RBI Regulatory Banking Insights

Dec 2024 – April 2025

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Preface

The Indian banking and financial sector continues to operate in an environment of accelerating change with evolving macroeconomic realities, rapid technological transformation and shifting global financial dynamics that have demanded consistent regulatory adaptability. In this context, the Reserve Bank of India (RBI) has remained steadfast in its role of a steward of financial stability and a catalyst for innovation.

A clear regulatory narrative has emerged over the past few months — one that emphasises prudential risk management in an expanding credit environment, heightened oversight of digital lending and fintech participation, modernisation of supervisory architecture through technology and a renewed focus on transparency, governance and consumer protection. These priorities are not isolated but reflect a broad strategic vision to align India's financial regulatory framework with the imperatives of a dynamic, digitally enabled and globally integrated economy.

The Indian economy has been resilient with GDP growth estimates for FY24-25 upgraded by several agencies supported by strong services output and strengthening rural demand. Inflation, though largely within the RBI tolerance range, experienced episodic spikes led by food and energy inflation, necessitating ongoing monetary caution. The RBI followed a restrained approach, keeping policy rates unchanged while monitoring core inflation trends.

Rupee-dollar exchange rate was under pressure due to strengthening of dollar globally, a steady rise in crude prices and FIIs selling in some phases. However, active intervention by the RBI and sufficient forex reserves averted any disorderly depreciation.

Broadly, the stabilisation of the US inflation and hints of a slow cycle of rate hikes provided some bullish sentiment to many emerging economies by de-risking their prospects. In addition, flat US inflation amidst China's unstable recovery and stagnant Eurozone created both opportunity and risk for India's external sector, which was in transition.

In December 2024, the RBI released its Financial Stability Report, which provides an outlook on the financial sector economy and the risks that are being faced by the financial sector entities.

In April 2025, the RBI amended the Liquidity Coverage Ratio (LCR) framework, enhancing banks' liquidity resilience. The net impact of these measures is estimated to improve the LCR of banks by around 6 percentage points.

Effective 1 April 2025, the RBI revised Priority Sector Lending (PSL) guidelines to widen coverage and raise loan limits across various sectors, including housing and renewable energy. The overall PSL target for urban cooperative banks was increased to 60% of adjusted net bank credit.

As we move into the second half of 2025, the financial sector will continue to face both opportunities and challenges. The growing footprint of AI in banking, cross-border payment systems, sustainability-linked financing and increasing interdependence between traditional banks and tech-driven entities that will require continuous regulatory agility. The RBI has signaled that it will remain proactive and risk-aware in its approach. Stakeholders need to prepare for more stringent scrutiny, enhanced expectations around compliance culture and increased accountability to depositors and borrowers alike.

This edition of the RBI Regulatory Banking Insights covers regulatory updates from December 2024 to April 2025, highlighting regulatory interventions aimed at ensuring continued resilience, integrity and inclusiveness of India's banking system. Our detailed view on the FSR also forms part of this publication. We believe this publication will serve as a reference and interpretive guide for professionals across the financial services spectrum.

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Our view on Financial Stability Report December 2024

Macrofinancial risks

Introduction

This chapter discusses global financial risks and the resilience of the Indian economy. Despite growing geopolitical tensions, slower economic growth, and uncertainty in policy making, the international financial system has proven resilient. However, there are still certain weaknesses in less regulated non-bank financial firms, excessive levels of public debt, and inflated asset prices. With strong balance sheets, low market volatility, and sound macroeconomic foundations, the Indian economy and financial system remain strong and stable in comparison to these global challenges.

Global macrofinancial risks

In the short time span though the economic concerns faced have lowered, the uncertainty surrounding the global economy persists.

Some factors that pose a risk include the increased public debt, commercial real estate sector stress, an increase in private credit, cyber risk and raised asset valuations.

Increased public debt: Due to the rising debt levels that have a deficit in differentiation when compared with the growth rate the concerns regarding the global debt are valid.

It is safe to say that the US and China lead by example as their nearly 100 trillion worth of global debt accounts for 93% of the GDP. For emerging countries, an increase in the interest rate can be restraining as it messes with their fiscal plans.

Fiscal risk premiums may rise sharply, leading to increased government debt costs and instability in bond markets, reminiscent of the UK turmoil in September 2022.

Stretched asset valuations: Global financial markets have remained buoyant, with rising asset prices, leading to stretched equity valuations and high price-to-earnings (P/E) ratios.

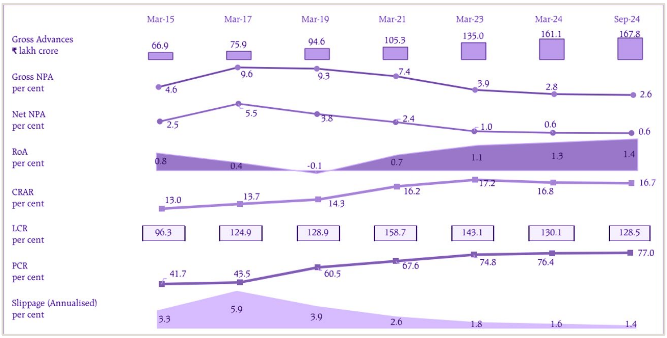
Stress in the commercial Real Estate sector: The price of commercial buildings and other real estate assets fell drastically across multiple targeted countries.

Banks with significant exposure to commercial real estate face increased vulnerability due to potential defaults or declines in asset values.

Geopolitical risks: Recent geopolitical conflicts have escalated risks to the global economy. Such tensions restrict the free flow of trade and raise inflation and lower the investor confidence which in turn clouds the financial environment.

Cyber risk: Financial services' heightened digitisation across sectors has translated into an increase in cyber terrorism attacks, an upward trend that is set to continue into the years 2022 and 2023. Cyber Attacks, structural in nature, have the potential to put the efficiency of operational markets and the Confidence in a financial institutions' intermediary role at risk, threatening financial markets.

Whilst there is uncertainty in global macroeconomic environment, the Indian economy remains stable. Below chart highlights the soundness of the banking sector in India.



Note:

- Data as on December 12, 2024
- Data pertains to domestic operations of SCBs (excluding SFBs)
- Source: RBI Financial Stability Report December 2024

The data above indicates significant increase in gross advances between March and September 2024, with decline in gross NPA, reflecting healthy balance sheets with reduction in percentage of default loans over the years. A lower GNPA ratio demonstrates banks' ability to manage credit risk effectively.

The CRAR percentage has also increased to 16.7% in September 2024, indicating sufficient capital for the bank in cases of distress. There has been a decline in the LCR during past 1 year, however it remains above the ideal LCR of 100%.

Domestic backdrop

The Indian economy is the fastest-growing major economy globally. Real GDP growth is rising, inflation is moderating, and the external sector is improving. The Indian banking system is well-buffered with strong capital and liquidity ratios.

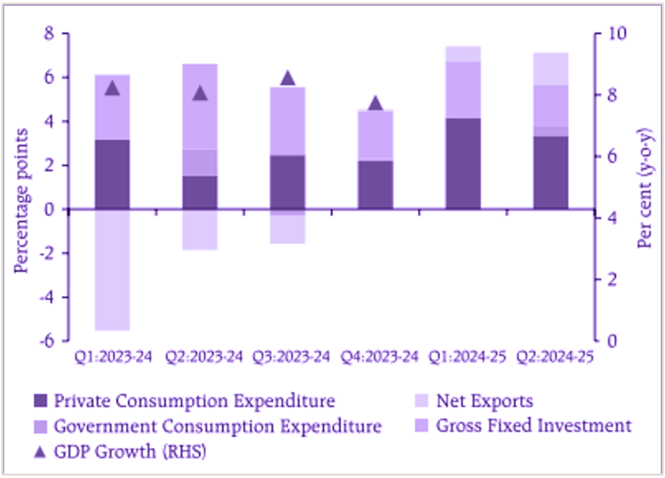
Domestic macrofinancial risks

The Indian economy remains the fastest-growing major economy globally, supported by strong public consumption and investment, alongside healthy financial system balance sheets.

Domestic growth and inflation

- Real GDP growth moderated to 6.0% in H125 compared to 8.2% and 8.1% during H1 and H2 of 2023-24, respectively. Structural growth drivers such as robust public consumption, rising investment, and strong service exports are expected to drive recovery in Q3 and Q4 of 2024-25.
- Inflationary trends fluctuated, with CPI inflation rising to 6.2% in October 2024 due to food price increases but easing to 5.5% in November, aided by softening food prices and a favorable base effect. Core inflation also increased by 64 bps to 3.7% in November 2024. Risks to inflation include extreme weather events affecting crop production and geopolitical tensions disrupting global supply chains.

Contribution to GDP Growth



Source: RBI Financial Stability Report December 2024

External sector

- Merchandise exports grew by 2.2% year-on-year during April-November 2024, while imports increased by 8.3%, widening the trade deficit to USD 202.4 billion compared to USD 171 billion in the previous year.
- The current account deficit (CAD) stood at 1.2% of GDP in H1 of 2025, supported by buoyant service exports and remittances.
- Net foreign portfolio investment (FPI) inflows totaled USD 12.7 billion in 2024-25 (up to December 2024), with debt flows benefiting from India's inclusion in global bond indices. Higher external commercial borrowings (ECBs) and non-resident deposit inflows also contributed positively to external finances.
- Foreign exchange reserves stood at USD 644.4 billion as of December 2024, covering 99% of external debt or nearly one year of merchandise imports, highlighting strong external sector resilience.

Foreign exchange market

India's foreign exchange market has shown resilience in a period of global volatility. The Indian rupee (INR) has remained stable, as reflected in various indicators like real effective exchange rates, the exchange market pressure (EMP) index, and volatility indicators (implied volatility and onshore-offshore spreads)

Corporate sector

The corporate sector in India continues to exhibit resilience, with stable sales growth of 6.2% year-on-year during H1 of 2024-25, consistent with H2 of 2023-24. Manufacturing companies recorded sales growth of 4.9%, while IT and non-IT services sectors saw higher growth rates of 5.7% and 9.6%, respectively. However, rising input and staff costs have moderated operating profit growth to 4.3% for manufacturing firms, leading to a slight decline in operating profit margins across sectors.

Despite these pressures, the corporate sector benefits from a healthier debt structure, with the debt-to-equity ratio on a steady decline since 2018-19. India's corporate debt-to-GDP ratio remains lower than that of advanced economies (AEs) and emerging market economies (EMEs), reflecting robust fiscal health. The cost of finance, measured by interest expenses as a percentage of borrowings, rose to 9.2% as of September 2024, but remains manageable.

