VI REGULATION, SUPERVISION AND FINANCIAL STABILITY

Building a resilient and stable financial system remained the primary objective during the year that was marked by the re-emergence of successive waves of the COVID-19 pandemic. Accordingly, several regulatory and supervisory measures were fine-tuned to address transient issues with due consideration to the normalising economic activity. Further, in alignment with the long-term objective, the regulatory and supervisory framework was streamlined across regulated/supervised entities and strengthened to maintain conformity with global best practices. Also, consistency in enforcement actions was ensured during the year, helped by engaging with all stakeholders. Harnessing technology for customer service/grievance redressal, strengthening fraud risk management and consumer protection were concurrent objectives during the year.

VI.1 The chapter discusses regulatory and supervisory measures undertaken during the year to strengthen the financial system and to preserve financial stability. As part of the overall objective of aligning the regulatory/supervisory framework with global best practices, important strides in the areas of risk management, compliance function, consumer education and protection in banks were made during the year. Regulatory response to the COVID-19 pandemic has been further fine-tuned to incorporate the evolving challenges. A Sustainable Finance Group (SFG) was set up within the Department of Regulation (DoR) in May 2021 to lead the Reserve Bank's efforts and regulatory initiatives on climate risk and sustainable finance. Smooth transition from the LIBOR benchmark was facilitated during the year, and some of the recommendations of the Internal Working Group on ownership and capital structure of private sector banks have been accepted while others are under examination. The process of submitting statutory returns and supervisory disclosures by banks witnessed further automation during the year. A new FinTech Department was set up, effective January 4, 2022, to exclusively focus on the evolving FinTech segment and to identify opportunities and challenges while promoting innovations.

VI.2 In other areas, a revised regulatory framework for non-banking financial companies (NBFCs) - called the 'scale-based regulation' - has been put in place, considering their growing size, complexity and interconnectedness. The new regulatory structure for NBFCs comprises of four layers based on their size, activity, and perceived riskiness, and encompasses different facets of regulation covering capital requirements, governance standards and prudential regulation, amongst others, and will be effective from October 1, 2022. To introduce activity-based regulation in the microfinance sector and to further strengthen the customer protection measures for microfinance borrowers, a comprehensive regulatory framework for microfinance loans of all regulated entities (REs) of the Reserve Bank was issued on March 14, 2022 which has become effective from April 1, 2022. Moreover, guidelines on the distribution of dividends by NBFCs were finalised during the year.

VI.3 In order to facilitate development of a robust market in credit risk transfer and greater investor participation in stressed loans, revised guidelines on 'Securitisation of Standard Assets' and 'Transfer of Loan Exposures' were issued on September 24, 2021.

VI.4 In the supervisory sphere, the Reserve Bank continued with its endeavour of strengthening the existing frameworks under a unified Department of Supervision (DoS) in which the supervision of banks, urban cooperative banks (UCBs), and NBFCs is being undertaken in a holistic manner. Technology has been effectively leveraged in several aspects across off-site surveillance, on-site assessment, development of Early Warning Signals (EWS) and fraud risk management. Additionally, a technology vision document for UCBs was released, laying out a five-pillared strategic approach. For NBFCs, the supervisory reporting system has been rationalised and redesigned. The data capabilities of the Reserve Bank will be further upgraded through the revamped data warehouse, *viz.,* Centralised Information Management System (CIMS). On the other hand, the College of Supervisors (CoS) organised a wide range of programmes to enhance the skill sets of supervisory and regulatory resources during the year.

VI.5 The process of setting up an Umbrella Organisation (UO) for the UCBs is crystallising in the cooperative banking space. Other initiatives taken during the year, such as the adoption of 'One Nation - One Ombudsman' system under the "Reserve Bank – Integrated Ombudsman Scheme" (RB-IOS), 2021 and the amendment to the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961, are expected to enhance customer protection and also facilitate maintaining financial stability.

VI.6 The rest of this chapter is divided into five sections. Section 2 deals with the mandate and functions of the Financial Stability Unit (FSU). Section 3 addresses various regulatory measures undertaken by the DoR along with activities of the newly created FinTech Department during the year. Section 4 covers several supervisory measures undertaken by the DoS and enforcement actions carried out by the Enforcement Department (EFD) during the year. Section 5 highlights the role played by the Consumer Education and Protection Department (CEPD) and the Deposit Insurance and Credit Guarantee Corporation (DICGC) in protecting consumer interests, spreading awareness and upholding consumer confidence. These departments have also set out agenda for 2022-23 in their respective sections. Concluding observations are set out in the last section.

2. FINANCIAL STABILITY UNIT (FSU)

VI.7 The mandate of the Financial Stability Unit (FSU) is to monitor the stability and soundness of the financial system by examining risks to financial stability, undertaking macro-prudential surveillance through systemic stress tests, financial network analysis and by disseminating early warning information and analysis through the Financial Stability Report (FSR). It also functions as the secretariat to the Sub-Committee of the Financial Stability and Development Council (FSDC), an institutional mechanism of regulators for maintaining financial stability and monitoring macro-prudential regulation in the country.

Agenda for 2021-22

VI.8 The Department had set out the following goals for 2021-22:

- Strengthening the stress testing framework/methodology by incorporating evolving best practices (*Utkarsh*) [Paragraph VI.9];
- Conducting macro-prudential surveillance (Paragraph VI.10);

- Publishing the FSR on a timely and updated basis (Paragraph VI.10); and
- Conducting meetings of the FSDC Sub-Committee (FSDC-SC) [Paragraph VI.11].

Implementation Status

VI.9 As part of strengthening the current stress testing framework, a revised framework for multi factor macro prudential stress test was developed. This involved modifying and testing the satellite models for projection of gross non-performing assets (GNPA) ratios, components of profit after tax and sectoral probability of default. Refining the stress testing framework with real-time data is in progress.

VI.10 Two editions of the FSR, reflecting the collective assessment of the Sub-Committee of the FSDC on the balance of risks around financial stability, were released during the year. The 23rd issue of the FSR, brought out on July 1, 2021 highlighted global policy responses of regulators and governments to contain the severity of the pandemic's toll on financial markets and institutions. It emphasised the need for augmenting capital in the domestic banking sector to support investment demand in the economy, going forward. The 24th edition of the FSR was released on December 29, 2021. It drew attention to persistent inflationary pressures and shifts in monetary policy stances globally. Noting the relatively improved health of the domestic banking sector, it pointed to emerging signs of stress in the micro, small and medium enterprises (MSMEs) and microfinance segments. The macro stress test results in both editions of the FSR indicated that scheduled commercial banks (SCBs) have sufficient capital buffers, at the aggregate as well as individual level, even in severe stress scenarios.

VI.11 The FSDC-Sub Committee held two meetings in 2021-22, both in the virtual format owing to the second and third waves of the COVID-19 pandemic. In the meeting held in April 2021, the Sub-Committee discussed major developments in the domestic and global economy against the backdrop of the second wave of COVID-19 pandemic. It also deliberated on various inter-regulatory issues, reviewed the activities of the technical groups under its purview and evaluated the functioning of the State Level Coordination Committees (SLCCs) in various states/union territories (UTs). The members committed to remain watchful and proactive in the face of evolving challenges brought on by the resurgence of the pandemic. The Sub-Committee, in its meeting held in January 2022, reviewed major developments in global and domestic economy as well as in various segments of the financial system and discussed the assessments of members about the scenario emerging from the third wave of the COVID-19 pandemic. The Sub-Committee also discussed the use of *Aadhaar* based e-KYC and *Aadhaar* Enabled Payment System by REs.

Agenda for 2022-23

VI.12 In the year ahead, FSU will focus on the following:

- Implementation of the revised stress testing framework and publication of the results in FSR (*Utkarsh)*;
- Carrying out sensitivity analyses, covering the impact of housing price movements on bank capital;
- Conduct of macro-prudential surveillance;
- Publication of half-yearly FSRs; and
- Conduct of meetings of the FSDC-SC.

3. REGULATION OF FINANCIAL INTERMEDIARIES

Department of Regulation (DoR)

VI.13 The Department of Regulation (DoR) is the nodal Department for regulation of commercial banks, cooperative banks, NBFCs, Credit Information Companies (CICs) and All India Financial Institutions (AIFIs), for ensuring a healthy and competitive financial system, which provides cost effective and inclusive financial services. The regulatory framework is fine-tuned as per the requirements of the Indian economy, while adapting to international best practices.

Agenda for 2021-22

VI.14 The Department had set out the following goals in 2021-22:

- Issuing draft guidelines on capital charge for credit risk (standardised approach), market risk, operational risk and output floor, as part of convergence of the Reserve Bank's regulations with Basel III standards (Paragraph VI.15);
- Issue of final guidelines on securitisation of standard assets and issue of final guidelines on transfer of loan exposures (Paragraph VI.16);
- *Setting up of an Umbrella Organisation (UO) for UCBs*: The Reserve Bank had advised National Federation of Urban Cooperative Banks and Credit Societies Limited (NAFCUB) to establish UO for UCBs. Accordingly, a company named National Cooperative Finance and Development Corporation Limited (NCFDC) was incorporated on April 18, 2020 as a non-government public limited company under the Companies Act 2013, having its registered office in New Delhi to act as UO. The UO is required to apply to the Reserve Bank for obtaining certificate of registration as NBFC *(Utkarsh)* [Paragraph VI.17];
- *Discussion Paper on Consolidation of UCB Sector*: An expert committee on UCBs, set up in February 2021, is examining, *inter alia*, the prospects of consolidation in the UCB sector as one of its terms of reference. Further action in the matter will be taken based on the recommendations of the committee *(Utkarsh)* [Paragraph VI.18];
- Finalise scale-based regulatory framework for NBFCs given the increasing significance of NBFCs in the financial system (Paragraph VI.19);
- Review of regulatory framework applicable to Non-Banking Financial Company-Microfinance Institutions (NBFC-MFIs) and harmonising the regulatory frameworks for various regulated lenders in the microfinance space (Paragraph VI.20); and
- Comprehensive review of the regulatory and legal framework of Asset Reconstruction Companies (ARCs) so as to realise their potential in resolving stressed assets of the financial sector (Paragraph VI.21).

Implementation Status

VI.15 As part of convergence of its regulations with Basel III standards, the Reserve Bank issued the draft 'Master Direction on Minimum Capital Requirements for Operational Risk' for public comments on December 15, 2021. Further, draft guidelines on the other risk categories and output floor are expected to be issued by June 2022, followed by final guidelines in September 2022.

VI.16 Master Direction - Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 and Master Direction - Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 were issued on September 24, 2021.

Setting up of an Umbrella Organisation (UO) for UCBs

VI.17 National Cooperative Finance and Development Corporation Limited (NCFDC) has been advised to resubmit its application for registration as NBFC along with details of the capital raising plan.

Discussion Paper on Consolidation of UCB Sector

VI.18 The issue of consolidation in the UCB sector was one of the terms of the reference of the Expert Committee on UCBs. The Committee has, however, recommended consolidation of UCBs to be primarily voluntary. The Committee has further recommended that scale in the UCB sector may be achieved by networking of the smaller UCBs through the UO, for which the Reserve Bank has already given 'in principle' regulatory approval to the NAFCUB. The work of setting up the UO by the NAFCUB is in progress.

VI.19 An integrated circular was issued on October 22, 2021 regarding "Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs". This circular contains regulatory instructions on matters relating to capital requirements, governance standards, prudential regulation, and disclosures applicable to NBFCs in different layers.

VI.20 A comprehensive regulatory framework for microfinance loans was issued on March 14, 2022 which has been made applicable to all regulated entities lending in the microfinance sector.

VI.21 A Committee under the chairmanship of Shri Sudarshan Sen, former Executive Director, Reserve Bank of India was constituted to undertake a comprehensive review of the regulatory and legal framework of ARCs. The Committee's report was released for public comments on November 2, 2021. Recommendations of the Committee are being examined.

Major Developments

Regulatory Response to the COVID-19 Pandemic

VI.22 *Resolution Framework 2.0* : In order to address the financial difficulties arising from the second wave of COVID-19 in the first quarter of 2021-22 on small borrowers, the Reserve Bank had announced the Resolution Framework 2.0 dated May 5, 2021, subsequently revised on June 4, 2021, which permitted lending institutions to restructure personal loans as well as loans to individuals for business purposes, MSMEs, and other small businesses with aggregate exposure up to ₹50 crore, without a downgrade in the asset classification, subject to certain conditions. The facility, available to eligible borrowers who did not restructure their accounts under earlier restructuring schemes, was to be invoked up to September 30, 2021.

