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CONTENTS

INDUSTRY ARTICLE IN THE MONTH

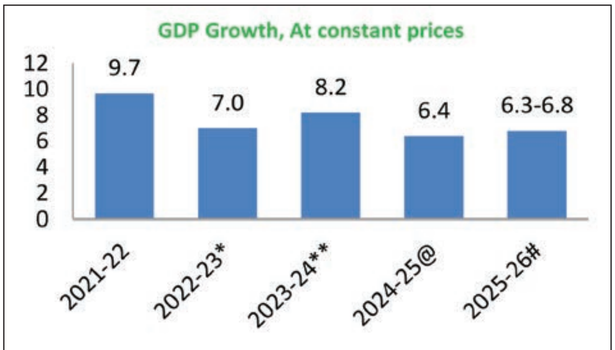
India Union Budget 2025 – Overview and Key Highlights

Background

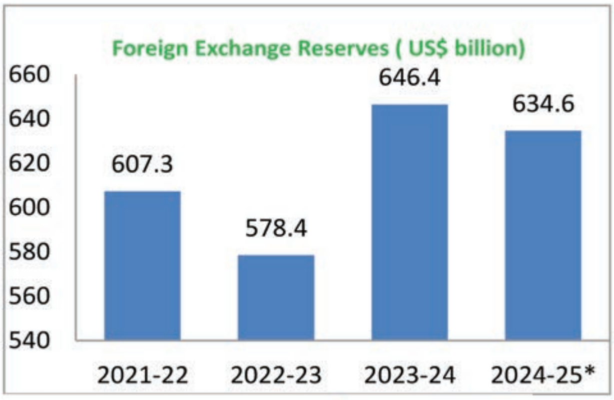
The India Union Budget 2025 has been keenly awaited as India continues to be the fastest growing large economy in the world and in terms of GDP, India is currently the world's fifth largest economy. The current geo-political developments and the slowdown of economic growth in the recent quarters warrant certain bold and structural changes. The 'Economic Survey 2024-25 and certain significant aspects as announced by the Hon'ble Finance & Corporate Affairs Minister, Mrs. Nirmala Sitharaman, in the Union Budget on 1st February 2025 are elucidated as under:

Sound Economic Fundamentals

- India's GDP expected to grow by 6.4% for FY 2024-25 recognizing key risks as geo-political risk, elevated assets valuation risk, inflation and global economic slowdown risk.
- The fiscal deficit of the Union Government is estimated at 4.8% of GDP in FY 2024-25 and expected to further drop to 4.4% of GDP by FY 2025-26 reflecting fiscal discipline and continued fiscal consolidation.
- India successfully managed to keep retail inflation at 4.9% in FY 2024-25.



*1st Revised Estimates ** Provisional Estimates @ 1st Advance Estimates



*January 3, 2025

- The Asset Monetisation Plan for 2025-30 will be launched to plough back capital of Rs.10 lakh crore (US$ 134 billion) in new projects.
- FDI recorded a revival in FY25, with gross FDI inflows increasing from US$ 47 billion in the first 8 months of FY24 to US$ 55 billion in the same period of FY25, a YoY growth of 17.9%.
- After surpassing the US$ 700 billion benchmark, India's foreign exchange reserves moderated to US$ 640 billion as of end of December 2024.

Certain Budget proposals – Key Highlights

- Personal tax – Major change in slab structure under the new regime, increase in basic exemption limit, increase in rebate on income tax and other changes benefitting millions of taxpayers.
- Corporate tax rates – No change.
- Rationalisation of transfer pricing provisions for carrying out multi-year arm's length price determination.
- Safe Harbour Rules proposed to be introduced for non-residents who store components for supply to specified electronics manufacturing units.

- Rationalisation of regimes for charitable entities.
- Tonnage tax scheme extended to Indian Vessels operating in Indian waters.
- Scheme of presumptive taxation extended for non-residents providing services for electronics manufacturing facility.
- Significant tax benefits provided to units in IFSC including extension of period for commencing operations to claim various tax benefits.
- Tax exemption for start-ups extended for a period of 5 years to eligible start ups incorporated before 1 April 2030.
- Rationalisation of TDS and TCS provisions and increase in threshold limits.
- Removal of higher TDS/TCS for non-filers of return of income.
- Indirect tax proposals covering custom duty and GST.

Overall, the Union Budget focus is on providing major relief under personal tax, boosting consumption and savings, growth, employment generation, fiscal stability and simplification of tax regime and should result in maintaining the sustained growth momentum.

There is no change in the overall structure of corporate tax rates. Given that the corporate tax rate under the new concessional regime is 25.17% and for new manufacturing companies it is 17.16%, the stability is a positive news. However, extension of sun-set date for setting up of a new manufacturing company beyond 31 March 2024 has not been announced.

One of the major proposals in Budget 2025 is announcement of multi-year arm's length price determination wherein it is proposed to carry out transfer pricing assessments in a block, in situations where there are similar international transactions or specified transactions for various years, same facts like enterprises with whom such transaction is done, proportionate quantum of transaction, location of associated enterprises etc., and same arm's length analysis are repeated every year. Accordingly, a scheme has been introduced for determining arms' length price of international transactions for a block period of 3 years.

There is a welcome change in personal tax in relation to income slabs rates with benefits to individuals / HUFs under new regime with maximum benefit of Rs. 1,10,000. There has been no change in the surcharge and cess rates. The limit of rebate from income-tax under section 87A has been increased to Rs. 60,000/- as the limit of total income (excluding income subject to special rates such as capital gains) for rebate has been increased from Rs. 700,000/- to Rs. 12,00,000/- under the new regime. Accordingly, no tax on individuals having income (excluding income subject to special rates) up to Rs. 12,00,000/- under new regime.

Introduction of New Income-Tax bill

A significant announcement was made to introduce the new income-tax bill, which is expected to remove the redundancy from the existing Income-Tax Act and also at the same time would be simple to understand for taxpayers and tax administration, leading to tax certainty and reduced litigation.

Rationalization of Indirect Tax Provisions

Indirect tax related changes are aimed to boost domestic manufacturing, enhance domestic value addition, encourage green energy and rationalise tariff structure. On the GST front, recommendations made in GST Council has been proposed to be adopted such as enabling provisions for Invoice Management System (IMS) and 'track and trace mechanism', retrospective amendment in relation to construction-based input tax credit eligibility, taxability on issuance of vouchers, etc. On the Customs front, 7 more tariff rates have been removed, and rate structure further rationalised. Additionally, the social welfare surcharge has been exempted on 82 tariff lines that are subject to cess.

Take Away

Overall, the Union Budget is a balanced budget despite the uncertain and challenging times, with a focus on priorities of growth, infrastructure, fiscal consolidation, stability of corporate tax regime and simplification of personal tax regime.

Astute Consulting Group

Nariman Point: 8th Floor, Bakhtawar, 229, Nariman Point, Mumbai 400 021.
Andheri: 3rd Floor, Technopolis Knowledge Park, A Wing, MIDC, Andheri (E), Mumbai 400 093.
Tel.: +91 22 6121 4444
Email: emails@astuteconsulting.com

Offices: Mumbai, New Delhi – NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur and Vijayanagar.

TOP SPEECHES

Challenges in Liability Management: Maintaining the Balance (Keynote address delivered by Shri M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India - January 17, 2025 - at Mint Annual BFSI Summit & Awards 2025, Mumbai)

At the outset, I would like to thank the organisers for inviting me to this 17th edition of the Mint BFSI Summit & Awards. I am delighted to get this opportunity to engage with you during this event. As a regulator for banks and non-banking financial companies (NBFCs), I thought this could be an occasion to reflect on a less debated area for the regulated entities - their liabilities management and the challenges. In flagging the mismatch between deposit and credit growth, Governor Das had previously drawn our attention to the rising challenge in this area. So, I thought of wading in with a few thoughts for your consideration.

Introduction

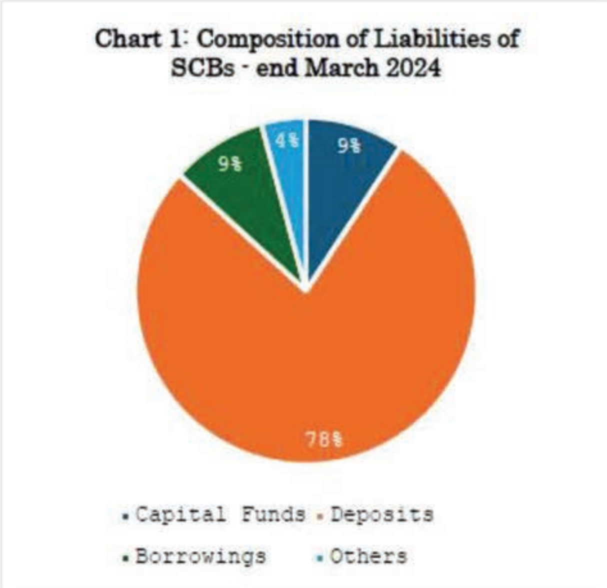
The core function of banking involves accepting deposits, which are usually short-term, and funding loans, which generally have longer maturities. Maturity transformation is thus an inherent feature of financial intermediation and banks are strongly exposed to the associated risks. As a result, strategic management of assets and liabilities is crucial to optimise profitability, improve liquidity and protect the bank against various risks. Historically, regulatory frameworks, including the Basel I and II, placed a greater emphasis on the asset side of the balance sheet, focusing on credit risk management and capital adequacy. This focus arises from the belief that credit defaults and asset deterioration pose the main threats to a bank's solvency. Liquidity and funding risks, primarily stemming from liabilities, were largely viewed as an issue that banks could manage themselves without requiring any regulatory oversight and intervention.

