

MONETARY & CREDIT INFORMATION REVIEW



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I. Regulation

Regulatory Restrictions on Loans and Advances

The Reserve Bank on July 23, 2021 revised the regulatory restrictions on loans and advances to directors and relatives directors of scheduled commercial banks, small finance banks and local area banks and their relatives as follows:

i) The threshold of Rs. 25,00,000 for personal loans granted to any director of other banks stands revised Rs. 5,00,000,00.

ii) Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating Rupees five crore and above to

(a) Any relative other than spouse and minor / dependent children of their own Chairmen/Managing Directors or other Directors;

(b) Any relative other than spouse and minor / dependent children of the Chairman/Managing Director or other directors of other banks;

(c) Any firm in which any of the relatives other than spouse and minor / dependent children as mentioned in (a) & (b) above is interested as a partner or guarantor; and

(d) Any company in which any of the relatives other than spouse and minor / dependent children as mentioned in (a) & (b) above is interested as a major shareholder or as a director or as a guarantor or is in control.

A relative of a director shall also be deemed to be interested in a company, being the subsidiary or holding company, if he/she is a major shareholder or is in control of the respective holding or subsidiary company. To read more, please click [here](#).

Mandatory Leave for Employees Posted in Sensitive Positions

The Reserve Bank on July 9, 2021 revised the instructions on mandatory leave for employees posted in sensitive positions or areas of operations dated April 23, 2015 applicable within six months from July 9, 2021. The revised instructions are as follows:

(i) As a prudent operational risk management measure, banks shall put in place a 'mandatory leave' policy wherein the employees posted in sensitive positions or areas of operation shall be compulsorily sent on leave for a few days (not less than 10 working days) in a single spell every year, without giving any prior intimation to these employees, thereby maintaining an element of surprise.

(ii) Banks shall ensure that the employees, while on 'mandatory leave', do not have access to any physical or virtual resources related to their work responsibilities, with the exception of internal/ corporate email which is usually available to all employees for general purposes.

(iii) Banks shall, as per a Board-approved policy, prepare a list of sensitive positions to be covered under 'mandatory leave' requirements and the list shall be reviewed periodically. Implementation of this policy shall be reviewed under the supervisory process.

Accordingly, the earlier instructions on mandatory leave for employees posted in sensitive areas stand repealed. To read more, please click [here](#).

Interest on Overdue Domestic Deposits

The Reserve Bank on July 2, 2021 advised that the rate of interest payable on matured and unpaid proceeds of term deposit shall be the same rate applicable to savings account or the contracted rate of interest on the matured TD, whichever is lower. Accordingly, the relevant sections in the Master Directions on Interest Rate of Deposits dated March 3, 2016 and Cooperative Banks – Interest Rate on Deposits dated May 12, 2016 have been amended. To read more, please click [here](#).

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Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of July in the world of money and credit. MCIR can be accessed at <https://mcir.rbi.org.in> as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at mcir@rbi.org.in

Yogesh Dayal
Editor

Approved Credit Rating Agencies

The Reserve Bank on July 29, 2021 released the names of credit rating agencies and their minimum investment grade ratings for the purpose of accepting public deposits by Housing Finance Companies (HFCs). To read more, please click [here](#).

Interest Equalisation Scheme

The Reserve Bank on July 1, 2021 notified that the extant operational instructions under the Interest Equalisation Scheme shall continue to remain in force up to September 30, 2021. This is following the Government of India's approval for extending the Interest Equalisation Scheme for Pre and Post Shipment Rupee Export Credit, with the same scope and coverage, for a further period of three months, upto September 30, 2021. To read more, please click [here](#).

Master Direction on CRR and SLR

The Reserve Bank on July 20, 2021 issued the Master Direction on Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) in exercise of the powers conferred on the Reserve Bank under the Banking Regulation Act, 1949 and the RBI Act, 1934. The Master Direction has been placed on the Reserve Bank's website and it can be viewed by clicking [here](#).