Government finance

India's fiscal position has seen consistent improvement, with the gross fiscal deficit (GFD) of the central government declining to 5.6% of GDP in 2023-24, lower than the budgeted estimate of 5.9%.

For 2024-25, the GFD is projected to decrease further to 4.9% of GDP, supported by broad-based growth in revenue receipts.

The Government has prioritised capital expenditure to boost investment and economic growth, with a 16.7% increase projected for 2024-25. Revenue expenditure is expected to rise modestly by 6.2%, leading to a significant improvement in the revenue expenditure to capital outlay ratio, which is estimated to fall to an all-time low of 4.0.

Central government debt, which peaked at 62.7% of GDP during the pandemic, is projected to decline to 56.8% in 2024-25, supported by favorable debt dynamics and fiscal consolidation efforts. States have also maintained fiscal discipline, with a consolidated GFD of 2.9% in 2023-24, well within the prescribed limit of 3.5%. While some larger states face higher debt-to-GSDP ratios exceeding 35%, efforts are underway to align with the medium-term fiscal responsibility targets.

Item	2020-21	2021-22	2023-23	2023-24(PA)	2024-25(BE)
Fiscal Deficit	9.2	6.7	6.4	5.6	4.9
Revenue Deficit	7.3	4.4	4.0	2.6	1.8
Gross Primary Deficit	5.7	3.3	3.0	2.0	1.4

Note: PA: Provisional Accounts; BE: Budget Estimate

Source: RBI Financial Stability Report December 2024

Household finance

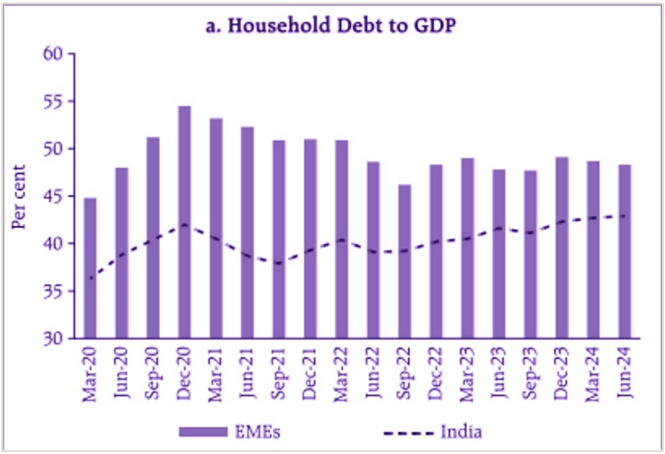
India's household debt stood at 42.9% of GDP as of June 2024, reflecting a relatively low level compared to other emerging market economies (EMEs). However, this debt has been on a rising trend over the past three years. The increase is primarily driven by a growing number of borrowers rather than a significant rise in average indebtedness.

Borrowing by individuals constitutes around 91% of the household financial liabilities. Loans are primarily utilised for consumption (e.g., personal loans, credit cards, and consumer durables), asset creation (e.g., mortgages and vehicle loans), and productive purposes (e.g., agricultural and business loans). Notably, nearly two-thirds of the portfolio comprises borrowers with prime or better credit quality, highlighting overall stability.

Subprime borrowers tend to focus on consumption-oriented loans, whereas super-prime borrowers leverage debt for asset creation, particularly in housing. In recent periods, per capita debt has risen sharply for super-prime borrowers, while remaining stable across other risk tiers. This trend, characterised by asset-focused borrowing among highly rated individuals, is considered credit-positive from a financial stability perspective.

While household savings rates have shifted toward physical assets and away from financial instruments, the rising share of highly rated borrowers and their use of debt for productive purposes supports the overall financial health of the household sector.

Household debt to GDP



Source: RBI Financial Stability Report December 2024

Money and capital markets

Financial conditions have improved, driven by enhanced system liquidity, resulting in lower money market rates and government bond yields. The Nifty50 returned 17% in local currency. Midcap, small-cap, and microcap stocks yielded returns of over 30%, raising concerns about potential bubbles in these segments. Retail participation in stock options and futures has surged, contributing to better price discovery but also increasing investor risks. Regulators are actively taking steps to address these risks. While foreign portfolio inflows were robust in 2023-24, they turned negative in the current fiscal year, with geopolitical tensions remaining a risk factor for foreign investors.

Returns of Nifty benchmark indices (per cent)

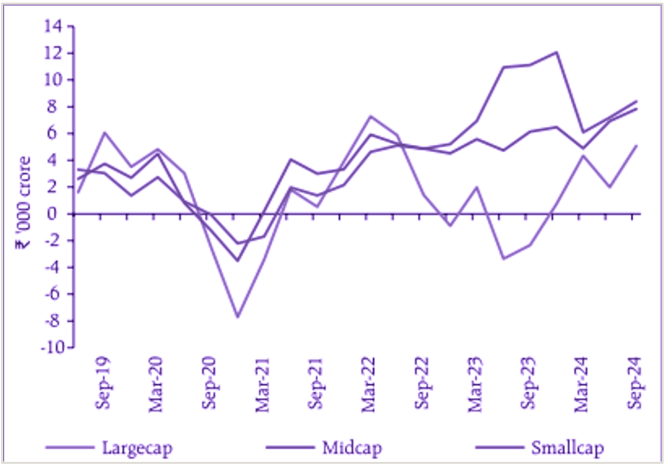
CAGR	1-year	2-years	3-years
Nifty 50	17	15	12
Nifty 100	21	17	13
Nifty Midcap 150	32	33	23
Nifty Smallcap 250	35	37	24
Nifty Microcap 250	44	51	36

Source: RBI Financial Stability Report December 2024

Mutual funds

The Assets Under Management (AUM) of the Indian mutual fund industry increased significantly during 2024, with equity-oriented schemes driving this growth. Sectoral and thematic funds have attracted much higher inflows compared to regular equity funds between December 2023 and May 2024, reflecting strong investor interest in specific sectors. Although the growth of debt fund AUM has been slower compared to equity funds, Systematic Investment Plans (SIPs) have gained popularity.

Net inflows into different equity schemes of mutual funds



Source: RBI Financial Stability Report December 2024

Banking system

- The Indian banking system has shown notable improvements in asset quality, evidenced by a decline in non-performing assets (NPAs) and robust profitability supported by high margins and steady credit demand. Capital buffers remain healthy, with the Capital Adequacy Ratio (CRAR) and Common Equity Tier 1 (CET1) ratios significantly exceeding regulatory minimums. Additionally, there is rising loan demand, particularly in the retail and services sectors.
- However, while the banking sector is largely resilient, emerging risks warrant close monitoring. The widening credit-deposit gap (C-D gap) and the increase in unsecured retail loans that are becoming non-performing could affect banks' lending capabilities and profitability in the future. Regulatory measures aimed at limiting lending to non-banking financial companies (NBFCs) seem to be effective, yet their long-term implications require careful evaluation. Furthermore, banks need to be vigilant regarding the potential impact of rising interest rates on their investment portfolios.

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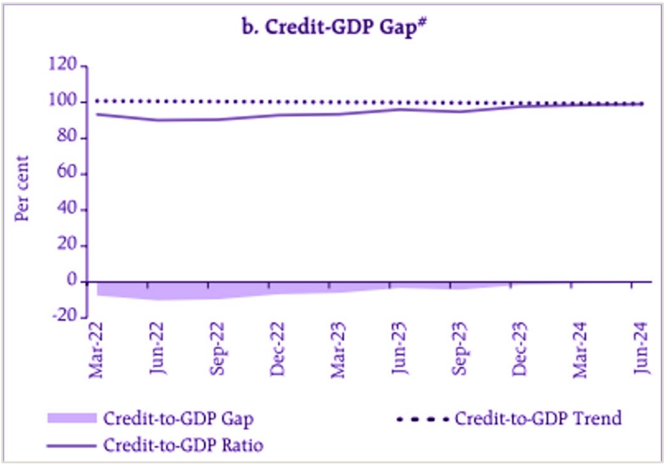
Credit-to-GDP gap



Source: RBI Financial Stability Report December 2024

NBFCs

The NBFC sector has experienced a slowdown in loan growth during H1:2024-25, moderating to 6.5% year-on-year in September 2024. This moderation is attributed to the full effect of prudential measures increasing risk weights on consumer credit categories and on bank lending to NBFCs. The impact has been particularly pronounced in the upper-layer NBFCs (NBFC-ULs), which are primarily NBFC-Investment and Credit Companies (NBFC-ICCs) with a significant retail lending component (63.8% of their loan book). In contrast, middle-layer NBFCs (NBFC-MLs), excluding government-owned entities, have maintained strong loan growth, particularly in their retail portfolios.

NBFCs loan growth

Source: RBI Financial Stability Report December 2024

Consumer credit

Despite stable delinquency levels for banks and NBFCs overall, there is rising impairment in unsecured retail loan portfolios. Nearly half of the borrowers availing credit cards and personal loans also have outstanding high-ticket loans, such as housing and vehicle loans. A default in any loan category can lead to others being treated as non-performing, increasing the risk of delinquency, especially among borrowers with both unsecured and secured loans.

The Financial System Stress Indicator (FSSI)

The Financial System Stress Indicator (FSSI) reflects a positive trend, showing a significant decline in overall stress levels in the Indian financial system during the first half of 2024-25. This improvement is primarily attributed to easing financial market conditions, strengthened balance sheets of financial intermediaries, and increased foreign portfolio debt inflows that bolstered the government debt market. As a result, both short-term and long-term yields experienced a decrease.

Conclusion

The Indian Financial Services industry is well-positioned due to the strong domestic economy. However, global risks and potential asset bubbles require close monitoring by regulators and financial institutions. Embracing technological advancements while managing cyber risks will be crucial for future growth.

Regulatory initiatives in the financial sector

Introduction

Across the globe the regulators remain vigilant on strengthening the financial system, identifying, and mitigating the potential vulnerabilities as the global financial system navigates through high uncertainty. Policymakers and International standard-setting bodies are working towards measures to safeguard the resilience of the gradually complex financial system due technological advancement and by incorporating climate risk through active regulatory and supervisory actions.

The RBI in Chapter III of the Financial Stability Report talks about initiatives that have been taken domestically as well as globally with an aim to strengthen stability and resilience of the financial system.

