VI REGULATION, SUPERVISION AND FINANCIAL STABILITY

During 2023-24, the Reserve Bank continued with initiatives to build a resilient and sound financial system. Several regulatory and supervisory measures were implemented in line with global best practices towards further strengthening of governance, risk management practices and capital buffers. The Reserve Bank persisted with its efforts to leverage on technology for an effective and efficient supervision along with a focus on enhancing cyber security. Sustained efforts were made for further improving customer services as well as strengthening fraud detection mechanisms.

VI.1 The domestic financial system remained robust and resilient during the year. The Reserve Bank continued with concerted endeavours to fortify the financial system and promote responsible innovations amidst emerging challenges from technological disruptions, cyber risks and climate change. As part of the overall objective of aligning the regulatory/supervisory framework with global best practices, important strides in the areas of risk management, regulatory compliance and enforcement, and consumer education and protection were undertaken during the year.

VI.2 The Department of Regulation (DoR) issued several guidelines which, *inter alia*, included default loss guarantee in digital lending; framework for compromise settlements and technical write-offs; investment in alternative investment funds; prudential norms for classification, valuation, operations of investment portfolios of commercial banks; and minimum capital requirements for operational risk.

VI.3 The FinTech Department expanded the scope and coverage of central bank digital currency (CBDC)-Wholesale (CBDC-W) and CBDC-Retail (CBDC-R) pilots; and launched a pilot project for public tech platform for frictionless credit.

VI.4 The Department of Supervision (DoS) initiated a host of measures to further strengthen both onsite and offsite supervision, including streamlining onsite assessments of supervised entities (SEs) related to know your customer (KYC)/anti-money laundering (AML) and cyber/information technology (IT) risks; revamping stress testing model; strengthening of early warning signal (EWS) and fraud risk management system (FRMS); and strengthening supervisory engagements with SEs. The Consumer Education and Protection Department (CEPD) continued its efforts towards enhancing customer protection and grievance redress mechanism, and harmonising the instructions applicable to the various regulated entities (REs) on the Internal Ombudsman (IO) scheme.

VI.5 This chapter discusses regulatory and supervisory measures undertaken during 2023-24 to strengthen the financial system and to preserve financial stability. The rest of this chapter is divided into five sections. Section 2 deals with the mandate and functions of the Financial Stability Department (FSD). Section 3 dwells upon regulatory measures undertaken by the DoR along with activities of the FinTech Department. Section 4 covers supervisory measures undertaken by the DoS and enforcement actions carried out by the Enforcement Department (EFD). Section 5 highlights the role played by CEPD and Deposit Insurance and Credit Guarantee Corporation (DICGC) in protecting consumer interests, spreading awareness and upholding consumer confidence. The agenda of these departments for 2024-25 are covered in the respective sections of this chapter. Concluding observations are set out in the last section.

2. FINANCIAL STABILITY DEPARTMENT (FSD)

VI.6 The mandate of the FSD is to monitor risks to financial stability and evaluate the resilience of the financial system by undertaking macroprudential surveillance. It also functions as the secretariat of the Sub-Committee of the Financial Stability and Development Council (FSDC-SC), an inter-regulators' institutional forum for monitoring macroprudential regulations for the financial system and preserving financial stability. The FSD is also mandated to publish the Financial Stability Report (FSR) that assesses possible risk scenarios for financial stability and early warning analyses.

Agenda for 2023-24

VI.7 The Department had set out the following goals for 2023-24:

- Peer review of stress testing framework (Paragraph VI.8);
- Conducting macroprudential surveillance (Paragraph VI.8);
- Publishing half-yearly FSRs (Paragraph VI.9); and
- Conducting meetings of the FSDC-SC (Paragraph VI.9).

Implementation Status

VI.8 A peer review of the stress testing framework was carried out by a team from the International Monetary Fund (IMF) in April 2023, which submitted its final report in September 2023. Another IMF technical assistance mission visited the Department in January 2024 to facilitate implementation of the major recommendations of the report. The Department also participated in a global stress testing exercise jointly initiated by the Basel Committee on Banking Supervision (BCBS) and Financial Stability Board (FSB) with representation from multiple jurisdictions. The exercise combined a common global scenario with a detailed dataset on various parameters of banks so as to serve as a tool for national authorities to compare the resilience of their banking systems with other jurisdictions. In this regard, the Department carried out stress tests on the global operations of 10 major Indian banks. For this purpose, the Department developed bespoke stress test models and also projected major banking parameters for the period 2023-25. The salient results, the methodology and assumptions used for the exercise were submitted to the Bank for International Settlements (BIS).

VI.9 Two editions of the FSR providing the collective assessment of the FSDC-SC on the balance of risks to financial stability and the resilience of the Indian financial system were released during the year. During 2023-24, the FSDC-SC held one meeting, in which it reviewed major global and domestic macroeconomic and financial developments, issues in inter-regulatory coordination relating to the Indian financial sector, activities of various technical groups under its purview, and the functioning of State Level Coordination Committees (SLCCs) in various states/union territories (UTs). The FSDC-

SC resolved to remain vigilant against any build-up of vulnerabilities in the Indian financial system as well as the broader economy, especially from global spillovers, and to preserve financial system stability for attaining strong, sustainable and inclusive growth.

Agenda for 2024-25

VI.10 In 2024-25, apart from its regular items of work, FSD will focus on the following:

- Implementation of recommendations of the peer review (*Utkarsh* 2.0);
- Development of a non-banking stability map/index (*Utkarsh* 2.0); and
- Enhancement of single-factor stress tests (*Utkarsh* 2.0).

3. REGULATION OF FINANCIAL INTERMEDIARIES

Department of Regulation (DoR)

VI.11 The DoR is the nodal Department for regulation of commercial banks, cooperative banks, non-banking financial companies (NBFCs), credit information companies (CICs) and all-India financial institutions (AIFIs). The regulatory framework is fine-tuned as per the evolving requirements of the Indian economy while adapting to international best practices.

Agenda for 2023-24

VI.12 The Department had set out the following goals for 2023-24:

- Comprehensive review of instructions on statutory and other restrictions in credit management (*Utkarsh* 2.0) [Paragraph VI.13];
- Review of miscellaneous non-banking companies (MNBCs) regulations (*Utkarsh* 2.0) [Paragraph VI.14];
- Recognition of self-regulatory organisations (SROs) for NBFCs (Paragraph VI.15);
- Review of liquidity management framework of UCBs (*Utkarsh* 2.0) [Paragraph VI.16];
- Review of policy on conduct of activities by banks and NBFCs (Paragraph VI.17);
- Review of regulation on agency business and referral service (Paragraph VI.17);
- Issue of harmonised regulations on 'Income Recognition, Asset Classification and Provisioning Pertaining to Advances' to regulated entities (*Utkarsh* 2.0) [Paragraph VI.18];
- Comprehensive review of all non-fund based contingent facilities issued by lending institutions (*Utkarsh* 2.0) [Paragraph VI.18];
- Review of instructions on various regulatory approvals of UCBs (Paragraph VI.19);
- Comprehensive review of guidelines on area of operations of UCBs (Paragraph VI.19); and
- Regulatory initiatives on climate risk and sustainable finance (Paragraph VI.20).

Implementation Status

VI.13 During the year, extensive consultations were undertaken with regard to the extant instructions on statutory and other restrictions in credit management. Subsequently, necessary instructions were issued as and where applicable.

VI.14 As a policy stance, the Reserve Bank has been discouraging acceptance of deposits by various non-banking financial institutions (NBFIs). As part of this, the Reserve Bank prohibited deposit acceptance by MNBCs/chit fund companies, except from their shareholders.

In view of various legislative enactments/ regulatory developments[1] on deposit acceptance, a review of the extant regulatory framework governing deposit acceptance by MNBCs/ chit fund companies is being carried out in the Department in consultation with the Government of India and other stakeholders.

VI.15 Considering the increasing number of financial entities regulated by the Reserve Bank, in terms of scale, customer outreach and diversification, along with increased adoption of innovative technologies in delivery of financial services, a need was felt to promote ethical and professional standards for orderly development of the financial ecosystem. In view of the potential role of SROs in improving compliance culture and providing consultative platform for policy making, it was decided to issue an omnibus framework for recognising SROs for various REs of the Reserve Bank. The omnibus SRO framework prescribes the broad objectives, functions, eligibility criteria, and governance standards, among others, which will be common for all SROs, irrespective of the sector. The Reserve Bank may prescribe additional conditions for recognising sector-specific SROs. A draft of the omnibus framework was released on December 21, 2023 for comments from stakeholders, following which, the final framework was issued on March 21, 2024. Applications for recognition of SROs for NBFCs would be invited henceforth.

VI.16 The extant instructions on liquidity management framework of UCBs are being reviewed, and a draft Master Direction on the subject is under examination.

VI.17 Based on the recommendations from the internal working group report and inputs received from other stakeholders, a circular consolidating instructions on conduct of activities by banks is currently under preparation. Also, the regulations on agency business and referral service by banks and NBFCs for third party products are under review.

VI.18 Based on the inputs received from the stakeholders, the work related to the harmonisation of prudential norms on ‘Income Recognition, Asset Classification and Provisioning pertaining to Advances’ is currently underway. A review of the various non-fund based facilities extended by the REs is also underway with a view to strengthen the regulatory framework governing such facilities.

VI.19 The Department reviewed and issued guidelines in the following regulatory areas of UCBs: (a) revised criteria regarding inclusion of UCBs in the second schedule of the RBI Act, 1934; (b) introduction of an automatic route for branch expansion in the approved area of operation for financially sound and well managed (FSWM) UCBs in all tiers (except salary earners’ banks); and (c) guidelines on change in the name of cooperative banks and amendment of their bye laws. The review of guidelines on area of operation of UCBs is currently under examination.

VI.20 As announced in the Reserve Bank’s Statement on Developmental and Regulatory Policies (February 8, 2023), a framework for acceptance of green deposits was issued on April 11, 2023 with an objective to encourage REs to offer green deposits to customers, protect

[1] Such as enactment of Prize Chits and Money Circulation Schemes (Banning) Act, 1978; Chit Fund Act, 1982; Companies (Acceptance of Deposits) Rules, 2014; and Banning of Unregulated Deposit Schemes Act, 2019.

depositors' interest, address greenwashing risks and help augment the flow of credit to green activities/projects. On December 29, 2023, a set of frequently asked questions (FAQs) aimed to offer clarifications and address common queries related to the green deposit framework were published on the Reserve Bank's website. A draft disclosure framework on climate-related financial risks, 2024 was placed on the Reserve Bank's website on February 28, 2024 for public consultation, which includes guidelines to the REs for climate-related financial disclosures under four thematic pillars – governance, strategy, risk management, and metrics and targets. The framework aims to foster an early assessment of climate-related financial risks and opportunities and facilitate market discipline. Further, a dedicated section was also created on the Reserve Bank's website, containing the Reserve Bank's communication on climate risk and sustainable finance.