VI.23 *Resolution Framework for COVID-19-related Stress – Financial Parameters – Revised Timelines for Compliance:* In view of the resurgence of the COVID-19 pandemic in 2021 and recognising the difficulties it may pose for the borrowers in meeting the operational parameters, it was decided to defer the target date to October 1, 2022 for meeting the specified thresholds in respect of the four operational parameters, *viz.,* total debt/earnings before interest, taxes, depreciation and amortisation (EBITDA), current ratio, debt service coverage ratio (DSCR), and average DSCR (ADSCR), as part of resolution plan in respect of eligible borrowers under the Resolution Framework for COVID-19 related stress issued on August 6, 2020. However, the target date for achieving the total outside liabilities to adjusted tangible net worth (TOL/ATNW) ratio, as crystallised in terms of the resolution plan, remained unchanged as on March 31, 2022.

Prudential Norms on Income Recognition, Asset Classification and Provisioning (IRACP) Pertaining to Advances

VI.24 In order to ensure uniformity in the implementation of IRACP norms across all lending institutions, certain aspects of the extant regulatory guidelines were clarified and/or harmonised *vide* circular dated November 12, 2021. The circular elucidated the following: specification of due date/repayment date; operational aspect of classification of an account as special mention account (SMA) and non-performing asset (NPA); definition of 'out of order'; aligning 90 days delinquency norm for NPA classification in case of interest payments; upgradation of accounts classified as NPAs; and income recognition policy for loans with moratorium on payment of interest. Subsequently, *vide* circular dated February 15, 2022, NBFCs were allowed time up to September 30, 2022 to put in place the necessary systems to implement the provision relating to upgrade of NPA accounts. Also, clarifications on certain queries received from various stakeholders regarding applicability of 'out of order' definition to overdraft (OD) accounts given for non-business purposes, upgradation of NPAs in case of borrowers having multiple credit facilities from a lending institution, impact of November 12, 2021 circular on reporting of credit information to Central Repository of Information on Large Credits (CRILC) and on the implementation of Indian Accounting Standards (Ind-AS) by NBFCs, have also been provided therein.

VI.25 Further, in order to increase awareness amongst the borrowers on the concept of asset classification of loan accounts, the circular dated November 12, 2021 also required lending institutions to put in place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with a specific reference to day-end process. Lending institutions were also advised to consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Additionally, they were also advised to ensure that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them at the time of sanction/disbursal/renewal of loans. These instructions shall be complied with at the earliest, but not later than March 31, 2022.

Guidelines on Securitisation of Standard Assets

VI.26 The directions on 'Securitisation of Standard Assets' issued on September 24, 2021, focusing on traditional securitisation structures, have rationalised the regulatory framework. The requirements on minimum holding period and minimum retention requirement have been considerably simplified, while the capital requirements for securitisation exposures have been converged with the Basel III requirements, including the concessional capital regime in case of simple, transparent, and comparable (STC) securitisations. The guidelines also stipulate requirements for various facility providers to provide a robust support ecosystem for securitisation.

Guidelines on Transfer of Loan Exposures

VI.27 A robust secondary market in loans can be an important mechanism for management of credit exposures by lending institutions. It also creates additional avenues for raising liquidity. The Master Directions on Transfer of Loan Exposures issued on September 24, 2021 lay down the comprehensive regulatory framework for transfer of loan exposures by banks, NBFCs and AIFIs. In particular, an enabling framework has been put in place for transfer of stressed loan exposures to a wider set of market participants, subject to specified conditions.

Scale Based Regulation - A Revised Regulatory Framework for NBFCs

VI.28 The contribution of NBFCs towards supporting real economic activity and acting as a supplemental channel of credit intermediation alongside banks is well recognised. Higher risk appetite of NBFCs has, however, contributed over time to their size, complexity, and interconnectedness, thus, making some of the entities systemically significant that pose potential threat to financial stability. Pursuant to the announcement made in the Statement on Developmental and Regulatory Policies dated December 4, 2020 on the issue, a discussion paper titled 'Revised Regulatory Framework for NBFCs – A Scale-based Approach' was issued for public comments on January 22, 2021. Based on the inputs received from various stakeholders, a revised regulatory framework for NBFCs was put in place on October 22, 2021. The revised regulatory framework provides for a layered structure for NBFCs based upon their size, activity, and perceived riskiness, and will be applicable from October 1, 2022.

Large Exposure Framework (LEF) - Credit Risk Mitigation (CRM)

VI.29 In the absence of a formal cross-border resolution regime, there was a need to ring-fence the operations of branches of a foreign bank in India. Against this background, Large Exposure Framework (LEF) was made applicable to exposures of foreign bank branches on their Head Office (HO). In order to address the issue of additional capital burden on such banks due to the introduction of LEF, instructions on a Credit Risk Mitigation (CRM) mechanism for the foreign bank branches were issued on September 9, 2021, which allowed the gross exposure of foreign bank branches to HO (including overseas branches) to be offset with the CRM, while reckoning LEF limits, subject to certain conditions. The CRM can comprise cash/unencumbered approved securities held under Section 11(2)(b)(i) of the Banking Regulation Act,1949, the sources of which should be interest-free funds from HO or remittable surplus retained in the Indian books (reserves). Foreign bank branches were permitted to exclude all derivative contracts executed prior to April 1, 2019 (grandfathering), while computing derivative exposure on the HO.

Opening of Current Accounts by Banks - Need for Discipline

VI.30 In order to enforce credit discipline amongst the borrowers as well as to facilitate better monitoring by the lenders, instructions on the manner of opening of cash credit/overdraft (CC/OD) and current/collection accounts by banks were issued on August 6, 2020. The guidelines were revised on October 29, 2021, thereby allowing borrowers, to whom the exposure of the banking system is less than ₹5 crore, to open current accounts and CC/OD accounts without any restrictions. Further, a borrower with CC/OD facility is permitted to maintain current accounts with any one of the banks with which it has CC/OD facility. Other lending banks were permitted to open collection accounts for such customers.

Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps

VI.31 The Report of the Working Group (WG) on 'Digital Lending including Lending through Online Platforms and Mobile Applications' was placed in public domain on November 18, 2021. It offers a holistic roadmap for development of digital lending ecosystem, based on the principles of technology neutrality, principle-backed regulation while addressing regulatory arbitrage. The key recommendations of the report include (i) restricting balance sheet lending by Digital Lending Apps (DLAs) only to REs of the Reserve Bank or entities registered under any other law for specifically undertaking lending business; (ii) enacting a separate legislation to prevent illegal digital lending activities; (iii) treating Buy Now Pay Later (BNPL) as part of balance sheet lending and prohibition on unregulated entities from offering First Loss Default Guarantee (FLDG); (iv) setting up of a Self-Regulatory Organisation (SRO) for the digital lending ecosystem; (v) setting up of a Digital India Trust Agency (DIGITA) to verify the DLAs and maintain a public register of all the verified apps; (vi) loan servicing and re-payments mandatorily through bank account/fully KYC compliant pre-paid instrument (PPI) account; (vii) prescription of baseline technology standards for DLAs; (viii) use of explainable and ethical artificial intelligence (AI); (ix) informed and explicit consent for data collection; (x) key fact statement for loan in standardised format; (xi) anti-predatory lending policy; and (xii) code of conduct for recovery. The report has elicited feedback from a range of stakeholders. The implementation framework would require close inter-agency coordination, including the government.

Review of Instructions on Gold Metal Loan

VI.32 Gold (Metal) Loans (GML) are extended by nominated/designated banks to exporters or domestic manufacturers of gold jewellery. So far, borrowers had no option to use physical gold to repay the outstanding loan as they were required to repay the amount only in INR representing the value of the borrowed gold. The guidelines in this regard were reviewed and banks are now required to provide an option to borrowers to repay a part of the GML in physical gold in lots of one kilogram (kg) or more, provided the GML was extended out of locally sourced/gold monetisation scheme (GMS)-linked gold and the gold used for repayment conforms to the prescribed standards, and is delivered on behalf of the borrower to the lending bank directly by a refiner or a central agency acceptable to the bank, without the borrower's involvement. Banks were also advised to suitably incorporate the above aspects into their lending policy and continue to monitor the end-use of funds lent under GML.

Foreign Currency (Non-Resident) Accounts (Banks) Scheme [FCNR (B)] – LIBOR Transition

VI.33 The Financial Conduct Authority (FCA), UK had announced the cessation of LIBOR benchmark effective December 31, 2021. Globally, financial markets are moving towards the adoption of Alternative Reference Rates (ARRs) like SOFR (USD), SONIA (GBP), TONAR (JPY), ESTR (Euro) and SONAR (CHF), as the new benchmark in place of LIBOR. These ARRs are administered/supported by the central banks of the respective countries. In view of the imminent cessation of LIBOR benchmark, the extant instructions were amended to permit banks to offer interest rates on FCNR (B) deposits using widely accepted 'Overnight ARR for the respective currency' with upward revision in the interest rates' ceiling by 50 bps.

Export Credit in Foreign Currency - Benchmark Rate

VI.34 In view of the impending discontinuance of LIBOR as a benchmark rate after December 2021, banks were permitted to extend export credit using any other widely accepted ARR in the currency concerned.

Restructuring of Derivative Contracts – LIBOR Transition

VI.35 For derivative contracts, as per extant instructions, a change in any of the parameters of the original contract is treated as restructuring and the resultant change in the mark-to-market value of the contract on the date of restructuring is required to be cash settled. Since the change in reference rate from LIBOR is a *"force majeure"* event, banks were advised that change in reference rate from LIBOR/LIBOR-related benchmarks to an ARR would not be treated as restructuring.

Report of the Committee to Review the Working of Asset Reconstruction Companies (ARCs)

VI.36 Against the backdrop of a significant build-up of non-performing assets in the financial system and concerns over the performance of ARCs, the Reserve Bank had set up an external Committee (Chairman: Shri Sudarshan Sen, former Executive Director, RBI) to review, *inter alia*, the existing legal and regulatory framework applicable to ARCs and recommend measures to enhance their efficacy and to improve liquidity in and trading of security receipts. The Committee after extensive deliberations with stakeholders, submitted its report, which was released on the Reserve Bank's website on November 2, 2021 for public comments. The recommendations of the Committee are being examined.

Notification of Housing Finance Companies (HFCs) as 'Financial Institution' under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

VI.37 Earlier, for notification as 'Financial Institution' under Section 2(1)(m)(iv) of SARFAESI Act, 2002 for the purpose of enforcement of security interest in secured debts, HFCs complying with certain prescribed norms such as compliance with minimum supervisory rating, no adverse report from other authorities, *etc.,* were required to apply on an individual entity basis. Post simplification of the procedure of notification of HFCs as 'Financial Institution' under SARFAESI Act, 2002 by the Government of India (GoI) *vide* Gazette Notification No. S.O. 2405(E) dated June 17, 2021, all HFCs, having assets worth ₹100 crore and above, were notified as 'Financial Institution' under SARFAESI Act, 2002. Hence, the previously prescribed criteria for such notification of HFCs were withdrawn.

Notifications on Registration of Factors and Registration of Assignment of Receivables for Factoring Transactions on TReDS Platform

VI.38 Subsequent to amendment to Factoring Regulation Act, 2011, the Reserve Bank has issued requisite regulations pertaining to the manner of granting the certificate of registration (CoR) to companies which propose to undertake factoring business. In addition to NBFC-Factors, all non-deposit taking NBFC-investment and credit companies (NBFC-ICCs) with asset size of 1,000 crore and above have been allowed to undertake factoring business, subject to satisfaction of certain conditions; and other NBFCs can undertake factoring business by seeking registration as NBFC-Factors. Further, the Reserve Bank has issued regulations on registration of assignment of receivables with central registry by TReDS entities, in case of factoring transactions undertaken on TReDS platform. These steps are expected to enhance the scope of entities eligible to undertake factoring transactions and would also help in increased flow of credit to MSMEs.

Discussion Paper on Review of Prudential Norms for Investment Portfolio of Banks

VI.39 Extant regulatory instructions on classification and valuation of investment portfolio by SCBs are largely based on a framework introduced in October 2000, drawing upon the then prevailing global standards and best practices. In view of the subsequent significant developments in global standards on classification, measurement, and valuation of investments, the linkages with the capital adequacy framework as well as progress in the domestic financial markets, there is a need to review and update these norms. Accordingly, a discussion paper covering all the relevant aspects was placed in the public domain for comments on January 14, 2022. The discussion paper proposes investment portfolio to be characterised in three categories, *viz.,* Held to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss Account (FVPTL), within which the Held for Trading (HFT) will be a sub-category. It proposes, *inter alia*, symmetric recognition of unrealised gains and losses, with concerns on such recognition addressed through prudential filters on regulatory capital and dividend distribution supplemented by enhanced disclosures.

