

## Chapter III

### Regulatory Initiatives in the Financial Sector

*Global regulatory efforts continued to focus on risks associated with the crypto ecosystem and the threat of decentralisation. On the domestic front, regulatory attention was engaged in deepening digitalisation in payments and other financial services, improving risk management capabilities of financial entities, facilitating retail participation in financial markets, enhancing investor protection, strengthening the framework for public issue as well as cash and derivative segments in equity markets and supervision of systemically important insurers. The Financial Stability and Development Council (FSDC) and its Sub-Committee remained committed to preserving the stability of the Indian financial system and building its resilience.*

#### Introduction

3.1 At the global level, pandemic-proofing measures to aid households, firms and financial institutions buffered financial systems and ensured their normal functioning (Box 3.1).

3.2 Recent regulatory measures have focussed on curtailing solvency risk of financial entities, promoting market-based financing and reducing moral hazard of unduly prolonged policy support. At the same time, high levels of global debt,

#### Box 3.1: Pandemic-proofing Financial Systems

A wide range of support measures were introduced to insulate the economy and the financial system from the repercussions of the COVID-19 pandemic. Loan guarantees, fiscal transfers and extraordinary lending operations featured among the most common regulatory measures. Financial sector regulators in AEs adopted measures targeted at increasing banks' balance sheet resilience, including relaxations in capital and liquidity requirements, and flexibility in the calculation of expected losses and classification of non-performing loans (NPLs). EMEs permitted moratoriums on loan payments, provided liquidity requirement reliefs and granted flexibility in loss recognition and treatment of NPLs.

In the Euro Area, the aggregate NPL ratio of banks fell to 2.1 per cent, its lowest level since 2008, driven by sales and securitisation of NPLs. Potential cliff effects associated with the phasing out of pandemic support to corporates have not materialised, despite the rollback of most moratorium schemes. CET-1 capital ratios for Euro Area systemically significant institutions rose by 50 bps in 2021 to 15.2 per cent, well above regulatory requirements.

In the United States, credit quality of loan portfolios continued to improve during the second half of 2021.

Gross leverage of large businesses slipped below pre-pandemic levels in H2:2021. Mortgage forbearance programs aided significantly in reducing the effect of the pandemic on mortgage delinquencies to below pre-pandemic levels by December 2021. The CET-1 ratio of US banks remained at levels higher than pre-2008 norms.

In the UK, actions taken by the Bank of England, Prudential Regulation Authority (PRA) and public authorities in response to the pandemic during 2020 enabled capital position of major banks and building societies to improve in Q3:2021. The aggregate CET-1 capital ratio stood at 16.5 per cent, which was 170 bps higher than the level at the beginning of the pandemic. Indicators of the quality of banks' assets have remained broadly stable since the July 2021 FSR. Furthermore, banks have released some of the provisions made during the earlier phases of the pandemic. UK households' finances have remained resilient as COVID-related support measures such as the furlough scheme and the ability to take a payment deferral on mortgages and consumer credit ended.

In Malaysia, the ongoing repayment assistance measures for households and businesses affected by the

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pandemic provided support to banks' asset quality by averting a premature materialisation of defaults among distressed but viable borrowers. The regularisation of loan repayments by large businesses and individual borrowers, as well as write-offs by several banks during H2:2021 also contributed to a marginal improvement in the gross impaired loans ratio, which was contained at 2.4 per cent. The impairment ratio for the household sector remained stable at 1.0 per cent as at end-December 2021. Banks have been maintaining capital buffers beyond the regulatory minimum and pay higher dividends to shareholders on the back of improved profitability.

In New Zealand, the NPL ratio fell to 0.39 per cent in March 2022, below pre-COVID levels. Capital buffers of banks remained high and above minimum prudential requirements, while Tier 1 capital levels have increased over the past one year on the back of retained earnings. Banks have written back provisions made in the early stages of the pandemic, as credit losses have been lower than expected. Net interest margins have stabilised around their long-term levels, following declines in lending and funding rates over 2020. Government support schemes have been effective in limiting financial losses suffered by businesses. Business balance sheets remained robust and levels of credit stress are low even in sectors that have been adversely affected by lockdowns.

Household and business balance sheets in Australia have strengthened, with the share of NPLs in total loans declining to 0.9 per cent and 0.7 per cent, respectively, in December 2021, which was lower than the pre-pandemic

position. Businesses built liquidity buffers; their total cash holdings in June 2021 were about 30 per cent more than the pre-pandemic level. Policy support and cash buffers built earlier in the pandemic have helped many struggling businesses. Insolvencies and other financial stress indicators remained low. Australian banks' strong capital positions enabled unwinding of around half of the provisions made at the start of the pandemic and the return of capital to shareholders. CET-1 capital ratios of four major banks remained one percentage point above pre-pandemic levels. Banks' holdings of high-quality liquid assets also remained at high levels, pushing up liquidity coverage ratios (LCRs) comfortably above regulatory requirements.

#### References:

1. Bank Negara Malaysia (2021), "Financial Stability Review- First Half 2021", September.
2. Bank of England (2021), "Financial Stability Report", December.
3. Bank of International Settlements (2021), "BIS Quarterly Review", (September 2021).
4. Board of Governors of the Federal Reserve System (2022), "Financial Stability Report", May.
5. European Central Bank (2022), "Financial Stability Review", May.
6. Reserve Bank of Australia (2022), "Financial Stability Review", April.
7. Reserve Bank of New Zealand (2022), "Financial Stability Report", May.

monetary policy tightening, risks associated with the cryptocurrency ecosystem and climate related risks and more recently, geopolitical conflict posed threats to global financial stability.

3.3 Against this background, this chapter reviews regulatory initiatives undertaken globally and in India to fortify the stability and functioning of the financial system.

### III.1 Global Regulatory Developments and Assessments

3.4 The Financial Stability Board (FSB) laid out four key areas to promote global financial resilience in February 2022<sup>1</sup> : (a) supporting financial market adjustment to a post-COVID world; (b) reinforcing financial system resilience, especially in the non-bank financial intermediaries sector; (c) harnessing

<sup>1</sup> Financial Stability Board (2022), "FSB Chair's letter to G20 Finance Ministers and Central Bank Governors", February.

benefits of digitalisation while containing its risks; and (d) addressing financial risks from climate change. More recently, the focus has shifted from managing recovery in a post-pandemic world to dealing with the impact of the war. At the same time, aggressive tightening of monetary policy in response to the accentuating inflationary pressures presages a major shift in global liquidity conditions and repositioning has started affecting global financial flows. One of its early ramifications is reflected in the crypto ecosystem with one stablecoin losing almost all its value and another de-pegging from the US dollar, underscoring the need for regulatory guardrails to ensure financial stability and consumer and investor protection.

3.5 Another area of focus has been the build-up of debt among non-financial corporates, rising dollar-denominated debt in emerging market economies (EMEs) and the role of NBFIs. Vulnerability of the financial system to cyber risk also attracted attention of policy makers. Climate-related risks and regulatory and supervisory approaches to address them are gathering momentum.

### III.1.1 Crypto Ecosystem and Financial Stability

3.6 The FSB<sup>2</sup> examined vulnerabilities associated with three closely interrelated segments, *viz.*, unbacked crypto assets (such as Bitcoin); stablecoins and decentralised finance (DeFi); and crypto asset trading platforms. Several vulnerabilities associated with crypto asset markets have been highlighted such as linkages between crypto asset markets and the regulated financial system; liquidity mismatch, credit and operational risks, with the

potential spillover to short term funding markets; increased use of leverage in investment strategies; concentration risk of trading platforms; and opacity and lack of regulatory oversight of the sector. Identification and quantification of risks posed by crypto-assets face data gap challenges.

3.7 The IOSCO<sup>3</sup> has noted that DeFi<sup>4</sup> is a spectrum and not a 'binary outcome', and that some DeFi products and services may retain a level of centralisation through concentrated ownership of the 'governance tokens', or by restricting the governance decisions for users. The risks associated with DeFi include speculative trading, flash loans, cross-border lending and borrowing, front running, cybersecurity, asymmetry and fraud. It has stressed the need for continuous examination of this evolving landscape and its implications for traditional financial institutions.

### III.1.2 Debt and Financial Stability

3.8 In its discussion paper on debt overhang issues of non-financial corporates<sup>5</sup>, the FSB observed that the debt of non-financial corporates has increased to an unprecedented level, which could pose risks to financial stability through underinvestment by viable corporates, misallocation of resources, and lower productivity due to loss of entrepreneurial capacity. It has addressed debt overhang issues through three different angles: (i) viability assessment of companies in the context of the pandemic; (ii) facilitating and incentivising timely restructuring and refinancing; and (iii) dealing with debt restructuring needs of corporates, especially MSMEs. Attracting new long-term equity investments and complementing banks'

<sup>2</sup> Financial Stability Board (2022), "Assessment of Risks to Financial Stability from Crypto-assets", February.