Major Developments[2]

Guidelines on Default Loss Guarantee (DLG) in Digital Lending

VI.21 DLG arrangements involve lending service providers (LSPs) undertaking to bear a certain pre-decided percentage of default loss on the loan portfolio sourced by the LSP on behalf of the REs. The primary concern with respect to DLG arrangements entails assumption of credit risk by unregulated entities, associated business conduct issues and lack of regulatory oversight. Notwithstanding these, it had the beneficial aspect of ensuring skin-in-the-game for LSPs and improved access to formal credit. An enabling framework balancing the objectives of prudence and innovation was formulated. The guidelines cover DLG arrangements between REs and LSPs as well as amongst REs and lay down several regulatory guardrails: (i) cover both explicit and implicit DLG arrangements; (ii) limit DLG to five per cent of the outstanding loan portfolio; (iii) DLG to be offered only against cash, fixed deposit or bank guarantee; (iv) application of guidelines on asset classification and provisioning; (v) disclosure of DLG on website of LSP; and (vi) enhanced due diligence by REs while entering into/renewing DLG arrangements.

Framework for Compromise Settlements and Technical Write-offs

VI.22 The framework on compromise settlements and technical write-offs issued on June 8, 2023 consolidates and harmonises various regulatory guidelines issued on compromise settlements over the years in respect of SCBs, tightening some of the extant regulatory provisions and ensures greater transparency. In respect of other REs, especially cooperative banks, the framework provides an enabling mechanism to undertake compromise settlements. Further, it lays down guidance on important process-related matters covering Board oversight, delegation of power, reporting mechanism and a cooling period for normal cases of compromise settlements. The penal measures currently applicable to borrowers classified as fraud or wilful defaulter shall continue to be applicable in cases where banks enter into compromise settlements with such borrowers.

[2] This sub section highlights the major circulars/guidelines issued by the DoR. Annex I of this Report provides a comprehensive department-wise chronology of policy announcements during April 2023 to March 2024.

Regulatory Measures Towards Consumer Credit and Bank Credit to NBFCs

VI.23 Post-COVID, credit offtake towards the consumer segment has been quite substantial combined with proliferating dependency of NBFCs on bank borrowings leading to regulatory concerns. This warranted a prudential intervention, notwithstanding a comfortable asset quality position at broader portfolio level. Accordingly, to pre-empt the build-up of any potential risks, regulatory measures were announced on November 16, 2023.

Harmonising the Provisioning Norms for Standard Assets to All Categories of UCBs

VI.24 The provisioning norms for standard assets applicable to UCBs across all tiers were harmonised *vide* circular dated April 24, 2023. Accordingly, Tier I UCBs, were permitted to achieve the revised requirement of 0.40 per cent as standard asset provisioning *vis-à-vis* the earlier requirement of 0.25 per cent in a staggered manner by March 31, 2025.

Credit/Investment Concentration Norms – Credit Risk Transfer

VI.25 The extant Large Exposure Framework for NBFC-upper layer permits them to offset exposures to the original counterparty with eligible credit risk transfer instruments. To ensure uniformity and consistency in computation of exposures across NBFCs, a circular was issued on January 15, 2024 permitting NBFCs in the middle layer and base layer to offset their exposures with eligible credit risk transfer instruments. Further, NBFCs in the base layer are also required to put in place an internal Board approved policy for credit/investment concentration limits for both single borrower/party and single group of borrowers/parties.

Investments in Alternative Investment Funds (AIFs)

VI.26 A few instances of alleged evergreening were flagged whereby investments by REs in the AIF schemes were appropriated by the stressed borrowers of the concerned REs for repayment of their loans. To prohibit any such prudential violation including evergreening, following measures were initiated on December 19, 2023: (a) REs were prohibited from investing in any of the AIF schemes, which has downstream investment in any of the debtor companies of the concerned RE; (b) REs were mandated to liquidate their existing investments in AIFs within a stipulated period of 30 days, if AIF scheme had invested or subsequently invests in RE's debtor company, failing which REs shall make full provision for their investments in that particular scheme; and (c) REs were mandated that any investment in junior tranche will be deducted in full from their regulatory capital fund. To ensure consistency in implementation and to provide further regulatory guidance on some of the key issues, clarifications were issued on March 27, 2024, advising that: (i) downstream investments exclude equity shares but include other instruments; (ii) provisioning applies only to extent of RE's investment in the AIF scheme (proportionate basis), and not on the entire investment; (iii) compliance with paragraph 2 of the circular dated December 19, 2023 is necessary, if the AIF lacks downstream investment in a debtor company; (iv) proposed deductions from capital affect both Tier-1 and Tier-2 capital, encompassing all forms of subordinated exposures including sponsor units; and (v) investments in AIFs through intermediaries such as fund of funds or mutual funds are beyond the scope of circular.

Review of Prudential Norms for Classification, Valuation and Operations of Investment Portfolio of Commercial Banks

VI.27 The revised Directions were issued on September 12, 2023. Some of the key modifications under the revised Directions are: (i) principle-based classification of investment portfolio into three categories, *viz.*, (i) 'Held to Maturity' (HTM), 'Available for Sale' (AFS), and 'Fair Value through Profit and Loss Account' (FVTPL); (ii) clearly identifiable trading book under 'Held for Trading' (HFT), a sub-category within FVTPL; (iii) removal of the 90-day ceiling on holding period under HFT category; (iv) removal of ceiling on investments in HTM category; (v) tightening of regulation around transfer to/ from HTM category and sales out of HTM; (vi) inclusion of non-statutory liquidity ratio (SLR) securities in HTM category, subject to fulfilling certain conditions; (vii) symmetric recognition of gains/losses for investments under AFS and FVTPL categories; and (viii) granular disclosure on investment portfolio. The revised Directions are expected to enhance the quality and transparency of banks' financial reporting, provide a fillip to the corporate bond market, facilitate the use of derivatives for hedging, and strengthen the overall risk management framework of banks. While adhering to the global financial reporting standards, the Directions retain important prudential safeguards such as investment fluctuation reserve (IFR), due diligence/limits with respect to non-SLR investments, internal control systems, reviews and reporting.

Minimum Capital Requirements for Operational Risk

VI.28 On June 26, 2023, the Reserve Bank prescribed the new standardised approach for determining the minimum capital requirements for operational risk in order to secure greater convergence with the revised Basel standards. The new approach would replace all the approaches presently prescribed for measuring minimum operational risk capital requirements. Under the new standardised approach, banks are required to consider a financial statement-based business indicator component (BIC), along with loss data-based internal loss multiplier (ILM) [for larger banks] in their operational risk regulatory capital calculation.

Fair Lending Practice - Penal Charges in Loan Accounts

VI.29 In the wake of divergent practices amongst the REs with regard to levy of penal interest/ charges, the revised guidelines were issued which mandate REs to formulate a Board approved policy on penal charges and transparently disclose the quantum and reason for levying of penal charges to the borrowers. Further, penalty, if charged by RE for non-compliance of material terms and conditions of loan contract by the borrower, shall be in the form of 'penal charges' and shall not be levied in the form of 'penal interest'. REs have also been prohibited from capitalising the penal charges, *i.e.*, no further interest shall be computed on such charges.

Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) Based Personal Loans

VI.30 Several consumer grievances related to elongation of loan tenor and/or increase in EMI amount without proper communication with and/or consent of the borrowers were received. To address the issue, regulations were issued to ensure proper conduct framework and implementation across REs through provision of adequate headroom at origination for absorbing the impact of rising interest rates, option of switching to fixed loans and foreclosure of loans, transparent disclosure of various charges incidental to the exercise of these options, and proper communication of key information to the borrowers.

Responsible Lending Conduct - Release of Movable/Immovable Property Documents on Repayment/Settlement of Personal Loans

VI.31 To address the divergent practices followed by REs in release of movable/immovable property documents after closure of loan account, leading to customer grievances and disputes, regulations were issued, which mandate REs to release all the original movable/immovable property documents including removal of charges registered with any registry within 30 days after full repayment/settlement of the loan account. The regulations, *inter alia,* prescribe compensation for delay in return of documents by REs and place the responsibility on REs for obtaining duplicate/certified copies of the documents in case of loss/damage.

Establishment of Umbrella Organisation (UO) for UCBs

VI.32 On August 11, 2023, the Reserve Bank granted approval for issuance of certificate of registration (CoR) to National Urban Cooperative Finance and Development Corporation Ltd. (NUCFDC), the proposed UO for UCBs, as a non-deposit accepting type-II NBFC, subject to the prescribed conditions. Subsequently, final CoR was issued to the company on February 8, 2024.

Review of Instructions on Bulk Deposits for Regional Rural Banks (RRBs)

VI.33 In terms of the extant instructions, bulk deposits were defined as single rupee term deposits of '₹15 lakh and above' for RRBs. On a review, the definition of bulk deposits for RRBs was revised to '₹ one crore and above' to provide operational freedom to RRBs and create a level playing field *vis-à-vis* other banks.

Review of Regulatory Framework for Infrastructure Debt Fund (IDF) - NBFCs

VI.34 To enable the IDF-NBFCs to play a greater role in financing of the infrastructure sector and to move towards the regulatory objective of harmonisation of regulations applicable to various categories of NBFCs, the revised regulatory framework for IDF-NBFCs was issued on August 18, 2023. The key changes in the revised framework include: (i) withdrawing the requirement of a sponsor for the IDF-NBFCs; (ii) allowing IDF-NBFCs to finance toll-operate-transfer (TOT) projects as direct lenders, (iii) providing IDF-NBFCs access to funds through loan route under external commercial borrowings (ECBs); and (iv) making tri-partite agreement optional for public private partnership (PPP) projects.

Draft Guidelines on Wilful and Large Defaulters

VI.35 The draft Master Direction was placed on the Reserve Bank's website on September 21, 2023. The proposed Master Direction consolidates all instructions on wilful and large defaulters along with other modifications based on various court Judgments and representations/suggestions received from Indian Banks' Association (IBA), banks and other stakeholders. Final guidelines would be issued after examination of these comments.