Declaration of Dividend by NBFCs

VI.40 Unlike banks, there are currently no guidelines in place with regard to the distribution of dividend by NBFCs. Keeping in view the increasing significance of NBFCs in the financial system and their inter-linkages with other segments of the financial market, it was decided to formulate guidelines on dividend distribution by NBFCs. Accordingly, a draft circular on 'Declaration of Dividends by NBFCs' was issued on December 9, 2020, for public comments. Based on the feedback received, final guidelines were issued *vide* circular dated June 24, 2021.

Implementation of Net Stable Funding Ratio (NSFR) Guidelines

VI.41 The final guidelines regarding 'Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR)' were issued on May 17, 2018 and were scheduled to come into effect from April 1, 2020. However, due to uncertainty on account of COVID-19, the implementation of these guidelines was deferred progressively till October 1, 2021. Accordingly, the guidelines on NSFR have come into effect from October 1, 2021.

Review of the Threshold Limit for Small Business Customers under Liquidity Standards

VI.42 With the objective to better align the Reserve Bank's guidelines with the Basel Committee on Banking Supervision (BCBS) standard and enable banks to manage liquidity risk more effectively, the threshold limit for deposits and other extensions of funds made by non-financial small business customers were increased from ₹5 crore to ₹7.5 crore for the purpose of maintenance of Liquidity Coverage Ratio (LCR) and NSFR.

Investment in Umbrella Organisation (UO) by Primary (Urban) Cooperative Banks

VI.43 In order to facilitate investment in capital of UO of UCB Sector by primary (urban) cooperative banks, it has been clarified that investment in UO by UCBs shall be exempted from prudential limits prescribed for investment in non-SLR securities and unlisted securities.

Developments Related to the Sustainable Finance Group

VI.44 In May 2021, the Reserve Bank set up a Sustainable Finance Group (SFG) within DoR, tasked with spearheading its efforts and regulatory initiatives in the area of climate risk and sustainable finance. The SFG would coordinate with other national and international agencies on issues relating to climate change. Moreover, the group would be instrumental in suggesting strategies and evolving a regulatory framework, including appropriate disclosures, which could be prescribed for banks and other regulated entities (REs) to propagate sustainable practices and mitigate climate related risks in the Indian context.

VI.45 The SFG represents the Reserve Bank in the bilateral India-UK Sustainable Finance Forum which was set up in 2020 to drive forward a deeper cooperation between India and the UK on sustainable finance. It also represents the Reserve Bank on the G20 Sustainable Finance Working Group, International Platform on Sustainable Finance, the Financial Stability Board's (FSB's) Working Group on Climate Risk and the Work Stream on Climate-related Disclosures. The Reserve Bank is also a member of the Task Force on Climate-related Financial Risks set up by the BCBS.

VI.46 The Reserve Bank was featured in the first Sustainable Regulation Annual Report published by the World-Wide Fund for Nature (WWF) on October 28, 2021. According to the report, with growing awareness about the financial impact of climate change, central banks are increasingly taking steps to create a more sustainable financial system.

VI.47 To assess the progress of the REs in managing climate risk and also to sensitise them to incorporate climate-related and environmental risks in their business strategies as also in their governance and risk management frameworks, the Reserve Bank is preparing a consultative discussion paper. In line with the international best practices, banks will be guided to adopt a forward-looking, comprehensive and strategic approach to climate-related risks. During January 2022, the SFG has also undertaken a survey on climate risk and sustainable finance among public sector banks, private sector banks and leading foreign banks in India. The feedback from the survey would help inform the regulatory and supervisory approach of the Reserve Bank to climate risk and sustainable finance as also help fine-tune its capacity building and awareness measures in this regard.

Simplification of the 'Periodic Updation of KYC' Process

VI.48 The periodic updation of the Know Your Customer (KYC) information is to be carried out by REs at least once in 2 years, 8 years and 10 years for high-risk, medium-risk and low-risk customers, respectively. This process has been simplified to a significant extent *vide* amendment dated May 10, 2021 to the Master Direction on KYC dated February 25, 2016. For instance, in case of no-change in KYC details, a self-declaration can be furnished by the customer. Self-declaration can be provided using various channels, including digital channels such as customer's email, mobile, ATMs, online banking/internet banking and mobile application of REs. The self-declaration provision in case of no-change in KYC details has also been introduced for Legal Entities (LEs) similar to that for individual customers. Further, in case of a change only in the address details of the individual customer, a self-declaration of the new address has been allowed. The declared address shall have to be verified by REs through positive confirmation within two months, by means such as address verification letter, contact point verification, *etc*. Certain additional measures have been introduced such as (i) verification of existing PAN number at the time of periodic updation on KYC; (ii) migration of legacy accounts opened on the basis of old documents to current norms, as per extant Prevention of Money Laundering (PML) rules; (iii) REs to provide acknowledgement to customers both at the time of submission of KYC documents (or self-declaration) and after updation of KYC documents in their record; and (iv) REs have been instructed to consider making available the facility of periodic updation of KYC at any branch. Risk-based approach for periodic updation of KYC has been mandated for REs. Therefore, any additional measures apart from the above shall have to be clearly specified by REs in their internal KYC policy, duly approved by the Board of Directors or any committee of the Board to which such power has been delegated. In addition to the above, Video based Customer Identification Process (V-CIP) has been extended for periodic updation of KYC.

VI.49 These simplified measures will not only provide convenience to the customers to comply with the requirements of periodic updation of KYC but will also enable REs to update the KYC records on time.

Aadhaar e-KYC Authentication Licence for Non-bank Entities

VI.50 In terms of Section 11A of the PML Act, 2002, entities other than banking companies may, by notification of the central government, be permitted to carry out authentication of client's *Aadhaar* number using e-KYC facility provided by the Unique Identification Authority of India (UIDAI). Such notification shall be issued only after consultation with UIDAI and the appropriate regulator.

VI.51 Accordingly, *vide* circular dated September 13, 2021, the Reserve Bank enabled all the NBFCs, payment system providers and payment system participants desirous of obtaining *Aadhaar* Authentication Licence - KYC User Agency (KUA) Licence or sub-KUA Licence (to perform authentication through a KUA), issued by the UIDAI, to submit their application to the DoR for onward submission to UIDAI after due diligence.

Recommendations of the Internal Working Group to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks

VI.52 An Internal Working Group constituted on June 12, 2020 to review extant ownership guidelines and corporate structure for Indian private sector banks has made 33 recommendations. The Reserve Bank has accepted 21 recommendations (some with partial modifications) including the recommendations on increasing the promoter holding to 26 per cent of paid-up voting equity share capital, reporting of pledge of shares by promoters, increasing minimum initial capital requirement for licensing new banks, and relaxation of listing norms for small finance banks (SFBs) to be set up in future. The remaining 12 recommendations are under examination. A press release in this regard was issued on November 26, 2021.

Corporate Governance in Banks - Appointment of Directors and Constitution of Committees of the Board dated April 26, 2021

VI.53 A discussion paper on 'Governance in Commercial Banks in India' was issued by the Reserve Bank on June 11, 2020 to review the framework for governance in the commercial banks. Based on the feedback received, a comprehensive review of the framework has been carried out, and a Master Direction on Governance will be issued in due course. In the interim, to address a few operative aspects received through such feedback, instructions regarding the chair and meetings of the board, composition of certain committees of the board, age, tenure and remuneration of directors, and appointment of the whole-time directors (WTDs) have been issued on April 26, 2021.

Guidelines on Compensation of Whole Time Directors/Chief Executive Officers/ Material Risk Takers and Control Function Staff – Clarification dated August 30, 2021

VI.54 On August 30, 2021 a clarification was issued, in respect of the share-linked instruments including employee stock ownership plans (ESOPs), granted after the accounting period ending March 31, 2021, advising that the fair value of such instruments should be recognised as an expense, beginning with the accounting period for which the approval has been granted.

Amendments in Gold Monetisation Scheme (GMS), 2015

VI.55 The Master Directions on Gold Monetisation Scheme, 2015 dated October 22, 2015 did not contain specific instructions to designated banks for calculation of interest in case of premature closure of Medium- and Long-Term Government Deposit (MLTGD) under GMS before/after lock-in period in case of death of the depositor and also in case of default of loan taken against MLTGD certificate. The requisite amendments in the Master Directions were carried out *vide* circular dated October 28, 2021 to include details of applicable interest rates, based on the actual period for which the deposit has run (divided into various time buckets). Being premature closure in nature, the applicable interest rates are lower than those applicable to MLTGD deposits in normal course. Nonetheless, in case of premature closure due to death, applicable interest rate is 0.125 per cent higher than those for premature closure due to loan default.

Submission of Form IX on eXtensible Business Reporting Language (XBRL) Live Site

VI.56 In order to improve the efficiency of Form IX return (on unclaimed deposits) submission, the hard copy/paper submission of Form IX return has been dispensed with, effective from December 31, 2021. Accordingly, all commercial banks have been advised to submit the captioned return in electronic form on XBRL live site, using digital signature of one authorised official of the bank.

Revised Instructions on Safe Deposits Locker/ Safe Custody Article Facility Provided by Banks

VI.57 The instructions on providing safe deposit locker/safe custody article facility by banks have been revised on August 18, 2021, in public interest. The revisions mainly relate to enhancement of safety/security aspects, need for a model locker agreement and disclosure of terms and conditions on the websites of banks. The revised instructions have come into force from January 1, 2022 (except where otherwise specified) and are applicable to both new and existing safe deposit lockers and safe custody articles facility with the banks. Banks have been given time till January 1, 2023 to renew their locker agreements with the existing customers.

Appointment of Chief Risk Officer in Primary (Urban) Cooperative Banks

VI.58 With the growing complexities in the cooperative sector and the increase in their size and scope of business, primary (urban) cooperative banks (UCBs) face diverse and greater degree of risks in their operations. Accordingly, UCBs having asset size of ₹5,000 crore or above have been advised *vide* circular dated June 25, 2021 to appoint a chief risk officer. They have also been advised to set up a risk management committee of the Board in order to provide the required level of attention on various aspects of risk management.

Amalgamation of District Central Cooperative Banks (DCCBs) with State Cooperative Bank (StCB)

VI.59 On May 24, 2021, the Reserve Bank issued a circular on voluntary amalgamation of DCCBs with StCB under the provisions of Section 44A, read with Section 56 of the Banking Regulation (BR) Act, 1949 as amended *vide* BR (Amendment) Act, 2020 (39 of 2020). The circular was issued for dissemination of the amended statutory provisions and consequent changes in the procedure/ indicative benchmarks for amalgamation of DCCBs with StCB.

Appointment of Managing Director (MD)/ Whole-Time Director (WTD) in Primary (Urban) Cooperative Banks

VI.60 A circular on the appointment of MD/WTD in UCBs was issued by the Reserve Bank on June 25, 2021. The circular prescribes eligibility, 'fit and proper' criteria, *etc.,* for the post of MD/WTD in UCBs. It also advises UCBs to seek the Reserve Bank's prior approval (and process thereof) for appointment/re-appointment/termination of MD/ WTD. This circular was issued to enhance the governance standards in UCBs and to give effect to the provisions of the BR (Amendment) Act, 2020.

Submission of Returns under Section 31 of the Banking Regulation Act, 1949 (AACS) – Extension of Time

VI.61 Considering the difficulties faced by cooperative banks (*i.e.,* UCBs, state cooperative banks and central cooperative banks) due to the COVID-19 pandemic, the timeline for submission of returns under Section 31 of Banking Regulation Act 1949 [As Applicable to Cooperative Societies (AACS)] for the financial year ended March 31, 2021, was extended by three months, *i.e.,* till September 30, 2021.

Caution Notice to Public on the Use of the Word "Bank/Banker/Banking" by Cooperative Societies

VI.62 Members of public were cautioned through a press release dated November 22, 2021 that some of the cooperative societies are using the word "Bank" which is in violation of Section 7 of Banking Regulation (BR) Act and are also accepting deposits from non-members/nominal members/associate members which tantamount to conducting banking business in violation of the provisions of the BR Act, 1949. The BR Act, 1949 was amended by the BR (Amendment) Act, 2020 making cooperative societies ineligible to use the words "bank", "banker", or "banking" as part of their names, except as permitted under the provisions of BR Act, 1949 or by the Reserve Bank. Accordingly, it was notified that such societies have neither been issued any licence under the BR Act, 1949 nor have they been authorised by the Reserve Bank for doing banking business. The insurance cover from the Deposit Insurance and Credit Guarantee Corporation (DICGC) is also not available for deposits placed with these societies. It was advised to exercise caution and carry out due diligence of such cooperative societies if they claim to be a bank and to look for banking licence issued by the Reserve Bank before dealing with them.

