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NEWSLETTER

on Developments in Banking and Insurance Law

This newsletter is an initiative by the Centre for Banking and Insurance Laws, National Law University, Odisha, in furtherance of its aim to advance education, research and analysis in Banking and Insurance Laws.

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EDITORIAL: PROGRAMMABILITY AND OFFLINE FUNCTIONALITY IN CENTRAL BANK DIGITAL CURRENCY (CBDC) PILOT

Akhil Raj

Central Bank Digital Currency (CBDC) has again become a buzzword in the banking industry after the recent discussion around it by the Reserve Bank of India (RBI) in its Statement on Development of Regulatory Practices. The CBDC is not a novel concept, as the RBI had already introduced it in 2022 through a pilot program. While the article aims to explore the potential advantages of programmability and offline functionality in the CBDC ecosystem, it is crucial to acknowledge that the necessity and practicality of such a digital currency in India remains debatable.

INDIAN DIGITAL CURRENCY: THE FRAMEWORK

CBDC is a digital form of legal cash that is issued by the central bank itself, according to the RBI. It can be traded for the current fiat currency at par and has the same worth as real sovereign money. A CBDC would be different from the digital money that is currently in use in India, even though it is widely accepted in the form of bank account balances that are electronically recorded in commercial bank ledgers. The main contrast is that, unlike commercial banks, a CBDC would be a direct liability of the RBI.

A CBDC would essentially be a digital version of central bank-issued currency, with the same legal tender status as actual cash but in a format that is directly guaranteed by the RBI. Digital money already exists in India through commercial bank account balances.

DIGITAL RUPEE PROGRAMMING: UNLOCKING NEW APPLICATIONS & ADVANTAGES

In India, the cost of cash management has remained high. From April 1, 2021, to March 31, 2022, ₹4,984.80 crore was spent on security printing overall, compared to ₹4,012.10 crore from July 1, 2020 to March 31, 2021. Four main parties bear the majority of this expense

which excludes the Environmental, Social, and Governance (ESG) cost of money printing: the general people, businesses, banks, and the Central Bank. The entire value of the money-issuing function is impacted by CBDC to the degree that it lowers operating expenses, such as those connected with printing, storing, transporting, and replacing banknotes as well as costs related to delays in reconciliation and settlement.

Since CBDCs are final, the financial system's risk of settlement is decreased. By offering market participants an array of settlement options, such as settlement in commercial bank accounts with or without clearing corporations, or settlement on a bilateral basis without the use of a central counterparty by directly using CBDC accounts, CBDC will eliminate the need for interbank settlement. It is comparable to a cash-based transaction in which CBDC is given in lieu of banknotes, resulting in immediate settlement.

Financial Inclusion is something which is projected to be one of the biggest achievements for the CBDC as it aims to make financial services as well as instruments more accessible for the unbanked population. By offering the option of offline functioning, CBDCs can be transacted without an internet connection, facilitating access in areas with non-existent internet service. Additionally, it will build electronic footprints of the unbanked population within the financial system, making loans easier to obtain for them.

REDUNDANCY OF CENTRAL BANK DIGITAL CURRENCY IN INDIA'S ESTABLISHED FINANCIAL LANDSCAPE

The Elephant in the room is that does India actually need CBDC when there already exist other forms of payment systems and are functioning quite smoothly. To comprehend the practical differences, it might or might not create, we need to understand how CBDC has performed in other countries.

There are only 3 countries in the world where the CBDC has been launched in any form, i.e., Nigeria, Bahamas and Jamaica. It is also to be mentioned that, in Nigeria, the currency has failed miserably to gain any sort of popularity among the Nigerian population as less than a percent of the population has adopted it. The adoption rate and the practical use are quite limited in the Bahamas and Jamaica as well.

However, since the economic condition of every country including the stability and growth along with the

political set-up is quite unique to that country, hence leaping on any conclusion based on broad analogies would be erroneous.

In India, it is to be mentioned that internet penetration has grown rapidly over the years. Due to this, in recent times, India's digital payment ecosystem has experienced significant expansion and advancement, with the Unified Payments Interface (UPI) emerging as a transformative tool. Indians' financial transactions have undergone a transformation, thanks to UPI's smooth, cost-effective, and real-time features, which have closed the gap between traditional banking systems and the digital sphere. Considering how widely accepted and successful UPI has been, the launch of a Central Bank Digital Currency (CBDC) in India can be viewed as a pointless and ineffective endeavour.

Furthermore, smooth online transactions are one of the main benefits that CBDCs are praised for. But the UPI ecosystem has already done a remarkable job of achieving this goal. In March 2023 alone, UPI transactions crossed the 100 billion mark, solidifying its position as the foundation of India's digital payment ecosystem. Currently, over 560 banks and financial institutions are active on the network. Because of its intuitive interface, bank-to-bank interoperability, and real-time settlement, it is now the go-to option for both merchant and peer-to-peer (P2P) transactions.

Apart from this, as per the Concept Note released by RBI, there can be primarily two models through which the CBDCs can be issued, one is the "Direct Model", i.e., Single Tier Model and the other is the "Indirect Model", i.e., Two-Tier Model. In a direct model, the RBI would be in charge of overseeing the issuance, account maintenance, and transaction verification of the CBDC system. The RBI and other intermediaries, such as banks and other service providers, each have their specific function under an indirect model. In this approach, the RBI solely manages wholesale payments to intermediaries; it does not directly issue CBDC to consumers through intermediaries, and the intermediary is responsible for managing any claims made by consumers.

It is important to note that both models present additional burdens on the respective entities involved. In the Direct Model, the RBI would bear the brunt of overseeing the entire CBDC ecosystem, potentially diverting resources from its core functions and responsibilities.