<sup>3</sup> International Organisation of Securities Commissions (2022), "IOSCO Decentralized Finance Report", March.

<sup>4</sup> DeFi refers to the provision of financial products, services, arrangements and activities that use distributed ledger technology ("DLT") in an effort to disintermediate and decentralise legacy ecosystems by eliminating the need for some traditional financial intermediaries and centralised institutions (*ibid*).

<sup>5</sup> Financial Stability Board (2020), "Approaches to Debt Overhang Issues of Non-Financial Corporates", February.

financing through capital-market-based solutions have been suggested for restructuring of firms' balance sheets, whereas fiscal incentives may be needed in the case of smaller firms.

### III.1.3 Markets and Financial Stability

3.9 The IOSCO<sup>6</sup> analysed the corporate bond market microstructure and observed that secondary corporate bond trading has remained dependent on a small network of Over the Counter (OTC) dealers. It has stressed further exploration in improving price transparency in corporate bond markets, reducing heterogeneity of bonds and increasing standardisation.

3.10 The European Securities and Market Authority (ESMA) has proposed reforms to the regulatory framework for European Union Money Market Funds (MMFs), addressing liquidity issues and threshold effects for constant net asset value (CNAV) MMFs. It<sup>7</sup> suggests mandatory availability of at least one liquidity management tool for all MMFs; amending daily liquid asset/weekly liquid asset ratios as well as the pool of eligible assets; and allowing temporary use of liquidity buffers in times of stress. The proposed reforms also include enhancements of reporting requirements and the stress testing framework as well as clarification of the requirements on external support and new disclosure requirements linked to the rating of MMFs.

### III.1.4 Cyber Risk and Financial Stability

3.11 The European Systemic Risk Board (ESRB)<sup>8</sup> has identified the need for establishment of a systemic cyber incident coordination framework to mitigate the risk from coordination failure in the constantly evolving cyber risk landscape. It

proposes a macroprudential strategy, including cyber resilience and systemic cyber resilience stress tests as a tool for testing how systemic institutions in the financial system would respond to and recover from a severe but plausible cyber incident scenario. Macroprudential authorities need to define an acceptable level of disruption to operational systems. It recommends identification of systemically important nodes at financial and operational levels through cyber mapping to increase the understanding of vulnerabilities and contagion channels in the financial system.

### III.1.5 Climate-related Risks and Financial Stability

3.12 The FSB<sup>9</sup> has proposed a framework for developing approaches to monitor, manage and mitigate risks arising from climate change and to promote consistent approaches across sectors and jurisdictions. It notes that climate-related risks, including physical, transition and liability risks may get transmitted across the financial system and may be amplified by the financial system across borders and sectors. There could also be risk transfer from banks to insurers, insurers to reinsurers and reinsurers to governments. Climate-related risks may exhibit tipping points and non-linearities, which may amplify the feedback effects between the financial sector and the real economy.

## III.2 Domestic Regulatory Developments

3.13 Since the publication of the December 2021 issue of the FSR, the Financial Stability and Development Council (FSDC) chaired by the Union Finance Minister met once on February 22, 2022. The Council deliberated on the various mandates

<sup>6</sup> IOSCO (2022), "Corporate Bond Markets – Drivers of Liquidity During COVID-19 Induced Market Stresses", April.

<sup>7</sup> ESMA (2022), "ESMA opinion on the review of the Money Market Fund Regulation", February.

<sup>8</sup> European Systemic Risk Board (2022), "Mitigating systemic cyber risk", January.

<sup>9</sup> Financial Stability Board (2022), "Supervisory and Regulatory Approaches to Climate-related Risks: Interim Report", April.

of the FSDC, viz., financial stability; financial sector development; inter-regulatory coordination; financial literacy; financial inclusion; and macro prudential supervision of the economy, including the functioning of large financial conglomerates, as well as major macro-financial challenges arising in view of global and domestic developments. The Council noted that Government and all regulators need to maintain constant vigil on financial conditions and functioning of important financial institutions, especially exposure to financial vulnerabilities in the medium to long-term. The Council discussed measures required for further development of the financial sector and to achieve an inclusive economic growth with macroeconomic stability. The Council also took note of the activities undertaken by the FSDC Sub-Committee chaired by the Governor, Reserve Bank of India.

3.14 In its 28<sup>th</sup> meeting, the FSDC Sub-Committee reviewed the major developments in the global and domestic economy as well as in various segments of the financial system and discussed the assessments of members about the scenario emerging from the third wave of the COVID-19 pandemic. The deliberations covered various regulatory issues and the activities of the technical groups under the Sub-Committee. The Sub-Committee also discussed the use of Aadhaar based e-KYC (e-Know Your Customer) and Aadhaar Enabled Payment System by regulated entities (REs).

### III.3 Initiatives from Regulators/Authorities

3.15 Financial sector regulators launched several initiatives for the development of the financial system and enhancement of its robustness and resilience (Annex 3).

#### III.3.1 Regulatory Framework for Microfinance Loans

3.16 The Reserve Bank issued a comprehensive regulatory framework for microfinance loans effective April 1, 2022, which has been made applicable to all REs of the Reserve Bank. The framework includes, *inter alia*, a common definition of microfinance loan for all REs, cap on outflows on account of repayment obligations of a household as a percentage of household income, no pre-payment penalty on microfinance loans, no requirement of collateral for microfinance loans, introduction of a standardised simplified fact sheet on pricing of microfinance loans, and guidelines on conduct towards microfinance borrowers. The framework is intended to address the concerns of over-indebtedness of low-income households, enable competitive forces to bring down interest rates on microfinance loans, strengthen customer protection measures for microfinance borrowers, and introduce activity-based regulation in the microfinance sector. Further, in view of interconnectedness of Section 8 companies (registered under Companies Act, 2013) with other financial intermediaries and potential transmission of any risk arising out of their business to the financial sector, Section 8 companies providing microfinance loans and having asset size of ₹100 crore and above, have been brought under the regulatory ambit of the Reserve Bank.

#### III.3.2 Digital Banking Units (DBUs)<sup>10</sup>

3.17 Following the announcement made in the Union Budget 2022-23 to set up 75 DBUs in 75 districts to commemorate 75 years of independence (Azadi ka Amrit Mahotsav), the Reserve Bank issued guidelines on establishment of Digital Banking Units (DBUs) applicable to all Domestic SCBs {excluding

<sup>10</sup> A DBU is a specialised fixed point business unit/hub housing certain minimum digital infrastructure for delivering digital banking products and services as well as servicing existing financial products and services digitally, in both self-service and assisted mode, to enable customers to have cost effective/convenient access and enhanced digital experience to/of such products and services in an efficient, paperless, secured and connected environment with most services being available in self-service mode at any time, all year round.



RRBs, PBs and local area banks (LABs)} to widen the reach of digital banking services.

### **III.3.3 Framework for Facilitating Small Value Digital Payments in Offline Mode**

3.18 In order to improve the adoption of digital payments, especially in remote areas, the Reserve Bank has been encouraging entities to develop offline payment solutions. A pilot scheme for small value offline payments was conducted to test innovative technologies that enable retail digital payments even in situations where internet connectivity is low/not available. Based on the results, the Reserve Bank has issued a framework to enable small value digital payments in offline mode. Offline payments shall be made in proximity (face to face) mode only, using any channel or instrument like cards, wallets and mobile devices. The payment transaction may be offered without Additional Factor of Authentication (AFA). The upper limit of an offline payment transaction has been kept at ₹200 and the total limit for offline transactions on a payment instrument has been kept at ₹2,000 at any point in time. Replenishment of used limits can be done only in online mode with AFA.

### **III.3.4 Master Direction – Reserve Bank of India (Credit Derivatives) Directions**

3.19 The Reserve Bank issued Master Directions on Credit Derivatives to provide a fillip to the CDS market and to facilitate the development of a liquid market for corporate bonds, especially for bonds of lower-rated issuers. The directions shall apply to credit derivatives transactions undertaken in OTC markets and on recognised stock exchanges in India. Residents and non-residents, who are eligible to invest in corporate bonds and debentures under the Foreign Exchange Management (Debt Instruments) Regulations, 2019, can participate in the credit derivatives market. Eligible market-makers in credit derivatives consist of SCBs (except SFBs, PBs, LABs

and RRBs), NBFCs including stand-alone Primary Dealers (SPDs), HFCs with minimum net owned funds (NOF) of ₹500 crore and above and subject to specific approval of the Department of Regulation, Reserve Bank, and AIFIs. Market-makers will classify users as retail or non-retail; retail users shall be allowed to buy protection only for hedging while non-retail users, viz., regulated financial entities, FPIs, etc., shall be allowed to sell protection and buy protection for hedging or otherwise. Market participants shall not enter into CDS transactions if the reference entity is a related party to either the protection buyer or the protection seller. Participants can exit their CDS contract by unwinding the contract with the original counterparty or assigning the contract to any other eligible market participant through novation.