Share Capital and Securities -UCBs

The Reserve Bank on July 14, 2021, released the draft circular on Issue and Regulation of share capital and securities –primary urban cooperative banks (UCBs). Comments on the draft circular are invited from UCBs, sector participants and other interested parties are invited by August 31, 2021. Comments are also invited from State cooperative banks, district credit cooperative banks, rural co-operative banking sector participants and other interested parties. Feedback on the draft circular may be forwarded by email to cbcap@rbi.org.in with the subject line "Feedback on draft circular on issue and regulation of share capital and securities – primary urban co-operative banks". To read more, please click [here](#).

Shivalik Small Finance Bank Limited

The Reserve Bank on July 7, 2021 announced the inclusion of Shivalik Small Finance Bank Limited in the Second Schedule to the Reserve Bank of India Act, 1934 vide Notification dated June 15, 2021 and published in Part – III, section – 4 of the Gazette of India dated July 3-9, 2021. To read more, please click [here](#).

II. Payment and Settlement Systems

Digital Payments Index - March 2021

The Reserve Bank on July 28, 2021 announced the figures as part of the Digital Payments Index – March, 2021. The index for March 2021 stands at 270.59 as

against 207.84 for March 2020, announced while launching the index on January 1, 2021. The RBI-DPI index has demonstrated significant growth in the index representing the rapid adoption and deepening of digital payments across the country in recent years. The index series since its inception is as under:

Period	RBI- DPI Index
March 2018 (Base)	100
March 2019	154.47
September 2019	174.49
March 2020	207.84
September 2020	217.74
March 2021	270.59

Centralised Payment Systems

The Reserve Bank on July 28, 2021 announced that authorised non-bank payment service providers, viz. prepaid payment instruments issuers, card networks and white label ATM operators are eligible to participate in Centralised Payment Systems (CPS) as direct members. The participation will be based on the approach as prescribed in the Reserve Bank's circular on access for non-banks to CPS dated July 28, 2021. The Reserve Bank had announced in the statement on developmental and regulatory policies released along with the monetary policy announcement on April 7, 2021 that participation of non-banks in Reserve Bank of India-operated CPS viz. RTGS and NEFT systems would be encouraged in a phased manner.

Accordingly, in the first phase, authorised non-bank PSPs shall be eligible to participate in the CPS. To read more, please click [here](#).

Supervisory Action on Mastercard Asia

The Reserve Bank on July 14, 2021 imposed restrictions on Mastercard Asia/Pacific Pte. Ltd. (Mastercard) from onboarding new domestic customers (debit, credit or prepaid) onto its card network from July 22, 2021.

Notwithstanding lapse of considerable time and adequate opportunities being given, Mastercard Asia was found to be non-compliant with the directions on storage of payment system data. The order will not impact existing customers of Mastercard. Mastercard shall advise all card issuing banks and non-banks to conform to these directions. As per extant regulations, all system providers were directed to ensure that within a period of six months the entire data relating to payment systems operated by them is stored in a system only in India. To read more, please click [here](#).

III. Financial Market Regulation

Cessation of LIBOR

The Reserve Bank on July 8, 2021 issued an advisory to banks and other RBI-regulated entities emphasising the need for preparedness for the transition away from London Interbank Offered Rate (LIBOR). The key steps to be taken in this regard include:

i) Banks and financial institutions are encouraged to cease entering into new financial contracts that reference LIBOR as a benchmark and instead use any widely accepted alternative reference rate (ARR), as soon as practicable and in any case by December 31, 2021.

ii) Banks and financial institutions are urged to incorporate robust fall-back clauses in all financial contracts that reference LIBOR and the maturity of which is after the announced cessation date of the LIBOR settings.

iii) Banks and financial institutions are encouraged to ensure that new contracts entered into before December 31, 2021 that reference LIBOR and the maturity of which is after the date on which LIBOR ceases or becomes non-representative include fall-back clauses.

iv) Banks have also been advised to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), a benchmark which references the LIBOR, as soon as practicable and in any event by December 31, 2021. In this context, Financial Benchmarks India Pvt Ltd (FBIL) has started publishing daily adjusted MIFOR rates from June 15, 2021 and modified MIFOR rates from June 30, 2021 which can be used for legacy contracts and fresh contracts respectively.

v) Contracts referencing LIBOR / MIFOR may generally be undertaken after December 31, 2021 only for the purpose of managing risks arising out of LIBOR / MIFOR referenced contracts undertaken on or before December 31, 2021.

