor authentication. This technological revolution in distribution channels is a vital enabler for expanding insurance reach, facilitating remote policy issuance, claims processing, and premium payments.

- **Integral to Nation Building:** Insurance significantly contributes to the nation's stability and success by mitigating risks, measured as a percentage of Gross Domestic Product (GDP). Remarkably, insurance penetration has burgeoned from 2.7% of the GDP in 2001 to 4.2% in 2020 and 2021, with insurance density hitting a historic high of USD 91 per person. This progress signifies the dawn of a far greater good to come.

- **Insurance Education:** Increase in awareness through insurance education, will help us create a better space to operate in. Insurers along with the regulators and industry bodies should work more aggressively to drive insurance awareness. To induce life insurance awareness and penetration in rural India, state governments are deploying individuals to take the benefits of life insurance to the village and panchayat level.

The Indian insurance industry has a unique opportunity to achieve the government's visionary goal. Trust and transparency will continue to be the guiding principles in this transformative journey. This can be facilitated through relaxed product regulations, faster regulatory approvals for new licenses, simplified insurance policies, technological advancements, standardized products, and driving insurance awareness. With these elements in motion, India is well poised to make significant progress towards “Insurance for All” by 2047, marking a milestone year for the industry and the nation.

i. https://www.statista.com/statistics/381174/insurance-penetration-in-selected-countries-worldwide/
ii. https://irdai.gov.in/document-detail?documentId=387042
iii. https://bfsi.economictimes.indiatimes.com/news/insurance/irdai-releases-revised-expenses-of-management-and-commission-limits-industry-cheers/99065220
https://www.thehindu.com/business/irdai-expands-use-and-file-procedure-to-more-life-products/article67002967.ece
iv. https://www.livemint.com/news/india/insurance-regulator-plans-to-issue-a-dozen-licences-in-new-delhi-with-nearly-20-applications-awaiting-approval-11684434015416.html
v. https://www.thehindu.com/business/irdai-forms-panel-to-simplify-insurance-policy-wordings/article67463168.ece
vi. https://cafemutual.com/news/insurance/28335-insurance-penetration-is-just-42-much-less-than-the-global-average-of-7

APAS COLUMN

Monetary Policy Meeting of RBI: A Split Verdict

The last review by the Monetary Policy Committee (MPC) for the Reserve Bank of India (RBI) occurred on June 7, 2024. As expected, it ended with a nuanced affair; it was a split decision among six members, four favouring holding the policy repo rate at 6.5%, while two were for 25 basis points cut. The last fact highlights yet again how tough a balancing act it is to stem inflation and, at the same time, foster growth. Most of the members stressed the need to continue with the current monetary policy stance so as to keep the policy rate unchanged. Their rationale related to the conduct of effective inflation management with sustained economic growth. They observed that in India, there is an upturn in economic activity vis-à-vis baseline projections, with a positive outlook underpinned by firm domestic demand and uplift in corporate investment.

The anticipation of a good monsoon is expected to buffer the usual slack in first-quarter GDP and revive rural consumption to boost domestic demand further. Corporate investment in fixed assets has also seen the highest growth in the past decade, which means there will be an upturn in capital spending soon, another good pointer for long-term economic growth.

The upward revision of the 2024-25 growth projection comes given solid momentum in the GDP and gross value added (GVA), led by robust private consumption and a rebound in rural demand. Other high-frequency economic indicators keep some of the optimism regarding growth projected at these levels, which will get support from the healthy balance sheets of banks and corporations amid considerable capital expenditure being undertaken by the government. In addition, projections of improvement in global trade are likely to drive external demand. Though both headline and core inflation have moderated, the speed at which it has been happening is much slower than expected and also about other similar countries. Food prices have remained stubbornly high due to recurrent supply-side shocks, being an essential barrier toward any faster disinflation process. In a situation where food price shocks are likely to continue, and the economy is highly susceptible to such shocks, active monetary policy plays an essential role in preventing wider spillovers in inflation.

Although headline inflation has been within the tolerance band for the last eight months, complete alignment with the target is yet to be achieved, with significant contributions to headline inflation from food inflation.

Majority argued that with the current state of economic and inflation dynamics, the policy repo rate should be maintained at 6.5%, with the stance of withdrawal of accommodation. This needs to be done to be able to manage the risks to inflation effectively, more importantly in the area of persistently high food inflation, and support ongoing economic growth led by strong domestic demand and investment. They avoid excesses, which would sustain long-term growth and build a stable macroeconomic environment. However, two members wanted a 25 basis points cut in the repo rate to a more accommodative stance. According to them, the Indian economy has time and again, demonstrated resilience, suggesting that there are underlying solid buffers, although growth remains below potential.

The professional forecasters are projecting a slowdown of growth in the FY 2024-25 and FY 2025-26, whereby projections suggest growth will be more than 0.75% less than in 2023-24 and over 1%, down from the potential growth rate of 8%. This projected slowdown indicates the need for monetary policy support that will help ensure continued economic momentum. They also stressed that headline inflation has been posted within 5% since January 2024 and core inflation within 4% since December 2023. It is this convergence with a headline inflation projection for 2024-25 of 4.5 percent, which implies that maintaining the repo rate unchanged would keep accurate rates significantly above neutral far into the future and thereby restrain real growth.

