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RBI's Pivotal Step: Opening Special Rupee Vostro Accounts for Smoother Trade

In a major development, the Reserve Bank of India (RBI) has taken a pivotal step by granting permission to 20 banks operating in India to open 92 Special Rupee Vostro Accounts (SRVAs) in partnership with banks from 22 countries. This move aims to facilitate seamless trade transactions for exporters and importers from these nations, promoting smoother and more efficient trade practices.

The eligible countries for these Special Rupee Vostro Accounts include a diverse range of nations such as Bangladesh, Germany, Israel, Kazakhstan, Maldives, Myanmar, New Zealand, Russia, Singapore, Sri Lanka, the United Kingdom and several others. This measure is expected to foster stronger economic ties between India and these partner nations, benefiting both parties involved.

A notable achievement in this endeavour is the signing of a Memorandum of Understanding (MoU) between the RBI and the Central Bank of UAE on July 15, 2023. This MoU enables exporters and importers to conduct trade transactions and invoice payments in their respective domestic currencies, facilitating the development of a bilateral foreign exchange market and further strengthening trade relations between India and the UAE.

The RBI introduced a groundbreaking framework in February of the current year, allowing international trade invoicing and payments to be conducted in Indian Rupee. This move is aimed at encouraging global trade growth, with a particular focus on bolstering Indian exports and promoting the use of INR as a currency for international transactions. The framework applies to any partner country engaging in trade with India in INR, further enhancing the attractiveness of the Indian currency for international trade.

To support the promotion of INR in export settlements, the Directorate General of Foreign Trade (DGFT) has incorporated provisions in the Foreign Trade Policy. These provisions cover invoicing, payment, and export/import settlements in INR, with export benefits and fulfillment of Export Obligations now granted for export realizations in INR, in line with RBI guidelines.

Underlying Concept: The concept of Vostro accounts plays a crucial role in facilitating international trade and cross-border transactions. It involves a foreign bank holding an account in its domestic currency with a correspondent bank in another country. This arrangement ensures transparent and efficient two-way communication between the foreign bank and the correspondent bank, simplifying cross-border transactions and reducing currency conversion costs for invoicing and payments in domestic currencies.

Central Bank Digital Currency (CBDC) Pilot Gains Momentum as Banks Expand Outreach

India's Central Bank Digital Currency (CBDC) pilot is making significant strides, entering its second phase with banks intensifying efforts to onboard customers. After successful implementation in major cities like Mumbai, New Delhi, Bengaluru, Bhubaneshwar, and Chandigarh, banks are now extending the program to include select customers in Hyderabad, Indore, Kochi, Lucknow, Patna, Shimla, Goa, Guwahati, and Tier-II locations like Varanasi. The expansion aims to attract a broader user base to participate in the pilot.

The response to the CBDC pilot for retail transactions using e-Re has been impressive, with over one million users and 2,62,000 merchants already participating. This surge in interest underscores the growing importance of digital currency in India's financial landscape.

The Reserve Bank of India (RBI) has urged banks to be prepared for one million transactions a day using CBDC by year-end, signaling the increasing significance of digital currency adoption in the country. A noteworthy development in the CBDC pilot is e-Re's interoperability with the Unified Payments Interface (UPI) and QR code. This integration is expected to boost retail CBDC usage significantly. The facility of enabling e-Re usage through UPI QR codes promotes interoperability and facilitates more e-Re transactions, driving the adoption of CBDC among users.

Leading banks like the State Bank of India (SBI) and HDFC Bank are actively engaging customers to participate in the CBDC pilot.

Both banks have witnessed substantial interest from retail customers and merchants in urban markets. HDFC Bank has already successfully onboarded over 1 lakh customers and 1.7 lakh merchants, offering a UPI QR code that is interoperable with the digital currency.

Notably, ICICI Bank and Axis Bank have also joined the CBDC endeavor and are actively participating in the pilot. As the CBDC pilot gains momentum and garners widespread interest, India's financial landscape is witnessing a transformative shift towards embracing digital currency. The seamless integration of CBDC with existing payment systems like UPI and QR codes, is expected to pave the way for more convenient and efficient retail transactions, further driving the adoption of digital currency in the country.

The new insurance plans will encourage a favourable and competitive environment, leading to greater choice, accessibility, and affordability for policyholders, making the IRDAI is optimistic about making progress in expanding insurance coverage in a few years after launching the State insurance programmes.

CCI Declines to Interfere in IRDAI's Regulatory Functions

In a significant ruling, the Competition Commission of India (CCI) has decided not to intervene in the regulatory functions of the Insurance Regulatory and Development Authority of India (IRDAI). The case arose from an information filed by Shrikant Ishwar Mende, who alleged the existence of an anti-competitive arrangement between IRDAI and the Indian Institute of Insurance Surveyors and Loss Assessors (IIISLA).