Strengthening of Customer Service Rendered by CICs and Credit Institutions (CIs)

VI.36 To strengthen customer service rendered by CICs and CIs, a compensation framework has been prescribed for non-adherence to the timelines (30 days) for updation/rectification of credit information by them. Further, CICs have been advised to notify customers *via* short messaging service (SMS) or e-mail regarding access to their credit information report. To bring more transparency in the credit information reporting process, CIs have been advised to notify their borrowers *via* SMS or e-mail while submitting information to CICs regarding default or days past due in the existing credit facilities. In addition, CIs shall have a dedicated nodal point for addressing customer grievances raised by CICs, conduct root cause analysis (RCA) of customer grievances on a half-yearly basis and inform the customers the reasons for the rejection of their data correction request. CICs have been advised to ingest the credit information data into their database within seven days of receipt from CIs, disclose the data of the complaints received on their website, conduct periodic review of their 'search and match' logic algorithm and prominently display the link for accessing the free full credit reports on their website.

Display of Information Relating to Secured Assets Possessed by REs Under SARFAESI[3] Act, 2002

VI.37 REs, which are secured creditors as per the SARFAESI Act, 2002, have been advised to display information in respect of the borrowers, whose secured assets have been taken into possession by them under the said Act, on their website.

Public Consultations for Regulatory Measures

VI.38 The Reserve Bank follows a participative and consultative approach in the formulation of its policies (Box VI.1).

Box VI.1

Public Consultations for Regulatory Measures by Reserve Bank of India

Public consultations are mechanisms used by regulatory authorities like central banks to inform the public about regulatory changes under consideration and solicit their feedback and inputs. Such consultations improve transparency, efficiency and effectiveness of regulations (IMF 2000; OECD, 2006). An analysis of the recent practices followed by the major central banks[4] indicates that: (a) The central banks have resorted to public consultations at various stages of the policy formulation, before release of policies or change in existing policies/regulatory framework; (b) The stakeholders are provided 15-120 days to share their comments on the proposals, often with a dedicated web page for the feedback; (c) Comments/feedback received are often placed in the public domain; and (d) Additional consultative channels such as setting up of a Committee and organising conferences/meetings in order to have greater insights on complex and technical regulatory issues are also deployed.

Consultation Process of Reserve Bank of India

The Reserve Bank of India (RBI) generally seeks comments/feedback from the stakeholders/public on new/major regulatory measures, incremental regulatory changes in the extant guidelines and comprehensive review of the existing guidelines/regulations. The Regulations Review Authority 2.0 (RRA 2.0)[5] in its Report in 2022 had recommended that "The endeavour should be to issue instructions after necessary public consultation to the extent feasible and draft instructions, wherever possible, be placed in public domain and feedback be sought before finalising them".

In the case of new/major regulatory measures, public consultations are invariably undertaken by the Reserve Bank by placing the relevant working group reports, discussion papers, and draft circulars/guidelines on its website before issuing the final regulatory guidelines. In-

(Contd.)

[3] Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest.

[4] US Federal Reserve, Bank of England, Bank of Italy, Monetary Authority of Singapore, Reserve Bank of New Zealand and South African Reserve Bank.

[5] RRA 2.0 was constituted with a focus on enhancing the ease of compliance for the REs by reviewing the regulatory procedures. This was a comprehensive exercise involving both internal as well as external consultations at multiple levels.

house consultations with stakeholders are also undertaken to gauge their readiness and acceptability to ensure policy effectiveness.

Wider consultations with all the stakeholders usually take place while comprehensively reviewing the extant regulation. In certain cases, advisory committees are set up for discussions and consultations on various aspects of proposed measures/regulations.

In response to various queries and ongoing engagement with stakeholders on the regulatory measures, a mechanism of issuing frequently asked questions (FAQs) is also in place for providing clarifications, besides ensuring continuous feedback from the public/stakeholders on the extant regulatory guidelines.

The principal channel of public consultations remains seeking written comments/feedback on draft regulatory policies while other modes for public consultations such as discussions with stakeholders and setting up independent Working Group/Committee are also used to have a holistic view on the technical and complex regulatory issues. The need for public consultation is also evaluated while assessing policy risk through policy risk assessment template as prescribed by the Risk Monitoring Department of the Reserve Bank. Additionally, public consultations are proactively sought in the niche regulatory areas such as FinTech regulations.

Table 1: Public Consultations* - RBI

(Number)

Department	2021-22	2022-23	2023-24
1	2	3	4
Department of Regulation	5	6	21
FinTech Department^	-	-	1
Department of Supervision	-	1	4
Department of Payment and Settlement Systems	5	5	10
Financial Markets Regulation Department	6	3	3
Foreign Exchange Department	-	1	1
Total	**16**	**16**	**40**

*: Include consultations through draft circulars, reports, discussion papers and stakeholder engagements for new/major regulatory policies as well as incremental changes and comprehensive reviews of the existing guidelines.

^: Department was set up in January 2022. -: Nil.

Source: RBI.

Over the last three years (2021-22 to 2023-24), 72 public consultations with the stakeholders were undertaken by the Reserve Bank in areas of regulation and supervision of banks and NBFCs, payment and settlement systems, financial markets, foreign exchange management and consumer protection (Table 1 and Annex II). The comments/feedback received on the proposed regulatory policies are analysed in-depth, and final guidelines are issued after incorporating suitable modifications, as appropriate. The participative and consultative approach, providing around 15-60 days[6] for the feedback, facilitates in ironing out any inconsistencies or multiple interpretations of regulations under review; identifying potential gaps between evolving market practices and underlying regulations; and formulating an objective assessment of the stakeholders' concerns and expectations.

In addition to these specific consultations on regulatory issues, the Reserve Bank follows a consultative approach by periodically interacting with various stakeholders on monetary policy formulation and other issues. With this objective, the Reserve Bank holds detailed interactions with analysts, economists, researchers, financial market participants, banks, academic bodies and research institutions, trade and industry associations, and several others (Das, 2022).

Overall, public consultations remain an integral part of the formulation of policies to the Reserve Bank of India, thereby enhancing their acceptability and efficacies, besides ensuring greater transparency and inclusiveness.

References:

1. Das, Shaktikanta (2022), 'Monetary Policy and Central Bank Communication', Address at the National Defence College, Ministry of Defence, Government of India, New Delhi, March.
2. IMF (2000), 'Supporting Document to the Code of Good Practices on Transparency in Monetary and Financial Policies', July.
3. OECD (2006), 'Background Document on Public Consultation'.
4. RBI (2022), 'Report of the Regulations Review Authority 2.0', June.

[6] Based on information for the last three years (2021-22 to 2023-24).

Agenda for 2024-25

VI.39 During 2024-25, the Department will focus on the following key deliverables:

- Review of guidelines on valuation of properties based on international best practices (*Utkarsh* 2.0);
- Regulatory framework for web-aggregation of loan products;
- With a view to strengthen the extant regulatory framework governing project finance and to harmonise the instructions across all REs, the extant prudential norms for projects under implementation were reviewed, and a comprehensive regulatory framework applicable for all REs is proposed to be issued;
- In January 2023, the Reserve Bank released a discussion paper on securitisation of stressed assets to seek comments from market participants. The final guidelines will be issued after examining the stakeholders' comments;
- The extant regulations on interest rates on advances vary across REs. In order to harmonise the same, a comprehensive review of the extant regulatory instructions is underway;
- A discussion paper on introduction of expected credit loss (ECL) framework for provisioning by banks was issued on January 16, 2023, soliciting comments from stakeholders. While comments on the discussion paper are being examined, an external working group - comprising of domain experts from academia, industry and select major banks - was constituted to holistically examine and provide independent comments on some of the technical aspects. The recommendations of the working group would be duly factored in while framing the draft guidelines;
- Delineating the role of various committees (*viz.,* Audit Committee of the Board, Nomination and Remuneration Committee, and Risk Management Committee) in NBFCs as mentioned in the scale-based regulatory framework issued on October 22, 2021;
- Reviewing the requirement of obtaining prior approval of the Reserve Bank for change in management of NBFCs/housing finance companies (HFCs), which would result in change in more than 30 per cent of the directors, excluding independent directors;
- In view of the operationalisation of a new overseas investment regime under Foreign Exchange Management (Overseas Investment) Rules, 2022, a review of extant guidelines on overseas investments by NBFCs and core investment companies shall be undertaken;
- In April 2021, an external committee was set up by the Reserve Bank to review the existing legal and regulatory framework applicable to asset reconstruction companies (ARCs) and recommend measures to enhance their efficacy. Major recommendations of the Committee were implemented *vide* circular dated October 11, 2022. Remaining recommendations of the Committee shall be examined and implemented during 2024-25;
- Standalone primary dealers (SPDs) are placed in middle layer of the scale-based regulatory framework for NBFCs. However, unlike NBFCs, the SPDs are

subject to guidelines on minimum capital requirements for market risk in view of their exposure to government securities and other market related products and are also eligible to undertake various core and non-core activities which a NBFC is not allowed to undertake. A review of the framework for market risk for SPDs would be undertaken to bring about convergence with Basel III standards for banks; and

- Connected lending can involve moral hazard issues leading to compromise in pricing and credit management. The extant guidelines on the issue are limited in scope and are not applicable uniformly to all REs. As announced in the Reserve Bank's Statement on Developmental and Regulatory Policies (December 8, 2023), a unified regulatory framework on connected lending for all the REs will be put in place for which a draft circular will be issued for public comments.

FinTech Department

VI.40 The FinTech Department is entrusted with the responsibility of fostering innovation in the FinTech ecosystem, while remaining vigilant and addressing the associated risks.

Agenda for 2023-24

VI.41 The Department had set out the following goals for 2023-24:

- Conducting further pilots with various use cases in both CBDC-R and CBDC-W segments[7] (*Utkarsh* 2.0) [Paragraph VI.42-VI.43];
- Developing an appropriate framework for managing FinTech ecosystem in the country (*Utkarsh* 2.0) [Paragraph VI.44];
- To create an open, interoperable integrated public tech platform for finance that can act as a single unified public platform which would facilitate integration of data in a seamless manner for lenders and enable the delivery of frictionless credit (Paragraph VI.45);
- Conduct of global hackathon 'HARBINGER' series (Paragraph VI.46);
- Bringing improvements in the account aggregator (AA) technological ecosystem to achieve efficiency and facilitate further growth of the same (Paragraph VI.47); and
- Facilitating the development of RegTech tools for adoption by REs and exploring identification of emerging SupTech tools. One of the cohorts under the regulatory sandbox (RS)/Hackathon would include theme relating to RegTech (*Utkarsh* 2.0) [Paragraph VI.48].