The current real policy rate is around 2%, seen as clearly too high to guide inflation down to the desired path. Accurate policy rates can be brought down, since inflation is on its way down, without the danger that economic growth might be artificially constricted.

Besides, while global uncertainties have considerably reduced and domestic conditions are stabilizing, the probabilities of large supply shocks have also ebbed. A good monsoon will likely temper food inflation, and post-election political stability promises policy continuity. Credit growth has been moderate and broadly in line with the development of nominal GDP. At the same time, a cut in the repo rate will support overall consumption and keep the retail interest rates from hardening at unsustainable levels.

The argument for rate cuts also views this as a global action in that most other central banks are cutting rates. Improvement in India's current account deficit and the likelihood of being included in global indices further reduces the importance of interest differentials with the US. A small rate cut, now aligned with the current drop in inflation, should not be read as the start of a rate-cut cycle but as part of a data-driven neutral stance. In sum, the majority's decision to hold the policy rate remained a cautious approach that was generally aimed at controlling inflation risks through support for economic growth. This split verdict underlines the complications of balancing growth and inflation in an economy bound to this dynamism.

Future Monetary Policy Decisions

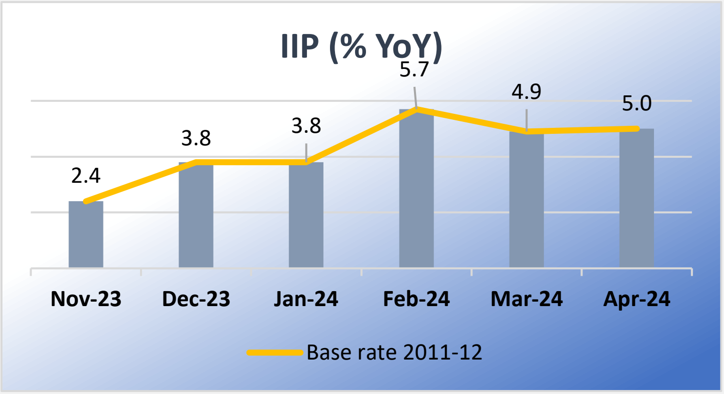
Going ahead, the future course of RBI's monetary policy action would be walking a tightrope between economic growth and management of inflation. The central bank would, therefore keep a close watch on the evolving output and price setting indicators, so as to ensure that inflationary expectations at both firm level and general level would remain benign at all times. If inflationary pressures continue to be significant, then the RBI could hold on to a cautionary stance to guard against any price erosion. On the other hand, if growth were to turn out to be weaker than projected without any change in inflation, then the RBI could consider measures that could stimulate the economy, including its monetary policy. The central bank will continue its data-dependency on achieving the dual mandate goal of attaining price stability and sustainable economic growth.

ECONOMY

IIP (Index of Industrial Production) – Apr

Industrial output in India rose by 5% on an annual basis in April 2024, more than market expectations of 4.6%, following a 4.9% growth in the previous month.

For the month of April 2024, the Quick Estimates of IIP with base 2011-12 stands at 147.7 against 140.7 in April 2023. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of April 2024 stand at 130.8, 144.2 and 212.0 respectively.

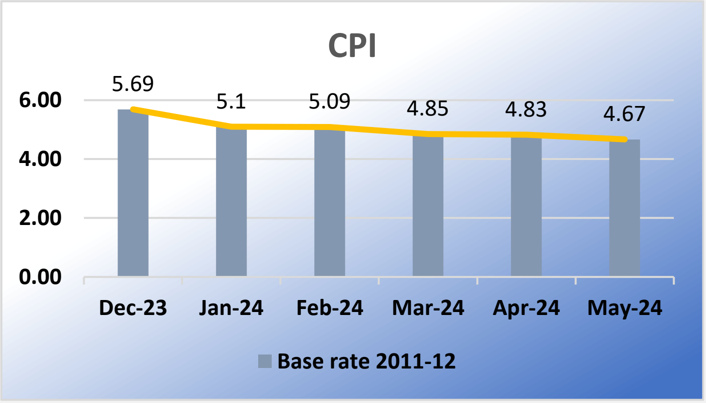


Source: APAS BRT, www.mospi.gov.in

As per Use-based classification, the indices stand at 152.2 for Primary Goods, 95.3 for Capital Goods, 156.9 for Intermediate Goods and 183.3 for Infrastructure/ Construction Goods for the month of April 2024. Further, the indices for Consumer durables and Consumer non-durables stand at 118.7 and 151.0 respectively for the month of April 2024.

CPI (Consumer Price Index) – May

The annual consumer inflation rate in India eased to 4.67% in May of 2024 from 4.83% in the previous month, below expectations that the rate would rise to 4.9%, to mark the slowest increase in consumer prices in one year. It was the ninth consecutive month that Indian inflation remained within the RBI's tolerance band of 2 percentage points from 4%, one among multiple conditions necessary for the central bank to deliver rate cuts this year.