On the other hand, the Indirect Model would place significant operational and compliance burdens on commercial banks and service providers, as they would be tasked with managing customer accounts, facilitating transactions, and ensuring adherence to regulatory requirements.

Under the "indirect CBDC" approach, customers would keep their CBDC in a bank or service provider's account or wallet. The intermediary, not the RBI, would be responsible for providing CBDC upon demand. Only the intermediaries' wholesale CBDC balances would be monitored by the central bank. The creation and maintenance of a wallet with a bank would actually hinder financial inclusion in a country where a large segment of population does not have a basic savings account, it is unreasonable to expect that wallets would be opened and maintained by people. Not to mention that, UPI transactions actually increases the banking population without need of any separate wallet as transaction can be routed between two different bank accounts directly.

Regardless of the model adopted, the introduction of CBDC would necessitate robust risk management frameworks, cybersecurity measures, and comprehensive regulatory oversight to ensure the integrity, security, and efficiency of the digital currency system. Additionally, the potential impact on existing financial infrastructure, interoperability with existing payment systems, and the overall cost-benefit analysis would need to be carefully evaluated before implementing either model on a large scale.

Apart from all these disadvantages, offline which is being touted as a remarkable development for increasing the accessibility of the currency would actually encounter scaling challenges, especially in a vast and populated nation like India as the user base expands, handling the distribution, circulation, and settlement of offline transactions may become more difficult and resource-intensive. Besides, an offline CBDC system may lack real-time monitoring capabilities, making it more challenging to track and analyse transactions.

CONCLUSION: A CAUTIOUS APPROACH TO CBDC IMPLEMENTATION IN INDIA'S EVOLVING DIGITAL LANDSCAPE

Although the notion of Central Bank Digital Currency (CBDC) has potential advantages such as programmability, offline functioning, and financial inclusion, there are various problems regarding its

implementation within India's established digital payment environment.

Given the incredible success of the Unified Payments Interface (UPI) and its broad uptake, establishing a CBDC might be a pointless endeavour that yields little to no added benefit. Furthermore, the businesses involved in the direct and indirect models of CBDC implementation face operational difficulties and regulatory obligations.

Before implementing CBDC on a large scale, policymakers and regulators must carefully consider the potential impact on the current financial infrastructure and perform a thorough cost-benefit analysis. To ensure that CBDC is successfully adopted and integrated into India's developing digital economy, there should be a strong need for it to be introduced rather than just following international trends.

RBI's New Disclosure Framework on Climate-Related Financial Risks: Navigating the Path to a Sustainable Future

Ekta Gupta

The Reserve Bank of India (RBI) has recognised the rising threat posed by climate change and its significant effects on the financial sector by introducing a groundbreaking Disclosure Framework on Climate-Related Financial Risks. This innovative initiative seeks to promote accountability and transparency while providing regulated enterprises (REs) with a strong framework to recognise, evaluate, and reduce financial risks associated with climate change.

CLIMATE-RELATED FINANCIAL RISKS: A LOOMING CHALLENGE

Financial risks associated with climate change include the possibility of incurring expenses and losses due to the physical effects of climate change, such as extreme weather occurrences, as well as the shift to a low-carbon economy. The operations, investment choices, and general financial stability of REs are all impacted by these risks, which present serious difficulties to them.

The RBI's instructions highlight the necessity for REs to establish thorough financial risk management policies and procedures connected to climate change, acknowledging the importance of tackling these risks.

KEY HIGHLIGHTS OF THE DISCLOSURE FRAMEWORK

Governance, Strategy, Risk Management, and Metrics and Targets are the four thematic pillars for disclosure that are outlined in the framework. By offering a standardised method for REs to reveal their financial risks and possibilities associated with climate change, these pillars promote transparency and help stakeholders make well-informed decisions.

1. Governance: To supervise climate-related matters, REs are required to reveal their governance framework, procedures, and controls, along with the functions and duties of the board and upper management.

2. Strategy: Taking into account short, medium, and long-term timeframes, REs must develop strategies for managing financial risks and opportunities associated with climate change. This involves evaluating the resilience of their plans to various climate scenarios.

3. Risk management: In addition to explaining how these procedures are incorporated into their broader risk management framework, REs are required to reveal the methods they use to detect, evaluate, prioritise, and track financial risks associated with climate change.

4. Metrics and Targets: The measures that REs employ to evaluate the financial risks and opportunities associated with climate change, as well as their performance in relation to any objectives they have established or are mandated by law or regulation to accomplish, should all be disclosed.

IMPACT ON THE FINANCE SECTOR

An important first step in mainstreaming climate risk considerations in the Indian financial industry is the establishment of this disclosure system. For banks, non-banking financial firms (NBFCs), and other regulated businesses, it will have significant ramifications.

1. Risk Management Overhaul: To successfully identify, analyse, and mitigate climate-related financial risks, REs will need to rigorously examine and improve existing risk management frameworks. This might entail creating fresh approaches to risk assessment, adding scenarios related to climate change, and incorporating climate concerns into already in-place risk management procedures.

2. Strategic Alignment: To make sure that their investment portfolios and business plans are in line with the opportunities and threats associated with climate change, REs must reevaluate them. Prioritizing sustainable investments, diversifying portfolios, and exploring innovative business models that support the transition to a low-carbon economy are some approaches to align practices with environmental sustainability objectives.

3. Data and Reporting Challenges: Complying with the disclosure requirements will necessitate the collection, analysis, and reporting of comprehensive climate-related data, which may pose challenges in terms of data availability, quality, and consistency.