Global regulatory developments

Global regulatory developments

The International Organisation of Securities Commissions (IOSCO) report on "Market Outages" (June 2024) proposes measures to enhance market resilience and outlines appropriate responses by trading venues and regulators in case of trading suspensions due to technical problems. It reviews the current legislative and regulatory framework for business continuity plans and includes a survey of trading venues and market participants. The survey found that software and hardware issues were the top reasons for market outages between 2018 and 2022. The report recommends good practices such as conducting lessons-learned exercises, establishing, and publishing an outage plan, creating methodologies for alternative closing prices, and developing communication plans to ensure business continuity.

The IOSCO final report on "Leveraged Loans and Collateralized Loan Obligations (CLOs)" reviews origination practices in these segments and highlights good practices to ensure investor protection. Key observations include a shift in the borrower base from traditional industrial sectors to technology and healthcare, with a general deterioration in the credit profile of corporate borrowers. The investor base now mainly consists of non-banks due to regulatory oversight prompting banks to hold less risky investments. Significant market developments include the rise in covenant-lite deals, increased documentation complexity, and highly leveraged transactions. The report outlines twelve good practices across five themes:

- Origination and refinancing based on sound business premises.
- Transparency on EBITDA adjustments and other loan covenants.
- Strengthening alignment of interest from loan origination to end investors.
- Addressing interests of different market participants throughout the intermediation chain.
- Ongoing disclosure of information.

Technology and financial stability

The advancement of technology, and the usage of Artificial Intelligence (AI) by the companies and service providers has raised concerned about the related risk to wider public interest.

The European Union (EU) has recently enacted the European Artificial Intelligence Act (AI Act) in August 2024 . The Act offers to ensure that the AI system developed and deployed in the EU safeguards people's fundamental rights while creating a positive environment for invention and investment.

In the discussions held during the OECD – FSB Roundtable on AI in Finance and the rapid adoption of AI in the Financial Sectors, policy makers were called to promote the safe use of AI.

The report records the increased used of AI in finance for fraud detection, risk modelling and increased operational efficiency and the sector exploring the potential of GenAI for internal applications. The report also talks about vulnerabilities caused using third-party AI service providers in the said sector. The report states that the policy and regulatory framework should attempt to achieve a balance to encourage innovation and at the same time protect consumers and the need for the financial supervisors to develop necessary expertise, tools, and skills for effective monitoring.

Tokenisation has significantly impacted the financial sector, particularly through crypto-asset markets and digital tokens on programmable platforms. This ecosystem allows multiple parties to issue, trade, and settle transactions with traditional money and other assets. Central banks have scrutinised these developments due to their regulatory responsibilities over payment systems, monetary policy, and financial stability. In response, the Bank for International Settlements (BIS) and the Committee on Payments and Market Infrastructures (CPMI) submitted a joint report to the G20, concluding that token-based arrangements could alter market structures and lead to network effects.

The Financial Stability Board (FSB) report on the "Financial Stability Implications of Tokenisation" focuses on tokenised money based on distributed ledger technology (DLT). It identifies vulnerabilities such as liquidity mismatches, leverage, asset pricing issues, interconnectedness, and operational fragilities. The FSB's status report on the "Crypto-Asset Policy Implementation Roadmap" highlights that stablecoin issuers are significant holders of mainstream financial assets, though linkages with core financial markets remain limited. Nearly all FSB members are developing regulatory frameworks for crypto-assets and stablecoins, facing challenges like regulatory evasion, lack of compliance, and data gaps. The report also notes higher interest in stablecoins in emerging markets, which can affect monetary policy, capital controls, fiscal resources, and financial stability.

Banking and financial stability

The 2023 banking unrest highlighted several key issues, including changes in depositor behavior due to technology, faster bank runs, and new liquidity risks. "The 2023 banking turmoil and liquidity risk" Report from the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) emphasised the challenges in monitoring banks' liquidity risks and the need for better resolution readiness, especially for banks relying on uninsured deposits. They also pointed out vulnerabilities in life insurers and non-bank real estate investors due to interest rate-sensitive assets.

The BCBS issued principles for managing third-party risks, emphasising the need for banks to handle risks from relying on third-party service providers.

These principles provide a common baseline for risk management while allowing flexibility for evolving practices. Additionally, a BCBS working paper highlighted the operational, liquidity, and market risks banks face when using permissionless distributed ledger technologies, suggesting mitigants like business continuity practices and safeguards such as allow-listing and smart contracts.

Non-banking financial intermediation and financial stability

The development of Non-Banking Financial Intermediation (NBFI) has not only increased the sector's role in financing the real economy but also its potential to increase the systematic risk. The FSB's work program aims to enhance the resilience of NBFIs by stabilising liquidity demand, improving risk monitoring, and reducing central bank interventions. The FSB progress report highlights uneven policy implementation across jurisdictions and focuses on three main areas: assessing NBFI vulnerabilities, developing resilience policies, and monitoring reforms. Key deliverables for 2024-25 include closing data gaps, issuing policy recommendations on liquidity preparedness, and completing work on transparency in centrally cleared markets.

The FSB's final report on "Liquidity Preparedness for Margin and Collateral Calls" highlights that while margin and collateral calls protect against counterparty risk, they can increase liquidity demand during stress, impacting broader markets. The policy recommendations include (i) establishing contingency funding plans (ii) regularly reviewing liquidity risk frameworks, and (iii) adjusting liquidity stress tests to cover extreme scenarios.

Cross-border payments and financial stability

Following the GFC, the G20 introduced the Legal Entity Identifier (LEI) system to improve financial transparency and risk management. Initially used in over-the-counter (OTC) derivatives and securities markets, the LEI now supports cross-border payment efficiency, KYC processes, and sanctions screening. The FSB's October 2024 report highlights the LEI's role in facilitating transactions, noting an 84% increase in active LEIs since 2019. Challenges include limited incentives for voluntary adoption and high costs, particularly in low-income areas. The FSB recommends promoting LEI use and full implementation of previous recommendations.

Climate Finance and Financial Stability

The Network for Greening the Financial System (NGFS) addresses climate change risks in regulatory, investment, and monetary policy fields. It develops supervisory practices, climate scenarios, and guides central banks on nature-related financial risks. The NGFS published a framework to help central banks and financial supervisors understand, assess, manage, and disclose these risks.

The NGFS report on "Climate change, the macroeconomy and monetary policy" explores how physical hazards and the transition to net zero affect economic variables like output and inflation. It offers guidelines to help central banks understand these impacts and incorporate climate-related factors into their modelling toolkits.

The FSB progress report on "Achieving Consistent and Comparable Climate-Related Disclosures" highlights the progress made since 2021 in implementing sustainability disclosure frameworks and developing global assurance and ethics standards. It notes significant advancements in setting regulations, guidelines, and strategic roadmaps for climate-related disclosures.

Domestic Regulatory Developments

Since the June 2024 issue of FSR, the Sub-Committee of the Financial Stability and Development Council (FSDC-SC), has met once in September 2024. The committee has reviewed global and domestic macroeconomic and financial developments, focusing on inter-regulatory coordination in India's financial sector. Members assessed potential financial stability risks and discussed related issues. They also reviewed the activities of technical groups and the functioning of State-level Coordination Committees (SLCCs) in States/Union Territories (UTs).

The FSDC-SC decided to focus improving financial sector resilience through inter-regulatory coordination, while staying vigilant to emerging challenges such as global spillovers, cyber risks, and climate change.

Directions on Fraud Risk Management to Regulated Entities

RBI has amended the directions on Fraud Risk Management for Regulated Entities (REs), defining a broad structure for prevention, early detection, and timely reporting of fraud incidents to Law enforcement agencies (LEAs). The directions, enhance the role of Board for governance and supervision of fraud risk management in the REs.

The directions stress the importance of robust internal audits and controls in REs and introduce a revised framework for early warning signals (EWS) and red flagging of accounts (RFA) to detect fraud early. These measures aim to reduce fraud incidents and impacts by equipping institutions with preventative and corrective tools. The Reserve Bank's focus on fraud risk management supports its broader efforts to enhance financial stability, resilience, customer trust, and the integrity of the financial sector.

Prompt Corrective Action (PCA) Framework for Primary (Urban) Co-operative Banks (UCBs)

RBI has introduced the Prompt Corrective Action (PCA) Framework for Urban Cooperative Banks (UCBs) to enable early supervisory intervention. Effective from April 1, 2025, this framework applies to Tier 2, 3, and 4 UCBs, requiring remedial measures for those breaching risk thresholds related to capital adequacy, asset quality, or profitability. It includes restrictions on balance sheet expansion, capital investments, and high-risk assets. Tier 1 UCBs will undergo enhanced monitoring.

Treatment of Wilful Defaulters and Large Defaulters

RBI has issued guidelines for classifying borrowers as wilful defaulters to enhance accountability and strengthen banks' risk management. These guidelines ensure a transparent process for identifying wilful defaulters, incorporate principles of natural justice, specify measures and consequences for deliberate defaults, and emphasise proper credit appraisal and monitoring of fund usage.

Cyber resilience and Digital Payment Security Controls for non-bank payment system operators

RBI has issued directions on 'Cyber Resilience and Payment Security Controls' for non-bank payment system operators (PSOs) to enhance the security of digital payment systems against cyber threats. These guidelines focus on improving overall information security preparedness, including governance controls, information security measures, and digital payment measures, with an emphasis on cyber resilience. These directions mandate a Cyber Crisis Management Plan (CCMP) for non-bank PSOs to handle cyber threats and attacks. They set minimum information security standards in areas like identity and access management, network security, vendor risk management, business continuity, and cloud security. These measures aim to protect consumers from fraud and ensure trust in digital financial services, especially with the growing reliance on digital payments.

Scheme for Trading and Settlement of Sovereign Green Bonds (SGrBs) in the International Financial Services Centre (IFSC) in India

RBI in consultation with the Government and IFSCA, has notified a scheme to facilitate non-resident investment and trading in Sovereign Green Bonds (SGrBs) through the IFSC. This scheme outlines investor eligibility, eligible securities, market participation guidelines, trading, and settlement procedures, and reporting requirements. Currently, SEBI-registered foreign portfolio investors (FPIs) can invest in SGrBs. This initiative aims to enhance global climate capital flows into India by making it easier for non-resident investors to access and trade in SGrBs.