According to the informant, IRDAI had established a statutory monopoly in favor of IIISLA by making membership in the institute a mandatory criterion for the grant and renewal of licenses for Surveyors and Loss Assessors.

Consequently, the informant's license to act as a Surveyor and Loss Assessor was not renewed by IRDAI, leading to his grievance.

However, the CCI, in its order issued on Wednesday, asserted that the functions performed by IRDAI are regulatory in nature and therefore fall outside the scope of CCI's jurisdiction. The CCI cited a precedent set by the Hon'ble Delhi High Court in the case of Institute of Chartered Accountants of India vs. Competition Commission of India & others, which established that regulatory functions are not subject to CCI's purview.

The IIISLA is an entity promoted by IRDAI to fulfill its functions under the IRDAI Act. The membership of IIISLA was mandated by IRDAI for the grant and renewal of licenses for Surveyors and Loss Assessors.

The CCI's ruling signifies a recognition of the specialized nature of regulatory functions performed by IRDAI and reiterates the boundaries of CCI's jurisdiction. As a result, the information filed by Shrikant Ishwar Mende has been disposed of, and the CCI will not interfere in IRDAI's regulatory affairs regarding the IIISLA.

IRDA

Insurance Regulatory and Development Authority of India

Finance Ministry Expects State-Run General Insurers to Achieve Record Profits Following PSBs' Success

In the wake of public-sector banks (PSBs) achieving record profits in the fiscal year 2022-23, the finance ministry is now anticipating state-run general insurance companies to follow suit and register exceptional profits in the coming years.

During the foundation day celebrations of New India Assurance Co Ltd, Vivek Joshi, the secretary of the Department of Financial Services under the Ministry of Finance, highlighted that the general insurance penetration in the country is merely 1%. He emphasized the immense potential for growth in the general insurance industry as India is projected to become the world's third-largest economy in the next 5-6 years, resulting in a growing need for insurance services.

Addressing the event, Debasish Panda, Chairman of the Insurance Regulatory Development Authority of India, emphasized the importance of making insurance products and services affordable to all sections of society.

Furthermore, Panda revealed plans to introduce new frameworks in the insurance sector, including "Bima Vahak" aimed at extending insurance coverage to remote areas, and "Bima Vistaar," offering comprehensive bundled policies covering life, health, property, and accident insurance. These initiatives are expected to bring significant changes and advancements to the entire insurance industry.

In conclusion, the finance ministry's positive outlook and the upcoming reforms are likely to propel state-run general insurers towards achieving record profits and enhancing insurance coverage accessibility for the country's diverse population.

Phillip vs Barclays Bank: Quincecare duty clarified: Clarity on the Quincecare Duty

The Supreme Court has unanimously ruled that banks do not have a duty to prevent authorised push payment fraud (APP fraud) where the customer has explicitly instructed the bank to make a payment.

The case, Philipp v Barclays Bank UK PLC([2023] UKSC 25.), concerned a woman who was tricked into transferring £700,000 to a fraudulent account in the UAE. She sued Barclays Bank, arguing that the bank should have been aware of the fraud and prevented her from making the payment.

The Supreme Court rejected her claim, finding that banks have a duty to execute payment instructions from their customers, even if they believe the instructions are fraudulent. The Court said that this duty is based on the principles of agency, and that it would be wrong to impose a higher duty on banks to protect their customers from fraud.

There have been various regulatory and legislative developments including the Financial Services and Markets Act 2023 ("FSMA 2023"), which received Royal Assent on 29 June 2023 and will come into effect in 2024. Under FSMA 2023, liability for victims who have been defrauded of their funds will be imposed on banks and payment firms "where the payment order is executed subsequent to fraud or dishonesty." It provides that the losses will be allocated equally between the sending and receiving providers, though the proposed new scheme is subject to certain limitations. It is, for example, confined to consumers, charities and "micro-enterprises" and does not apply to larger businesses. However, it will provide some recourse for victims of APP Fraud and demonstrates that the legislature is taking steps to address the issue.

The Court's decision is a significant blow to victims of APP fraud, who are now likely to have to bear the financial losses themselves. However, the Court acknowledged that APP fraud is a growing problem, and that the legislature may need to take steps to address it.

Bank of America to pay over $250 million over junk fees

Bank of America, the nation's second largest bank, has been ordered to pay more than $250 million in fines and penalties for a series of illegal practices, including double charging overdraft fees, withholding reward bonuses, and opening accounts without customer consent.

The Consumer Financial Protection Bureau (CFPB) announced the settlement on Tuesday, saying that Bank of America's actions had harmed hundreds of thousands of customers. The CFPB ordered the bank to pay $100 million to customers and another $150 million in penalties.

