VI REGULATION, SUPERVISION AND FINANCIAL STABILITY

In an unsettling global environment following the war in Ukraine, the Indian banking system exhibited resilience with healthier balance sheets and a robust growth in flow of credit to the productive sectors of the economy. Several regulatory and supervisory measures of the Reserve Bank in line with global best practices preserved financial stability. Various measures for enhancing cyber security were undertaken during the year along with a greater focus on the usage of technology and examining the scope for use of Artificial Intelligence (AI) and Machine Learning (ML) tools for strengthening supervisory effectiveness. The Reserve Bank's advanced supervisory monitoring system (DAKSH) was launched during the year. Consistency in enforcement actions was ensured, nudging the regulated entities to comply with the extant guidelines of the Reserve Bank. With an aim to enhance the consumers' awareness of their rights and of the existence of alternate grievance redress mechanisms, a month-long intensive nation-wide public awareness programme was launched during the year.

VI.1 The financial system in India remained sound and resilient during the year, despite persisting global headwinds that impacted domestic macroeconomic and financial conditions. The chapter discusses regulatory and supervisory measures undertaken during the year to strengthen the financial system and to preserve financial stability. As part of the overall objective of aligning the regulatory/supervisory framework with global best practices, important strides in the areas of risk management, regulatory compliance and enforcement, and consumer education and protection in banks were made during the year. Accordingly, several guidelines were issued during the year, pertaining to classification of Non-Banking Financial Companies (NBFCs) in the middle layer of scale-based regulation (SBR), digital lending, large exposure framework for the upper layer NBFCs under the SBR, review of regulatory framework for Asset Reconstruction Companies (ARCs), establishment of digital banking units (DBUs), and a revised regulatory framework for UCBs. The FinTech Department launched pilots of the digital rupee in phases for wholesale and retail segments. The Department of Supervision (DoS) also initiated a host of measures to further strengthen both onsite and off-site supervision, including developing dynamic supervisory dashboards/early warning indicator model, strengthening cross-border supervisory cooperation, monitoring of large borrower groups, enhancement of cyber security and the launch of advanced supervisory monitoring system (*DAKSH*), among others.

VI.2 In other areas, Consumer Education and Protection Department (CEPD) continued its efforts during the year towards enhancing public awareness on financial literacy and frauds, using technology for strengthening customer protection and grievance redressal mechanisms, and also conducted a customer satisfaction survey on the Reserve Bank - Integrated Ombudsman Scheme (RB-IOS). The Deposit Insurance and Credit Guarantee Corporation (DICGC) launched new initiatives to strengthen the public awareness through the constitution of a Technical Advisory Committee (TAC) to guide the Corporation in its public outreach activities.

VI.3 The rest of this chapter is divided into five sections. Section 2 deals with the mandate and functions of the Financial Stability Unit (FSU). Section 3 addresses regulatory measures undertaken by the Department of Regulation

(DoR) along with activities of the FinTech Department during the year. Section 4 covers supervisory measures undertaken by the DoS and enforcement actions carried out by the Enforcement Department (EFD) during the year. Section 5 highlights the role played by CEPD and DICGC in protecting consumer interests, spreading awareness and upholding consumer confidence. These departments have also set out their agenda for 2023-24 in respective sections of this chapter. Concluding observations are set out in the last section.

2. FINANCIAL STABILITY UNIT (FSU)

VI.4 The mandate of the Financial Stability Unit (FSU) is to monitor risks to financial stability while evaluating the resilience of the financial system by undertaking macroprudential surveillance through systemic stress tests, sensitivity analysis and financial network analysis. It also functions as the secretariat to the sub-committee of the Financial Stability and Development Council (FSDC), an institutional mechanism of regulators for preserving financial stability and monitoring macroprudential regulations for the financial system. The FSU publishes the bi-annual Financial Stability Report (FSR) covering an assessment of the possible risk scenarios and their ramifications for financial stability and an early warning analysis.

Agenda for 2022-23

VI.5 The Department had set out the following goals for 2022-23:

- Implementation of the revised stress testing framework and publication of the results in FSR (*Utkarsh*) [Paragraph VI.6];
- Carrying out sensitivity analyses covering the impact of house price movements on bank capital (Paragraph VI.7);
- Conduct of macroprudential surveillance (Paragraph VI.8);
- Publication of half-yearly FSRs (Paragraph VI.9); and
- Conduct meetings of the Financial Stability and Development Council – Sub Committee (FSDC-SC) [Paragraph VI.10].

Implementation Status

VI.6 The stress testing framework for conducting multi-factor macroprudential stress tests has been revised, and results along with the revised methodology were published in the FSR of June, 2022.

VI.7 In order to assess the impact of house prices on bank capital, a sensitivity analysis of the impact of the fall in house prices on the capital of banks was carried out, and results were published in the FSR of June 2022. Also, the methodology for banking stability indicator was revised and published.

VI.8 In the FSR of December 2022, a financial system stress indicator was published to enhance macroprudential surveillance. Two rounds of the systemic risk survey were conducted to gather perceptions of experts, market participants and academicians, on major risks faced by the Indian financial system.

VI.9 Two editions of the FSR, providing the collective assessment of the Sub-Committee of the FSDC on the balance of risks to financial stability, were released during the year. The 25th issue of the FSR, brought out on June 30, 2022, highlighted the challenges emanating from the unsettling global outlook caused by the war in Ukraine, front-loaded monetary policy normalisation by central banks in response to high inflation that turned out to be non-transitory and multiple waves of the COVID-19 pandemic. The 26th edition of the

FSR was released on December 29, 2022 which highlighted concerns over intensification of macro-financial risks. Notwithstanding elevated risk off sentiments, strong macroeconomic fundamentals and healthy balance sheets provided resilience against global shocks. Improved asset quality of banks supported the revival in credit demand. The macro stress tests in both editions of the FSR reaffirmed the capability of scheduled commercial banks (SCBs) to withstand stress even under severe stress scenarios.

VI.10 During 2022-23, the FSDC-SC held one meeting. The Sub-Committee discussed major developments in the global and domestic economy as well as in various segments of the financial system. It also deliberated upon various inter-regulatory issues and reviewed the activities of technical groups under its purview and the functioning of state level coordination committees (SLCCs). The members resolved to remain vigilant and proactive to ensure that financial markets and financial institutions remain resilient amidst amplified spillovers arising from the evolving global macroeconomic situation.

Agenda for 2023-24

VI.11 In the year ahead, FSU will focus on the following:

- Peer review of stress testing framework;
- Conduct macroprudential surveillance;
- Publish half-yearly FSRs; and
- Conduct meetings of the FSDC-SC.

3. REGULATION OF FINANCIAL INTERMEDIARIES

Department of Regulation (DoR)

VI.12 The Department of Regulation (DoR) is the nodal Department for regulation of commercial banks, cooperative banks, NBFCs, Credit Information Companies (CICs) and All India Financial Institutions (AIFIs), which also aims at ensuring a healthy and competitive financial system, while promoting cost effective financial inclusion. The regulatory framework is fine-tuned as per the evolving requirements of the Indian economy while adapting to international best practices.

Agenda for 2022-23

VI.13 The Department had set out the following goals for 2022-23:

- Convergence with Basel III standards and issuance of final guidelines for computation of capital charge for credit risk, market risk, and operational risk (Paragraph VI.14);
- Issue of a discussion paper on the expected loss approach for provisioning (Paragraph VI.15);
- Issuance of guidelines on securitisation of non-performing assets (Paragraph VI.16);
- Issue of a discussion paper on climate risk and sustainable finance (Paragraph VI.17);
- Issuance of guidelines on prudential and conduct issues associated with digital lending (Paragraph VI.18);
- Issuance of guidelines on financial statements - presentation and disclosure for rural cooperative banks (Paragraph VI.19);
- Issuance of part II of the guidelines on raising capital funds for primary (urban) cooperative banks (Paragraph VI.20);
- Guidance note on principles for sound management of operational risk and principles for operational resilience (Paragraph VI.21); and

- Review of the following guidelines: (a) prudential framework for resolution of stressed assets; (b) restructuring of projects under implementation by aligning it with prudential framework; (c) investment guidelines and financial statements' formats for urban cooperative banks (UCBs); (d) dividend declaration policy of commercial banks; (e) liquidity management framework for commercial banks and UCBs; (f) capital adequacy framework for small finance banks (SFBs) and payments banks (PBs); (g) instructions on credit and debit cards; (h) instructions on inoperative accounts, centralised hosting of data on inoperative/unclaimed deposit accounts; and (i) recommendations of the Expert Committee on the primary (urban) cooperative banks and taking steps to issue regulatory instructions based on these recommendations (Paragraph VI.22).

Implementation Status

VI.14 Extensive internal and external consultations regarding convergence with Basel III standards and issuance of final guidelines for computation of capital charge for credit risk, market risk, and operational risk have been made. Draft guidelines on minimum capital requirements for operational risk and market risk under Basel III were issued on December 15, 2021 and February 17, 2023, respectively, for obtaining stakeholder comments thereon. The guidelines on minimum capital requirements for operational risk and market risk after taking into account the public comments along with draft guidelines on credit risk are being finalised.

VI.15 As announced in the Statement on Developmental and Regulatory Policies (September 30, 2022), a discussion paper (DP) on Introduction of Expected Credit Loss Framework for Provisioning by Banks was released on January 16, 2023 inviting comments from the stakeholders.

VI.16 As announced in the Statement on Developmental and Regulatory Policies (September 30, 2022), a discussion paper on Securitisation of Stressed Assets Framework was released on January 25, 2023 inviting comments from the stakeholders (Box VI.1).

Box VI.1
Securitisation of Stressed Assets

Stressed assets (or more specifically, stressed loans) are exposures classified as non-performing assets (NPA), or as special mention accounts (SMA) with incipient stress in loan accounts[1]. The classification of SMA was introduced in the stressed asset category for identification of stress in accounts which have defaulted but not yet classified as NPAs. There is a technical difference between NPAs and SMAs based on aging criterion, but in terms of principles, both categories include assets which are not performing as required by the loan agreement. Therefore, for the sake of theoretical simplicity, 'stressed assets' and 'NPAs' are used interchangeably.

Rising NPAs in an economy may have several adverse implications. First, it ties up the capital of lending institutions (*e.g.,* provisioning) and hinders the capacity for additional credit creation; second, NPAs entail significant costs in terms of foregone income, provisioning, recovery efforts, *etc.* which impact the profitability of the financial intermediaries (FIs); third, it may create 'adverse selection' issues - because financial institutions facing high NPAs may end-up targeting riskier borrowers in search of higher interest income leading to inefficient allocation of resources; lastly,

(Contd.)

1 The technical definitions of SMAs can be referred to from the Prudential Framework for Resolution of Stressed Assets (2019).

financial intermediation risk can arise because depositors may lose trust in lending institutions which have high NPAs. Therefore, putting in place necessary recognition and resolution measures for stressed assets becomes a critical policy imperative.

Thematic Measures to Deal with NPAs

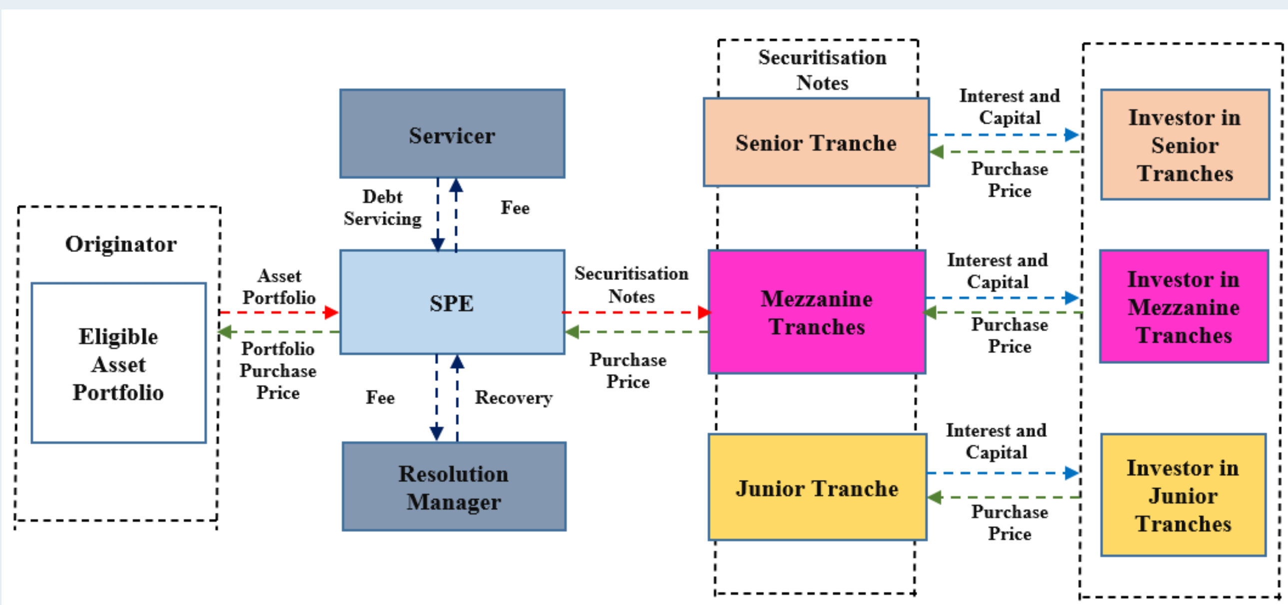
Several policy initiatives have been taken in the recent past to enable the FIs to manage stressed assets better on their balance sheets. These measures were primarily aimed at: (i) resolution of long-standing stressed assets on the books of banks; (ii) timely identification and recognition of stress immediately upon default and initiation of corrective actions for mitigation of the same; (iii) strengthening the regulatory framework for asset reconstruction companies (ARCs); and (iv) enabling market mechanisms of credit risk transfer for lending institutions to better manage their portfolios. These measures provide the necessary tools and incentives for timely and more efficient resolution of stressed assets on their balance sheets. Such measures, combined with earnest efforts of the FIs, have improved the overall credit discipline in the country but there is scope to improve it further.

Proposed Securitisation of Stressed Assets Framework

Any mechanism offered to the concerned FIs for effectively dealing with rising NPAs or stressed assets should have two important components: timeliness of the measure taken, and the capacity to unlock the full value of the concerned loan/ portfolio. Recovery in cases of NPAs is a time sensitive matter as their value erodes over time. Therefore, any mechanism which is time consuming may not be very effective in dealing with the issue of NPAs. Similarly, unlocking the true value of the NPAs may require a diverse set of potential investors with expertise in resolution, to make the acquisition bids more competitive.

Securitisation of NPAs is a financial structure whereby an originator of non-performing assets sells these to a special purpose entity (SPE) that funds such an acquisition by issuing debt securities. The SPE will in turn appoint a servicing entity that will manage the stressed assets on a daily basis, typically with a fee structure that incentivises them to maximise recoveries on the underlying loans. Based on the recovery from underlying assets, investors will then be paid, in the waterfall mechanism depending upon the seniority of the tranches[2] (Chart 1).

Chart 1: Theoretical Structure of Securitisation of NPAs



Source: Structured Finance: Techniques, Products and Market (2017).

(Contd.)

[2] Senior tranche means a tranche which is effectively backed or secured by a first claim on the entire amount of the assets in the underlying securitised pool; mezzanine tranche is sub-ordinated to the senior tranche; and junior tranche (equity tranche) has the last claim on the underlying assets (bearing the maximum risk).

Securitisation of NPAs is different from that of standard assets, as for latter the credit risk associated with the borrower is borne by the investors in securitised notes, while in the former, the assets are already in default/NPA or deemed as non-performing. They are securitised at a discount on their nominal value, reflecting market's valuation of these underlying assets after discounting portfolio losses and likelihood of resolution generating sufficient recoveries to cover the net value of non-performing exposures. Thus, the investors are exposed to the risk that the resolution exercise may not generate sufficient recoveries to cover fully the net value of transferred underlying assets.

As mentioned above, securitisation can meet both the requirements of timeliness and unlocking fair realisable value, because it envisages a diverse set of agents with different expertise (*e.g.,* servicer and resolution manager) to be a part of process ensuring a wide investors base having varying risk appetite. The involvement of resolution and recovery experts in the process may likely ensure marketability of the securitisation notes. It will also enable better distribution of credit/recovery risk in favour of agents who have the appetite and ability across the system leading to build-up of economic resilience against shocks.