Implementation Status

VI.42 The pilot in the CBDC-W (e₹-W) segment commenced from November 1, 2022 for settlement of secondary market transactions in government securities with the participation of select banks. This pilot is aimed at reducing transaction costs by pre-empting the need for settlement guarantee infrastructure or for collateral to mitigate settlement risk. The scope of

[7] India's CBDC, the Digital Rupee (e₹), is a digital form of its official currency, introduced post announcement in the Union Budget 2022-23. It is a legal tender issued in digital form by the Reserve Bank, offering trust, safety, and immediate settlement finality in the digital realm. CBDCs come in two broad categories, CBDC-W, and CBDC-R. CBDC-W is restricted to specific users like financial institutions, while CBDC-R is widely accessible to the public.

the e₹-W was subsequently expanded to include interbank lending and borrowing transactions along with changes in technical architecture.

VI.43 The pilot in the CBDC-R (e₹-R) segment was launched on December 1, 2022, covering select locations for a closed user group (CUG) of customers and merchants. Users can make person-to-person (P2P) and person-to-merchant (P2M) transactions with e₹-R through a digital wallet offered by participating banks and store the digital currency in the wallets on their mobile phones. The pilot initially started with four banks and four cities. Subsequently, it was expanded to 15 banks and covered 81 locations. Based on the learnings from the pilot, interoperability between unified payments interface (UPI) and CBDC was introduced to leverage on the UPI acceptance infrastructure to offer convenience and seamless experience to the users. Thus, users can now transact by scanning UPI Quick Response (QR) codes with their CBDC apps. The retail pilot is envisaged to test the robustness of the entire process of Digital Rupee creation, distribution, infrastructure and retail usage in real time.

VI.44 The Working Group on regulatory review of FinTech related activities constituted to undertake the review of activities of FinTechs and suggest recommendations for sustainable development of the FinTech sector in the country submitted its report to the Reserve Bank.

VI.45 The Reserve Bank announced the development of a public tech platform for frictionless credit as part of its Statement on Developmental and Regulatory Policies (August 10, 2023). The platform was conceptualised by the Reserve Bank and developed by the Reserve Bank Innovation Hub (RBIH) [Box VI.2].

Box VI.2

Public Tech Platform for Frictionless Credit (PTPFC)

The digital *kisan* credit card (KCC) and digital dairy loan pilot projects conducted in 2022 demonstrated significant reduction in the turnaround time (TAT) and brought intended efficiency in the loan processing. It, however, also led to identification of various challenges and complexities in scaling up end-to-end digitalisation of credit assessment and delivery. The complexities underscored the need for a platform type architecture, which would enable lenders to create a frictionless loan journey without the need for multiple bespoke integrations. Based on these insights and with an objective to bring efficiency in terms of cost reduction, quicker disbursement, and scalability to all segments of loan beyond KCC and dairy loans, where rule-based lending is possible, a public tech platform for frictionless credit (PTPFC) was accordingly developed.

The platform is an enterprise-grade open architecture information technology (IT) platform, central to the operations of a large ecosystem of credit, to ensure digital access to information from various data sources. The financial service and multiple data service providers converge on the platform using standard and protocol driven architecture, in an open and shared application programming interface (API) framework. The friction in the credit processing and delivery has been addressed by breaking the silo between the data repository by integrating them with the platform and making the same available to the lenders as a plug and play service. This has obviated the need of cumbersome one-to-one integration of lenders with multiple data providers and has brought efficiency to both consumers and lenders. The lenders in turn need to connect only to the platform to source multiple data/information required for making credit assessment and decision in a seamless manner.

The platform is beneficial to all stakeholders, including consumers, lenders and data service providers. Consumers can get frictionless tailored credit by unlocking value of digitally available data with trusted consent architecture

(Contd.)

without the need for paper-based documentation or physical visit to financial institutions (banks/non-banks). The lenders and data service providers benefit due to network effect, standardisation, efficiency in terms of cost and TAT, innovation in lending process, scalability and increasing reach/access.

As on March 31, 2024, the platform has five loan journeys, *viz.*, (a) KCC loans up to ₹1.6 lakh; (b) dairy loans; (c) micro, small, and medium enterprise (MSME) loans (unsecured); (d) personal loans; and (e) home loans, with a total of 12 banks participating in the pilot, which commenced from August 17, 2023. The platform currently enables linkage with 31 different data services[8]. Based on the learnings and the positive response from the stakeholders, the scope and coverage of the platform is being expanded to include more products, data providers and lenders.

The pilot of the platform commenced from August 17, 2023, which will be expanded based on learnings and feedback received from stakeholders.

VI.46 The Reserve Bank conducted the second edition of the global hackathon 'HARBINGER 2023 - Innovation for Transformation' with the theme 'Inclusive Digital Services'. The Hackathon featured four problem statements, *viz.*, (i) innovative, easy-to-use, digital banking services for differently-abled (*Divyaang*); (ii) RegTech solutions to facilitate more efficient compliance for REs; (iii) exploring use cases/ solutions for CBDC-R transactions, including transactions in offline mode; and (iv) increasing transactions per second (TPS)/throughput and scalability of blockchains. The Hackathon received encouraging participation from within as well as outside India. The Hackathon ran in three phases, starting with shortlisting, solution development, followed by the final evaluation. An independent jury evaluated and selected the winners and runners-up out of 28 finalist teams based on parameters like innovation, technology, demonstration, user experience, security, and ease of implementation. These innovative products are expected to make digital financial services more accessible, efficient, compliant, robust and scalable.

VI.47 The Reserve Bank in consultation with Reserve Bank Information Technology Private Ltd. (ReBIT), a wholly owned subsidiary of the Reserve Bank, and other stakeholders carried out a major upgradation of the API specification version 1.1.3. The upgraded API specification version 2.0.0 was released by the ReBIT on August 9, 2023 for adoption by all participants of the AA ecosystem. The upgradation addresses issues such as potential security concerns and compatibility challenges while sharing financial information. In order to ensure that the API specification version 2.0.0 is adopted by all participants in a smooth and timely manner, without disrupting the functioning of AA framework, an 'API Specification Adoption Strategy' has been made available on ReBIT's website. Further, to reduce the consent rejection requests in the AA framework, the 'PAN and e-mail' fields which were erstwhile mandatory were made optional for sharing of customer's data over the AA framework. The updated financial information (FI) type schemas were released on the website of ReBIT.

[8] Land record system (land records from six state governments); transliteration; *Aadhaar* e-know your customer (KYC); *Aadhaar* based e-sign; permanent account number (PAN) verification; bank account verification; account aggregator; satellite service; milk pouring data; property search data; e-stamping ID/document verification through Digilocker by providing more than 30 APIs from the platform.

VI.48 The Reserve Bank undertook the following major initiatives to promote adoption of RegTech tools and explore emerging SupTech tools: (a) launch of Hackathon HARBINGER 2023 with one of the problem statements as RegTech solutions to facilitate more efficient compliance by REs. Two RegTech solutions were shortlisted as winner and runner-up as part of the final evaluation held during October 10-11, 2023; and (b) The Reserve Bank was among 13 international regulators participating in the first ever Greenwashing TechSprint of the global financial innovation network (GFIN). This global TechSprint contained two problem statements focused on developing RegTech tools for verifying the environmental, social and governance (ESG) claims and identifying instances of Greenwashing. One of the applicants mentored by the Reserve Bank won the 'Fast Solution' award in the TechSprint.

Major Initiatives

India's G20 Presidency

VI.49 Under the G20 initiatives, the Department organised several events during the calendar year 2023: (a) outreach seminar titled 'Central Bank Digital Currency: The India Story'; (b) seminar on 'Macro-Financial Implications of CBDCs' at Seoul, South Korea on the side lines of the 4th International Financial Architecture Working Group (IFA-WG) meeting under India's G20 Presidency; (c) event as part of Finance Ministers and Central Bank Governors (FMCBG) meeting on policy issues concerning BigTech and FinTech, including third-party risk management framework at Gandhinagar; (d) showcasing some of the transformational initiatives of the Reserve Bank including CBDC, PTPFC, digital *kisan* credit card and digital dairy through 'RBI Innovation Pavilion' at various G20 events, including G20 Summit held at New Delhi; and (e) launching the 4th edition of the G20 TechSprint[9] under India's G20 Presidency, with the theme 'Technology Solutions for Cross-Border Payment Platforms'. The independent panel of judges comprising domain experts selected one team each as the winner for the three problem statements.

Regulatory Sandbox (RS) - Cohorts

VI.50 Under the third cohort of the RS on theme 'MSME Lending', five entities were found viable within the boundary conditions defined during testing under RS. Under the fourth cohort with the theme 'Prevention and Mitigation of Financial Frauds', six entities were shortlisted for the test phase and the entities completed the testing on December 31, 2023. The Reserve Bank opened the fifth cohort which was 'Theme Neutral', *i.e.*, innovative products/services/technologies cutting across various functions in the Reserve Bank's regulatory domain were eligible to apply. The applications received under this cohort are currently under assessment for shortlisting for testing phase.

VI.51 The 'On Tap' application facility under RS is currently open for themes 'Retail Payments', 'Cross-Border Payments' and 'MSME Lending'. Till now three entities have been selected for the test phase under the 'On Tap' application

[9] The TechSprint invited global innovators to help develop technology solutions for cross-border payments across three problem statements, *viz.*, (i) Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) technology solutions to reduce illicit finance risk; (ii) Foreign exchange and liquidity technology solutions to enable settlement in more emerging market and developing economy (EMDE) currencies; and (iii) Technology solutions for multilateral cross-border CBDC platforms.

facility. One application received under 'On Tap' for the theme 'Retail Payments' is currently under assessment.

Account Aggregator (AA) Framework

VI.52 The AA framework is gaining traction with increased participation of NBFC-AAs and REs belonging to financial sector regulators (FSRs) as financial information providers (FIPs) and financial information users (FIUs). In order to ensure seamless flow of customer's financial information from the FIPs, ReBIT has released the FI type schemas, in consultation with the sectoral regulators and the Reserve Bank. Further, the Reserve Bank has adopted a well-considered and nuanced approach in consultation with other stakeholders to make the ecosystem more robust, technologically sound and provide further fillip to the AA framework.