THE FUTURE PATH FOR BANKS

The disclosure structure offers possibilities as well as difficulties to banks. To take climate-related risks into account, they will need to improve their risk management procedures, stress testing techniques, and portfolio management strategies., on the one hand. This might require additional resources and funds. However, banks that successfully

manage and disclose their financial risks associated with climate change may be able to attract investors and customers who understand the environment-related aspects, giving them a competitive edge.

CONCLUSION

The RBI's Disclosure Framework on Climate-Related Financial Risks is a landmark initiative that reflects the growing recognition of climate change as a systemic risk to the financial sector. An important step in acknowledging climate change as a systemic risk to the financial sector is the RBI's Disclosure Framework on Climate-Related Financial Risks. The framework seeks to promote a stronger and more resilient financial sector that can handle the possibilities and challenges brought about by climate change by requiring public disclosures. However the main challenge to the success of this initiative is its implementation through REs.

INDIA'S CENTRAL BANK OPTS FOR $5 BILLION DOLLAR/RUPEE SWAP DELIVERY TO BOLSTER RESERVES AND LIQUIDITY

Arjim Jain

INTRODUCTION

The Reserve Bank of India (RBI) recently made a strategic decision not to extend a $5 billion dollar/rupee swap that matured in March 2022. Instead, it opted to take delivery of the swap, a decision aimed at reinforcing foreign exchange reserves and enhancing rupee liquidity. This action signifies a significant step in the central bank's efforts to manage currency stability and liquidity amidst impending financial obligations.

BACKGROUND

The dollar/rupee sell-buy swap, conducted by the RBI in March 2022, reached maturity on 11 March 2024, offering the central bank several options: to take delivery of the swap, roll it over entirely, or pursue a partial rollover. In this instance, the RBI chose to take delivery, effectively withdrawing $5 billion from the system while injecting commensurate liquidity.

UNDERSTANDING DOLLAR-RUPEE SWAP AUCTIONS

Dollar-Rupee swap auctions are a way for the central bank to trade currencies with commercial banks. In simple terms, the central bank can either buy dollars by giving rupees to banks or sell dollars, taking rupees from them. These swaps help control how much money is available in the economy and keep exchange rates stable. A notable aspect is that all the terms of these transactions are predetermined, eliminating the risk of financial loss due to fluctuating exchange rates.

IMPLICATIONS

This recent conclusion of a $5 billion dollar-rupee swap auction as part of its *liquidity management* initiative carries significant implications for the financial landscape. Liquidity management refers to the central bank's efforts to control the availability of funds within the banking system, ensuring a balance between excess and insufficient liquidity. This is vital for maintaining financial stability and facilitating economic transactions.

Firstly, the primary objective behind such auctions is to regulate liquidity within the banking system. By carefully managing the availability of funds, the RBI aims to ensure that there is neither an excess nor a shortage of liquidity, which is crucial for maintaining financial stability and facilitating economic transactions.

Secondly, these swap auctions play a vital role in stabilizing the exchange rate between the dollar and the rupee. Through these transactions, the RBI can influence the value of the rupee against the dollar, thereby promoting stability in the currency markets. This stability is essential for businesses engaged in international trade and for investors holding assets denominated in different currencies.

Thirdly, the swap auction also has implications for inflation management. By infusing dollars into the system while simultaneously reducing the amount of rupees available, the RBI aims to mitigate inflationary pressures. Controlling liquidity levels can help manage inflation, particularly in situations where rising prices pose a threat to the economy's overall stability and growth prospects.

Fourthly, the infusion of dollars into the system through these swap auctions is expected to strengthen the rupee. This is particularly relevant in situations where the rupee may face depreciation pressures due to factors such as capital outflows or geopolitical uncertainties. A stronger rupee can enhance investor confidence, attract foreign investment, and contribute to overall economic stability.

auction, as reflected in the bids received and accepted, is indicative of market confidence in the RBI's actions and its ability to manage liquidity effectively. A positive market response can bolster investor sentiment and contribute to overall market stability, reinforcing the central bank's efforts towards maintaining a robust financial ecosystem.

CONCLUSION

In conclusion, the RBI's choice to take delivery of the $5 billion dollar/rupee swap demonstrates a strategic move to fortify foreign exchange reserves and enhance rupee liquidity. This decision aligns with the central bank's objectives of maintaining currency stability and ensuring adequate liquidity in the financial system, particularly crucial in the face of impending financial obligations.

MASTER DIRECTION- RBI (BHARAT BILL PAYMENT SYSTEM) DIRECTIONS, 2024

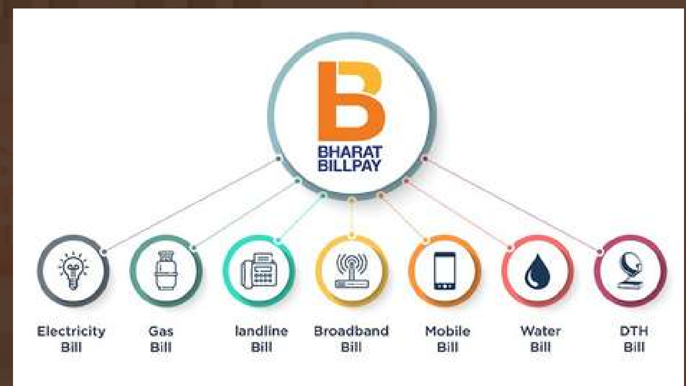
Snigdha Dash

INTRODUCTION

The RBI has issued revised guidelines for the Bharat Bill Payment System (BBPS) to improve efficiency and customer protection. The directions, applicable to NPCI and Bharat Bill Pay Limited (NBBL), outline roles and responsibilities for Bharat Bill Payment Operating Unit (BBPCOU), Biller Operating Units and CO encompassing rule-setting, biller onboarding, customer interfaces, compliance, settlement, and dispute resolution. In common parlence, BOUs, and COUs are licensed entities (usually banks) who can offer BBPS services to other businesses.