Further, the Task Force on the Development of Secondary Market for Corporate Loans (Chair: Shri T. N. Manoharan) constituted by the Reserve Bank which submitted its recommendations in September 2019, had specifically recommended that securitisation of NPAs may be considered as an alternative investment route in stressed assets. Therefore, after careful deliberation, collection of extensive market feedback, and stakeholder consultations, it was decided to enable securitisation of NPAs through the proposed structure, on the lines of securitisation of standard assets. Importantly, this mechanism is not intended to replace the existing resolution methods including the ARC route, but to co-exist as an alternative, and even provide additional avenues of engagement to ARCs as potential resolution managers.

International Practices and Guidelines

Securitisation of NPAs, though relatively new to the global economy, is in use in developed economies in different forms. The Basel Committee on Banking Supervision (BCBS) on 'securitisations of non-performing loans' has introduced instructions dated November 26, 2020 on non-performing exposures (NPE) securitisation for calculation of capital and risk weights applicable to exposures to NPE securitisations, which have become effective from January 1, 2023. The European Union (EU) has also released regulation for NPE securitisation, effective April 9, 2021. Further, the Prudential Regulation Authority of the United Kingdom has issued a policy statement as part of implementation of Basel standards - non-performing loan securitisations. The proposed framework by the Reserve Bank draws upon these frameworks, suitably modified to suit the domestic context.

References:

1. Fabbri A. (2017), 'Securitisation of Non-performing Loans', in C. Stefano and S. Gatti (Eds), *Structured Finance: Techniques, Products and Market* (pp 153-207), Springer.
2. Basel Committee on Banking Supervision (2023), 'Securitisation of Non-performing Loans', CRE 45, *BIS*, Basel.
3. European Union (2021), 'Regulation (EU) 2021/557 of the European Parliament and of the Council of March of 31, 2021', *Brussels*.
4. Bank of England (2021), 'Implementation of Basel Standards: Non-Performing Loan Securitisations', *Policy Statement 24/21*, London.

VI.17 To prepare a strategy based on global best practices on mitigating the adverse impacts of climate change, a discussion paper on climate risk and sustainable finance was placed on the Reserve Bank website on July 27, 2022 for public comments and feedback. Based on analysis of the feedback received in this regard, it was announced in the Statement on Developmental and Regulatory Policies (February 8, 2023) that following guidelines for regulated entities (REs) would be issued in a phased manner: (i) broad framework for acceptance of green deposits; (ii) disclosure framework on climate-related financial risks; and (iii) guidance on climate scenario analysis and stress testing. Further, it was also announced as a part of the policy that the Reserve Bank would have a dedicated webpage on its website which would consolidate all instructions, press releases, publications, speeches and related Reserve Bank's communication on climate risk and sustainable finance.

VI.18 A press release was issued on August 10, 2022 specifying the Reserve Bank's regulatory stance on the recommendations of the Working Group on Digital Lending (WGDL).[3] This was followed by issuance of a circular on September 2, 2022 covering WGDL's recommendations accepted for immediate implementation. Further, a set of Frequently Asked Questions (FAQs) was released on February 14, 2023 clarifying certain important aspects of the aforesaid circular.

VI.19 The guidelines on presentation of financial statements and disclosures for rural cooperative banks were issued on February 20, 2023.

VI.20 A Working Group, comprising various departments of the Reserve Bank as well as representatives from the Securities and Exchange Board of India (SEBI) and the Ministry of Cooperation, has been constituted to consider and provide recommendations on issues emanating from the new provisions of the Banking Regulation (Amendment) Act, 2020 and the recommendations of the Expert Committee for UCBs thereon, such as public issue/private placement of securities and issue of shares at premium by UCBs and concomitant issues of investor protection and grievance redressal. The Working Group has held a series of meetings, including engagement with various stakeholders from the sector on the operational/practical aspects pertaining to implementation of the provisions of the Banking Regulation (Amendment) Act, 2020.

VI.21 The draft 'Guidance Note on Operational Risk Management and Operational Resilience' will be issued for public comments in due course.

VI.22 The Department has reviewed and issued guidelines in following areas: (a) Master Direction - Credit Card and Debit Card - Issuance and Conduct Directions, 2022, issued on April 21, 2022; (b) Subsequent to issue of the revised regulatory framework for UCBs (July 19, 2022), circulars on housing loans limits, net worth and capital to risk-weighted assets ratio (CRAR) requirements, categorisation of UCBs for regulatory purposes and revised norms for classification of UCBs as financially sound and well managed (FSWM) were issued. Certain other recommendations of the Expert Committee on UCBs are under examination. The review of following guidelines is in progress: (a) prudential framework for resolution of stressed assets; (b) restructuring of projects under implementation by aligning it with prudential framework; (c) investment guidelines and financial statements' formats for UCBs; (d) liquidity management framework guidelines for commercial banks and UCBs; (e) guidelines on inoperative accounts and development of a web portal for centralised search of unclaimed deposits across multiple banks; (f) framework for interest rate on advances; (g) framework for export credit; (h) dividend declaration policy of commercial banks; and (i) capital adequacy framework for small finance banks (SFBs).

Major Developments

Survey on Climate Risk and Sustainable Finance

VI.23 On July 27, 2022, the results of a survey on climate risk and sustainable finance that was undertaken in January 2022 were released. The survey covered 12 public sector banks, 16 private sector banks and six foreign banks in India. The objective of the survey was to assess the approach, level of preparedness and progress

[3] Report of the Working Group on digital lending, including lending through online platforms and mobile Apps (Chair: Shri J.K. Dash, Executive Director, RBI), was released on November 18, 2021 on the Reserve Bank's website.

made by leading scheduled commercial banks in managing climate-related financial risks.

Establishment of Digital Banking Units (DBUs)

VI.24 Based on the recommendations of the committee on establishment of digital banking units (DBUs), guidelines were issued on April 7, 2022 to all domestic SCBs (excluding regional rural banks, payments banks and local area banks). It encompasses the definitions of digital banking, DBU, digital banking products and digital banking segment and covers the infrastructure and resources required by DBUs and the products and services that could be offered by DBUs. The DBUs shall facilitate the customers in adopting digital modes/channels and create awareness on digital banking.

Regulatory Framework for Branches of Indian Banks Operating in GIFT-IFSC - Acting as Professional Clearing Member (PCM) of India International Bullion Exchange IFSC Limited (IIBX)

VI.25 The Reserve Bank has laid down the regulatory framework for the participation of Indian banks' branches in Gujarat International Finance Tec-City (GIFT) - International Financial Services Centre (IFSC) [GIFT-IFSC] to provide clearing and settlement services on IIBX. The instructions are applicable to domestic SCBs (including foreign banks operating through a wholly-owned subsidiary incorporated in India) which are authorised to deal in foreign exchange and have a branch in GIFT-IFSC.

Relaxation in the Eligibility Criteria for Offering Internet Banking Facility by Regional Rural Banks (RRBs)

VI.26 RRBs are allowed to provide internet banking (INB) facility to their customers with either view rights only or with both transaction and view rights, with the latter being subject to prior approval of the Reserve Bank. Considering the small proportion of RRBs having approval for INB with transaction facility and to promote the spread of digital banking in rural areas, instructions have been revised providing various relaxations in the financial criteria.

Updates on Reserve Bank's Financial Statements - Presentation and Disclosure Directions, 2021

VI.27 *Reporting of Reverse Repos with the Reserve Bank on the Bank's Balance Sheet:* In order to bring more clarity on the presentation of reverse repo in the balance sheet, all type of reverse repos with the Reserve Bank, including those under the liquidity adjustment facility (LAF) shall be presented under sub-item (ii) 'In Other Accounts' of item (II) 'Balances with the Reserve Bank of India' under Schedule 6 'Cash and Balances with Reserve Bank of India'.

VI.28 *Disclosure of Divergence in Asset Classification and Provisioning:* Thresholds for disclosing details of divergence in asset classification and provisioning have been revised for all commercial banks as under: (i) for additional gross NPAs, if it exceeds five per cent of the reported incremental NPAs for the reference period; and (ii) for additional provisioning for NPAs, if it is five per cent of the reported profit before provisions and contingencies for the reference period. Also, disclosure requirements for UCBs for the divergence have also been made applicable for the annual financial statements for the year ending March 31, 2024 and onwards.

VI.29 *Disclosure of Material Items:* In order to ensure greater transparency, banks shall also disclose the particulars of all such items in the notes to accounts wherever any item under the Schedule 5(IV) - Other Liabilities and Provisions – 'Others (including provisions)' or Schedule 11(VI)-Other Assets – 'Others' exceeds one per cent of the total assets. Further, payments banks shall also disclose particulars of all such items in the notes to accounts, wherever any item under the Schedule 14(I) - Other Income – 'Commission, Exchange and Brokerage' exceeds one per cent of the total income.

Review of Statutory Liquidity Ratio (SLR) Holdings in Held-to-Maturity (HTM) Category

VI.30 With the onset of COVID-19 pandemic, banks were allowed to exceed the ceiling for SLR securities in HTM category from 19.5 per cent of net demand and time liabilities (NDTL), up to an overall limit of 22 per cent of NDTL, in respect of SLR securities acquired between September 1, 2020 and March 31, 2022. The banks have since been allowed to include SLR securities acquired between September 1, 2020 and March 31, 2024 under HTM within the enhanced overall limit of 23 per cent of NDTL.

Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines

VI.31 Regulated Entities (REs) have been allowed to compute their counterparty credit risk on net basis under the bilateral netting framework for qualified financial contracts [over the counter (OTC) derivatives and repo contracts]. Consequently, based on references received, it was clarified that (i) the exemption for foreign exchange (except gold) contracts which have an original maturity of 14 calendar days or less from capital requirements in *lieu* of counterparty credit risk shall henceforth be applicable only to RRBs, local area banks (LABs) and cooperative banks, where the bank has not adopted the bilateral netting framework; (ii) sold options can be exempted provided they are outside the netting and margin agreements; and (iii) the exposure of a credit default swap (CDS) seller to its buyer may be capped at the amount of premium unpaid, provided the CDS are outside the legal netting and margin agreements.

Reserve Bank of India Unhedged Foreign Currency Exposure (UFCE) Directions, 2022

VI.32 A review of the extant guidelines on the subject was undertaken and all the existing instructions on the subject (starting October 1999), including the revisions/clarifications, were consolidated in the directions. Some of the key changes to provide clarity/reduce compliance burden, *inter alia,* encompassed exclusion of 'factoring transactions' from UFCE for certain entities; and raising of threshold for smaller entities based on total exposure from banking system to ₹50 crore (up from ₹25 crore). For such smaller entities having foreign currency exposure, banks would not be required to periodically obtain hedging information. An explanatory note providing the background for these directions was also issued.

Maintenance of Statutory Liquidity Ratio (SLR) - Section 24 and Section 56 of the Banking Regulation Act, 1949

VI.33 In 2018, the amended Section 17 of the Reserve Bank of India (RBI) Act empowered the Reserve Bank to introduce the standing deposit facility (SDF) - an additional tool for absorbing liquidity without any collateral. It has been decided that the balances held by banks with the Reserve Bank under the SDF are an eligible statutory liquidity ratio (SLR) asset.

Exemption from Maintenance of Cash Reserve Ratio (CRR)/SLR- Foreign Currency Non-Resident [(FCNR(B)/Non-Resident External (NRE)] Term Deposits - Section 42 of the Reserve Bank of India Act, 1934 and Section 18 and 24 of the Banking Regulation Act, 1949

VI.34 As a part of the foreign exchange market measures announced on July 6, 2022, banks were advised that with effect from the reporting fortnight beginning July 30, 2022, incremental FCNR (B) deposits as also NRE term deposits with reference to base date of July 1, 2022, mobilised by banks till November 4, 2022 will be exempted from maintenance of CRR and SLR. The exemption on reserves maintenance will be available for the original deposit amounts till such time the deposits are held in the bank books. As a result of this, there was a marginal net increase in percentage terms (approximately 2 per cent) in FCNR(B) and NRE term deposits mobilised by scheduled commercial banks (SCBs) as on November 4, 2022 *vis-à-vis* July 1, 2022. Further, the interest rate ceiling applicable to FCNR(B) deposits, was temporarily withdrawn for incremental FCNR(B) deposits mobilised by banks. The extant restriction with respect to interest rates offered on incremental NRE deposits mobilised by banks was also temporarily withdrawn. The above concessions were granted with effect from July 7, 2022 until October 31, 2022.

Discussion Paper on Introduction of Expected Credit Loss Framework for Provisioning by Banks Released

VI.35 In line with the announcement made in the Statement on Developmental and Regulatory Policies (September 30, 2022), a discussion paper on Introduction of Expected Credit Loss Framework for Provisioning by banks was released on January 16, 2023, for stakeholders' comments. The proposed approach is to formulate principle-based guidelines supplemented by regulatory backstops, wherever necessary. The key requirement under the proposed framework shall be for the banks to classify financial assets into one of the three categories - stage 1, stage 2, and stage 3, depending upon the assessed credit losses on them, at the time of initial recognition as well as on each subsequent reporting date and to make necessary provisions. Further, RRBs and smaller cooperative banks (threshold to be decided based on comments) are proposed to be kept out of the above framework.

Circular on Board approved Loan Policy - Management of Advances - UCBs

VI.36 In order to ensure that the loan policies of UCBs have a comprehensive coverage, are in alignment with the extant regulations and reflect their approved internal risk appetite, UCBs were advised[4] that the loan policy of the bank shall be reviewed by their Board at least once in a financial year.

Revised Regulatory Framework - Categorisation of UCBs for Regulatory Purposes

VI.37 Based on the recommendations of the Expert Committee on UCBs (Chairman: Shri N. S. Vishwanathan, Former Deputy Governor, RBI), it was decided to adopt a 4-tiered regulatory framework, with the categorisation of UCBs, based on their deposit size for differentiated regulatory prescriptions aimed at strengthening the financial soundness of the UCBs. Accordingly, under the revised regulatory framework for UCBs, which was issued on July 19, 2022, UCBs have been categorised into the following four tiers for regulatory purposes: (a) Tier 1 - All unit UCBs and salary earners' UCBs (irrespective of deposit size) and all other UCBs having deposits up to ₹100 crore; (b) Tier 2 - UCBs with deposits more than ₹100 crore and up to ₹1,000 crore; (c) Tier 3 - UCBs with deposits more than ₹1,000 crore and up to ₹10,000 crore; and (d) Tier 4 - UCBs with deposits more than ₹10,000 crore.

[4] Notification on 'Board Approved Loan Policy - Management of Advances - UCBs' was released on the Reserve Bank's website on July 26, 2022.

Individual Housing Loans - Enhancement in Limits for UCBs and RCBs

VI.38 Considering the increase in housing prices and consumer needs, the limits on housing loans sanctioned by primary (urban) cooperative banks [UCBs] and rural cooperative banks (RCBs), *viz.*, state cooperative banks (StCBs) and district central cooperative banks (DCCBs), for individual borrowers were enhanced.[5] The limits per individual borrower were increased to ₹50 lakh (earlier ₹20 lakh) for RCBs with assessed net worth less than ₹100 crore; and ₹75 lakh (earlier ₹30 lakh) for other RCBs. The limits for tier I and tier II UCBs were placed at ₹60 lakh (earlier ₹30 lakh) and ₹140 lakh (earlier ₹70 lakh) per individual borrower, respectively, subject to extant prudential exposure limits. As recommended by the Expert Committee on UCBs, a four-tiered regulatory framework was adopted for categorisation of UCBs, which was notified *vide* circular dated December 1, 2022. Consequently, the limits on housing loans sanctioned by UCBs to an individual borrower were reclassified[6] as ₹60 lakh for tier-1 UCBs and ₹140 lakh for UCBs categorised in tiers 2 to 4.

Permission to Rural Cooperative Banks (StCBs/ DCCBs) to lend to Commercial Real Estate - Residential Housing (CRE-RH)

VI.39 Rural cooperative banks (RCBs), *viz.*, StCBs and DCCBs were not allowed to finance commercial real estate (CRE). However, considering the growing need for affordable housing and to realise their potential in providing credit facilities to the housing sector, RCBs were permitted[7] to extend finance to Commercial Real Estate - Residential Housing (CRE-RH) sector within the existing aggregate housing finance limit of five per cent of their total assets as per their board-approved policy, with periodic performance monitoring.

