Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures on (i) liquidity management and support to targeted sectors; (ii) regulation and supervision (iii) deepening financial markets; (iv) upgrading payment and settlement systems and (v) consumer protection.

I. Liquidity Measures

1. TLTRO on Tap Scheme – Inclusion of NBFCs

With a view to increasing the focus of liquidity measures on revival of activity in specific sectors that have both backward and forward linkages and having multiplier effects on growth, the RBI had announced the TLTRO on Tap Scheme on October 9, 2020 which is available up to March 31, 2021. In addition to the five sectors announced under the scheme on October 21, 2020, 26 stressed sectors identified by the Kamath Committee were also brought within the ambit of sectors eligible under on tap TLTRO on December 4, 2020. Liquidity availed by banks under the scheme is to be deployed in corporate bonds, commercial paper, and non-convertible debentures issued by entities in these sectors. The liquidity availed under the scheme can also be used to extend bank loans and advances to these sectors. Investments made by banks under this facility can be classified as held to maturity (HTM) even above the 25 per cent of total investment permitted to be included in the HTM portfolio. All exposures under this facility are exempted from reckoning under the large exposure framework (LEF). Given that NBFCs are well recognised conduits for reaching out last mile credit and act as a force multiplier in expanding credit to various sectors, it is now proposed to provide funds from banks under the TLTRO on Tap scheme to NBFCs for incremental lending to these sectors.

2. Restoration of Cash Reserve Ratio (CRR) in two phases beginning March 2021

To help banks tide over the disruption caused by COVID-19, the cash reserve ratio (CRR) of all banks was reduced by 100 basis points to 3.0 per cent of net demand and time liabilities (NDTL) effective from the reporting fortnight beginning March 28, 2020. The dispensation was available for a period of one year ending March 26, 2021. On a review of monetary and liquidity conditions, it has been decided to gradually restore the CRR in two phases in a non-disruptive manner. Banks would now be required to maintain the CRR at 3.5 per cent of NDTL effective from the reporting fortnight beginning March 27, 2021 and 4.0 per cent of NDTL effective from fortnight beginning May 22, 2021.

3. Marginal Standing Facility (MSF) - Extension of Relaxation

On March 27, 2020 banks were allowed to avail of funds under the marginal standing facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of net demand and time liabilities (NDTL), i.e., cumulatively up to 3 per cent of NDTL. This facility, which was initially available up to June 30, 2020 was later extended in phases up to March 31, 2021 providing comfort to banks on their liquidity requirements and also to enable them to meet their Liquidity Coverage ratio (LCR) requirements. This dispensation provides increased access to funds to the extent of 1.53 lakh crore and qualifies as high-quality liquid assets (HQLA) for the LCR. With a view to providing comfort to banks on their liquidity requirements, it has now been decided to continue with the MSF relaxation for a further period of six months, i.e., up to September 30, 2021.

II. Regulation and Supervision

4. SLR Holdings in Held to Maturity (HTM) category

On September 1, 2020, the Reserve Bank increased the limits under Held to Maturity (HTM) category from

19.5 per cent to 22 per cent of net demand and time liabilities (NDTL) in respect of statutory liquidity ratio (SLR) eligible securities acquired on or after September 1, 2020, up to March 31, 2021. This dispensation was made available up to March 31, 2022. In order to provide certainty to the market participants in the context of the borrowing programme of the centre and states for 2021-22, it has now been decided to extend the dispensation of enhanced HTM of 22 per cent up to March 31, 2023 to include securities acquired between April 1, 2021 and March 31, 2022. The HTM limits would be restored from 22 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2023. It is expected that banks will be able to plan their investments in SLR securities in an optimal manner with a clear glide path for restoration of HTM limits.

5. Credit to MSME Entrepreneurs

In order to incentivise new credit flow to the micro, small, and medium enterprise (MSME) borrowers, Scheduled Commercial Banks will be allowed to deduct credit disbursed to 'New MSME borrowers' from their Net Demand and Time Liabilities (NDTL) for calculation of the Cash Reserve Ratio (CRR). For the purpose of this exemption, 'New MSME borrowers' shall be defined as those MSME borrowers who have not availed any credit facilities from the banking system as on January 1, 2021. This exemption will be available only for exposures up to 25 lakh per borrower for credit extended up to the fortnight ending October 1, 2021 for a period of one year from the date of origination of the loan or the tenure of the loan, whichever is earlier.

