MONETARY & CREDIT INFORMATION REVIEW

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MCIR

Contents

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 January 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

I. Regulation

Discussion Paper on Revised Regulatory Framework for NBFCs

The Reserve Bank on January 21, 2021 released the Discussion Paper on Revised Regulatory Framework for NBFCs- A Scale-Based Approach on its website (www.rbi.org.in) for comments from NBFCs, market participants and other stakeholders within one month from the released date. The highlights of the discussion paper are as follows :

The regulatory and supervisory framework of NBFCs shall be based on a four-layered structure– Base Layer, Middle Layer, Upper Layer and a possible Top Layer. NBFCs in lower layer will be known as NBFC-Base Layer (NBFC-BL). NBFCs in middle layer will be known as NBFC-Middle Layer (NBFC-ML) and NBFC in the Upper Layer will be known as NBFC-Upper Layer (NBFC-UL) and will invite a new regulatory superstructure. In order to identify NBFCs in the Upper Layer, a range of parameters can be considered; viz., size, leverage, interconnectedness, substitutability, complexity, nature of activity of the NBFC, among other things.

Base Layer

- The Base Layer will consist of NBFCs currently classified as non-systemically important NBFCs (NBFC-ND) besides Type I NBFCs, NOFHC NBFC-P2P and NBFC-AA.
- The current threshold for systemic importance is ₹500 crore. This threshold needs recalibration, taking into account increase in general price levels as well as increase in real GDP since 2014. Accordingly, threshold is proposed to be revised to ₹1000 crore.
- Based on increase in prices, real GDP and regulatory judgement, the entry point norms will be revised from ₹2 crore to ₹20 crore.
- The extant NPA classification norm of 180 days will be harmonised to 90 days. The NPA norm of 90 days overdue status would, therefore, not interfere with the business of the NBFC clientele.

Middle Layer

- The Middle Layer shall consist of all non-deposit taking NBFCs classified currently as NBFC-ND-SI and all deposit taking NBFCs. This layer will exclude NBFCs which have been identified to be included in the Upper Layer.
- The extant credit concentration limits prescribed for NBFCs for their lending and investment can be merged into a single exposure limit of 25 per cent for single borrower and 40 per cent for group of borrowers anchored to the NBFC's Tier 1 capital.
- As in banks, NBFCs shall be subject to the requirement of having a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP).
- A uniform tenure of three consecutive years can be made applicable for statutory auditors (SA) of the NBFC. The SA/firm after completion of continuous audit tenure of three years, shall not be eligible for re-appointment as SA of the same NBFC for a period of six years.
- While there is a limit of ₹10 lakh for banks for IPO financing, there is no such limit for NBFCs. Taking in to account the unique business model of NBFCs, it is proposed to fix a ceiling of ₹1 crore per individual for any NBFC.
- It is suggested that NBFCs with 10 and more branches shall mandatorily be required to adopt Core Banking Solution.

Upper Layer

- The Upper Layer of the scale based regulatory framework shall consist of only those NBFCs which are specifically identified as systemically significant among NBFCs, based on a set of parameters. Number for NBFCs which will reside in this layer would be dependent upon the composite score thrown by the parametric analysis. It is expected that a total of not more than 25 to 30 NBFCs will occupy this layer.
- It is felt that CET 1 could be introduced for NBFC-UL to enhance the quality of regulatory capital. It is proposed that CET 1 may be prescribed at 9 per cent within Tier I capital.

Top Layer

- Top Layer is supposed to remain empty. The layer can get populated in case the Reserve Bank takes a view that there has been an unsustainable increase in the systemic risk spill-overs from specific NBFCs in the Upper Layer. NBFCs in this Layer will be subject to higher capital charge, including Capital Conservation Buffers.

To read more, please click here.