Circular on Housing Finance – Loans for Repairs/ Additions/Alterations - Enhancement of Limits for UCBs

VI.40 The ceiling on loans extended by UCBs to individuals for carrying out repairs/additions/ alterations to their dwelling units was revised[8] upwards to ₹10 lakh in metropolitan centres (those centres with population of 10 lakh and above) and ₹6 lakh in other centres, in alignment with the limits prescribed under the priority sector guidelines.

Issue and Regulation of Share Capital and Securities of Rural Cooperative Banks (RCBs)

VI.41 The instructions applicable for RCBs on issue and regulation of capital funds were reviewed by the Reserve Bank *vide* circular dated April 19, 2022 to ensure congruity with the provisions of the Banking Regulation (Amendment) Act, 2020. The revised guidelines prescribe terms for issuance of capital instruments as well as conditions for withdrawal of share capital for RCBs, and also permit them to raise capital by issuance of preference shares.

5 A circular for UCBs on 'Individual Housing Loans - Enhancement' and a circular for RCBs on 'Enhancement in Individual Housing Loan Limits and Credit to Commercial Real Estate - Residential Housing (CRE-RH)' were released on the Reserve Bank's website on June 8, 2022.

6 Circular on 'Individual Housing Loans - Revised Limits under Four-tiered Regulatory Framework' was released on the Reserve Bank's website on December 30, 2022.

7 Circular on 'Enhancement in Individual Housing Loan Limits and Credit to Commercial Real Estate - Residential Housing (CRE-RH)' was released on the Reserve Bank's website on June 8, 2022.

8 Circular on 'Housing Finance - Loans for Repairs/Additions/Alterations - Enhancement of Limits' was released on the Reserve Bank's website on May 24, 2022.

Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy

VI.42 A circular dated December 1, 2022 was issued on ‘Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy’. As indicated therein, a minimum net worth stipulation of ₹2 crore for Tier-1 UCBs operating in a single district and ₹5 crore for all other UCBs has been prescribed. Further, the minimum CRAR requirement for Tier-1 banks has been retained at the present prescription of 9 per cent, while for Tier-2 to 4 UCBs, the CRAR requirement has been revised to 12 per cent. UCBs which do not meet the revised net worth and/or the CRAR requirement, have been provided a suitable glide path, with stipulation of an intermediate target as well. Further, revaluation reserves have now been allowed to be reckoned as Tier-I capital, subject to terms and conditions.

Punjab and Maharashtra Cooperative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022 - Provisioning on Interbank Exposure and Valuation of Perpetual Non-Cumulative Preference Shares (PNCPS) and Equity Warrants

VI.43 The provisioning requirement for UCBs’ investment in perpetual non-cumulative preference shares (PNCPS) and equity warrants, resulting from Punjab and Maharashtra Cooperative Bank Limited (Amalgamation with Unity Small Finance Bank Limited) Scheme, 2022 was clarified. Accordingly, UCBs, were allowed to spread the resulting provisions equally over two financial years. Further, investment in PNCPS and equity warrants were exempted from the prudential limits applicable on investment in non-SLR securities.

Doorstep Banking Services by UCBs

VI.44 In order to attain harmonisation of regulatory framework across REs and to provide convenience of banking services to the customers at their doorstep, UCBs which satisfy ‘Financially Sound and Well Managed (FSWM)’ criteria have been permitted to provide doorstep banking services to their customers without seeking prior approval of the Reserve Bank *vide* circular dated June 8, 2022. However, non-FSWM UCBs would have to seek prior approval of the Reserve Bank to provide doorstep banking services.

Opening of New Place of Business by DCCBs

VI.45 Pursuant to the amendment to the Banking Regulation Act on September 29, 2020, DCCBs are permitted to open new place of business, install automated teller machines (ATMs), or shift the location of such offices only after obtaining prior approval of the Reserve Bank. Accordingly, a circular dated August 11, 2022 was issued for opening new place of business or installation of ATMs, prescribing criteria and procedure for submission of application by DCCBs. DCCBs satisfying the criteria are allowed to open a new place of business with prior approval of the Reserve Bank. DCCBs are also allowed to install off-site/mobile ATMs, without prior permission from the Reserve Bank, subject to satisfying the criteria, which should be reported to the Reserve Bank immediately after operationalisation of the off-site/mobile ATMs.

Review of Norms for Classification of UCBs as Financially Sound and Well Managed (FSWM)

VI.46 Pursuant to the revised regulatory framework for UCBs released by the Reserve Bank based on the recommendation of the Expert Committee, a circular on revised norms for classification of UCBs as FSWM was issued on December 1, 2022 as per which such UCBs, *inter alia,* are required to maintain one per cent higher CRAR than the minimum CRAR required to be maintained by them as on the reference date. Further, the UCBs are now permitted to classify themselves as FSWM based on this revised FSWM criteria on the basis of assessed financials and findings of the Reserve Bank inspection report or audited financial statements, whichever is latest.

Scale-Based Regulation for Non-Banking Financial Companies (NBFCs)

VI.47 An integrated and scale-based regulatory framework for NBFCs was issued on October 22, 2021 in terms of which NBFCs categorised in the upper layer (NBFC-UL) are required to, *inter alia,* maintain common equity Tier-I (CET-1) capital of at least 9 per cent of risk weighted assets (RWA). As a follow-up to framework provisions, guidelines providing detailed instructions on components of, as well as regulatory adjustments from, CET-1 capital, applicable to all NBFC-UL (except core investment companies), were issued on April 19, 2022.

Identification of NBFCs in the Upper Layer

VI.48 Considering the evolution of NBFCs in terms of size, complexity, and interconnectedness within the financial sector, the Reserve Bank had put in place a scale-based regulation for NBFCs in October 2021 to align the regulations for NBFCs with their changing risk profile. This framework categorises NBFCs in base layer (NBFC-BL), middle layer (NBFC-ML), upper layer (NBFC-UL) and top layer (NBFC-TL) and states that the upper layer shall comprise those NBFCs which are specifically identified by the Reserve Bank based on a set of parameters and scoring methodology as provided in the framework and envisaged that the top ten NBFCs in terms of their asset size shall always reside in the upper layer. For this purpose, a list of 16 NBFCs-UL, identified as per methodology specified in scale-based regulation for NBFCs, was released on September 30, 2022.

Circular on Multiple NBFCs in a Group-Classification in Middle Layer under Scale-Based Regulation

VI.49 As per the instructions contained in Master Direction on Systemically Important Non-Deposit Taking NBFCs (NBFC-ND-SI), if the consolidated asset size of all NBFCs within the same group was ₹500 crore and above, all non-deposit taking NBFCs in the group were categorised as NBFC-ND-SI, irrespective of their individual asset sizes. On similar lines, under the scale-based regulatory (SBR) framework (applicable from October 1, 2022), it was advised[9] that total assets of all the NBFCs in a 'Group' shall be consolidated to determine the threshold for classification of NBFCs in the Middle Layer. This threshold currently stands at ₹1,000 crore as per the SBR Framework.

Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL)

VI.50 Large Exposures Framework (LEF) for NBFCs in the Upper Layer was introduced[10] as part of the scale-based regulation for NBFCs. A summary of the LEF prescribed for NBFC-UL is given in Table VI.1.

[9] Circular on 'Multiple NBFCs in a Group: Classification in Middle Layer' was released on the Reserve Bank's website on October 11, 2022.

[10] Circular on 'Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL)' was released on the Reserve Bank's website on April 19, 2022.

Table VI.1 Large Exposure Framework for NBFC - Upper Layer

Sum of All Exposure Value to	Large Exposure Limit as per cent of Eligible Capital Base	
	Other than Infrastructure Finance Companies	Infrastructure Finance Companies
1	2	3
Single Counterparty	• 20 per cent. • Additional 5 per cent with Board approval. • Additional 5 per cent if exposure towards infrastructure loan/ investment (single counterparty limit shall not exceed 25 per cent in any case).	• 25 per cent. • Additional 5 per cent with Board approval.
Group of Connected Counterparties	• 25 per cent. • Additional 10 per cent if exposure towards infrastructure loan/ investment.	• 35 per cent.

Source: RBI.

Instructions on Loans and Advances – Regulatory Restrictions – NBFCs

VI.51 To improve governance in NBFCs in the middle and upper layers, instructions were issued[11] authorising the Board of NBFC/ Committee of Directors to sanction loans aggregating ₹5 crore and above to directors, their relatives, and associated entities. Loans to senior officers are required to be reported to the Board. For NBFCs in the base layer, it has been mandated that they shall have a Board approved policy for granting such loans. In respect of loans to real estate sector, the regulations of NBFCs in the middle and upper layers have been harmonised with those applicable to banks, and it has been mandated that NBFCs must ensure that the borrowers have obtained necessary prior permission from government/local government/ other statutory authorities for the project, wherever required.

Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs dated April 29, 2022

VI.52 On April 29, 2022, the Reserve Bank issued a set of principles for fixing compensation of key managerial personnel (KMP) and senior management of NBFCs. As per the guidelines, NBFCs are required to constitute a nomination and remuneration committee (NRC), which will be responsible for framing, reviewing and implementing the compensation policy. The guidelines, *inter alia,* prescribe that the compensation package comprising fixed and variable pay may be adjusted for all types of risks. A certain portion of variable pay may have a deferral arrangement and the deferral pay may be subjected to malus/clawback arrangement.

Voluntary Surrender of Certificate of Registration (CoR) by NBFCs

VI.53 In order to streamline the process of voluntary cancellation of CoR of NBFCs [including housing finance companies (HFCs)], a press release along with the application form and checklist of indicative documents was issued on the Reserve Bank's website on December 1, 2022 to spread awareness amongst NBFCs/ HFCs desirous of surrendering CoR voluntarily. The concerned NBFCs can now approach the regional office of the Reserve Bank under whose jurisdiction the NBFC is registered with the duly filled application form and requisite documents for voluntary cancellation while the HFCs can furnish

[11] Circular on 'Loans and Advances - Regulatory Restrictions - NBFCs' was released on the Reserve Bank's website on April 19, 2022.

the application along with documents through the National Housing Bank, New Delhi.

Disclosures in Financial Statements - Notes to Accounts of NBFCs

VI.54 After the introduction of scale-based regulation framework for NBFCs, instructions were issued on specific disclosure requirements to specific NBFC layers on areas like exposure (capital market, sectoral and real estate), related party transactions, complaints, divergence in asset classification and provisioning, corporate governance, *etc.* Also, disclosure requirements applicable to lower layers of NBFCs will be applicable to NBFCs in higher layers.

Guidelines on Digital Lending

VI.55 In order to address concerns arising out of unbridled engagement of third parties, mis-selling, breach of data privacy, unfair business conduct, charging of exorbitant interest rates, and unethical recovery practices, the 'guidelines on digital lending' were issued on September 2, 2022. The guidelines are based on the principle that lending business can be carried out only by entities that are either regulated by the Reserve Bank or are permitted to do so under any other law. The guidelines aim to make the lending process transparent and fair by, *inter alia*, (i) mandating flow of funds between lenders and borrowers only through their bank accounts without any pass-through account/pool account of any third party; (ii) ensuring that lending service providers do not collect any fee/charges directly from the customer; (iii) transparent disclosure of the key facts of the borrowing arrangement, including the all-inclusive cost to a borrower; (iv) ensuring need-based collection of data with audit trails backed by explicit customer consent; and (v) putting in place an appropriate privacy policy with regard to customer data.

Extension of Guidelines on Legal Entity Identifier (LEI) for Borrowers of NBFCs and UCBs

VI.56 The LEI guidelines were extended[12] to UCBs and NBFCs. Further, the threshold above which all non-individual borrowers were required to obtain LEI was reduced from ₹50 crore to ₹5 crore. Accordingly, all non-individual borrowers of scheduled commercial banks (SCBs), All India Financial Institutions (AIFIs), local area banks (LABs), small finance banks (SFBs), UCBs and NBFCs (including HFCs) having total exposure of ₹5 crore and above are now mandated to obtain LEI in a phased manner.

Issuance of Consolidated Circular on Opening of Current Accounts and Cash Credit (CC)/Overdraft (OD) Accounts by Banks

VI.57 To enforce credit discipline amongst the borrowers and to facilitate better monitoring by the lenders, a circular dated August 6, 2020 was issued on 'opening of current accounts by banks - need for discipline'. Considering the feedback received from various stakeholders, subsequent circulars on the subject were issued on November 2, 2020; December 14, 2020; August 4, 2021 and October 29, 2021. To provide clarity on the instructions and put all instructions in one place, a self-contained circular on the subject consolidating all the extant instructions was issued.[13]

[12] Notification on 'Legal Entity Identifier (LEI) for Borrowers' was released on the Reserve Bank's website on April 21, 2022.

[13] Consolidated circular on 'Opening of Current Accounts and CC/OD Accounts by Banks' was released on the Reserve Bank's website on April 19, 2022.

Review of Limit of Total Carve out of Government Securities under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) for Liquidity Coverage Ratio (LCR)

VI.58 Due to the reduction in permissible drawdown under the marginal standing facility (MSF) from 3 per cent to 2 per cent of net demand and time liabilities (NDTL), banks were permitted to reckon government securities as level-1 high quality liquid assets (HQLA) under FALLCR within the mandatory statutory liquidity ratio (SLR) requirement up to 16 per cent of their NDTL from existing limit of 15 per cent so as to maintain the total HQLA carve out from the mandatory SLR for meeting LCR requirement at 18 per cent of NDTL (2 per cent MSF and 16 per cent FALLCR).

Treatment of Overnight Deposit of Banks with Reserve Bank under Standing Deposit Facility (SDF) for LCR

VI.59 SDF was operationalised in April 2022 as per which eligible participants can place deposits with the Reserve Bank on an overnight basis and such balances are reckoned as an eligible asset for computation of SLR. It was clarified that the overnight balances held by banks with the Reserve Bank under SDF shall be eligible as level-1 HQLA for computation of LCR.

Outsourcing of Financial Services - Responsibilities of Regulated Entities (REs) Employing Recovery Agents

VI.60 The Reserve Bank has been addressing the issues relating to recovery agents (RAs) engaged by the regulated entities (REs). Given the growing incidence of unacceptable practices followed by RAs, the Reserve Bank issued additional instructions to REs, *inter alia,* extending the scope of the guidelines to cover more REs and specifying permissible hours of calling borrowers (not before 8:00 A.M. and after 7:00 P.M.) for recovery of overdue loans. The REs were also advised to strictly ensure that they or their RAs do not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude upon the privacy of the debtors' family members, referees and friends, sending inappropriate messages either on mobile or through social media. These instructions were made applicable to all commercial banks (excluding payments banks), AIFIs, NBFCs, UCBs, StCBs, DCCBs, and ARCs. However, these instructions are not applicable to micro-finance loans covered under 'Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022' released on March 14, 2022.

Review of the Regulatory Framework for Asset Reconstruction Companies (ARCs)

VI.61 Against the backdrop of a significant build-up of non-performing assets (NPAs) in the financial system and concerns over the performance of ARCs, an external committee was set up by the Reserve Bank to review, *inter alia*, the existing legal and regulatory framework applicable to ARCs and recommend measures to enhance their efficacy. Based on the committee's recommendations and feedback from the stakeholders, extant regulatory framework for ARCs has been reviewed *vide* circular dated October 11, 2022. The revised guidelines are intended to enable ARCs to play a more meaningful role in resolution of stressed assets by addressing some of the structural issues in the ARC sector. The measures introduced in the revised regulatory framework for ARCs are broadly driven by the following objectives: (i) introducing a comprehensive corporate governance framework for ARCs, thus strengthening their prudent functioning, (ii) enhancing the transparency of ARCs, thus making them more attractive to investors, (iii) strengthening the prudential guidelines for ARCs, thus improving their financial soundness, and (iv) furthering their role in resolution of stressed assets by way of suitable regulatory enablement.

Diversification of Activities by Standalone Primary Dealers (SPDs)

VI.62 With a view to strengthening the role of SPDs as market makers at par with banks operating as primary dealers, SPDs have been permitted to offer all foreign exchange market-making facilities as currently permitted to category-I authorised dealers *vide* instructions dated October 11, 2022. This would provide a broader spectrum of market-makers to forex customers for managing their currency risk and the wider market presence would improve the ability of SPDs to provide support to their primary dealer activities.