Irregular practices in gold loans

RBI has advised the Supervised Entities (SEs) to review and correct their policies on loans against gold ornaments and jewelry. This is due to significant growth in gold portfolios and identified gaps such as third-party outsourcing deficiencies, gold valuation discrepancies, inadequate due diligence, and insufficient monitoring of loan fund usage.

Recognition of central counterparties by foreign regulators

RBI is addressing concerns about foreign regulations affecting domestic central counterparties (CCPs), including derecognition by foreign regulators, which can cause liquidity inefficiencies and disrupt financial stability. To tackle these issues, the RBI is engaging with foreign regulatory bodies, such as the European Securities and Markets Authority (ESMA).

Strengthening of foreign portfolio investors norms

To avoid evasion of Minimum Public Shareholding (MPS) norms, SEBI requires FPIs to disclose detailed ownership, economic interest, or control information if they: (a) hold over 50% of their Indian equity AUM in a single corporate group, or (b) hold more than INR 25,000 crore of equity AUM in the Indian market, individually or with their investor group.

Association of persons regulated by the SEBI and their agents with certain persons ('Finfluencers')

The significant online presence of 'finfluencers' allows them to influence their followers' financial decisions. However, most are not registered with financial regulators or authorised under SEBI's regulations to offer advice or recommendations on securities.

SEBI has amended several regulations to ensure that regulated entities and their agents do not associate with individuals who provide unregistered advice or make unauthorised claims about securities. These amendments aim to enhance the integrity of financial advice and recommendations.

SEBI-regulated entities, including stock exchanges, clearing corporations, and depositories, must ensure compliance with regulations prohibiting unauthorised activities. SEBI-registered entities acting as 'finfluencers' are also subject to the advertisement code established by SEBI and relevant authorities.

Valuation of additional Tier 1 Bonds ('AT-1 Bonds')

SEBI's Master Circular for Mutual Funds requires perpetual bonds to be valued at the lowest value obtained by considering various call dates and the maturity date, with a deemed maturity of 100 years. Mutual funds can value AT-1 bonds on a Yield-to-Call basis, while the deemed maturity for all other perpetual bonds remains as specified in the SEBI Master Circular.

Measures to strengthen equity index derivatives framework

In October 2024, SEBI implemented measures to enhance the Equity Index Derivatives Framework. This was aimed at boosting investor protection and market stability due to rising retail participation and increased speculative trading on expiry days.

SEBI has increased the minimum contract size for index derivatives to INR 15 lakh from INR 5 lakh, with a new range of INR 15 lakh to INR 20 lakh. Measures to address expiry day activity include rationalising weekly index derivatives, increasing margin for tail risk coverage, discontinuing calendar spread benefits, and mandating intraday position limit monitoring. Upfront collection of option premiums from buyers has also been mandated.

Review of eligibility criteria for entry/exit of stocks in derivatives segment

In August 2024, SEBI revised the eligibility criteria for stocks in the equity derivatives segment to ensure high-quality stocks with sufficient market depth. The criteria for median quarter sigma order size (MQSOS), market wide position limit (MWPL), and average daily delivery value (ADDV) were raised significantly. Stocks failing to meet these criteria for three continuous months will exit the segment. Additionally, a product success framework (PSF) was introduced for evaluating stock exits.

Review of stress testing framework for equity derivatives segment

New stress testing methodologies were adopted to better understand and measure tail risk in the equity derivatives segment, determining the size of the default fund for clearing corporations. Provisions were also made for inter-segment transfer of SGF from equity cash to equity derivatives and staggered contributions to the core SGF of the equity derivatives segment.

Monitoring of position limits for equity derivatives segment

In October 2024, SEBI increased the position limits for trading members in index futures and options contracts to INR 7,500 crore or 15% of total open interest (OI), whichever is higher, from the previous INR 500 crore or 15% of OI. These limits apply separately to index futures and options and are effective immediately.

Starting April 2025, SEBI will monitor positions of market participants in the equity derivatives segment (index and stocks) based on the previous day's open interest of the overall market, aligning with the practice in the currency derivatives segment.

Review of small and medium enterprises (SME) framework

SEBI has approved amendments to the SEBI (ICDR) Regulations, 2018 and the SEBI (LODR) Regulations, 2015 to strengthen the framework for public issues by SMEs, facilitate fund-raising for SMEs with a soundtrack record, and protect investors' interests.

Key changes in the amendments include:

- SME issuers must have an operating profit of INR 1 crore for any two of the last three financial years to make an IPO.
- Offer for sale (OFS) by selling shareholders in SME IPOs is capped at 20% of the total issue size, and they cannot sell more than 50% of their holding.
- Lock-in on promoters' excess holding will be released in phases after one year.
- Allocation methodology for non-institutional investors (NIIs) in SME IPOs is aligned with Main Board IPOs.
- General Corporate Purpose amount in SME IPOs is capped at 15% of the amount raised or INR 10 crore, whichever is lower.
- SME issues cannot use proceeds to repay loans from promoters or related parties.
- Related party transaction norms for Main Board listed entities are extended to SME listed entities, with a materiality threshold of 10% of annual consolidated turnover or INR 50 crore, whichever is lower.

Cybersecurity and Cyber Resilience Framework (CSCRF) for the SEBI Regulated Entities

SEBI issued the Cybersecurity and Cyber Resilience Framework (CSCRF) to protect IT infrastructure and data at its REs. The framework aims to:

- Enhance cybersecurity with standards and guidelines.
- Facilitate risk management with comprehensive assessment guidelines.
- Promote cyber resilience by developing defense and recovery capabilities.
- Improve audits and compliance.
- Encourage continuous improvement and vigilance in cybersecurity practices.

The CSCRF outlines responsibilities for REs, including board-level oversight, accountability of MD/CEO, appointment of a CISO, and IT Committee composition. It mandates regular cyber audits, risk assessments, and the use of a Cyber Capability Index (CCI) for periodic resilience assessment. Additionally, scenario-based cybersecurity drills are required to improve preparedness and strengthen capabilities.

Framework of Financial Disincentives for Surveillance Related Lapses at Market Infrastructure Institutions (MIIs)

MIIs, including stock exchanges, clearing corporations, and depositories, are crucial to the Indian securities market. They must be well-equipped to detect and prevent market abuse, including new tactics by unscrupulous elements, and take prompt and effective action against such activities.

SEBI has implemented a framework to address surveillance lapses at MIIs. This framework applies to lapses from non-adherence to required surveillance activities or decisions from SEBI surveillance meetings. Financial disincentives are based on the MII's annual revenue and the number of lapses. The goal is to encourage MIIs to be proactive and efficient in their surveillance functions.

Upstreaming of clients' funds by stock brokers/ clearing members to clearing corporations

SEBI has introduced a framework requiring stock-brokers (SBs) and clearing members (CMs) to upstream all client funds to clearing corporations (CCs). This measure ensures that no client funds are retained by SBs/CMs, preventing misuse such as creating Fixed Deposit Receipts (FDRs) for obtaining Bank Guarantees (BGs).

Under this framework, stock-brokers (SBs) and clearing members (CMs) must upstream all clear client credit balances to clearing corporations (CCs) daily. Upstreaming can be done via cash, lien on FDRs from client funds, or pledge of Mutual Fund Overnight Schemes (MFOS) units. Any funds received after the cut-off time remain in the Up Streaming Client Nodal Bank Account (USCNBA) until the next day. FDRs must be created with banks meeting CCs' exposure norms, have a tenure of no more than one year, and be lien-marked to a CC. This framework aims to enhance investor protection, market integrity, and ensure client funds are invested in low-risk products.

Specific Due Diligence of Investors and Investments of Alternative Investment Funds (AIFs)

AIFs connect sophisticated investors with companies needing risk capital and have a flexible regulatory framework compared to mutual funds (MFs) and portfolio management services (PMS). However, some AIFs have facilitated circumvention of financial regulations, such as evergreening stressed loans, enabling ineligible investors to become Qualified Institutional Buyers (QIBs) or Qualified Buyers, and bypassing foreign investment norms.

SEBI has established a framework with broad principles and implementation standards for AIFs to prevent regulatory circumventions. This includes due diligence checks on investors and investments before making an investment. Adhering to these standards will enhance trust among investors and stakeholders in the long run.

Institutional Mechanism by Asset Management Companies (AMCs) for Deterrence of Potential Market Abuse

SEBI amended the SEBI (Mutual Funds) Regulations, 1996 to address market abuse, including front running and fraudulent transactions. Asset Management Companies (AMCs) must now implement a structured institutional mechanism to identify and deter market abuse. The amendments aim to enhance management accountability and foster transparency by requiring a whistleblower mechanism.

SEBI has specified a broad framework for implementing the institutional mechanism, including enhanced surveillance systems, internal controls, and escalation processes to identify and address misconduct like front running and insider trading. Requirements for alert generation, monitoring, reporting, and periodic review by AMCs have been outlined. The Association of Mutual Funds in India (AMFI) has issued detailed implementation standards, in consultation with SEBI, which all AMCs must follow.

Use of Artificial Intelligence in the Financial Sector

In December 2024, the RBI formed a committee to develop a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the financial sector. This committee will assess AI adoption, identify risks, and recommend frameworks for evaluation, mitigation, and monitoring. SEBI has advised market infrastructure institutions and intermediaries using AI tools to ensure privacy, security, and data integrity, taking full responsibility for their use.

Other Developments

Other Developments

As of 30 September 2024, the Deposit Insurance and Credit Guarantee Corporation (DICGC) insured depositors' of 1989 banks in India, including 139 commercial banks and 1850 co-operative banks. The Deposit Insurance Fund (DIF) grew by 16.9% year-on-year, reaching INR 2.14 lakh crore.

As of September 30, 2024, with a deposit insurance limit of INR 5 lakh, 97.7% of the total deposit accounts (293.7 crore) were fully insured, covering 42.6% of the total value of all assessable deposits (INR 227.3 lakh crore).

As of September 30, 2024, the insured deposits ratio was higher for cooperative banks (63.1%) compared to commercial banks (41.5%). Among commercial banks, public sector banks (PSBs) had a higher insured deposit ratio than private sector banks (PVBs). During First Half of the FY 2024-25, the DICGC received INR 13,127 crore in deposit insurance premiums, marking a 12.9% year-on-year growth. Commercial banks contributed 94.5% of this amount.