Non-bank BBPOUs are mandated to open escrow accounts exclusively for BBPS transactions, regulated under the Payment and Settlement Systems Act (PSS Act). These measures aim to streamline bill payments, encourage participation, and enhance security within the BBPS ecosystem.

The rules are already in execution, now it is the users' turn which will be those working in the BBOS ecosystem, so BBPCU, BOU, and COU. While regulations in many aspects are meant to implement such procedures entails regulation development, license issuance to business entities, consumer interface and etc. the BBPS framework should have such disciplined subsystems, hence the entities should only open escrow accounts whenever they meet the demands of their clients if they wish to be part of the BBPS. In addition, such methods of payments can be seen as the main players, because providing this kind of payment service becomes the main goal of the BBPS system.



KEY FEATURES AND POTENTIAL RAMIFICATION:

1. Efficiency Enhancement and Customer Protection: In addition, it hits the nail on the head that the public hardly notices that the Boards of Directors' mission really reflects special and narrow objectives whenever efficiency and safety of customers especially comes into consideration when the BBPS issue arises in recent

time. Nonetheless, the trust which the RBI had on the “BBPS structure” was that some operations and functions of BOUs, COUs and BBPCUs would be fulfilled at the bottommost level because each has an operating control.

2. Rule-setting and Compliance: The RBI's directions regard, extensive rules-setting aspects that function to keep uniformity in the processes, transparency in information, and compliance with regulations among the BBPS ecosystem. It attempts to achieve mitigation of hazards associated with the operational problems and non-compliance risks with establishing clear rules such as the biller onboarding, customer interfaces, compliance protocols, etc. These policies are not only in conformity with the regulatory framework but also enhance the trustworthiness and reliability of BBPS.

3. Settlement Mechanisms: According to the revised guidelines the BBPS will now only operate through bank based BBPOUs. Thus, any other kind of service provider will need to operate customer escrow accounts where dedicated to BBPS transactions. The operations of BBPS will remain under the control of the PSS Act. It is an indication that "the RBI placed strong emphasis on necessary criteria such as robust settlement mechanisms which help to eliminate counterparty risks and preserve the integrity of financial transactions within the BBPS network". Regardless of ensuring the due combing with rules, the RBI encourages staying with legal requirements as it enables to maintain greater stability in the settlement process and eventually paves the way of smooth bill payment.

4. Encouraging Participation: The RBI’s role in facilitating the ease of bill payment process through the BBPS structure intends to increase participation in the national bill payment system not only among consumers but also service providers. Through the boosting of performance, enforcement of customer protection and encouragement of regulatory compliance, the RBI aims to set an environment whereby all major players can evenly contribute to the overall system of BBPS. The effect, by extension, shall lead to huge demand for digital payment outlets, financial services penetration, and trigger economic growth.

CONCLUSION:

The RBI’s amendments in the Bharat Bill Payment System (BBPS) pave the way to uniting all settlement and collection processes including providing secured facility to the customers in case of electronic payments. Additionally the setting of a framework for settlement mechanisms and customer protection would demonstrate that the RBI is firmly prepared to increase the degree of

credence, belief and involvement in the BBPS channel. Going forward, ACH payments, mobile banking, and e-wallet systems are all examples of measures that aspire to make bill payments not only quicker and more convenient, but also increase the digital adoption that is essential for the inclusive society of the nation.

ELECTORAL BONDS AND BANKING LAW: UNMASKING THE VEIL OF ANONYMITY

Subhashmin Moharana

The Supreme Court of India delivered a significant judgment on February 15, 2024, declaring the electoral bond scheme unconstitutional. This scheme allowed corporations and individuals to anonymously donate money to political parties by purchasing electoral bonds from the State Bank of India (SBI). However, the court found that the anonymity of donors in electoral bonds violated the Right to Information under Article 19 (1) (a)of the Indian Constitution.

ELECTORAL BONDS:

The scheme allowed donors to contribute funds to political parties without revealing their identities. Corporations and individuals could purchase electoral bonds from the SBI. The SBI had sole access to the details of those who purchased electoral bonds. Proceeds from uncashed bonds were to be deposited in the Prime Minister Relief Fund. The scheme aimed to address opacity in political parties' funding. Political parties need funds for various purposes, including running offices, campaigns, and publicity. They raise money through donations from individuals, corporations, and membership.

BANKING LAWS IMPLICATIONS:

The SBI, as the authorized issuer of electoral bonds, played a central role in the scheme. The court's ruling impacts the SBI's operations and responsibilities. The bank must now comply with the court's directive to disclose details of electoral bonds purchased and redeemed.

According to data released by the Election Commission of India (ECI), the total amount of electoral bonds redeemed by political parties exceeds the amount of bonds purchased. While political parties redeemed bonds worth over ₹12,769 crore, companies and individuals bought bonds worth around ₹12,155 crore. The discrepancy could be due to the SBI releasing data only from April 12, 2019. The court's ruling emphasizes on clarity, but the SBI's separate lists of purchasers and redeemers make it challenging to establish clear links between donors and recipients. The court's decision aims to uphold voters' right to know about potential quid pro quo arrangements between parties and corporate interests.

WHY WAS SBI CHOSEN FOR THIS PURPOSE?

The SBI is one of the oldest and most reputable public sector banks in India. Its extensive network, experience, and credibility made it a suitable choice for managing financial transactions related to political funding. As a government-owned bank, the SBI is perceived as a neutral institution. Political parties and donors could trust that the bank would handle electoral bonds impartially. The SBI's widespread branch network across the country allowed for efficient distribution and redemption of electoral bonds.