Inclusion of Goods and Services Tax Network (GSTN) as a Financial Information Provider (FIP) under Account Aggregator (AA) Framework

VI.63 With a view to facilitating cash flow-based lending to MSMEs, GSTN has been included as an FIP under the AA framework *vide* circular dated November 23, 2022. The Department of Revenue, Government of India, shall be the regulator of GSTN for this specific purpose and two GST returns (GSTR), *viz.,* form GSTR-1 and form GSTR-3B, have been included as financial information.

Revised Regulatory Framework for Issuance and Conduct of Credit Cards and Debit Cards

VI.64 Master Circular on credit card, debit card and rupee denominated co-branded and pre-paid card operations of banks and credit card issuing NBFCs dated July 1, 2015 consolidated the instructions on credit card, debit card and rupee denominated co-branded prepaid cards. These instructions have been updated and issued in the form of Master Direction - Credit Card and Debit Card - Issuance and Conduct. The Reserve Bank has made an endeavour to strengthen the areas that needed attention, *viz.*, issuance of unsolicited cards, closure of a credit card account, introduction of credit cards for business purposes, billing issues, adjustment of credit transactions, new form factors, issues relating to co-branded arrangement and mis-selling. Many of these aspects were being flagged in complaints, RTI queries, media reports, suggestions from public and consumer body representations.

Operations of Subsidiaries and Branches of Indian Banks and All India Financial Institutions in Foreign Jurisdictions and in International Financial Services Centres (IFSCs) - Compliance with Statutory/Regulatory Norms

VI.65 A framework has been put in place for Indian banks/AIFIs dealing in financial derivatives, including structured derivative products, through their branches/subsidiaries operating in foreign jurisdictions and in International Financial Services Centres (IFSCs).

Claims Received from the National Credit Guarantee Trustee Company Limited (NCGTC) - Classification for the Purpose of Maintenance of CRR/SLR

VI.66 The claims received, in the event of invocation of guarantee from the National Credit Guarantee Trustee Company Limited (NCGTC) on account of any relative credit extended by a bank, held pending adjustment, is reckoned as 'liability' for the computation of NDTL for CRR/SLR. It has been decided that the amounts received by a bank from the NCGTC towards claims in respect of guarantees invoked and held by them pending adjustment of the same towards the relative advances, need not be treated as outside liabilities for the purpose of computation of NDTL for CRR and SLR.

Master Direction – Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023

VI.67 A Press Release was published on November 26, 2021 communicating the acceptance of 21 of (some with partial modifications, where considered necessary) 33 recommendations made by an Internal Working Group (IWG) to review the extant guidelines on ownership and corporate structure for Indian private sector banks along with notification that the consequential amendments in instructions/ circulars/ master directions/ licensing guidelines will follow in due course. Accordingly, on January 16, 2023 a Master Direction (MD) and Guidelines for major shareholders (Acquisition and Holding of Shares or Voting Rights in Banking Companies) were issued consolidating three Master Directions (MDs)[14] pertaining to shareholding and voting rights in banking companies. The major changes made in the MD/Guidelines, *inter alia*, include updates in the limits on permissible shareholding by different categories of shareholders, introduction of reporting requirements for encumbrance of shares by promoter, and strengthening of arrangements for continuous monitoring of the 'fit & proper' status of major shareholder of a banking company.

Discussion Paper on Securitisation of Stressed Assets Framework (SSAF)

VI.68 As a part of the Statement on Developmental and Regulatory Policies (September 30, 2022), the Reserve Bank had proposed to introduce a framework for securitisation of stressed assets in addition to the ARC route. Accordingly, a discussion paper (DP) on securitisation of stressed assets framework (SSAF) was released on January 25, 2023, inviting comments from stakeholders. The DP broadly covers nine relevant areas of the framework including asset universe, asset eligibility, minimum risk retention, regulatory framework for special purpose entity and resolution manager, access to finance for resolution manager, capital treatment, due diligence, credit enhancement and valuation. It draws upon similar frameworks introduced in other jurisdictions, while trying to keep it structurally aligned with the framework for securitisation of standard assets.

Circular on Governance, Measurement and Management of Interest Rate Risk in Banking Book

VI.69 Interest rate risk in banking book (IRRBB) refers to the current or prospective risk to banks' capital and earnings arising from adverse movements in interest rates that affect the banks' banking book positions. Excessive IRRBB can pose a significant risk to banks' current capital base and/or future earnings. Accordingly, final guidelines on IRRBB, in alignment with the revised framework of BCBS were issued on February 17, 2023 to enable the banks to measure, monitor and disclose their exposure to IRRBB. The date for implementation would be decided in due course.

[14] (i) MD on 'Prior Approval for Acquisition of Shares or Voting Rights in Private Sector Banks' dated November 19, 2015; (ii) MD on 'Issue and Pricing of Shares by Private Sector Banks' dated April 21, 2016; and (iii) MD on 'Ownership in Private Sector Banks' dated May 12, 2016.

Draft Guidelines on Minimum Capital Requirements for Market Risk – under Basel III

VI.70 As part of convergence of the Reserve Bank's regulations for banks with Basel III standards, the draft guidelines on minimum capital requirements for market risk - Basel III were issued on February 17, 2023, for public comments. The guidelines shall be applicable to all commercial banks (excluding local area banks, payments banks, regional rural banks and small finance banks) and shall come into effect from April 1, 2024.

Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 (Master Direction) - Applicability to State and Central Cooperative Banks

VI.71 The Master Direction (MD) was earlier applicable to all commercial banks and Primary (Urban) cooperative banks, which, *inter alia*, harmonised disclosure related instructions for the annual financial statements across banking sector. In consultation with the National Bank for Agriculture and Rural Development (NABARD), the MD was updated making it applicable to state and central cooperative banks, *mutatis mutandis*. Some disclosure requirements of the Master Direction, as stated in Annex III A of the said Direction shall be applicable to state and central cooperative banks, from the financial year ending March 31, 2024.

Implementation of Indian Accounting Standards (Ind AS)

VI.72 To address the prudential concerns related to continued recognition of unrealised management fees even though the said fee had not been realised for more than 180 days, Ind AS implementing ARCs, shall reduce following amount from the net owned funds for calculation of capital adequacy ratio and amount available for dividend: (a) management fee recognised during the planning period that remains unrealised beyond 180 days from the date of expiry of the planning period, (b) management fee recognised after the expiry of the planning period that remains unrealised beyond 180 days of such recognition, and (c) any unrealised management fees, notwithstanding the period for which it has remained unrealised, where the net asset value of the security receipts has fallen below 50 per cent of the face value. ARCs shall also disclose information related to ageing of unrealised management fees in the prescribed format in their notes to accounts.

Agenda for 2023-24

VI.73 During 2023-24, the Department will focus on the following key deliverables:

- Comprehensive review of instructions on statutory and other restrictions in credit management (*Utkarsh* 2.0);
- Review of miscellaneous non-banking companies (MNBCs) regulations (*Utkarsh* 2.0);
- Recognition of self-regulatory organisations (SROs) for NBFCs;
- Review of liquidity management framework of UCBs (*Utkarsh* 2.0);
- Issue of harmonised regulations on 'Income Recognition, Asset Classification and Provisioning Pertaining to Advances' to regulated entities (*Utkarsh* 2.0);
- Comprehensive review of all non-fund based contingent facilities issued by lending institutions (*Utkarsh* 2.0);

- Review of policy on conduct of activities by banks and NBFCs;
- Review of regulation on agency business and referral service;
- Comprehensive review of guidelines on area of operations of UCBs;
- Review of instructions on various regulatory approvals of UCBs; and
- Regulatory initiatives on climate risk and sustainable finance.

FinTech Department

VI.74 The FinTech Department, set up on January 4, 2022, is entrusted with the responsibility to give a further boost to the FinTech sector by fostering innovation, while remaining vigilant and addressing the risks associated with the FinTech ecosystem under the adequacy framework.

VI.75 The Department undertook several measures in pursuance of this mandate to fulfil the objectives set out for 2022-23.

Agenda for 2022-23

VI.76 The Department had set out the following goals for 2022-23:

- Phased introduction of Central Bank Digital Currency (CBDC) [*Utkarsh*] (Paragraph VI.77-VI.80);
- Implementation of the roadmap laid down by 'Vision and Strategy Document on FinTech (*Utkarsh*), and policy framework for FinTechs and BigTechs (Paragraph VI.81);
- Facilitating setting up of 75 digital banking units in 75 districts of the country (Paragraph VI.82); and
- Ensuring execution of key projects of importance through the Reserve Bank Innovation Hub (Paragraph VI.83).

Implementation Status

Phased Introduction of CBDC

VI.77 During the year, the Reserve Bank issued a 'Concept Note' on CBDC to create awareness about CBDCs in general and the planned features of the Digital Rupee (e₹), in particular. It explained the objectives, choices, and benefits of issuing a CBDC in India. The concept note also sought to explain the Reserve Bank's approach towards introduction of the CBDC. Subsequently, the Reserve Bank launched pilots of e₹ for specific use cases.

VI.78 The first pilot in the Digital Rupee - Wholesale Segment (e₹-W) commenced on November 1, 2022. The use case for this pilot is settlement of secondary market transactions in government securities (G-secs). Use of e₹-W is expected to make the inter-bank market more efficient. Settlement in central bank money would reduce transaction costs by pre-empting the need for settlement guarantee infrastructure or for collateral to mitigate settlement risk. Nine banks (*viz.*, State Bank of India, Bank of Baroda, Union Bank of India, HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Yes Bank, IDFC First Bank and HSBC) are participating in the pilot.

VI.79 The first pilot for Retail Digital Rupee (e₹-R) was announced on December 1, 2022. e₹-R offers features of physical cash like trust, safety and settlement finality in digital mode. It can be held or used to carry out transactions, similar to the manner in which currency notes can be used in physical form. The pilot was launched in Mumbai, New Delhi, Bengaluru and Bhubaneswar, comprising participating customers and merchants in a closed user group (CUG). Other locations including Ahmedabad, Chandigarh, Gangtok, Guwahati, Hyderabad, Indore, Kochi, Lucknow, Patna and Shimla are also being added to the pilot in phases. The pilot began with four banks (*viz.,* State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank) while four other banks (*viz.,* Bank of Baroda, Union Bank of India, HDFC Bank and Kotak Mahindra Bank) have joined subsequently. Five more banks (*viz.,* Punjab National Bank, Canara Bank, Federal Bank, Axis Bank and IndusInd Bank) are in the process of joining the pilot. The scope of pilot is being expanded gradually to include more banks, users and locations as needed.

VI.80 The results of both the pilots so far have been satisfactory and in line with expectations.

Implementation of the Roadmap Laid Down by 'Vision and Strategy Document on FinTech and Policy Framework for FinTechs and BigTechs

VI.81 A working group (WG) has been constituted, under the Chairmanship of Executive Director, in charge of the FinTech Department to formulate a framework for the sustainable development of FinTech sector including BigTechs. The WG comprises representatives from various internal departments, *viz*., Department of Economic and Policy Research (DEPR), FinTech Department, Department of Regulation (DoR), Department of Supervision (DoS), Financial Inclusion and Development Department (FIDD) and Department of Payment and Settlement Systems (DPSS) along with representations from the FinTech Industry, a legal firm, and Reserve Bank Innovation Hub (RBIH). The WG has been engaging with various stakeholders of the FinTech eco-system, which includes banks and FinTechs/ BigTechs. The WG is in the process of finalising its recommendations which, *inter alia,* will include vision and strategy for the development of FinTech ecosystem in India and a framework for FinTechs and BigTechs.

Establishment of Digital Banking Units (DBUs)

VI.82 The Hon'ble Finance Minister in her budget speech on February 1, 2022 announced the setting up of the 75 Digital Banking Units (DBUs) in 75 districts of the country to commemorate the 75 years of independence of the country (*Azadi Ka Amrit Mahotsav*). These 75 DBUs have been dedicated to the service of the nation by the Hon'ble Prime Minister on October 16, 2022. At present, 84 DBUs are in operation in various parts of the country. However, banks are free to set up DBUs in accordance with regulatory guidance and policy. The DBUs enable customers to have cost effective/convenient access and enhanced digital experience to/of various products and services in an efficient, paperless, secured and connected environment, in self-service as well as assisted mode. Although the Reserve Bank has provided a standardisation in terms of the minimum number of products and services which can be offered across all the DBUs *vide* its circular dated April 7, 2022 on 'Establishment of DBUs', banks have the freedom to offer any digital products and services in addition to the prescribed minimum. DBUs are organising financial literacy events to create awareness on cyber security and other relevant IT areas relating to digital financial services, with district as the catchment area. DBUs will catalyse adoption of digital banking by providing digital financial services and products to the public in a seamless and efficient manner.

Projects Undertaken through Reserve Bank Innovation Hub (RBIH)

VI.83 During 2022-23, the RBIH has undertaken multiple innovative projects of key importance to the financial sector. A pilot project for end-to-end digitalisation of *Kisan* Credit Card (KCC) lending, conceptualised and developed by the RBIH in consultation with the Reserve Bank, was operationalised in Madhya Pradesh, Karnataka and Tamil Nadu (Box VI.2). Further, RBIH conducted a *Swanari* TechSprint, that aimed to encourage the financial services ecosystem partners to create and produce smart, creative, and sustainable solutions for the underserved, low-and middle-income (LMI) women and women-owned enterprises. Additionally, to provide incubation and mentoring support to start-ups, it entered into MoUs with the IIT Madras Research Park; the Society for Innovation and Entrepreneurship (SINE), IIT Bombay and the Centre for Innovation Incubation and Entrepreneurship (CIIE), IIM Ahmedabad.

Major Initiatives

Account Aggregator Framework

VI.84 The Account Aggregator (AA) eco-system is witnessing increased traction as major public sector banks have joined the framework and other financial sector regulators (FSRs), *viz.*, the Securities and Exchange Board of India (SEBI), Pension Fund Regulatory and Development Authority (PFRDA) and Insurance Regulatory and Development Authority of India (IRDAI), have advised their respective regulated entities to join the framework as financial information provider (FIP). Further, with a view to facilitating cash flow-based lending to micro, small and medium enterprises (MSMEs), goods and services tax network (GSTN) has been included as a FIP under the AA framework. The Department of Revenue, GoI, shall be the regulator of GSTN for this specific

Box VI.2
Pilot on Digitalisation of *Kisan* Credit Card (KCC) Lending

The *Kisan* Credit Card (KCC) scheme has been one of the predominant modes of financing farmers in India. The major challenges associated with the scheme are high turn-around time (TAT), multiple branch visits, paper-based credit delivery and high transaction costs. Considering these challenges associated with the rural finance, digitalisation of agrifinance in India was ideated between the Reserve Bank and the Reserve Bank Innovation Hub (RBIH). The idea is to enable frictionless delivery of *Kisan* Credit Card (KCC) loans in a paperless and hassle-free manner and reduce the turn-around time and avoid multiple visits to bank branches. The pilot is being carried out in three states, *viz*., Madhya Pradesh, Karnataka (with the Union Bank of India) and Tamil Nadu (with the Federal Bank and Indian Bank). The pilot enabled successful disbursal of loans up to ₹ 1.6 lakh not requiring any collateral, within a few minutes to farmers. The pilot is being scaled up to other districts of these three states as well as in other states.

This pilot requires bespoke technical integration of banks' system with different states' digital land records. Addressing these issues in digital KCC may help banks to bring in the much-needed efficiency by eliminating the manual process involved in procedures like verification of land documents, integration with banks' Business Rule Engine (BRE), assessment of the scale of finance, approval, paper-based know your customer (KYC), and processing wet signatures of loan applicants.

The pilot project of lending based on milk pouring data to dairy farmers has also commenced in Gujarat in association with HDFC Bank.

Various testings under the pilots have been found successful and the results of these pilots have been encouraging. All the learnings from the pilots are being used towards development of an Integrated Public Tech Platform for Finance (IPTPF),which would be an enabler for delivery of the frictionless credit by facilitating seamless flow of required digital information to lenders.

Source: RBI.

purpose. As a result, the number of registered non-banking financial companies (NBFCs) AA, FIPs and financial information users (FIU) are expected to increase substantially. In view of the growing number of participants in the ecosystem, the Reserve Bank is taking well considered and nuanced approach, in consultation with the Reserve Bank Information Technology Private Limited (ReBIT) and other stakeholders, to make the ecosystem more robust, address the technical issues of the growing ecosystem and facilitate further growth of the same.