The Deposit Insurance Fund (DIF) with the DICGC, built from premiums, investment income, and recoveries, grew by 16.9% year-on-year to INR 2.14 lakh crore as of September 30, 2024. The reserve ratio increased to 2.21% from 2.02% a year ago.

Developments in International Financial Services Centres (IFSC)

Since 2021, the IFSCA has notified many new regulations and frameworks aligned with international best practices for the GIFT-IFSC. By the end of September 2024, the total number of registrations/authorisations reached 687.

By September 2024, the number of Fund Management Entities (FMEs) in the IFSC nearly doubled to 128, and Alternative Investment Funds (AIFs) increased over seven times to 173, targeting a corpus of $40.6 billion. The GIFT-IFSC Exchanges had a monthly turnover of $102 billion, with an average daily turnover of $4.8 billion in NIFTY derivative contracts. Debt securities worth $63.9 billion, including $14.8 billion in green and sustainable bonds, were listed on the IFSC exchanges.

As of September 2024, the GIFT-IFSC banking ecosystem includes 28 banks (12 foreign and 16 domestic) with a total asset size of $70.9 billion. Cumulative banking transactions grew from $53 billion in September 2020 to $975.8 billion by September 2024.

The India International Bullion Exchange (IIBX) aims to develop India as a major gold trading hub. Three internationally recognised vault managers have set up vaults at the IFSC with capacities of 450 tonnes for gold and 3000 tonnes for silver. Additionally, gold imports under the UAE-India CEPA through IIBX have begun.

The IFSCA developed the Single Window IT System (SWITS) to improve ease of doing business in the GIFT-IFSC. SWITS provides a common application form (CAF) by merging several existing forms, simplifying submissions under various Acts, including the SEZ Act, 2005. It also integrates a no objection certificate (NOC) processing module to streamline obtaining NOCs from regulators like the RBI, SEBI, and IRDAI.

Insurance

The life insurance sector saw a significant increase in premium income, growing by 13.7% year-on-year to INR 3.99 lakh crore in April-September 2024. New business premiums rose by 19.5% to INR 1.89 lakh crore. The general and health insurance sector also grew, with total premiums reaching INR 1.54 lakh crore, a 7.0% increase. Health insurance, the largest segment, reported the highest growth at 8.95%.

The IRDAI's new Master Circular aims to create a more flexible insurance sector by introducing principle-based regulations. Key points include stronger product governance, a simplified customer information sheet, mandatory policy loan facilities, flexible pension plan withdrawals, an extended 30-day free-look period, reinforced grievance redressal mechanisms, and measures to reduce mis-selling and ensure fair pricing. These changes aim to increase insurance penetration and boost consumer confidence.

The IRDAI's new Master Circular for the general insurance sector simplifies regulations and enhances customer-centric solutions. Key points include strict timelines for claim settlements, flexible policy cancellations, mandatory 'Pay as you drive' insurance, comprehensive coverage, fair pricing, robust governance, and tech-enabled processes. These changes aim to offer tailored options and improve the overall insurance experience for customers.

The IRDAI's new Master Circular for health insurance consolidates regulations to improve the claims process and customer experience. Key points include broader product choices, a simplified customer information sheet, flexibility in product selection, tech-driven services for cashless claims, strengthened policy renewability, and enhanced customer safeguards with strict timelines for portability and claim processes. These changes aim to ensure higher service standards and trust in the sector.

The IRDAI's new Master Circular on policyholder protection consolidates 30 previous circulars to enhance transparency and efficiency in claims processing. It provides guidance for policyholders and outlines regulatory compliance for insurers, aiming to build trust and promote a consumer-centric insurance environment. The reforms focus on greater transparency, ease of access, and simplified procedures, fostering a more inclusive and efficient insurance landscape in India.

Conclusion

Global regulatory bodies are addressing emerging risks to strengthen financial system stability. Key efforts include mitigating risks from technological advancements, cyberattacks, and third-party service providers. Regulators are enhancing frameworks to bolster resilience, ensuring financial institutions can manage disruptions. Ongoing collaboration and adaptability are crucial for maintaining a robust, secure, and sustainable global financial ecosystem.

Domestic regulatory initiatives focus on strengthening the resilience of financial intermediaries and market infrastructure, preventing fraud, and enhancing customer protection. Regulators remain vigilant and responsive, adapting to the evolving financial environment to ensure a robust financial system.

02

Impact Assessment of regulatory changes : December'24 to April'25

Unified payments interface (UPI) access for prepaid payment instruments (PPIs) through third party applications

RBI/2024-2025/97 CO.DPSS.POLC.No.S972/02-14-006/2024-25 ("Circular") Release date: December 27, 2024

Applicability

- All PPI issuers (banks/non-banks)
- NPCI
- System participants

Background and objective

This Circular amends the Master Direction on Prepaid Payment Instruments (MD-PPIs) to enable UPI payments from / to full KYC PPIs through third-party UPI applications.

As per the present framework under the MD-PPIs, the PPI issuers were allowed to link the PPI wallet of the customers only with the PPI issuers UPI handle given to the customer. As such, the users of PPI could only engage in UPI transactions by using the application provided by the PPI issuer.

As per the amended framework, users of Full-KYC PPIs can link their PPI wallets to third party UPI applications, providing them flexibility in making payments.

Key changes

- **Facility for full-KYC PPIs:**

  Under the MD-PPIs, PPI issuers can issue full-KYC PPIs after completing KYC of the PPI holder. In case of full-KYC PPIs, unlike small PPIs or minimum detail PPIs, PPI issuers have to complete customer due diligence process as stated in the RBIs Master Direction on KYC, 2016.

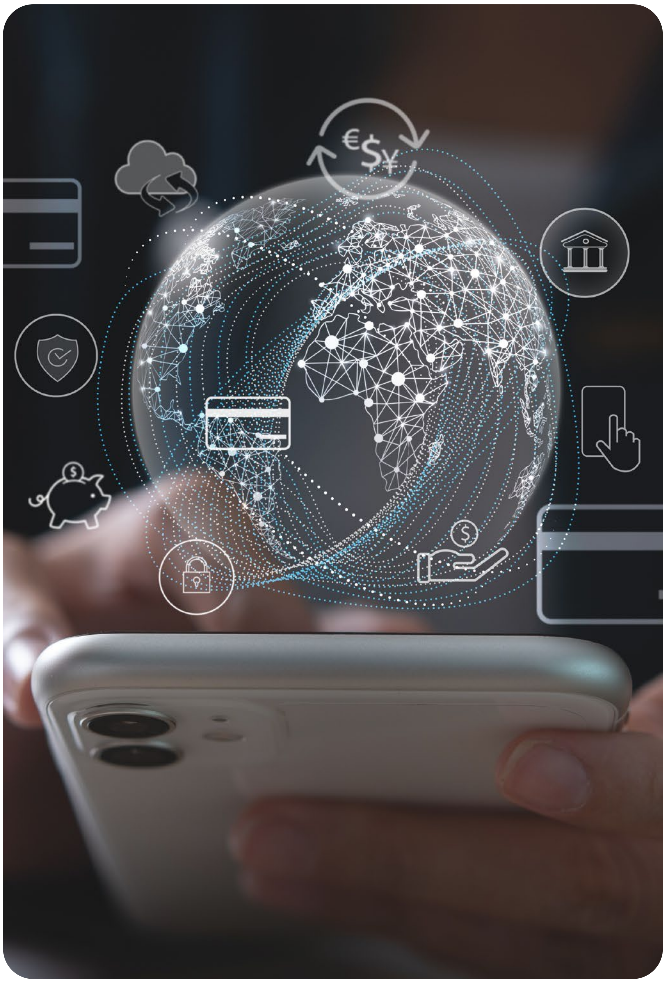
  As per the Circular, PPI issuers shall enable UPI payments for full KYC PPIs by linking their accounts to UPI handles. Authentication of such transaction shall be done by the PPI holders by using their existing PPI credentials.

- **Interoperability and flexibility:**

  The Circular provides payment flexibility and inter-operability through UPI. The PPI holders (full-KYC PPIs) can now link their PPI wallets to third party UPI applications, through the facility provided by the PPI issuer. This will enable the full-KYC PPI holders to make UPI transactions from PPI, using third party UPI applications as well.

Impact assessment

The Circular aims to achieve inter-operability through the UPI integration for full-KYC PPIs. Seemingly, this change is a pragmatic approach towards boosting the digital payments space. On the implementation side, this calls for system level changes to be made by the PPI holders to provide them the option of linking their PPI wallets with the third-party UPI application.



Government debt relief schemes (DRS)

RBI/2024-25/100 DOR.STR.REC.54/21.04.048/2024-25

Release date: December 31, 2024

Applicability

- All Commercial Banks (including Regional Rural Banks and Local Area Banks)
- All Primary (Urban) Co-operative Banks All State Cooperative Banks & Central Cooperative Banks
- All Non-Banking Financial Companies (including Housing Finance Companies)
- All All-India Financial Institutions

Background and objective

The RBI has introduced a framework to address stressed borrower accounts effectively, aligning with existing principles for financial stability. These guidelines are built upon earlier frameworks, including the Prudential Framework for Resolution of Stressed Assets, June 2011 and the Framework for Compromise Settlements and Technical Write-offs, June 2023 to address challenges in debt relief schemes and ensure robust credit discipline.

Some RE's may also be involved in the State Governments announced Debt Relief Schemes (DRS) to support specific borrower segments. While these schemes aims to alleviate or reduce financial stress.

However, it's noted by the RBI , that if such Government DRS are announced frequently, incommensurately, or without due consideration to the principles of financial discipline, they would negatively affect credit discipline and in the long run, may be counter-productive to the credit flow to such borrowers. To ensure prudence and alignment with regulatory norms, the RBI has outlined a structured approach for REs participating in DRS.

A model operating procedure (MOP) has also been shared with the State Governments for their consideration while designing and implementing such DRS to avoid any non-alignment of expectations of the stakeholders involved, including the Government, lenders, borrowers, etc.

