ENERGY WATCH

GREEN CERTIFICATE SALES DOWN BY 22%

New Delhi: Sales of renewable energy certificates dropped by 22 per cent to 6.98 lakh units in June as compared to 8.96 lakh in June 2018 due to lower supply, as per official data. Indian Energy Exchange and Power Exchange of India are 2 power bourses in the country. **PTI**

CURRENTLY INDUSTRY DEALS WITH OVER ₹30,000 CRORE OF PREMIUM

Raising of FDI in insurance broking to 100% upsets domestic brokers

GEORGE MATHEW
MUMBAI, JULY 7

FINANCE MINISTER Nirmala Sitharaman's Budget proposal to raise the limit of foreign direct investment (FDI) from 49 per cent to 100 per cent in the insurance broking industry that accounts for a pie of Rs 4,500-5,000 crore has come under flak from domestic brokers.

Domestic insurance brokers, numbering over 400 consisting of direct brokers, reinsurance brokers and composite brokers, have opposed the 100 per cent FDI in the insurance broking industry as the segment doesn't need much capital and the proposal wouldn't ensure large inflows of overseas investment into the country. The segments in the insurance industry that will benefit from the new move are: insurance surveyors and loss assessors, third party administrators (TPA), web aggregators and corporate agents.

Currently, the insurance broking industry deals with over Rs 30,000 crore of premium primarily from the non-life industry which generated over Rs 170,000 crore of premiums in 2018-19. As insurance brokers receive between 15-20 per cent of commission in placing different categories of general insurance business, they account for around Rs 4,500-5,000 crore of business.

According to Sohanlal Kadel, former President, Insurance Brokers Association of India, even considering for a moment to permit 100 per cent FDI in broking when it is 49 per cent in insurance companies would be "travesty of justice as it would be a direct discrimination against local insurance brokers". Further, this would decimate most of the Indian brokers engaged in direct insurance and reinsurance broking and who do not have a joint venture with any overseas broker.

"It is very clear that 100 per cent FDI will not make any valuable contribution to the industry from the current permissible FDI limit of 49 per cent except perhaps repatriation of profit which can be more than the capital they bring in and thereby drain of our foreign exchange," Kadel said.

Supriya Rathi, promoter director, Anand Rathi Insurance Brokers, said 100 per cent FDI in insurance intermediaries is not going to increase the insurance penetration in India as they will not be focusing on micro insurance or broking in smaller cities and towns but focus more on servicing large insured on their large policies or focus on reinsurance. "Proposing 100 per cent FDI in insurance intermediaries with a view to open up investment across sectors will not likely have much impact on the FDI inflows," Rathi said.

Currently, half a dozen of foreign insurance brokers are operating in the Indian market through joint ventures (JVs) formed with Indian partners. Prominent among them are: Marsh, the largest insurance broker in the world, Willis Towers Watson, the third largest insurance brokers, Howden, UIB, Arthur J. Gallagher & Co and Toyota Tsusho Insurance Broker.

In FY 2018-19, new regulations by the IRDAI had specified Rs 75 lakh (earlier Rs 50 lakh), Rs 4 crore (Rs 2 crore) and Rs 5 crore (Rs 2.5 crore) of capital for a direct broker, reinsurance broker and composite broker respectively. "The industry may not get any larger benefits out the move to allow 100 per cent FDI in the insurance broking industry. On the contrary, small and medium scale brokers will be wiped out from the system as the overseas brokers have more muscle power," said sources in the industry.

"Some international broking houses lobbied for 100 per cent FDI in the Indian insurance broking industry," said sources.

A panel formed by the IRDAI in 2014, under Suresh Mathur, had suggested then that 100 per cent FDI be allowed over three years. However, the suggestions of the panel were not implemented after that FDI cap in the overall insurance industry was raised from 26 per cent to 49 per cent. However, in the domestic insurance industry, the current 49 per cent FDI cap has been maintained at the same level.

