

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) Financial Markets; (ii) Regulations; and (iii) Payment Systems and Fintech.

I. Financial Markets

1. Review of the regulatory framework for hedging of foreign exchange risks

The regulatory framework governing the hedging of foreign exchange risks was comprehensively reviewed in 2020 with a view to ushering in a principle-based regime. Based on the feedback received from market participants and experience gained since then, the regulatory framework has been made more comprehensive by consolidating the directions in respect of all types of transactions – over-the-counter (OTC) and exchange traded - under a single Master Direction. The framework has also been refined to enhance operational efficiency and ease access to foreign exchange derivatives, especially for users with small exposures. This will also ensure that a broader set of customers with the necessary risk management expertise are given the flexibility to manage their exposures efficiently. The Master Direction will be issued separately.

II. Regulations

2. Framework for Connected Lending

Connected lending or lending to persons who are in a position to control or influence the decision of a lender can be of concern, if the lender does not maintain an arm's length relationship with such borrowers. Such 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 regulated entities. It has accordingly been decided

to come out with a unified regulatory framework on connected lending for all the regulated entities of the Reserve Bank. A draft circular in this regard will be issued for public comments.

3. Regulatory Framework for Web-Aggregation of loan products

The Reserve Bank had accepted, vide its Press Release dated August 10, 2022, the recommendation of the Working Group on Digital Lending (Chairman: Shri Jayant Kumar Dash) to come up with a regulatory framework for web-aggregators of loan products (WALP). WALP entails aggregation of loan offers from multiple lenders on an electronic platform which enables the borrowers to compare and choose the best available option to avail loan from one of the available lenders.

Based on the recommendation of the Working Group, it has been decided to bring such loan aggregation services offered by the Lending Service Providers (LSPs) under a comprehensive regulatory framework. The framework will focus on enhancing the transparency in the operations of WALPs, increase customer centricity and enable the borrowers to make informed choices. The detailed guidelines will be issued separately.

III. Payment Systems and Fintech

4. Enhancing UPI transaction limit for Specified Categories

Unified Payments Interface or UPI continues to grow in popularity. The transaction limit for UPI is capped at ₹1 lakh, except a few categories like Capital Markets (AMC, Broking, Mutual Funds, etc.), Collections (Credit card payments, Loan re-payments, EMI), Insurance etc. where the transaction limit is ₹2 lakh. In December 2021, the transaction limit for UPI payments for Retail Direct Scheme and for IPO subscriptions was increased to ₹5 lakh.

To encourage the use of UPI for medical and educational services, it is proposed to enhance the

limit for payments to hospitals and educational institutions from ₹1 lakh to ₹5 lakh per transaction. Separate instructions will be issued shortly.

5. e-Mandates for recurring online transactions – Enhancement of limit for specified categories

The framework for processing of e-mandates for recurring transactions was introduced in August 2019 to balance the safety and security of digital transactions with customer convenience. The limits for execution of e-mandates without Additional Factor of Authentication (AFA) currently stands at ₹15,000/- (last updated in June 2022).

The number of e-mandates registered currently stands at 8.5 crore, processing nearly ₹2800 crores of transactions per month. The system has stabilised, but in categories such as subscription to mutual funds, payment of insurance premium and credit card bill payments, where the transaction sizes are more than ₹15,000, a need to enhance the limit has been expressed as adoption has been lagging.

It is, therefore, proposed to exempt the requirement of AFA for transactions up to ₹1 lakh for the following categories, *viz.*, subscription to mutual funds, payment of insurance premium and payments of credit card bills. The other existing requirements such as pre- and post-transaction notifications, opt-out facility for user, *etc.* shall continue to apply to these transactions. The revised circular will be issued shortly.

6. Establishment of Cloud Facility for the Financial Sector in India

Banks and financial entities are maintaining an ever-increasing volume of data. Many of them are

utilising various public and private cloud facilities for this purpose. The Reserve Bank is working on establishing a cloud facility for the financial sector in India. The proposed facility would enhance the security, integrity and privacy of financial sector data. It is also expected to facilitate scalability and business continuity. The cloud facility will be set up and initially operated by Indian Financial Technology & Allied Services (IFTAS), a wholly-owned subsidiary of RBI. Eventually, the cloud facility will be transferred to a separate entity owned by the financial sector participants. This cloud facility is intended to be rolled out in a calibrated fashion in the medium term.

7. Setting up of Fintech Repository

To ensure a resilient FinTech sector and promote best practices, regulators and stakeholders need to have relevant and timely information on FinTech entities, including the nature of their activities. Today, FinTechs are using emerging technologies like Distributed Ledger Technology (DLT), Artificial Intelligence / Machine Learning (AI / ML), and so on. For better understanding of the developments in the FinTech ecosystem with an objective to appropriately support the sector, it is proposed to set-up a Repository for capturing essential information about FinTechs, encompassing their activities, products, technology stack, financial information *etc.* FinTechs would be encouraged to provide relevant information voluntarily to the Repository which will aid in designing appropriate policy approaches. The Repository will be operationalised by the Reserve Bank Innovation Hub in April 2024 or earlier. Necessary guidelines for this will be issued separately.