The Office of the Comptroller of the Currency (OCC) also fined Bank of America $60 million for violating laws around overdraft fees.

The CFPB said that Bank of America had engaged in a "double-dipping scheme" to "harvest junk fees" from customers. The bank would charge customers a $35 fee if a transaction went through even though they didn't have enough money in their account. But if the merchant then tried to re-submit the transaction, Bank of America would charge the customer another $35 fee.

The CFPB also said that Bank of America had withheld promised reward bonuses from some of its credit card customers. And the bank had opened accounts in customers' names without their knowledge or consent.

"Bank of America's illegal practices harmed hundreds of thousands of customers and undermined trust in the banking system," said CFPB Director Rohit Chopra. "We will continue to hold banks accountable for their actions."

Bank of America said that it was "deeply sorry" for the harm it had caused customers. The bank said that it had already taken steps to correct the problems and that it would continue to work with the CFPB and the OCC to ensure that its practices are in compliance with the law.

The settlement is a significant victory for the CFPB, which has been under fire from some Republicans who have accused the agency of being too aggressive in its enforcement of consumer protection laws. The settlement also sends a message to other banks that they will be held accountable for their actions.

IRDAI Designates Liberty General Insurance as Lead Insurer for Delhi: Enhancing Insurance Operations in the Capital

The Insurance Regulatory and Development Authority of India (IRDAI) has designated Liberty General Insurance as the primary insurer for the Delhi region. This decision comes as part of the regulatory body's efforts to streamline insurance operations and enhance efficiency in the insurance sector. The selection of Liberty General Insurance as the lead insurer signifies their competence and reliability in managing insurance policies in the capital city.

Under this appointment, Liberty General Insurance will be responsible for coordinating and overseeing insurance-related activities in Delhi. As the lead insurer, the company will collaborate with other insurers to ensure a seamless and well-coordinated insurance ecosystem in the region. This move is expected to facilitate improved policy issuance, claims settlement processes, and customer service for policyholders in Delhi.

The decision to appoint Liberty General Insurance as the lead insurer aligns with IRDAI's vision of promoting a robust insurance market that caters effectively to the needs of consumers. By entrusting the lead role to a reputable and established insurance company, the regulatory authority aims to foster healthy competition while fostering the growth of the insurance sector in Delhi.

Liberty General Insurance's expertise and experience in the insurance domain make them a suitable choice for this pivotal role. As they take on this responsibility, they are expected to collaborate with other insurers, share best practices, and collectively contribute to the development and enhancement of insurance services in the region.

Overall, this move by IRDAI is poised to strengthen the insurance landscape in Delhi, benefiting policyholders, insurance companies, and the economy at large. The appointment of Liberty General Insurance as the lead insurer serves as a strategic step toward achieving the objectives of an efficient, accessible, and customer-oriented insurance market in the capital city of India.

IRDA

Insurance Regulatory and Development Authority of India

Insurance Bill of 2023 Postponed: Deliberations to Continue Beyond Monsoon Session

The Insurance Bill of 2023 is not expected to be addressed during the upcoming monsoon session, according to sources. This decision comes amid the current political landscape, where other pressing matters are likely to take precedence during the parliamentary session.

The bill, which encompasses important reforms in the insurance sector, was introduced with the aim of strengthening and modernizing the insurance industry in India. It seeks to address various challenges and bring about significant changes to existing regulations to better serve consumers and promote the growth of the sector.

However, due to the complexity and scope of the proposed bill, it requires careful consideration and thorough discussions among policymakers and stakeholders. As a result, the government has decided to defer its consideration during the monsoon session.

The monsoon session is a critical time for parliamentary proceedings, and it often witnesses intense deliberations on various bills and issues affecting the country. With multiple crucial matters to be addressed, the Insurance Bill of 2023 will have to wait for a more suitable legislative window.

While the delay might be seen as a setback by some, it is essential to ensure that all aspects of the proposed bill are thoroughly examined and any potential concerns are addressed before its implementation. This cautious approach reflects the government's commitment to enacting robust and well-thought-out policies that will have a positive impact on the insurance sector and the overall economy.