Regulatory Sandbox (RS) – Cohorts and Inter-Operable Regulatory Sandbox (IoRS)

VI.85 Under the second cohort of the RS on theme 'Cross-Border Payments', eight entities tested a range of products, including, *inter alia*, blockchain-based cross-border payment system, and digitisation of cross-border payment process. Four out of the eight products were found acceptable within the boundary conditions defined during testing. Under the third cohort with the theme 'MSME Lending', the shortlisted eight entities have completed their testing of products which, among others, include end-to-end straight through processing for digital lending to MSMEs, use of proprietary business finance variables to underwrite real time cash flow-based credit for MSMEs, innovative use of blockchain technology in MSME lending and straight through process journey for MSME *Mudra* loan from lead to disbursal. The test results are currently under evaluation. This cohort on MSME lending is expected to spur innovations that can help to fill the credit gap for MSMEs through the use of technology and data analytics. Under the fourth cohort with the theme 'Prevention and Mitigation of Financial Frauds', six entities have been selected for the testing and the entities commenced testing of their products from February 2023. The entities are testing various products, including risk-based authentication solution, early warning system for credit monitoring and fraud identification using both internal and external data, Artificial Intelligence (AI)/Machine Learning (ML) based closed user group model for preventing card frauds and fraud filter system to lock login in sleep mode. This cohort is envisaged to prevent occurrence of fraud, strengthen fraud governance, reduce the response time to frauds and the lag between occurrence and detection of financial frauds. The fifth cohort under RS has been announced to be 'Theme Neutral' wherein innovative products/ services/ technologies cutting across various functions in the Reserve Bank's regulatory domain would be eligible to apply. The 'On Tap' application facility under RS is currently open for themes 'Retail Payments' and 'Cross-border Payments'. Two entities have been selected for the test phase under the on-tap application facility for the theme 'Retail Payments' and the testing of the products has been started by one entity while the other one is in the process of partnering with commercial bank/s to start the testing. Further, in order to facilitate testing of hybrid products/ services falling within the regulatory ambit of more than one financial regulator, *viz.,* the Reserve Bank, SEBI, IRDAI, International Financial Services Centres Authority (IFSCA) and PFRDA, a Standard Operating Procedure (SOP) for Interoperable Regulatory Sandbox (IoRS) has been prepared and operationalised by the Inter- Regulatory Technical Group on FinTech (IRTG on FinTech) constituted under the aegis of Financial Stability Development Council-Standing Committee (FSDC-SC). Applications have been received under the IoRS framework, which are being processed as per the provisions of the SOP.

HARBINGER 2021

VI.86 The Reserve Bank launched its first global hackathon HARBINGER 2021 on November 9, 2021 with four problem statements under the broad theme of 'Smarter Digital Payments'. The Hackathon witnessed a very good participation of 363 teams from proposals submitted by teams from within India and from 22 other countries, including the US, the UK, Sweden, Singapore, Philippines, and Israel. The final evaluation of solutions to problem statements was conducted in May 2022 wherein a jury of external experts evaluated and selected the winners and runners-up based on parameters like innovation, technology, demonstration, user experience, security and ease of implementation. These innovative products are expected to bring additional benefits in the payment ecosystem, *viz.*, inclusion of the underprivileged and prevention of digital payment frauds. While the regulatory sandbox initiative is focused on fostering innovation by the Indian entities within the regulatory domain of the Reserve Bank, IoRS is inter-regulatory in approach and global hackathon 'HARBINGER' is targeted towards the global innovator community for providing solutions to specific statement of problems. The second edition of Reserve Bank's global hackathon – 'HARBINGER 2023' has also been launched with the theme 'Inclusive Digital Services' wherein innovative ideas have been invited for the four problem statements, *viz.,* innovative, easy-to-use, digital banking services for differently abled (*Divyaang*), RegTech solutions to facilitate more efficient compliance for Regulated Entities (REs), exploring use cases/solutions for CBDC-retail transactions; including transactions in offline mode and increasing transactions per second (TPS)/ throughput and scalability of blockchains.

Agenda for 2023-24

VI.87 In 2023-24, the Department will focus on the following goals:

- Conducting further pilots with various use cases in both CBDC-Retail and CBDC-Wholesale (*Utkarsh* 2.0);
- Developing an appropriate framework for managing FinTech ecosystem in the country (*Utkarsh* 2.0);
- To create an open, inter-operable integrated public tech platform for finance that can act as a single unified public platform which would facilitate integration of data in a seamless manner for all lenders, which would enable the delivery of frictionless credit;
- Conduct of global hackathons 'HARBINGER' series;
- Bringing improvements to the account aggregator technological ecosystem to achieve efficiency and facilitate further growth of the same; and
- Facilitation in development of RegTech tools for adoption by regulated entities and exploring identification of emerging SupTech tools. One of the cohorts under the RS/Hackathon would include themes relating to RegTech (*Utkarsh* 2.0).

4. SUPERVISION OF FINANCIAL INTERMEDIARIES

Department of Supervision (DoS)

VI.88 The Department of Supervision (DoS) is entrusted with the responsibility of supervising all Scheduled Commercial Banks (SCBs) [excluding Regional Rural Banks (RRBs)], Local Area Banks (LABs), Payments Banks (PBs), Small Finance

Banks (SFBs), Credit Information Companies (CICs), All India Financial Institutions (AIFIs), Urban Co-operative Banks (UCBs), Non-Banking Financial Companies (NBFCs) [excluding Housing Finance Companies (HFCs)] and Asset Reconstruction Companies (ARCs).

Commercial Banks

VI.89 The Department took several measures to further strengthen both onsite and off-site supervision of the SCBs, LABs, PBs, SFBs, CICs and AIFIs during the year.

Agenda for 2022-23

VI.90 The Department had set the following goals for 2022-23:

- Generate supervisory dashboards for senior management of the Reserve Bank (*Utkarsh*) [Paragraph VI.91];
- Back-testing of Early Warning Indicator (EWI) model to assess its predictive power/ creating a new EWI framework for SCBs (Paragraph VI.92); and
- Undertaking process audit of SCBs to identify weaknesses and initiate remedial measures (Paragraph VI.93).

Implementation Status

Supervisory Dashboards

VI.91 The Reserve Bank has developed dynamic monitoring dashboards for all supervised entities, including SCBs, UCBs and NBFCs. The dashboards, meant for senior management, are being updated on a quarterly basis.

Early Warning Indicator (EWI) Model

VI.92 A new EWI framework has been developed and back-tested which provides a comprehensive view of SCBs' financial performance. This EWI framework provides an early warning in terms of breaches of critical thresholds across a set of 18 significant ratios.

Process Audit

VI.93 Undertaking process audit of critical processes in SCBs continued to be one of the areas pursued in supervision for redressal of the weaknesses observed in the internal controls and systems in SCBs.

Other Initiatives

Strengthening Supervision in Governance and Conduct Area

VI.94 For the supervisory cycle 2022-23, major supervisory concerns in the areas of governance and conduct were identified. Besides, new parameters were introduced with metrics/ sub metrics for bringing in better objectivity in measurement of parameters in the organisational culture - comprising compliance culture and risk culture - in the risk evaluation template.

Cross-border Supervisory Cooperation

VI.95 In line with the Basel Committee on Banking Supervision (BCBS) principles on cross-border supervisory cooperation, the Reserve Bank continued to have supervisory colleges for six Indian banks, which are internationally active. During the year, the Reserve Bank conducted supervisory college meetings for select banks. The Reserve Bank also signed a Memorandum of Understanding (MoU) with the International Financial Services Centres Authority (IFSCA). With this, the Reserve Bank has so far executed 44 MoUs, two Exchange of Letters (EoLs) of supervisory cooperation and one Statement of Co-operation (SoC) with overseas supervisors/ regulators. During the year, the Reserve Bank had 17 meetings with overseas supervisors for exchange of information on supervisory concerns, and methodologies and best practices in supervision.

Review and Rationalisation of Off-site Returns

VI.96 Considering the changes in data requirements from time to time depending upon the updated supervisory processes, an Internal Group was formed to review and rationalise the off-site returns and make recommendations that will maintain the system's relevance in the contemporary supervisory environment. The Group has completed the review of all the returns pertaining to SCBs in terms of duplication of data items across returns, redundant returns and requirement of new data items and advised revision of returns. The same are under development.

Prompt Recognition of Impaired Assets

VI.97 The Reserve Bank continues to remain engaged with the SCBs in implementing system driven NPA identification, with a view to ensuring prompt and error-free recognition of asset impairment. Further, the Reserve Bank is also monitoring the movement of key asset quality parameters in the wake of the Restructuring Frameworks (RFs) introduced as part of the COVID-19 support and relief measures. A study conducted by the Reserve Bank points towards improved resilience in the banking system across the bank-groups (Box VI.3).

Fraud Analysis

VI.98 An assessment of bank group-wise fraud cases over the last three years indicates that while private sector banks reported maximum number of frauds, public sector banks continued to contribute maximum to the fraud amount during 2022-23 (Table VI.2). Frauds have occurred predominantly in the category of digital payments (card/internet),

Box VI.3
Asset Quality Post Restructuring by Banks

The COVID-19 pandemic disrupted production activity severely impacting the cash flows of bank borrowers. In response, globally, the central banks came to the rescue of such borrowers - and protected the financial system by instituting a host of supportive measures/ policies, *viz.,* allowing loan moratorium, asset quality dispensations, restructuring, additional funding and liquidity support. In India, in the wake of the pandemic, the Reserve Bank permitted regulated entities to grant loan moratoriums and allowed restructuring of loan accounts subject to specified conditions, as per their Board approved policy. The COVID-19 regulatory package was implemented in multiple phases by the Reserve Bank to accommodate disruptions due to resurgence of infections. The schemes in the COVID-19 regulatory packages were envisaged to lend necessary support with clear sunset clauses (RBI, 2022). Further, they had clear eligibility criterion and strict reporting framework to monitor the implementation. While the moratorium on loans was a temporary solution in the context of the lockdown, the resolution framework was expected to give durable relief to borrowers facing COVID related stress (Das, 2020).

The above measures ensured that the schemes were leveraged by genuine beneficiaries and did not result in accumulation of risks. As a result, the regulatory package enabled individuals and enterprises to tide over the difficulties posed by the pandemic related disruptions (Patra, 2022). Furthermore, with the effects of the pandemic abating, economic activity recovered to the pre-pandemic levels. However, concerns remain that the unwinding of support policies may result in hidden fragilities surfacing with time lags in terms of defaults from restructured assets or assets coming out of moratorium. Against this backdrop, the asset quality of Indian banks is examined, for the post-pandemic period.

The movement of key asset quality parameters point to improved resilience in the banking system across the bank-groups (Table 1). While the share of restructured assets has risen between December 2019 and March 2022, the same has moderated by December 2022. Further, during the same period the slippage ratio has fallen from 4.4 per cent to 2.0 per cent. This indicates that the asset quality remains stable despite the cessation of COVID-19 specific support schemes.

An empirical assessment conducted using a system panel generalised method of moments (GMM) model with data on

(Contd.)

Table 1: Movement in Key Asset Quality Parameters

(Per cent)

Bank Group	March 2018	March 2019	December 2019	March 2022	December 2022
1	2	3	4	5	6
PSBs					
Gross NPAs to Gross Advances	15.52	12.25	11.87	7.57	5.82
Net NPAs to Net Advances	8.58	5.12	4.89	2.33	1.65
SMA-2 Ratio (₹5 crore and Above)	2.17	1.25	2.04	0.23	0.44
Restructured to Standard Advances	0.96	0.56	0.63	2.25	1.74
Slippage Ratio	9.57	4.5	4.67	2.54	1.56
Stressed Advances to Gross Advances	16.33	12.74	12.42	9.65	7.46
Private Sector Banks					
Gross NPAs to Gross Advances	4.01	4.81	5.5	3.73	2.67
Net NPAs to Net Advances	1.97	1.89	1.75	0.96	0.66
SMA-2 Ratio (₹5 crore and above)	1.02	0.67	1.14	0.19	0.31
Restructured to Standard Advances	0.44	0.33	0.18	1.78	1.02
Slippage Ratio	4.29	3.36	4.27	3.29	2.64
Stressed Advances to Gross Advances	4.43	5.12	5.68	5.45	3.67
SCBs					
Gross NPAs to Gross Advances	11.46	9.24	9.1	5.89	4.47
Net NPAs to Net Advances	6.1	3.75	3.5	1.72	1.21
SMA-2 Ratio (₹5 crore and above)	1.69	0.99	1.63	0.2	0.38
Restructured to Standard Advances	0.74	0.45	0.43	2.0	1.40
Slippage Ratio	7.58	3.96	4.36	2.86	2.01
Stressed Advances to Gross Advances	12.12	9.65	9.49	7.77	5.81

Source: DBIE and Supervisory Returns, RBI.

43 banks from both public and private sector - covering the period from March 2015 to December 2022, confirms the salubrious effect of COVID-19 related policy measures on the banking sector (Table 2). The econometric specification used in the model includes lagged GNPA ratio as a regressor, as GNPA ratio tends to exhibit persistence, and estimated using GMM to account for endogeneity issues to get robust estimates.

Table 2: Results of GMM Regression – Asset Quality Pre- and Post - pandemic

(Dependent variable: Bank-level GNPA Ratio)

Explanatory Variable	Coefficient		
	Model I	Model II	Model III
1	2	3	4
GNPA Ratio (L1)	0.908*** (0.009)	0.908*** (0.009)	0.854*** (0.006)
CRAR(L2)			-0.151*** (0.010)
Real GDP Growth (L3)	-0.048*** (0.001)	-0.048*** (0.001)	-0.041*** (0.001)
INR-USD Exchange Rate (D1)	0.056*** (0.004)	0.056*** (0.004)	0.089*** (0.003)
Real WALR on Fresh Loans (L1)	0.014*** (0.003)	0.014*** (0.003)	
Urban Male Unemployment Rate (D1)	0.041*** (0.002)	0.041*** (0.002)	0.035*** (0.001)
Growth in House Price Index (L1)	-0.083*** (0.011)	-0.083*** (0.011)	-0.091*** (0.008)
Dummy for Post-March 2020	-0.759*** (0.086)	-0.759*** (0.086)	-0.578*** (0.063)
Constant	1.747*** (0.093)	1.747*** (0.093)	4.580*** (0.207)
Observations	612	612	612
Number of banks	43	43	43
AR(1), p-value	0.00863	0.00863	0.00737
AR(1), p-value	0.403	0.403	0.921
Hansen Test, p-value	1	1	1
Sargan Test, p-value	Less than 0.01	Less than 0.01	Less than 0.01

*** indicates significance level at 1 per cent.

Note: 1. L and D denote lagged and differenced values of the parameters in the specified horizons.
2. Regression done for period March 2016 to December 2022.
3. Standard errors are given in parentheses.

Source: RBI staff calculations.

The decline in stress in the banking sector indicates that the policies implemented to mitigate the economic disruptions caused by COVID-19 outbreak are successful in enhancing financial stability without causing an economic hysteresis.

References:

1. Das, Shaktikanta (2020), 'It is Time for Banks to Look Deeply Within: Reorienting Banking Post-Covid', Singapore, Unlock BFSI 2.0 with Business Standard, August 27.
2. Patra, M.D. (2022),' RBI's Pandemic Response: Stepping out of Oblivion', *Council for Social Development, Hyderabad*, January 28.
3. Reserve Bank (2022), 'State of the Economy', *Monthly Bulletin January,* LXXVI(12), 13-41.

Table VI.2: Fraud Cases - Bank Group-wise

(Amount in ₹ crore)

Bank Group/Institution	2020-21		2021-22		2022-23	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Public Sector Banks	2,888	77,879	3,075	40,015	3,405	21,125
	(39.4)	(58.8)	(33.8)	(66.9)	(25.2)	(69.8)
Private Sector Banks	3,705	45,515	5,332	17,387	8,932	8,727
	(50.5)	(34.4)	(58.6)	(29.1)	(66.0)	(28.9)
Foreign Banks	519	3110	494	1,206	804	292
	(7.1)	(2.4)	(5.5)	(2.0)	(5.9)	(1.0)
Financial Institutions	22	5853	9	1,178	9	70
	(0.3)	(4.4)	(0.1)	(2.0)	(0.1)	(0.2)
Small Finance Banks	114	30	155	30	312	31
	(1.5)	-	(1.7)	-	(2.3)	(0.1)
Payments Banks	88	2	30	1	68	7
	(1.2)	-	(0.3)	-	(0.5)	-
Local Area Banks	2	-	2	2	-	-
	-	-	-	-	-	-
Total	**7,338**	**1,32,389**	**9,097**	**59,819**	**13,530**	**30,252**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

- : Nil/Negligible.