6. Basel III Capital Regulations: Deferment of the Full Phase-in of Capital Conservation Buffer

As part of the regulatory measures taken in the wake of COVID-19, the implementation of last tranche of the capital conservation buffer (CCB) of 0.625 per cent, which was scheduled to take effect from April 1, 2020, was deferred till April 1, 2021. Considering the continuing stress on account of COVID-19, and in order to aid in the recovery process, it has been decided to defer the implementation of the last tranche of the CCB of 0.625 per cent from April 1, 2021 to October 1, 2021.

7. Deferment of the implementation of Net Stable Funding Ratio (NSFR)

As part of the regulatory measures taken in the wake of COVID-19, the implementation of Net Stable Funding Ratio (NSFR) by banks in India had been deferred to April 1, 2021. While banks are comfortably placed on the liquidity front, in view of the continued stress on account of COVID-19, it has been decided to defer the implementation of NSFR to October 1, 2021.

8. Review of the Regulatory Framework for Microfinance

Recently, the Reserve Bank has released a discussion paper on Revised Regulatory Framework for NBFCs – A Scale Based Approach. Taking into consideration the constantly evolving milieu in the financial sector, it is proposed to review the regulatory framework for Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFIs). There is a case for having a framework which is uniformly applicable to all regulated lenders in the microfinance space including scheduled commercial banks, small finance banks and NBFC-Investment and Credit Companies, rather than prescribing these guidelines for NBFC-MFIs alone. Accordingly, the RBI will come out with a consultative document harmonising the regulatory frameworks for various regulated lenders in the microfinance space in March 2021.

9. Constitution of an Expert Committee on Primary (Urban) Co-operative Banks

Primary (Urban) Co-operative Banks are an important segment of the credit structure. The provisions of the Banking Regulation (Amendment) Act, 2020 are applicable to Primary (Urban) Co-operative Banks (UCBs) with effect from June 26, 2020. The amendments have brought near parity in regulatory and supervisory powers between UCBs and commercial banks in respect of regulatory powers including those related to governance, audit and resolution. Consequently, a comprehensive review of regulatory/supervisory approach towards the sector is required in the light of these amendments. Accordingly, it has been decided to set up an Expert Committee on UCBs involving all stakeholders in order to provide a medium-term road map to strengthen the sector, enable faster rehabilitation/resolution of UCBs, as well as to examine other critical aspects relating to these entities. The constitution of the Committee as well as the terms of reference will be notified separately.

10. Remittances to International Financial Services Centres (IFSCs) under the Liberalised Remittance Scheme

At present, resident individuals are not allowed to make remittances to IFSCs established in India under the Liberalised Remittance Scheme (LRS). In order to deepen the financial markets in IFSCs and provide an opportunity to resident individuals to diversify their portfolio, on a review, it has been decided to permit resident individuals to make remittances to IFSCs established in India under the Scheme. Since remittances towards current account transactions like travel, education, gifts and capital account transactions like purchase of immovable property are not relevant with respect to IFSCs in India, remittances will be permitted only for making investments in securities issued by the non-resident entities in IFSCs. Resident Individuals may also open a non-interest bearing Foreign Currency Account (FCA) in IFSCs for making investments under LRS. The funds in the FCA shall be used only for the purpose of making permissible investments in IFSC and any funds lying idle in the account shall be repatriated to resident account of the investor in India within a period of 15 days from receipt. Detailed guidelines in the form of an AP DIR Circular shall be issued shortly.

III. Deepening Financial Markets

11. Allowing Retail Investors to Open Gilt Accounts with RBI

Encouraging retail participation in the Government securities market has been the focus area of the Government of India and the RBI. Accordingly, several initiatives viz. introduction of non-competitive bidding in primary auctions, permitting stock exchanges to act as aggregators/facilitators for retail investors and allowing odd-lot segment in the NDS-OM secondary market, have been taken in the past. As part of continuing efforts to increase retail participation in government securities and to improve ease of access, it has been decided to move beyond aggregator model and provide retail investors online access to the government securities market – both primary and secondary - along with the facility to open their gilt securities account ('Retail Direct') with the RBI. Details of the facility will be issued separately.