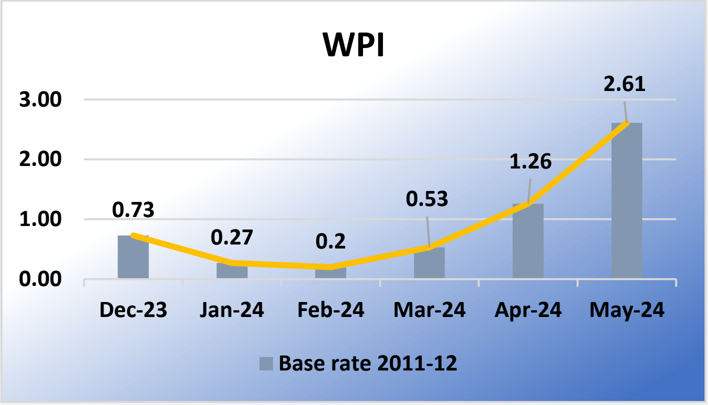
Source: APAS BRT, www.eaindustry.nic.in

Prices slowed for housing (2.56% vs 2.68% in April) and clothing and footwear (2.74% vs 2.85%), while remaining loosely stable for food (8.69% vs 8.7%). On the other hand, deflation softened for fuel and light

(-3.83% vs 4.24%). From the prior month, Indian consumer prices rose by 0.48% for a second consecutive month.

WPI (Wholesale Price Index) – May

Wholesale Price Index (WPI) number is 2.61 % (Provisional) for the month of May 2024 (over May 2023). Positive rate of inflation in May 2024 is primarily due to increase in prices of food articles, manufacture of food products, crude petroleum & natural gas, mineral oils, other manufacturing etc.



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

The month over month change in WPI index for the month of May 2024 stood at 0.20 % as compared to Apr 2024.

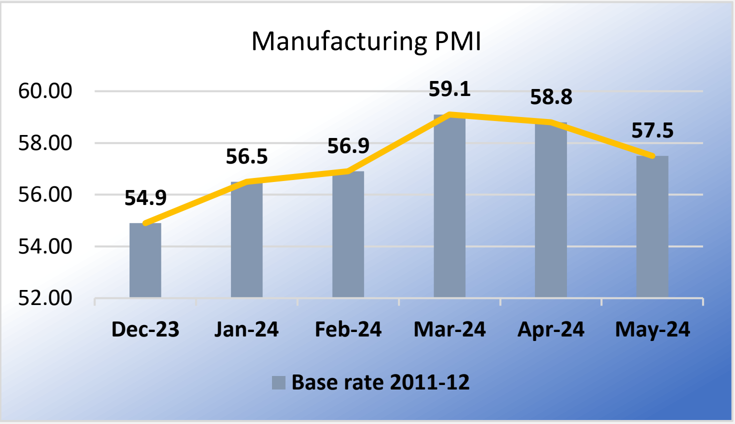
The index for primary articles increased by 0.54% to 187.7 (provisional) in May 2024 from 186.7 (provisional) for the month of April 2024. Prices of food articles (1.48%) and minerals (1.08%) increased in May 2024 as compared to April 2024. Prices of non-food articles (-1.26%) and crude petroleum & natural gas (-3.56%) declined in May 2024 as compared to April 2024.

Prices for Fuel & Power declined by 2.71% to 150.6 (provisional) in May 2024 from 154.8 (provisional) for the month of April 2024. Prices of mineral oils and coal remain unchanged in May 2024 as compared to April 2024. Prices of electricity (-11.67%) declined in May 2024 as compared to April 2024.

Prices for Manufacturing products increased by 0.64 % to 141.7 (provisional) in May 2024 from 140.8 (provisional) for the month of April 2024.

Manufacturing PMI – May

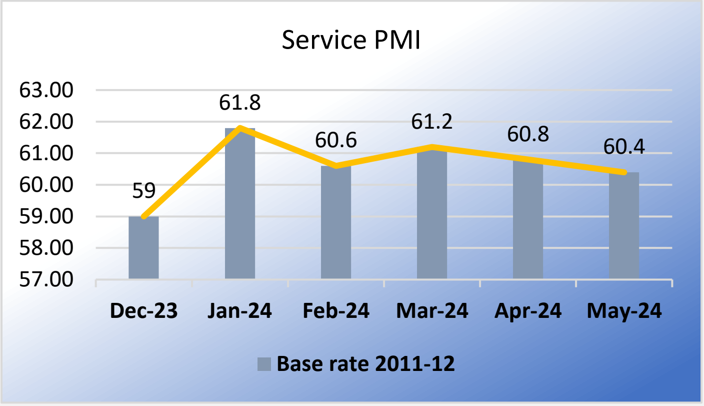
The HSBC India Manufacturing PMI came in at 57.5 in May 2024, below preliminary estimates and market forecasts of 58.4, down from 58.8 in the previous month. This signalled a slower but still substantial improvement in the country's manufacturing sector, amid a softer rise in new orders and output. Companies indicated that working hours had been reduced due to intensive heatwave during the month, which may have affected production volumes. Meanwhile, new export orders increased to its highest level in over 13 years, with a broad-based demand across geography. Also, employment rose to one of the greatest extents seen since data collection started in March 2005.



