



भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

ई-मेल/email : helpdoc@rbi.org.in



संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001

Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) Liquidity and Financial Markets; (ii) Regulation; (iii) Communication; (iv) Financial Inclusion; (v) Payment Systems; and (vi) Fintech.

I. Liquidity and Financial Markets

1. Reduction in Cash Reserve Ratio

It has been decided to reduce the cash reserve ratio (CRR) of all banks by 50 bps in two equal tranches of 25 bps each to 4.0 per cent of net demand and time liabilities (NDTL) with effect from the fortnight beginning December 14, 2024 and December 28, 2024, respectively. This will restore the CRR to 4 per cent of NDTL, which was prevailing before the commencement of the policy tightening cycle in April 2022. This reduction in the CRR would release primary liquidity of about ₹1.16 lakh crore to the banking system.

2. Interest Rates on FCNR(B) Deposits

At present, interest rates on Foreign Currency Non-Resident Bank [FCNR(B)] deposits are subject to ceilings of Overnight Alternative Reference Rate (ARR) for the respective currency/swap, plus 250 basis points for deposits of 1 year to less than 3 years maturity and overnight ARR plus 350 basis points for deposits of 3 years and above and up to 5 years maturity. In order to attract more capital inflows, it has been decided to increase the interest rate ceilings on FCNR(B) deposits. Accordingly, with effect from today (December 6, 2024), banks are permitted to raise fresh FCNR(B) deposits of 1 year to less than 3 years maturity at rates not exceeding ARR plus 400 bps and deposits with maturity between 3 to 5 years at rates not exceeding ARR plus 500 bps. This relaxation will be available till March 31, 2025.

3. Expanding reach of FX-Retail Platform through linkages with Bharat Connect

With the objective of bringing greater transparency and fairness in the pricing of foreign exchange for users, especially for individuals and the Micro, Small and Medium Enterprises, the Clearing Corporation of India Limited (CCIL) launched the FX-Retail platform in 2019. Presently, the FX-Retail platform is accessible through an internet-based application. To expand the reach of FX-Retail platform and enhance user experience, it is proposed to facilitate the linking of the FX-Retail platform with Bharat

Connect (earlier known as Bharat Bill Payment System) operated by the NPCI Bharat Connect. The linkage will enable users to register and transact on the FX-Retail platform through the apps of banks (mobile applications, internet banking etc.) and non-bank payment system providers, which are integrated with Bharat Connect. In the first phase, it is proposed to implement a pilot facilitating purchase of US Dollar against the Rupee by individuals and sole proprietors. Going forward, the scope will be expanded to cover other FX transactions including sale of US Dollar against the Rupee and other categories of users. Users will continue to have the option to directly access the FX-Retail platform, as hitherto, and transact under the existing mechanism. Instructions to banks on the operational aspects of the pilot will be issued separately.

4. Introduction of the Secured Overnight Rupee Rate (SORR) – a benchmark based on the secured money markets.

The Reserve Bank had set up the Committee on the MIBOR Benchmark (*Chairperson: Shri Ramanathan Subramanian*) to review the Rupee interest rate benchmarks in the country, especially the usage of Mumbai Interbank Outright Rate (MIBOR), and to examine the need for transition to new benchmarks. The Committee recommended several important measures to further develop the interest rate derivative market and improve the credibility of interest rate benchmarks. The Report of the Committee was published on RBI's website inviting comments from members of the public. The Reserve Bank has examined the recommendations of the Committee as well as the feedback received. In line with the recommendations and reflective of the current market dynamics, it is proposed to develop a benchmark based on the secured money markets (both basket repo and TREP) – the Secured Overnight Rupee Rate (SORR). Financial Benchmarks India Limited (FBIL) is being requested to take the proposal forward. The other recommendations of the Committee are under consideration.

II. Regulation

5. 'Connect 2 Regulate' – An Initiative for Open Regulation.