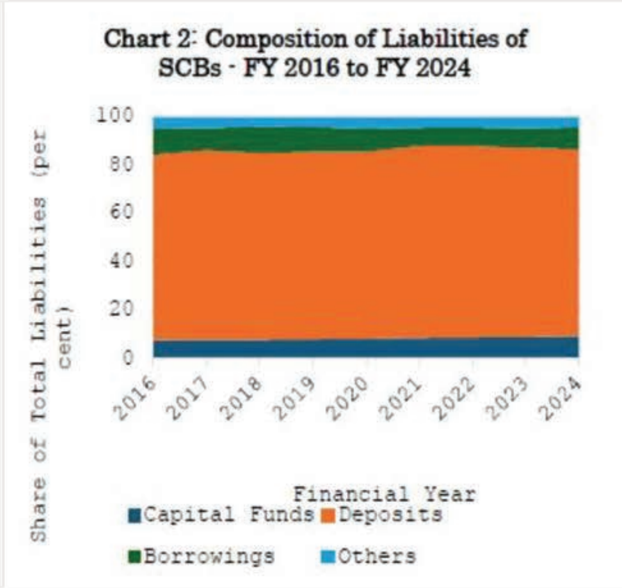
The Global Financial Crisis (GFC) of 2008, during which banks faced vulnerabilities on both sides of the balance sheet, challenged this approach resulting in profound changes to the banking sector's regulatory framework. During the crisis, many banks experienced liquidity crisis leading to insolvencies despite adherence to capital requirements, highlighting the fragility of funding structures reliant on short-term liabilities. This underscored the systemic importance of liquidity management and the need for regulatory oversight beyond asset-side vulnerabilities. The policy response was a paradigm shift that led to prescribing comprehensive global liquidity standards viz. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) which targeted short-term and medium-term liquidity resilience.

It is now well understood that liability management is crucial not only for the stability and solvency of a regulated entity (RE) but is also as a key factor influencing its return on capital and growth trajectory. From the earnings perspective, the spread on interest earned on loans and the cost of funds determines the bank's net income and profitability2. The cost of liabilities thus has a direct impact on Net Interest Margins (NIMs) and earnings ratios. For instance, the share of current and savings account (CASA) deposits in total deposits, the mix of retail versus wholesale funding and the duration of liabilities play a key role in determining the funding cost and, therefore, profitability of banks. Further, the stability of funding is the key to resilience during any crisis. In this context, let me dwell briefly on the evolution of liability management in India, changing trends in liability structure, entity-specific challenges, and regulatory expectations.

Evolution of ALM in India

As you all are aware, Indian banking underwent a strategic transformation with the broader economic reforms of the 1990s. The deregulation of interest rates and greater global integration made the risks encountered by financial institutions more complex





and significant, requiring strategic management. Accordingly, the guidelines on Asset-Liability Management (ALM) for financial institutions were first issued in February 1999 with further additions in late 2000s, covering the interest rate and liquidity risks along with prudential limits and disclosure framework.

The Indian Prudential Framework incorporated the Basel Committee on Banking Supervision (BCBS) Principles for Sound Liquidity Risk Management in 2012, followed by the adoption of two minimum standards for funding liquidity viz. LCR and NSFR. Recognizing that the LCR calibrations overlooked intraday liquidity and the increasing interdependencies within the financial system could lead to liquidity disruptions affecting payment and settlement processes, guidelines for monitoring intraday liquidity were introduced. To mitigate the concentration risk and to curtail systemic implications of uncontrolled liability of larger banks, the Reserve Bank had very early on put in place limits on Inter-Bank Liabilities (IBL) for commercial banks (2007)

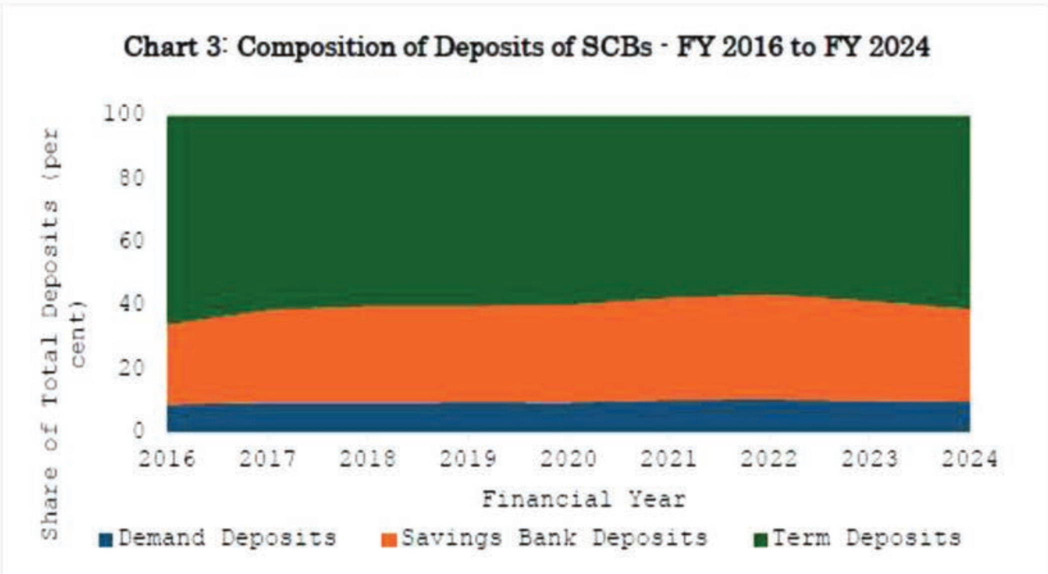


Chart 4: Composition of Liabilities of NBFCs - end March 2024

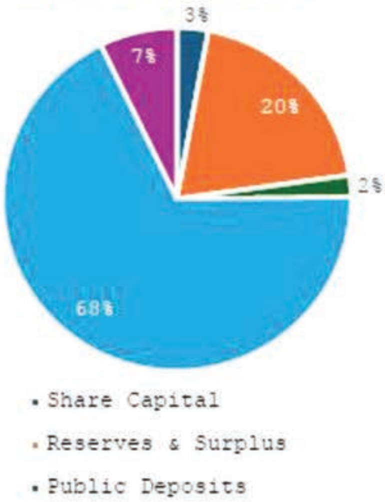
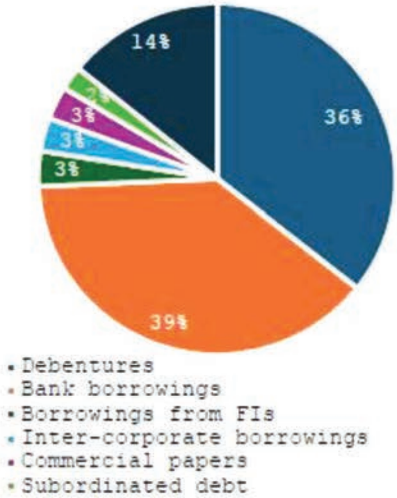


Chart 5: Composition of NBFC borrowings - end March 2024



and interbank deposit limits for urban cooperative banks (UCBs) (2009). Scheduled Commercial Banks (SCBs) (excluding small finance banks, payments banks and regional rural banks) have been permitted to set Board approved limits for borrowing in Call and Notice Money Markets, within the prudential limits for IBL. Such liability-based concentration limits are unique to India and reflect the Reserve Bank's early cognizance of these risks.

Liability Structure and Growth

Deposits continue to be the primary source of funds for SCBs, amounting to ₹217 lakh crore, which represented 77 per cent of total liabilities at the end of FY 2024. In contrast, capital funds (i.e., capital, reserves & surplus) and borrowings, each constituted around 9 per cent of liabilities3. The comparison of data between FY 2016 to FY 2024 indicates that the deposits have grown at an annual rate4 of around 10 per cent, aligning with the overall balance sheet growth, and their contribution to total liabilities has remained stable at around 77 per cent (Charts 1 and 25). Meanwhile, borrowings have grown at a slower rate3 of 7 per cent as a result of which its share in total liabilities has decline from 11 per cent to 9 percent. On the other hand, Capital Funds have grown at close to 13 per cent and its share has increased progressively from 7.6 per cent to 9.3 per cent, indicating the deleveraging of banks' balance sheets, boosted by higher profitability and capital raising efforts.

Maturity wise, during the same period, the contribution of term deposits has declined from 65.8 per cent of total deposits to 60.9 per while the shares of savings and current account deposits have increased from 25.3 per cent and 8.9 per cent to 29.2 per cent and 9.9 per cent, respectively. Consequently, CASA ratio has improved from 34.2 per cent to 39.1 per cent. This trend may have contributed to the improvement in Net Interest Margins (NIMs) of SCBs, which has increased from 2.6 per cent in FY 2015-16 to 3.3 per cent in FY 2023-24 (Chart 36).

Apart from deposits, banks raise liabilities in the form of debt capital instruments such as Additional Tier 1 (AT1) bonds and Tier 2 bonds. Furthermore, banks are permitted to issue domestic Long-Term Bonds to finance infrastructure and affordable housing loans and can also raise funds in overseas markets under the ECB route.