VI.63 State governments were also informed about the provisions under the BR Act, 1949 and were requested to take necessary steps/actions to refrain/stop such entities within the State from using the word “bank”, “banker”, or “banking” as part of their names or in connection with their business and to ensure that deposits from non-members/nominal members/associate members are not accepted by them.

Resolution of NBFCs under the Insolvency and Bankruptcy Code (IBC), 2016

VI.64 *Completion of Resolution of Dewan Housing Finance Corporation Limited (DHFL):* Post supersession of the Board of Directors of DHFL and appointment of Administrator in November 2019, the Reserve Bank had initiated Corporate Insolvency Resolution Process (CIRP) under the IBC against DHFL in December 2019. With the approval of resolution plan of Piramal Group by the National Company Law Tribunal (NCLT), Mumbai in June 2021, the resolution process has been formally completed.

VI.65 *Initiation of Resolution Process of Two SREI Group NBFCs [SREI Infrastructure Finance Limited (SIFL) and SREI Equipment Finance Limited (SEFL)]:* Due to serious supervisory concerns and default to creditors, the Reserve Bank superseded the Board of Directors of SIFL and SEFL. Post supersession and appointment of Administrator on October 4, 2021, applications for initiation of CIRP under IBC, 2016 and Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudication Authority) Rules, 2019 have been admitted by NCLT, Kolkata on October 8, 2021. Subsequently, the Administrator has moved an application for group insolvency with NCLT under the integrated Committee of Creditors (CoC). NCLT, Kolkata has approved the said application in February 2022. Presently, the CIRP is progressing as per the provisions of IBC, 2016 and related laws.

VI.66 *Initiation of Resolution Process of Reliance Capital Ltd (RCL):* Due to defaults in meeting payment obligations and supervisory concerns, in exercise of powers conferred by Section 45-IE of the Reserve Bank of India Act, 1934, in public interest, the Reserve Bank superseded the Board of Directors of RCL on November 29, 2021 and appointed an Administrator. Subsequently, the application filed by the Reserve Bank to initiate CIRP against RCL under IBC, 2016 and Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudication Authority) Rules, 2019 was admitted by NCLT, Mumbai on December 6, 2021. Presently, the CIRP is undergoing as per provisions of IBC, 2016 and related laws.

Amendment in DICGC Act

VI.67 GoI has notified the DICGC (Amendment) Act, 2021 on August 13, 2021. As per the timeline prescribed in the amended Act, DICGC is liable to pay an amount equivalent to the deposits outstanding (up to a maximum of ₹5 lakh) within 90 days of placing the bank under restrictions. The Act also provides that in case the Reserve Bank is in the process of finalising a scheme of amalgamation of the insured bank with another banking institution or a scheme of compromise or arrangement or reconstruction and the same is communicated to DICGC, then the date of repayment can be extended by a period not exceeding 90 days (also refer to Box VI.5).

Resolution of Punjab and Maharashtra Cooperative Bank Limited, Mumbai (PMC Bank Ltd.)

VI.68 The PMC Bank Ltd. had received binding offers from investors for its reconstruction, in response to the Expression of Interest (EOI) dated November 3, 2020. After careful consideration, the proposal from Centrum Financial Services Limited

(CFSL) along with Resilient Innovation Private Limited was found to be *prima facie* feasible. Accordingly, in specific pursuance to their offer dated February 1, 2021 in response to the EOI, the Reserve Bank, on June 18, 2021, granted "in-principle" approval, valid for 120 days, to CFSL to set up a SFB under its general guidelines dated December 5, 2019 for 'on tap' licensing of SFBs in the private sector. Subsequently, Unity Small Finance Bank Limited (USFB), with CFSL as the promoter, was granted banking licence on October 12, 2021, which commenced its operations effective November 1, 2021. The Reserve Bank, on November 22, 2021, placed in public domain, a draft scheme of amalgamation of the PMC Bank Ltd. with USFB, inviting suggestions from members, depositors, and other creditors of transferor bank (PMC Bank Ltd.) and transferee bank (USFB). The scheme was sanctioned and notified by the GoI under Section 45 of BR Act, effective date of amalgamation being January 25, 2022.

Regulatory Framework for Microfinance Loans

VI.69 A comprehensive regulatory framework for microfinance loans was issued on March 14, 2022 wherein uniform guidelines have been put in place for microfinance loans provided by all REs of the Reserve Bank. This framework introduces activity-based regulation in the microfinance sector and is intended to address the concerns regarding over-indebtedness of small borrowers, enhance the customer protection measures, and enable the competitive forces to bring down the interest rates by empowering the borrowers to make an informed decision (Box VI.1).

Box VI.1
Regulatory Framework for Microfinance Loans

Based on the recommendations of the Malegam Committee[1], a comprehensive regulatory framework for NBFC-MFIs was issued in 2011. This framework, *inter alia*, included certain customer protection measures for microfinance borrowers, *viz.,* limits on maximum loan amount and number of lenders, loans without collateral, no pre-payment penalty, flexibility of repayment periodicity, regulatory ceiling on interest rates, *etc*. Over the years, the landscape of microfinance sector has changed significantly due to conversion/merger of some of the large NBFC-MFIs to/with banks. Consequently, the share of NBFC-MFIs in the overall microfinance sector has now come down to 35 per cent. However, the customer protection measures as applicable to NBFC-MFIs are not applicable to other lenders extending microfinance loans to the same borrowers.

In this context, the Reserve Bank had released a consultative document on 'Regulation of Microfinance' on June 14, 2021 for feedback from all the stakeholders. Based on the feedback received, a comprehensive regulatory framework for microfinance loans applicable to all REs was issued on March 14, 2022. Besides introducing activity-based regulation in the microfinance sector, this framework is intended to deleverage the microfinance borrowers, enhance the customer protection measures, enable the competitive forces to bring down the interest rates and provide flexibility to the REs to meet the credit needs of the microfinance borrower comprehensively.

Deleveraging of Microfinance Borrowers

To address the concerns of over-indebtedness of microfinance borrowers, a common definition of 'microfinance loans' for all REs, *viz.,* collateral-free loan given to a household having annual household income up to ₹3,00,000 has been introduced to identify the target set of borrowers with certainty. Further, loan repayments

(Contd.)

[1] In the wake of Andhra Pradesh microfinance crisis, a sub-committee of the Central Board of Directors of the Reserve Bank was constituted in October 2010 to study issues and concerns in the microfinance sector under the Chairmanship of Shri Y.H. Malegam. The report was submitted to the Reserve Bank on January 19, 2011.

of the household have been capped at 50 per cent of the household income, thus linking the eligible loan amount to the borrowers' repayment capacity. Besides protecting the small borrowers from the perils of overleveraging, these measures are also expected to further financial inclusion by requiring the lenders to venture into new geographies to expand their business.

Enhancement of Customer Protection Measures

To ensure borrowers' protection from coercive recovery practices, this framework, *inter alia*, requires a mechanism by REs for engaging with borrowers facing repayment related difficulties, prohibition on harsh recovery practices, recovery at a designated/central designated place to be decided mutually by the borrower and the RE, due diligence process for engagement of recovery agents and a dedicated mechanism for redressal of recovery related grievances. Besides, certain customer protection measures applicable only to NBFC-MFIs, *viz.,* no pre-payment penalty, no requirement of collateral and flexibility of repayment periodicity for microfinance loans have been extended to all REs.

Pricing of Microfinance Loans

A standardised and simplified factsheet on pricing of microfinance loans has been introduced to enhance the borrowers' price-sensitivity, thus empowering them to make informed decisions. A uniform methodology for calculation of effective annualised interest rate has also been prescribed to maintain comparability across lenders. Besides, all REs are required to display minimum, maximum, and average interest rates charged by them. These specific measures, supplemented with other measures, *viz.,* no pre-payment penalty (to provide borrowers with the option to switch between lenders), cap on repayment obligations as a percentage of household income (thus nudging the lenders to lower interest rates to keep the instalments within the prescribed cap), keeping a check on the borrowers' over-indebtedness (thus bringing down their credit risk premium, driving lenders to enter into new areas to expand their business thus increasing competition in low-competition areas), reducing the minimum threshold of microfinance loans for NBFC-MFIs from 85 per cent of net assets to 75 per cent of total assets (thus lowering their concentration risk and in turn, cost of funds) and increasing the maximum threshold on microfinance loans for NBFCs other than NBFC-MFIs from 10 per cent to 25 per cent of total assets (thus increasing competition) are expected to increase price competition and lower interest rates in the microfinance sector.

Flexibility to Design Products/Services

Certain product specific requirements for microfinance loans of NBFC-MFIs such as limits on loan amount (overall limit of ₹1,25,000 along with a sub-limit of ₹75,000 in first cycle), tenure of loan (minimum tenure of 24 months for loans above ₹30,000), purpose of loan (minimum 50 per cent of loans for income generation activities) have been withdrawn. This will provide flexibility to NBFC-MFIs to customise their products and services to meet the needs of microfinance borrowers in a comprehensive manner.

Source: RBI.

Fair Valuation of Banks' Investment in Re-capitalisation Bonds

VI.70 At present, the investments classified under HTM portfolio are valued at acquisition cost. It is expected that the acquisition of such instruments shall be at the fair value of the security at the time of its acquisition. Accordingly, it has been clarified, *vide* circular dated March 31, 2022, that banks' investment in special securities received from the GoI towards banks' recapitalisation requirement from 2021-22 onwards shall be recognised at fair value/market value on initial recognition in HTM. Any difference between the acquisition cost and fair value arrived as above shall be immediately recognised in the profit and loss account.

Agenda for 2022-23

VI.71 For the year ahead, the Department will focus on the following key deliverables:

- Convergence with Basel III standards and issuance of final guidelines for computation of capital charge for credit risk, market risk, and operational risk;
- Issue of discussion paper on expected loss approach for provisioning;

- Issuance of guidelines on securitisation of non-performing assets;
- Issue of discussion paper on climate risk and sustainable finance;
- Issuance of guidelines on prudential and conduct issues associated with digital lending;
- Issuance of guidelines on financial statements - presentation and disclosure for rural cooperative banks;
- Issuance of part II of the guidelines on raising capital funds for primary (urban) cooperative banks;
- Guidance note on principles for sound management of operational risk and principles for operational resilience; and
- Review of the following guidelines: (a) prudential framework for resolution of stressed assets; (b) restructuring of projects under implementation by aligning it with prudential framework; (c) investment guidelines and financial statements' formats for UCBs; (d) dividend declaration policy of commercial banks; (e) liquidity management framework for commercial banks and UCBs; (f) capital adequacy framework for SFBs and Payments Banks (PBs); (g) instructions on credit and debit cards; (h) instructions on inoperative accounts, centralised hosting of data on inoperative/unclaimed deposit accounts; and (i) recommendations of the Expert Committee on the primary (urban) cooperative banks and taking steps to issue regulatory instructions based on these recommendations.

FinTech Department

VI.72 The FinTech Division[2], which was operating within the Department of Payment and Settlement Systems (DPSS) since July 2020, is now made a full-fledged Department effective January 4, 2022, with a view to give further focus to the area and facilitate innovation in FinTech sector (Box VI.2). The Department will not only promote innovation in the sector, but also identify the challenges and opportunities associated with it and address them in a timely manner. The Department will also provide a framework for further research on the subject that can aid policy interventions by the Reserve Bank. Accordingly, all matters related to the facilitation of constructive innovations and incubations in the FinTech sector, which may have wider implications for the financial sector/markets and also falling under the purview of the Reserve Bank, will now be examined by the Department. Further, issues related to inter-regulatory coordination and international coordination on FinTech would also fall in its domain.

Major Initiatives

Regulatory Sandbox - Cohorts (Utkarsh)

VI.73 Under the first cohort of the Regulatory Sandbox on "Retail Payments", products and services encompassing technologies like Near Field Communication (NFC), sound waves and Interactive Voice Response (IVR) were tested. All six products were found viable within the boundary conditions defined during testing. Under the second cohort with theme 'Cross-border Payments', eight entities underwent testing. The third cohort with theme 'MSME lending' was opened in October 2021. The theme for fourth cohort - 'Prevention and

[2] FinTech Unit was set up in the Department of Regulation (DoR) in June 2018 for acting as a central point of contact in the Reserve Bank for all activities related to FinTech.