### **III.3.5 Legal Entity Identifier for Borrowers**

3.20 The Legal Entity Identifier (LEI) code, which has been conceived as a key measure to improve the quality of financial data systems for better risk management, is a 20- digit unique code to identify parties to financial transactions worldwide. The guidelines, which were initially mandated for large borrowers of SCBs, have now been extended to primary UCBs and NBFCs. As on June 16, 2022, M/s Legal Entity Identifier India Ltd. had registered 47,483 LEIs. Non-individual borrowers enjoying aggregate exposure of ₹5 crore and above from banks and financial institutions (FIs) are required to obtain LEI codes. Borrowers with total exposure above ₹25 crores are required to obtain LEI by April 30, 2023, failing which they will not be sanctioned any new exposure.

### **III.3.6 Retail Direct Scheme**

3.21 The Reserve Bank launched the RBI Retail Direct Scheme on November 12, 2021 to provide one-stop access to facilitate investment in government securities by retail investors. Under the scheme,

retail individual investors can open a Retail Direct Gilt (RDG) account with the Reserve Bank, using an online portal. Subsequent to the launch of the scheme, a market making scheme for the PDs was announced. As per the scheme, the PDs shall be present on the Negotiated Dealing System – Order Matching (NDS-OM) platform {Odd-lot and Request for Quotes (RFQ) segments} throughout market hours and respond to buy/sell requests from Retail Direct Gilt Account Holders (RDGAHs).

### III.3.7 Cyber-Security Risks

3.22 CSIRT-FIN (Computer Security Incident Response Team – Finance Sector), made operational under the umbrella of Indian Computer Emergency Response Team (CERT-In), has been handling security incidents related to vulnerable services, botnets, open services phishing, unauthorised access and other such cyber issues. Financial entities have been on-boarded to CERT-In's Cyber Swachhta Kendra (CSK) for providing automated feeds regarding malware infections, botnets and vulnerable services. CSIRT-FIN has been issuing vulnerability notes and tailored threat intelligence alerts to financial entities that have been on-boarded on CERT-In's threat intelligence platform.

### III.3.8 FinTech Developments

3.23 The financial technology (FinTech) industry has undergone tremendous growth over the past few years. The global FinTech market size was valued at US\$ 111 billion in 2020, and is projected to reach US\$ 698 billion by 2030, growing at a CAGR of 20.3 per cent<sup>11</sup>. The Indian FinTech industry, which is amongst the fastest growing FinTech markets in the world, was valued at US\$ 50-60 billion in 2020 and is projected to reach US\$ 150 billion by 2025<sup>12</sup>. India has the highest FinTech adoption rate globally

(87 per cent)<sup>13</sup>, receiving funding of US\$ 8.53 billion (in 278 deals) during 2021-22. FinTech innovations are ubiquitous, especially in retail and wholesale payments, financial market infrastructures, investment management, insurance, credit provision and equity capital raising and may lead to material changes in the financial landscape.

3.24 The adoption of FinTech can promote financial inclusion, broaden offering of financial products and services, increase efficiency for delivery of financial services, better accessibility, affordability and enhanced customer experience. It may also lead to efficiency gains in credit delivery processes, better targeted products, improved risk management including, better underwriting models, improved adoption of RegTech reducing compliance cost for regulated entities etc.

3.25 The advent of FinTech has exposed the banking system to new risks which extend beyond prudential issues and often intersect with other public policy objectives relating to safeguarding of data privacy, cyber security, consumer protection, competition and compliance with AML policies. BigTechs can scale up rapidly and pose risk to financial stability, which can arise from increased disintermediation of incumbent institutions. Moreover, complex intertwined operational linkages between BigTech firms and financial institutions could lead to concentration and contagion risks and issues relating to potential anti-competitive behaviour.

3.26 Regulators and supervisors face a challenging balancing act between innovation-friendliness and managing risks to financial stability, which requires more engagement of stakeholders such as regulators, the FinTech industry, and the academia to work

<sup>11</sup> Report by Allied Market Research, (September 2021) (weblink: <https://www.alliedmarketresearch.com/fintech-technologies-market>).

<sup>12</sup> Boston Consulting Group and FICCI (2021), "Indian Fintech, A USD 100 Billion Opportunity", March.

<sup>13</sup> A dashboard by Invest India on BFSI-Fintech and Financial Services available at <https://www.investindia.gov.in/sector/bfsi-fintech-financial-services>.

### Box 3.2: 'BigTechs': A Survey of International Regulatory and Supervisory practices

The entry of BigTechs in finance with strong technology driven non-financial service offerings and network externalities has changed the financial landscape. Globally, regulators/supervisors highlight three major concerns in this context:

**a) Financial Stability:** BigTechs entered the financial domain mainly as payment service providers but are now offering a host of financial services including credit, asset management, insurance, crowd funding (Table 1). They increase financial

stability risks a) by bundling several financial activities through their platforms; b) increasing operational interconnectedness with financial incumbents through provision of technological support via outsourcing partnerships; and c) greater financial interconnectedness with financial incumbents<sup>14</sup>.

**b) Governance:** BigTechs have a complex governance structure typically spreading across jurisdictions, offering financial services through subsidiaries/

**Table 1: Financial service offerings by BigTech companies**

BigTech	License provider* (year of license)	Main Business	Banks	Credit	Payment	Crowd funding	Asset Mgmt.	Insurance
Google	No	Internet search/ advertising			Y			
Apple	No	Tech/producing hardware			Y			
Facebook	No	Social media/ advertising			Y			
Amazon	No	E-commerce/ online retail		Y	Y	Y		Y
Alibaba (Ant Group)	The China Banking Regulatory Commission (2014) and The Hong Kong Monetary Authority (2019)	E-commerce/ online retail	Y	Y	Y	Y	Y	Y
Baidu	China Banking and Insurance Regulatory Commission (CBIRC) (2019) received stake through equity investment in a consumer finance company.	Internet search/ advertising	Y	Y	Y	Y	Y	Y
JD.com	The Hong Kong Monetary Authority (2019)	E-commerce/ online retail	Y	Y	Y	Y	Y	Y
Tencent	The China Banking Regulatory Commission (2015) and The Hong Kong Monetary Authority (2019)	Tech/gaming and messaging	Y	Y	Y	Y	Y	Y
NTT Docomo	Acquired stake through strategic equity investment in private German bank Bankverein Werther (2011)	Mobile communications	Y	Y	Y	Y		
Rakuten	European Union (2016) and The Financial Supervisory Commission (2020)	E-commerce/ online retail	Y		Y		Y	Y
Mercado Libre	The Brazilian Central Bank (2021)	E-commerce/ online retail		Y	Y		Y	

**Notes:** 1. Banking licenses are generally for internet banking.

2. "Y" Provision of financial service through BigTech entity and/or in partnership with financial institutions outside BigTech group in at least one jurisdiction. \*: Only banking licenses.

**Source:** BIS/news portals/company websites.

(Contd.)

<sup>14</sup> Bains, Parma, Sugimoto, Nobuyasu and Wilson, Christopher (2022), "BigTech in Financial Services: Regulatory Approaches and Architecture", Fin-Tech Note, International Monetary Fund, January.



holding companies. This makes the task of identifying and monitoring the risks they pose to the financial system challenging. Moreover, BigTechs are emerging as "too-critical to fail" institutions as they become major providers of outsourced services (e.g., cloud services) to financial institutions. Governance concerns stem from ensuring 'supervisory' access to test the resilience of the critical services outsourced to BigTechs, especially relating to cross border service arrangements.

- c) **Legislative:** BigTechs occupy a dominant position in non-financial domains, often raising anti-trust concerns. They also have the potential to impact competition and market contestability in the financial domain. The key competitive advantage of BigTechs is the large stock of user data that they generate from their non-financial platforms which

often creates data privacy and anti-competition issues. Any re-bundling of financial services by BigTechs may effectively reduce the choices available to the consumers, which may especially challenge retail finance models of open banking regime. Their all-pervasive outreach over domains and geographies poses serious challenges for legislatures across the jurisdictions.

Globally, regulators/supervisors are aiming to strike a balance between risks and benefits from the entry of BigTechs in the financial domain. Regulators are adopting licensing/authorisation approach both at the entity and activity level, and the same is being guided by the principle of 'proportionality' and 'flexibility' depending on the complexity of services offered by the BigTechs (Table 1). Going forward, regulators need to be mindful of the new interlinkages that BigTechs might create with the existing financial institutions.

towards common principles for management of FinTech activities, including business and revenue models, governance, conduct, risk management, regulation aspects for promoting a sustainable ecosystem.