12. Foreign Portfolio Investors (FPIs) Investment in Defaulted Bonds

At present, foreign portfolio investors (FPI) can invest in security receipts and debt instruments issued by Asset Reconstruction Companies and debt instruments issued by an entity under the Corporate Insolvency Resolution Process as per the resolution plan approved by the National Company Law Tribunal under the Insolvency and Bankruptcy Code, 2016 and these investments are exempted from the short-term limit and minimum residual maturity requirement under the Medium Term Framework (MTF) for investment by FPIs in corporate bonds. In order to further promote investment by FPIs in corporate bonds, it is proposed to extend similar exemptions to defaulted corporate bonds. Accordingly, FPI investment in defaulted corporate bonds will be exempted from the short-term limit and the minimum residual maturity requirement under the MTF. Detailed guidelines are being issued separately.

IV. Payment and Settlement Systems

13. Setting up of a 24x7 Helpline for Digital Payment Services

Many safety and security features and measures for redress of grievances have been ushered in by the Reserve Bank of India for enhanced digital payments experience of users. The Payment Systems Vision document of RBI envisages setting up a 24x7 helpline for addressing customer queries in respect of various digital payment products. The helpline will, in addition to building trust and confidence, also reduce expenditure on both financial and human resources, otherwise incurred for addressing queries and grievances. The major payment system operators would be required to facilitate setting-up of a centralised industry-wide 24x7 helpline for addressing customer queries in respect of various digital payment products and give information on available grievance redress mechanisms by September 2021. Going forward, the facility of registering and resolving the customer complaints through the helpline shall be considered.

14. Guidelines on Outsourcing for Operators and Participants of Authorised Payment Systems

The operators and participants of various authorised payment systems carry out a bouquet of specialised activities on account of the products offered by them and design of payment systems they operate. Often, such activities are outsourced to optimise efficiency and lower costs. However, vulnerabilities in the systems of entities who provide such outsourced services can pose cyber security risks to the principal entity. To manage the attendant risks in outsourcing and ensure that a code of conduct is adhered to while outsourcing payment and settlement related services, the Reserve Bank shall issue guidelines to operators and participants of authorised payment systems.

15. Enabling Participation in CTS Clearing across all Bank Branches in the Country

The Cheque Truncation System (CTS) is in use since 2010 and presently covers around 1,50,000 branches across three cheque processing grids. All the erstwhile 1219 non-CTS clearing houses have since been migrated to CTS. It is observed that about 18,000 bank branches are still outside any formal clearing arrangement. In order to bring operational efficiency in paper based clearing and make the process of collection and settlement of cheques faster resulting in better customer service, it is proposed to bring all such branches under the CTS clearing mechanism by September 2021. Separate operational guidelines will be issued in a month's time.

V. Consumer Protection

16. Integrated Ombudsman Scheme

Financial consumer protection has gained significant policy priority across jurisdictions. In line with the global initiatives on consumer protection, RBI has taken various initiatives to strengthen Grievance Redress Mechanism of regulated entities. As an alternate dispute resolution mechanism, three Ombudsman schemes, i.e. (i) Banking Ombudsman Scheme (ii) Ombudsman Scheme for Non-Banking Financial Companies and (iii) Ombudsman Scheme for Digital Transactions are in operation from 22 ombudsman offices of RBI located across the country. RBI had operationalised complaint management system (CMS) portal as one stop solution for alternate dispute resolution of customer complaints not resolved satisfactorily by the regulated entities. To make the alternate dispute redress mechanism simpler and more responsive to the customers of regulated entities, it has been decided to implement, inter alia, integration of the three Ombudsman schemes and adoption of the 'One Nation One Ombudsman' approach for grievance redressal. This is intended to make the process of redress of grievances easier by enabling the customers of the banks, NBFCs and non-bank issuers of PPIs to register their complaints under the integrated scheme, with one centralised reference point. The Integrated Ombudsman Scheme will be rolled out in June 2021.