"Previously when the FDI was increased from 26 per cent to 49 per cent, only two foreign players increased their stakes in their insurance broking entities," Rathi said. "This move will likely benefit just the top two or three global insurance brokers already present in the country and will increase foreign dominance in the insurance intermediary space. Moreover, it may increase outflows from the country as foreign players tend to repatriate their profits," Rathi said.

However, several experts welcomed the move to hike the FDI. "The hike in FDI will bring in more technology and efficiency I the segment and boost insurance penetration," said Amit Maheshwari, Partner, Ashok Maheshwary & Associates LLP.

Govinder Kapoor, Chairman, Proclaim Insurance Surveyors and Loss Assessors, said, "we are confident that an increase in FDI limits to 100 per cent would stimulate further investment in the insurance intermediary sector by foreign insurance surveyors and loss assessors, along with other intermediaries. This will also lead to enhancement of service standards in alignment with global trends which would benefit the ultimate policyholders interest.

Vikram Chhatwal, Whole-Time Director, Medi Assist Insurance TPA, "the change in FDI will attract significant investment in the sector and enable adoption of global best practices and lead to significant job creation both directly and indirectly. This policy will support the vision of 'Ayushman Bharat' and health-care for all."

Insurance broking is like any other financial or commodity broking services. The issue was recently discussed in a high level inter-ministerial meeting," government sources said.

EXPLAINED

IRDAI panel had suggested 100% FDI in sector earlier

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The segments in the insurance industry that will benefit from the new move are: insurance surveyors and loss assessors, third party administrators (TPA), web aggregators and corporate agents.

INTERVIEW WITH DIPAM SECRETARY

'Will keep putting products for sale on the conveyor belt'

The government will float three expression of interest next week to kick-start the strategic sale process of central public sector enterprises, Department of Investment and Public Asset Management Secretary ATANU CHAKRABORTY said. In an interview to SUNNY VERMA, AANCHAL MAGAZINE and SANDEEP SINGH, Chakraborty also said that the Budget proposal to increase public shareholding from 25 per cent to 35 per cent will allow more capital flows, which will help fill the savings-investment gap. "In India, we still look at credit as an element of growth. Credit is no longer an element of growth, it's the flows which are the elements of growth...that is what this Budget captures," he said. Edited excerpts:

Strategic sales have been in focus. How do you plan to go ahead?

During these two years there have been five sales, raising Rs 52,000-53,000 crore. We have 29 companies on list for strategic sale. Last year, we could take 4-5 companies to the final financial bid stage but somehow it didn't materialise. Smaller companies like Pawan Hans, Scooters India Ltd, Central Electronics Ltd, EPIL, we could sell 4 companies but we failed in 4-5 companies.

What about Air India?

In strategic disinvestment we go case-by-case. Air India has already been announced, but that's just one case. Next week, we will announce three more expressions of interest. Therefore, there would be continuous conveyor belt where we will keep putting on products.

Has the process for Air India started?

We have started the process almost a month back. We are yet to go Air India specific alternate mechanism to take final approvals for certain things. One approval for going ahead has been given in the budget speech itself, which is approved by the cabinet. However, I will not preempt the decisions of the AISAM, but safe to say it's on and we are preparing for it. There's a lot of diligence which is going in.

Last year, you relied a lot on ETFs. Which sectors will be under focus this year?

Till last year we had not understood the power of passive investing and therefore, the interest by the passive investors caught us by surprise. However, as you will see, this budget has captured passive investment flows in number of paragraphs through number of decisions. Any instrument at any point of time is also a function of market behaviour and ETF would remain one of our potent instruments.

Post-budget, the way the indices reacted, it doesn't seem they are too enthusiastic. Will it be a challenge for you given the target is very high?