It ensured accessibility for both donors and political parties. The SBI's role in issuing electoral bonds allowed for anonymity. Donors could contribute without revealing their identities, maintaining confidentiality. Being a nationalized bank, the SBI operates under strict regulatory supervision. This oversight ensured compliance with legal requirements and transparency.

TECHNICAL HURDLES:

The SBI is required to provide information about electoral bonds to the ECI within three weeks from the date of the judgment. The ruling aims to enhance transparency in political funding. The SBI's compliance with disclosure requirements will be closely monitored. The SBI's claim of being unable to disclose requisite data within the prescribed time frame raises questions. Implementing transparency measures requires cooperation from all stakeholders.

THE ROAD AHEAD:

The Supreme Court of India is burdened to ensure compliance with its ruling. Citizens should demand transparency in political funding. Balancing transparency with donor privacy remains a challenge.

In conclusion, the Supreme Court's verdict is a significant step towards strengthening democratic processes and upholding voters' right to information. The banking sector plays a crucial role in ensuring transparency and accountability in political financing.

RBI'S NEW GUIDELINES FOR CREDIT CARDS

Mallika Jain

The Reserve Bank of India (RBI, in exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and Chapter IIIB of the Reserve Bank of India Act, 1934, has adjusted its regulations regarding credit cards, potentially offering increased authority over the duration between credit card statements. Formerly, banks determined this duration. The amendments to the 'Master Direction on Credit and Debit Cards' by the RBI could permit greater adaptability. It's crucial to arrange the billing cycle to ensure effortless payment of the credit card bill.

For individuals utilizing a credit card, it's common knowledge that timely bill payment is essential. Failure to meet the credit card bill's deadline will result in a credit score repercussion. Additionally, exceeding the due date by will incur a substantial late fee. Frequently, individuals obtain credit cards with due dates incongruent with their cash flow, heightening the likelihood of missing payments. Thus, ensuring the billing cycle aligns with one's ability to pay the credit card bill promptly is imperative.

The Reserve Bank of India (RBI) has directed credit card providers to offer customers the ability to change their credit card billing cycle at least once. In a revision to the 'Master Direction - Credit Card and Debit Card - Issuance and Conduct Directions, 2022' unveiled on March 7, 2024, the central bank stated, "To enhance flexibility in this matter, cardholders will be given the opportunity to adjust the credit card billing cycle at least once, according to their preference."

Previously, the regulation stated, "To enhance flexibility in this matter, cardholders will be given a one-time opportunity to adjust the credit card billing cycle according to their preference." Thus, before, card issuers were obligated to offer a "one-time option" for cycle alteration. Now, the regulation states that the ability to modify the credit card billing cycle is permitted "at least once".

ADVANTAGES OF ADJUSTING CREDIT CARD BILLING CYCLES FOR THE CUSTOMERS:

A billing cycle, also known as a billing period, denotes the duration between two statement dates. A statement date marks the issuance of your credit card bill for the current month. Typically, the due date of your credit card bill falls

within 15-20 days after the statement date, affording credit card users an interest-free period spanning 45 to 50 days. When you modify your billing date, the corresponding due date for your credit card payment will adjust accordingly.

CREDIT CARD RULE CHANGE: MANAGING MULTIPLE CREDIT CARDS

Even with reminders or auto-debit, juggling multiple due dates can be arduous. Missing payments incurs high interest and late fees. Furthermore, it negatively impacts your credit score. Insufficient bank account funds for auto-debit trigger additional bank fees. Hence, if possible, customize single or multiple credit card due dates to suit your needs. Consolidating payments may save time and hassle for some, while for others, it could strain finances at month-start. Staggering payments eases management, like one on the 5th and another on the 20th.
"Before requesting billing cycle adjustments, consumers should assess their financial commitments carefully," advises Jitendra Dhaka, Founder of BankSathi.

HOW TO MODIFY CREDIT CARD BILLING CYCLES AND DUE DATES?

Procedures for changing billing cycles or due dates vary bank by bank. Many banks offer online options via net banking platforms. Contact your bank's customer care for specifics. Each bank may have unique rules governing before proceeding.

HOW OFTEN CAN BILLING CYCLES AND DUE DATES BE ALTERED?

Kunal Varma, CEO and Co-Founder at Freo, explains, "While banks may allow billing cycle flexibility, RBI guidelines mandate at least one modification opportunity for cardholders. There's no explicit requirement for multiple changes." However, some issuers may extend this option multiple times for enhanced customer convenience, notes Prithwish Ray, Chief Business Officer, Hyperface.

Paytm's Regulatory Rollercoaster: Implications for India's Startup Landscape

Ishita Ayala

The Reserve Bank of India ("RBI") ordered Paytm Payments Bank (PPBL) to cease all operations by the 15th March 2024 owing to non-compliance with various guidelines. The chain of events has been depicted below. Paytm was once considered the poster child of India's fintech revolution with the maverick's founder Vijay Shekhar Sharma at the helm, however, its governance issues were evident.

The Office of Banking Ombudsman issued a show cause notice ("SCN") in 2019 for its failure to monitor a specific account which showed an unusual increase in its activities. The actions were found to be against the RBI's Know Your Customer ("KYC") guidelines. In 2021, the RBI issued another SCN against Paytm for the violation of the Payment and Settlement Systems Act, 2007 as it submitted false information regarding a transaction between One97 Communications and PPBL.

The independent directors ("IDs") on Paytm's Board failed to display independent judgment and a desire to critically analyze the reasons for numerous lapses in compliance and the high turnover of the Chief Executive Officers ("CEOs") - 4 CEOs in 8 years. IDs are generally appointed by shareholders who are family members of the management leading to a degree of complicity. This leads to a general lack of accountability on the part of the IDs as they are often dependent on the largesse of the shareholders for their tenure.