### III.3.9 Customer Protection

3.27 As observed from the complaints received under the erstwhile Banking Ombudsman Scheme (BOS), 2006 and the Reserve Bank - Integrated Ombudsman Scheme (RB-IOS), 2021, launched on November 12, 2021, the share of complaints received under the category 'loans and advances' and 'credit cards' stood at 39.5 per cent of the total complaints received during November 12, 2021 to March 31, 2022 as compared to 29.2 per cent during April 01, 2021 to November 11, 2021 (Table 3.1).

**Table-3.1: Category of complaints received under the RB-IOS, 2021 and the erstwhile BOS, 2006**

Grounds of Complaint		BOS Complaints (April 1 to Nov 11, 2021)		RB-IOS Complaints (Nov 12, 2021 - March 31, 2022)	
		Number	Share (per cent)	Number	Share (per cent)
1	Loans and Advances & Non-observance of FPC	36,434	17.4	18,651	25.7
2	Mobile/Electronic Banking	28,533	13.6	12,180	16.8
3	Failure to meet commitments and BCSBI code	27,337	13.1	109	0.2
4	Levy of charges without prior notice	12,806	6.1	814 <sup>15</sup>	1.1
5	ATM/CDM/Debit card	30,652	14.7	11,185	15.4
6	Opening/Operation of Deposit accounts	6,196	3.0	9,677	13.3
7	Credit Card	24,769	11.8	10,027	13.8
8	Pension related	4,321	2.1	1,885	2.6
9	Remittance and Collection of instruments	2,164	1.0	1,088	1.5
10	Para-Banking	778	0.4	830	1.1
11	Others	35,206	16.8	6,134	8.5
<b>Total</b>		<b>2,09,196</b>	<b>100.0</b>	<b>72,580</b>	<b>100.0</b>

Source: Reserve Bank of India.

<sup>15</sup> Includes complaints related to fees/charges related to deposit accounts.

### III.3.10 Enforcement

3.28 During December 2021 - May 2022, the Reserve Bank undertook enforcement action against 74 regulated entities (three PSBs; three PVBs; sixty-four co-operative banks; two FBs; and two NBFCs) and imposed an aggregate penalty of ₹9.98 crore for non-compliance with/contravention of statutory provisions and/or directions issued by the Reserve Bank.

### III.3.11 Variation Margin for Non-centrally Cleared OTC Derivatives<sup>16</sup>

3.29 The Reserve Bank issued Master Directions for variation margin, which will come into effect from December 01, 2022. These Directions apply to foreign exchange derivatives, interest rate derivatives and credit derivative contracts that are non-centrally cleared. They apply to domestic covered entities regulated by a financial sector regulator (including branches of foreign banks operating in India) and resident non-financial entities with an average aggregate notional amount (AANA) of outstanding non-centrally cleared derivatives (NCCDs) of ₹25,000 crores and above and ₹60,000 crores and above, respectively, on a consolidated group wide basis. They are also applicable to foreign covered entities, including non-resident financial firms and non-resident non-financial entities having an AANA of outstanding NCCDs of US\$ 3 billion and above and US\$ 8 billion and above, respectively, on a consolidated group wide basis.

### III.3.12 Payments Infrastructure Development Fund Scheme

3.30 The Payments Infrastructure Development Fund (PIDF) Scheme was operationalised by the Reserve Bank in January 2021 to incentivise the deployment of payment acceptance infrastructure

Table-3.2: Distribution of targets across centres

(in per cent)

Distribution of Acceptance Devices	Share of Total
Tier-1 to Tier-4 centres	30
Tier-5 and Tier-6 centres	60
North Eastern States and UTs of J&K and Ladakh	10

Source: RBI

such as physical Point of Sale (PoS) terminals, mobile PoS (mPoS), Quick Response (QR) codes in Tier-3 to Tier-6 centres and north-eastern states and Union Territories (UTs) of Jammu and Kashmir (J&K) and Ladakh. Beneficiaries of the PM SVANidhi Scheme in Tier-1 and Tier-2 centres were included under the scheme in August 2021 (Table 3.2). PIDF envisages creating 30 lakh new touch points every year for digital payments.

3.31 Under the scheme, a subsidy of 60 to 75 per cent of the cost of physical PoS and 75 to 90 per cent of the cost of a Digital PoS shall be offered. Initially, 75 per cent of the subsidy amount shall be released and the balance shall be released after ensuring that performance parameters are achieved.

### III.3.13 Individual Housing loans – Cooperative Banks

3.32 Taking into account the increase in housing prices and customer needs, the Reserve Bank increased the limits on housing loan sanctioned by UCBs for individual borrowers. The limits for Tier-I and Tier-II UCBs are now placed at ₹60 lakh and ₹140 lakh, respectively, whereas for Rural Cooperative Banks (RCBs – State Cooperative Banks and District Central Cooperative Banks), the limits are increased to ₹50 lakh for RCBs with assessed net worth less than ₹100 crore and ₹75 lakh for other RCBs. It has been decided to allow RCBs to extend finance to 'Commercial Real Estate – Residential Housing (CRE-

<sup>16</sup> The Reserve bank has released draft Directions (Margining for Non-Centrally Cleared OTC Derivatives Directions, 2022) prescribing guidelines for exchange of initial margin for NCCDs on June 16, 2022. It has invited comments/feedback on the same from banks, market participants and other interested parties by July 29, 2022.

RH)' within the existing aggregate housing finance limit of 5 per cent of their total assets as per their Board-approved policy, with periodic performance monitoring.

### III.3.14 Cross Margin in Commodity Index Futures

3.33 The Securities and Exchange Board of India (SEBI) introduced cross margin benefits between commodity index futures and futures of its underlying constituents or its variants in June 2021 to improve the efficiency of use of margin capital by market participants. By reducing the total margin payment required on their positions, there is a reduction in the cost of trading and improvement in liquidity in index futures and underlying constituent futures. It allows a cross margin benefit of 75 per cent on the initial margin if a client arbitrages or holds offsetting positions in index futures and futures of its underlying constituents or its variants. The levy of extreme-loss margin and mark-to-market margin continue.

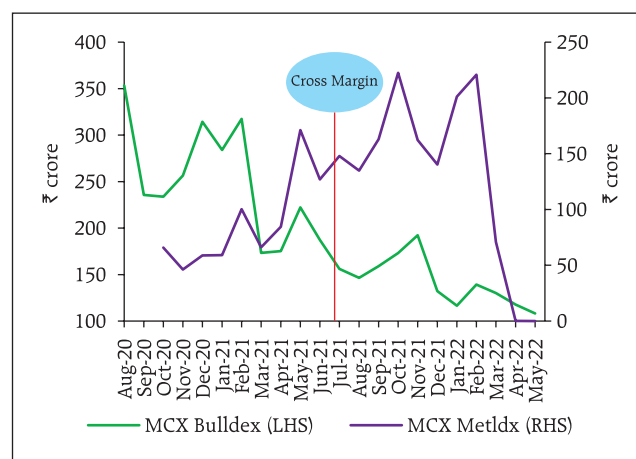
3.34 At the Multi-Commodity Exchange of India Limited (MCX), the cross-margin facility was introduced for futures in the MCX iCOMDEX Bullion Index (MCX BULLDEX) and the MCX iCOMDEX Base Metal Index (MCX METLDEX). The National Commodity and Derivatives Exchange Limited (NCDEX) has started providing cross margining benefit in initial margins between GUAREX<sup>17</sup> Index futures and its underlying constituent futures. There has been an overall decline in average trading volumes in two MCX indices, viz., the MCX BULLDEX and the MCX METLDEX (Chart 3.1). This could be owing to heightened volatility in commodities since April 2021, which further intensified following the geopolitical developments since February 2022.

### III.3.15 Tightening Framework for Public Issues

3.35 After reviewing various aspects of the public issue framework, including price bands, non-institutional investor (NII) allocation, objects of the issue and monitoring of issue proceeds, SEBI took steps to strengthen the process for public issues. For all book built public issues opening on or after January 14, 2022, a minimum difference of 5 per cent between the lower and upper price band shall be applicable. The changed framework also specifies that one third of the portion available to NIIs should be reserved for applicants with application size of more than rupees two lakh and up to rupees ten lakh, while two-third of the portion available to NIIs should be reserved for applicants with application size of more than rupees ten lakh.