Note: 1. Figures in parentheses represent the percentage share of the total.
2. Data are in respect of frauds of ₹1 lakh and above reported during the period.
3. The figures reported by banks and financial institutions are subject to changes based on revisions filed by them.
4. Frauds reported in a year could have occurred several years prior to year of reporting.
5. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved is not necessarily diverted.

Source: RBI Supervisory Returns.

in terms of number. However, in terms of value, frauds have been reported primarily in the loan portfolio (advances category) [Table VI.3]. There was a 55 per cent decline in the amount involved in the total frauds reported during 2021-22 over 2020-21. Further, proportionately, the decline in the total amount involved in frauds continued during 2022-23, with a reduction of 49 per cent over 2021-22. While small value card/internet frauds contributed maximum to the number of frauds reported by the private sector banks, the frauds in public sector banks were mainly in loan portfolio.

VI.99 An analysis of the vintage of frauds reported during 2021-22 and 2022-23 shows a significant time-lag between the date of occurrence of a fraud and its detection (Table VI.4). The amount involved in frauds that occurred in previous financial years formed 93.7 per cent of the frauds reported in 2021-22 in terms of value. Similarly, 94.5 per cent of the frauds reported in 2022-23 by value occurred in previous financial years.

VI.100 In order to improve data reliability in Fraud Monitoring Returns (FMR) submitted by SCBs, they were advised to carry out proper due diligence and ascertain the involvement (with credible proof/ evidence) before including/ adding name(s) of the non-whole time Director(s) in the FMR/CRILC while reporting fraud /non-cooperative borrower.

Table VI.3: Frauds Cases - Area of Operations

(Amount in ₹ crore)

Area of Operation	2020-21		2021-22		2022-23	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Advances	3,476	1,30,990	3,833	57,733	4,109	28,792
	(47.4)	(99.0)	(42.2)	(96.5)	(30.4)	(95.2)
Off-balance Sheet	23	535	21	1077	14	296
	(0.3)	(0.4)	(0.2)	(1.7)	(0.1)	(1.0)
Forex Transactions	4	129	7	7	13	12
	-	(0.1)	(0.1)	-	(0.1)	-
Card/Internet	2,545	119	3,596	155	6,659	276
	(34.7)	(0.1)	(39.5)	(0.3)	(49.2)	(0.9)
Deposits	504	434	471	493	652	258
	(6.9)	(0.3)	(5.2)	(0.8)	(4.8)	(0.9)
Inter-Branch Accounts	2	-	3	2	3	-
	-	-	-	-	-	-
Cash	329	39	649	93	1470	158
	(4.5)	-	(7.1)	(0.2)	(10.9)	(0.5)
Cheques/DDs, *etc.*	163	85	201	158	118	25
	(2.2)	(0.1)	(2.2)	(0.3)	(0.9)	(0.1)
Clearing Accounts	14	4	16	1	18	3
	(0.2)	-	(0.2)	-	(0.1)	-
Others	278	54	300	100	474	432
	(3.8)	-	(3.3)	(0.2)	(3.5)	(1.4)
Total	**7,338**	**1,32,389**	**9,097**	**59,819**	**13,530**	**30,252**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

- : Nil/Negligible.
Note: 1. Figures in parentheses represent the percentage share of the total.
2. Refer to footnotes 2-5 of Table VI.2.
Source: RBI Supervisory Returns.

Table VI.4: Vintage of Frauds Reported in 2021-22 and 2022-23

(₹ crore)

2021-22		2022-23	
1	2	3	4
Occurrence of Fraud	Amount Involved	Occurrence of Fraud	Amount Involved
Before 2012-13	10,803	Before 2012-13	1,547
2012-13	3,272	2012-13	739
2013-14	7,270	2013-14	1,734
2014-15	3,155	2014-15	954
2015-16	4,661	2015-16	479
2016-17	5,620	2016-17	8,349
2017-18	7,346	2017-18	4,232
2018-19	5,448	2018-19	4,623
2019-20	4,740	2019-20	1,399
2020-21	3,719	2020-21	1,325
2021-22	3,785	2021-22	3,196
		2022-23	1,675
Total	**59,819**	**Total**	**30,252**

Note: 1. Data are in respect of frauds of ₹1 lakh and above reported during the period.
2. Refer to footnotes 3 and 5 of Table VI.2.
Source: RBI Supervisory Returns.

Agenda for 2023-24

VI.101 The Department has set the following goals for 2023-24:

- Market risk - conducting scenario analysis and providing an input for system stress test (*Utkarsh* 2.0);
- Implementation of a fraud vulnerability matrix for SCBs (*Utkarsh* 2.0); and
- Strengthening and enhancement of early warning signal (EWS) and Fraud Risk Management System (FRMS).

Urban Cooperative Banks (UCBs)

VI.102 The Department continuously monitored the performance of UCBs during the year and undertook measures to ensure the development of a safe and well-managed cooperative banking sector.

Agenda for 2022-23

VI.103 The Department had set the following goals for supervision of UCBs in 2022-23:

- Roll out of Key Risk Indicators (KRIs) for select UCBs to assess the cyber security risk profile (Paragraph VI.104);
- Extending IT examination progressively to UCBs with asset size below ₹5,000 crore (Paragraph VI.105); and
- Analysing inter-connectedness of UCBs with companies from directorship perspective (Paragraph VI.106).

Implementation Status

Cyber Security and IT Examination of UCBs

VI.104 In order to assess the inherent risks and to put in place an effective off-site monitoring mechanism, Key Risk Indicators (KRIs) were rolled out during the year for all Level IV UCBs and the Level III UCBs[15] with asset size greater than ₹5,000 crore. Based on the applicability of controls, different sets of KRIs were prescribed for these two categories of UCBs. These UCBs have started submitting KRI data and a scoring model is being formulated based on the same.

VI.105 In the wake of increasing cyber risks and recent cyber incidents that have occurred in the UCBs, a gap assessment exercise was carried out for 55 Level III UCBs by the Computer Emergency Response Team (CERT-IN) empanelled auditors to gauge the extent of compliance with cyber security framework prescribed by the Reserve Bank. Based on the outcome of the gap assessment, appropriate steps have been taken for mitigating the cyber security risks in the UCBs concerned. In addition, IT examination of 14 UCBs was also carried out till March 31, 2023.

Inter-connectedness of UCBs

VI.106 An assessment was conducted by the Reserve Bank wherein the directors of UCBs were mapped with the Ministry of Corporate Affairs (MCA) database to find out associated companies. The results of the assessment are being used as supervisory inputs for further action.

Other Initiatives

Sensitisation Workshop for Frauds

VI.107 During the year, the Reserve Bank conducted workshops for select UCBs with asset size of ₹500 crore and above to sensitise them on fraud prevention, prompt/accurate reporting and follow up action.

Review and Rationalisation of Off-site Returns Filed by UCBs

VI.108 The returns submitted by UCBs were taken up for review and rationalisation in order to enhance the quality of data collection. These revised returns will be subsequently taken up for development and adoption.

Agenda for 2023-24

VI.109 The Department has identified the following goals for supervision of UCBs in 2023-24:

- Examining introduction of risk-based supervision approach for UCBs;

[15] As defined in the Reserve Banks's circular on 'Comprehensive Cyber Security Framework for UCBs - A Graded Approach' dated December 31, 2019.

- Exploring Prompt Corrective Action (PCA) Framework for UCBs; and
- Expanding the scope/coverage of IT examination for Level III and IV UCBs.

Non-Banking Financial Companies (NBFCs)

VI.110 The Department continued to closely monitor the NBFCs (excluding HFCs) and ARCs registered with the Reserve Bank.

Agenda for 2022-23

VI.111 The Department had set the following goals for supervision of NBFCs in 2022-23:

- Review the supervisory framework and the returns' formats for NBFCs under Indian Accounting Standards (Ind-AS) based on the regulatory guidance in the matter (*Utkarsh*) [Paragraph VI.112];
- Make changes in sectoral assessment in the context of recently released scale-based regulatory framework for NBFCs (Paragraph VI.113);
- Roll out KRIs for select NBFCs to assess their cyber security risk profile (Paragraph VI.114); and
- Roll out of IT examination for select NBFCs (Paragraph VI.114).

Implementation Status

Rationalisation of NBFC Returns

VI.112 During the year, a Working Group comprising of officials from the Reserve Bank, select large NBFCs and audit firms reviewed and designed new returns' formats as per the supervisory framework for NBFCs in alignment with the Indian Accounting Standards (Ind-AS) [an Indian version of International Financial Reporting Standards (IFRS)]. These returns will be taken up for implementation.

Sectoral Assessment of NBFCs

VI.113 During the year, the Reserve Bank, for the purpose of sectoral assessment of NBFCs in the context of recently released scale-based regulatory framework for NBFCs, classified 16 NBFCs in the upper layer. The model design was also modified to cover all NBFCs in various layers, *viz.,* top, upper, middle and base layer.

Cyber Security and IT Examination of NBFCs

VI.114 In order to assess the inherent risks and put in place an effective off-site monitoring mechanism, KRIs were rolled out for select NBFCs. These NBFCs have started submitting KRI data and a scoring model is being formulated based on the same. IT examination for select NBFCs will be initiated in 2023-24.

Other Initiatives

Action Against Non-compliant NBFCs

VI.115 During the year, based on targeted scrutiny of arrangements entered into by certain NBFCs with Digital Lending Partners (DLPs), various issues such as non-adherence to outsourcing guidelines (including those pertaining to recovery agents), fair practices code and KYC norms were examined. Further, certain dormant NBFCs were also identified which were vulnerable to misuse by miscreants. Appropriate supervisory actions, including cancellation of certificate of registration (CoR) of a few NBFCs, were taken based on the supervisory examinations.

Improvement in Usage of Analytical Tools to Detect Vulnerabilities Early

VI.116 During the year, stress testing model of NBFCs was augmented to cover multiple balance sheet and profit & loss statement parameters/ ratios, the forward projections and CRAR levels under baseline, medium and severe scenarios for estimating slippages. Input and output of sample forecasts of the model were back-tested leading to improvement in model efficacy.

Fraud Reporting and Sensitisation of NBFCs

VI.117 The online fraud reporting system for NBFCs has commenced from July 1, 2022. As part of online reporting system, a separate quarterly return (FMR 4) has been introduced for reporting security incidences, *i.e.,* theft, burglary, dacoity and robbery. Further, workshops have been conducted for select NBFCs to sensitise them on fraud prevention, prompt /accurate reporting and follow up action.

Various Analytical Studies

VI.118 During the year, various analytical studies were conducted by the Department to study the compliance by NBFCs to the Reserve Bank's guidelines. Furthermore, an analysis was done to compare the Expected Credit Loss (ECL) required under Ind-AS with provisions under Income Recognition, Asset Classification and Provisioning pertaining to advances (IRACP).

Agenda for 2023-24

VI.119 The Department has identified the following goals for supervision of NBFCs in 2023-24*:*

- Examination of licensing requirements for NBFCs and initiating supervisory action against non-compliant NBFCs; and
- Impact assessment of recent modification in asset classification norms for NBFCs.

Supervisory Measures for all Supervised Entities (SEs)

VI.120 A unified Department of Supervision (DoS) has been operationalised in which the supervision of banks, UCBs and NBFCs is being undertaken in a holistic manner under one umbrella Department. This will improve handling of issues arising from regulatory/supervisory arbitrage, interconnectedness and information asymmetry.

Agenda for 2022-23

VI.121 The Department had set the following supervisory goals for 2022-23:

- Implementation of risk-based approach (RBA) for KYC/anti-money laundering (AML) supervision of select UCBs and NBFCs (Paragraph VI.122);
- Issuance of guidelines on compliance function and appointment of Chief Compliance Officers (CCOs) in NBFCs and UCBs (Paragraph VI.123);
- Unified fraud reporting system for all supervised entities (SEs) [Paragraph VI.124];
- Undertaking cyber security enhancement measures (Paragraph VI.125);
- Further strengthening of audit mechanisms in SEs (Paragraph VI.126-VI.127); and
- Scaling-up of operations of College of Supervisors (CoS) for capacity development and skill enhancement of supervisory staff (Paragraph VI.128).

Implementation Status

KYC-AML Supervision of UCBs and NBFCs

VI.122 The risk-based approach (RBA) for KYC/AML supervision of select UCBs and select NBFCs has been developed and implemented. A brief on the RBA for KYC-AML supervision of SEs is covered in Box VI.4.

Box VI.4
Focused Supervision of KYC/AML Risks in Supervised Entities

In order to give a specialised supervisory focus to KYC/AML risks in the SEs and to assess the varying degrees of KYC/AML risks, a risk-based approach (RBA) to KYC/AML supervision of SCBs was designed and implemented in the supervisory cycle 2020-21. The RBA, *inter alia,* involved designing KYC/AML specific supervisory data templates, an analytical model consisting of various risk indicators/drivers which would aid in appropriate risk profiling of the banks and provide useful insights about the emerging KYC/AML risks. With a view to enhance the scope of RBA for KYC/AML supervision, the same has also been extended to select UCBs and select NBFCs which, going forward, is expected to provide specialised inputs in their supervisory assessment.

The RBA, which is presently in its third-year of implementation, has helped to identify the banks which are exposed to higher KYC/AML risks on account of their business models, customer base, volume and value of transactions and such banks have been subjected to focused on-site assessments for identification of the gaps in the controls and processes in KYC/AML area. The RBA for KYC/AML supervision has aided in sensitising the SEs on their KYC/AML risks in a more focused manner and to put in place appropriate mitigation / control measures in addressing such risks.

Source: RBI.

Compliance Function and Chief Compliance Officers (CCOs) in UCBs and NBFCs

VI.123 The Reserve Bank has taken several steps to strengthen the compliance function in SEs. In this direction, it had issued certain principles, standards and procedures for compliance function and appointment of CCOs in UCBs and NBFCs separately. These guidelines prescribe, *inter alia,* roles and responsibilities of the Board and senior management in compliance function, as well as the broad contours of a robust compliance framework. While in case of UCBs, these guidelines would be applicable to tier-3 and tier-4 UCBs, in case of NBFCs these would be applicable to NBFCs in the Upper and Middle Layer (NBFC-UL and NBFC-ML).

Unified Fraud Reporting (UFR)

VI.124 The Unified Fraud Reporting system for all SEs is being implemented as part of the augmented reporting system under the Centralised Information Management System (CIMS) project. Unified returns for SCBs, UCBs and NBFCs have been developed, and are currently under adoption.

Cyber Security Measures

VI.125 During the year, the Reserve Bank continued to take various measures for enhancement of cyber security of all SEs along with the regular assessment through onsite and off-site supervisory mechanism. A cyber reconnaissance exercise was undertaken to gather information about vulnerabilities of select SEs. Two draft Master Directions on outsourcing of IT services and, IT governance, risk, controls and assurance practices were also published for public comments during the year.

Strengthening Audit Mechanisms

VI.126 A mechanism of structured meetings of senior supervisory managers (SSMs) with statutory auditors (SAs) of select UCBs and NBFCs was introduced by the Reserve Bank to improve the effectiveness of communication between supervisors and auditors, in line with international best practices. A similar mechanism is already in place for SSMs and SAs of commercial banks since 2019.

VI.127 The Reserve bank has revised the business coverage norms under statutory branch audit process of PSBs and has prescribed a minimum of 70 per cent of funded and non-funded credit exposures to be covered for 2022-23, while giving discretion to determine business coverage for 2023-24 onwards as per their Board approved policy after considering bank-specific aspects relating to business and financial risks. To ensure that adequate safeguards are in place, under this arrangement, the Reserve Bank has, amongst other suitable measures, augmented the role of Board of Directors and its Audit Committee in PSBs with respect to matters related to Statutory Branch Audit.