Additionally, the Government of India constituted an intergovernmental panel to analyze the Foreign Direct Investment ("FDI") from China into Paytm in 2024. Press Note 3 of the FDI Guidelines states that governmental approval is compulsory for investments from any neighbouring country that shares a land border with India. This guideline was to prohibit opportunistic investments from countries such as China and Pakistan that are "hostile" to India.

There is a sense of entitlement that is evident amongst successful startups that believe that they are exempted from stringent regulations owing to their innovation as reflected in Ashneer Grover's tweet-

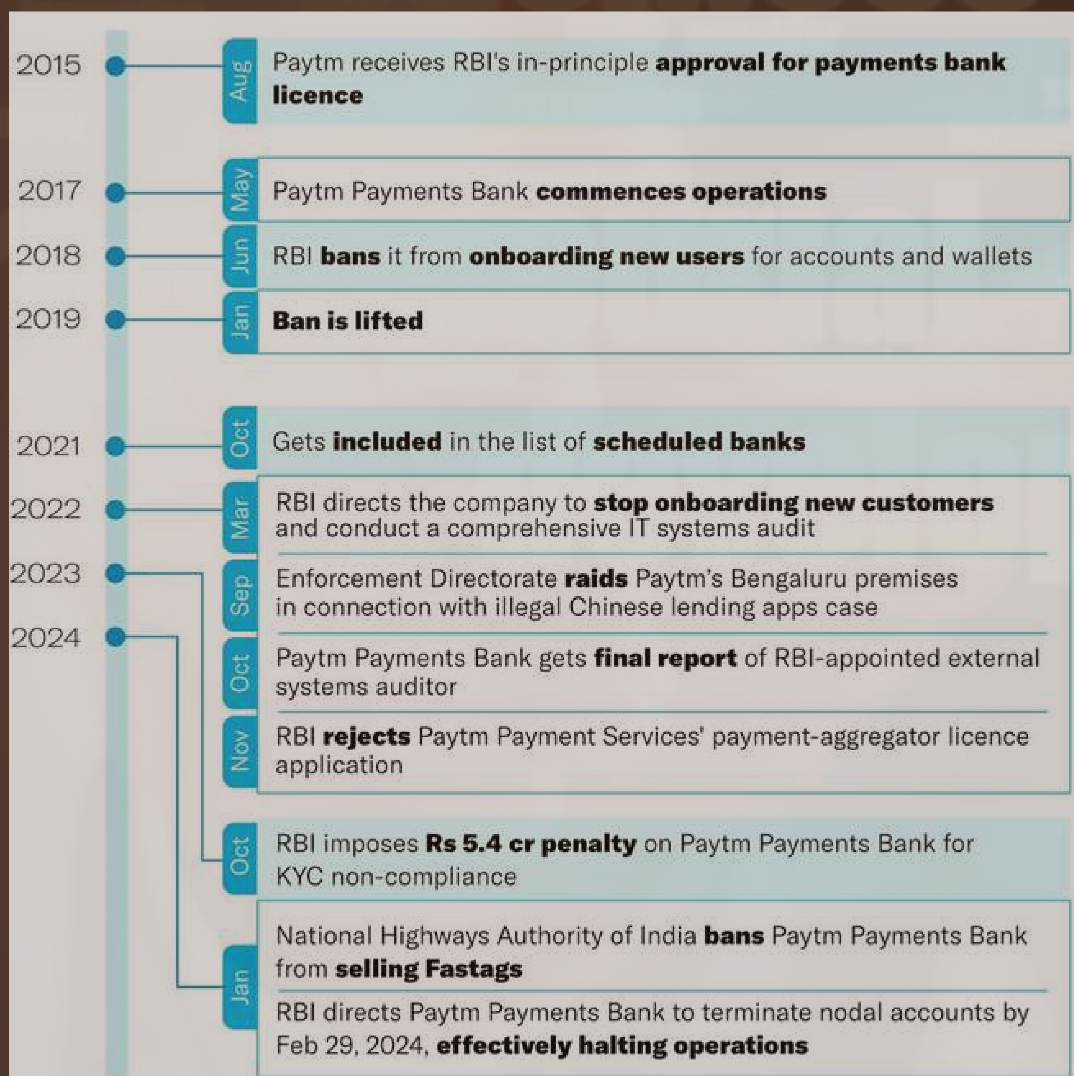
" Paytm is the father of all fintechs in India. If it didn't exist, BharatPe wouldn't have existed. They introduced and built the behaviours of scanning a QR code to help money

flow in India. The ecosystem was built after Google Pay, PhonePe came on the consumer side and BharatPe and Pine Labs came on the merchant side. So for the start-up community, this is sad."

The collapse of Byjus', which was India's most valued startup in February 2024 and Paytm's recent troubles indicate the tendency to chase sky-high valuations over the fundamentals of the business. As per Venture Intelligence, startups in India raised $900 million in 2024, which signals reduced investment after a six year low of US$8 billion in 2023.

However, the present crisis can be viewed as a chance for the Indian startup economy to reset and correct some of their egregious mistakes. This sentiment has been echoed by Neil Shah (research Vice President at Counterpoint) -

"This is a wake-up call for other companies operating in this space to start cleaning up their own house and this is a reality in an open, underpenetrated high opportunity market which inculcates a 'land grab' approach over a more measured and authenticity-driven business practice."



RBI'S STATE OF THE ECONOMY REPORT

Vvanshika Singhal

On 19th March 2022, the Reserve Bank of India (RBI) in its RBI bulletin released the "State of the Economy" report. The report provided insights into the country's overall performance and economic outlook. At the forefront, the report emphasised the necessity for the risk-minimizing mode of the monetary policy for the country in order to step towards the inflation target of 4%. Additionally, it cited data from the Household Consumption Expenditure Survey (HCES), referring towards the upward trend as seen in the per capita income in the country.