Working Group on Digital Lending

The Reserve Bank on January 13, 2021 set up a Working Group (WG) to study all aspects of digital lending activities in the regulated financial sector as well as by unregulated players so that an appropriate regulatory approach can be put in place. The terms of reference for the WG would be as follows:

- Evaluate digital lending activities and assess the penetration and standards of outsourced digital lending activities in RBI regulated entities;
- Identify risks posed by unregulated digital lending to financial stability, regulated entities and consumers;
- Suggest regulatory changes, if any, to promote orderly growth of digital lending;
- Recommend measures, if any, for expansion of specific regulatory or statutory perimeter and suggest the role of various regulatory and government agencies;
- Recommend a robust Fair Practices Code for digital lending players, insourced or outsourced;
- Suggest measures for enhanced Consumer Protection;
- Recommend measures for robust data governance, data privacy and data security standards for deployment of digital lending services.

The group has been advised to submit its report within three months. To read more, please click here.

II. Consumer Education and Protection

Grievance Redress Mechanism in Banks

The Reserve Bank on January 27, 2021 released a comprehensive framework with a view to strengthen and improve the efficacy of the grievance redress mechanism of banks. The framework comprises of

i) enhanced disclosures on complaints to be made by the banks;

ii) recovery of the cost of redress of maintainable complaints from the banks against whom the number of complaints received in the Offices of Banking Ombudsman (OBOs) are in excess of their peer group averages; and

iii) intensive review by RBI of the grievance redress mechanism of banks having persisting issues in their redress mechanism.

The framework intends to, inter-alia, provide greater insight into the volume and nature of complaints received by the banks as also the quality and turnaround time of redressal, promote satisfactory customer outcomes and improved customer confidence, and identify remedial steps to be taken by the banks having persisting issues in grievance redress mechanism. To read more, please click here.

III. Supervision

RBIA – Strengthening Governance

In order to bring uniformity in approach followed by the banks, as also to align the expectations on internal audit function with the best practices, the Reserve Bank on January 07, 2021 advised banks as under:

- *Authority, Stature and Independence* - The internal audit function must have sufficient authority, stature, independence and resources within the bank, thereby enabling internal auditors to carry out their assignments with objectivity.
- *Competence* - Requisite professional competence, knowledge and experience of each internal auditor is essential for the effectiveness of the bank's internal audit function.
- *Staff Rotation* - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the Board should prescribe a minimum period of service for staff in the Internal Audit function.
- *Tenor for appointment of Head of Internal Audit (HIA)* - Except for the entities where the internal audit function is a specialised function and managed by career internal auditors, the HIA shall be appointed for a reasonably long period, preferably for a minimum of three years.
- *Reporting Line* - The HIA shall directly report to either the Audit Committee of the Board (ACB) / MD and CEO or Whole Time Director (WTD).
- *Remuneration* - The independence and objectivity of the internal audit function could be undermined if the remuneration of internal audit staff is linked to the financial performance of the business lines for which they exercise audit responsibilities.

The internal audit function shall not be outsourced. However, where required, experts, including former employees, could be hired on contractual basis subject to the ACB being assured that such expertise does not exist within the audit function of the bank. To read more, please click here.

College of Supervisors

The Reserve Bank on January 06, 2021 announced that the College of Supervisors (CoS) which was functioning in a limited way in virtual mode since May 2020, is now being fully operationalised. As part of the measures to further strengthen supervision over regulated entities, the Reserve Bank had set up a College of Supervisors (CoS) to augment and reinforce supervisory skills among its regulatory and supervisory staff both at entry level and on a continuous basis. CoS would be headed by former Deputy Governor of the Reserve Bank , Shri N.S. Viswanathan. The CoS will have a full-time Director supported by an Academic Advisory Council (AAC). Dr. Rabi Narayan Mishra, former Executive Director, Reserve Bank has been appointed as the Director of CoS. The AAC will identify areas where skill building/up-skilling are required, plan and develop curricula of all programmes, benchmark the programmes with international standards best practices, develop appropriate teaching methods, etc. To read more, please click here.

IV. Payment and Settlement Systems

RBI-Digital Payments Index

The Reserve Bank has constructed a composite Digital Payments Index (DPI) to capture the extent of digitisation of payments across the country. The RBI-DPI comprises of five broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods. These parameters are – i) Payment Enablers (weight 25 per cent), ii) Payment Infrastructure – Demand-side factors (10 per cent), iii) Payment Infrastructure – Supply-side factors (15 per cent), iv) Payment Performance (45 per cent) and v) Consumer Centricity (5 per cent). Each of these parameters have sub-parameters which, in turn, consist of various measurable indicators. Major sub-parameters under each parameter are available here. To read more, please click here.