What happens is that the analysts quickly see Part B and Part B had three things: HNI tax, excise duty and gold. Part A talked about capital flows and infrastructure investment. It talked about Rs 10 lakh crore, not all that money will come from the government. It talked about flows, private sector participation, letting the animal spirits drive the things and how they will drive also gets defined substantially. I think that takes some time to sink in. So, while the negatives have been captured, now only the upsides will come. Markets are yet to capture the positive trends in the Budget which are reflecting in the narrative and it takes time.

That gives you the optimism that the target is achievable.

Absolutely. I'll give you a simple example, like raising public shareholding from 25 per cent to 35 per cent.

They (analysts) forgot that the additional float will be seen positively by the MSCI EM index, they will see the major companies and change the weight and more flow will come in. Even our analysts have to change their way. This budget is a paradigm shift in the way it went about how it would happen as an architecture.

Bond market probably understood better than stock markets.

Because there was specific reference to bond markets. They have to read more and the upside will be slowly captured when more people outside also read it because there are not many passive fund operators in India.

So those who are not passive fund operators do not understand the flow. In India, we still look at credit as an element of growth. Credit is no longer an element of growth, it's the flows which are the elements of growth...that is what this Budget captures.

While SEBI has been asked to look into public shareholding, how do you see this?

I welcome this. It will permit more flows. Large float, more flows.

Do you think there would there be a resistance from the other side as many companies have been buying back shares from the public?

No, I think when you do a buy-back, you also improve your capital structure, make it tighter and improve your return on equity. Perhaps leverage also goes up and that reduces cost of capital, your beta and everything reversely get improved and the enterprise value also improves.

That's the theory part. If you see top 40 companies on sensex, promoter holding is below 40 per cent. So obviously they have already put out and they are far below the MPS norm. It is the promoter who still doesn't understand, they will also understand that the markets have different kinds of demands.

The public sector entities have to still meet the norm.

No, only 12-14 entities are such which are to meet the norms and that too because last year we had 12 issues, more than the total issues put together. Then we have a one year block. Then DEA extended it by two years, but by August 2020 we will meet all the norms. We have already set the motion. Much before this announcement. Actually we are very happy with this, more shareholding can be put out. Because I have seen more companies larger number of holding outside are also much better disciplined, their capitalisation is better, their behaviour is better.

On the proposal into going below 51 per cent for non-financial companies, is there a concrete plan.

When they (passive fund investors) look at the float, they do not look at the count of government controlled entities in the float. They add back and see the total. We have gone by their guidelines on the calculation of government stake. There are two parts. Second part says that "51 per cent will be construed as this", first part says that we can go below 51 per cent. It doesn't mean that we will give away shares to someone else. When they are sold, they will be sold through the instruments.

So you can go below 51 per cent?

Yes, of course. Once 51 per cent is defined, going below it is first part of it. That's a very momentous step, a very big step. Government has delinked 51 per cent with control. If you read para 98, it reads: in order to improve the capital flows into the Indian economy, it's important to align domestic corporate systems and practices with global markets.

"In strategic disinvestment we go case-by-case. Air India has already been announced, but that's just one case. Next week, we will announce three more expressions of interest,"

ATANU CHAKRABORTY
SECRETARY, DIPAM

'Budget to boost infrastructure financing in big way'

SANDIP SOMANY

WHILE BUDGET 2019 continues to lay focus on infrastructure development, what sets this Budget apart is the attention given to financing of the outlay for infrastructure.

The Finance Minister announced on Friday initiatives for attracting more foreign investment both strategic and financial, deepening of corporate bond market, retail investment in Treasury Bills and Government securities as well as providing impetus to banking, capital markets, NBFC and insurance industry.

The Budget took the opportunity of building a vibrant corporate debt market through two major announcements. Introduction of tri-party repo has been a success for the G-Sec market and was recently introduced for corporate bonds by the exchanges to encourage trading interest.

To deepen the corporate tri-party repo market in Corporate Debt securities, it was announced that government will work with regulators viz. RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals. These measures are likely to increase demand for corporate bonds and may provide a boost to much needed liquidity in the corporate bond market.