THE MONETARY POLICY OUTLOOK

The report highlighted that the market currently remains optimistic regarding the imminent downshift of the monetary policy despite the central bank's indicators of high interest for a prolonged time. The stubborn inflation figures (observed till January 2024) have forced the participants of the market to waive off their expectation of any significant interest rate cuts in 2024. Nonetheless, there is still a risk of markets moving ahead of central bank actions, potentially leading to sudden market fluctuations. The report stated that the gradual reduction in inflation towards the 4% target has been hindered by the occurrences of fluctuations in food prices. Despite a general decline in inflation rates, which has been one of the lowest recorded ones, the upward trend of food prices has limited this downward movement of inflation. According to the report, Consumer Price Index (CPI) inflation is anticipated to average 4.4% during 2024-2025, which is lower than the projected 5.4% for 2023-2024, where most of the decline is anticipated in the first half of the upcoming financial year. Therefore, the monetary outlook provided by the report signals towards the need for careful monitoring of the market expectations in order to ensure a state economy in the future.

AGGREGATE DEMAND AND CONSUMPTION TRENDS

In the third quarter of the 2023-24 fiscal year, it was mainly the investment activities that helped to stabilize the aggregate demand of the country. Many industries have reached a phase where capacity utilization and further investments in their sector are required at the present stage. By February 2024, the central public sector organisations had accomplished 92% of their total combined capital expenditure target.

This accomplishment indicates towards a major investment push in the sector in order to achieve this target and relatively stabilize the aggregate demand of the country in the third quarter. Additionally, the current fiscal year will be marked by the construction of the highest-ever length of four-lane roads as well as the highest-ever length of speed or access-controlled highways. This shows that the country is gradually moving towards the goal of having a world-class road network by 2037, which would help the country stimulate its economic activities and enhance productivity across various sectors in the long run.

The largest demand segment – Private final consumption expenditure – was also the lowest although it was the third quarter, which is the festival season, while the government final consumption shrank by the quarter. This resulted from various factors including a cautious spending behaviour in the customers today, accompanied by supply chain disruptions in the market. Additionally, the local FMCG (fast-moving consumer goods) sector is forecasted to perform moderately in the next six months, according to market research. On the other hand, the demand forecast for premium consumer businesses appears to be strong and the growth trend will continue into the medium term. The fresh Household Consumption and Expenditure Surveys (HCES) data reveals that the rural and urban markets have been witnessing an increase in the per capita spending on durable and discretionary products, the real per capita income has increased by 1.5 times since 2011-12 with a compound annual growth rate of 4%. understanding such consumption trends becomes crucial for policymakers, businesses as well as investors to aid them in making informed decisions in the future.

FINANCIAL MARKETS

Economic indicators like monetary policy and aggregate demand of the country play a pivotal role in the overall economic growth. But it is equally important to draw attention to sectors like the financial markets which are currently experiencing a period of robust growth in the backwash of these real sector developments. Currently, foreign investors account for their smallest share of the Indian stock market in a decade (at 16.3 per cent), reflecting increased buying by domestic institutions, including mutual funds. The INR is appreciating and is among the least volatile currencies.

This appreciation in INR is strengthened by a pick-up in foreign direct investment (FDI) by 11.4 per cent year-on-year in October-December 2023. Mergers and acquisitions jumped 78 per cent in terms of deal value in January 2024, indicating towards increased corporate activities with enhanced strategic investments in the market driven by factors like capital restructuring in the companies.

It is crucial to note that Corporate bonds are in strong demand notably with finer cut-offs. The inclusion of Indian sovereign bonds in global bond indices is spurring a strong demand for offshore rupee-denominated bonds issued mostly by multilateral institutions seeking exposure to India. Therefore, such a dynamic financial market environment in the country is driven by increasing investor confidence leading to increased capital inflows.

PROJECTED ECONOMIC GROWTH OUTLOOK

Ultimately, moving towards The real GDP, which recorded a six-quarter high in October-December 2023, was driven by high momentum, robust indirect taxes and fewer subsidies. The report was optimistic about economic growth, predicting it to be closer to 8% for the current financial year (FY24), compared to the National Statistical Office's (NSO's) estimate of 7.6% (Second Advance Estimate).

The report's cast of real GDP growth for January-March 2024, seen in conjunction with high-frequency indicators for the fourth quarter, suggests that the NSO's estimate for the full-year 2023-24 will be exceeded, and a rate closer to 8% may be achieved. For the next financial year (FY25), statistical models projected a growth of 7.4%. The in-house Dynamic Stochastic General Equilibrium (DSGE) model suggests that GDP growth is likely to remain robust at 7.4% during 2024-25.

Conclusively, the RBI report portrays a thriving economy experiencing robust growth, despite the challenges faced. While also identifying areas of concern like the consumption rates, which the policymakers must tackle to foster economic stability and prosperity in the country.

Proactive Risk Management: RBI's Approach to Safeguarding Financial Stability

Soumya Dubey

The Reserve Bank of India (RBI) is taking decisive steps to address the 'exuberance' in retail lending, driven by concerns over the escalating risks to the financial landscape. The RBI is closely observing the sector and advising individual lenders to be cautious, especially in high-risk credit areas. Though the RBI has not initiated any formal enforcement actions, it is signalling a change in its approach, transitioning to a structured approach of monitoring, warning, penalizing, and taking action. This process provides opportunities for entities to rectify their course.