Source: www.tradingeconomics.com

On the cost side, input prices rose, driven by higher raw material and freight costs. Looking ahead, manufacturers expressed the highest level of positive sentiment towards growth prospects in nearly 9-1/2 years, buoyed by advertising and innovation, alongside expectations that economic and demand conditions will remain favourable.

Services PMI – May

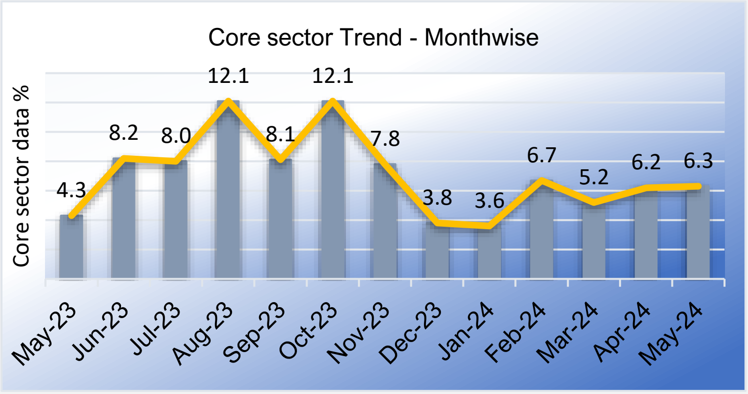


Source: www.tradingeconomics.com

The HSBC India Services PMI was revised lower to 60.4 in May 2024 from 61.4 in the preliminary estimates and after a final 60.8 in the prior month. This was the 34th consecutive month of expansion in services activity although at the slowest pace since December 2023. Despite the deceleration, new orders continued to rise substantially, supported by favourable economic and demand conditions and successful advertising, though growth was tempered by fierce competition and a severe heatwave. New export orders saw significant improvement, with growth reaching its highest level since the series began in September 2014, driven by strong demand from Asia, Africa, Europe, the Middle East, and the US.

On the pricing front, cost pressures intensified, with notable increases in the prices of materials and labour. Finally, business sentiment soared to an eight-month high, buoyed by effective marketing strategies, enhanced customer engagement, strong demand, and positive economic conditions.

Core Sector Data – May



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

The combined Index of Eight Core Industries (ICI) increased by 6.3 % (provisional) in May, 2024 as compared to the Index in May, 2023. The production of Electricity, Coal, Steel, Natural Gas and Refinery Products recorded positive growth in May 2024. The ICI measures the 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 percent of the weight of items included in the Index of Industrial Production (IIP).

The final growth rate of Index of Eight Core Industries for February 2024 stands at 7.1 per cent. The cumulative growth rate of ICI during April to May, 2024-25 was 6.5 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 10.2 per cent in May, 2024 over May, 2023. Its cumulative index increased by 8.9 per cent during April to May, 2024-25 over corresponding period of the previous year.

Crude Oil - Crude Oil production (weight: 8.98 per cent) declined by 1.1 per cent in May, 2024 over May, 2023. Its cumulative index increased by 0.2 per cent during April-May, 2024-25 over corresponding period of the previous year.

Natural Gas - Natural Gas production (weight: 6.88 per cent) increased by 7.5 per cent in May, 2024 over May, 2023. Its cumulative index increased by 8.0 per cent during April to May, 2024-25 over corresponding period of the previous year.

Petroleum Refinery Products - Petroleum Refinery production (weight: 28.04 per cent) increased by 0.5 per cent in May, 2024 over May, 2023. Its cumulative index increased by 2.2 per cent during April to May, 2024-25 over corresponding period of the previous year.

Fertilizers - Fertilizer production (weight: 2.63 per cent) declined by 1.7 per cent in May, 2024 over May, 2023. Its cumulative index declined by 1.2 per cent during April to May, 2024-25 over corresponding period of the previous year.

Steel - Steel production (weight: 17.92 per cent) increased by 7.6 per cent in May, 2024 over May, 2023. Its cumulative index increased by 8.2 per cent during April to May, 2024-25 over corresponding period of the previous year.

Cement - Cement production (weight: 5.37 per cent) declined by 0.8 per cent in May, 2024 over May, 2023. Its cumulative index declined by 0.6 per cent during April to May, 2024-25 over corresponding period of the previous year.

Electricity - Electricity generation (weight: 19.85 per cent) increased by 12.8 per cent in May, 2024 over May, 2023. Its cumulative index increased by 11.6 per cent during April to May, 2024-25 over corresponding period of the previous year.