Summary of key changes

Prudential treatment in respect of Government DRS (“Extant Guidelines”)

- Participation in the DRS:
  - REs may decide to participate in a particular DRS notified by a Government, based on its Board approved policy, subject to the extant regulatory norms.
  - During the consultation phase while designing the DRS, any provision of the scheme that may warrant modification in long term interest of the borrowers or for prudential reasons may be duly brought to the notice of the concerned authority/ies through the State Level Bankers' Committee (SLBC)/ District level Consultative Committee (DCC).
  - REs are responsible for clearly determining the final outstanding amounts for borrowers covered under the DRS. This includes accumulated interest in non-performing accounts to enable the government to budget appropriately for its fiscal commitments.
- Coverage/selection of borrowers under DRS
  - REs to ensure that borrowers are selected strictly in accordance with the DRS terms to prevent disputes or denial of admission on technical grounds.
  - The REs are required to clearly communicate to the borrowers about:
    - The terms and conditions of the scheme.
    - Prudential considerations like the cooling period for new loans.
    - Impacts on credit scores.
    - Explicit consent must be obtained from borrowers before they are enrolled in the DRS.
- Sacrifice by REs

  If the REs would waive of any accrued unrealised interest or sacrifices principal in the borrower accounts either as part of the implementation of DRS or after the implementation of the DRS shall be treated as a compromise settlement which shall attract the prudential treatment contained in Framework for Compromise Settlements and Technical Write-offs dated 8 June 2023.

- Loan account status
  - In case where the funds received by the REs as part of the DRS
    - Covers the entire outstanding dues of the borrower, the same shall lead to extinguishment of borrower's debt obligations.
    - Does not cover the entire outstanding dues of the borrower, the asset classification of the residual exposure shall be evaluated as per the terms and conditions of the original loan contract.
    - Any changes/modifications to the terms and conditions of the original loan contract in such cases shall be evaluated against the test of restructuring and shall attract the prudential treatment therein.
  - Any fresh credit exposure to such borrowers shall be as per the commercial discretion of the REs under relevant internal policy, subject to extant applicable regulations.
  - REs reporting in respect of the borrowers under the scheme to the Credit Information Companies (CIC) shall be guided by the Extant Guidelines in this regard.
- Government dues
  - No creation of any receivable against the Government on account of the DRS. The exposure shall be on the borrower till receipt of funds by the REs.
  - REs shall continue to apply the prudential norms including the norms on income recognition, asset classification and provisioning, till receipt of funds.
  - REs may pursue recovery measures of non- performing assets as per their Board approved policy against such borrowers.
- Settlement of dues

  Prior to the introduction of these guidelines, any dues pending for more than 90 days, shall attract specific provision of 100%. REs shall take necessary action and actively follow up with the respective Governments for settlement of such dues at the earliest.

Impact assessment

- DRS covers debt obligations of a targeted borrower segment, requiring fiscal authorities to fund these liabilities, often involving partial or full waiver of the lending institution's dues.
- To maintain credit discipline, such schemes should only be introduced as a last resort when other measures to alleviate financial stress have been exhausted.
- The framework emphasises collaboration between governments, lenders, and regulators to balance borrower relief with financial discipline.
- This proactive and consultative approach ensures sustainable credit systems while supporting vulnerable borrowers.

Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007

RBI/2024-25/108 EFD.CO.No.1/02.08.001/2024-25

Release date: January 30, 2025

Applicability

Authorised Payment System Operators/Banks ("Entities")

Background and objective

The RBI, on January 30, 2025, has issued the 'Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007' ("New Framework")

It supersedes the 'Framework for imposing monetary penalty on authorised payment system operators/ banks under the Payment and Settlement Systems Act, 2007' dated January 10, 2020 ("Erstwhile Framework").

The objective of the New Framework is to rationalise and consolidate the enforcement actions by RBI under the Payment and Settlement Systems Act, 2007 ("PSS Act")

Summary of key changes

The new framework focuses on two key mechanisms: monetary penalties for breaches and compounding certain offenses. The following sections outline the updated enforcement procedures and principles.

- **Compoundable offences:**

  The RBI is empowered under Section 31 of the PSS Act to compound certain contraventions, excluding offences punishable with imprisonment. Compounding allows violators to settle regulatory breaches without undergoing prolonged legal proceedings. This process applies to offences such as unauthorised disclosures, failure to submit documents, and non-compliance with regulatory directives.

- **Designated authority:**

  The designated authority prescribed under the Erstwhile Framework was pegged to the nature of amount involved in the contravention (i.e., whether quantifiable, non-quantifiable or partly quantifiable).

  However, under the New Framework, the designated authority will be determined basis the office of the Enforcement Department which would handle the case i.e., for cases handled by the central office, the designated authority is a committee comprising three executive directors and for cases handled by a regional office, it is a committee comprising the regional director and two senior officers of the regional office of Enforcement Department

- **Materiality for Contraventions to be penalised/compounded:**

  As per the New Framework, "only material contraventions will be taken up for enforcement action in the form of imposition of monetary penalty or compounding of offences". The New Framework also prescribes the factors basis which the materiality of a contravention will be determined – these inter alia include the: amount involved, Severity of contravention, percentage of amount involved vis-à-vis total transaction value, period and frequency of similar contraventions during the past five years, Submission of wrong / false / incomplete compliance etc.

- **Procedure for imposing monetary penalty:**

  The process flow under the Erstwhile Framework has been modified inter alia to exclude: (i) the RBI calling for additional information from a contravener, and (ii) RBI issuing a letter to contravener, calling for explanation prior to issuance of a show cause notice ("SCN"). Under the New Framework, the SCN issuance is the first step.

  Additionally, as per the New Framework, quantum of penalty may be based on principles of proportionality, intent and mitigating factors. It also provides additional factors which may be considered for determining quantum of monetary penalty viz. amount of gain or unfair advantage accruing to contravener (where quantifiable), amount of loss caused to any other authority/ agency/ exchequer and/ or other market participants and monetary benefits accruing to contravener from delayed/ non-compliance.

However, under the New Framework, the designated authority will be determined basis the office of the Enforcement Department which would handle the case i.e., for cases handled by the central office, the designated authority is a committee comprising three executive directors and for cases handled by a regional office, it is a committee comprising the regional director and two senior officers of the regional office of Enforcement Department

- **Materiality for Contraventions to be penalised/compounded:**

  As per the New Framework, "only material contraventions will be taken up for enforcement action in the form of imposition of monetary penalty or compounding of offences". The New Framework also prescribes the factors basis which the materiality of a contravention will be determined – these inter alia include the: amount involved, Severity of contravention, percentage of amount involved vis-à-vis total transaction value, period and frequency of similar contraventions during the past five years, Submission of wrong / false / incomplete compliance etc.

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  Additionally, as per the New Framework, quantum of penalty may be based on principles of proportionality, intent and mitigating factors. It also provides additional factors which may be considered for determining quantum of monetary penalty viz. amount of gain or unfair advantage accruing to contravener (where quantifiable), amount of loss caused to any other authority/ agency/ exchequer and/ or other market participants and monetary benefits accruing to contravener from delayed/ non-compliance.

- **Procedure for compounding:**

  Whilst the procedures set out under the New and the Erstwhile Framework are substantially similar, the New Framework expressly clarifies that where RBI compounds a contravention, no proceedings/ further proceedings are to be initiated/ continued.

  Additionally, the authority to submit the compounding application to the chief-general-manager, Enforcement Department which was earlier submitted to the chief-general-manager, Department of Payment and Settlement Systems.

- **Compounding amount:**

  Whilst the basis for calculation of compounding amount is the same as for penalties under both the Framework. However, the matrix for computation of penalties/ compounding amount under the Erstwhile Framework has been omitted under the New Framework.

  As per the Erstwhile Framework, the New Framework also prescribes that the compounding amount may be 25% less than the calculated compounded, of fine/ penalties that would have otherwise been imposed in relation to the contraventions. However, for repeated contraventions within a five-year period for which compounding has been done earlier, the compounding amount may be increased by 50% subject to limits under the PSS Act.

- **Payment of monetary penalty/compounding amount and consequences of non-payment for imposing monetary penalty:**

  The timeframe for payment of penalty / compounding amount and consequences of non-payment have been provided as under

- **Procedure for compounding:**

  Whilst the procedures set out under the New and the Erstwhile Framework are substantially similar, the New Framework expressly clarifies that where RBI compounds a contravention, no proceedings/ further proceedings are to be initiated/ continued.

  Additionally, the authority to submit the compounding application to the chief-general-manager, Enforcement Department which was earlier submitted to the chief-general-manager, Department of Payment and Settlement Systems.

  - The monetary penalty or compounding amount to be paid within a period of thirty days from the date of receipt of penalty or compounding order
  - In case of failure to pay the penalty amount, RBI may initiate actions as stated under the provisions of section 8 or section 30 (3) or section 33 of the PSS Act.
  - In case of failure to pay the compounding amount within 30 days, it shall be considered as if the contravention has not been compounded and the criminal proceedings may be initiated against the applicant before the appropriate competent authority. Also, the applicant would not be entitled to file another application for compounding the contravention in respect of which the compounding order was passed.

- **Payment of monetary penalty/compounding amount and consequences of non-payment:**

  Disclosures to be made pose imposition of monetary penalty and completion of compounding action:

  - Disclosures in Annual Financial Statements in the Financial Year in which penalty is levied in Notes to Accounts
  - A brief of the penalty action and compounding action-only after the receipt of compounding amount to be disclosed in the form of press release on the website of RBI.

Impact assessment

This updated framework is all about strengthening how payment systems are regulated. It aims to make enforcement more consistent, transparent and provides a well-defined way to handle violations. The RBI's focus on significant breaches is meant to keep the payment ecosystem secure and running smoothly. Entities that are regulated by the PSS Act should make sure they understand these rules to avoid penalties and stay in compliance.

Master Directions: Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025

RBI/FIDD/2024-25/128Master Directions FIDD.CO.PSD.BC.13/04.09.001/2024-25

Release date: March 24, 2025

Applicability

- All Commercial Banks (including Regional Rural Banks);
- All Small Finance Banks, Local Area Banks; and
- All Primary (Urban) Co-operative Banks, except Salary Earners' Bank.

Background and objective

After nearly half a decade, RBI has revamped its Priority Sector Lending (PSL) norms. Priority Sector Lending is a tool for ensuring adequate flow of credit from the banking ecosystem to specified sectors of the economy

RBI has updated and notified the existing Priority Sector Lending (PSL) norms in the form of the Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classifications) Directions, 2025. As per the press release dated March 24, 2025, these new Master Directions are bought in after carrying out a comprehensive review of the existing provisions based on the feedback received from the stakeholders.