Initially, RBI adopts moral suasion, including speeches and discussions with the bank executives and one-on-one meetings, to guide banks, followed by more assertive measures, if necessary. This framework conforms to the central bank's standard policy, which is to carry-out stress crisis analysis and anticipate them rather than just responding when they happen. However, there may be challenges in balancing the need for proactive intervention and at the same time maintaining the autonomy of individual financial institutions.

Recently, the RBI recently paid special attention to retail lending, particularly in cases of mortgage top-up loans, and speaks of its general feeling of concern with the risks that are beginning to mount due to these practices. Lending institutions offering overdraft facilities beyond related expenses breaks the repayment cycle. These are criticized for their negative effect on the people's capacity to repay. The expression of concerns that mortgage top-up loans constitute credit risk reveals the dynamic nature of credit practices and the control function of regulation over the lending environment so as to maintain adjustment with the development trends of the market. This collateral property investment very much suggests that the creditors go for selling these loans even though the borrowers may not have borrowed the money for the intended purpose. This makes it difficult for credit lenders to consider loan oversight and an assessment of the level of risk involved.

It has equally become the central bank's focus to bring algorithm-based lending models into checking. This has been to encourage banks to run thorough audits to ensure the reliability and responsibility of these lending models. By engaging with multiple loan

providers using such algorithms, the RBI aims to mitigate any risks arising from flawed models.

Similarly, the RBI is monitoring the joint lending scheme carefully, in special consideration of the case of shadow banks and small finance banks, where these banks have been urged to restrain their issuing of credit above the limit of 20%. The diffusion of the credit risk is the very goal of these agreements, but they need an expert application to protect against the misuse of a credit pool. Moreover, the kind of effect the cap will have loans originating through such an agreement will depend on the readiness of participants to comply and the capacity of regulatory institutions to monitor and enforce these constraints in an effective way.

In the midst of challenging economic times, the volume of unsecured loans for personal use is surging. It poses a higher risk factor as there is no security put in place, that is, no collateral. To prevent financial system breakdowns, the RBI has now adopted stricter rules. The rules support further lending, but only under controlled conditions to ensure credit quality and to avoid potential financial risks caused by excessive lending. It's also worth noting that the effectiveness of such advisory measures in curbing risky lending practices may be limited without concrete enforcement actions.

RBI plays a crucial role in protecting the economy by employing a range of measures to manage risks in the financial sector, including monitoring the financial system, providing guidance to banks and other financial institutions, and taking decisive actions when necessary to prevent or mitigate risks that could threaten the overall stability of the economy. However, the effectiveness of these measures in addressing evolving risks will depend on the central bank's ability to adapt to the changing market dynamics and engage effectively with the industry stakeholders.

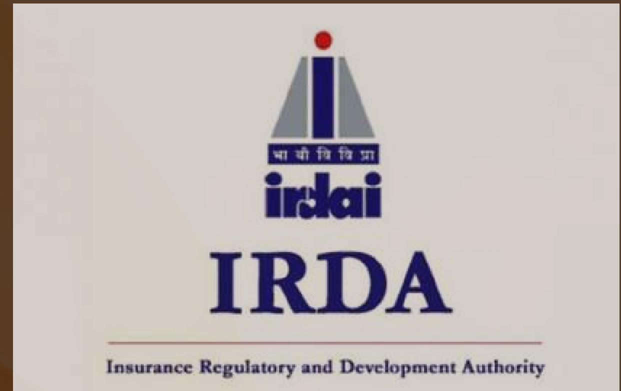
Approval Granted by IRDAI for Establishment of Insurance E-Marketplace

Pratha Barla

The Insurance Regulatory and Development Authority of India (IRDAI) has unveiled plans for the launch of 'Bima Sugam' in the near future. This initiative is akin to an electronic marketplace such as the Open Network for Digital Commerce (ONDC). ONDC is a digital infrastructure or platform backed by Government of India. On this platform buyer and sellers can execute transaction irrespective of the platform they are using as long as that platform is connected to ONDC. The primary objective of Bima Sugam is to function as a digital public infrastructure that facilitates and streamlines insurance-related processes and transactions. This development signifies a significant step towards leveraging digital technology to enhance accessibility, efficiency, and transparency within the insurance sector, aligning with broader initiatives aimed at advancing digital commerce and services in India.

ABOUT BIMA SUGAM

It is anticipated that Bima Sugam will be owned by insurance companies themselves. This marketplace is designed to serve as a comprehensive platform for insurance products, companies, and distributors.



Through this platform, users or customers will receive a unique insurance account number. This number will empower them to seamlessly transfer their policies from one company to another, making the process not only convenient but also expediting it significantly. This initiative aims to streamline and enhance the insurance experience for consumers while fostering a more dynamic and competitive landscape within the insurance industry.

IMPACT

Chairman of IRDAI, Mr. Debashish Panda, highlighted that the forthcoming platform called Bima Sugam will bring about revolutionary transformation similar to how UPI (Unified Payments Interface) has impacted the financial sector.

Besides facilitating insurance purchases and sales, Bima Sugam will also allow insurance companies to integrate with the platform through API (Application Programming Interface). This integration will enable insurance companies to efficiently process and handle claims for their users. It's worth noting that Bima Sugam doesn't aim to displace online distributors; rather, they are encouraged to participate and contribute to the ecosystem of this platform. This inclusive approach ensures that the platform benefits all stakeholders in the insurance industry, fostering innovation, efficiency, and improved services for consumers.

CONCLUSION

The approval granted by IRDAI for the establishment of the Insurance E-marketplace, 'Bima Sugam', marks a significant milestone in the digitalization and modernization of the insurance sector in India, This initiative, which resembles other electronic marketplaces like ONDC, aims to revolutionize insurance related processes and transactions by providing a seamless digital platform for insurance products, companies, distributors and consumers.

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