3.36 For companies not meeting eligibility criteria, including those relating to net tangible assets, average operating profit and net worth, certain limits have been placed on offer for sale (OFS) to demonstrate a higher level of skin in the game by pre-issue substantial shareholders, including promoters. 50 per cent of the portion allocated to 'anchor investors' under a public issue shall be locked in for a period

Chart 3.1: Trends of Average Daily Traded Value (₹ crore)



<sup>17</sup> NCDEX GUAREX is a commodity futures price index on Guar Complex Commodities.

of 90 days, whereas the remaining portion would continue to remain locked in for a period of 30 days with effect from April 01, 2022. Several measures have been prescribed for enhancing the framework for monitoring of issue proceeds such as permission to credit rating agencies (CRAs) to act as monitoring agencies instead of SCBs and public FIs, bringing amounts raised for general corporate purpose under monitoring with enhanced disclosure norms.

### **III.3.16 Retail Investor Protection**

3.37 Since the outbreak of pandemic, SEBI has taken several steps to protect the retail investors from misconducts by regulated entities. In July 2021, a framework was prescribed by SEBI for segregation and monitoring of collateral by brokers at client level with an objective to tighten the mechanism of protection of client collateral from misappropriation/misuse by the broker and to ensure safeguard against default of broker and/or other clients, and the same has been implemented w.e.f. May 02, 2022. Earlier during September 2020, in order to curb the misuse of power of attorney (POA) given by the clients to the broker, it was prescribed that margin obligations to be given in the form of securities by client would be by way of pledge or re-pledge through the depository system. Now, to significantly mitigate the misuse of POA, a separate document called "Demat Debit and Pledge Instruction" (DDPI) was introduced in April 2022, under which the clients are required to explicitly agree to authorise the stock broker and/or to access their beneficial owner account for the limited purpose of meeting pay-in obligations for settlement of trades executed by them. These measures are quite significant in context of the unprecedented surge in investors in the last 2 years.

3.38 Besides these, SEBI as well as stock exchanges have recently taken several measures to ensure robust surveillance mechanism. Moreover, market surveillance and risk management is carried out online as well as up to the end-client level.

### **III.3.17 Capacity Building for Investors**

3.39 Investor education and awareness has been a key strategy followed by the SEBI to enhance investor protection. During the pandemic, digital modes of conducting investor awareness activities were adopted. The SEBI has also introduced a programme called Securities Market Trainers (SMARTs) to conduct investor awareness programmes and media campaigns on cautioning investors against unsolicited investment tips. In these programmes, the SEBI provides free of charge centralised platforms for conduct of awareness webinars where digital educational contents is shared among the participants.

### **III.3.18 Framework for FinTech Entity in the International Financial Service Centre (IFSC)**

3.40 The International Financial Services Centres Authority (IFSCA) proposes to cover (i) FinTech solutions resulting in new business models, applications, process or products in areas/activities linked to financial services regulated by the IFSCA; and (ii) advanced/innovative technological solutions which aid and assist activities in relation to financial products, financial services and financial institutions (TechFin). It aims at fostering innovation in financial services through a regulatory/innovation sandbox for FinTech activities and enabling pure play technology companies in providing allied activities/services to banking and financial services. The framework empowers the IFSCA to grant 'Limited Use Authorisation' to eligible financial technology entities. This would enable them to apply and avail of grants under the IFSCA FinTech Incentive Scheme 2022, which aims at providing financial support to FinTechs at various stages of their lifecycle.

3.41 The framework also proposes to cover areas/activities allied to financial products, financial services and financial institutions. Some class/categories of technology companies can obtain



direct entry authorisation from the IFSCA without entering the regulatory sandbox, subject to certain conditions. The framework also includes an interoperable regulatory sandbox (IORS) to facilitate testing of innovative hybrid financial products/ services falling within the regulatory ambit of more than one financial sector regulators in India. The IFSCA will facilitate Indian FinTech's access to foreign markets and entry of foreign FinTechs into India. Firms with innovative ideas or solutions across banking, capital or insurance sector can benefit from seamless interaction with a single/unified regulator in the IFSCA.

### III.3.19 Fund Management Regulations at IFSCA

3.42 The IFSCA notified the Fund Management Regulations, 2022 under which eligibility and regulatory requirements for fund management entities (FMEs) managing retail schemes, non-retail schemes, venture capital schemes, portfolio management services and investment trusts have been prescribed. The regulations also carry requirements for exchange-traded funds (ETFs), portfolio management services (PMS), investment trusts (Real Estate Investment Trusts and Infrastructure Investment Trusts), in addition to environmental, social, and governance (ESG) related disclosures at entity level and scheme level. A FME intending to undertake a host of activities related to fund management can do so by seeking a single unified registration (Registered FME – Retail) from the IFSCA.

3.43 The regulations depending on the registration category require the FME to appoint key management personnel (KMPs) (Principal Officer; Fund Manager; Compliance and Risk Manager) and also various fiduciaries. The FME or its associate entities are required to make a skin in the game contribution to the schemes launched by them based on certain specified conditions. A detailed code of conduct has been prescribed for FME and their KMPs and fiduciaries. Requirements have also been prescribed

for *inter alia* business continuity plans, cyber security and cyber resilience, risk management and change in control.

## III.4 Other Developments

### III.4.1 Deposit Insurance

3.44 The Deposit Insurance and Credit Guarantee Corporation (DICGC) has been extending insurance cover to depositors with the objective of maintaining the confidence of small depositors in the banking system of the country and promoting financial stability. Deposit insurance extended by the DICGC covers all commercial banks, including LABs and RRBs as well as co-operative banks in all the States and UTs.

3.45 The number of registered insured banks as on March 31, 2022 stood at 2,043, comprising 141 commercial banks (including 43 RRBs, two LABs, six payment banks and 12 small finance banks) and 1,902 co-operative banks (33 StCBs, 352 DCCBs and 1517 UCBS). As at end-March 2022, the limit of deposit insurance at ₹5 lakh fully protected 256.7 crore deposit accounts (97.9 per cent of total). In value terms, the insured deposits of ₹81 lakh crore formed 49.0 per cent of the total assessable deposits.

3.46 During the year 2021-22, deposit insurance premium of ₹19,491 crore was collected of which 93.6 per cent was contributed by commercial banks

**Table-3.3. Deposit Insurance Premium**

(in ₹ crore)

Period	Commercial Banks	Co-operative Banks
2021-22	18,247.7	1243.1

**Source:** Deposit Insurance and Credit Guarantee Corporation (DICGC).

**Table-3.4: Deposit Insurance Fund (DIF)**

(in ₹ crore)

As on	Deposit Insurance Fund	Reserve Ratio (per cent)
March 31, 2022	1,46,842	1.81
March 31, 2021	1,29,904	1.70

**Source:** Deposit Insurance and Credit Guarantee Corporation (DICGC)



and the rest by co-operative banks. The Deposit Insurance Fund (DIF) stood at ₹1.47 lakh crore, yielding a reserve ratio (ratio of DIF to insured deposits) of 1.81 per cent (Table 3.3 and 3.4).

3.47 During the period April 2021 to March 2022, the Corporation has settled claims of five liquidated banks for an amount aggregating to ₹1,124.1 crore and 12 supplementary claims of liquidated banks aggregating to ₹100.9 crore. The aggregate of main claims and supplementary claims in respect of 16 urban co-operative banks amounted to ₹1,225 crore under Section 17 (1) of the DICGC Act 1961. In addition to the claims settled as mentioned above, an amount of ₹3,791.6 crore was provided to Unity Small Finance Bank (USFB) for making payment to the depositors of the erstwhile Punjab and Maharashtra Co-operative Bank Ltd (PMCBL) pursuant to the merger of PMCBL

with USFB with effect from January 25, 2022 under Section 16 (2) of the DICGC Act, 1961. Thus, the total claims settled amounted to ₹5,059.1 crore<sup>18</sup>. As per the amended Section 18 A of DICGC Act, the Corporation shall settle the claims within 90 days of imposition of such directions. The claims settled under this channel in the case of 22 urban co-operative banks under All Inclusive Direction (AID) amounted to ₹3,457.4 crore as on March 31, 2022. Overall, the Corporation has settled aggregate claims of ₹8,516.6 crore under different channels during 2021-22.