For Non-Banking Financial Companies (NBFCs), borrowings are a significant source of funding, amounting to ₹34.46 lakh crore or 68 per cent of total

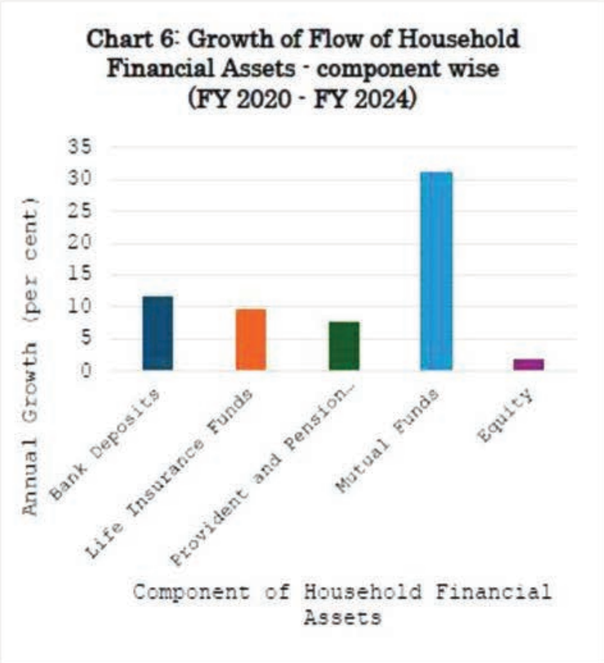


Chart 6: Growth of Flow of Household Financial Assets - component wise (FY 2020 - FY 2024)

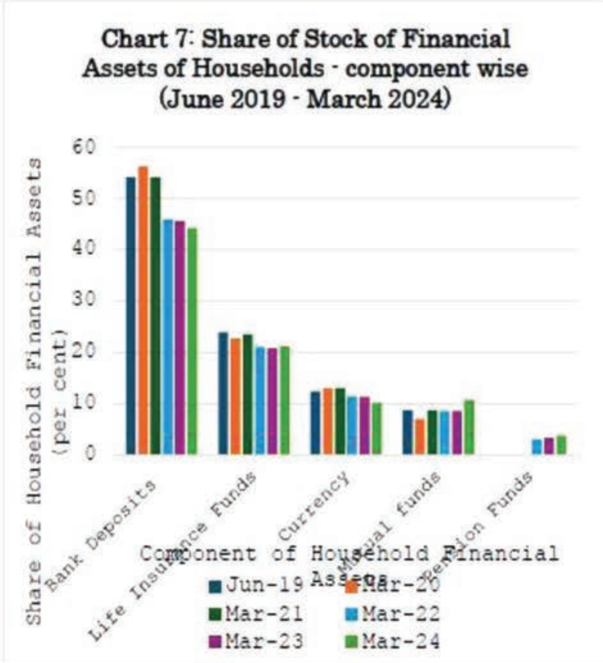


Chart 7: Share of Stock of Financial Assets of Households - component wise (June 2019 - March 2024)

liabilities as at end-March 2024. Within borrowings, debentures and borrowings from banks are the main contributors (Charts 4 and 57). This makes NBFC's liabilities more market-driven and sensitive to interest rate changes compared to banks.

Changing Trends and Challenges

Banks are at the forefront of providing credit to productive sectors of the economy by channelizing household savings, which currently comprise approximately two-thirds of India's gross savings. Recent trends indicate a shift in household preference to financial assets for saving purposes leading to movement of these savings beyond traditional bank deposits towards capital market assets (Charts 6 and 78). This shift is driven by several factors, including targeted efforts to deepen the financial sector, the growth of digital public infrastructure that offers convenient and frictionless access to capital markets, changing investment preferences due to demographic shifts, increased financial awareness, and the recent period of sustained high returns yielded by equity markets. Additionally, the rise of alternative asset classes, search for higher yields and portfolio diversification have further fuelled this trend. Over the past decade9, the number of subscribers and the assets under management (AUM) of mutual funds, pension and provident funds, and insurers have risen significantly, a trend likely to accentuate further. While this trend may not alter the aggregate funding available for banks, it may change the character of deposits having implications on cost of funds and margins for banks.

Although CASA deposits have improved over the longer term as previously mentioned, there has been a recent shift, with share of CASA deposits declining and that of term deposits, especially in higher interest rate buckets, increasing10. This has implications for bank NIMs and profitability. Lately, banks have also increased their reliance on short term funding through Certificates of Deposits (CDs) and the average CD outstanding had reached levels last seen in 201211. Banks must, however, take cognizance of the fact that the higher reliance on short term liabilities can have its own repercussions if market conditions deteriorate.

Banks adopt distinct liability sourcing strategies based on their competitive strengths, market positioning, and business priorities. Large banks with an extensive branch network may have access to low-cost, stable retail deposits. While the banks with a more pronounced urban presence may target affluent customer segments, offering high-value deposit products tailored to high-net-worth individuals (HNIs) and corporate clients. Additionally, some banks with advanced technology stacks leverage digital platforms to enhance customer acquisition and streamline liability sourcing, providing a competitive edge in attracting both retail and corporate deposits. On the other hand, differentiated banks are seen to have a higher reliance on inter-bank deposits and wholesale funding. This diversity in funding profiles presents unique challenges in ALM, as each business strategy introduces its own complexities in managing liquidity, cost of funds, and risk alignment.

'Institutionalisation' of deposits, which I referred to earlier, will bring along specific challenges for the ALM for banks. A reduced reliance on retail deposits, coupled with a greater share of funding from institutional sources will likely result in increased funding costs, which in turn negatively affects profitability. The quest to maintain the margins can lead to eventual transmission of increased funding cost to interest rate on loans. This would either constrain growth of loan book or may force the lenders to dilute the underwriting standards and lend to riskier borrowers to maintain earnings ratios. Banks must stay alert to the risks of certain practices that may seem less evident during strong economic growth but could lead to serious consequences during economic downturns. Banks heavily reliant on wholesale funding are more vulnerable to rollover risks and outflows in times of economic stress. Therefore, effective liability management is crucial for mitigating these risks.

Another issue pertains to deposit growth of certain banks not keeping pace with their loan growth, which has raised regulatory concerns about the risks associated with higher dependency on wholesale funding for credit disbursement. Such imbalances are viewed as indicators of potential structural liquidity vulnerabilities. While regulators monitor these trends as a macroeconomic gauge to assess systemic risks in the banking sector, it is crucial to recognise that for individual banks these indicators alone are insufficient to fully capture liquidity risk. From a short-term liquidity perspective, tools like the LCR offer a more nuanced view by considering factors such as deposit stability, depositor behaviour, and the dynamics between retail and wholesale funding. The relationship between these indicators is multifaceted and often contradictory, making it essential to avoid relying on any single measure in isolation and necessitating a holistic assessment of the ALM profile of banks.

Contrary to banks, the liability profile of NBFCs12 is shaped by their primary activities, regulatory requirements, and the types of assets they finance. Historically, crises have demonstrated that NBFCs' over-reliance on short-term funding to support long-duration assets, such as infrastructure and housing loans, can result in significant liquidity constraints, deterioration in investor confidence, and credit rating downgrades, thereby constricting their ability to access capital markets. Consequently, NBFCs became heavily dependent upon bank funding, both direct lending and banks' subscriptions to debentures & Commercial Papers (CPs), leading to funding concentration. Recognizing the increasing dependency of NBFCs on bank borrowings, the RBI increased the risk weights of bank exposures to NBFCs by 25 percentage points in November 2023 which has helped in moderating the YoY growth in bank borrowings by NBFCs. To offset this, NBFCs have increased funding through CPs13 and non-convertible debentures (NCDs)14.

While accessing international markets can reduce NBFCs' reliance on the domestic banking system and provide a broader range of funding options, it also exposes them to additional risks, particularly unhedged currency exposures, which can lead to volatility in funding costs and potential liquidity strains due to exchange rate fluctuations. NBFCs should integrate forex hedging into their ALM framework and closely monitor currency exposure to mitigate funding cost volatility. The liquidity transformation of assets through securitization to free up resources for on-lending can also serve as an important tool to improve the ALM structure.

Regulatory Expectations

Now, let me flag a few key issues that are being extensively debated globally on the ALM practices employed by banks and NBFCs and the regulatory expectations on these issues.

First, the rise of innovative products and technologies in banking has enhanced consumer flexibility in accessing funds & managing cash flows, significantly transforming customer behaviour. Further, the evolving dynamics of information dissemination through traditional and social media can profoundly influence customer behaviour, potentially escalating and amplifying a crisis. These factors present heightened challenges and banks needs to be watchful and carefully review their modelling assumptions on stability of deposits and customer behaviour to better predict deposit retention, withdrawal patterns, pre-payments, and interest rate sensitivities.

Second, the Liability-Driven Investment (LDI) crisis in the UK demonstrated the inherent vulnerabilities in highly interconnected financial structure, where the failure of one segment can precipitate cascading liquidity challenges across multiple sectors. Traditional liability management models, often based on historical data, may not adequately capture the risks posed by unprecedented market conditions. Consequently, regulated entities must develop more sophisticated stress-testing methodologies that evaluate their ability to withstand extreme scenarios, including those that involve the amplification of shocks across interconnected financial networks.

The final point is the importance of contingency funding plans (CFPs). In general, REs must have formal CFPs commensurate with their complexity, risk profile, scope of operations and their role in the financial system. Among others, it must clearly articulate the available potential contingency funding sources and the amount of funds that can be derived from these sources. It is important to note that the lender of last resort (LOLR) function of central banks is regarded as (implicit) insurance for banks against liquidity shocks that money market participants are unwilling or unable to absorb. The value of this insurance increases with banks' exposure to liquidity risk, which increases moral hazard. Banks need to recognize that, to address this moral hazard, the central banks retain discretion to decide whether to extend emergency liquidity assistance to specific institutions. This assistance is intended as a safety net for the entire financial system through judicious use of public funds and is often accompanied by supervisory intervention and conditionalities. Therefore, the LOLR function should not be regarded as a routine component of contingency funding.

