

RECENT DEVELOPMENTS IN INDIAN FINANCIAL SYSTEM

1. THE CONSTITUTIONAL VALIDITY OF THE AADHAAR SCHEME UPHeld BY SUPREME COURT

From now onwards, Aadhaar will not be mandatory for opening bank accounts, getting a phone connection or school admissions as per the constitutional validity of the Aadhaar scheme upheld by Supreme Court. Also, Aadhaar holder's data will not be disclosed on the grounds of national security.

2. RBI TO FORM REGULATORY SANDBOX FOR FINTECH AND TO SET UP DATA SCIENCE LAB

The Reserve Bank of India (RBI) has decided to form a regulatory sandbox for financial technology (fintech) and setting up of data science labs in order to keep pace with innovation in the digital lending space.

3. IRDAI TO MIGRATE TO RISK-BASED CAPITAL REGIME

Apex Insurance regulator IRDAI has decided to move towards the risk-based capital (RBC) regime in order to improve protection for policyholders. This shift in regime was done because of the reason that current Solvency Based Rules were not helpful in assessing whether the capital held is adequate enough for the risks inherent in the insurance business. But, if risk-based capital system is there, then additional capital will not remain idle.

4. LIQUIDITY BOOST: RBI INCREASED SLR UNDER THE BASEL-III CALCULATIONS

RBI has increased the amount of statutory liquidity ratio (SLR) with a further 2 per cent increase in the treasury holdings of banks as high-quality liquid assets (HQLAs) under the Basel-III calculations, potentially releasing up to Rs 2 lakh crore. Now, banks can consider as HQLAs to 15 per cent of their total deposits from 13 per cent earlier. Also, Banks have to mandatorily invest 19.5 per cent of their total deposits in government securities.

It is important to note that, under the Basel-III rules, banks have to invest a part of their funds into liquid securities which make up a liquidity coverage ratio (LCR). Earlier in June 2018, RBI had allowed banks to consider 13 per cent of total deposits as HQLAs, up from 11 per cent.

5. GOVERNMENT TO SET UP INDEPENDENT PAYMENTS REGULATORY BOARD (PRB) IN RBI

Finance Minister has proposed to create a six-member independent Payments Regulatory Board (PRB) in the RBI, in order to bring about structural reforms in the payment and settlement system. For the purpose, necessary amendments have been proposed in the Finance Bill 2017 to create a Payments Regulatory Board in the Reserve Bank of India by replacing the existing Board for Regulation and Supervision of Payment and

Settlement Systems (BPSS). As per the Finance Bill, the Reserve Bank of India will be the designated authority for the regulation and supervision of payment systems. Also, The RBI Governor will be the Chairperson, ex officio.

6. 20 LAKH PEOPLE JOIN MODIFIED JANDHAN SCHEME, TOTALLING ACCOUNT HOLDERS TO 32.61 CRORES

As per the latest data released by the Finance Ministry, 20 lakh people have joined the modified Pradhan Mantri Jan Dhan Yojna (PMJDY), taking the total number of account holders in this flagship financial inclusion programme to 32.61 crore. The government earlier this month relaunched PMJDY as an open-ended scheme with higher insurance cover and doubles the overdraft (OD) facility.

Under the revamped scheme, accidental insurance cover for new RuPay card holders has been revised and raised from Rs 1 lakh to Rs 2 lakh. Also, the existing Overdraft limit of Rs 5,000 has been increased to Rs 10,000 where no conditions will be attached for overdraft up to Rs 2,000.

PMJDY was launched in August 2014, the first phase of which focussed on opening basic bank accounts and RuPay debit card with in-built accident insurance cover of Rs 1 lakh. Phase II begins in August 15, 2018 to provide micro-insurance to the people and pension schemes to unorganised sector workers through Business Correspondents. It is important to note that about 53 per cent of PMJDY account holders are women, while 83 per cent of the total accounts are seeded with Aadhaar.

7. NPCI: ECONOMIC TIMES AWARDS 2018 FOR CHANGE AGENT OF THE YEAR

National Payment Corporation of India has been honored with Economic Times Awards 2018 for Change agent of the year. Ranging from creating the National Financial Switch for all ATM transactions and a centralised cheque clearance mechanism to the IMPS instant bank-to-bank fund transfer and smartphone-based Unified Payments Interface (UPI), NPCI is an umbrella organization to cater to the varied payment needs of the Indian public. Dilip Asbe is the current CEO of NPCI.

8. PM LAUNCHED THE INDIA POST PAYMENTS BANK (IPPB) IN NEW DELHI

Prime Minister Narendra Modi has launched the long awaited India Post Payments Bank (IPPB) in order to ensure financial inclusion for the masses. The event was held at Talkatora Stadium in New Delhi. IPPBs will have 650 branches in the country to provide an accessible, affordable and trusted bank for the common man. The Government owns 100 per cent equity in IPPBs and also all the 1.55 lakh post offices in the country will be linked to the IPPB system by December 31, 2018. IPPB will offer a wide variety of products including savings and current accounts, money transfer, direct benefit transfers, bill and utility payments, and enterprise and merchant payments. Also, Cabinet has approved the 80 per cent increase in spending for IPPB to compete aggressively with existing players like Airtel Payments Bank and Paytm Payments Bank.