Box VI.2
Facilitating the FinTech Innovation: The Reserve Bank's Approach

The traditional financial landscape has witnessed a fundamental change in its structure and way of functioning, mostly driven by the widespread adoption of technology in the last decade. FinTech has disrupted the Banking, Financial Services, and Insurance (BFSI) segment in its way of product structuring, back-end analytics, delivery of services, *etc*. As expected, such innovation first disrupts the market and once it establishes its constructive role, the regulators and authorities step in to regulate the space to nurture the innovation in a sustainable manner and to also mitigate any associated risks. Even though innovations claim to thrive best when free of regulations, regulations/legislations are needed for sustainable growth of a sector.

With increasing impact of the FinTech segment on both macro (financial stability and cyber security) and micro levels (consumer protection and financial inclusion), it becomes pertinent to keep facilitating innovation while also bringing regulatory order in the FinTech space. Balancing such innovation with regulation has been the Reserve Bank's nuanced approach that has been dynamically evolving along with market developments.

To deal with the unique developments in the sector, the Reserve Bank has also made conscious efforts to reinvent its primary role as innovation facilitator. Some of the examples of direct FinTech regulation by the Reserve Bank have been in the form of regulations for Non-Banking Financial Company – Peer to Peer (NBFC-P2P) platforms, Account Aggregators, Trade Receivables Discounting System (TReDS) platforms, *etc*. The latest Report of the Working Group on Digital Lending (November 18, 2021) is another exercise to enable the creation of a comprehensive regulatory framework for the digital space.

The Reserve Bank has also assumed non-conventional central banking role through its initiatives such as regulatory sandbox, establishment of the Reserve Bank Innovation Hub, conducting hackathon, *etc*. With a view to give focused attention to its initiatives and to deal with emerging issues in the dynamically changing financial landscape, the Reserve Bank has set up a FinTech Department. Having a single touchpoint for all issues related to facilitation of constructive innovations and incubations in the FinTech sector will certainly bring the required convergence needed to have a unified approach regarding the sector.

In parallel, the central bank, while encouraging innovation, is also factoring in the emerging risks in the FinTech segment. Greater use of technology accentuates the concerns related to cyber security. Further, the involvement of BigTechs in the BFSI segment also brings along the systemic risks. All of the above have implications for financial stability and it is the endeavour of the Reserve Bank to mitigate such risks through careful choice of technology and frameworks, while providing an impetus to the FinTech in a wide array of useful applications in the financial service industry.

To handle the above issues, the Reserve Bank's approach will have to balance innovation with regulation, without compromising on any of the principles of risk management.

Source: RBI.

Mitigation of Financial Frauds' - was announced. 'On Tap' application facility for themes of closed cohort was also enabled.

Central Bank Digital Currency (CBDC)

VI.74 The Reserve Bank has been exploring the pros and cons of introduction of CBDC in India. The design of CBDC needs to be in conformity with the stated objectives of monetary policy, financial stability and efficient operations of currency and payment systems. Accordingly, the appropriate design elements of CBDCs that could be implemented with little, or no disruption are under examination. The introduction of CBDC has been announced in the Union Budget 2022-23 and an appropriate amendment to the RBI Act, 1934 has been included in the Finance Bill, 2022. The Finance Bill, 2022 has been enacted, providing a legal framework for the launch of CBDC.

HARBINGER 2021

VI.75 The Reserve Bank launched its first global hackathon 'HARBINGER 2021 - Innovation for Transformation' in November 2021, with the following four problem statements: (a) innovative, easy-to-use, non-mobile digital payment solutions for converting small-ticket cash transactions to digital mode; (b) context-based retail payments to remove the physical act of payment from payment experience; (c) alternate authentication mechanism for digital payments; and (d) social media analysis monitoring tool for detection of digital payment fraud and disruption. The hackathon has received encouraging response from domestic and international contestants.

Reserve Bank Innovation Hub

VI.76 To foster innovation in a sustainable manner and through an institutional set-up, the Reserve Bank Innovation Hub (RBIH) was set-up as a wholly owned subsidiary of the Reserve Bank. The Hub has an independent Board with eminent members from industry and academia and has its headquarters in Bengaluru.

VI.77 The Hub will collaborate with financial sector institutions, technology, industry and academic institutions and will coordinate efforts for exchange of ideas and development of prototypes related to financial innovations for creating an eco-system that would focus on promoting access to financial services and products and would further financial inclusion. It would also develop the required internal infrastructure to promote FinTech research and facilitate engagement with innovators and start-ups.

Agenda for 2022-23

VI.78 In 2022-23, the Department will focus on the following goals:

- Implementation of the roadmap laid down by 'Vision and Strategy Document on FinTech' *(Utkarsh)*;
- Exploring policy framework for digital banking, FinTech and BigTechs;
- Phased introduction of CBDC *(Utkarsh)*;
- Facilitating setting up of 75 digital banking units in 75 districts of the country; and
- Ensuring execution of key projects of importance through the Reserve Bank Innovation Hub.

4. SUPERVISION OF FINANCIAL INTERMEDIARIES

Department of Supervision (DoS)

VI.79 The Department of Supervision (DoS) is entrusted with the responsibility of supervising all SCBs [excluding regional rural banks (RRBs)], Local Area Banks (LABs), Payments Banks (PBs), SFBs, CICs, AIFIs, UCBs, NBFCs [excluding Housing Finance Companies (HFCs)] and ARCs.

Commercial Banks

VI.80 The Department took a number of measures to further strengthen both on-site and off-site supervision of the SCBs (excluding RRBs), LABs, PBs, SFBs, CICs and AIFIs during the year.

Agenda for 2021-22

VI.81 The Department had set out the following goals for supervision of SCBs during the year:

- Strengthening the on-site assessment of oversight and assurance functions, including risk and compliance culture, as also business strategy/model *(Utkarsh)* [Paragraph VI.82];
- Adoption of innovative and scalable SupTech to enhance the efficiency and efficacy of supervisory processes by modifying its capacity and capability *(Utkarsh)* [Paragraph VI.83];
- Streamlining the process of data collection from all banks and their off-site assessment and on-site supervision of select banks

based on the outcome of risk-based model developed for KYC/anti money laundering (AML) supervision (Paragraph VI.84); and

- Enhancement of Fraud Risk Management System, including improving efficacy of EWS Framework, strengthening fraud governance and response system, augmenting the data analysis for monitoring of transactions, introduction of dedicated Market Intelligence (MI) Unit for frauds and implementation of automated unique system generated number for each fraud (Paragraph VI.85 - VI.86).

Implementation Status

Oversight and Assurance Functions in Banks

VI.82 Assessment of oversight, assurance functions and business model/strategy continue to be the core areas of focus in supervision. Recognising the primacy of good governance and robust internal controls in the functioning of sound financial entities, the Reserve Bank now accords greater weight to the quality of governance and assurance functions in its supervisory assessment. The Reserve Bank's guidelines in the areas of risk management, compliance, internal audit and statutory audit aim to impart greater independence and efficacy to the various wings of assurance function in supervised entities (SEs).

SupTech

VI.83 An integrated supervisory data structure for the entities supervised by the Reserve Bank has been developed by consolidating and optimising the present framework of returns. Data collection from the banks is being further rationalised as part of Centralised Information Management System (CIMS). While technology has been leveraged in strengthening and expanding the scope of off-site analytics, market intelligence and off-site surveillance have been made more structured and are being continuously refined.

Supervising KYC/AML Compliance

VI.84 An analytical model has been developed for risk scoring and profiling of banks based on the KYC/AML data submitted by them. The risk scores arrived at through the model form the basis for off-site and on-site assessment of banks and are provided as an input for risk-based supervision (RBS) of them.

Strengthening Fraud Risk Management

VI.85 During 2021-22, the Reserve Bank carried out a study on the implementation of EWS framework in select SCBs, in collaboration with Reserve Bank Information Technology Private Limited (ReBIT). Further, the effectiveness of EWS was assessed in select banks by using Machine Learning (ML) algorithms.

VI.86 In order to make the analysis of fraud data more effective and result oriented, several improvements like unified fraud reporting system for all SEs, generation of data dashboards and system generated unique identity number for frauds reported by SEs are being implemented under the CIMS project. Further, the revised Central Fraud Registry (CFR) under the CIMS is slated to have enhanced search capabilities and will provide Application Programming Interface (API) capabilities for seamless fraud related data transfers from/to reporting entities.

Other Initiatives

Fraud Analysis

VI.87 An assessment of bank group-wise fraud cases over the last three years indicates that while private sector banks reported maximum number of frauds, public sector banks contributed maximum to the fraud amount (Table VI.1). Frauds have

Table VI.1: Fraud Cases – Bank Group-wise

(Amount in ₹ crore)

Bank Group/Institution	2019-20		2020-21		2021-22	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Public Sector Banks	4,410 *(50.7)*	1,48,224 *(79.9)*	2,901 *(39.4)*	81,901 *(59.2)*	3,078 *(33.8)*	40,282 *(66.7)*
Private Sector Banks	3,065 *(35.2)*	34,211 *(18.5)*	3,710 *(50.4)*	46,335 *(33.5)*	5,334 *(58.6)*	17,588 *(29.1)*
Foreign Banks	1,026 *(11.8)*	972 *(0.5)*	520 *(7.1)*	3,280 *(2.4)*	494 *(5.5)*	1,206 *(2.0)*
Financial Institutions	15 *(0.2)*	2,048 *(1.1)*	24 *(0.3)*	6,663 *(4.9)*	10 *(0.1)*	1,305 *(2.2)*
Small Finance Banks	147 *(1.7)*	11 -	114 *(1.6)*	30 -	155 *(1.7)*	30 -
Payments Banks	38 *(0.4)*	2 -	88 *(1.2)*	2 -	30 *(0.3)*	1 -
Local Area Banks	2 -	- -	2 -	- -	2 -	2 -
Total	**8,703** ***(100.0)***	**1,85,468** ***(100.0)***	**7,359** ***(100.0)***	**1,38,211** ***(100.0)***	**9,103** ***(100.0)***	**60,414** ***(100.0)***

-: Nil/negligible.

Note: 1. Figures in parentheses represent the percentage share of the total.
2. The above data is in respect of frauds of ₹1 lakh and above reported during the period.
3. The figures reported by banks & FIs are subject to change based on revisions filed by them.
4. Frauds reported in a year could have occurred several years prior to the year of reporting.
5. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved is not necessarily diverted.

Source: RBI Supervisory Returns.

been occurring predominantly in the loan portfolio (advances category), both in terms of number and value (Table VI.2). While the number of frauds reported by private sector banks were mainly on account of small value card/internet frauds, the fraud amount reported by public sector banks was mainly in loan portfolio.

VI.88 An analysis of the vintage of frauds reported during 2020-21 and 2021-22 shows a significant time-lag between the date of occurrence of a fraud and its detection (Table VI.3). 93.73 per cent of the frauds in 2021-22 by value occurred in previous financial years as against 91.71 per cent recorded in 2020-21.

Prompt Recognition of Impaired Assets

VI.89 The Reserve Bank continues to remain engaged with the SCBs in implementing system driven NPA identification, with a view to ensuring prompt and error-free recognition of asset impairment.

Agenda for 2022-23

VI.90 The Department has identified the following goals for supervision of SCBs/AIFIs in 2022-23:

- Generate supervisory dashboards for senior management of the Reserve Bank *(Utkarsh)*;
- Back-testing of Early Warning Indicator (EWI) model to assess its predictive power/creating a new EWI framework for SCBs; and
- Undertaking process audit of SCBs to identify weaknesses and initiate remedial measures.

Table VI.2: Frauds Cases- Area of Operations

(Amount in ₹ crore)

Area of Operation	2019-20		2020-21		2021-22	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Advances	4,608 *(52.9)*	1,81,942 *(98.1)*	3,497 *(47.5)*	1,36,812 *(99.0)*	3,839 *(42.2)*	58,328 *(96.5)*
Off-balance Sheet	34 *(0.4)*	2,445 *(1.4)*	23 *(0.3)*	535 *(0.4)*	21 *(0.2)*	1077 *(1.8)*
Forex Transactions	8 *(0.1)*	54 -	4 *(0.1)*	129 *(0.1)*	7 *(0.1)*	7 -
Card/Internet	2,677 *(30.7)*	129 *(0.1)*	2,545 *(34.6)*	119 *(0.1)*	3,596 *(39.5)*	155 *(0.2)*
Deposits	530 *(6.1)*	616 *(0.3)*	504 *(6.8)*	434 *(0.3)*	471 *(5.2)*	493 *(0.8)*
Inter-Branch Accounts	2 -	- -	2 -	- -	3 -	2 -
Cash	371 *(4.3)*	63 -	329 *(4.5)*	39 -	649 *(7.1)*	93 *(0.2)*
Cheques/DDs, *etc.*	201 *(2.3)*	39 -	163 *(2.2)*	85 *(0.1)*	201 *(2.2)*	158 *(0.3)*
Clearing Accounts	22 *(0.3)*	7 -	14 *(0.2)*	4 -	16 *(0.2)*	1 -
Others	250 *(2.9)*	173 *(0.1)*	278 *(3.8)*	54 -	300 *(3.3)*	100 *(0.2)*
Total	**8,703** ***(100.0)***	**1,85,468** ***(100.0)***	**7,359** ***(100.0)***	**1,38,211** ***(100.0)***	**9,103** ***(100.0)***	**60,414** ***(100.0)***

-: Nil/negligible.