ECONOMIC DATA SNAPSHOT

Countries	GDP (% change on year ago)		CPI (%change on year ago)		Current Account Balance % of GDP, 2024*	Budget Balance % of GDP, 2024*	Interest Rates 10-yr gov't bonds Latest,%
	Latest	2024*	Latest	2024*			
Brazil	2.5 Q1	2.0	3.9 May	4.2	-1.4	-7.8	12.1
Russia	5.4 Q1	2.7	8.3 May	7.1	1.8	-1.6	15.0
India	7.8 Q1	6.9	4.7 May	4.8	-1.1	-5.1	7.0
China	5.3 Q1	4.7	0.3 May	1.0	1.2	-4.8	2.0
S Africa	0.5 Q1	1.1	5.1 May	4.8	-2.0	-5.2	9.8
USA	2.9 Q1	2.2	3.3 May	3.0	-3.8	-6.3	4.3
Canada	0.5 Q1	1.9	2.7 May	2.4	-0.4	-1.1	3.5
Mexico	1.6 Q1	2.3	4.7 May	4.5	-0.3	-5.0	9.9
Euro Area	0.4 Q1	1.0	2.6 May	2.4	3.0	-3.1	2.5
Germany	-0.2 Q1	0.3	2.8 May	2.4	6.5	-1.5	2.5
Britain	0.2 Q1	0.4	2.0 May	2.6	-2.8	-4.2	4.1
Australia	1.1 Q1	1.7	3.6 Q1	3.2	0.3	-1.3	4.2
Indonesia	5.1 Q1	5.1	2.8 May	3.0	-0.3	-2.2	7.1
Malaysia	4.2 Q1	4.4	2.0 May	2.5	2.5	-4.4	3.9
Singapore	2.7 Q1	2.4	3.1 May	2.9	19.5	0.1	3.2
S Korea	3.1 Q1	2.7	2.7 May	2.6	2.5	-1.6	3.3

BANKING

Deposits with Scheduled Commercial Banks - March 2024 (Annual BSR-2)

In 2024, deposits with scheduled commercial banks (SCBs) in India saw a notable increase, growing by 13.0% year-on-year, adjusted for mergers which pushed the growth to 13.5%. This acceleration surpasses the previous year's growth of 10.2%. The household sector emerged as the largest depositor group, holding 61.1% of total deposits, with female depositors constituting 20.7% of this share. Term deposits saw a significant rise, capturing 78.5% of incremental deposits due to attractive returns, particularly those yielding six percent or more, which constituted 86.6% of total term deposits, up from 61.1% a year ago. Among term deposits, the maturity bucket of one to three years attracted 79.1% of the increase, reflecting a strategy favored by depositors, with this maturity period constituting a significant portion of the total term deposits by year-end.

Statement on Developmental and Regulatory Policies

The recent Statement on Developmental and Regulatory Policies by the Reserve Bank of India (RBI) outlines several key measures aimed at enhancing regulatory frameworks and promoting innovation in payment systems and fintech.

Under the regulatory segment, RBI proposes revisions to the definition of bulk deposits for Scheduled Commercial Banks (SCBs), Small Finance Banks (SFBs), and Local Area Banks, increasing the threshold for such deposits to ₹3 crore for SCBs and SFBs, and ₹1 crore for Local Area Banks. This adjustment aims to provide banks with greater flexibility in managing their asset-liability positions and aligns with updated ALM projections. Additionally, RBI plans to rationalize export and import regulations under FEMA 1999 to streamline operational procedures and support ease of doing business in cross-border trade transactions.

In the realm of payment systems and fintech, RBI introduces significant initiatives. One major initiative includes the establishment of a Digital Payments Intelligence Platform to mitigate payment fraud risks. This platform will leverage advanced technologies for real-time data sharing across payment networks, enhancing the safety and security of digital transactions. Furthermore, RBI proposes to expand the e-mandate framework to include recurring payments for services like Fastag and National Common Mobility Card (NCMC) under an auto-replenishment facility, aiming to simplify customer transactions without the need for frequent pre-debit notifications.

Moreover, the inclusion of UPI Lite wallets within the e-mandate framework allows for automatic replenishment of balances when they fall below a set threshold, further facilitating seamless digital payments. These initiatives underscore RBI's commitment to fostering a robust and secure digital payments ecosystem while promoting financial inclusion and innovation through initiatives like the upcoming RBI Hackathon HARBINGER 2024, which focuses on developing solutions to prevent financial frauds and enhance accessibility for persons with disabilities.

Overall, these policy measures reflect RBI's proactive approach to adapting regulatory frameworks and promoting technological advancements to safeguard financial stability and enhance customer convenience in India's evolving financial landscape.

India's International Investment Position (IIP), March 2024

In the January-March 2024 quarter, India's net claims of non-residents decreased by $6.4 billion to $361.7 billion, driven by a higher rise in Indian residents' overseas financial assets ($38.1 billion) compared to foreign-owned assets in India ($31.7 billion). This decline was primarily due to increases in reserve assets ($23.9 billion), currency and deposits, and overseas direct investments. The ratio of India's international assets to liabilities improved to 74.0% from 72.9% in the previous quarter, with reserve assets making up 62.9% of international financial assets by March 2024. Debt liabilities marginally increased to 51.1% of total external liabilities.

For the fiscal year 2023-24, net claims of non-residents fell by $5.5 billion due to a higher rise in India's external financial assets ($109.8 billion) compared to external financial liabilities ($104.3 billion). Reserve assets were significant contributors, accounting for 62% of the increase in overseas financial assets. Inward portfolio and direct investments, along with loans, constituted a substantial portion of the rise in foreign liabilities. The ratio of India's international financial assets to liabilities rose to 74.0% from 71.4% the previous year, with the net claims of non-residents on India improving to -10.3% of GDP from -11.3% a year earlier.