The Budget also paves the way for Foreign Portfolio Investors (FPIs) to have easier access to Indian markets by increasing the statutory limit for FPI investment.

FPIs will also be permitted to subscribe to listed debt securities issued by REITs and InvITs. This will give companies room to raise money from foreign investors while improving India's weightage in the MSCI Index.

This Union Budget addresses the various pain points in the banking and financial sector as the country sees a slide in economic growth.

Rs 70,000 crore capitalization boost to the banking sector and enhancing competitiveness of Public Sector Banks through consolidation and governance reforms is a positive step.

The budget seeks to address the core issues of the non-banking financial sector by introduction of one-time six months' partial credit guarantee to public sector banks for buying high-rated pooled assets of financially-sound NBFCs for first loss up to 10 per cent and also exempting NBFCs from the requirement of creating a Debenture Redemption Reserve (DRR) while raising funds through public issues.

We are happy to note that Government will be considering further opening up of FDI in Insurance while clearing 100 per cent FDI for insurance intermediaries. Furthermore, the government has relaxed the Net Owned Fund requirement for foreign re-insurers from Rs 5,000 crore to Rs 1,000 crore.

The government also intends to increase its foreign currency borrowings and a cumulative effect of all these proposals would ensure that India has enough funds to meet its infrastructural requirements.

The author is the president of the Federation of Indian Chambers of Commerce and Industry.

BRIEFLY

'I-T to allot PAN to those only giving Aadhaar'

New Delhi: The taxman will "suo motu" allot a fresh PAN to a person who files I-T returns with only Aadhaar as part of a new arrangement to link the two databases, CBDT Chairman PC Mody said after the Budget proposed that only Aadhaar is enough for tax purposes. PAN (permanent account number) is "certainly not dead" and Budget announcement of interchangeability of two databases is "additional facility" to ensure their linkage, which is now mandatory under law, he said.

2 new Amazon fulfilment centres soon

New Delhi: Amazon India is adding two new specialised warehouses in Patna and Guwahati, and expanding the capacity of its existing specialised fulfilment centres (FCs) in many cities, a move that will enable it further speed up its delivery capabilities. Unlike traditional warehouses, the FCs are equipped with highly automated pick, pack and shipping processes to facilitate safe and timely processing of orders. **PTI**

'FPIs pull out ₹475 cr from markets in July first week'

Reversing their five-month buying streak, foreign investors withdrew a net sum of Rs 475 crore from the Indian capital markets in the first week of July amid global trade tensions and pre-Budget anticipation

NET BUYERS: Prior to this, foreign portfolio investors (FPIs) were net buyers for five consecutive months

GLOBAL IMPACT: It seems the global trends related to US-China and US-Iran are still impacting sentiments. A pre-Budget anticipation might also have had a role to play, Groww said

OTHER ANNOUNCEMENT: Investments by FPIs in debt securities would be allowed to be transferred and sold to domestic investors in a timely manner and also proposed FPI investment in debt securities issued by NBFCs

₹10,384.54 cr
FPIs invested a net Rs 10,384.54 crore in June, Rs 9,031.15 crore in May, Rs 16,093 crore in April, Rs 45,981 crore in March and Rs 11,182 crore in February

₹3,710.21 cr
FPIs withdrew net amount from equities but invested Rs 3,234.65 crore in debt segment, resulting in net outflow of Rs 475.56 crore, as per depositories data

CAUTIOUSNESS prevailed this week among foreign investors ahead of the crucial Union Budget. Thus, FPIs adopted a cautious stance and turned net sellers, Morningstar said

IN BUDGET Finance Minister Nirmala Sitharaman in the Budget proposed increasing minimum public shareholding to 35 per cent, easing of KYC norms for FPIs

Overhaul: Deutsche Bank to cut 18K jobs

REUTERS
FRANKFURT, JULY 7

The bank will scrap its global equities business and scale back its investment bank. It expects a 2.8 billion euro net loss in the second quarter

DEUTSCHE BANK plans to cut 18,000 jobs in a sweeping, 7.4 billion euro overhaul designed to turn around Germany's struggling flagship lender.