9. INDIA TO BECOME ONE OF WORLD'S BLOCKCHAIN LEADERS BY 2023

With the right amount of industry and government participation, India could be in leadership ranks in adoption of blockchain technology in the next five years, a survey by global consultancy firm PwC. A blockchain is an open distributed ledger technology that stores information across multiple systems securely to enable peer-to-peer transactions by creating a trustworthy source. Banks and other financial institutions

are investing in blockchain technology as it cuts down their costs and makes their operations faster and more transparent.

10. RBI TO CONDUCT OMO TO INFUSE LIQUIDITY

Based on the assessment of prevailing liquidity conditions in the economy, the Reserve Bank has decided to conduct purchase of government securities under Open Market Operations for an aggregate amount of Rs 100 billion (Rs 10,000 crore). Open Market Operation is a monetary policy tool used by central bank to either inject or drain liquidity from the economy. If there is excess liquidity, the RBI resorts to sale securities and sucks out the rupee liquidity. Similarly, when the liquidity conditions are tight, it starts purchasing securities from the market, thereby releasing money into the market.

11. GOVERNMENT DEVELOPS NATIONAL LOGISTICS PORTAL

Union Ministry of Commerce and Industry has developed National Logistics Portal to ensure ease of trading in international and domestic markets. It will be implemented in phases with the objective to fulfil Central Government's commitment to enhance trade competitiveness, create jobs, boost India's performance. Also, In 2018-19 budget speech, Union Finance Minister had announced that Department of Commerce will create portal which will be single window online market place for trade.

12. DBS BANK: BEST BANK IN THE WORLD

DBS Bank has won the prestigious Best Bank award by Global Finance in its World's Best Global Banks 2018 Awards.

DBS bank is increasingly gaining international recognition and stature on the world stage, particularly for its leadership in digital transformation. Also, in July 2018, the bank was crowned World's Best Digital Bank by Euromoney for the second time in three years. DBS is a leading financial services group in Asia, that has 280 branches across the world with its Headquartered in Singapore. Also, the bank has also been named as the "Safest Bank in Asia" by Global Finance for nine consecutive years from 2009 to 2017.

13. RBI LIBERALISES EXTERNAL COMMERCIAL BORROWINGS (ECBs) TO CHECK

RUPEE DEPRECIATION

The Reserve Bank of India (RBI) liberalises some aspects of the external commercial borrowings (ECBs) policy including those related to rupee-denominated bonds to help check rupee depreciation. Presently, domestic banks can act as arranger and underwriter for rupee denominated bonds (RDBs), also known as masala bonds, issued overseas, and their holding cannot be more than five per cent of the issue size after six months of issue as an underwriter. Now Indian banks have been permitted to participate as arrangers/underwriters/market makers/traders in RDBs issued overseas subject to applicable prudential norms. Government also exempted tax on interest payable by Indian companies to non-residents, including foreign companies, on borrowings through off-shore rupee denominated bonds issued till March 31, 2019. Till now, interest payable on these bonds issued before July 1, were subject to a concessional rate of tax of five per cent.

14. RESERVE BANK APPROVES LICENCE FOR PAY U TO OPEN NBFC ARM

PayU India has received a licence from the Reserve Bank of India to operate its own non-banking financial company, a development that will provide a big boost to the fintech in growing its consumer credit business. Pay U India, which processes monthly payments of about Rs 8,000 crore, derives only about 2% of its overall revenue from its credit businesses currently. Also, Flipkart-owned PhonePe has also partnered with Pay U to get enlisted as a payment mode for all merchants using the payment gateway for online transactions.

15. FINANCE MINISTRY MOVES TO DECLUTTER DRTs TO EASE DEBT RECOVERY

The government decided to double pecuniary limit to Rs 20 lakh for filing applications with Debt Recovery Tribunal (DRTs), following the amendment to rules of Recovery of Debts due to Banks and Financial Institutions Act, 1993. As a result, any bank or financial cannot approach DRTs if the amount due is less than Rs 20 lakh. To make the tribunals more effective and to facilitate fast disposal of debt recovery cases, the government has made several amendments in different laws, including the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.

16. BOB, VIJAYA AND DENA BANK MERGER: PROPOSAL TO CREATE SECOND LARGEST PSU LENDER

Government has decided to merge the three PSBs namely, BoB, Vijaya and Dena Bank to pursue banking sector reforms. The government announced the merger of Bank of Baroda, Vijaya Bank and Dena Bank to create the country's second-largest public sector bank by assets and branches and the third largest lender in the country. As on April 2017, State Bank had merged with five of its subsidiary banks and took over Bharatiya Mahila Bank. It is important to note that after the merger of BoB, Vijaya Bank and Dena Bank, the number of public sector banks will come down to 19.