Projects Undertaken Through RBIH

VI.53 During 2023-24, the ongoing pilot projects for end-to-end digitalisation of KCC lending have been scaled up further to include four more states (Andhra Pradesh, Odisha, and select districts of Uttar Pradesh and Maharashtra, apart from Tamil Nadu, Madhya Pradesh and Karnataka) and seven banks. The PTPFC project, which was operationalised by the RBIH, commenced the pilot from August 17, 2023. Since then, banks have disbursed loans of ₹5,535 crore (including MSME loans of ₹3,640 crore) as on March 31, 2024.

Agenda for 2024-25

VI.54 In 2024-25, the Department will focus on the following goals:

- Expanding the scope of CBDC pilots to cover new use cases such as offline functionality, programmability, cross-border transactions and tokenisation of assets as well as new designs, technological considerations and more participants;
- Exploring commencing CBDC pilots on cross-border payments both on bilateral and multilateral basis to overcome key challenges related to TAT, efficiency and transparency, considering India being the world's largest recipient of remittances (*Utkarsh* 2.0);
- Launching full scale public tech platform with more financial institutions/ data service providers and product offerings;
- Putting in place the framework recognising SRO(s) for the FinTech sector for its orderly growth (*Utkarsh* 2.0);
- Setting up a repository for capturing essential information about FinTechs and repository for tech-related activities in order to effectively discern the developments in its ecosystem;
- Conduct of next global hackathon 'HARBINGER 2024';
- Testing innovative products/services and technology under sixth cohort of the RS; and
- Identification of SupTech/RegTech tools and carrying out proof of concept[10] and a working prototype to enhance the efficiency and effectiveness of supervisory activities/ regulatory compliance in financial services (*Utkarsh* 2.0).

[10] It is an exercise in which work is focused on determining whether an idea can be turned into a reality or to verify if the idea will function as envisioned.

4. SUPERVISION OF FINANCIAL INTERMEDIARIES

Department of Supervision (DoS)

VI.55 The DoS is entrusted with the responsibility of supervising all SCBs (excluding RRBs), Local Area Banks (LABs), Payments Banks (PBs), Small Finance Banks (SFBs), CICs, AIFIs, UCBs, NBFCs (excluding HFCs) and ARCs.

Commercial Banks

VI.56 The Department took several measures to further strengthen both onsite and offsite supervision during the year.

Agenda for 2023-24

VI.57 The Department had set out the following goals for 2023-24:

- Market risk - conducting scenario analysis and providing an input for system stress test (*Utkarsh* 2.0) [Paragraph VI.58];
- Implementation of a fraud vulnerability matrix using machine learning (ML) capabilities for SCBs (*Utkarsh* 2.0) [Paragraph VI.59]; and
- Strengthening and enhancement of EWS and FRMS (Paragraph VI.59).

Implementation Status

VI.58 Market risk assessment for primary dealers (PDs), public sector banks (PSBs), private sector banks (PVBs) and foreign banks (FBs) was completed. The detailed methodology has been devised and put in place to assess the interest rate risk under different stress testing scenarios and provide supervisory inputs on an ongoing basis.

VI.59 A model construct for fraud vulnerability index (FVI) was prepared. Proof of concept was carried out for a sample of SCBs and validation of the model was carried out. FVI model shall be implemented for all SCBs. The guidelines pertaining to EWS and red flagging of accounts (RFA) are being strengthened further to make these robust, effective and technology driven.

Other Initiatives

Introduction of Control Gap Assessment under Supervisory Assessment of KYC/AML Risks (SAKAR) Framework

VI.60 To assess the KYC/AML risks in SCBs in a comprehensive manner, a structured assessment of the controls and processes put in place by banks has been introduced to identify the gaps, if any. The assessment is being carried out through specifically designed templates and is integrated with the prudential risk assessment process. With this, a holistic view of the KYC/AML risks at the SEs will be facilitated, as the inherent risk assessment through the data-driven analytical model will be supplemented by a focused supervisory assessment of the control/risk mitigating framework at the entity level.

Cross-Border Supervisory Cooperation

VI.61 In line with the BCBS principles on cross-border supervisory cooperation, the Reserve Bank continued to have engagements with overseas counterpart supervisors. The Reserve Bank hosted the 25th South East Asian Central Banks-Financial Stability Institute (SEACEN-FSI) Conference of the Directors of Supervision of Asia-Pacific Economies and 36th Meeting of the Directors of Supervision of SEACEN members at Mumbai. The Reserve Bank also hosted a delegation of Bangladesh Bank for a study visit *cum* workshop on risk-based supervision at Mumbai.

VI.62 During the year, the Reserve Bank conducted supervisory college meetings of select banks and held seven meetings with overseas supervisors for exchange of information on supervisory concerns, methodologies and best practices. The Reserve Bank, in turn, participated in seven supervisory colleges meetings for select banks held by overseas supervisors as the host authority. Representatives from the Reserve Bank attended respective workshops by the European Central Bank (ECB) and the Hong Kong Monetary Authority (HKMA) on 'Supervisory Approach, Methodology and Practices'.

Revamping Stress Testing Model

VI.63 The single-factor stress testing model for SCBs has been substituted by a multi-factor model of stress testing, which includes macroeconomic factors like inflation, GDP growth, exchange rate and unemployment rate, supplemented by SCB specific idiosyncrasies to ensure that asset quality and capital to risk-weighted assets ratio (CRAR) positions are in sync with macroeconomic factors as well as institution specific features.

Strengthening Governance in Banks

VI.64 The supervisory initiatives taken by the Reserve Bank are aimed at identifying risks and vulnerabilities early, putting in place a structured early supervisory intervention framework to mitigate the risks, increasing the focus on root cause of vulnerabilities, and harmonising the supervisory rigour across various segments of the financial system. In this regard, strengthening governance in banks remains a supervisory priority for the Reserve Bank (Box VI.3).

Box VI.3

Governance Practices in PSBs and PVBs

One of the focus areas in recent years has been to strengthen governance practices within the SEs. This aspect is not only examined during the onsite supervisory process but is also emphasised through continuous engagements with the SEs in the form of conferences and meetings with the Board/Senior Management, and through offsite system level assessments. Banks, as the most significant providers of credit, differ from other entities as their collapse has wider ramifications for depositors, institutions, and the financial system itself. This makes it imperative to subject banks to specific regulations and close monitoring. Banks are expected to have proper policies in place and suitable internal controls so that the governance structure is well implemented as banks act as fulcrum to the financial structure and the economy.

It is imperative that banks have robust governance policies and processes encompassing strategic direction, group and organisational structure, control environment, responsibilities of the Boards and Senior Management, commensurate with the risk profile and systemic importance of the bank. The Boards have the responsibility of approving and overseeing implementation of the bank's strategic plan; risk appetite and related policies; establishing and communicating corporate culture and values; and laying down policy related to conflict of interest and a strong control environment.

During the supervisory assessment, the above aspects and implementation of policies are examined. These cover availability of adequate number of Board members with appropriate skills and expertise and effective conduct of Board meetings in accordance with laid down policies, among other aspects. Sound governance practices in PSBs and PVBs help in providing confidence to various stakeholders, particularly the depositors who do not have a say in the banks' business decisions. This requires deeper involvement of the Boards of banks in strategic issues and risk oversight.

Fraud Analysis

VI.65 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 continued to contribute maximum to the fraud amount (Table VI.1). Frauds have occurred predominantly in the category of digital payments (card/internet), in terms of number. In terms of value, frauds have been reported primarily in the loan portfolio (advances category) [Table VI.2]. There was a 46.7 per cent decline in the amount involved in the total frauds reported during 2023-24 over 2022-23. While small value card/internet frauds contributed maximum to the number of frauds reported by the private sector banks, the frauds in public sector banks were mainly in loan portfolio.

VI.66 An analysis of the vintage of frauds reported during 2022-23 and 2023-24 shows a significant time-lag between the date of occurrence of a fraud and its detection (Table VI.3). The amount involved in frauds that occurred in previous financial years formed 94.0 per cent of the frauds reported in 2022-23 in terms of value. Similarly, 89.2 per cent of the frauds reported in 2023-24 by value occurred in previous financial years.

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

(Amount in ₹ crore)

Bank Group/Institution	2021-22		2022-23		2023-24	
	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	3,044	32,288	3,392	18,750	7,472	10,507
	(33.7)	(71.1)	(25.0)	(71.8)	(20.7)	(75.3)
Private Sector Banks	5,312	10,653	8,979	6,159	24,210	3,170
	(58.7)	(23.5)	(66.2)	(23.6)	(67.1)	(22.8)
Foreign Banks	494	1,206	804	292	2,899	154
	(5.5)	(2.7)	(5.9)	(1.1)	(8.1)	(1.1)
Financial Institutions	9	1,178	10	888	1	-
	(0.1)	(2.6)	(0.1)	(3.4)	-	-
Small Finance Banks	155	30	311	31	1,019	64
	(1.7)	(0.1)	(2.3)	(0.1)	(2.8)	(0.5)
Payments Banks	30	1	68	7	472	35
	(0.3)	-	(0.5)	-	(1.3)	(0.3)
Local Area Banks	2	2	-	-	2	-
	-	-	-	-	-	-
Total	**9,046**	**45,358**	**13,564**	**26,127**	**36,075**	**13,930**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

-: Nil/Negligible.

Note:
1. Figures in parentheses represent the percentage share of the total.
2. Data are in respect of frauds of ₹1 lakh and above reported during the period.
3. The figures reported by banks and FIs are subject to changes based on revisions filed by them.
4. Frauds reported in a year could have occurred several years prior to 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.

Table VI.2: Frauds Cases - Area of Operations

(Amount in ₹ crore)

Area of Operation	2021-22		2022-23		2023-24	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Advances	3,782	43,272	4,090	24,685	4,133	11,772
	(41.8)	(95.4)	(30.2)	(94.5)	(11.5)	(84.5)
Off-balance Sheet	21	1,077	14	285	11	256
	(0.2)	(2.4)	(0.1)	(1.1)	-	(1.8)
Forex Transactions	7	7	13	12	19	38
	(0.1)	-	(0.1)	-	(0.1)	(0.3)
Card/Internet	3,596	155	6,699	277	29,082	1,457
	(39.8)	(0.3)	(49.4)	(1.1)	(80.6)	(10.4)
Deposits	471	493	652	258	2,002	240
	(5.2)	(1.1)	(4.8)	(1.0)	(5.5)	(1.7)
Inter-Branch Accounts	3	2	3	-	29	10
	-	-	-	-	(0.1)	(0.1)
Cash	649	93	1,485	159	484	78
	(7.2)	(0.2)	(10.9)	(0.6)	(1.3)	(0.6)
Cheques/DDs, *etc.*	201	158	118	25	127	42
	(2.2)	(0.4)	(0.9)	(0.1)	(0.4)	(0.3)
Clearing Accounts	16	1	18	3	17	2
	(0.2)	-	(0.1)	-	-	-
Others	300	100	472	423	171	35
	(3.3)	(0.2)	(3.5)	(1.6)	(0.5)	(0.3)
Total	**9,046**	**45,358**	**13,564**	**26,127**	**36,075**	**13,930**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(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.