As far as NBFCs are concerned, while they play a key role in enhancing access to credit and supporting economic growth, their activities also involve a significant amount of maturity, liquidity, and credit transformation. Most NBFCs, unlike banks, do not have access to public deposits, as the regulatory approach over the years has been to disincentivise the deposit taking activities of the NBFCs. Compared to the more stable retail sources of funding available to banks given their access to official backstops and their deposit franchises, NBFCs will continue to be dependent on banks and capital markets for their funding. It is imperative for NBFCs to diversify their funding sources while optimizing borrowing costs and mitigating associated risks for a sustainable growth path.

Conclusion

Today, we collectively aspire for a 'Viksit Bharat' by 2047, the centenary of our independence. This ambition demands consistent and sustainable economic growth combined with a systemic capacity for resilience. In order to achieve the ambitious economic growth target under this vision, the financial assets and bank assets would need to achieve a consistent and high paced growth over the next two decades, which would require a corresponding increase in liabilities and capital for the financial sector. This brings forth the need to address some of the emerging challenges as customer behaviour and preferences are undergoing profound changes while global ecosystems and external factors such as third-party dependencies and technology shifts are growing increasingly complex, reshaping the business landscape. Collectively, these dynamics are creating a challenging environment for REs who would need to recalibrate their approach and business strategies. This is not just about managing risks but also seizing opportunities to optimize funding structures, enhance stability, and support economic growth. The road to a "Viksit Bharat" by 2047 will depend significantly on how well the financial system adapts to these trends and manages the complexities of resource raising and liability management.

Thank you.

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Jessica Chew Cheng Lian: Speech - launch of the Financial Markets Ombudsman Service Speech by Ms Jessica Chew Cheng Lian, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Launch of the Financial Markets Ombudsman Service, Kuala Lumpur, 17 January 2025.

The views expressed in this speech are those of the speaker and not the view of the BIS.

It is my great pleasure to be here with you today to mark an important milestone in the evolution of our financial system. The journey to form the Financial Markets Ombudsman Service (FMOS) may have started out as a practical undertaking, but with the benefit of extensive consultations and valuable input from various stakeholders, including many in this room today, FMOS captures a larger, shared vision of a stronger future system of dispute resolution for financial consumers in Malaysia.

For this, Bank Negara Malaysia would like to thank the Securities Commission Malaysia for working closely with us to guide and support this effort. We would also like to applaud the significant effort, cooperation and commitment of the Board of Directors of Ombudsman for Financial Services (OFS) and Securities Industry Dispute Resolution Center (SIDREC), especially members of the Merger Steering Committee, as well as the staff of OFS and SIDREC, for enabling the seamless execution of this important initiative. Also not forgetting the financial industry representatives who weighed in on many issues along the way to ensure FMOS gets off to a credible start as a trusted, efficient and effective integrated service to financial consumers.

FMOS plays a pivotal role in our financial ecosystem. Disputes between businesses and consumers are commonplace. But few industries can lay claim to the same extent of power imbalance that exists between a financial institution and individual or small business customers. Financial matters are complex, and most individuals will not have the sophistication or resources at their disposal to guard against unfair dealings. FMOS helps to redress this imbalance by providing an avenue that is independent, fair and transparent for aggrieved financial consumers to resolve their disputes with financial service providers.

The establishment of FMOS complements Bank Negara Malaysia's ongoing commitment to promote financial inclusion and ensure the fair treatment of financial consumers. In recent years, about a quarter of regulatory standards that we issue are focused on conduct matters. This reflects our efforts to continuously raise the bar on how we expect financial institutions to ensure that they deal fairly with their customers. A notable example in the more recent period has been the revised Policy Document on Fair Treatment of Financial Consumers issued in 2024 where we introduced a new principle and specific requirements for financial service providers to consider and respond to the interests and needs of vulnerable consumers in conducting its business and operations. Another is the Policy Document on Product Transparency and Disclosure which was revised to introduce new and enhanced disclosure requirements incorporating behavioural nudges, to improve the clarity and accessibility of product information provided through digital channels. We are also in the process of revising the Complaints Handling Guidelines to reflect improvements we believe are needed to ensure that complaints handling mechanisms of financial service providers remain effective and responsive in dealing with issues faced by consumers.

We have long maintained that the first step in resolving disputes must begin with financial service providers. Our work suggests that a customer's experience in how their complaints are handled can have a powerful effect on engendering trust even when a financial product fails to perform as expected. Given that cases of systemic, intentional malpractice within individual financial institutions are rare, a fair and sensitive approach to dealing with complaints can not only help financial institutions build enduring customer loyalty and trust, but also offer valuable insights to improve their product and practices. In cases of fraud and serious misconduct, we will not hesitate to take strong actions in collaboration with other law enforcement agencies to hold perpetrators to account, including barring individuals from working in the financial sector.

Over the past five years, the financial industry received around 2.3 million complaints, 98% of which were from the banking sector whilst the remaining were from the insurance and takaful sector. The number of complaints in recent years was 65% higher on average as compared to the complaints in 2020 which reflects not only the increasing complexity of financial services but also the higher level of consumer awareness and expectations. Conversely, complaints lodged with BNMLINK saw a 37% reduction over the same period. This suggests that ongoing improvements to complaint channels provided by financial service providers themselves are having a positive impact in ensuring that consumers are getting the help that they need, resulting in fewer complaints being escalated to BNMLINK. We expect this number to come down further in line with higher standards on fair treatment being set for financial service providers, including on the management of customer complaints. Evidence supporting this can also be observed from marked improvements recorded in customer loyalty and overall customer satisfaction as presented in the latest nation-wide Customer Satisfaction Survey (CSS) commissioned by the banking and insurance industry.

Looking ahead, FMOS will be uniquely positioned to build on and leverage on these improvements. With the formation of FMOS, the monetary award limit for eligible disputes that can be handled by FMOS was increased and streamlined to a maximum of RM250,000, from RM10,000 for disputes concerning motor third-party property damage, and RM25,000 for disputes concerning unauthorised transactions. The streamlined monetary limit of RM250,000 for all disputes is also consistent with the existing monetary award limit for disputes in the capital market, thereby enabling more financial consumers to use the alternative dispute resolution service offered by FMOS.

As financial products and services evolve and become increasingly complex, it will be vital for FMOS to ensure that its team is equipped with the necessary skills, knowledge and expertise to perform its expected role with a high level of professional competence and integrity. Sometimes, cases will call for creative solutions to deliver fair outcomes to disputing parties. To this end, we require and expect financial service providers to cooperate fully with FMOS towards achieving swift and fair resolutions. This includes promptly providing all necessary information and documentation to FMOS to facilitate its thorough review of cases and actively engaging with FMOS to explore solutions that deliver fair outcomes for consumers.

In rising to meet the expanded scope and higher expectations of it, FMOS will have to contend with a fast-changing environment, and be able to navigate the terrain between legal and fairness considerations in specific cases. In addition, one of its most important roles will be the ability to provide crucial and timely feedback to the regulators on systemic issues and poor practices to prompt early regulatory responses that can prevent future harm to consumers. The Bank also remains committed to work closely with FMOS to continuously improve on monitoring and regulatory feedback systems to inform our interventions. This includes using insights from cases handled by FMOS to identify areas where consumer education needs to be intensified to empower consumers to protect themselves against financial and misconduct risks.

Building trust in financial institutions has become more challenging with time, and yet never more important to build resilient communities. While trust in an individual financial institution can be fragile when consumers have a bad experience with an institution, FMOS plays a critical role to ensure the public can still continue to have confidence in a financial system that will fairly protect individual and small business consumers.

We have every confidence that FMOS is well-positioned to live up to these expectations. On that note, let me end my remarks by congratulating the board and staff of FMOS on its launch today.

Source: https://www.bis.org/review/r250121g.htm

TOP BANKING NEWS

- **RBI Dy Governor portfolio reshuffle: M Rajeshwar Rao to be in charge of MPC, T Rabi Sankar gets financial market ops**

RBI Dy Governor portfolio reshuffle: The Reserve Bank of India (RBI) announced the portfolio duty rejig of its three remaining deputy governors on Tuesday, January 14, with the retirement of Dr Micheal Debabrata Patra, RBI's senior-most deputy governor. Dr Patra's term will end on January 15.

According to the central bank's latest duty allocation, M Rajeshwar Rao will take charge of the Department of Monetary Policy, which Dr Patra earlier headed. The portfolio rejig comes ahead of the upcoming Monetary Policy Committee (MPC) meeting on February 5-7. The central bank has allocated the financial markets operations department to T Rabi Sankar.

The central said that the distribution of portfolios among the deputy governors will be effective Wednesday, January 15, 2025. Rao will head the MPC department, along with the Department of Economic and Policy Research, among others. Sankar will head the fintech department and financial market regulations, among a few others. RBI's new Governor, Sanjay Malhotra, will unveil his first monetary policy verdict on February 7, 2025.