Sectoral Deployment of Bank Credit – May 2024

Data on sectoral deployment of bank credit for the month of May 2024 collected from 41 select scheduled commercial banks, accounting for about 95 per cent of the total non-food credit deployed by all scheduled commercial banks, are set out in Statements I and II.

On a year-on-year (y-o-y) basis, non-food bank credit2 registered a growth of 16.2 per cent in May 20243 as compared with 15.5 per cent a year ago.

Highlights of the sectoral deployment of bank credit3 are given below:

Credit growth to agriculture and allied activities accelerated to 21.6 per cent (y-o-y) in May 2024 from 16.0 per cent a year ago.

Credit to industry grew by 8.9 per cent (y-o-y) in May 2024 as compared with 6.0 per cent in May 2023. Among major industries, credit growth (y-o-y) to 'all engineering', 'chemicals and chemical products', 'food processing', 'infrastructure', and 'textiles' accelerated in May 2024. However, credit growth to 'basic metal and metal product' and 'petroleum, coal products and nuclear fuels' decelerated.

Credit growth to services sector was robust at 20.7 per cent (y-o-y) in May 2024 (21.3 per cent a year ago), supported by improved credit growth in 'commercial real estate' 'transport operators' and 'professional services'. Credit growth to 'non-banking financial companies (NBFCs)' however, decelerated in May 2024 as compared with May 2023.

Personal loans growth moderated to 17.8 per cent (y-o-y) in May 2024 from 19.1 per cent a year ago, primarily due to decelerated growth in 'other personal loans'. Credit growth to 'housing', the largest constituent of the segment, accelerated

INSURANCE

Reforms in General Insurance Business

The Insurance Regulatory and Development Authority of India (IRDAI) has introduced a comprehensive Master Circular on General Insurance Business, marking a significant shift towards customer-centric reforms in the insurance sector. This initiative follows the deregulation of tariffs and policy wordings, aiming to simplify insurance products and enhance customer experience. Key highlights include the provision of clear and concise information through a Customer Information Sheet (CIS), offering customers a wide array of customizable insurance products tailored to their specific needs and preferences. The c ircular also ensures transparency and efficiency in claim settlement processes, imposing strict timelines for surveyor appointments and report submissions.

Under these reforms, insurers are mandated to strengthen governance mechanisms and board oversight throughout the insurance lifecycle, from product development to policy servicing. They must ensure product affordability and suitability, avoid excessive pricing, and integrate risk management practices into product design. Technological advancements are leveraged to streamline processes such as onboarding, policy servicing, and grievance redressal, promoting seamless operations and enhancing overall customer satisfaction.

Overall, these reforms seek to foster a fair and transparent insurance environment in India, empowering policyholders with increased choices, simplified policy terms, and quicker claim resolutions. By encouraging innovation and ensuring compliance with principled regulatory frameworks, IRDAI aims to propel the insurance sector towards greater inclusivity and efficiency in meeting the evolving needs of customers and stakeholders alike.

Reforms in Life Insurance Business

The Insurance Regulatory and Development Authority of India (IRDAI) has introduced a Master Circular on Life Insurance business aimed at simplifying and enhancing transparency in the sector. This initiative consolidates and replaces previous regulations to provide a clearer framework for insurers and policyholders alike. Key reforms include the introduction of a Customer Information Sheet (CIS) within policy documents, ensuring that policy benefits and terms are easily understandable. Additional features like mandatory policy loans, health riders, and partial withdrawals under pension products offer policyholders flexibility to meet various financial needs without surrendering their policies.

Furthermore, the circular emphasizes robust governance and product management frameworks. Insurers are now required to implement end-to-end technology solutions for efficient service delivery throughout the insurance lifecycle. The governance mechanisms focus on improving persistency, curbing mis-selling, and ensuring fair treatment of policyholders. Enhanced training for intermediaries and clear escalation procedures for grievance redressal contribute to a more informed and satisfied customer base.

Overall, these reforms are designed to empower policyholders with greater choice, flexibility, and transparency, thereby facilitating well-informed decisions. By fostering trust and satisfaction, IRDAI aims to increase insurance penetration and ensure a fair and inclusive insurance environment in India.

One-Stop Reference for Submission of All Regulatory Returns towards ease of business & reduction in compliance burden

The Insurance Regulatory and Development Authority of India (IRDAI) has taken up a comprehensive review of regulatory framework for the insurance sector, to facilitate a favourable environment for ease of doing business and reducing compliance burden. As part of this exercise, moving towards principle-based regulations, 37 regulations consolidated into 7 regulations and additional 2 new regulations were notified, effective from 1st April 2024. Operational guidelines under these regulations are issued as Master Circulars. Various regulatory returns numbering 60 required to be filed under these regulations/operational guidelines are now collated in one place and are issued as a Master Circular on Submission of Returns.

The Master Circular also has a collection of 142 returns, required to be filed with IRDAI in different periodicities (quarterly/halfyearly/annual). This Master Circular supersedes ten circulars issued since 2014 and provides a onestop reference for insurers (including FRBs) on 202 regulatory returns to be filed with IRDAI.