Note: 1. Figures in parentheses represent the percentage share of the total.
2. Refer to footnotes 2-5 of Table VI.1.

Source: RBI Supervisory Returns.

Table VI.3: Vintage of Frauds Reported in 2020-21 and 2021-22

(Amount involved >= ₹1 lakh)

2020-21		2021-22	
Occurrence of Fraud	Amount Involved (₹ crore)	Occurrence of Fraud	Amount Involved (₹ crore)
1	2	3	4
Before 2011-12	6,371	Before 2012-13	10,930
2011-12	4,365	2012-13	3,272
2012-13	5,016	2013-14	7,270
2013-14	16,143	2014-15	3,451
2014-15	14,635	2015-16	4,661
2015-16	14,167	2016-17	5,620
2016-17	14,486	2017-18	7,346
2017-18	17,293	2018-19	5,448
2018-19	12,851	2019-20	4,912
2019-20	21,432	2020-21	3,719
2020-21	11,452	2021-22	3,785
Total	**1,38,211**	**Total**	**60,414**

Note: Refer to footnotes 3 and 5 of Table VI.1.

Source: RBI Supervisory Returns.

Urban Cooperative Banks (UCBs)

VI.91 The Department undertook continuous monitoring of the UCBs during the year to ensure the development of a safe and well-managed cooperative banking sector.

Agenda for 2021-22

VI.92 The Department had set out the following goals for supervision of UCBs in 2021-22:

- Conduct information technology (IT)/cyber security examination of select scheduled UCBs *(Utkarsh)* [Paragraph VI.93 - VI.95];
- Developing the risk-based approach for KYC/AML supervision of select UCBs (Paragraph VI.96); and
- Strengthening EWS and stress testing framework for UCBs (Paragraph VI.97).

Implementation Status

Cyber Security and IT Examination of UCBs

VI.93 The technology vision document for cyber security, which was released for UCBs on September 24, 2020, envisages achieving its objective through a five-pillared strategic approach named as **GUARD**, *viz.,* **G**overnance Oversight, **U**tile Technology Investment, **A**ppropriate Regulation and Supervision, **R**obust Collaboration, and **D**eveloping necessary IT and cyber security skills set.

VI.94 During the year, initiatives were taken to enhance the monitoring of cyber security resilience of UCBs, including completion of cyber security examination of select scheduled UCBs. An exercise for ascertaining the implementation of mandatory Society for Worldwide Interbank Financial Telecommunications (SWIFT) system related controls was conducted for applicable UCBs. As an outcome of the exercise, UCBs concerned were advised to plug in the gaps observed on a priority basis.

VI.95 To address risks emanating from IT and cyber-related issues in UCBs, a system for their IT examination has been introduced in collaboration with ReBIT, that complements the regular inspection process. During 2021-22, the Reserve Bank conducted IT examination of all nine UCBs with asset size of ₹5,000 crore and above.

KYC/AML Supervision of UCBs

VI.96 In 2021-22, data templates were designed and shared with select UCBs (having asset size of ₹1,000 crore and above) for data collection. This shall be utilised for generating the risk scores and risk profiling of UCBs.

Early Warning System and Stress Testing Framework

VI.97 As part of the forward-looking assessment of stress, various supervisory tools were designed during the year to identify vulnerabilities. An EWS and a stress testing framework have been developed to capture and analyse the early indicators of stress in the UCB segment.

Agenda for 2022-23

VI.98 The Department has identified the following goals for supervision of UCBs in 2022-23:

- Roll out of Key Risk Indicators (KRIs) for UCBs to assess the cyber security risk profile;
- Extending IT Examination progressively to UCBs with asset size below ₹5,000 crore or mandating external IT reviews; and
- Analysing inter-connectedness of UCBs with companies from directorship perspective.

Non-Banking Financial Companies (NBFCs)

VI.99 The Department continued to effectively monitor the NBFCs (excluding HFCs) and ARCs registered with the Reserve Bank, with the objective to protect the interests of depositors and customers, while ensuring financial stability.

Agenda for 2021-22

VI.100 The Department had identified the following goals for supervision of NBFCs in 2021-22*:*

- Designing supervisory reporting system under Indian Accounting Standards (Ind-AS) *[Utkarsh]* (Paragraph VI.101);
- Implementation of Central Fraud Registry (CFR) for NBFCs (*Utkarsh*) [Paragraph VI.102];
- Strengthening market intelligence (MI) and off-site supervisory assessment of NBFCs (Paragraph VI.103 - VI.104);

- Developing the risk-based approach for KYC/AML supervision of select NBFCs (Paragraph VI.105); and
- Monitoring effectiveness of customer service provided by NBFCs (Paragraph VI.106).

Implementation Status

Rationalisation of Supervisory Reporting System

VI.101 In order to enhance the effectiveness of off-site assessment and the quality of data collection of NBFCs, COSMOS returns of NBFCs have been rationalised and redesigned in the new XBRL system. Also, the NBFC returns have been redesigned to align with Ind-AS accounting norms and the same will be implemented in the CIMS portal. Further, differentiated MIS reports have been designed for off-site surveillance of NBFCs on an ongoing basis in the CIMS portal.

Central Fraud Registry (CFR) for NBFCs

VI.102 An XBRL based platform has been developed during the year for online reporting of frauds by NBFCs. Meanwhile, the development of unified fraud reporting format for all SEs (including NBFCs) under CIMS project has commenced. The unified fraud reporting format hosts an automated system of assigning unique ID for all individual accounts, which have been reported as frauds.

Enhanced Supervisory Assessment

VI.103 The Reserve Bank has set-up a centralised supervisory intelligence cell which prepares a monthly MI report for SEs (including NBFCs) by consolidating information from various external sources (brokers reports, rating downgrades and negative news mapped with internal CRILC data), internal sources (*Sachet* portal and monthly complaint analysis) and inputs received from other sources.

VI.104 Systemically important NBFCs as well as deposit taking NBFCs are closely monitored for any incipient signs of weakness and wherever required, the Reserve Bank undertakes on-site examination/scrutiny to assess their position. Weakness/deficiencies observed are immediately taken up with the management of the NBFCs for time-bound corrective action. The Reserve Bank also maintains oversight on the corrective actions taken by the companies.

KYC/AML Supervision of NBFCs

VI.105 Data templates were designed and shared with select NBFCs for data collection in 2021-22. These data will be utilised for generating the risk scores and risk profiling of NBFCs.

Customer Service by NBFCs

VI.106 The compliance with prescribed guidelines is checked during onsite assessment on sample basis and non-compliances, if any, are brought out in inspection reports of respective NBFCs. Adherence to Fair Practices Code and quality of customer services were also scrutinised for digital lending NBFCs and NBFCs attached to digital lenders having substantial customer interface, on a sample basis.

Agenda for 2022-23

VI.107 The Department has identified the following goals for supervision of NBFCs in 2022-23:

- Review the supervisory framework and the return format for NBFCs under Ind-AS based on the regulatory guidance in the matter *(Utkarsh)*;
- Make changes in sectoral assessment in the context of recently released scale-based regulatory framework for NBFCs;

- Roll out KRIs for NBFCs to assess their cyber security risk profile through off-site design of KRIs; and
- Roll out of IT examination for select NBFCs.

Supervisory Measures for All Supervised Entities (SEs)

VI.108 A unified DoS has been operationalised in which the supervision of banks, UCBs and NBFCs is being undertaken in a holistic manner under one umbrella Department. This will improve handling of issues arising from regulatory/supervisory arbitrage, interconnectedness and information asymmetry.

Agenda for 2021-22

VI.109 The Department had set out the following supervisory goals for all SEs in 2021-22:

- Strengthening cyber security monitoring mechanism for SEs (*Utkarsh*) [Paragraph VI.110 - VI.111];
- Issuing of guidelines on IT governance, risk, controls and assurance practices (Paragraph VI.110 - VI.111);
- Integrate supervisory data structure for the Reserve Bank's REs by reviewing and consolidating the present framework of returns (*Utkarsh*) [Paragraph VI.112];
- Introduce supervisory data analytics with the capability for market surveillance, misconduct analysis, micro/macro prudential analysis (*Utkarsh*) [Paragraph VI.113]; and
- The CoS, under the guidance of Academic Advisory Council (AAC), will plan and develop curricula of all programmes based on identified areas where skill building/ up-skilling are required, benchmark the programmes with international standards/ best practices, and develop appropriate teaching methods (Paragraph VI.114).

Implementation Status

IT and Cyber Security Related Developments

VI.110 The Reserve Bank has advised all SCBs (excluding foreign banks and RRBs) to identify critical infrastructure as per the National Critical Information Infrastructure Protection Centre (NCIIPC) guidelines issued in 2019. Cyber KRI return has been revised to capture cyber risks faced by banks in a better manner.

VI.111 The Reserve Bank has taken several steps to enhance monitoring of cyber security preparedness of SEs. Master Directions on Digital Payment Security Controls have been issued. Guidelines on usage of new technology, *i.e.,* cloud services and security, and information technology governance, risk, controls and assurance practices are being drafted for placing on the Reserve Bank's website for public comments. Further, the Reserve Bank conducted a phishing simulation exercise for select SEs to assess email security and cyber security preparedness. Based on the exercise, the SEs whose systems needed attention, were advised to implement a definitive action plan with specific timelines.

Supervisory Data Analytics

VI.112 The offsite supervisory data are currently used in a variety of ways to aid policy formulation, identify incipient stress, ascertain status of borrowers across lenders, and check compliance to regulatory stipulations, among others. In addition to CRILC and CFR, the data capabilities of the Reserve Bank are being further upgraded through the revamped data warehouse, *viz.,* CIMS. New integrated return formats have been developed after thorough review and rationalisation of the extant return formats.

VI.113 The Reserve Bank has developed a system for early identification of vulnerabilities to take timely and proactive action. It has been deploying data analytics to the quarterly offsite returns to provide an effective and more comprehensive inputs to onsite supervisory teams. An early warning framework - which tracks macroeconomic variables, and market and banking indicators - complements the analysis. Bank-wise as well as system-wide supervisory stress testing adds a forward-looking dimension for identification of vulnerable areas. During the year, a micro-prudential analytical study as an input to the RBS model along with macro-prudential analysis was conducted for identification of stressed sectors. Market surveillance and misconduct analysis are also being undertaken on an ongoing basis.

College of Supervisors (CoS)

VI.114 In order to enhance the skill set of supervisory and regulatory personnel, the College of Supervisors was set up in May 2020. During the year, a total of 43 training programmes were conducted by CoS (Box VI.3).

Box VI.3
Supervisory Skilling and Empowerment

After the creation of the unified Department of Supervision (DoS) and the unified Department of Regulation (DoR), various initiatives were taken to enable supervisors to undertake ongoing surveillance of the financial system by creating the enabling framework, internal processes, work environment and the right skill sets in sync with the growing complexities in the financial business.

The Reserve Bank has set up a College of Supervisors (CoS) to augment and reinforce supervisory skills among its regulatory and supervisory personnel, both at entry level and on a continuous basis. Initially promulgated in virtual mode in May 2020, the college has been formally operationalised with effect from January 2021. The college is headed by a full-time Director, who is supported by a six-member Academic Advisory Council (AAC), which guides in identifying areas where skill building/up-skilling is required, plans and develops curricula for all programmes, benchmarks the programmes with international standards/ best practices, develops appropriate learning methods, *etc.*

CoS has conducted programmes, workshops and seminars on a wide range of topics relevant for the officers dealing with its regulatory, supervisory, enforcement and financial stability functions at the Reserve Bank and at a few other jurisdictions and to those in the functions of risk, compliance and audit in the Reserve Bank regulated entities. These include programmes on: nuanced techniques of on-site supervision, off-site surveillance of financial entities for smelling “distress” early, digital business models, use of analytics for supervision and regulation, technological foundations and building blocks of FinTech, RegTech & SupTech, leadership, team building & communication skills in supervisory processes, *etc.* During 2021-22, more than 1,700 participants benefitted through 43 training programmes. The focus of CoS is also to upskill the newly recruited personnel by way of foundation courses to develop them suitably and enable them to face newer complex challenges in the future. The programmes were imparted with the help of the best Indian and global faculty using an interactive, case-study based pedagogy. Further, as part of continuous learning programmes, CoS has also organised thematic webinars, topical panel discussions and fire side ‘discussion with the authors’.