Agenda for 2024-25

VI.67 The Department has set out the following goals for 2024-25:

- Setting up of cyber range to augment cyber incident response capability of SCBs (*Utkarsh* 2.0); and
- To augment supervisory capabilities by a suite of SupTech data tools on micro-data analytics and other similar use cases using artificial intelligence (AI) and machine learning (ML) [*Utkarsh* 2.0].

Urban Cooperative Banks (UCBs)

VI.68 The Department continuously monitored the performance of UCBs during the year and undertook measures for a safe and well-managed cooperative banking sector.

Agenda for 2023-24

VI.69 The Department had set out the following goals for supervision of UCBs in 2023-24:

- Examining introduction of risk-based supervision approach for UCBs (Paragraph VI.70);

Table VI.3: Vintage of Frauds Reported in 2022-23 and 2023-24

(₹ crore)

2022-23		2023-24	
1	2	3	4
Occurrence of Fraud	Amount Involved	Occurrence of Fraud	Amount Involved
Before 2013-14	1,444	Before 2013-14	2,133
2013-14	1,082	2013-14	1,327
2014-15	828	2014-15	1,616
2015-16	494	2015-16	951
2016-17	6,526	2016-17	858
2017-18	2,985	2017-18	781
2018-19	4,613	2018-19	1,196
2019-20	1,253	2019-20	835
2020-21	2,171	2020-21	807
2021-22	3,164	2021-22	844
2022-23	1,567	2022-23	1,073
		2023-24	1,509
Total	**26,127**	**Total**	**13,930**

Note: 1. Data are in respect of frauds of ₹1 lakh and above reported during the period.
2. Refer to footnotes 3 and 5 of Table VI.1.

Source: RBI Supervisory Returns.

- Reviewing the Supervisory Action Framework (SAF) for UCBs (Paragraph VI.70); and
- Expanding the scope/coverage of IT examination for level III and IV UCBs (Paragraph VI.71).

Implementation Status

VI.70 A comprehensive review of existing supervisory assessment model of UCBs was performed during the year. Based on the experience, feasibility of risk-based supervision approach for supervisory assessment of UCBs is being examined by an internal committee of the Reserve Bank. The existing SAF for UCBs was reviewed.

VI.71 IT examination of all the level IV UCBs and some select level III UCBs was carried out during the year. Based on heightened risk materialising through digital channels, select level III UCBs (as per their digital depth) offering mobile and/or internet banking services were advised to get a gap assessment done through CERT-In[11] empanelled auditors *vis-à-vis* the extant cyber security framework and certain restrictions were imposed on the outlier banks. Based on improvement in compliance position, the restrictions are being removed gradually.

Agenda for 2024-25

VI.72 The Department has identified the following goal for supervision of UCBs in 2024-25:

- Strengthening the cyber/IT risks assessment.

Non-Banking Financial Companies (NBFCs)

VI.73 The Department continued to closely monitor the NBFCs (excluding HFCs) and ARCs registered with the Reserve Bank.

Agenda for 2023-24

VI.74 The Department had set out the following goals for supervision of NBFCs in 2023-24:

- Examination of licensing requirements for NBFCs and initiating supervisory action against non-compliant NBFCs (Paragraph VI.75); and
- Impact assessment of recent modification in asset classification norms for NBFCs (Paragraph VI.76).

[11] Indian Computer Emergency Response Team is an office within the Ministry of Electronics and Information Technology of the Government of India, and is the nodal agency to deal with cyber security incidents.

Implementation Status

VI.75 During the year, the Department took several initiatives for strengthening the supervision of NBFCs. The process for cancellation of certificate of registration was suitably streamlined. The regional offices of Reserve Bank are initiating necessary action as per the revised process.

VI.76 The impact of new asset classification norms on the gross non-performing assets (GNPAs) reported by NBFCs[12] was analysed. GNPAs of the NBFC sector decreased from 6.3 per cent of gross advances as on March 31, 2022 to 5.9 per cent as on September 30, 2022, which was the cut-off date for implementation of the new norms. GNPAs decreased to 5.0 per cent of gross advances as on March 31, 2023, and further to 4.6 per cent as on September 30, 2023. Since the system of marking of days past due on a daily basis was already implemented by the larger NBFCs, the new norms did not have a major impact on the reported asset quality. The increase in gross advances of the NBFC sector by 15.9 per cent during 2022-23 also had a mitigating impact on the GNPA level.

Other Initiatives

Scale-Based Regulatory Framework for NBFCs

VI.77 An assessment on identification of NBFCs in upper layer, based on the methodology indicated in the scale-based regulatory framework for NBFCs dated October 22, 2021, was taken up during 2023-24. The assessment covered top 10 NBFCs based on asset size and sample of 50 NBFCs based on total exposure. Post assessment, 15 companies were identified for classification in NBFC-upper layer.

Extension of PCA Framework to Government NBFCs

VI.78 The Reserve Bank introduced PCA framework for NBFCs on December 14, 2021. The framework was reviewed and extended to government NBFCs (except those in base layer) and it would be applicable with effect from October 1, 2024.

Agenda for 2024-25

VI.79 The Department has identified the following goal for supervision of NBFCs in 2024-25:

- Assessment of impact of enhanced risk weights prescribed *vide* circular dated November 16, 2023 on profitability of NBFCs.

Supervisory Measures for All Supervised Entities (SEs)

VI.80 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.

Agenda for 2023-24

VI.81 The Department had set out the following supervisory goals for all SEs in 2023-24:

- A comprehensive review of supervisory processes, including that for rating models, based on internal and external inputs (*Utkarsh* 2.0) [Paragraph VI.82];
- Calibrated harmonisation of the supervisory approach across segments/ SEs (especially for NBFCs and UCBs in line with SCBs) by phased introduction

12 The analysis is based on data for deposit taking and non-deposit taking systemically important NBFCs (including PDs) and CICs.

of process audit and compliance testing (*Utkarsh* 2.0) [Paragraph VI.82];

- Streamlining and strengthening onsite assessment of SEs related to KYC/AML and Cyber/IT risks (*Utkarsh* 2.0) [Paragraph VI.83];
- Implementing various analytics and SupTech initiatives for strengthening of supervision (Paragraph VI.84); and
- Strengthening of cyber security across SEs including setting-up of cyber range for conducting cyber drill, examining feasibility of implementing Cyber Sectoral Security Operations Centre (S-SOC), and conducting phishing simulation exercises for SEs (Paragraph VI.85).

Implementation Status

VI.82 A comprehensive review of supervisory rating models was completed. Revised models based on the review were rolled out during the year. A calibrated harmonisation of supervisory processes was undertaken across SE segments (especially for NBFCs and UCBs in line with SCBs), which led to phased introduction of process audit and compliance testing framework for UCBs and NBFCs.

VI.83 Various measures were undertaken to strengthen the onsite assessment mechanism of KYC/AML and IT/cyber risk supervision:

- The format of onsite examination report was suitably modified to highlight key KYC/AML and IT risks both to the Senior Management of banks as well as internal stakeholders in the Reserve Bank;
- Greater emphasis was laid on generating actionable insights from risks captured in offsite returns for IT supervision. The offsite returns were used as preliminary inputs to perform a focused onsite IT examination, which was supplemented by comprehensive onsite assessment of banks based on risk perception and analysis; and
- Cyber security augmentation plan (CSAP) was issued to banks highlighting major gaps observed in IT examinations with specific timelines. Half-yearly compliance assessment was conducted and outlier SEs were suitably advised to expedite compliance.

VI.84 The Reserve Bank aims to generate a holistic view of SEs across risk domains by effectively scaling/integrating the data collection and analytical functions with an objective of standardising the risk assessment process. To this end, use cases were identified in the areas of customer conduct, KYC/AML, governance effectiveness, and related party transactions, which are being developed using ML models.

VI.85 During the year, the Department undertook several initiatives for strengthening the cyber security preparedness of SEs, including initiating process of setting-up of cyber range for conducting cyber drill, examining feasibility of implementing S-SOC and conducting phishing simulation exercises for SEs. The cyber reconnaissance exercise for the first year has been completed for public facing applications[13] of 40 SEs.

[13] Accessed over the internet through a public network.

Other Initiatives

Master Direction on Outsourcing of IT Services and Master Direction on IT Governance, Risk Controls and Assurance Practices

VI.86 REs are extensively leveraging IT and IT-enabled services (ITeS) in their businesses, products and services with increasing dependence on third parties which exposes the REs to various risks. In view of the same, guidelines were issued in the form of a Master Direction on April 10, 2023. Also, the instructions on IT governance and controls, business continuity management and information systems audit were updated and consolidated in the form of a Master Direction issued on November 7, 2023.

Use of Advanced Analytics

VI.87 The Reserve Bank continues to leverage on technology for an effective and efficient supervision. Advanced analytics was deployed for risk annotation of minutes of meetings of Board and Sub-Committees of Board of SEs, assessment of the effectiveness of the Board's oversight on different functions of the SEs, and validation of deliberation by Board of the SEs on supervisory concerns.

Onsite Inspection of 'High' Risk NBFCs and UCBs for Overall Assessment of KYC/AML Risks under SAKAR Framework

VI.88 As part of the risk-based approach adopted for KYC/AML supervision of the SEs, the onsite inspection of select NBFCs and UCBs was taken up for the first time, in addition to onsite assessment of SCBs. The onsite inspection for KYC/AML risk assessment along with the offsite risk assessment provides deeper insights into the KYC/AML risks in the respective sector(s) and aids in deciding the supervisory intensity. Further, the Financial Action Task Force (FATF) assessment team carried out a comprehensive assessment of supervisory processes for KYC/AML risk assessment (Box VI.4).

Box VI.4

FATF Mutual Evaluation of India with Special Focus on Supervisory Processes for KYC/AML Risk Assessment

Currently, India is being subjected to 'Mutual Evaluation' (ME) process by the FATF. The ME process, *inter alia,* involves the assessment on the compliance to the FATF recommendations (technical compliance) as well as on the effectiveness of the AML/CFT[14]/CPF[15] framework put in place by the jurisdiction in preventing the abuse of the financial sector for money laundering/terrorist financing/proliferation financing purposes [effectiveness assessment (EA)].