These Master Directions being effective from 1 April 2025, shall supersede the Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2020, dated September 04, 2020. The new Master Directions include various changes which include:

- Broadening the scope/coverage of the purpose of loans being classified under renewable energy;
- Enhancement in the limits of housing loans and other loan limits under the PSL;
- Revision of overall PSL target for UCBs to 60 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBSE), whichever is higher;
- Expansion of coverage of the term "Weaker section" to include transgenders, Individuals & members of SHGs/JLGs satisfying the eligibility conditions mentioned in MFI directions etc.

Summary of key changes

Prudential treatment in respect of Government DRS ("Extant Guidelines")

- **Broader scope of the loans extended for the purpose/ tag of renewable energy**

  The Master Directions have not only increased the limits of bank loans which can be availed for renewable energy-based power generators and renewable energy based public utility systems to INR 35 crore for the borrowers but has also increased the coverage and streamlined the definition of the term renewable energy.

- **Enhancements in the limits of housing and other loans:**
  - The Master Directions have increased the overall limits based on the population criterion for purchase / constructions and repairs (to damaged dwelling units). Further, the limits in terms of the maximum cost of the dwelling units have also been adjusted accordingly to consider the rising cost of construction/ real estate. For a loan to be classified as a PSL, both the conditions of the loan limit (in case of purchase/construction and repairs) and the maximum cost of the dwelling unit shall be satisfied
  - The revised limits for construction/ purchase of dwelling unit per family stand as:

Category	Loan Limit	Max. cost of Dwelling unit
Centres with population of 50 lakh and above	50	63
Centres with population of 10 lakh and above but below 50 lakh	45	57
Centres with population below 10 lakh	35	44

- The revised limits for repairs of dwelling unit stands at:

Category	Loan Limit	Max. cost of Dwelling unit
Centres with population of 50 lakh and above	15	63
Centres with population of 10 lakh and above but below 50 lakh	12	57
Centres with population below 10 lakh	10	44

- **Revised targets for urban cooperative banks**
  - With the revision brought in terms of the total target under the Agricultural sector being at the higher of 18% of the ANBC or CEOBSE, within the ceiling limit, it is prescribed that 14% of the said limit shall be made available to the Non-Corporate Farmers (NCFs) and out of the said 14%, 10% shall be specifically earmarked for Small and Marginal Farmers (SMFs).
  - The above bifurcation and demarcation of funds specifically towards the NCFs and SMFS will ensure the benefits of the credit flowing to the grass root level directly.
- **Expansion in the meaning of "Weaker Sections"**
  - The Master Directions have expanded the coverage under the term "weaker section" to ensure that a larger section of society is eligible to avail the benefits of accessing credit. This expansion aims to promote financial inclusion and support vulnerable groups. The new inclusions under the term "weaker section" are as follows:
    - Individual women beneficiaries up to INR 2 lakh per borrower (the limit of 'INR 2 lakh per borrower' is not applicable to UCBs);and
    - Transgenders;
    - Individuals and individual members of SHGs/JLGs, satisfying criteria as prescribed in Master Direction on Regulatory Framework for Microfinance Loans Directions, dated March 14, 2022.
  - Further the Master Directions have also increased the limits for artisans, village and cottage industries where individual credit limits do not exceed INR 2 lakh.

Impact assessment

These new directions on PSL aim at providing an enhanced flow of credit to the priority sector, thereby promoting financial inclusion while at the same time making the process more efficient for the financial institutions. They ensure that neither borrowers nor financial institutions jeopardise their interests, fostering a uniform approach to PSL across the market

Additionally, these changes are expected bring in and strengthen existing collaborations across entities in the financial ecosystem such as banks, NBFCs, HFC, micro-finance institutions etc.

03

Other notifications: December'24 to April'25

Other notifications: December 2024

Inoperative accounts/unclaimed deposits in banks

(Release date – 2 December 2024)

Recent RBI analysis revealed a high number of inoperative accounts/unclaimed deposits due to inactivity or pending KYC updation, causing customer inconvenience. RBI, through its circular dated 2 December 2024, advised banks to take the following measures:

- Urgently reduce the number of inoperative/frozen accounts by streamlining the activation process;
- Ensure seamless KYC update via mobile/internet banking, non-home branches, and Video Customer Identification Process;
- Take an empathetic view towards the activation of accounts of beneficiaries of Central/State government schemes like DBT/EBT, focusing on underprivileged sections of society;
- Organise special campaigns to facilitate account activation;
- Facilitate Aadhaar update through branches providing related services.

Banks are required to place copy of this circular before the Customer Service Committee (CSC) of the Board in its next meeting along with a monitorable action plan to ensure compliance.

The CSC of the Board will monitor the progress and efforts by the banks. Banks are expected to report this progress quarterly to the Senior Supervisory Manager via the DAKSH portal, starting from the quarter ending 31 December 2024.

Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 03 Entries

(Release date – 4 December 2024)

RBI vide circular on Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/ 1989 ISIL

(Da'esh) & Al-Qaida Sanctions List: Amendments in 03 Entries dated 4 December 2024 considering regarding updates to the United Nations Security Council's (UNSC) ISIL (Da'esh) and Al-Qaida Sanctions List has instructed the REs to take appropriate actions as per the KYC Master Direction and follow procedures outlined in the UAPA Order.

The circular also lists specific details about the individuals, including names, aliases, birth dates, and other identifying information.

Amendment to framework for facilitating small value digital payments in offline mode

(Release date – 4 December 2024)

In reference to the framework for small value digital payments in offline mode, the prescribed upper limits for transactions have been updated.

As stated in the Statement on Developmental and Regulatory Policies dated 9 October 2024, RBI through its circular dated 4 December 2024, have enhanced the limits for UPI Lite to INR 1,000 per transaction, with a total limit of INR 5,000 at any point in time, while for others, the upper limits for offline payment transactions remains same as before i.e., INR 500 per transaction and INR 2,000 being the total limit.

Interest Rates on Foreign Currency (Non-resident) Accounts (Banks) [FCNR(B)] Deposits

Release date – 6 December 2024)

RBI vide circular on Interest Rates on Foreign Currency (Non-resident) Accounts (Banks) [FCNR(B)].

Deposits dated 6 December 2024 has decided to increase the interest rates ceiling on fresh FCNR(B) deposits raised by the banks with effect from 6 December 2024. Interest rates on FCNR(B) deposits are subject to ceilings of Overnight Alternative Reference Rate (ARR) for the respective currency/swap, plus 400 basis points (earlier ARR+250 bps) for deposits of 1 year to less than 3 years maturity and overnight ARR plus 500 basis points (earlier ARR+350 bps) for deposits of 3 years and above and up to 5 years maturity

Credit Flow to Agriculture – Collateral free agricultural loans

(Release date – 6 December 2024)

RBI vide circular on Credit Flow to Agriculture – Collateral free agricultural loans dated 6 December 2024 has advised the Banks to raise the limit for collateral free agricultural loans including loans for allied activities from the existing level of INR 1.6 lakh to INR 2 lakh per borrower with effect from 1 January 2025.

Introduction of the Get Account Details API in Bharath Aadhaar Seeding Enabler (BASE)

(Release date – 19 December 2024)

This Circular intends to enhance customer experience and drive digitisation. NPCI is introducing an upgraded process flow for the Get Account Details API under the Bharat Aadhaar Seeding Enabler (BASE) application.

The API will be initiated by BASE application for the destination banks, as on request and authentication by the customer. With this service the customer can know whether his/her Aadhaar number is linked with the account number in their bank CBS. If the account of the customer is linked with the Aadhar Card, customer will be able to know whether subsidy is enabled for that account along with other account details. The functional process flow to Get Account Details API is explained in the Circular.

All the Member Banks are advised to take necessary steps for implementation on priority.

The detailed technical specifications for Get Account Details API is provided in Annexure-1 to the Circular.

Reporting platform for transactions undertaken to hedge price risk of gold

(Release date – 27 December 2024)

RBI through its circular dated 27 December 2024, has mandated all Category - I Authorised Dealer Banks to report all over-the-counter (OTC) transactions in gold derivatives undertaken by them or their eligible customers/constituents to the trade repository (TR) of Clearing Corporation of India Ltd. (CCIL) starting 1 February 2025. This includes transactions in domestic markets, International Financial Services Centre (IFSC), and outside India. Transactions are required to be reported to the TR by 12:00 noon of the following business day, including any amendments and unwinding of transactions.

As a one-time measure, the said banks are required to report all matured and outstanding OTC transactions in gold derivatives from 15 April 2024, to the TR by 28 February 2025, to ensure data completeness.

These banks are also required to submit a quarterly report on gold derivatives transactions at exchanges in IFSC and overseas within ten days of the succeeding quarter, starting from the quarter ending 31 December 2024, in the format as provided in the Annexure to the circular.

Introduction of beneficiary bank account name look-up facility for Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) systems

(Release date – 30 December 2024)

RBI through its circular dated 30 December 2024 relating to introduction of beneficiary bank account name look-up facility for Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) systems.

RBI circular dated 9 October 2024 on Statement on Developmental and Regulatory Policies had proposed the introduction of beneficiary account name look-up facility for RTGS and NEFT.

Currently, the Unified Payments Interface (UPI) and Immediate Payments Service (IMPS) systems of banks enables remitter only to verify the name of the beneficiary before initiating transfer.

In order to avoid mistakes and prevent frauds, a solution for fetching the beneficiary's name is also being implemented, which would enable the remitter to verify the beneficiary bank account name before initiating a transaction using RTGS or NEFT.

Based on the account number and IFSC of the beneficiary entered by the remitter, the facility will fetch the beneficiary's account name from the bank's Core Banking Solution (CBS).

Accordingly, National Payments Corporation of India (NPCI) has been advised to develop the facility and onboard all banks.

This facility shall be made available to the customers through internet banking, mobile banking and also remitters visiting branches for making RTGS and NEFT transactions.

All banks who are direct members or sub members of RTGS and NEFT are advised to offer this facility on or before 1 April 2025 Detailed requirements for the same are provided in the Annexure of the circular.

Guidelines for volume cap for Third Party App Providers (TPAPs) in UPI

(Release date – 31 December 2024)

NPCI vide notification dated 31 December 2024, after considering various factors has extended the timeline by two (2) years of existing 'Third Party App Provider (TPAPs) in UPI" who are exceeding the volume cap as specified in the earlier circulars issued in this regard, i.e., NPCI/UPI/OC-97/2020-21 dated 5 November 2020, and NPCI/UPI/OC159/2022-23 dated 2 December 2022.