RBI Dy Governor portfolio reshuffle

- M Rajeshwar Rao has been given 11 portfolios-
- Co-ordination, Department of Communication
- Department of Economic and Policy Research
- Department of Regulation
- Department of Statistics and Information Management
- Enforcement Department, International Department
- Legal Department
- Monetary Policy Department
- Risk Monitoring Department
- Secretary's Department.
- T Rabi Sankar will head 13 departments:
- Central Security Cell, Department of Currency Management
- Department of External Investments & Operations
- Department of Government and Bank Accounts
- Department of Information Technology
- Department of Payment and Settlement Systems
- Fintech Department
- Financial Markets Operations Department
- Financial Markets Regulation Department
- Foreign Exchange Department
- Human Resource Management Department
- Internal Debt Management Department
- Right to Information (RIA) Division
- Swaminathan Janakiraman will look after nine portfolios:
- Consumer Education and Protection Department
- Corporate Strategy and Budget Department
- Department of Supervision
- Deposit Insurance and Credit Guarantee Corporation
- Financial Inclusion and Development Department
- Financial Stability Department
- Inspection Department
- Premises Department
- Rajbhasha Department

In 2023, the central government extended M Rajeshwar Rao's term as the RBI's Deputy Governor by one year. The Cabinet's Appointments Committee approved the re-appointment. Initially, Rao was appointed as the RBI Deputy Governor in October 2020 for a period of three years. “The central government has re-appointed M Rajeshwar Rao as Deputy Governor, RBI, for a period of one year with effect from October 9, 2023, or until further orders, whichever is earlier,” the central bank had said in a statement in 2023.

he government decided against offering a third extension to Dr Patra for another year. A career central banker, the veteran monetary economist previously received two extensions after his original term ended in January 2023. The central bank has four deputy governors. Two are promoted from within, while the other are typically commercial bankers and economists.

Source: https://www.livemint.com/industry/banking/rbi-dy-governor-portfolio-reshuffle-m-rajeshwar-rao-to-be-in-charge-of-mpc-t-rabi-sankar-gets-financial-market-ops-11736867570428.html

- **Bank of India seeks first dollar syndicated loan worth $400 million in more than a decade: Report**

Bank of India said it is marketing its first dollar syndicated loan since 2012 of as much as $400 million. That comes at a time when more Indian borrowers are tapping global credit markets. The lender is raising the loan — split into three- and five-year tranches — via its branch located in Gujarat International Finance Tec-City, Rajesh V Upadhya, company secretary at Bank of India said in an email reply to a Bloomberg News query, confirming an earlier report.

Bank of India joins a slew of other local borrowers seeking to raise foreign currency debt this year. Reliance Industries Ltd. is looking to borrow as much as $3 billion, in what could be the largest loan from the country since 2023, while Shriram Finance Ltd. is planning to syndicate part of a $1.28 billion multi-currency social financing, the biggest ever offshore deal from an Indian shadow lender.

Meanwhile, State Bank of India is marketing a ¥30 billion ($191 million) syndicated facility, and also plans to raise as much as $1.25 billion in what could be the country’s biggest dollar loan from the banking sector this year. All this adds to the already busy deal pipeline from Asia Pacific, setting the stage for a likely rebound in loan volumes after three years of decline.

Bank of India last tapped the offshore loan markets in 2012, when it raised a $200 million two-year facility, according to Bloomberg-compiled data. That deal paid an interest margin of 175 basis points over the then-prevailing London Interbank Offered Rate benchmark, the data show.

This is in stark contrast to the lender’s latest fundraising. The loan pays a margin of 83 basis points over the risk-free Secured Overnight Financing Rate for the three-year piece and 96 basis points for the five-year portion, Upadhya said. The lender will hold investor roadshows in Singapore on Jan. 17 and Taiwan on Jan. 20, he added.

CTBC Bank Co. and Standard Chartered Plc are the arrangers of the facility, people familiar with the matter said, who asked not to be named discussing private matters. Proceeds of the loan, which carries a base size of $300 million, are for general corporate purposes, including lending activities, they added.

Source: https://www.livemint.com/industry/banking/bank-of-india-seeks-first-dollar-syndicated-loan-worth-400-million-in-more-than-a-decade-report-11736785924136.html

- **A 1000-cr fund to be launched to address climate issues in rural financial system, say Nabard chairman Shaji K. V.**

New Delhi: After NabVentures Fund 1, the National Bank for Agriculture and Rural Development (NABARD) now plans to launch a second round with a focus on ventures that address hurdles created by climate change in the rural financial ecosystem, said India’s apex development bank chairman Shaji K.V.

Nabventures, a subsidiary of NABARD, last July launched a fund called 'Agri-Sure' with an initial corpus of ₹750 crore, with ₹250 crore each from NABARD and the Ministry of Agriculture, and ₹250 crore from other institutions to promote investment in innovative, technology-driven, high-risk, and high-impact activities in agriculture and allied areas.

NABARD feels that the next round of improved productivity should come through innovations. "So, innovations need to be supported. For that, venture capital is needed, and we have already set up NabVentures Fund 1. We will follow up with NavVenture Fund 2 in the next financial year; It will be a ₹1000-crore fund," he told reporters on Sunday on the sidelines of the Gramin Bharat Mahotsav, adding, "NabVentures Fund 1 was more focused on agriculture and some rural activities we are doing, but we will add the climate part to NavVentures Fund 2."

Area-based pilots

"What we are intending to do is area-based pilots. As a development-financial institution, we need to now create some use cases and show to the other people that if you take up these types of activities, your activity will be defeating most of the climate issues, and we can overcome those things."

"So, we are coming up with that part of an area-based programme. We are also in talks with many of the multilateral institutions, including ADB (Asian Development Bank) and FAO (UN Food and Agriculture Organization), to bring the expertise from outside. But then, India needs to have its own solution. We can't just transpose the solutions available elsewhere to this place. We need to have our own home-grown solutions. If you go to rural areas, a lot of home-grown solutions are there, which need to be identified, be piloted and showcased," he added.

On computerization and strengthening of Primary Agricultural Cooperative Societies (PACS), NABARD head informed that 67,000 cooperative societies will be computarized by the end of the current financial year. So far, 50,000 have been digitized.

Digital tech push

"Along with it, cooperative banks, which are scheduled banks and are forming higher tiers in the cooperative structure, are also being increasingly pushed to adopt digital technologies. So, NABARD, in conjunction with the government, will be setting up a shared services entity for such cooperative banks. By this, we intend to make accessible banking in a more affordable manner to the marginalized sections as well, leveraging the Pradhan Mantri Jan Dan Yojana, which is (benefiting) around now 530 million (people) and counting. We need to now make such accounts more active. For that, more digital facilities need to be given to the rural financial institutions."

"With whatever development activities we are doing a credit layer will also be added so that with whatever margins or the capital which rural folks are investing, we'll augment that with affordable credit, intending to improve production and productivity," Shaji said.

The rural development financial institution also plans to push dairy and fishery farmers more for interest subvention credit facility to help them borrow from banks to improve their per capita income.

"Under KCC, our aim is to saturate not only landowning farmers but also lease land farmers. We will try to saturate PM Kisan beneficiaries with KCC and then tenant farmers Plus, animal husbandry, fisheries and allied activities also need to get interest subvention credits so that their per capita income can be improved. For that, we are doing a campaign in association with the Department of Financial Services, involving all the banks and rural financial institutions to saturate animal husbandry and fisheries sectors," K.V. said.

Nudging fish farmers

"We are also nudging state governments to get registered fisheries farmers. Fisheries farmers is one area where the registration has to be improved. Once registration and linking farmers with the activity is done, we can push banks to lend," he added.

As of 7 August 2024, 426,666 KCCs had been sanctioned to fishers and fish farmers, and as of last January, banks issued 75 million KCCs with a limit of ₹9.4 trillion to farmers across all sectors, according to an official statement.

With a view to ensuring availability of agriculture credit, including loans taken against Kisan Credit Card (KCC) at a reasonable cost or at a reduced rate of 7% per annum to farmers, the government through public sector banks, private sector banks, regional rural banks and cooperatives is implementing an interest subvention scheme of 2% for short term crop loans of up to ₹3 lakh. Currently, besides a 2% interest subvention, farmers, on prompt repayment of crop loans on or before the due date, are also provided 3% additional interest subvention.

When asked about the timeline, NABARD chairman said, "It is an ongoing process because tenancy is one thing which is dynamic. As and when tenant farmers are coming in, we need to target them for predicting."

There are two limits for KCCs. One is ₹3 lakh for interest subvention. The other is a Rs200,000 collateral free limit. "So, that is also helping more forward because if land record is not proper, collateral banks will not insist based on some declarations," K.V. added.

Source: https://www.livemint.com/industry/banking/a-1000-cr-fund-to-be-launched-to-address-climate-issues-in-rural-financial-system-say-nabard-chairman-shaji-k-v-11736072398205.html

SELECT RBI CIRCULAR

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2024-2025/108 EFD.CO.No.1/02.08.001/2024-25	30.1.2025	Enforcement Department	Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007	The Chairman / Managing Director / Chief Executive Officer, Authorised Payment System Operators / Banks
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12773				
RBI/2024-2025/107 DOR.FIN.REC. No.58/03.10.136/2024-25	29.1.2025	Department of Regulation	Private Placement of Non-Convertible Debentures (NCDs) with maturity period of more than one year by HFCs – Review of guidelines	All Housing Finance Companies (HFCs)
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12772				
RBI/2024-2025/106 DoR.SIG.FIN. REC.56/26.03.001/2024-25	20.1.2025	Department of Regulation	Guidelines on Settlement of Dues of borrowers by ARCs	All Asset Reconstruction Companies (ARCs)
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12771				
RBI/2024-2025/105 CEPD.CO.OBD.No.S1270/50-01-001/2024-25	17.1.2025	Customer Service Department	Prevention of financial frauds perpetrated using voice calls and SMS – Regulatory prescriptions and Institutional Safeguards	Chairman/Managing Director/CEOs All Commercial Banks (including Regional Rural Banks, Small Finance Banks, Payment Banks, and Local Area Banks) All Primary (Urban) Co-operative Banks, State Co-operative Banks, District Central Co-operative Banks All Prepaid Payment Instrument Issuers All Non-Banking Financial Companies (including Housing Finance Companies) All Credit Information Companies All Payment Aggregators All Payment Systems Participants & Payment System Providers
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12770				