While the assessment for technical compliance is mostly based on the submissions of written documents, along with supporting evidence, the EA additionally involves an onsite visit to the assessed country. The onsite visit by the FATF assessment team was conducted during November 2023 and included extensive interactions with the sectoral regulators and select REs. The EA process involves in-depth examination of the jurisdiction's ability to demonstrate that its AML/CFT measures are providing the desired level of outcomes and its level of achievement against a set of

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[14] Combating the Financing of Terrorism.

[15] Counter Proliferation Financing.

defined outcomes known as 'immediate outcomes'. Out of 11 such 'immediate outcomes', the immediate outcome 3 provides that supervisors appropriately supervise, monitor and regulate financial institutions for compliance with AML/CFT requirements commensurate with their risks.

The Reserve Bank actively engaged with FATF assessment team. As part of evaluation, the Reserve Bank elaborated on the efficacy of the supervisory processes, which included the dedicated functional KYC/AML Group within the Department focusing primarily on the KYC/AML risk assessment at the entity level as well as at the sectoral level. The use of analytical model in risk profiling the SEs, onsite inspection of 'high' risk and other identified entities, supervisory inputs to the prudential supervisors, mechanism of feedback and guidance to the SEs in identifying their inherent risks (through outliers) and strengthening the controls and processes in addressing the gaps were some of the critical aspects, which were elaborately discussed with the FATF assessment team during their onsite visit.

Engagement with SEs

VI.89 The objective of supervisory/corrective action is to guide and incentivise the SEs to remediate the identified vulnerabilities at an early stage. Frequent and wider interactions with the SEs remain a critical tool to enhance the effectiveness of the supervisory intervention. The scope and frequency of communication with the SEs is largely determined by their size, complexity and risk profile (Box VI.5).

Box VI.5
Changing Contours of Supervisory Engagements with SEs

Supervisory engagement with SEs follows the broad principles of relevance, transparency, clarity, comprehensiveness and timeliness. Over the years, the domain of engagement with SEs has enhanced significantly both in terms of interaction level and frequency. The supervisory approach of the Reserve Bank has been constantly evolving to embrace the changing realities in the banking and financial sector. Resultantly, the contours of the supervisory engagements with the SEs have been evolving constantly, moving beyond the traditional approaches as detailed below:

Constant Evaluation of the Governance Framework in SEs

As governance is of paramount importance and invariably at the root cause of supervisory concerns, the Reserve Bank has reoriented its engagement with the Management and Directors of the SEs. During the year, conferences were held for the Directors on the Boards of PSBs, PVBs and tier 3, 4 UCBs with the theme of 'Governance in Banks - Driving Sustainable Growth and Stability', which were attended by the Governor and top management of the Reserve Bank. Governor also held meetings with Managing Directors (MDs) and Chief Executive Officers (CEOs) of PSBs, PVBs, upper layer (including HFCs) and select government NBFCs, heads of federations of UCBs of states and CEOs of UCBs. Periodic conferences are also organised for the Reserve Bank Nominee Directors (ND) and Additional Directors (AD). In these meetings, SEs were encouraged to further strengthen the governance structure to enable early identification and mitigation of risks.

Meetings with Outlier SEs

The realm of analysis in offsite assessment was enhanced to identify the incipient and emerging vulnerabilities amongst banks and non-banks, and sectoral stress events. For the purpose, advanced technology and data analytics are being leveraged to facilitate data-driven decisions, identify risks, and take timely actions to safeguard financial stability. Further, close examination of the business models of SEs and meticulous assessment regarding its alignment with the stated risk appetite is also being undertaken.

The Reserve Bank's top management holds meetings with SEs identified as outliers in the above-mentioned assessments.

Assurance Functionaries

As assurance functions of the SEs act as extended supervisory arms of the Reserve Bank, strengthening of the internal assurance functions has been a supervisory priority in the recent years. During the year, a conference was organised for the assurance functionaries of

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banks to convey the supervisory expectations. Training establishments of the Reserve Bank also regularly hold programmes for assurance functionaries of the SEs.

Calibrated Continuous Supervision

In addition, supervisory teams constantly engage with SEs at multiple levels during the onsite inspection. Under the risk-based supervision framework, apart from structured annual supervisory cycle, the supervisors also proactively engage with the SEs based on the evolving situations.

In a nutshell, engagement with the SEs at various levels forms a critical part of early and effective intervention. The insights gained from these engagements help in alleviating potential supervisory concerns and/or accentuate the more escalated supervisory interventions to nudge the SEs towards desirable supervisory objectives. At the same time, gaining support from important stakeholders also enhances the acceptance, reduces the cost and, hence, makes the supervisory intervention more effective.

Inter-Regulatory Cooperation with Domestic Financial Regulators

VI.90 The Reserve Bank is working closely in coordination with other domestic financial regulators for ensuring financial system resilience. Towards this goal, the domestic regulators deliberated upon the system-wide issues in the financial sector during the 12th meeting of the Inter-Regulatory Forum (IRF). Further, SE specific issues were discussed during the IRF meetings with bank-led financial conglomerates.

Targeted Assessments

VI.91 The Reserve Bank's supervisory emphasis has been on system-wide risk monitoring and mitigation, while keeping a tab on entity-specific issues. In this context, the Reserve Bank has instituted a system of targeted thematic assessments aimed at examining root cause of system-wide concerns as well as understanding the idiosyncratic risk build-up in some of the SEs across the system. These studies have helped to take corrective action as well as make improvements in the systems and processes.

Agenda for 2024-25

VI.92 The Department has identified the following goals for supervision of all SEs in 2024-25:

- Examining information systems (IS) audit framework in REs*;*
- Examining data governance framework for REs*;*
- Developing data quality index (DQI) for offsite returns (*Utkarsh* 2.0)*;*
- Deeper integration of offsite analytics with onsite supervision; and
- Validation of supervisory data with Ministry of Corporate Affairs (MCA) database (*Utkarsh* 2.0).

Enforcement Department (EFD)

VI.93 The EFD was set up with a view to separate enforcement action from supervisory process and to put in place a structured, rule-based approach to identify and process violations by the REs of the applicable policies and enforce the same consistently across the Reserve Bank. The objective of enforcement is to ensure compliance by the REs with the rules and regulations, within the overarching principles of financial stability, public interest and consumer protection.

Agenda for 2023-24

VI.94 The Department had set out the following goal for 2023-24:

- Endeavour to implement a scale-based approach to enforcement (Paragraph VI.95).

Implementation Status

VI.95 A scale-based approach would be put in place for enforcement action against various types of REs [banks, NBFCs, HFCs, ARCs, Factors, CICs, Payment System Operators (PSOs)] based on their size, complexity, interconnectedness, range of activities and also the seriousness of violations. The draft scale-based enforcement framework is under finalisation.

VI.96 During 2023-24, the Department undertook enforcement action against REs and imposed 281 penalties aggregating ₹86.1 crore for contraventions/non-compliance[16] with provisions of statutes and certain directions issued by the Reserve Bank from time to time (Table VI.4).

Table VI.4: Enforcement Actions

Regulated Entity	Number of Penalties	Total Penalty (₹ crore)
1	2	3
Public Sector Banks	16	23.68
Private Sector Banks	12	24.90
Foreign Banks	3	7.04
Payments Banks	1	5.39
Small Finance Banks	1	0.29
Regional Rural Banks	4	0.12
Cooperative Banks	215	12.07
NBFCs	22	11.53
CICs	4	1.01
HFCs	3	0.08
Total	**281**	**86.11**

Source: RBI.

Other Initiatives

VI.97 The Department organised a few workshops on enforcement action for officers processing cases in EFD central office and regional offices. The workshops were intended to enhance the skills of the participants by sharing inputs on relevant legal and enforcement-related aspects. The Department also provided faculty support to National Bank for Agriculture and Rural Development (NABARD) for capacity building of its inspecting officers.

Agenda for 2024-25

VI.98 During 2024-25, the Department proposes to achieve the following goal:

- Based on a feasibility study, a scale-based framework for enforcement would be put in place.

5. CONSUMER EDUCATION AND PROTECTION

Consumer Education and Protection Department (CEPD)

VI.99 The CEPD frames policy guidelines for protection of the interests of customers of REs of the Reserve Bank; monitors the functioning of internal grievance redress mechanism of REs; undertakes oversight on the performance of the ombudsman offices as well as implements '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 on the avenues for redress of customer complaints.

[16] Illustratively, some of them include contravention of Section 26A of Banking Regulation Act, 1949; Cyber Security Framework in Banks; 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; Reporting Information on CRILC; Submission of Credit Information to CICs; Customer Protection-Limiting Liability of Customers in Unauthorised Electronic Banking Transactions; Director Related Loans; Monitoring of End Use of Funds; and the Housing Finance Companies Directions, 2010 (NHB).

Agenda for 2023-24

VI.100 The Department had proposed the following goals under *Utkarsh* 2.0 for 2023-24:

- Review, consolidation and updation of the extant Reserve Bank regulatory guidelines on customer service (Paragraph VI.101);
- Digitalisation of data compiled through incognito visits for enhanced data utility and analysis (Paragraph VI.101);
- Establish Reserve Bank contact centre at two additional locations for local languages, including disaster recovery (DR) and business continuity plan (BCP) facility (Paragraph VI.102); and
- Review and integration of the Internal Ombudsman schemes, applicable to different RE types (Paragraph VI.103).

Implementation Status

VI.101 The Master Circular on customer service in banks was published in 2015. The Reserve Bank is adopting a holistic approach in review, consolidation and updation of the customer service guidelines. Incognito visits are carried out across the bank branches in the country through regional offices of the Reserve Bank. The report submission has been digitalised for real time data availability and better data analysis. The checklists for incognito visits are also being regularly revised for effective data collection. The findings of the visits are now being actively used as feedback for supervisory and regulatory inputs.

VI.102 In response to a surge in customer calls, the Reserve Bank's contact centre has undergone a strategic evolution aimed at improving customer satisfaction and operational efficiency. The existing standalone contact centre at Chandigarh was upgraded to a state-of-the-art facility, with additional facilities at Bhubaneswar and Kochi, positioned as DR and BCP facilities. The enhanced contact centre operates in hybrid mode of outsourced agents working under the Reserve Bank's supervision. Specialised roles like quality analysts and contact centre manager further contribute to elevating service quality, with emphasis on excellence in customer interactions.