### III.4.2 Corporate Insolvency Resolution Process (CIRP)

3.48 Since the inception of the Insolvency and Bankruptcy Code (IBC) in December 2016, 5,258 CIRPs have commenced by end-March 2022, of which 65 per cent have been closed. Of these, around 22

Table-3.5: Corporate Insolvency Resolution Process

Year/Quarter	CIRPs at the beginning of the Period	Admitted	Closure by				CIRPs at the end of the Period
			Appeal/ Review/Settled	Withdrawal under Section 12A	Approval of Resolution Plan	Commencement of Liquidation	
2016-17	0	37	1	0	0	0	36
2017-18	36	706	94	0	20	91	537
2018-19	537	1,157	154	97	78	306	1,059
2019-20	1,059	1,986	344	217	137	542	1,805
2020-21	1,805	538	86	160	120	351	1,626
Apr-Jun, 2021	1,626	141	11	34	33	75	1,614
Jul-Sep, 2021	1,614	190	21	37	17	68	1,661
Oct-Dec, 2021	1,661	255	9	32	46	106	1,723
Jan-Mar, 2022	1,723	248	11	9	29	70	1,852
<b>Total</b>	<b>NA</b>	<b>5,258</b>	<b>731</b>	<b>586</b>	<b>480</b>	<b>1609</b>	<b>1,852</b>

**Note:** 1. These CIRPs are in respect of 5119 CDs.

2. The data excludes 1 CD which moved directly from BIFR to resolution.

3. The data includes Dewan Housing Finance Corporation Limited data, Srei Equipment Finance Limited, Srei Infrastructure Finance Limited and Reliance Capital Ltd, wherein the application filed by the Reserve Bank was admitted under section 227 read with Financial Service Provider Rules of the Code.

**Source:** Compilation from website of the NCLT and filing by Ips.

<sup>18</sup> Inclusive of main claims settled under the expeditious claims settlement policy of the Corporation for an amount of ₹42.6 crore in case of three co-operative banks.

per cent were closed on appeal or review or settled, 17 per cent were withdrawn, 47 per cent ended in orders for liquidation and 14 per cent culminated in approval of resolution plans (Table 3.5).

3.49 Till March 31, 2022, 480 CIRPs have ended in resolution. Realisation by financial creditors (FCs) under resolution plans in comparison to liquidation value was 171 per cent while the realisation by them in comparison to their claims was 33 per cent. Forty seven per cent of the CIRPs, which were closed, yielded orders for liquidation, as compared with 14 per cent ending up with a resolution plan. The economic value in most of the corporate debtors (CDs) that ended in liquidation had almost

completely eroded even before they were admitted into CIRP. These CDs had assets, on average, valued at less than 8 per cent of the outstanding debt amount (Table 3.6).

3.50 About 52 per cent of CIRPs initiated by operational creditors (OCs) were closed on appeal, review, or withdrawal. Such closures accounted for 71 per cent of all closures by appeal, review, or withdrawal (Table 3.7 and Table 3.8).

### III.4.3 Mutual Funds

3.51 The asset base of the mutual funds (MFs) industry (excluding domestic fund-of-funds or FoF) at ₹37.2 lakh crore as on May 31, 2022, has nearly doubled in a span of five years (₹19.04 lakh crore on

**Table-3.6: CIRPs Ending with Orders for Liquidation till March 31, 2022**

State of Corporate Debtor at the Commencement of CIRP	No. of CIRPs initiated by			
	Financial Creditor	Operational Creditor	Corporate Debtor	Total
Either in BIFR or Non-functional or both	508	558	130	1196
Resolution Value > Liquidation Value	94	57	31	182
Resolution Value ≤ Liquidation Value*	608	652	140	1400

**Note:** 1. There were 88 CIRPs, where CDs were in BIFR or non-functional but had resolution value higher than liquidation value.  
2. \*Includes cases where no resolution plans were received and cases where liquidation value is zero or not estimated.  
3. Data of 27 CIRPs is awaited.

**Table-3.7: Outcome of CIRPs, Initiated Stakeholder-wise, as on March 31, 2022**

Outcome	Description	CIRPs initiated by			
		Financial Creditor	Operational Creditor	Corporate Debtor	Total
<b>Status of CIRPs</b>	Closure by Appeal/Review/Settled	196	530	5	731
	Closure by Withdrawal u/s 12A	163	416	7	586
	Closure by Approval of Resolution Plan #	269	163	47	479
	Closure by Commencement of Liquidation	714	718	177	1609
	Ongoing	894	872	83	1849
	<b>Total</b>	<b>2,236</b>	<b>2,699</b>	<b>319</b>	<b>5,254</b>
<b>CIRPs yielding Resolution Plans</b>	Realisation by FCs as per cent of Liquidation Value	192.8	115.3	140.6	171.4
	Realisation by FCs as per cent of their Claims	42.7	16	25.5	32.9
	Average time taken for Closure of CIRP	531	528	516	528
<b>CIRPs yielding Liquidations</b>	Liquidation Value as per cent of Claims	6.3	8.9	9.7	7
	Average time taken for Closure of CIRP (days)	433	401	373	412

**Note:** # This data excludes data in respect of Financial Service Providers admitted under section 227 read with Financial Service Provider Rules of the Code.

Table-3.8: Sectoral Distribution of CIRPs as on March 31, 2022

Sector	No. of CIRPs						
	Admitted	Closed					Ongoing
		Appeal/ Review/ Settled	Withdrawal under Section 12 A	Approval of Resolution Plan	Commencement of Liquidation	Total	
<b>Manufacturing</b>	2103	257	236	244	698	1435	668
Food, Beverages & Tobacco Products	268	28	30	30	84	172	96
Chemicals & Chemical Products	217	29	31	29	65	154	63
Electrical Machinery & Apparatus	157	21	9	7	70	107	50
Fabricated Metal Products	113	14	17	11	42	84	29
Machinery & Equipment	240	38	34	20	71	163	77
Textiles, Leather & Apparel Products	360	43	39	30	139	251	109
Wood, Rubber, Plastic & Paper Products	242	28	30	30	72	160	82
Basic Metals	355	39	26	64	114	243	112
Others	151	17	20	23	41	101	50
<b>Real Estate, Renting &amp; Business Activities</b>	1074	191	141	62	276	670	404
Real Estate Activities	263	53	23	12	32	120	143
Computer and related activities	153	22	23	5	53	103	50
Research and Development	6	2	1	1	0	4	2
Other Business Activities	652	114	94	44	191	443	209
<b>Construction</b>	578	104	68	49	111	332	246
<b>Wholesale &amp; Retail Trade</b>	527	65	43	30	197	335	192
<b>Hotels &amp; Restaurants</b>	112	21	16	14	29	80	32
<b>Electricity &amp; Others</b>	156	16	7	26	50	99	57
<b>Transport, Storage &amp; Communications</b>	150	18	14	11	58	101	49
<b>Others</b>	558	59	61	44	190	354	204
<b>Total</b>	<b>5258</b>	<b>731</b>	<b>586</b>	<b>480</b>	<b>1609</b>	<b>3406</b>	<b>1852</b>

Source: Insolvency and Bankruptcy Board of India (IBBI)

Table 3.9: Trends in Resource Mobilisation by Mutual Funds

(in ₹ Crores)

Months	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Mobilisation of Funds	8,03,250	9,14,933	7,88,172	7,65,767	9,84,059	8,17,044	8,41,776
Repurchase/Redemption	7,57,084	9,19,145	7,52,920	7,34,234	10,53,942	7,44,198	8,49,308
Net Inflow/Outflow of funds	46,165	-4,212	35,252	31,533	-69,883	72,847	-7,533
Assets under Management	37,33,702	37,72,696	38,01,210	37,56,296	37,56,683	38,03,683	37,22,010

Source: Securities and Exchange Board of India (SEBI)

May 31, 2017) (Table 3.9). The industry witnessed sustained inflows, despite volatile stock markets, especially since January 2022. The net inflows during November 2021 to May 2022 stood at ₹1.04 lakh crore.

3.52 Investments in MFs through systematic investment plans (SIPs) accounted for 15 per cent of the total assets under management (AUM) of the industry, as on May 31, 2022 (Table 3.10).

Table-3.10: Growth in SIPs (November 01, 2021 to May 31, 2022)

Particulars	Existing at the beginning of the period (Excluding STP)	Registered during the period	Matured during the period	Terminated prematurely during the period	Closing no. of SIPs at the end of April 30, 2022	AUM at the beginning of the period	AUM at the end of the period
	(in lakh)					(in ₹ crore)	
T-30 Cities	240.90	68.28	7.33	20.57	281.29	3,64,422.74	3,70,002.71
B-30 Cities	217.46	72.66	4.37	25.75	260.01	1,85,095.63	1,90,721.85
<b>SIPs</b>	<b>458.36</b>	<b>140.95</b>	<b>11.70</b>	<b>46.32</b>	<b>541.30</b>	<b>5,49,518.36</b>	<b>5,60,724.56</b>

Note: T30 refers to the top 30 geographical locations in India by mutual funds' AUM and B30 refers to the locations beyond the top 30.