Going forward, CoS purports to deploy advanced learning tools and offer e-learning modules and certification courses, besides continuing to impart training in virtual and physical modes. A total of 55 programmes and 12 seminars/webinars have been planned for the year 2022-23, including select collaborative learning programmes with international institutions such as ECB, IMF, BIS, *etc.*

Source: RBI.

Major Developments

Conduct of KYC/AML and Fraud Governance Related Workshops

VI.115 In order to give further impetus to strengthening the KYC/AML and Fraud Governance framework in the banks, UCBs and NBFCs, several workshops were conducted for all the banks and select UCBs/NBFCs through virtual modes in November 2021 and in February 2022. The workshops for banks were also attended by the officials of Indian Banks' Association (IBA). Further, the Reserve Bank conducted several workshops for the senior management of NBFCs and UCBs, for sensitising them on better fraud management, including monitoring and reporting.

Revised Prompt Corrective Action (PCA) Framework for SCBs

VI.116 A revised PCA framework was issued with an objective to enable timely supervisory intervention and to require SEs to initiate and implement remedial measures in a judicious manner, to contain build-up of risks and to put the identified entities on a path of restoration of their financial health. The revised PCA framework is also intended to act as a tool for effective market discipline.

PCA Framework for NBFCs

VI.117 Considering the growing size of NBFCs and their substantial interconnectedness with other segments of the financial system, a PCA framework for NBFCs was introduced to further strengthen the supervisory tools applicable to them.

Rationalisation of Extant Off-site Returns of UCBs

VI.118 A Working Group (WG) has reviewed and re-designed the regulatory and supervisory returns for UCBs. The exercise, *inter alia*, included reduction in the number of returns and addition of new data items, wherever warranted, to capture the key developments related to the UCBs' major business areas. The rationalised set of returns are purported to be rolled out in the CIMS portal.

Strengthening Audit Mechanism for UCBs

VI.119 Beginning with 2021-22, the Reserve Bank has prescribed additional certification/reporting requirements for the statutory auditors of UCBs. Nineteen certification/reporting requirements were prescribed for the year 2021-22. These requirements were conveyed to UCBs for their submission to the Reserve Bank.

Risk Based Internal Audit (RBIA) Guidelines for Select HFCs and NBFCs

VI.120 RBIA guidelines were extended to all deposit-taking HFCs and non-deposit taking HFCs with asset size of ₹5,000 crore and above *vide* circular dated June 11, 2021. The circular intends, *inter alia*, to provide the essential requirements for a robust internal audit function, which includes sufficient authority, stature, independence, resources and professional competence, so as to align these requirements in larger NBFCs/UCBs with those stipulated for SCBs. It is expected that the adoption of RBIA by such entities would help to enhance the quality and effectiveness of their internal audit system.

Harmonised Guidelines on Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs)

VI.121 The Department issued harmonised guidelines on appointment of SCAs/SAs of commercial banks (excluding RRBs), UCBs and NBFCs (including HFCs) *vide* circular dated April 27, 2021. These guidelines provide necessary instructions regarding the number of auditors, their eligibility criteria, tenure, and rotation, while ensuring the independence of auditors. These guidelines will also ensure that the statutory auditors are appointed in a timely, transparent, and effective manner and strengthen the audit system in REs.

Core Financial Services Solution for NBFCs

VI.122 During the year, the Reserve Bank mandated certain categories of NBFCs to implement 'Core Financial Services Solution (CFSS)', akin to the Core Banking Solution (CBS) adopted by banks, which shall provide for seamless customer interface in digital offerings and transactions relating to products and services with anywhere/anytime facility, enable integration of NBFCs' functions, provide centralised database and accounting records, and be able to generate suitable MIS, both for internal purposes and regulatory reporting.

Various Analytical Studies

VI.123 During the year, the Department conducted various analytical studies on contemporary topics such as assessment of climate change related risks for banks, payment system data, National Automated Clearing House (NACH), Legal Entity Identifier (LEI), corporate insolvency regime, effectiveness of macroprudential policies, prediction of first time NPAs, Ind-AS accounting norms' impact on NBFCs, digitisation in UCBs, *etc*.

Supervisory Colleges for Internationally Active Banks

VI.124 The Reserve Bank monitors the overseas operations of Indian banks through a system of offsite returns and teleconferences with overseas regulators. For banks that are internationally active, there is a system of supervisory colleges, which provides a forum for exchanging supervisory concerns and developments in different jurisdictions. In addition, the Department holds workshop with overseas regulators for sharing of best practices and recent developments in supervision.

Agenda for 2022-23

VI.125 The Department proposes to achieve the following goals for supervision of all SEs in 2022-23:

- Implementation of risk-based approach (RBA) for KYC/AML supervision of select UCBs and NBFCs;
- Issue of guidelines on compliance function and appointment of Chief Compliance Officers (CCOs) in NBFCs and UCBs;
- Unified fraud reporting system for all SEs;
- Undertaking cyber security enhancement measures;
- Further strengthening of audit mechanisms in SEs; and
- Scaling-up of operations of the CoS for capacity development and skill enhancement of supervisory staff.

Enforcement Department (EFD)

VI.126 Enforcement Department was set up in April 2017 with a view to separate enforcement action from supervisory process and to put in place a structured, rule-based approach to identify and process the violations by the REs of the applicable statutes and the rules, regulations, guidelines and orders made, directions issued, and conditions imposed thereunder by the Reserve Bank, and enforce the same consistently across the Reserve Bank. The objective of enforcement is to ensure compliance by the REs with laws, within the overarching principle of ensuring financial stability, public interest and consumer protection.

Agenda for 2021-22

VI.127 The Department had set out the following goals for 2021-22:

- Implementation of the EFD's business process application and database of enforcement actions *(Utkarsh)* [Paragraph VI.128];
- Review of enforcement policy and standard operating procedures (SOPs); and examining undertaking of enforcement action against credit information companies (non-bank and non-NBFC) [Paragraph VI.129];
- Review of existing practices and (business) processes to identify bottlenecks affecting timeliness in enforcement action and improving coordination with DoS and DoR, to shorten the time taken for enforcement action (Paragraph VI.130);
- Increased interaction and trainings aimed at improving consistency in decisions across regional offices (ROs) and putting in place an arrangement for sharing of information across EFD, ROs, as also with the central office (CO) [Paragraph VI.131]; and
- Improving coordination with the National Bank for Agriculture and Rural Development (NABARD) and putting in place a coordination mechanism with the National Housing Bank (NHB) to facilitate effectual undertaking of enforcement action against HFCs (Paragraph VI.132).

Implementation Status

VI.128 The Department is endeavouring to implement business process application by June 2022.

VI.129 Enforcement policy and SOPs are in the process of being reviewed, based on the experience gained by the Department in the previous years, and also to include credit information companies (non-bank and non-NBFC) under the framework.

VI.130 In order to improve coordination between EFD and the regulatory and supervisory departments, the Department has put in place a mechanism for interaction on an ongoing basis and also a coordination structure at the level of Chief General Manager of the departments. Further, the Department has also designed messaging templates for sharing of information, which would obviate the need for collecting additional information from regulated entities and internal departments while processing cases.

VI.131 With a view to ensure consistency in enforcement actions, training sessions were conducted for the ROs of the Department. Additionally, an information sharing mechanism between CO and ROs was put in place for sharing of enforcement actions and best practices.

VI.132 A formal coordination mechanism with NABARD and NHB was put in place to facilitate effective undertaking of enforcement action against the REs, which were supervised by these institutions.

Other Initiative

VI.133 During April 2021-March 2022, the Department undertook enforcement action against 182 REs (189 penalties) and imposed an aggregate penalty of ₹65.32 crore for non-compliance[3] with provisions/contravention of certain directions issued by the Reserve Bank from time to time through various circulars (Table VI.4).

Agenda for 2022-23

VI.134 For the year ahead, the Department proposes to achieve the following goals:

- Towards facilitating improvement in compliance culture by REs, a system of preparing report on enforcement actions at half yearly intervals for dissemination of additional information amongst REs shall be put in place;
- Seminars focused on sensitisation of compliance officers of REs shall also be organised;
- The Department will provide inputs for compliance testing of REs to DOS, NHB and NABARD for frequently observed contraventions identified using the business process application so as to improve the compliance culture in REs; and
- The Department will examine the feasibility of a scale-based approach to enforcement.

Table VI.4: Enforcement Actions (April 2021-March 2022)

Regulated Entity	No. of Penalties	Total Penalty (₹ crore)
1	2	3
Public Sector Banks	13	17.55
Private Sector Banks	16	29.38
Cooperative Banks	145	12.10
Foreign Banks	4	4.25
Payments Banks	-	-
Small Finance Banks	1	1.0
NBFCs	10	1.03
Total	**189**	**65.32**

-: Nil.
Source: RBI.

5. CONSUMER EDUCATION AND PROTECTION

Consumer Education and Protection Department (CEPD)

VI.135 The Consumer Education and Protection Department (CEPD) frames policy guidelines for protection of the interests of customers of the Reserve Bank regulated entities; monitors the functioning of grievance redress mechanism of REs; undertakes oversight on the performance of the ombudsman offices as well as “the Reserve Bank-Integrated Ombudsman Scheme, 2021” (RB-IOS); and creates public awareness on safe banking practices, extant regulations on customer service and protection, as also the avenues for redress of customer complaints.

Agenda for 2021-22

VI.136 The Department had set out the following goals under *Utkarsh* for 2021-22:

- Formulating policy/scheme for handling complaints not covered under the ombudsman schemes (Paragraph VI.137);
- Efforts for inclusion of safe banking practices in educational curriculum (Paragraph VI.138); and

[3] Illustratively, some of them include exposure norms and IRAC norms; Reserve Bank of India [know your customer (KYC)] Directions, 2016; Reserve Bank of India (frauds classification and reporting by commercial banks and select FIs) Directions, 2016; circulars on cyber security framework in banks; membership of credit information companies (CICs); lending to NBFCs; depositor education and awareness fund scheme, 2014; Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016; and master circular on board of directors-UCBs.

- Extension of Internal Ombudsman (IO) scheme to financially sound and well managed UCBs and RRBs (Paragraph VI.139).

Implementation Status

VI.137 The erstwhile ombudsman schemes[4] of the Reserve Bank have been merged into RB-IOS with effect from November 12, 2021. There are two sets of complaints that do not fall under the RB-IOS: (i) complaints against entities not covered under RB-IOS (*i.e.,* non-scheduled UCBs having deposit size of less than ₹50 crore, NBFCs with asset size below ₹100 crore, All India Financial Institutions, Credit Information Companies, *etc.*), which are handled by the Consumer Education and Protection Cells (CEPCs) set up at the ROs of the Reserve Bank across the country; and (ii) complaints appearing in the exclusion list of the RB-IOS (complaints against management, policy matters, *etc.*). Such complaints are forwarded to the regulatory/supervisory departments of the Reserve Bank or to the concerned regulators/ authorities, as the case may be, under advice to the complainant. Detailed guidelines for handling the complaints not covered under the RB-IOS are in place.

VI.138 The Department had formulated a detailed framework for financial education with a focus on customer protection in September 2020. Content for enhancing financial awareness and "safe banking practices", have been taken up for inclusion in the education curriculum of school students in coordination with the National Centre for Financial Education (NCFE) through the Financial Inclusion and Development Department (FIDD) of the Reserve Bank.

VI.139 The proposal to bring in select UCBs and RRBs under the ambit of IO scheme was thoroughly examined. It was decided that the volume and nature of customer complaints received against UCBs and RRBs do not warrant institutionalising an IO mechanism for these entities at present. The volume and nature of customer complaints against REs of the Reserve Bank are monitored on a regular basis and a review on the requirement for IO in UCBs and RRBs would be undertaken again, if required, at a future date.

Major Developments

Launch of the RB-IOS, 2021

VI.140 In terms of the recommendations of an in-house committee to review the functioning of the ombudsman schemes, the three erstwhile ombudsman schemes, namely, (i) Banking Ombudsman Scheme, 2006; (ii) Ombudsman Scheme for Non-Banking Financial Companies, 2018; and (iii) Ombudsman Scheme for Digital Transactions, 2019 were integrated into a single scheme, *viz.,* RB-IOS, 2021, which was launched on November 12, 2021 by the Hon'ble Prime Minister of India (Box VI.4). This scheme has been framed in exercise of the powers conferred upon the Reserve Bank under Section 35A of the Banking Regulation Act, 1949 (10 of 1949), Section 45L of the Reserve Bank of India Act, 1934 (2 of 1934), and Section 18 of the Payment and Settlement Systems (PSS) Act, 2007 (51 of 2007).