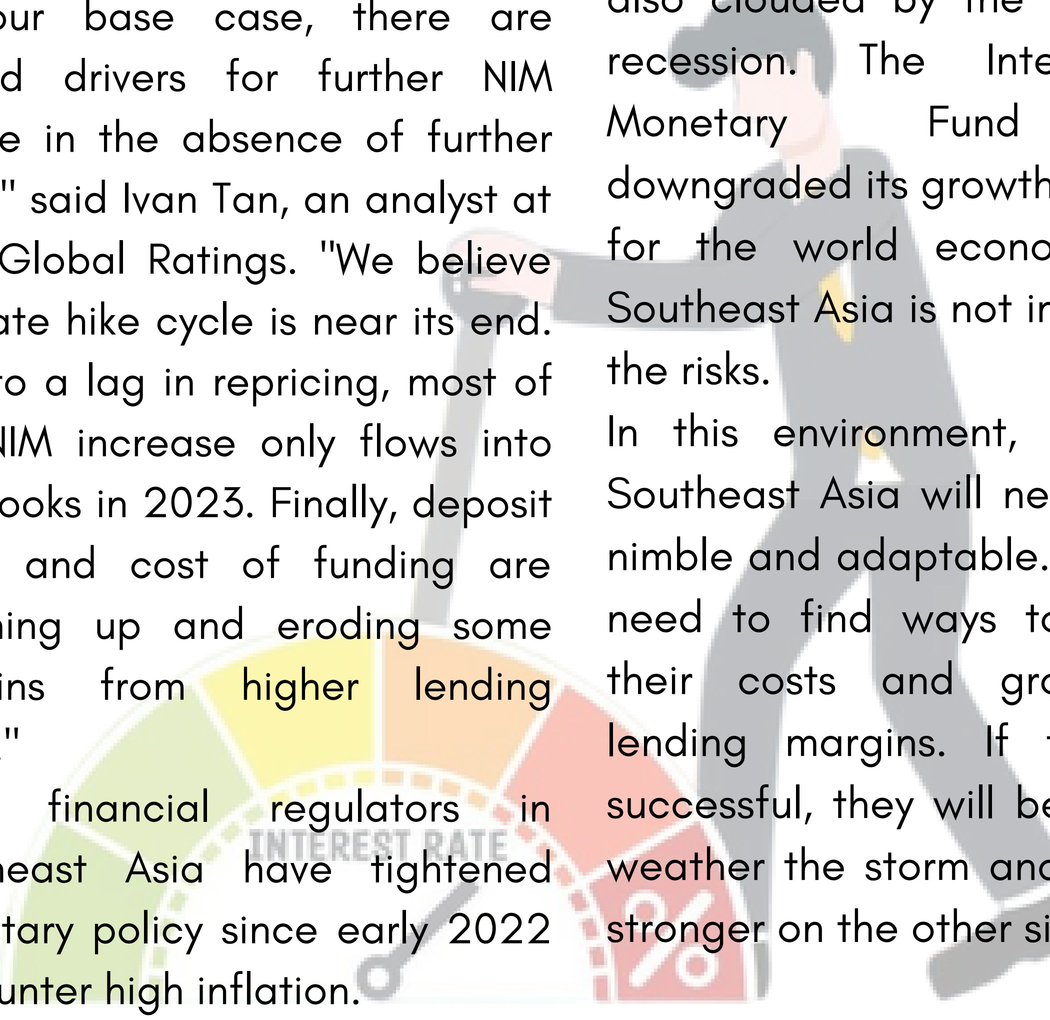
In the interim, stakeholders in the insurance industry and consumers alike are advised to stay updated on developments related to the bill's progress and potential implications. The eventual passing of the Insurance Bill of 2023 holds the promise of significant changes and improvements in the insurance landscape, making it a matter of keen interest and importance to all concerned parties.

Rising interest rates could put a dent in Southeast Asia bank profits

Eight of the region's 11 largest banks by assets are expected to see their net interest margins (NIMs) continue to grow in 2023, but margins may stop expanding thereafter. Three banks are expected to post declines in NIMs in 2023, and half are likely to report minor drops in 2024.

"In our base case, there are limited drivers for further NIM upside in the absence of further hikes," said Ivan Tan, an analyst at S&P Global Ratings. "We believe the rate hike cycle is near its end. Due to a lag in repricing, most of the NIM increase only flows into the books in 2023. Finally, deposit rates and cost of funding are catching up and eroding some margins from higher lending rates."

Most financial regulators in Southeast Asia have tightened monetary policy since early 2022 to counter high inflation.



After a series of recent rate hikes led by the US Federal Reserve, most central banks worldwide now signal that further rate increases may not be necessary.

As a result, banks in Southeast Asia are facing a challenging environment. They are being squeezed on both sides, with higher funding costs and lower lending margins. This is likely to put pressure on profitability in the coming quarters.

The global economic outlook is also clouded by the risk of a recession. The International Monetary Fund has downgraded its growth forecast for the world economy, and Southeast Asia is not immune to the risks.

In this environment, banks in Southeast Asia will need to be nimble and adaptable. They will need to find ways to reduce their costs and grow their lending margins. If they are successful, they will be able to weather the storm and emerge stronger on the other side.