VI.103 The Reserve Bank institutionalised Internal Ombudsman (IO) mechanism for banks in 2018, non-bank system participants in 2019, select NBFCs in 2021, and CICs in 2022, with a view to strengthen the internal grievance redress system. The guidelines on IO framework currently in operation for various categories of REs have similar design features, while carrying certain variations on operational matters. Based on the learnings from the implementation of the extant IO guidelines, it was decided to harmonise the instructions applicable to the various REs on the IO mechanism. Accordingly, Master Direction on 'Reserve Bank of India (Internal Ombudsman for Regulated Entities), 2023' was issued on December 29, 2023, which brings uniformity in matters like timeline for escalation of complaints to the IO; exclusions from escalating complaints to the IO; temporary absence of the IO; minimum qualifications for appointing the IO; and updation of reporting formats, in addition to introduction of the post of Deputy Internal Ombudsman.

Major Developments

Opening/Reorganisation of Offices of RBI Ombudsman (ORBIOs)

VI.104 The Reserve Bank reviewed the geographic presence of the ORBIOs and made them available in different regions keeping in view the volume of origination of complaints. Accordingly, a new ORBIO was operationalised at Shimla and additional ORBIOs have been operationalised at Chennai and Kolkata. All Ombudsman offices operate under the overarching 'One Nation One Ombudsman' principle.

Committee for Review of the Customer Service Standards and Practices in REs

VI.105 A Committee for review of customer service standards in the REs was set-up by the Reserve Bank on May 23, 2022. The Committee's report was placed in the public domain on June 5, 2023. The recommendations of the Committee along with comments received from stakeholders are being examined for implementation.

Customer Centric Measures

VI.106 The Reserve Bank undertook 130 customer centric initiatives during 2021-22 to 2023-24 to improve customer service and satisfaction (Box VI.6).

Box VI.6

Customer Centric Measures by Reserve Bank of India

Customer centricity is about providing solutions based on understanding of customers' needs, preferences, and behaviours (World Bank, 2014). Six common core outcomes emerge from the customer perspective (World Bank, 2020): (a) Suitability and appropriateness (*i.e.,* having access to quality services that are affordable and appropriate); (b) Choice (*i.e.,* having range of products/services); (c) Safety and security (*i.e.,* money and information are kept safe, and service providers respect privacy of information); (d) Fairness and respect (*i.e.,* treating with respect and safeguard clients' interest); (e) Voice (*i.e.,* communication through easily accessible channel, with problems getting quickly resolved with minimal cost); and (f) Meets purpose (*i.e.,* to be in a better position to manage financial products or shock or to attain other goals). In line with these core outcomes, the OECD/G20 'High-Level Principles on Financial Consumer Protection' were updated in 2022 and recommended 12 principles[17] for government, oversight body and financial service providers (OECD, 2024).

Customer Centric Policies of Reserve Bank

The Reserve Bank, being a full-service central bank, has a diverse functional mandate. Depositors' protection responsibility has been entrusted to the Reserve Bank under the Banking Regulation Act, 1949[18], long before the concepts like customer service, customer satisfaction and customer centricity found an entry into the lexicon of the banking sector (Leeladhar, 2007). The Reserve Bank's enduring concern for the quality of customer services in the REs has led to continuing initiatives over decades, including setting up of various Committees[19] on customer service. Towards ensuring fair treatment of the customer and adequate quality of customer service at a reasonable cost, appropriate interventions from the regulators become important.

Over the years, the Reserve Bank has put in place various institutional mechanisms aimed at improving the customer service in the REs such as 'One Nation-One Ombudsman'

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[17] Namely, (1) Legal, Regulatory and Supervisory Framework; (2) Role of Oversight Bodies; (3) Access and Inclusion; (4) Financial Literacy and Awareness; (5) Competition; (6) Equitable and Fair Treatment of Consumers; (7) Disclosure and Transparency; (8) Quality Financial Products; (9) Responsible Business Conduct and Culture of Financial Services Providers and Intermediaries; (10) Protection of Consumer Assets against Fraud, Scam and Misuse; (11) Protection of Consumer Data and Privacy; and (12) Complaints Handling and Redress.

[18] Section 35A of the Act empowers the Reserve Bank to give directions in the public interest; or in the interest of banking policy; or to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors. The Reserve Bank derives similar powers under the RBI Act, 1934 for non-banking financial companies (NBFCs) and Payment and Settlement Systems Act, 2007 for system participants.

[19] Talwar Committee on Customer Service (1975); Goiporia Committee on Customer Service in Banks (1990); Damodaran Committee on Customer Service in Banks (2010); and Kanungo Committee for Review of Customer Service Standards in Reserve Bank Regulated Entities (2023). A review of the regulatory architecture on customer service by the Kanungo Committee revealed that 'it is largely compliant with the standards laid down by international standard setting bodies and compares well with the consumer protection regulation in other jurisdictions'. Some of the recommendations of this Committee have already been implemented, while others are in the process of examination.

system under the 'Reserve Bank-Integrated Ombudsman Scheme[20] (RB-IOS)'; internal grievance redress (IGR) mechanism of REs; and Fair Practices Codes for lenders. Consumer Education and Protection Department (CEPD), set up in the Reserve Bank in 2006 as Customer Service Department, frames policy guidelines for protection of the interests of customers of its REs, besides monitoring IGR mechanism; undertaking oversight of the ombudsman offices; and creating public awareness on safe banking practices/extant regulations on customer service and protection. In order to ensure transparency in bank charges/fees, the Reserve Bank has made it mandatory for banks to display and update the details of various service charges and fees on an ongoing basis, in their branches as also on the home page of their websites. A "Charter of Customer Rights" has also been formulated by the Reserve Bank which enshrines broad, overarching principles for protection of bank customers, and enunciates the following five basic rights of bank customers: (i) fair treatment; (ii) transparency; fair and honest dealing; (iii) suitability; (iv) privacy; and (v) grievance redress and compensation.

Concerted efforts are made on an ongoing basis towards enhancing financial inclusion (including financial literacy), along with awareness campaign among public on various initiatives of the Reserve Bank towards enhancing customer safety and protection, exchange and distribution of currency, and also sensitising public about the *modus operandi* followed by fraudsters, particularly in the backdrop of increasing usage of digital transactions. Banks have also been advised to provide doorstep banking services, particularly for differently-abled and senior citizens.

Over the last three years (2021-22 to 2023-24), 130 customer centric measures were undertaken by the Reserve Bank (Annex III).

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3. RBI (2023), 'Committee for Review of Customer Service Standards' (Chair: B.P. Kanungo).
4. RBI (2014), 'RBI Releases Charter of Customer Rights', Press Release, December 3.
5. World Bank (2020), 'Making Consumer Protection Regulation More Customer-Centric', Working Paper, CGAP, June.
6. World Bank (2014), 'Customer-Centricity for Financial Inclusion', CGAP, June.

Agenda for 2024-25

VI.107 During 2024-25, the Department proposes to focus on the following goals:

- Further improvement in the complaint management system to enhance support in lodging complaints and ensure greater consistency in decisions and outcomes (*Utkarsh* 2.0);
- Develop a consumer protection assessment matrix for REs (*Utkarsh* 2.0);
- Strengthen internal grievance redress framework to encourage banks to take proactive measures to improve customer service;
- Conduct of survey to assess the reasons for the low level of complaints in the rural/semi urban areas; and
- Review and rollout of reoriented nationwide intensive awareness programme based on feedback received from REs and ORBIOs.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

VI.108 The DICGC, which has been established as a wholly owned subsidiary of the Reserve

[20] 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.

Bank under the DICGC Act, 1961, administers the deposit insurance system, thereby playing an important role in maintaining the stability of the financial system, particularly by assuring small depositors of protection for their deposits, and thereby preserving public confidence in the financial system. Deposit insurance extended by the DICGC covers all commercial and cooperative banks that are licensed by the Reserve Bank. The number of registered insured banks stood at 1,997 as on March 31, 2024 comprising 140 commercial banks (including 12 SFBs, 6 PBs, 43 RRBs and 2 LABs) and 1,857 cooperative banks (1,472 urban cooperative banks, 33 state cooperative banks and 352 district central cooperative banks).

VI.109 The current limit of deposit insurance in India is ₹5 lakh per depositor of a bank 'in the same capacity and in the same right'[21]. Currently, the insurance cover is 2.9 times per capita income in 2023-24. As on September 30, 2023, the number of protected accounts (281.8 crore) constituted 97.9 per cent of the total number of accounts (287.9 crore). In terms of amount, the total insured deposits of ₹90,32,340 crore as on September 30, 2023 were 44.2 per cent of assessable deposits[22] of ₹2,04,18,707 crore. Reserve ratio (Deposit Insurance Fund/ Insured Deposits) as on September 30, 2023 stood at 2.02 per cent.

VI.110 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. During 2023-24, deposit insurance premium received was ₹23,879 crore, recording a y-o-y growth of 11.7 per cent, while the total claims settled by the Corporation were ₹1,431.5 crore. The size of the DIF stood at ₹1,98,310 crore as on March 31, 2024 (₹1,69,602 crore as on March 31, 2023).

6. CONCLUSION

VI.111 The Reserve Bank undertook several measures to safeguard the financial system by further strengthening the regulatory and supervisory framework of the banking and non-banking sector in line with the global best practices. Going forward, concerted efforts would be made towards issuing frameworks in the areas of resolution of stress in projects under implementation, securitisation of stressed assets and expected credit loss. Augmenting supervisory capabilities by a suite of SupTech data tools on micro-data analytics and other similar use cases, using AI/ML and integration of offsite analytics with onsite supervision would also engage attention, along with further strengthening of the enforcement framework. Enhancing the customer service standards along with fine-tuning the existing grievance redress mechanism would also remain focus areas.

[21] Deposit accounts are called so when the depositor has one or more types of deposit accounts and in one or more branches of a bank in his/her personal name. This also includes deposit held in the name of the proprietary concern where the depositor is the sole proprietor. If the depositor has deposit accounts in his/her capacity as a partner of a firm/guardian of a minor/director of a company/trustee of a trust/joint account, in one or more branches of the bank then such accounts are considered as held in different capacity and different right. In the case of joint accounts, if individuals open more than one joint accounts in which their names are not in the same order or group of persons are different, then the deposits held in these joint accounts are considered as held in the different capacity and different right.

[22] Assessable deposits include all bank deposits except (i) deposits of foreign governments; (ii) deposits of central/state governments; (iii) inter-bank deposits; (iv) deposits received outside India; and (v) deposits specifically exempted by the corporation with prior approval of the Reserve Bank.