Reserve Bank will continue to monitor the evolving global and domestic situation with regard to the transition away from LIBOR and proactively take steps, as necessary, to mitigate associated risks in order to ensure a smooth transition.

The Financial Conduct Authority (FCA), UK, in a press statement dated March 05, 2021 announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

❑ Immediately after December 31, 2021, in the case of all Pound sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and

❑ Immediately after June 30, 2023, in the case of the remaining US dollar settings.

The transition away from LIBOR and the adoption of ARRs developed in various jurisdictions is a significant event which needs to be carefully prepared for in order to manage potential customer protection, reputational and litigation risks as well as avoid disruptions to the safety and resilience of financial institutions and overall financial stability of the economy. In August 2020, the Reserve Bank had advised banks and financial institutions to assess their LIBOR exposures which will mature after the cessation

of the LIBOR as also frame a Board-approved plan for the steps to be taken to address the risks arising from the LIBOR transition.

The Reserve Bank has also put in place a detailed road map for LIBOR transition. The detailed roadmap document can be viewed by clicking [here](#).

IV. Financial Inclusion

MSMEs – New Definition

The Reserve Bank on July 7, 2021 announced that the Ministry of Micro, Small and Medium Enterprises (MSME) has decided to include Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector Lending (PSL). The newly included entities would be allowed to be registered on Udyam Registration Portal for the following NIC Codes and activities mentioned against them:

45	Wholesale and retail trade and repair of motor vehicles and motorcycles
46	Wholesale trade except of motor vehicles and motorcycles
47	Retail trade except of motor vehicles and motorcycles

The Enterprises having Udyog Aadhaar Memorandum (UAM) under above three NIC Codes are now allowed to migrate to Udyam Registration Portal or file Udyam Registration afresh. To read more, please click [here](#).

V. Currency Management

Cassette - Swaps in ATMs

The Reserve Bank on July 12, 2021 extended the timeline for implementation of cassette swap in all ATMs till March 31, 2022. The timeline was extended based on representations received from the Indian Banks' Association (IBA) on behalf of various banks expressing difficulties in meeting this timeline. Banks shall however monitor the progress and make the required course correction at the end of every quarter, at the level of Board /ACB and report the status within seven days of the quarter end, starting from quarter ended September 2021.

The status report may be sent to the Chief General Manager-in-Charge, Department of Currency Management, Reserve Bank of India, Central Office. To read more, please click [here](#).

VI. RBI Bulletin

The Reserve Bank released its monthly bulletin on July 15, 2021. Apart from current statistics, the Bulletin consists of three articles:

i) *State of the Economy:*

The tapering of the second wave, coupled with an aggressive vaccination push, has brightened near-term prospects for the Indian economy. While several high frequency indicators of activity are recovering, a solid increase in aggregate demand is

yet to take shape. On the supply side, agricultural conditions are turning buoyant with the revival in the monsoon, but the recovery of manufacturing and services sectors has been interrupted by the second wave. A pick-up in inflation is driven largely by adverse supply shocks and sector-specific demand-supply mismatches caused by the pandemic. These factors should ease over the year as supply side measures take effect.

ii) Monetary Policy Transmission in India: Recent Developments

The transmission of policy repo rate changes to deposit and lending rates of scheduled commercial banks (SCBs) has improved substantially since the introduction of external benchmark linked lending rate (EBLR) regime in October 2019. Data collected from banks suggest that the share of outstanding loans linked to external benchmark in total floating rate loans has increased from as low as 2.4 per cent during September 2019 to 28.5 per cent by the end of 2020-21. The adoption of external benchmark-based pricing of loans has strengthened market impulses for a quicker adjustment in deposit rates. Further, a combination of surplus liquidity conditions amidst weak credit demand conditions has enabled banks to lower their deposit rates. The lowering of deposit rates has resulted in the decline in cost of funds for SCBs, prompting them to reduce their MCLR, and in turn their lending rates.

iii) Drivers of Indian Pharmaceutical Exports

The article attempts to capture the dynamics of the Indian pharmaceutical industry as it evolved in the last two decades and looks specifically into the export markets with an aim to understand the determinants of exports that can help this sector leverage its export potential in future.