Capacity Development - College of Supervisors (CoS)

VI.128 The operations of CoS have been scaled up considerably including collaborations with international organisations, namely, the International Monetary Fund (IMF), World Bank, Bank for International Settlements (BIS), Federal Reserve Board (FRB), Bank of England (BoE), European Central Bank (ECB), Southeast Asian Central Banks (SEACEN) and Toronto Centre. Since its inception, the cumulative number of participants to whom CoS has so far imparted learning inputs works out to 4,012 as on March 31, 2023, which included (a) officials of the Reserve Bank in the Departments of Supervision, Regulation, Financial Stability and Enforcement; (b) officials of relevant Departments from seven other Jurisdictions; (c) supervisors of National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), International Financial Services Centres Authority (IFSCA) and Insurance Regulatory and Development Authority of India (IRDAI). To sensitise the personnel in the SEs on the need of managing their own resilience in line with supervisory expectations, chief risk officers (CRO), chief information security officers (CISO), chief compliance officers (CCO) and heads of internal audit (HIA) of SCBs, NBFCs and UCBs were also included in the cohort of learners. Chief executive officers (CEO) of the top 100 NBFCs were also sensitised on the Reserve Bank's regulatory and supervisory expectations in view of changing dynamics.

Other Initiatives

Advanced Analytics Using Artificial Intelligence (AI) and Machine Learning (ML)

VI.129 In order to further enhance supervisory inputs, an Advanced Supervisory Analytics Group (ASAG) has been set up. ASAG has identified use cases such as social media analytics, KYC compliances and governance effectiveness that are being developed using machine learning models. The Department is in the process of creating effective SupTech tools using artificial intelligence (AI) and machine learning (ML) for enhancing supervisory effectiveness.

Reserve Bank's Advanced Supervisory Monitoring System (DAKSH)

VI.130 A new SupTech initiative called *DAKSH* was launched by the Reserve Bank on October 6, 2022. It is a web-based end-to-end workflow application through which the Reserve Bank shall monitor compliance requirements in a more focused manner with an objective to further improve the compliance culture among the SEs. The application will also enable seamless communication, inspection planning and execution, cyber incident reporting and analysis, and provision of various management information system (MIS) reports, through a platform which enables anytime-anywhere secure access (Box VI.5).

Box VI.5

DAKSH - Reserve Bank's Advanced Supervisory Monitoring System

The Department of Supervision (DoS) has implemented *DAKSH* - Reserve Bank's advanced supervisory monitoring system, a SupTech initiative that provides end-to-end workflow solution to streamline and strengthen its various supervisory processes. The application provides secured, anytime-anywhere role-based access to the users (Reserve Bank and supervised entities). *DAKSH* is envisioned to be the single interface for all the supervisory functions of the Department as it brings DoS and the SEs on a common platform and facilitates seamless communication on various supervisory aspects.

The supervisory processes of the Department covered in *DAKSH* include inspection planning and execution, scoping and resource allocation, report finalisation and availability of inspection reports to the entities. The supervisory information/repository created by the application will result in building up institutional knowledge base along with serving as a single source of information for supervisory functions.

Source : RBI.

Inter-regulatory Cooperation with Domestic Financial Regulators

VI.131 The Reserve Bank is coordinating with other domestic financial regulators for ensuring financial system resilience. Towards this goal, the domestic regulators deliberated upon the system wide issues in financial sector during the tenth and eleventh meetings of the Inter-Regulatory Forum (IRF). Further, regulated entity specific issues were discussed during the IRF meetings with bank - led financial conglomerates (FC).

Targeted Assessments

VI.132 The Reserve Bank's supervisory emphasis has been on system-wide risk monitoring and mitigation while keeping a tab on entity-specific issues. In this context, the Reserve Bank has instituted a system of targeted thematic assessments aimed at examining root cause of system-wide concerns as well as understanding the idiosyncratic risk build-up in some of the SEs across the system. These studies have helped in initiating corrective actions besides improvements in systems and processes.

Strengthening Off-site Supervision

VI.133 The Reserve Bank attaches a lot of importance to off-site monitoring and surveillance to ensure that any threat to financial stability is identified early and acted upon promptly. To ensure that the supervisory intensity and effectiveness of the Reserve Bank remains contemporaneous with the fast-changing financial systems, efforts are being made to make off-site surveillance systems sharper, more comprehensive and in tune with the international best practices. During the year, a study was conducted comparing the international best practices in off-site monitoring with the prevailing systems in the Reserve Bank (Box VI.6).

Agenda for 2023-24

VI.134 The Department has identified the following goals for supervision of all SEs in 2023-24:

- A comprehensive review of supervisory processes, including that for rating models, based on internal and external inputs (*Utkarsh* 2.0);
- Calibrated harmonisation of the supervisory approach across segments / SEs (especially for NBFCs and UCBs in line with SCBs) by phased introduction of process audit and compliance testing (*Utkarsh* 2.0);

Box VI.6
International Best Practices in Off-site Monitoring

An assessment of international best practices in supervisory off-site monitoring and surveillance system adopted by major National Supervisory Authorities (NSAs)[16] *vis-à-vis* the prevailing system in the Reserve Bank was carried out by the Department. The assessment broadly covered organisational set-up, framework/ methodologies, tools/ technologies, and supervisory capacity building. Some of the key points are stated below:

Organisational Set-up

NSAs generally do not follow a static set-up and keep reviewing and re-organising their off-site monitoring practices to be in tune with the organisational set-up and to effectively face complex challenges posed by the rapidly evolving financial system. The organisational set-up has been augmented with new divisions/units to monitor risks in a more focused and comprehensive manner. Few examples of organisational set-up of NSAs are:

- ECB has set up a Risk Analysis Division (RAD) for off-site monitoring and supervision of Financial Institutions (FIs) across the Euro area.
- Financial Conduct Authority, the United Kingdom (UK) has established a centre of excellence for data and advanced analytics to explore usage of AI / ML in its day-to-day supervisory activities.
- The Monetary Authority of Singapore (MAS) has set up two off-site divisions within the inspection and supervisory methodologies department, for efficient and effective supervision.

Framework/Methodologies

NSAs are using integrated framework for supervisory risk assessments through a flexible mix of off-site monitoring and on-site supervision as illustrated under:

- The Australian Prudential Regulation Authority (APRA) uses an integrated supervision risk and intensity model for risk assessment of entities through a judicious mix of off-site and on-site supervision.
- The supervisory methodologies, tools and analytics division of MAS develops supervisory methodologies and analytical tools.
- The Federal Reserve Bank uses supervision, regulation and statistical assessment of bank risk model for off-site monitoring of banks.

Tools and Technologies

As most of the off-site supervisory processes are data-intensive, repetitive or highly manual, the choice of tools and technologies for off-site monitoring assumes significance. Some of the key emerging technologies used by supervisors in development of SupTech strategies are cloud technology, AI, ML, natural language processing (NLP), distributed ledger technology and application programming interfaces. Few instances of key initiatives undertaken by NSAs using emerging technologies for effective supervision are:

- The ECB has developed an early warning system using ML that helps to identify FIs in financial distress.
- The SupTech office of MAS, in partnership with their FinTech and innovation group, conducts analysis on supervisory and financial sector data and enhances data analytics capabilities to make regulatory compliance more efficient.

Conclusion

The cross-jurisdictional study reveals that there is a greater focus on off-site analytics and surveillance framework for early identification of incipient risks and initiating prompt remedial measures in coordination with on-site supervisors. Besides, emphasis is given on capacity building and skill upgradation of supervisors on a continuous basis. The Reserve Bank is undertaking most of the activities which are carried out by major national supervisors. The new activities and projects in progress or proposed shall also help to further augment the scope and capacity of off-site supervision, monitoring and surveillance. These include advanced supervisory monitoring system (*DAKSH*); use of advanced analytics, artificial intelligence and machine learning for generating supervisory inputs; automating data reporting and setting up monitoring tools for data management (CIMS) and supervisory intelligence framework-based capabilities from alternative data sources such as the social media and online news.

Source: RBI.

[16] Australian Prudential Regulation Authority (APRA), Australia; Bank Negara, Malaysia; De Nederlandsche Bank, Netherlands; European Central Bank (ECB); Bank of England and Financial Conduct Authority (FCA), UK; Monetary Authority of Singapore (MAS) and Federal Reserve Bank, USA.

- Streamlining and strengthening the onsite assessment of SEs related to KYC-AML and Cyber / IT risks (*Utkarsh* 2.0);
- Implementing various analytics and SupTech initiatives for strengthening of supervision; and
- Strengthening of cyber security across SEs including setting-up of cyber range for conducting cyber drill, examining feasibility of implementation of Cyber Sectoral Security Operations Centre (S-SOC) and conducting phishing simulation exercises for SEs.

Enforcement Department (EFD)

VI.135 The Enforcement Department was set up in April 2017 with a view to separate enforcement action from supervisory process and to put in place a structured, rule-based approach to identify and process violations by the regulated entities (REs) of the applicable statutes and the rules, regulations, guidelines and orders made, directions issued, and conditions imposed thereunder by the Reserve Bank, and enforce the same consistently across the Reserve Bank. The objective of enforcement is to ensure compliance by the REs with laws, within the overarching principle of ensuring financial stability and safeguarding public interest and consumer protection.

Agenda for 2022-23

VI.136 The Department had set the following goals for 2022-23:

- Towards facilitating improvement in compliance culture by REs, a system of preparing a report on enforcement actions at half yearly intervals for dissemination of additional information amongst REs shall be put in place (Paragraph VI.137);
- Seminars focused on sensitisation of compliance officers of REs shall also be organised (Paragraph VI.138);
- The Department will provide inputs for compliance testing of REs to the Department of Supervision (DoS), National Housing Bank (NHB) and National Bank for Agriculture and Rural Development (NABARD) for frequently observed contraventions identified using the business process application so as to improve the compliance culture in REs (Paragraph VI.139); and
- The Department will examine the feasibility of a scale-based approach to enforcement (Paragraph VI.140).

Implementation Status

VI.137 A system of preparation of report on enforcement actions at half yearly intervals has been put in place. The first such report has been shared with DoS for dissemination of information amongst the REs.

VI.138 Seminars focused on compliance and enforcement were organised for the chief compliance officers (CCOs) of commercial banks as well as chief executive officers (CEOs) of cooperative banks during the year.

VI.139 Based on the experience gained and the responses received from the REs during the process of examination of the inspection/ scrutiny reports and other references received in the Department, contraventions observed and suspected to have wider prevalence were identified and shared with DoS and NABARD for compliance testing.

VI.140 Feasibility of scale-based approach to enforcement is under a holistic examination.

Other Initiative

VI.141 During 2022-23, the Department undertook enforcement action against 205 REs (211 penalties) and imposed aggregate penalty of ₹40.39 crore for contraventions/non-compliance[17] with provisions of statutes and certain directions issued by the Reserve Bank from time to time (Table VI.5).

Agenda for 2023-24

VI.142 During 2023-24, the Department proposes to achieve the following goal:

- The Department would endeavour to implement a scale-based approach to enforcement.

Table VI.5 Enforcement Actions (April 2022- March 2023)

Regulated Entity	Number of Penalties	Total Penalty (₹ crore)
1	2	3
Public Sector Banks	7	3.65
Private Sector Banks	7	12.17
Cooperative Banks	176	14.04
Foreign Banks	5	4.65
Payments Banks	-	-
Small Finance Banks	2	0.97
Regional Rural Banks	1	0.42
NBFCs	11	4.39
HFCs	2	0.10
Total	**211**	**40.39**

-: Nil
Source: RBI.

5. CONSUMER EDUCATION AND PROTECTION

Consumer Education and Protection Department (CEPD)

VI.143 The Consumer Education and Protection Department (CEPD) frames policy guidelines for protection of the interests of customers of the Reserve Bank Regulated Entities (REs); monitors the functioning of internal grievance redress mechanism of REs; undertakes oversight on the performance of the ombudsman offices as well as implements 'the Reserve Bank-Integrated Ombudsman Scheme, 2021' (RB-IOS); and creates public awareness on safe banking practices, extant regulations on customer service and protection, as also on the avenues for redress of customer complaints.

Agenda for 2022-23

VI.144 The Department had proposed the following goals for 2022-23:

- Enhanced nation-wide awareness drive for protecting customers from financial frauds (Paragraph VI.145);
- Harnessing advanced technological tools for strengthening customer protection and improving expediency of grievance redressal by the Reserve Bank (Paragraph VI.146);
- Upgrade and expand the Reserve Bank Contact Centre at Chandigarh to include disaster recovery and business continuity solutions (Paragraph VI.147);

[17] Illustratively, some of them include contravention of Section 26A of BR Act, 1949; Cyber Security Framework in Banks; Exposure Norms and IRAC Norms; Reserve Bank of India [Know Your Customer (KYC)] Directions, 2016; Reserve Bank of India (Frauds classification and reporting by commercial banks and select FIs) directions 2016; Reporting information on CRILC; Submission of credit information to Credit Information Companies (CICs); Customer Protection-Limiting Liability of Customers in Unauthorised Electronic Banking Transactions; Director related loans; Monitoring of end use of funds; and the Housing Finance Companies (NHB) Directions, 2010.

- Set up a committee for review of the customer service standards and practices in REs and the Reserve Bank guidelines in the matter (Paragraph VI.148);
- Construction and dissemination of a Consumer Protection Assessment Matrix [Paragraph VI.149]; and
- Review of the framework for 'Strengthening of Grievance Redress Mechanism in Banks' (Paragraph VI.150).

Implementation Status

Enhanced Nationwide Awareness Drive for Protecting Customers from Financial Frauds

VI.145 In addition to the on-going initiatives for greater financial literacy, education and awareness among the customers, CEPD launched a pan-India consumer financial awareness programme for covering all regions and segments of the population, especially those in rural and semi-urban areas. All 22 Reserve Bank Ombudsmen addressed multimedia channels in regional/ local languages in addition to Hindi and English to spread the messages on customer rights, consumer protection, grievance redress mechanism and prevention of financial frauds, to the last mile. A media interaction covering various facilities of the Reserve Bank under its Alternate Grievance Redress (AGR) mechanism, *viz*., RB-IOS, 2021, Centralised Receipt and Processing Centre (CRPC), Contact Centre, the roles and responsibilities of the customers as well as the safeguards against digital/ electronic fraud was held. This was followed by a month-long Nationwide Intensive Awareness Programme (NIAP) campaign in collaboration with REs from November 1 to 30, 2022, during which awareness messages were broadcast through print, multimedia channels, RBI website, 'RBI-says', Interactive Voice Response System (IVRS) and 'RBI *Kehta Hai', etc.,* in addition to various physical interactions/ interface programmes with the common public (Box VI.7).

Harnessing Advanced Technological Tools for Strengthening Customer Protection and Improving Expediency of Grievance Redressal by the Reserve Bank

VI.146 In order to leverage Artificial Intelligence (AI) in Complaint Management System (CMS) for better complaint categorisation, for decision-making support and better customer experience, a detailed business requirement document was prepared and presented before the Technical Advisory Group (TAG) for their review. The technical submissions of the vendor on the TAG action points are currently being reviewed by Reserve Bank Information Technology Private Limited (ReBIT). Post the same, the proposal would be put up again before TAG for their guidance and go-ahead.