RBI/2024-2025/104 Ref.No.DoS.CO.PPG/ SEC.13/11.01.005/2024-25	17.1.2025	Department of Supervision	Coverage of customers under the nomination facility	The Chairman / Managing Director / Chief Executive Officer All Scheduled Commercial Banks (Excluding RRBs) All Primary (Urban) Co-operative Banks All Deposit Taking NBFCs (Excluding HFCs) [Supervised Entities (SEs)]
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12769				
RBI/2024-2025/103 CO.DGBA.GBD.No.S770/42-01-029/2024-2025	03.1.2025	Department of Government and Bank Accounts	Status of March 30, 2025 for Government transactions through integration with e-Kuber	All Agency Banks
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12763				
RBI/2024-2025/102 FIDD.CO.LBS. BC.No.11/02.08.001/2024-25	02.1.2025	Financial Inclusion and Development Department	Formation of new district in the State of Nagaland – Assignment of Lead Bank Responsibility	The Chairman / Managing Director & Chief Executive Officer Lead Banks Concerned
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12762				
RBI/2024-2025/101 FMRD.DIRD. No.09/14.03.004/2024-25	01.1.2025	Financial Markets Regulation Department	Participation of NaBFID as an AIFI in financial markets	All eligible market participants
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12761				

Source- https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx

STATISTICAL SUPPLEMENT – RBI

Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract

1. Reserve Bank of India - Liabilities and Assets*

(₹ Crore)

Item	2024	2025		Variation	
	Jan. 26	Jan. 17	Jan. 24	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	-	0	0	0	0
4.2 State Governments	12810	23623	20495	-3128	7685

** Data are provisional; difference, if any, is due to rounding off.*

2. Foreign Exchange Reserves*

Item	As on January 24, 2025		Variation over					
			Week		End-March 2024		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	5426706	629557	22174	5574	35450	-16862	300636	12824
1.1 Foreign Currency Assets #	4636524	537891	18866	4758	-125320	-33059	97164	-8253
1.2 Gold	600379	69651	3207	704	161060	16976	205735	22170
1.3 SDRs	153955	17861	-61	79	2731	-271	2281	-388
1.4 Reserve Position in the IMF	35848	4154	161	33	-3020	-508	-4544	-705

** Difference, if any, is due to rounding off.*
 # Excludes (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC and ACU currency swap arrangements.

3. Scheduled Commercial Banks - Business in India

(₹ Crore)

Item	Outstanding as on Jan. 10, 2025	Variation over				
		Fortnight	Financial year so far		Year-on-Year	
			2023-24	2024-25	2024	2025
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	22150249	87658	1940921	1675023	2310060	2165414
	(22084821)		(1821562)		(2190701)	(2219345)
2.1a Growth (Per cent)		0.4	10.8	8.2	13.1	10.8
			(10.1)		(12.4)	(11.2)
2.1.1 Demand	2478194	-91379	84970	34341	189777	212793
2.1.2 Time	19672055	179037	1855952	1640682	2120284	1952621
2.2 Borrowings	926377	-28723	380687	148435	353023	100361
2.3 Other Demand and Time Liabilities	985205	-11421	82564	47777	193155	112990
7 Bank Credit	17801605	58567	2294690	1369441	2693167	1831679
	(17368554)		(1728150)		(2126626)	(1965169)
7.1a Growth (Per cent)		0.3	16.8	8.3	20.3	11.5
			(12.6)		(16.0)	(12.8)
7a.1 Food Credit	57723	1584	24063	34642	-8686	13755
7a.2 Non-food Credit	17743882	56983	2270628	1334799	2701852	1817924

1. Data since July 14, 2023 include the impact of the merger of a non-bank with a bank.
2. Figures in parentheses exclude the impact of the merger.

4. Money Stock: Components and Sources

(₹ Crore)

Item	Outstanding as on		Variation over									
	2024	2025	Fortnight		Financial Year so far				Year-on-Year			
					2023-24		2024-25		2024		2025	
	Mar. 31	Jan. 10	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	24831618	26647844	135334	0.5	1866601	8.4	1816226	7.3	2367282	10.8	2437483	10.1
	(24939860)	(26713273)	(134072)	(0.5)			(1773412)	(7.1)			(2383552)	(9.8)
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3410276	3499907	40194	1.2	35434	1.1	89631	2.6	148140	4.7	188037	5.7
1.2 Demand Deposits with Banks	2586888	2619298	-91414	-3.4	87410	3.8	32410	1.3	191741	8.7	211291	8.8
1.3 Time Deposits with Banks	18739918	20425014	184558	0.9	1743052	10.5	1685096	9.0	2011262	12.3	2012995	10.9
	(18848160)	(20490442)	(183297)	(0.9)			(1642282)	(8.7)			(1959064)	(10.6)
1.4 'Other' Deposits with Reserve Bank	94536	103625	1996	2.0	704	0.9	9089	9.6	16139	25.9	25160	32.1
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Government	7512016	7978893	128642	1.6	62974	0.9	466877	6.2	474680	7.0	750386	10.4
	(7603571)	(8029768)	(128649)	(1.6)			(426197)	(5.6)			(704641)	(9.6)
2.1.1 Reserve Bank	1193213	1104710	103819		-435089		-88503		-237895		88673	
2.1.2 Other Banks	6318803	6874183	24823	0.4	498063	8.7	555380	8.8	712575	13.0	661713	10.7
	(6410358)	(6925058)	(24830)	(0.4)			(514700)	(8.0)			(615967)	(9.8)
2.2 Bank Credit to Commercial Sector	16672145	18157779	66966	0.4	1720454	11.9	1485634	8.9	2148325	15.3	2007689	12.4
	(17202832)	(18590830)	(61474)	(0.3)			(1387998)	(8.1)			(1874199)	(11.2)
2.2.1 Reserve Bank	14406	10512	-7		-21321		-3894		1503		5285	
2.2.2 Other Banks	16657739	18147266	66972	0.4	1741775	12.1	1489527	8.9	2146822	15.3	2002404	12.4
	(17188426)	(18580317)	(61480)	(0.3)			(1391892)	(8.1)			(1868914)	(11.2)

Note: Figures in parentheses include the impact of merger of a non-bank with a bank.

5. Liquidity Operations By RBI										
(₹ Crore)										
Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Jan. 20, 2025	-	-	75772	-	4461	78650	-10	-	4980	6553
Jan. 21, 2025	-	-	71900	-	8207	43894	-	-	1355	37568
Jan. 22, 2025	-	-	125009	-	3349	75393	-	-	4045	57010
Jan. 23, 2025	-	-	145683	-	2831	67458	-	-	3900	84956
Jan. 24, 2025	-	-	362107	-	3232	92874	-	-	6570	279035
Jan. 25, 2025	-	-	-	-	3351	53731	-	-	-	-50380
Jan. 26, 2025	-	-	-	-	3459	54345	-	-	-	-50886
SDF: Standing Deposit Facility; MSF: Marginal Standing Facility.										

Source: https://www.rbi.org.in/Scripts/BS_ViewWssExtractdetails.aspx?id=59652

TOP NON-BANKING FINANCE COMPANIES & MICRO FINANCE INSTITUTIONS NEWS

- **NBFCs' loan growth to ease to 17% in FY25 from 21% in FY24: Jefferies**

The loan growth of Indian Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) (excluding IFCs) will moderate to 17 per cent in FY25, down from 21 per cent in FY24, stated a report by Jefferies.

The report noted that this moderation is attributed to weaker credit demand due to softer macroeconomic conditions.

It said, "Growth to moderate and stabilize in FY26e at healthy levels. We expect sector loan growth (ex IFC) to moderate to 17 per cent in FY25e (21 per cent FY24) and stabilize near these levels in FY26e."

The report added that reduced lending to unsecured and microfinance loans (MFI), following the Reserve Bank of India's (RBI) guidance, and a cyclical slowdown in segments such as automobiles, has contributed to this moderation.

It added, "Growth moderation has been sharp in unsecured PL, consumer financing and MFI; moderation in other segments was relatively more modest during 1HFY25e."

The report also noted that Asset Under Management (AUM) growth for NBFCs is expected to slow to 20 per cent in FY25, compared to 24 per cent in FY24. However, HFCs may see improved AUM growth, rising to 12-13 per cent in FY26 from 11 per cent in FY24.

The report anticipated that economic activity will improve in FY26, supporting the stabilization of growth across the sector. Over the FY25-27 period, the coverage AUM (excluding IIFL) is projected to grow at a compound annual growth rate (CAGR) of 19 per cent, slightly higher than the 18 per cent expected in FY25.

The growth in loans for Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) has slowed to 20 per cent as of September 2024, compared to 22 per cent in March 2024.

The report highlighted that the slowdown has been most pronounced in unsecured personal loans, consumer financing, and MFI loans, while other segments have experienced relatively modest deceleration in growth during the first half of FY25.

Infrastructure finance companies (IFCs), which account for 30 per cent of NBFC/HFC credit, the Asset Under Management (AUM) growth for the sector has eased to 15 per cent in September 2024 from 18 per cent in March 2024

The report highlighted that the slowdown has been most pronounced in unsecured personal loans, consumer financing, and MFI loans, while other segments have experienced relatively modest deceleration in growth during the first half of FY25.

Infrastructure finance companies (IFCs), which account for 30 per cent of NBFC/HFC credit, the Asset Under Management (AUM) growth for the sector has eased to 15 per cent in September 2024 from 18 per cent in March 2024.