The Master Circular can be accessed at (https://irdai.gov.in/web/guest/document-detail?documentId=5050759)

CAPITAL MARKET

Enhancement of operational efficiency and Risk Reduction - Pay-out of securities directly to client demat account

SEBI has issued a circular to enhance operational efficiency and reduce risks by ensuring the direct pay-out of securities to clients' demat accounts. This measure aims to streamline processes and bolster the safety of securities transactions by eliminating intermediary steps. The initiative is part of SEBI's ongoing efforts to improve market infrastructure and protect investor interests.

SEBI Board Meeting

The SEBI Board Meeting on June 27, 2024, approved several regulatory measures, including amendments to the SEBI LODR Regulations, frameworks for sustainable finance, and changes to streamline the processing of investors' complaints. The board also discussed enhancing the governance norms for mutual funds and facilitating ease of doing business in the securities market.

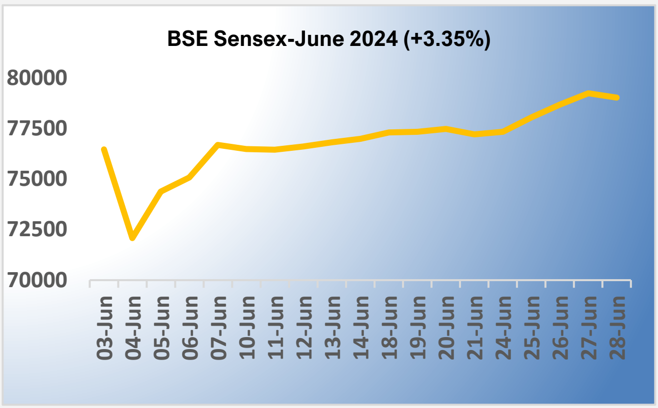
Modification in duration for Call auction in pre-open session for Initial Public Offer (IPO) and Relisted scrips

The Securities and Exchange Board of India (SEBI) has issued a circular modifying the duration of the call auction in the pre-open session for Initial Public Offers (IPOs) and relisted scrips. This adjustment aims to enhance the efficiency of price discovery mechanisms during these sessions. The circular details the specific changes in timing and procedures to be followed by market participants.

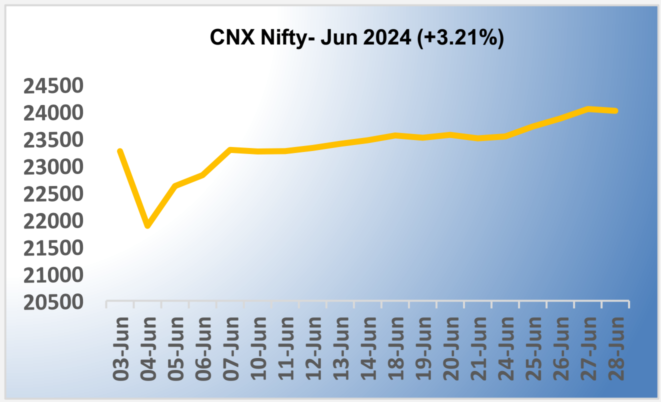
Introduction of a special call auction mechanism for price discovery of scrips of listed Investment Companies (ICs) and listed Investment Holding Companies (IHCs)

SEBI has introduced a special call auction mechanism to enhance price discovery for scrips of listed Investment Companies (ICs) and listed Investment Holding Companies (IHCs). This mechanism aims to improve transparency and liquidity in trading these securities. The new auction process will be conducted at periodic intervals, ensuring better price formation and benefiting investors.