The plan represents a major retreat from trading by Deutsche Bank, which for years had tried to compete as a major force on Wall Street.

The bank will scrap its global equities business and scale back its investment bank. It expects a 2.8 billion euro ($3.1 billion) net loss in the second quarter as a result of restructuring charges.

Beyond the expected cutbacks to equities, Deutsche said it would also axe some of its fixed income operations, an area traditionally regarded as one of the bank's strengths. It will create a new unit to wind-down unwanted assets, with a value of 74 billion euros of risk-weighted assets.

Chief Executive Officer Christian Sewing flagged an extensive restructuring in May when he promised shareholders "tough cutbacks" to the investment bank. The pledge came after Deutsche failed to agree a merger with rival Commerzbank.

The overhaul, one of several over the past few years, signals that Deutsche is coming to terms with its failure to keep pace with Wall Street's big hitters such as JP Morgan Chase & Co and Goldman Sachs. Last week, the head of Deutsche's investment bank Garth Ritchie agreed to step down, marking a sign of the division's waning influence.

Sewing called the package the "most fundamental transformation" of the bank in decades. "This is a restart," he said. Media reports had suggested that Deutsche Bank could cut as many as 20,000 jobs — more than one in five of its 91,500 employees.

In the event, the bank said it would reduce headcount to 74,000 employees by 2022.

The bank did not disclose a geographic breakdown of the job cuts. The equities business is focused largely in New York and London.

Sitharaman to address RBI board tomorrow

PRESS TRUST OF INDIA
NEW DELHI, JULY 7

FINANCE MINISTER Nirmala Sitharaman is scheduled to address the post-budget meeting of the RBI's central board on Monday and highlight the key points of the Budget, including the fiscal consolidation roadmap.

The Finance Minister would also apprise the board of various other announcements made in the Budget to spur growth by touching almost all sectors of the economy with the objective of achieving a USD 5 trillion economy by 2024-25, said an official.

The Budget announced further opening up of aviation, insurance and media sectors to foreign investment while throwing a lifeline to the struggling shadow banks (NBFCs) to boost investment and lending in the economy.

Maruti cuts production for fifth month in a row in June

PRESS TRUST OF INDIA
NEW DELHI, JULY 7

Maruti slashed total vehicle production, including Super Carry LCV, by 15.6 per cent last month to 1,11,917 units

THE COUNTRY'S largest car maker Maruti Suzuki India (MSI) has cut vehicle production for the fifth consecutive month in June, according to a regulatory filing.

The auto major said it slashed total vehicle production, including Super Carry LCV, by 15.6 per cent last month to 1,11,917 units as compared to 1,32,616 units in the year-ago month.

Total passenger vehicle production stood at 1,09,641 units last month, down 16.34 per cent from 1,31,068 units in June 2018. The auto major cut production of mini segment vehicles, including models like Alto, by 48.2 per cent to 15,087 units last month as against 29,131 units in the year-ago period.

Similarly, it slashed production of compact segment cars like WagonR, Swift and Dzire by 1.46 per cent to 66,436 units in June from 67,426 units earlier.

Production of utility vehicles witnessed a decline of 5.26 per cent to 17,074 units, as against 18,023 units in June last year. The company said production of vans declined by 27.87 per cent to 8,501 units last month compared to 11,787 units in June 2018.

The car market leader had cut total production by over 18 per cent in May. Similarly, it had slashed production by around 10 per cent in April. In March, it had reported a production cut of 20.9 per cent, while in February the firm had reduced production by over 8 per cent to 1,48,959 units from 1,62,524 units produced in the year-ago month.