VII. RBI Top Management Speaks

Financial Inclusion – Past, Present and Future

Shri Shaktikanta Das, Governor delivered the inaugural address “Financial Inclusion – Past, Present and Future” at the Economic Times Financial Inclusion Summit on July 15, 2021. In his address, the Governor cited the overarching principle behind India’s journey towards financial inclusion that is echoed in the Gandhian philosophy: “Sarvodaya through Antyodaya – Welfare of all through the upliftment of the weakest”. The focus is on the basic objectives of ‘inclusiveness’ and ‘equity’, which go beyond poverty alleviation and to encompasses equality of opportunity for all sections of society including the poor, women, farmers, small enterprises, and others, he said. The Governor also spoke on progress made so far on the path of financial inclusion and the way ahead. While assessing the progress made in this sphere across the dimensions of access, usage and quality, it is observed that India has come a long way in facilitating access to banking services to the last mile and in increasing the usage of financial products, the Governor remarked. Touching upon the developments made so far, he spoke on the evolution and adoption of technology, that has led to massive improvement in deepening of digital financial services and a major shift in the universe of financial inclusion through JAM Trinity (Jan Dhan, Adhaar and Mobile). He also spoke on issues like – addressing the vulnerable segments of the economy and

population while paying attention to consumer protection; enhancing capacity of customers; adoption of digital technologies and increasing the penetration of digital payments. To read the full speech, please click [here](#).

CBDC – Is This The Future of Money ?

Shri T Rabi Sankar, Deputy Governor, Reserve Bank of India delivered the keynote address on ‘Central Bank Digital Currency (CBDC) – Is This the Future of Money’ at a webinar organised by the Vidhi Centre for Legal Policy, New Delhi on July 22, 2021. In his address, the Deputy Governor said that the idea of CBDC is not a recent development. Explaining what is a CBDC, the Deputy Governor said, that a CBDC is the legal tender issued by a central bank in a digital form. It is the same as a fiat currency and is exchangeable one-to-one with the fiat currency. Only its form is different. He further added that while interest in CBDCs is near universal now, very few countries have reached even the pilot stage of launching their CBDCs. A 2021 BIS survey of central banks found that 86 per cent were actively researching the potential for CBDCs, 60 per cent were experimenting with the technology and 14 per cent were deploying pilot projects. For small value transactions (with amount up to ₹500) cash is used predominantly. There is thus a unique scenario of increasing proliferation of digital payments in the country coupled with sustained interest in cash usage, especially for small value transactions. To read more, please click [here](#).

Financial Stability Report

The Reserve Bank on July 1, 2021 released the 23rd issue of the Financial Stability Report (FSR), which reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability and the resilience of the financial system in the context of contemporaneous issues relating to development and regulation of the financial sector.

The major highlights of the FSR include:

- Sustained policy support, benign financial conditions and the gathering momentum of vaccination are nurturing an uneven global recovery;
- Policy support has helped in shoring up financial positions of banks, containing non-performing loans and maintaining solvency and liquidity globally;
- On the domestic front, the ferocity of the second wave of COVID-19 has dented economic activity, but monetary, regulatory and fiscal policy measures have helped curtail the solvency risk of financial entities, stabilise markets, and maintain financial stability;
- The capital to risk-weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) increased to 16.03 per cent and the provisioning coverage ratio (PCR) stood at 68.86 per cent in March 2021;
- Macro stress tests indicate that gross non-performing asset (GNPA) ratio of SCBs may increase from 7.48 per cent in March 2021 to 9.80 per cent by March 2022 under the baseline scenario; and to 11.22 per cent under a severe stress scenario, although SCBs have sufficient capital, both at the aggregate and individual level, even under stress.

To read more please click [here](#).