Incremental growth trends in 2025 are likely to vary by segment. While growth in unsecured loans and MFI loans is expected to remain subdued during the first half of the calendar year, the report added that segments like auto loans and others are likely to stabilize and potentially pick up if macroeconomic conditions improve as anticipated.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/nbfcs-loan-growth-to-ease-to-17-in-fy25-from-21-in-fy24-jefferies/articleshow/117192856.cms

- **Finmin to hold meeting with MFI players tomorrow**

Finance Ministry will hold a meeting with microfinance institutions (MFIs) on Wednesday amid rising bad loans and delinquencies across all types of lenders in the sector. According to sources, the Department of Financial Services Secretary is likely to chair the meeting with senior officials of MFIs here.

he meeting assumes significance as it comes with the sector showing signs of stress and rising delinquencies.

Credit to the microfinance sector by banks (including SFBs), NBFC-MFIs and other NBFCs has decelerated during the current financial year so far after witnessing rapid growth during the last three years, according to a latest report of the Reserve Bank.

"The microfinance sector is showing signs of stress, with rising delinquencies across all types of lenders and ticket sizes. During H1:2024-25, share of stressed assets increased, with 31-180 days past due (dpd) rising from 2.15 per cent in March 2024 to 4.30 per cent in September 2024," said the RBI's Financial Stability Report, December 2024.

Importantly, among borrowers who had availed loans from multiple lenders and those with higher credit exposure, impairment remained high.

RBI report said that alongside rising delinquencies, borrower indebtedness has risen notably: the share of borrowers availing loans from four or more lenders has increased from 3.6 per cent to 5.8 per cent during the last three years (September 2024 over September 2021).

Also, the quarterly average ticket size of microfinance loans disbursal has risen by 43 per cent over this period (Rs 35,299 in Q2:2021-22 to Rs 50,430 in Q2:2024-25).

A comparison across select Indian states indicates that indebtedness levels are unevenly distributed, with some regions exceeding the overall average, it said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/finmin-to-hold-meeting-with-mfi-players-tomorrow/articleshow/117026735.cms

- **Good news from RBI for these two NBFCs - Details**

Earlier on October 17 last year, the central bank had ordered these two NBFCs to "cease and desist from sanction and disbursal of loans" due to regulatory violations, effective from the close of business on October 21, 2024. Asirvad Micro Finance Limited, a microfinance institution (MFI) registered in Chennai, is a subsidiary of Manappuram Finance.

The Reserve Bank of India (RBI) removed supervisory curbs imposed on two non-banking financial companies (NBFCs) – Asirvad Micro Finance Limited and DMI Finance Private Limited with immediate effect, the bank said in a press today, January 8.

Earlier on October 17 last year, the central bank had ordered these two NBFCs to "cease and desist from sanction and disbursal of loans" due to regulatory violations, effective from the close of business on October 21, 2024.

In the press release, the RBI said that two companies initiated remedial action and submitted their various compliances to the bank.

“Now, having satisfied itself based on companies’ submissions, and in view of their adoption of revamped processes, systems, and the companies' commitment to ensure adherence to the Regulatory Guidelines on an ongoing basis, especially for ensuring fairness in the loan pricing, the Reserve Bank has decided to lift the afore-mentioned restrictions placed on both, Asirvad Micro Finance Limited and DMI Finance Private Limited, with immediate effect," the bank added in the press release.

"The business restrictions that were imposed on two other NBFCs vide Reserve Bank's orders dated October 17, 2024, viz. Navi Finserv Pvt Ltd and Arohan Financial Services Limited have been lifted vide our orders dated December 2, 2024 and January 3, 2025, respectively," it further said.

Asirvad Micro Finance Limited, a microfinance institution (MFI) registered in Chennai, is a subsidiary of Manappuram Finance.

Co-founded by Shivashish Chatterjee and Yuvraj Singh, DMI Finance is an investment and credit company (ICC) based in New Delhi. It specialises in personal and MSME loans.

Source: https://www.etnownews.com/companies/good-news-from-rbi-for-these-two-nbfcs-details-article-117058572

TOP INSURANCE NEWS

- **Budget 2025 can unlock new opportunities for insurance sector. What about 100% FDI?**

India Budget: The Indian insurance sector is at the cusp of a new growth trajectory that needs policy intervention by the government. The Union budget will provide an excellent opportunity to pump up the insurance sector, which is expecting a reduction in GST rates - to make health and term insurance more affordable, an increase of tax exemption to encourage people for buying insurance policies that would ultimately provide security, long-term capital and ease the inflationary effects on individual tax payers.

t may also help, if the Union budget provides incentives for insurance in rural India which will significantly impact expanding and promoting insurance in those areas where penetration is very low.

Budget's Vision: India as a Global Insurance Leader

India, which is ranked as the 10th largest insurance market globally, is projected to become the sixth largest by 2032. To reach that kind of growth, there is a need for more players, more technological advancements, and the use of digital to get into deeper pockets.

Budget to Drive FDI in Insurance

The government's proposed move to permit 100% Foreign Direct Investment (FDI) in the sector will help facilitate entry of more players into the Indian market, thereby ushering in a new wave of competition, innovation and growth.

In a capital-intensive market like insurance, the proposal will help inject substantial capital into the sector, enabling insurers to expand their operations, enhance their product offerings, and strengthen financial reserves.

Moody's recent ratings have highlighted significant foreign direct inflows into the insurance industry, if the government goes ahead with a proposal to increase the FDI from 74% to 100%. It can also impact improved margins for Indian insurers, listing of insurance companies and newer tax rules.

It will help in strengthening and modernizing the insurance industry and attract significant interest from global insurance players. Many international insurers can enter the Indian market which will drive Indian insurers to adopt global best practices in product and processes, innovation as well as cutting-edge technologies.

Insurance players globally have been undertaking significant strides on the technology front by betting big on advanced technologies such as AI, ML and big data analytics. These could help India's insurance sector by bringing in fresh perspectives on underwriting, claims management and customer service.

Along with this, the Bill also proposes allowing a single composite license for life, health, and general insurance, which will work as a one-stop shop for addressing consumers' needs, making it more convenient for them to access products for all their insurance and protection requirements.

Budget to Enable Composite Licenses and Reduce Entry Barriers

The proposal of differential capital and reduction in solvency norms will also help reduce entry barriers for new entrants into the market. All these measures put together, will help deepen the insurance market in India, leading to more innovation on the product front. For a country like India, which has a significant share of population living in the rural and semi urban markets, innovation on products to suit the varied needs of customers and proper pricing will play a crucial role in higher uptake of insurance products.

Budget to Revolutionise the Insurance Agent Model

The proposed regulations have also highlighted about allowing insurance agents to offer policies from multiple insurers, in place of the tied agency model. For decades, the insurance industry has been driven by the tied agent model, where agents promoted insurance products of the company they have been associated with. In most cases, consumers bought products which were encouraged by the agents and often ended up buying insurance, which did not suit to the best of their needs.

The proposal will help consumers receive multiple options for insurance products and they can choose the most suitable insurance, as per their requirements. The tied-agent model has not been able to reach more than 100 million consumers, residing in the top 50-60 cities. Over the years, the model has not succeeded in the smaller cities. Allowing insurance agents to offer multiple insurance policies, will help the sector reach out to those 700 million consumers, who need financial protection, but have not been reached out to.

With proposals to increase FDI limit, composite license, insurance agents being allowed to offer multiple insurance policies, expectations for reduction in GST; the insurance industry is filled with optimism for budget 2024-25. Most importantly, consumers should benefit from the budget and the industry should collectively look at increasing the insurance penetration beyond the current 3.7%.

Source https://economictimes.indiatimes.com/industry/banking/finance/insure/budget-2025-can-unlock-new-opportunities-for-insurance-sector-what-about-100-fdi/articleshow/117453252.cms?from=mdr

- **India's non-life Insurance industry may register double-digit growth in 2025**

Despite flat general insurance penetration in the country, the non-life insurers are expecting to register double-digit growth in 2025 with a conducive regulatory environment and launch of innovative products catering to specific customer needs, stakeholders said on Thursday. The industry is also expected to meet this expectation if it receives a favourable outcome on GST relief and a revisit of motor third-party rates, a top private insurer said.

"While health insurance will continue to drive growth in the coming years, there will likely be significant expansion in non-motor and non-health segments, such as pet insurance, liability, professional indemnity, and housing insurance," Future Generali India Insurance Company Ltd managing director & CEO Anup Rau said.

The industry estimates a 14 per cent annual growth rate and is expected will witness significant developments as the sector "emerges as a true partner in progress, integrating digital fabric, delivering hyper-personalised solutions, and harnessing the power of data to mitigate emerging risks", he said.

HDFC ERGO General Insurance Managing Director and Chief Executive Officer Anuj Tyagi emphasised the need to make insurance affordable and accessible.

"We anticipate increased innovation in product development, underwriting, and customer servicing, which will play a crucial role in deepening the reach of insurance to citizens not only from urban cities but also from tier 2 and 3 locations.

Bajaj Allianz General Insurance MD & CEO Tapan Singhel said the insurance industry is set to undergo transformative shifts, emphasising personalised and proactive offerings driven by digital innovation.

"Cyber insurance is expected to gain prominence alongside the adoption of parametric insurance for disaster management and surety bonds as alternatives to traditional bank guarantees in infrastructure projects," he said

The Insurance Regulatory and Development Authority of India (IRDAI), in its latest annual report, said that the insurance density in the non-life industry has increased to USD 25 up from USD 22 in 2022-23.

The insurance density is a measure of a country's insurance sector development, calculated as the ratio of premiums collected by companies to the country's population.

Rau pointed out that the industry will require support, particularly around GST and motor third-party rates to reverse the trend.

"Removing GST on health insurance would make it more affordable, driving higher penetration and reducing the government's burden to provide coverage. Motor third-party premiums have been unchanged for five years, these rates need to be revised," he pointed out.