Operationalisation of PIDF Scheme

The Reserve Bank has constituted an Advisory Council (AC) under the Chairmanship of the Deputy Governor, Reserve Bank of India, for managing the Payments Infrastructure Development Fund (PIDF). PIDF will be operational for a period of three years from January 01, 2021 and may be extended for two more years depending upon the progress. PIDF is intended to subsidise deployment of payment acceptance infrastructure in Tier-3 to Tier-6 centres with special focus on North-Eastern States of the country. It envisages creating 30 lakh new touch points every year for digital payments. All stakeholders were requested to co-operate in this endeavour by – a) making their contributions to PIDF within the timelines, and b) deploying acceptance infrastructure and seeking reimbursement from PIDF. To read more, please click here.

Introduction of LEI

The Reserve Bank on January 05, 2021 decided to introduce the Legal Entity Identifier (LEI) system for all payment transactions of value ₹50 crore and above undertaken by entities (non-individuals) using Reserve Bank-run Centralised Payment Systems, viz., Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT). In preparation for the wider introduction of LEI across all payment transactions, member banks should:

- ❑ advise entities who undertake large value transactions (₹50 crore and above) to obtain LEI in time, if they do not already have one;
- ❑ include remitter and beneficiary LEI information in RTGS and NEFT payment messages.
- ❑ maintain records of all transactions of ₹50 crore and above through RTGS and / or NEFT.

Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF), the body tasked to support the implementation and use of LEI. To read more, please click here.

Booklet on Payment Systems in India

The Reserve Bank on January 25, 2021 released the Booklet on Payment Systems covering the journey of Payment and Settlement Systems in India during the second decade of the millennium, viz., from the beginning of 2010 till the end of 2020. The Booklet captures the transformation of India in the sphere of payment and settlement systems and describes, inter-alia, the legal and regulatory environment underpinning the digital payments systems, various enablers, payment options available to consumers, extent of adoption, etc. during 2010 to 2020. The digital version of the Booklet can be accessed by clicking here.

V. Banker to the Government

Withdrawal of Circulars

The Reserve Bank on January 21, 2021 withdrew the following circulars related to recovery of excess pension paid by agency banks, issued by Department of Government and Bank Accounts, Reserve Bank of India:

- ❑ Circular no DGBA.GAD.No.2960/45.01.001/2015-16 dated March 17, 2016
- ❑ Circular no CO.DGBA (NBS) No.44/GA.64 (11-CVL) 90/91 dated April 18, 1991
- ❑ Circular no CO DGBA (NBS) No.50/GA.64 (11-CVL) 90/91 dated May 6, 1991

Though the above-mentioned circulars issued under the signature of RBI stand withdrawn, agency banks are requested to seek guidance from respective Pension Sanctioning Authorities regarding the process to be followed for recovery of excess pension paid to the pensioners, if any. Agency banks are advised that, where excess pension payment has arisen on account of mistakes committed by the bank, the amount paid in excess should be refunded to the Government in lumpsum immediately after detection of the same and without waiting for recovery of any amount from the pensioners. To read more, please click here.

VI. Financial Stability

FSDC Sub-Committee meeting

Shri Shaktikanta Das, Governor, Reserve Bank of India, chaired the 26th meeting of the Sub-Committee of the Financial Stability and Development Council (FSDC) held on January 13, 2021 in Mumbai through video conference. The Sub-Committee reviewed the major developments in the global and domestic economy as well as financial markets that impact financial stability. The Sub-Committee, inter-alia, discussed scope for improvements in insolvency resolution under IBC, utilisation of data with the Central KYC Records Registry and changes in the regulatory framework relating to Alternative Investment Funds (AIFs) set up in the International Financial Services Centre (IFSC), among others. The Sub-Committee also reviewed the activities of various technical groups under its purview and the functioning of State Level Coordination Committees

(SLCCs) in various states / UTs. The regulators reaffirmed their resolve to be alert and watchful of emerging challenges to financial stability. To read more, please click here.