Broad-base and Upgrade the Reserve Bank Contact Centre at Chandigarh to include Disaster Recovery and Business Continuity Solutions

VI.147 The Contact Centre (CC) [toll-free number – 14448] timings for interaction with executives in Hindi and English was extended from 9:30 A.M. to 5:15 P.M. (7 hours and 45 minutes) to 8.00 A.M. to 10.00 P.M. (14 hours) on all weekdays except national holidays. Information on IVRS is available on 24×7×365 basis. Callers to the Contact Centre can obtain information on AGR as also the status of their complaints lodged on the CMS. Two additional languages, Assamese and Punjabi, have been added to eight regional languages, *viz*., Bengali, Gujarati, Kannada, Malayalam, Marathi, Odia, Tamil and Telugu, available at the time of its launch on November 12, 2021. The project for development of the state-of-the-art CC at three locations namely Bhubaneswar, Chandigarh and Kochi with Business Continuity (BC) and Disaster

Box VI.7
Nationwide Intensive Awareness Programme

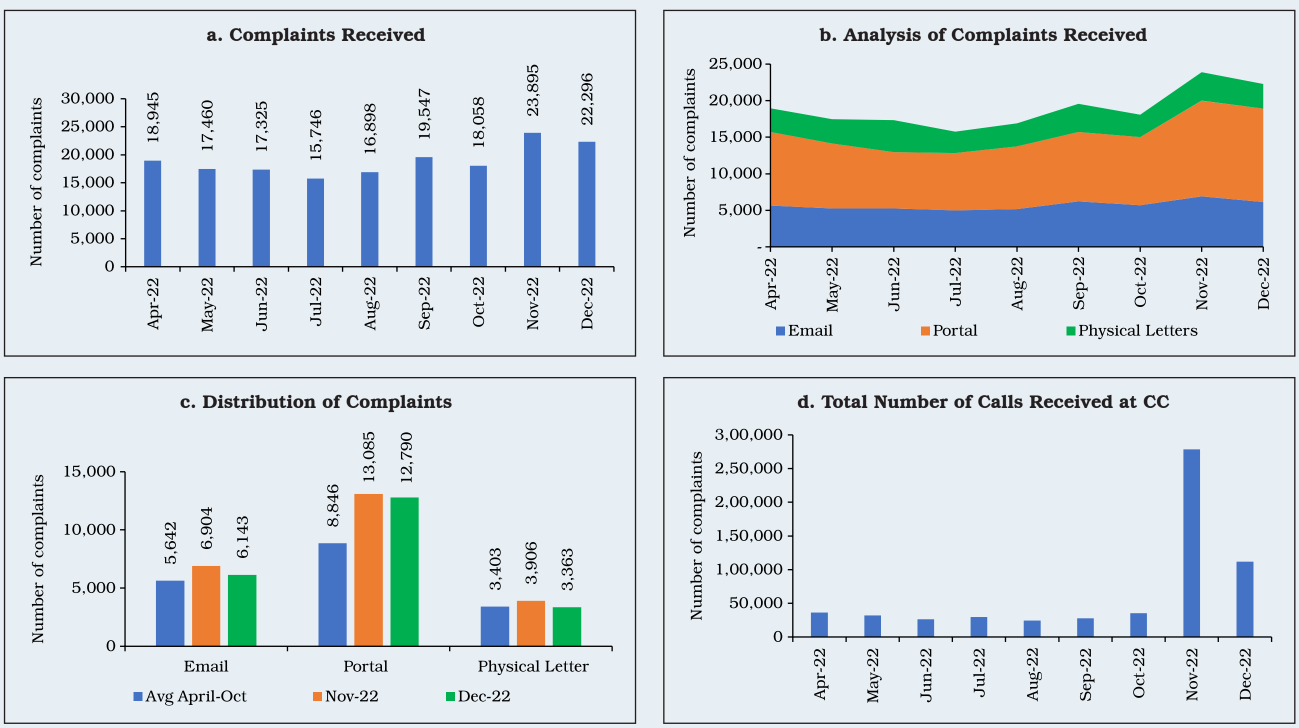
A Nationwide Intensive Awareness Programme (NIAP) was launched on November 1, 2022 and spread over the month of November, with an objective to increase the awareness among the public on their rights, Alternate Grievance Redress (AGR)/Internal Grievance Redress (IGR) mechanisms and overall financial awareness, leveraging the reach of the Reserve Bank REs. The focus of the programme was on creating awareness in the hitherto unreached and isolated segments of the population, especially in the Tier-III to VI cities and other unreached areas. Majority of the campaigns were carried out in regional / local languages using channels with local outreach.

Several innovative strategies along with regular public awareness campaigns were deployed to reach out to the public, a few among them were folk arts such as *nukkad nataks*, puppet shows, skits, magic shows, street plays; sports competitions; flash mobs, rallies, half-marathons, formation of human chains, crosswords and focused events for senior citizens, differently abled, construction workers, small shopkeepers and visually challenged.

During the NIAP campaign, around 1.63 lakh programmes were carried out, of which around 1.28 lakh programmes were carried out in physical mode. Approximately three crore persons participated physically in these programmes and the online channel reached out to around 25 crore people. Special drives were conducted for vulnerable sections of the population and around 16,000 differently abled and over 82,000 senior citizens participated in these activities. Focused drives were organised for around 22,000 recovery agents on fair practices and extant guidelines on loan recovery, *etc*.

In terms of impact, due to the awareness created by these programmes a substantial rise in the number of complaints received under the RB-IOS as well as a surge in the number of calls to the Contact Centre of the Reserve Bank, Chandigarh has been observed (Chart 1).

Chart 1: Impact of NIAP



Source: RBI.

NIAP and other awareness programmes have also increased the recall value of RB-IOS and enthused REs to strive for excellence in consumer protection.

Source: RBI.

Recovery (DR) capabilities is underway. The connectivity and network requirements for the CC would be provided by Indian Financial Technology and Allied Services (IFTAS). The CC would be staffed as per a hybrid model where the CC operations are handled by an outsourced agency while the overall supervision is handled by the Reserve Bank officials.

Committee for Review of the Customer Service Standards and Practices in REs and the Reserve Bank Guidelines in the matter

VI.148 A committee for 'Review of Customer Service Standards in Reserve Bank Regulated Entities' (Chairman: Shri B. P. Kanungo, former Deputy Governor, RBI) was constituted to review the status of customer service quality in REs as well as adequacy of customer service regulations and suggest measures to improve the overall customer protection framework. The committee has since submitted the report to the Reserve Bank and its recommendations are being examined for implementation.

Construction of a Consumer Protection Assessment Matrix (CPAM)

VI.149 A Consumer Protection Assessment Matrix is being developed by CEPD with an objective of putting in place a structured mechanism for assessing the performance of REs in areas of customer service, grievance redress and for creation of financial awareness among their customers.

Review of the Framework for 'Strengthening of Grievance Redress Mechanism in Banks'

VI.150 The framework for strengthening of internal grievance redress in banks put in place on January 27, 2021 has been reviewed, based on feedback received from REs as well as the experience in implementing the framework for the year ended March 2021 and March 2022. Based on the outcomes, further enhancement to the mechanism are being examined.

Major Developments

Inclusion of Credit Information Companies (CICs) under the RB-IOS, 2021 and Extension of the Internal Ombudsman (IO) Mechanism to CICs

VI.151 Credit Information Companies (CICs) were brought under RB-IOS with effect from September 1, 2022 to provide an avenue for cost free and expeditious Alternate Grievance Redress (AGR) to customers of REs covered under the RB-IOS, 2021 for grievances against CICs.

VI.152 The Internal Ombudsman (IO) mechanism was previously made applicable to (i) banks in 2018; (ii) non-bank payment system participants in 2019; and (iii) deposit-taking NBFCs (NBFCs-D) with 10 or more branches and non-deposit taking NBFCs (NBFCs-ND) with asset size of ₹5,000 crore and above, having public customer interface, in November 2021. To strengthen and improve the efficiency of the internal grievance redressal mechanism of CICs, the IO mechanism has now been extended to them as well. All CICs holding a Certificate of Registration (CoR) under sub-section (2) of Section 5 of the Credit Information Companies (Regulation) Act, 2005, have been directed to comply with the Reserve Bank (Credit Information Companies - Internal Ombudsman) Directions, 2022 by April 1, 2023. The direction, *inter alia*, covers the appointment/tenure, role and responsibilities, procedural guidelines, and oversight mechanism for the IO.

Satisfaction Survey on RB-IOS, CRPC and Contact Centre

VI.153 The Department conducted a satisfaction survey in the month of April-May 2022 for the customers who had approached the RBIO for redressal of their grievances regarding unsatisfactory disposal of their complaints by their financial service providers who are the REs of the Reserve Bank, including the level of satisfaction with the CRPC and the Contact Centre at Chandigarh. Nearly 60 per cent of respondents were satisfied with overall resolution provided by the Reserve Bank Ombudsmen and 58.7 per cent of respondents mentioned that the waiting time/ attempts to reach a Contact Centre executive was reasonable. As per the survey findings, 60.1 per cent of respondents were satisfied with the overall process under RB-IOS, including registration, handling of complaint and resolution time.

Agenda for 2023-24

VI.154 The Department proposes the following agenda under *Utkarsh* 2.0 for 2023-24:

- Review, consolidation and updation of the extant Reserve Bank regulatory guidelines on customer service;
- Digitalisation of data compiled through incognito visits for enhanced data utility and analysis;
- Establish Reserve Bank Contact Centre at two additional locations for local languages, including Disaster Recovery and Business Continuity Plan facility; and
- Review and integration of the internal ombudsman schemes, applicable to different RE types.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

VI.155 Deposit insurance system plays an important role in maintaining the stability of the financial system, particularly assuring the small depositors of protection of their deposits, and thereby preserving public confidence in their financial system. DICGC is wholly-owned by the Reserve Bank and is constituted under the DICGC Act, 1961. The deposit insurance extended by DICGC covers all commercial banks including local area banks (LABs), payments banks (PBs), small finance banks (SFBs), regional rural banks (RRBs) and co-operative banks, that are licensed by the Reserve Bank. The number of registered insured banks as on March 31, 2023 stood at 2,027, comprising 140 commercial banks (including 43 RRBs, two LABs, six PBs and 12 SFBs) and 1,887 co-operative banks [33 state cooperative banks, 352 district central cooperative banks and 1,502 urban cooperative banks (UCBs)].

VI.156 With the current limit of deposit insurance in India at ₹5 lakh per depositor of a bank ‘in the same capacity and in the same right’, the number of fully protected accounts (294.5 crore) as on March 31, 2023 constituted 98.1 per cent of the total number of accounts (300.1 crore). In terms of amount, the total insured deposits of ₹83,89,470 crore as on March 31, 2023, constituted 46.3 per cent of assessable deposits of ₹1,81,14,550 crore. At the current level, insurance cover would be 2.91 times of per capita income in 2022-23.

VI.157 DICGC builds up its Deposit Insurance Fund (DIF) through transfer of its surplus, *i.e.*, excess of income (mainly comprising premium received from insured banks, interest income from investments and cash recovery out of assets of failed banks) over expenditure (payment of claims of depositors and related expenses) each year, net of taxes. This fund is available for settlement of claims of depositors of banks taken into liquidation/ amalgamation.

VI.158 During 2022-23, the Corporation has sanctioned supplementary claims of 11 liquidated banks aggregating ₹105.8 crore under Section 16 (1) of the DICGC Act, 1961. Besides, during 2022-23, the Corporation has also settled claims in respect of 28 banks under 'All Inclusive Directions (AIDs)' of the Reserve Bank aggregating ₹646.8 crore. The size of the DIF stood at ₹1,69,263 crore (Provisional) as on March 31, 2023, yielding a reserve ratio (DIF/insured deposit) of 2.02 per cent.

VI.159 During 2021-22, the DICGC Act, 1961 was amended which facilitated disbursal of depositors' insured money for the banks placed under AID. In terms of Section 18 (A) of the DICGC act 1961, the DICGC is now empowered to disburse to willing depositors of such banks a sum of up to ₹5 lakh each within a period of 90 days. An insured bank is required to submit its claim within 45 days of imposition of AID after which the DICGC is required to get the claims verified within 30 days and pay the depositors within the next 15 days. There is no provision in the DICGC Act to extend the timelines fixed by the statute either for the insured bank or the DICGC. However, there have been instances of non-submission of depositors claim list by some UCBs within the statutory timeline of 45 days, thereby constraining the DICGC from making pay-outs to eligible depositors of such banks. The Corporation has undertaken initiatives to strengthen the public awareness through the constitution of a Technical Advisory Committee (TAC) to guide the Corporation in its public outreach activities. The strategy and the channels of communication to create public awareness, including social media, are the focus of the communication policy.

VI.160 The efficacy of deposit insurance system in a jurisdiction can be gauged by assessing its compliance with International Association of Deposit Insurers' (IADIs') core principles for effective deposit insurance systems (Box VI.8).

Box VI.8

DICGC's Compliance with IADI Core Principles for Effective Deposit Insurance System

The International Association of Deposit Insurers (IADI) and the Basel Committee on Banking Supervision (BCBS) issued the core principles for effective deposit insurance systems (DIS) in June 2009. A compliance assessment methodology for the core principles (CPs) was completed in December 2010. The CPs and their compliance assessment methodology are used by jurisdictions as a benchmark for assessing the quality of their DISs and for identifying gaps in their deposit insurance practices and measures to address them. The CPs are also used by the International Monetary Fund (IMF) and the World Bank, in the context of the financial sector assessment programme (FSAP) to assess the effectiveness of jurisdictions' DISs and practices. The CPs were revised in November 2014 (16 CPs), keeping in view the developments in the aftermath of the global financial crisis in 2008-09.

The primary objective of an assessment should be to evaluate compliance with the CPs, after considering the structural, legal and institutional features of each jurisdiction's deposit insurance system(s). The assessment process should help the deposit insurer and policymakers benchmark their deposit insurance system against the CPs to judge how well the system is meeting its public policy objectives. The assessment, in turn, can also aid the deposit insurer and policymakers in making improvements to the deposit insurance system and financial safety net, as necessary. As per the CPs, the assessments follow a five-grade scale[18].

(Contd.)

[18] Compliant: when the essential criteria are met without any significant deficiencies. Largely compliant: when only minor shortcomings are observed, and the authorities are able to achieve full compliance within a prescribed time frame. Materially non-compliant: when there are severe shortcomings that cannot be rectified easily. Non-compliant: no substantive implementation of the CP. Not applicable: not considered given the structural, legal and institutional features of the deposit insurance system.

The Corporation has recently done a self-assessment of the DICGC's compliance with IADI CPs primarily based on the DICGC Act and the present mandate. As per the self-assessment, the Corporation is either fully compliant (five CPs) or largely compliant (five CPs) in more than half of the CPs. Of the remaining six CPs, it is materially non-compliant (two CPs), while four CPs are not applicable.[19] As per IADI, the mandate of deposit insurers can be classified into four categories based on the overall functions.[20]

The Corporation largely comes under the category of 'pay-box plus' whereby the Corporation, in addition to making payout to depositors of liquidated banks and banks placed under AID by Reserve Bank (with restriction on withdrawal of deposits), provides financial assistance in the case of merger of a weak bank with a strong bank after the approval of the merger scheme by the competent authority.

References:

1. DICGC Act, 1961 (As amended up to August 2021).
2. IADI (2014), 'Core Principles for Effective Deposit Insurance Systems', November.
3. IADI (2016), 'A Handbook for the Assessment of Compliance with the Core Principles for Effective Deposit Insurance Systems', March.

6. CONCLUSION

VI.161 In 2022-23, several regulatory and supervisory measures were undertaken to safeguard the financial system from multiple global headwinds as also to further strengthen the financial sector along with an emphasis on consumer education and protection. The results of a survey on climate risk and sustainable finance that was undertaken in January 2022 were released during the year. The objective of the survey was to assess the approach, level of preparedness and progress made by leading SCBs in managing climate-related financial risks. Accordingly, a discussion paper on climate risk and sustainable finance was also released during the year, inviting comments from regulated entities (REs) and other stakeholders. Going forward, many more new initiatives in the regulatory and supervisory space have been contemplated for implementation during 2023-24, including those under the Reserve Bank's medium-term strategy framework for the period January 2023 to December 2025 (*Utkarsh* 2.0). Concerted efforts would also be made towards further improving customer services in the financial sector through fine-tuning of the existing grievance redressal mechanisms based on stakeholders' feedback, while expanding the coverage and reach of FinTech that would make the delivery of financial services faster, safer and at a reasonable cost.

[19] CP4: Relationship with other Safety-Net Participants; and CP6: DI's role in Contingency Planning and Crisis Management are materially non-compliant. CP5: Cross-Border Issues; CP12: Dealing with Parties at Fault in a Bank Failure; CP13: Early Detection and Timely Intervention; and CP 14: Failure Resolution are Not Applicable

[20] The mandates can be broadly classified into four categories: (i) "Pay box", where the deposit insurer is only responsible for the reimbursement of insured deposits; (ii) "Pay box plus", where the deposit insurer has additional responsibilities, such as certain resolution functions (*e.g.,* financial support); (iii) "Loss minimiser", where the insurer actively engages in a selection from a range of least-cost resolution strategies; and (iv) "Risk minimiser", where the insurer has comprehensive risk minimisation functions that include risk assessment/management, a full suite of early intervention and resolution powers, and in some cases prudential oversight responsibilities.