Investment analysts are also banking on insurance stocks projecting growth due to the high probability of GST relief.

Rau highlighted the importance of leveraging digital public infrastructure (DPI) to reduce costs and extend essential insurance products to underserved areas.

Initiatives like 'Bima Sugam', 'Bima Vistaar', and 'Bima Vahaks' will pave the way.

According to a reinsurance major Swiss Re report, the insurance sector in India is projected to grow the fastest among the G20 countries, with the total premium estimated to grow at an average of 7.1 per cent as compared with the global average of 2.4 per cent between 2024 and 2028.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/indias-non-life-insurance-industry-may-register-double-digit-growth-in-2025/articleshow/116877720.cms?from=mdr

- **India to top G20 with 7.3% insurance premium growth over 2025-29: Report**

India's insurance market is projected to be the G20's fastest-growing economy over the next five years, with total premium volumes -- life and non-life -- up 7.3 per cent in real terms on average each year aided by macroeconomic stability and the conducive regulatory environment, a report said on Tuesday.

Life insurance, the mainstay of India's insurance market, accounts for 74 per cent of total premium volumes, according to a Swiss Re report on the insurance market outlook for India.

Life premiums are estimated to grow by 4.8 per cent in 2024 in real terms and by 5 per cent in 2025 (2025-29: 6.9 per cent), following a meagre 0.7 per cent growth in 2023, when the savings segment was adversely impacted by regulatory and taxation changes, it said.

The non-life insurance business is forecast to expand to 7.3 per cent (up from 5.7 per cent in 2024) on the back of rising risk awareness, robust economic growth and regulatory initiatives in support of digitalisation, it said.

Apart from health and motor - the largest lines of non-life business - penetration of agricultural insurance has improved with changes to the Pradhan Mantri Fasal Bima Yojana (PMFBY) in 2023, it said.

ndia is expected to surpass Germany and Japan to become the world's third-largest economy by the end of this decade, driven by domestic consumption, private investment and economic reforms. The economy will also derive support from steady global growth, forecast at 2.8 per cent in 2025 and 2.7 per cent in 2026.

"India's insurance market is projected to be the G20's fastest-growing market over the next five years, with total premium volumes (life and non-life) up 7.3 per cent in real terms on average each year. Growth underpinned by macroeconomic tailwinds, digitalisation progress and the conducive regulatory environment," it said.

The rapid pace of India's economic growth has moved faster than actions taken to reduce the vulnerabilities posed by natural catastrophes. Identification and accurate assessment of risk accumulation in hotspots is crucial to strengthening resilience and the re/insurance industry plays an important role, Swiss Re head (insurance market analysis) Mahesh H Puttaiah said.

India's fast-expanding economy creating risk hotspots, especially in some regions of Gujarat, Maharashtra, Tamil Nadu and Delhi, with high concentrations of industrial clusters, logistics infrastructure, renewable energy and other assets, which are vulnerable to flood and earthquake, among other risks, it said.

In 2023, it said, natural catastrophes in India resulted in economic losses of USD 12 billion, well above the previous 10-year average of USD 8 billion.

Source: https://www.business-standard.com/economy/news/india-to-top-g20-with-7-3-insurance-premium-growth-over-2025-29-report-125011400952_1.html

TOP CORPORATE BOND MARKET NEWS

- **Bullish momentum sends India 10-year bond yield briefly to 3-year low**

Indian government bond yields plunged on Monday, with the 10-year benchmark yield briefly sliding to a near three-year low after the central bank unexpectedly snapped up a large quantum of bonds.

The 10-year yield briefly dropped to 6.6465%, its lowest since Feb. 15, 2022. It was at 6.6775% as of 10:00 a.m. IST, compared with the previous close of 6.7206%.

As expected, there was a gap-down opening as the Reserve Bank of India's purchase was the trigger that the market was waiting for to cross 6.70% on the downside, a trader with a private bank said.

"But heavy selling from state-run banks means the downside would be now capped around 6.66%-6.68% range," the trader said.

The RBI bought bonds worth 101.75 billion rupees ($1.18 billion) in the secondary market in the week ending Jan. 17, its first such operation in over three years and signalling its intent to keep liquidity conditions easy.

Overall, the so-called 'others' category of investors, which includes the RBI, bought bonds worth around 200 billion rupees for that week, clearing house data showed.

This category purchased bonds worth 187 billion rupees last week. Whether the RBI bought bonds or not, and how much, will be known only on Friday.

Meanwhile, India's federal budget announcement is due on Feb. 1, with the main focus being the fiscal deficit and gross borrowing targets. That will be the next large trigger for bonds.

Market participants expect borrowing for the financial year starting April to be between 14 trillion rupees and 14.50 trillion rupees, compared with 14.01 trillion rupees for the current year. ($1 = 86.3690 Indian rupees)

Source: https://economictimes.indiatimes.com/markets/bonds/bullish-momentum-sends-india-10-year-bond-yield-briefly-to-3-year-low/articleshow/117597268.cms

- **India central bank opts for bond purchases in week to Jan 17**

MUMBAI, Jan 24 (Reuters) - The Reserve Bank of India (RBI) made net purchases of government bonds in the secondary market last week, marking the first such operation in over three years, data released on Friday showed.

The RBI net bought bonds worth 101.75 billion rupees ($1.18 billion) in the week ending Jan. 17. These purchases were spread across just three sessions: 25.70 billion rupees on Jan. 15, 44.80 billion rupees on Jan. 16, and 31.25 billion rupees on Jan. 17.

The settlement of such screen-based purchases occurs a day after the trade.

"This is definitely a big positive, and the quantum of purchases clearly indicates the intent and could be a signal for the market that the RBI is looking to proactively manage banking system liquidity," a senior treasury official said.

The central bank typically sells or buys bonds to adjust banking system liquidity and rates to align them with its monetary policy. However, these operations also impact yields.

The purchases incidentally were started close to the heels of the announcement of daily overnight variable rate repo auctions that the central bank has been conducting since last week.

India's banking system liquidity has stayed in deficit since the middle of December, and the shortfall was largely above 2 trillion rupees per day for the week to Jan. 17.

The so-called others category of investors, which includes the RBI, along with insurers and pension funds, net bought bonds worth around 200 billion rupees in the week ended Jan. 17, data from the clearing house showed.

In the July-September quarter, the central bank had net sold bonds worth over 240 billion rupees through screen-based operations when the policy stance was tightening.

Market participants anticipate the central bank's hand in the bond market for the current week as well, which will be clarified once the data comes out on Jan. 31.

($1 = 86.2150 Indian rupees)

Source: https://www.reuters.com/markets/rates-bonds/india-central-bank-opts-bond-purchases-week-jan-17-2025-01-27/

- **Bond market expects net borrowing of Rs 11 trillion in Union Budget 2025**

The government bonds market expects a continuation of the Centre's fiscal consolidation path in the upcoming Union Budget to be announced on February 1, with no significant changes expected in debt-related taxation policies, market participants have told Business Standard.

They expect the government to net borrow around Rs. 11 trillion through the issuance of bonds.

In the previous Union Budget for the current financial year ending March 2025, the government had proposed that starting October 1, 2024, investors could face a 10 per cent tax deducted at source (TDS) on investments in Central Government Securities and State Development Loans (SDLs). The government planned to borrow Rs. 14 trillion (gross) in the current financial year.

As fiscal consolidation progresses gradually, the net issuance of government securities should continue to decline, said experts. While gross issuance may increase slightly due to a larger number of bonds maturing in FY2026, it is expected to remain within levels seen in recent years. Demand for G-Secs might decrease due to fewer passive inflows. Although foreign demand has been weak at the start of the year, it is expected to improve as US yields decline.

Further, the fiscal deficit for FY2025 is expected to be slightly below the target, at 4.8 per cent of GDP, compared to the budget estimate of 4.9 per cent, mainly due to lower-than-expected spending. For FY2026, the government is likely to take a gradual approach to reducing the fiscal deficit, possibly setting a target of 4.5 per cent of GDP, in line with its medium-term plan.

“We expect the fiscal deficit for F2025 to be lower than target at 4.8 per cent of GDP (vs. budget estimate (BE) of 4.9 per cent) mainly due to lower than budgeted expenditure. For F2026, we anticipate the government will favour a gradual pace of fiscal consolidation with the fiscal deficit target to be set at 4.5 per cent of GDP, in line with the medium-term plan. With the path of gradual fiscal consolidation, net issuance of GSecs should continue declining,” says a report by Morgan Stanley.

“Gross issuance may pick up modestly due to the larger amount of bonds maturing in FY26, but should remain within the range of recent years. Demand for G-Secs in FY26 may decline alongside this with fewer passive inflows. Foreign demand has been weak to start the year, but we expect it to improve sequentially when US yields turn lower,” it added.

In the FY22 Union Budget, the Centre outlined a fiscal consolidation path through FY26, aiming to reduce the fiscal deficit to 4.5 per cent of GDP.

"There are not too many expectations from the Budget, it's just that the government may keep that right path on the fiscal deficit. Taxation for funds or debt investment, those things are probably going to remain unchanged," said a senior executive at a primary dealership.

With Rs 4.05 trillion worth of government bonds scheduled to mature in the next financial year, the government is expected to conduct more switch and buyback auctions.

"The redemptions will be taken care of with buybacks and switch auctions. The borrowing should be around net Rs 11 trillion," said the treasury head at a private bank.

Source: https://www.business-standard.com/budget/news/bond-market-expects-net-borrowing-of-rs-11-trillion-in-union-budget-2025-125012301454_1.html

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THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

4th Floor, YMCA Cultural Centre and Library Building, 01, Jai Singh Road, New Delhi – 110001

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