[4] Refer to Paragraph VI.140.

Box VI.4
New Initiatives towards Strengthening of Grievance Redress Mechanism for Customers of Regulated Entities

The Reserve Bank has continuously been taking steps to increase the financial ease and convenience for the common man. One important step in this direction is the adoption of 'One Nation – One Ombudsman' system under the "Reserve Bank - Integrated Ombudsman Scheme" (RB-IOS), 2021, launched by the Hon'ble Prime Minister of India on November 12, 2021. The Scheme integrates the three erstwhile ombudsman schemes of the Reserve Bank and intends to cover, in a phased manner, all REs to resolve their customers' grievances in time, without any hassle.

In the words of the Hon'ble Prime Minister, "*the strength of democracy is determined by how strong, sensitive and proactive the grievance redress system is. With the RB-IOS, 2021, the 'depositors-first' commitment has gained strength. Through this scheme, the account holders of 44 crore loan accounts and 220 crore deposit accounts shall get direct relief for their grievances".*

Under the new scheme, the customers of covered REs across the country can lodge, track and monitor their complaints with the Reserve Bank Ombudsman on a single online platform, *viz.,* Complaint Management System (CMS) or through a single physical/email address at the Centralised Receipt and Processing Centre (CRPC) in Chandigarh. Further, all complaints on grounds of "deficiency of service" against these REs are now admissible as against a specific list of grounds under the erstwhile schemes.

A facility for attending conciliation meetings on virtual mode has also been enabled to aid complainants to present themselves from any remote location. The new scheme has delegated powers to the newly introduced position of Deputy Ombudsman for resolution of certain types of complaints in order to improve the turn-around time for redress.

A Contact Centre with a toll-free number (14448) has been operationalised at the CRPC to assist complainants in lodging complaints and providing information pertaining to their complaints/grievance redress mechanism of the Reserve Bank, in nine regional languages, apart from Hindi and English.

Further initiatives, to strengthen the grievance redress mechanism include (i) the formulation of a comprehensive framework for strengthening the internal grievance redress machineries in banks, put in place *vide* circular dated January 27, 2021; and (ii) extension of the IO scheme, in line with that of banks and non-bank system participants, to select NBFCs. Action for usage of advanced technological tools for quicker redress and efficient complaint management is also underway.

Source: RBI.

Extension of the IO Scheme to NBFCs

VI.141 Deposit-taking NBFCs (NBFCs-D) with 10 or more branches and Non-Deposit taking NBFCs (NBFCs-ND) with asset size of ₹5,000 crore and above, having public customer interface were directed in November 2021 to appoint an IO at the apex of their internal grievance redress mechanism within a period of six months from the date of issue of the direction. Select categories of NBFCs not having public customer interface have been exempted. The IO mechanism was mandated earlier for banks in the year 2018 and non-bank payment system participants in 2019. The direction covers, *inter alia*, the appointment/ tenure, role and responsibilities, procedural guidelines, and oversight mechanism for the IO. All complaints that are wholly or partially rejected by the internal grievance mechanism of the RE, except on aspects related to frauds, and complaints involving commercial decisions, internal administration, pay and emoluments of staff, sub-judice matters, *etc.*, are required to be reviewed by the IO before a final decision is conveyed to the complainant. The objective of the IO scheme is to enable satisfactory resolution of complaints at the end of the REs themselves so as to minimise the need for the customer to approach other fora for redress.

Returns from Banks on Complaints Received from Customers

VI.142 In terms of the recommendation by the Committee on 'Medium-term Path on Financial Inclusion' (Chairman: Shri Deepak Mohanty), constituted by the Reserve Bank, "*Banks may be required to submit the consolidated status of number of complaints received and disposed off under broad heads to the CEPD, and the Reserve Bank, in turn, can release an annual bank-wise status in the public domain".* The CEPD developed an XBRL returns format for banks to submit, on quarterly basis, consolidated and comprehensive information on complaints received and disposed off by them. Data on complaints received and handled by banks shall thereafter be analysed at CEPD, and also published in an appropriate form.

Efforts towards Customer Awareness (Utkarsh)

VI.143 The Department conducted multi-media campaigns on the ombudsman schemes, basic savings bank deposit accounts, safe digital banking practices, and facilities for senior citizens and differently abled persons, *etc*. The Offices of the Reserve Bank of India Ombudsman (ORBIOs) conducted town hall events wherein ombudsman schemes and important customer service issues were discussed with members of public and REs. Additionally, awareness programmes were also conducted by the ORBIOs with a focus on specific groups such as servicemen, school/ college students, customer groups, *etc*. Messages relating to safe banking practices, cyber frauds, ombudsman schemes, and CMS were also hosted on the Reserve Bank's website, '*RBI Kehta Hai*' and CMS webpages. The Reserve Bank published on its website, BE(A)WARE – a booklet on the common *modus operandi* used by fraudsters and precautions to be taken while carrying out various financial transactions. On the World Consumer Rights Day on March 15, 2022, an "Ombudsman Speak" programme was conducted in regional multi-media channels across the country to sensitise consumers/customers in the remotest areas on the RBI grievance redress mechanism as also on safeguards for protection against digital and electronic frauds.

Strengthening the Internal Grievance Redress Mechanism of Banks

VI.144 A framework for strengthening the internal grievance redress mechanism of banks was implemented and the four pillars of the framework, *viz.,* enhanced disclosures; recovery of cost from banks for redressal of complaints by ombudsman under certain conditions; intensive review of banks grievance redress mechanism; and supervisory/regulatory actions continue to be in force during the financial year.

Agenda for 2022-23

VI.145 The Department proposes the following agenda under *Utkarsh* for 2022-23:

- Enhanced nation-wide awareness drive for protecting customers from financial frauds;
- Harnessing advanced technological tools for strengthening customer protection and improving expediency of grievance redressal by the Reserve Bank;
- Broadbase and upgrade the Reserve Bank Contact Centre at Chandigarh to include disaster recovery and business continuity solutions;
- Set up a committee for review of the customer service standards and practices in REs and the Reserve Bank guidelines in the matter;
- Construction and dissemination of a Consumer Protection Index (CoPI); and

- Review of the framework for "Strengthening of Grievance Redress Mechanism in Banks".

Deposit Insurance and Credit Guarantee Corporation (DICGC)

VI.146 Deposit insurance plays an important role in maintaining the stability of the financial system, particularly in assuring the protection of interests of small depositors and thereby ensuring public confidence. The DICGC is wholly owned by the Reserve Bank of India and is constituted under the DICGC Act, 1961. The deposit insurance extended by the DICGC covers all commercial banks including local area banks (LABs), PBs, SFBs, RRBs and cooperative banks. The number of registered insured banks as on March 31, 2022 stood at 2,043, comprising 141 commercial banks (including 43 RRBs, 2 LABs, 6 PBs and 12 SFBs) and 1,902 cooperative banks (33 StCBs, 352 DCCBs, and 1,517 UCBs).

VI.147 With the current limit of deposit insurance in India at ₹5 lakh, the number of fully protected accounts (256.7 crore) at end-March 2022 constituted 97.9 per cent of the total number of accounts (262.2 crore), as against the international benchmark of 80 per cent. In terms of amount, the total insured deposits of ₹81,10,431 crore as at end-March 2022 constituted 49.0 per cent of assessable deposits of ₹1,65,49,630 crore, as against the international benchmark[5] of 20 to 30 per cent. At the current level, insurance cover would be over 3.3 times per capita income in 2021-22.

VI.148 The DICGC builds up its Deposit Insurance Fund (DIF) through transfer of its surplus, *i.e.,* excess of income (mainly comprising premium received from insured banks, interest income from investments, and cash recovery out of assets of failed banks) over expenditure (payment of claims of depositors and related expenses) each year, net of taxes. This fund is available for settlement of claims of depositors of banks taken into liquidation/ amalgamation and banks under the Reserve Bank's 'All Inclusive Direction' (AID). During the period April 2021 to March 2022, the Corporation has settled five main claims of liquidated banks for an amount aggregating to ₹1,124.1 crore and 12 supplementary claims of liquidated banks aggregating to ₹101.0 crore. The aggregate of main claims and supplementary claims in respect of nine urban co-operative banks amounted to ₹1,225.1 crore under Section 17 (1) of the DICGC Act 1961. In addition to the claims settled as mentioned above, an amount of ₹3,791.6 crore was provided to Unity Small Finance Bank (USFB) for making payment to the depositors of erstwhile Punjab and Maharashtra Co-operative Bank Ltd (PMCBL), pursuant to the merger of PMCBL with USFB with effect from January 25, 2022 under Section 16 (2) of the DICGC Act, 1961. Thus, the total claims settled on account of liquidated banks/ merger scheme amounted to ₹5,059.2 crore[6].

VI.149 A major event during 2021-22 was the amendment to the DICGC Act, 1961. The mandate given by the GoI through this amendment (interim payments) is not commonly known in other jurisdictions (Box VI.5). The claims settled under this channel in the case of 22 urban co-operative banks under AID amounted to ₹3,457.4 crore as on March 31, 2022. Overall, the Corporation has settled aggregate claims of ₹8,516.6 crore under

5 IADI (2013), Enhanced Guidance for Effective Deposit Insurance Systems: Deposit Insurance Coverage, Guidance Paper, March, available at www.iadi.org.

6 Inclusive of main claims settled under the expeditious claims settlement policy of the Corporation for an amount of ₹42.6 crore in case of three co-operative banks.

Box VI.5
Salient Features of Amendments to the DICGC Act, 1961

The Deposit Insurance and Credit Guarantee Corporation Act, 1961 was amended as per the notification on August 13, 2021. The amendments came into force from September 1, 2021.

A key amendment to the Act mandates that interim insurance payment to depositors is to be completed within 90 days from the date of imposition of AID by the Reserve Bank. The insured bank has to submit claims after imposition of such restriction within 45 days, and the Corporation has to get the claims verified within 30 days and pay the depositors within the next 15 days. In case the Reserve Bank finds it expedient to bring a scheme of amalgamation/ compromise or arrangement/reconstruction, the liability of the Corporation will get extended by a further period of 90 days. Some of the other amendments are as follows: (i) the DICGC may raise the limit of 15 paise per ₹100 of deposits on insurance premium with the prior approval of the Reserve Bank, considering its financial position and the interests of the banking sector in the country as a whole; and (ii) the DICGC, with the approval of its Board, may defer or vary the repayment period for the insured bank to discharge its liability to the DICGC and charge a penal interest of 2 per cent over the repo rate in case of delay. Consequent to these amendments, regulations 21A and 22A have been incorporated in the DICGC's general regulations with effect from September 22, 2021 on the procedure relating to claims settlement and the specifying of the time period to insured banks for recovery of claims paid.

These amendments are expected to have a favourable impact on the confidence of the public in the banking system, particularly in UCBs, and will be helpful in maintaining financial stability.

Source: The Gazette of India (CG-DL-E-13082021-228988 and CG-MH-E-01102021-230102) and DICGC.

different channels as mentioned above during the year 2021-22. The size of the DIF stood at ₹1,46,842 crore as on March 31, 2022 yielding a reserve ratio of 1.81 per cent.

6. CONCLUSION

VI.150 In 2021-22, the Reserve Bank kept a close watch on the potential disruptions to the financial system emanating from the resurgence of the pandemic while suitably adjusting its regulatory response. The steps taken for increasing credit flow to corporates as well as small businesses appear to have been efficacious. Simultaneously, the year also witnessed consumer education and protection ascending the hierarchy of priorities in the Reserve Bank's regulatory and supervisory action plans; several initiatives were taken spanning various dimensions such as the creation of a unified consumer grievance redressal mechanism, a comprehensive regulatory framework for microfinance loans, time bound interim payments in the case of deposit insurance, and the promotion of financial awareness and safe banking practices. Measures to harness technology and big data analytics for effective supervision and efficient customer services were also put in place. Efforts in the direction of minimising policy arbitrage and ensuring adequate risk management continue to evolve, enabling the Reserve Bank to intervene timely and take proactive action when necessary. In sum, these will strengthen the regulatory and supervisory framework of SCBs, cooperative banks and NBFCs in line with the global best practices and will also enhance public's confidence in the banking system, especially in the cooperative segment, with crucial implications for financial stability. Importantly, the Reserve Bank is also preparing to adopt a forward-looking, comprehensive, and strategic approach to climate-related financial risks.