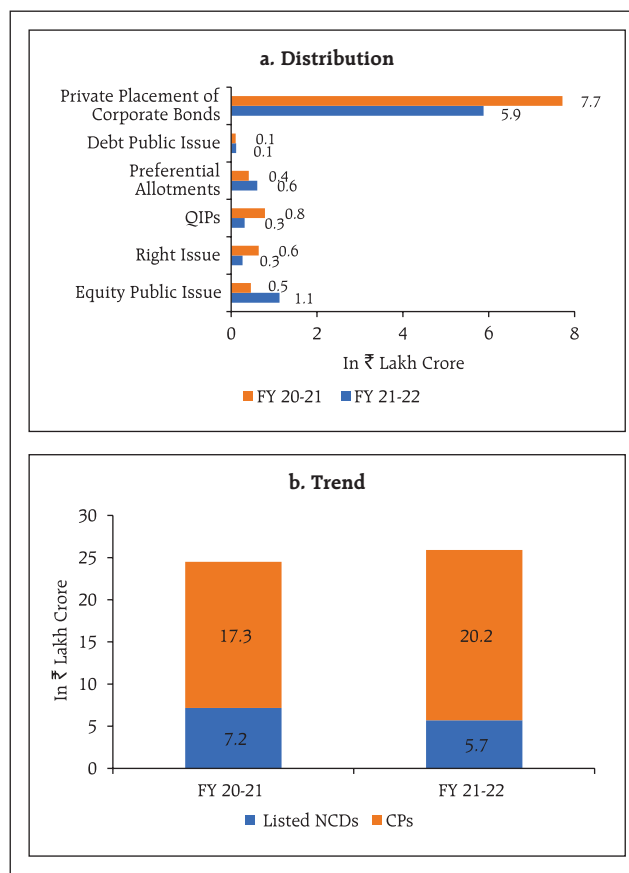
Source: Securities and Exchange Board of India (SEBI)

### III.4.4 Capital Market

3.53 The total capital raised in primary markets during the period 2021-22 stood at ₹8.3 lakh crore, as compared with a mobilisation of ₹10.1 lakh crore during 2020-21. Funds raised through equity public issues went up 2.4 times, whereas the total funds raised through issuances of CPs and listed NCDs went up by 5.8 per cent to ₹25.9 lakh crore during 2021-22 (Chart 3.2 a and b).

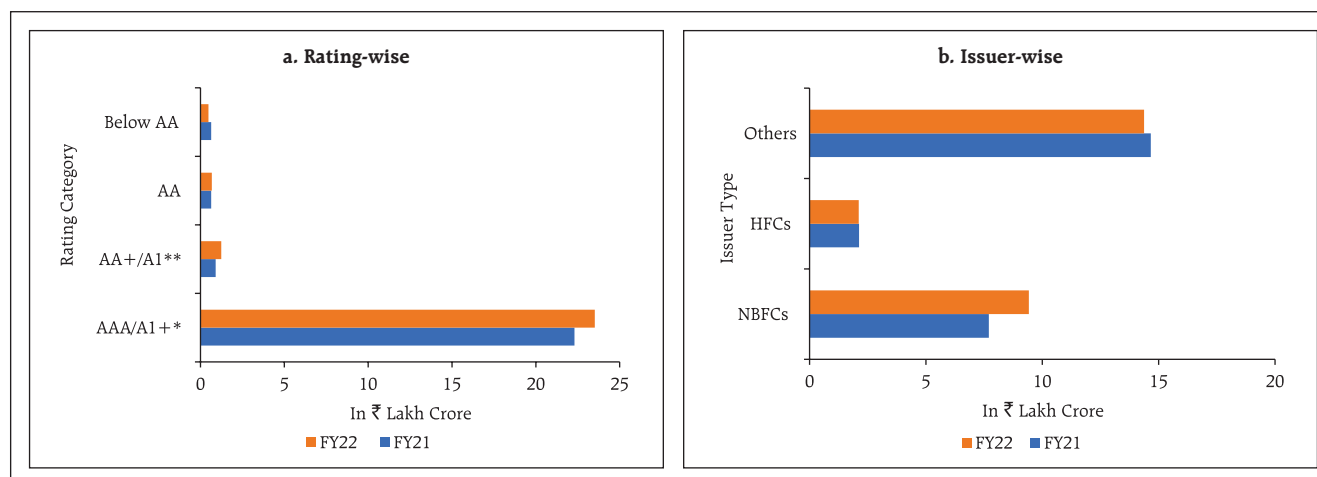
3.54 Issuances of bonds by NBFCs and HFCs were 17 per cent higher y-o-y during 2021-22. While issuances with AAA/A1+ rating dominated fund raising through corporate bonds, issuances with "AA and AA+/A1" rating categories also witnessed an increase of 24 per cent during the same period (Charts 3.3 a and b).

Chart 3.2: Funds Raised through Primary Market



Source: Securities and Exchange Board of India (SEBI).

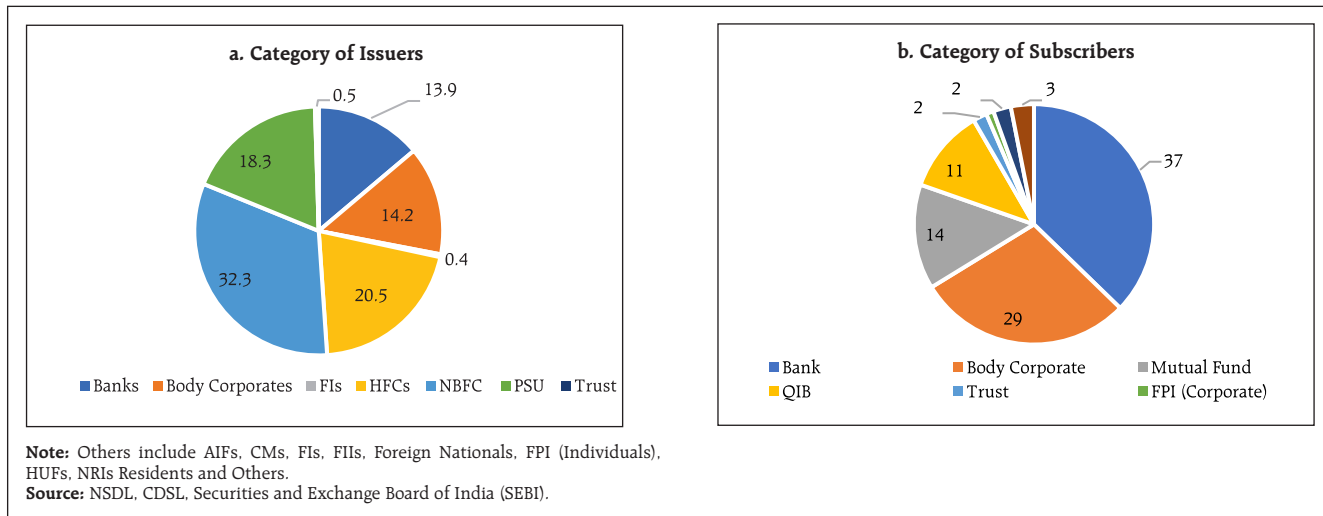
Chart 3.3: Issuances of CPs and Listed NCDs - Rating-wise and Issuer-wise



Note: ~97 per cent of the CP issuances are considered as A1+ rated.  
Source: NSDL and CDSL

**Chart 3.4: Category-wise Issuers and Subscribers of Corporate Bonds**

(per cent share)

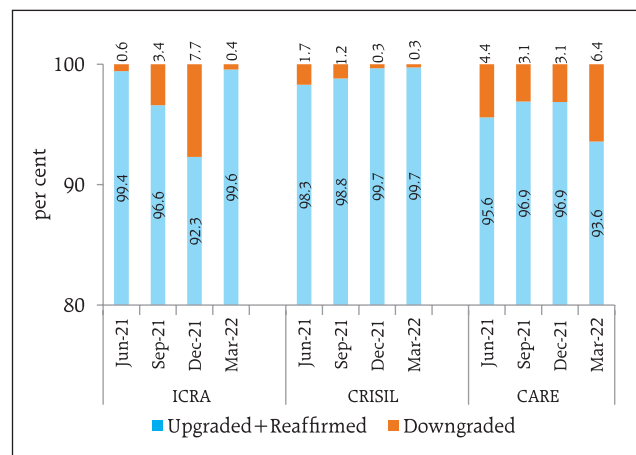


3.55 NBFCs and HFCs remained the major issuers, accounting for 53 per cent of total listed bonds during the year (Chart 3.4 a), whereas banks and body corporates were their major subscribers (Chart 3.4 b).

### III.4.5 Credit Ratings

3.56 The high incidence of downgrades in ratings of listed issues was arrested as the pandemic's impact subsided. During Q4:2021-22, the share of downgraded listed issues by ICRA and CRISIL went down, whereas the same went up for CARE Ratings on a sequential basis (Chart 3.5).