Reserve Bank has been consistently following a multi-pronged consultative process with stakeholders in framing its regulations. As a further pro-active step towards the same, the Reserve Bank proposes to launch a programme named 'Connect 2 Regulate' under the ongoing RBI@90 commemorative events. A dedicated section in the Reserve Bank's website will be made available for the programme. This shall provide an opportunity to the stakeholders to share their ideas and inputs in the form of case studies/ concept notes, etc. on the topics announced by the Reserve Bank from time to time. A press release on the programme will be issued separately.

III. Communication

6. Introduction of Podcast facility as an additional medium of communication

The Reserve Bank of India has been deploying traditional as well as new age communication techniques as a key part of its toolkit to ensure transparency and

greater impact of its decisions, explain the rationale behind its decisions, and disseminate various awareness messages to a wider audience. The Reserve Bank has been expanding the scope of its public awareness activities including through social media over the last few years. In continuance of this endeavour, the Reserve Bank proposes to launch podcasts for wider dissemination of information that is of interest to the general public.

IV. Financial Inclusion

7. Collateral-free Agriculture Loan — Enhancement of Limit

At present, banks are required to extend collateral-free agriculture loans up to ₹1.6 lakh per borrower. This limit was enhanced from ₹1 lakh, set in the year 2010 to ₹1.6 lakh in the year 2019. Keeping in view the overall inflation and rise in agricultural input costs since then, it has been decided to raise the limit for collateral-free agriculture loans from ₹1.6 lakh to ₹2 lakh. This will enhance coverage of small and marginal farmers in the formal credit system. The circular to this effect will be issued shortly.

V. Payment Systems

8. Pre-sanctioned Credit Lines through UPI – Extending the scope to SFBs

In September 2023, the scope of Unified Payments Interface (UPI) was expanded by enabling pre-sanctioned credit lines to be linked through UPI and used as a funding account by Scheduled Commercial Banks excluding Payments Banks, Small Finance Banks (SFBs) and Regional Rural Banks.

Credit line on UPI has the potential to make available low-ticket, low-tenor products to 'new-to-credit' customers. SFBs leverage a high-tech, low-cost model to reach the last mile customer and can play an enabling role in expanding the reach of credit on UPI. It is, therefore, proposed to permit SFBs to extend pre-sanctioned credit lines through the UPI. Necessary guidelines will be issued shortly.

VI. Fintech

9. Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) in the Financial Sector – Setting up of a Committee

The financial sector landscape is witnessing paradigm shifts with the advent of frontier technologies. Technologies like Artificial Intelligence (AI)/ Machine Learning (ML), tokenisation, Cloud Computing hold transformative potential for the financial sector as they can handle enormous volumes of data, automate complex processes, enhance decision-making, and bring in unprecedented efficiencies. While the benefits are many, the attendant risks like algorithmic bias, explainability of decisions, data privacy, etc., are also high. To harness the benefits, it is critical to address the attendant risks early in the adoption cycle.

As a step in this direction, it is proposed to constitute a committee to develop a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the Financial

Sector. The Committee will comprise of experts from diverse fields and shall recommend a robust, comprehensive, and adaptable AI framework for the financial sector. The details of the committee will be notified separately.

10. AI solutions to identify mule bank accounts - MuleHunter.AI™

The Reserve Bank has been taking various measures in coordination with banks and other stakeholders to prevent and mitigate digital frauds in the financial sector. These include RBI guidelines to regulated entities for strengthening cybersecurity, cyber fraud prevention and transaction monitoring. Use of money mule accounts is a common method adopted by fraudsters to channel proceeds of frauds. The Reserve Bank is currently running a hackathon on the theme “Zero Financial Frauds” which includes a specific problem statement on mule accounts, to encourage development of innovative solutions to contain the use of mule accounts. Another initiative in this direction is the AI / ML based model called MuleHunter.AI™, being piloted by Reserve Bank Innovation Hub (RBIH), a subsidiary of Reserve Bank. This model enables detection of mule bank accounts in an efficient manner. A pilot with two large public sector banks has yielded encouraging results. Banks are encouraged to collaborate with RBIH to further develop the MuleHunter.AI™ initiative to deal with the issue of mule bank accounts being used for committing financial frauds.

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(Puneet Pancholy)
Chief General Manager