Financial Stability Report

The Reserve Bank on January 11, 2021 released the 22nd 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.

Highlights of FSR:

- In the initial phase of the COVID-19 pandemic, policy actions were geared towards restoring normal functioning and mitigating stress; the focus is now being oriented towards supporting the recovery and preserving the solvency of businesses and households.
- Positive news on vaccine development has underpinned optimism on the outlook, though it is marred by second wave of the virus including more virulent strains.
- Policy measures by the regulators and the government have ensured the smooth functioning of domestic markets and financial institutions; managing market volatility amidst rising spillovers has become challenging especially when the movements in certain segments of the financial markets are not in sync with developments in the real sector.
- Bank credit growth has remained subdued, with the moderation being broad-based across bank groups.
- Performance parameters of banks have improved significantly, aided by regulatory dispensations extended in response to the COVID-19 pandemic.
- The capital to risk-weighted assets ratio (CRAR) of Scheduled Commercial Banks (SCBs) improved to 15.8 per cent in September 2020 from 14.7 per cent in March 2020, while their gross non-performing asset (GNPA) ratio declined to 7.5 per cent from 8.4 per cent, and the provision coverage ratio (PCR) improved to 72.4 per cent from 66.2 per cent over this period.
- Macro stress tests incorporating the first advance estimates of gross domestic product (GDP) for 2020-21 released on January 7, 2021 indicate that the GNPA ratio of all SCBs may increase from 7.5 per cent in September 2020 to 13.5 per cent by September 2021 under the baseline scenario; the ratio may escalate to 14.8 per cent under a severe stress scenario. This highlights the need for proactive building up of adequate capital to withstand possible asset quality deterioration.
- Network analysis reveals that total bilateral exposures among entities in the financial system increased marginally during the quarter-ended September 2020.

To read the full report, please click here.

VII. Research

RBI Working Papers

The Reserve Bank published three publications under its working paper series in the month of January 2021.

- The first working paper titled titled "Monetary Policy Transmission in India: New Evidence from Firm-Bank Matched Data" authored by Saurabh Ghosh, Abhinav Narayanan and Pranav Garg uses a unique firm-bank matched data set from India to provide new insights into the monetary policy transmission mechanism. The paper states that monetary policy transmission works with a lag when we focus on bank credit and balance sheet items of firms. To read the full working paper, please click here.
- The second working paper titled "Regional Economic Convergence in the Manufacturing Sector: An Empirical Reflection" authored by Madhuresh Kumar uses data on registered manufacturing firms from the Annual Survey of Industries (ASI) for the post global financial crisis period (2008-09 to 2017-18) and examines the convergence pattern of 21 major states in India and their key drivers. While poorer states are found to have exhibited convergence to the mean Net Value Added per capita (NVApc), richer and middle-income states displayed divergence. To read the full working paper, please click here.
- The third working paper titled "Monetary Policy Transparency and Anchoring of Inflation Expectations in India" authored by G.P. Samanta and Shweta Kumari constructs an index of monetary policy transparency for India and examines the role of transparency in anchoring inflation expectations. Empirical results show that the degree of policy transparency has indeed increased substantially since the adoption of Flexible Inflation Targeting (FIT) in 2016. To read the full working paper, please click here.

VIII. Data Releases

Important Data Releases by the Reserve Bank in the month of January 2021:

	Title
1	Data on ECB/FCCB/RDB for December 2020
2	Scheduled Banks' Statement of Position in India
3	India's International Trade in Services for the Month of November 2020
4	Marginal Cost of Funds Based Lending Rate (MCLR) for the month January 2021
5	Overseas Direct Investment for December 2020
6	RBI releases 'Quarterly BSR-1: Outstanding Credit of Scheduled Commercial Banks for September 2020'
7	Sectoral Deployment of Bank Credit – December 2020
8	RBI launches Quarterly Order Books, Inventories and Capacity Utilisation Survey: October-December 2020 (Round 52)

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