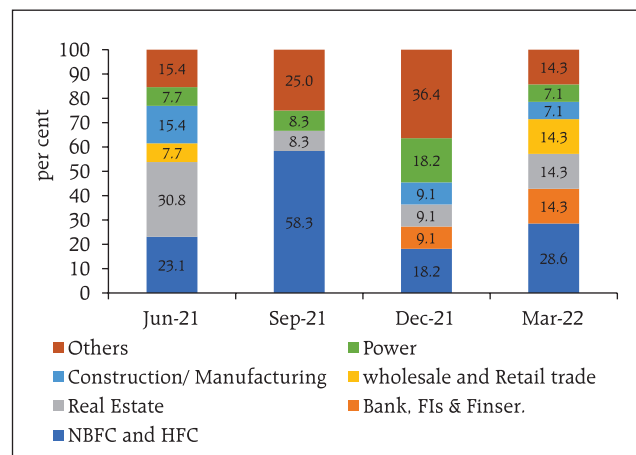
**Chart 3.5: Rating Actions across Credit Rating Agencies (CRAs)**



**Note:** The data pertains to rating actions on debt issues of listed companies.  
**Source:** Individual Credit Rating Agencies (CRAs) - CRISIL, ICRA and CARE.

3.57 The rating downgrades are distributed across sectors. The combined share of NBFCs and HFCs went up from 18 per cent to 29 per cent during Q4:2021-22 (Chart 3.6).

**Chart 3.6: Distribution of Rating Downgrades – Sector-wise**



**Source:** Individual Credit Rating Agencies (CRAs) - CRISIL, ICRA and CARE



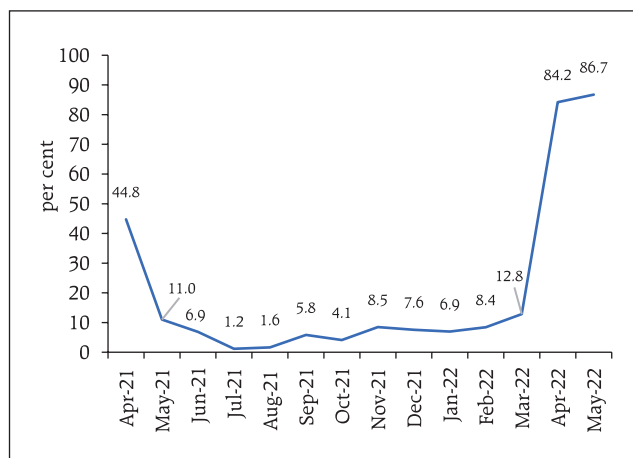
### III.4.6 Insurance

3.58 During the first two months of current financial year (April-May 2022), the First Year Premium (FYP) of Life Insurance Business has gone up by 86.7 per cent when compared to the same period of last financial year say April-May 2021 (Chart 3.7). The spike in performance of Life Insurance premium during April-May 2022 vis-à-vis April-May 2021 is due to the base effect. The life insurance industry experienced low level of activities during the period April-May 2021 on account of second wave of the pandemic. However, the industry experienced normal level of activities during the period April-May 2022.

3.59 During the period April-May 2022, the Total Premium (First Year Premium + Renewal) experienced 39.1 percent growth when compared to the same period of last year say April-May 2021. (Chart 3.8).

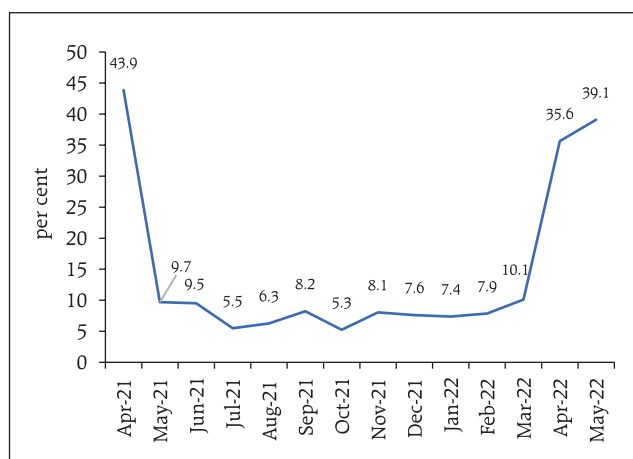
3.60 During the period April 2020-May 2022, the life insurance industry received 2.35 lakh claims aggregating to ₹18,135 crore for COVID related deaths. Of these, 2.34 lakh death claims amounting to ₹17,606 crore were settled. The claim paid ratio in the above cases stood at 99.18 per cent in number and 97.08 per cent in amount.

**Chart 3.7: Growth in First Year Premium of Life Insurance Business – Life Insurance (data is cumulative for the financial year; per cent)**



Source: Insurance Regulatory and Development Authority of India (IRDAI)

**Chart 3.8: Growth in Total Premium (First Year + Renewal) of Life Insurance Business (data is cumulative for the financial year; per cent)**



Source: Insurance Regulatory and Development Authority of India (IRDAI).

### III.4.7 Pension Funds

3.61 The National Pension System (NPS) and the Atal Pension Yojana (APY) recorded a 22.6 per cent annual growth in number of subscribers and 27.3 per cent growth in the corpus during 2021-22 (Charts 3.9 and 3.10).

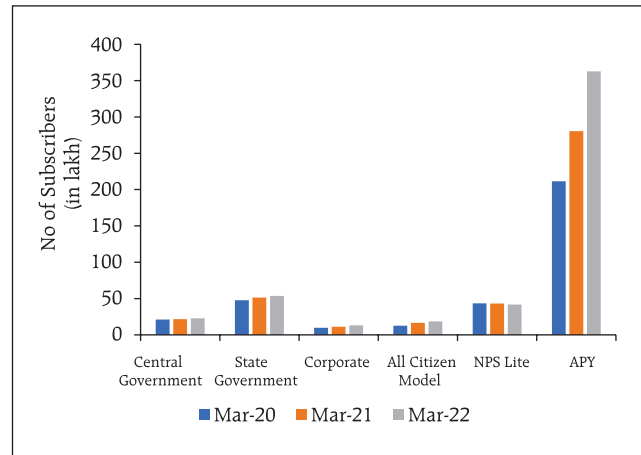
3.62 Both the NPS and the APY have progressed in terms of the total number of subscribers and AUM. Their combined subscriber base and AUM have reached 5.13 crores and ₹7,23,418 crores, respectively, of which APY has 3.62 crores of subscribers and AUM of ₹20,922 crores.

#### Summary and Outlook

3.63 Amidst the major challenges facing the global financial system emanating from the pandemic, geopolitical tensions and other shocks, technological innovations that have the potential to disrupt financial stability engaged the attention of regulators and other policymakers during 2021-22. The core of the financial system continues to exhibit resilience, a triumph for the post-GFC regulatory reforms that improved banking system resilience through higher capital buffers and improved liquidity standards. The NBFIs sector, however, poses a hazard as the regulatory reform agenda is still unfinished. The growing threat of the crypto-assets ecosystem warrants drastic approaches by national authorities. Ongoing challenges relating to cyber risk and climate-related financial risks are the two other major focus areas for policy makers.

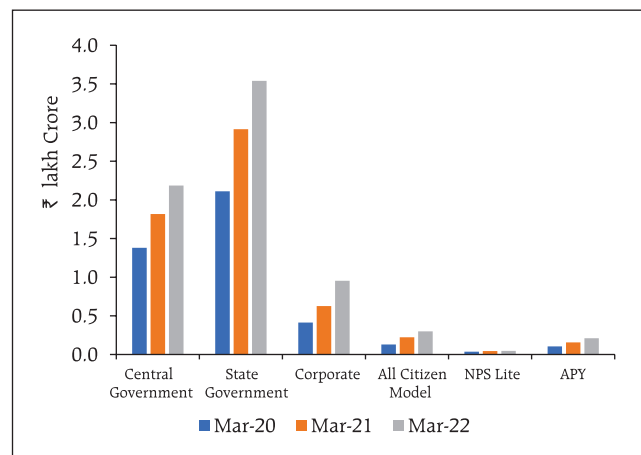
3.64 On the domestic front, efforts to improve financial system resilience continues. Regulators took several measures to strengthen financial intermediaries, accelerate digitalisation of the

Chart 3.9: NPS and APY Subscribers – Sector-wise



Source: Pension Fund Regulatory and Development Authority (PFRDA).

Chart 3.10: NPS and APY AUM – Sector-wise



Source: Pension Fund Regulatory and Development Authority (PFRDA).

economy, develop market segments, improve access of retail investors and protect the interests of depositors/investors. The fast-changing financial landscape is keeping regulators on the vigil to not only safeguard the financial system from shocks, but also unlock its potential to drive economic growth.