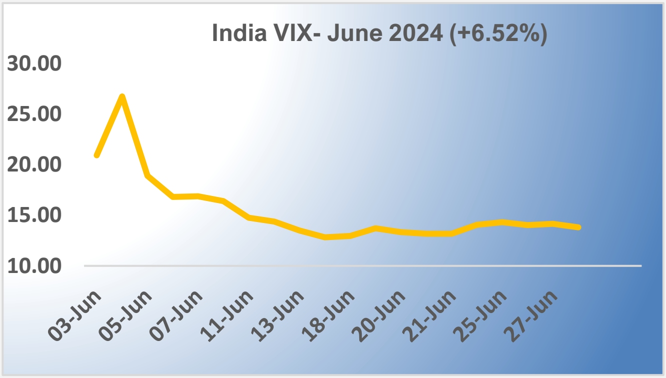
CAPITAL MARKET SNAPSHOT



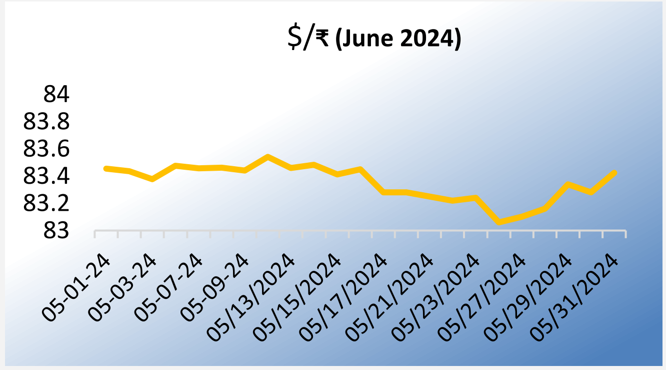
Source: National Stock Exchange



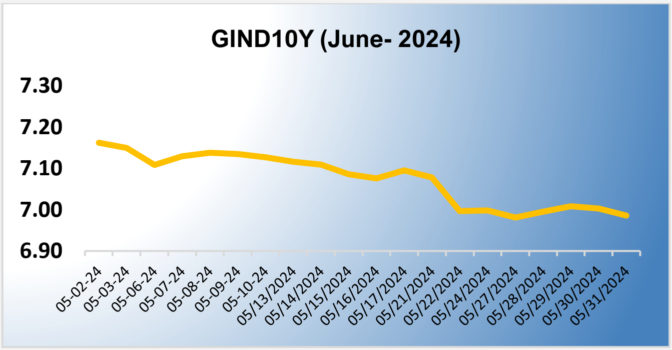
Sources: Bombay Stock Exchange



Sources: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

In June 2024, the Indian markets experienced a notable rally, driven by strong corporate earnings and positive global cues.

The Nifty 50 and BSE Sensex reached new all-time highs, bolstered by gains in banking, IT, and consumer goods sectors. Foreign institutional investors (FIIs) showed increased interest, contributing to the market's upward momentum.

FINTECH

Highlights of the Month

Over 10 cr digital loans disbursed in FY24, volume up by 35%

In FY24, the digital lending sector in India saw significant growth, with over 10 crore digital loans disbursed, marking a 35% increase in volume from the previous year. The total value of these loans reached Rs 1.46 lakh crore, up by 49%. This surge comes despite the Reserve Bank of India's concerns about certain lending practices, prompting draft guidelines for the sector's operations.

India's fintech sector to participate in 9th Global Economic Summit

India's fintech sector will participate in the 9th Global Economic Summit, which aims to foster global collaborations and highlight innovations in the financial technology space. The summit will serve as a platform for industry leaders to discuss trends, challenges, and opportunities in fintech, and promote India’s role in the global financial landscape.

RBI to set up Digital Payments Intelligence platform; forms committee

RBI is set to establish a Digital Payments Intelligence Platform aimed at reducing payment frauds. This initiative will use advanced technologies to enhance fraud detection and prevention within the digital payment ecosystem. This move comes in response to a significant rise in digital payment frauds, emphasizing the need for improved safety measures and real-time data sharing across all payment systems

FinTech Funding May 2024: Total $186 mln raised by Indian FinTechs

Indian fintechs raised a total of $186 million in funding in May 2024. This funding was driven by various factors including increased investor interest in digital finance solutions and the expansion plans of fintech firms across different sectors. The funding highlights the robust growth and potential of the fintech industry in India amidst ongoing digital transformation efforts and regulatory developments.

FinTech sector dominates India's future unicorn landscape, says Hurun report

The Hurun Report suggests that India's future unicorns are likely to be dominated by the fintech sector. This prediction comes as fintech continues to show robust growth and innovation in India's startup ecosystem. The report highlights how fintech companies are leveraging technology to disrupt traditional financial services, making them attractive prospects for unicorn status in the near future. This trend underscores the pivotal role of fintech in shaping India's digital economy and its potential to attract substantial investments and scale rapidly.

RBI launches 'Finquiry' to allow fintechs directly engage with the regulator

RBI has launched 'Finquiry', a platform allowing fintech firms to directly engage with the regulator. This initiative aims to streamline communication and enhance transparency in regulatory processes for fintech companies. Through Finquiry, fintechs can seek clarifications, share feedback, and understand regulatory expectations more efficiently, fostering a more collaborative regulatory environment in India's fintech sector.

$1.5 trln FinTech market size expected by 2030: Report

The report forecasting a significant growth in India's fintech market, projecting it to reach $1.5 trillion by 2030. This growth is driven by increased digital adoption, regulatory support, and innovation in financial services. The report highlights opportunities across payments, lending, wealth management, and insurance sectors, indicating a transformative impact on India's financial landscape over the next decade.

Over $320 billion embedded finance market expected by 2030: Report

The report suggests that the embedded finance market could reach over $320 billion by 2030, driven by the integration of financial services into non-financial platforms like e-commerce and ride-hailing apps. This growth is anticipated due to increasing consumer demand for seamless financial transactions and the expanding reach of digital platforms globally. The report highlights the potential for traditional financial institutions and fintech firms to collaborate and innovate within this evolving ecosystem to capitalize on new revenue streams and enhance customer experience.

Fintech lenders have high delinquency levels in small value loans says RBI

RBI has highlighted concerns over fintech lenders experiencing high delinquency rates in small-value loans. These loans are typically under INR 1 lakh. The RBI's Financial Stability Report pointed out that while fintech platforms offer quick and easy access to credit, they also face challenges with repayment. The report underscores the need for robust risk management practices among fintech lenders to ensure sustainable growth and stability in the sector.

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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