Other notifications: January 2025

Reserve Bank of India

Participation of NaBFID as an AIFI in financial markets

(Release date – 1 January 2025)

"RBI, in its press release dated 9 March 2022, announced that the National Bank for Financing Infrastructure and Development (NaBFID) will be regulated as an All-India Financial Institution (AIFI) enabling it to undertake credit default swaps and repo transactions.

In this regard, the Master Direction – RBI (Credit Derivatives) Directions, 2022 and Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018, have been updated to clarify that NaBFID is permitted to participate as an AIFI in RBI-regulated financial markets.

Formation of new district in the State of Nagaland – Assignment of Lead Bank Responsibility

(Release date –2 January 2025)

The Government of Nagaland, via notification dated November 2, 2024, announced the formation of a new district, Meluri in the state of Nagaland. In this regard, RBI has designated State Bank of India (SBI) as the lead bank for Meluri (District Working Code: 02R).

Status of 30 March 2025, for government transactions through integration with e-Kuber

(Release date – 3 January 2025)

RBI's e-Kuber platform does not process government transactions on global holidays. However, since 30 March 2025 (Sunday) falls within the financial year 2024-25, the Government of India has designated it as a working day for government transactions. Accordingly, e-Kuber will remain open to ensure all receipts and payments are accounted for, and cash balances for the Central and State Governments are finalised.

Master Direction – Reserve Bank of India (Credit Information Reporting) Directions, 2025

(Release date – 6 January 2025)

RBI, through a notification dated January 6, 2025, has issued the Master Direction – RBI (Credit Information Reporting) Directions, 2025, consolidating all instructions and directives for regulated entities on credit information reporting.

Master Direction - Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025

(Release date – 7 January 2025)

RBI, through a notification dated 7 January 2025, has issued the Master Direction – RBI (Non-Resident Investment in Debt Instruments) Directions, 2025, consolidating all A.P. (DIR Series) circulars issued under Foreign Exchange Management (Permissible Capital Accounts Transactions) Regulations, 2000, (Borrowing and Lending) Regulations, 2018 and (Debt Instruments) Regulations, 2019 governing non-resident investment in debt instruments in India.

RBI releases draft formats of financial statements of co-operative banks

(Release date – 7 January 2025)

The RBI has updated the balance sheet and profit & loss account formats for co-operative banks, last notified in 1981, to align with development in financial market and accounting standards. Draft revised forms, and their schedules along with compilation instructions, have been released for public feedback. Comments can be submitted until 21 February 2025, to the Chief General Manager-in-Charge

FAQs on the circular on 'Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans'

(Release date – 10 January 2025)

The Reserve Bank of India (RBI) on 10 January 2025, has released a set of nine frequently asked questions (FAQs) on the Circular dated 18 August 2023, on Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans.

For more details, please refer to the **link**.

Foreign Exchange Management (Deposit) (Fifth Amendment) Regulations, 2025

(Release date – 14 January 2025)

RBI, through a notification dated 14 January 2025, has amended the Foreign Exchange Management (Deposit) Regulations, 2016, with the following key changes:

- Persons resident outside India (PROI) with a business interest in India can now open, hold, and maintain Special Non-Resident Rupee Account (SNRR account) with authorised dealer bank's branch situated outside India;
- Transfer of funds permitted between repatriable rupee accounts for all bona fide transactions;
- PROI can open an SNRR account for all permissible current and capital account transactions with a person resident in India, as opposed to the previous provision that specified bona fide transactions having business interest;
- A unit in an International Financial Services Centre (IFSC) can open SNRR account with an authorised dealer in India (outside IFSC) for business-related transactions outside the IFSC;
- The previous seven-year cap on the SNRR account tenure has been removed and will now be aligned with the tenure of the contract/period of operation/the business of the account holder.

Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) (Third Amendment) Regulations, 2025

(Release date – 14 January 2025)

The RBI, through a notification dated 14 January 2025, has amended the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019. The amendment permits consideration of the below-mentioned transactions to be received in either a repatriable Rupee account or a foreign currency account, replacing the previous requirement of using NRE/NRO/FCNR(B)/escrow accounts:

- Purchase or sale of equity instruments of an Indian company by a Person Resident Outside India (PROI)
- Investment or disinvestment in a Limited Liability Partnership
- Investment or disinvestment in an investment vehicle by a PROI.
- Purchase or sale of convertible notes of an Indian start-up

Additionally, the requirement for a Special Non-Resident Rupee (SNRR) account to be exclusively used for transactions specified in Schedule II and Schedule VII by Foreign Portfolio Investors (FPIs) and Foreign Venture Capital Investors (FVCIs) has been removed.

Steps to encourage use of Indian Rupee and local/national currencies for settlement of cross border transactions – Liberalisation of FEMA regulations

(Release date – 16 January 2025)

The Reserve Bank of India (RBI) vide notification dated 16 January 2025, has taken some more steps to encourage use of Indian Rupee and local/national currencies for settlement of cross border transactions - liberalisation of FEMA regulations, where amendments to the existing FEMA regulations have been made, which includes the following:

- Overseas Branches of the AD Bank can open INR accounts for a person resident India for settlements of all permissible current and capital account transactions with resident India.
- Persons resident outside India can settle bona fide transactions with persons resident outside India using the Balance available in their repatriable INR accounts such as Special Non-Resident Rupee account and SRVA.
- Persons resident outside India can use their balances held in repatriable INR accounts for foreign investment, including FDI, in non-debt instruments.
- Indian exporters can open accounts in foreign currency overseas for settlement of trade transactions, including receiving export proceeds and using these proceeds to pay for imports.

Coverage of customers under the nomination facility

(Release date – 17 January 2025)

RBI, based on its supervisory assessment, has highlighted the absence of a nomination facility in many deposit accounts. It has reiterated the requirement for all existing and new customers with deposit accounts, safe custody articles, and safety lockers to provide nominations.

- The Customer Service Committee of the Board is tasked with periodically reviewing the achievement of nomination coverage;
- Supervised entities are required to report progress on the DAKSH portal quarterly, starting March 31, 2025;
- Frontline staff of the banks are required to be sensitised to encourage nominations and appropriately handle claims from nominees/legal heirs;
- Account opening forms to be modified (if not already done) to allow customers to opt in or out of the nomination facility;
- Supervised entities to publicise the benefits of the nomination facility through various media and periodic drives to ensure full coverage of eligible accounts.

Prevention of financial frauds perpetrated using voice calls and SMS – Regulatory prescriptions and Institutional Safeguards

(Release date – 17 January 2025)

The Reserve Bank of India (RBI) vide its notification dated 17 January 2025, on Prevention of financial frauds perpetrated using voice calls and SMS – Regulatory prescriptions and Institutional Safeguards, wherein the RBI has highlighted the fact that digital transactions offer convenience and efficiency but at the same time led to surge in frauds, which requires immediate attention. One of the important aspect of digital transactions is use of mobile number of the customers, which helps in authentication and verification process, through OTPs, transactions alerts, account updates etc. Since the Mobile number is one of the important prospect for the digital transactions, the scamsters figure out different ways for committing various types of online and other frauds.

To mitigate the potential misuse of mobile numbers, RBI has advised the Regulated Entities (REs) to the following:

- REs to utilise the Mobile Number Revocation List (MNRL) available on the Digital Intelligence Platform (DIP) developed by the Department of Telecommunications (DoT), to monitor as well as clean their existing customer database. To enhance the Fraud Risk monitoring & prevention, the REs are advised to put in place Standard Operating Procedures (SOPs) containing the actions to be taken, which should include, due verification process should be followed for updating the mobile numbers, enhanced monitoring of accounts which are linked to revoked mobile numbers in order to prevent them to be used as Money Mules and / or being involved in cyber frauds etc.
- Provide verified details of their Customer Care Numbers to DIP in order to enable DoT to publish the same on 'Sanchar Saathi' portal (https://sancharsaathi.gov.in/). The detail can be shared on the DoT email adg.diu-dot@gov.in.

- Do transactional/service calls by using 1600xx number series (when operationalised), for promotional voice calls use 140xx series numbers, follow the 'important Guidelines for sending commercial communication using telecom resources through Voice Calls or SMS' issued by Telecom Regulatory Authority of India (TRAI).
- REs should also undertake awareness measures through SMS, emails and other modes, in vernacular language also.

For more details, please refer to the link.

Guidelines on Settlement of Dues of borrowers by ARCs

(Release date – 20 January 2025)

The Reserve Bank of India (RBI) vide notification dated 20 January 2025, has revised the guidelines on Settlement of Dues of borrowers by ARCs and amended Paragraph 15 of the Master Direction Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024 dated 24 April 2024, which deals with the said settlement of dues.

The amendment majorly includes the following:

- Every ARC to form a Board approved Policy which deals with such settlement.
- Settlement of dues will be the last resort to recover the amount from the borrower.
- The Net Present Value (NPV) of the settlement should generally be not less than the realizable value of the securities.
- Settlement should be paid in lump sum. In case the settlement is agreed upon to be paid in installments due to the amount involved, it should be supported by a business plan (as applicable) projected earnings of the business.

For more details, please refer to the link.

Private Placement of Non-Convertible Debentures (NCDs) with maturity period of more than one year by HFCs – Review of guidelines

(Release date – 29 January 2025)

This Circular intends to align the requirements applicable on HFCs, for private placement of NCDs, with that of NBFCs. The current framework entails stringent requirements on HFCs that are proposing to issue NCDs on a private placement basis. HFCs can issue NCDs only with maturity period of more than one year.

With the current amendment, HFCs will have more flexibility on issuance on NCDs on private placement.

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National Payments Corporation of India

Implementation of facility for cancellation of mandates to be provided to customers

(Release date – 3 January 2025)

NPCI had earlier introduced the facility for cancellation of mandate to be provided to customers. It was mandated that the entities shall provide option to the customers to submit their stop/cancel request through their website / any other electronic channels. NPCI has observed that only Few banks have onboarded the online Cancel/ Amend/ Suspend and Revoke (CASR) functionality into their systems. There are many banks which has not gone live for CASR functionality.

Now the NPCI has advised all the stakeholders to take immediate measures to comply with the said requirement of providing online CASR facility by February 28, 2025, failing which, NPCI will de-board the non-compliant banks from participating in the ONMAGS system.

Reset Password Process for URCS

(Release date – 6 January 2025)

NPCI has noted that UPI participant banks end up with user lock issues on the UPI Real Time Clearing and Settlement (URCS) system on forgetting passwords and subsequent complaints are raised to NPCI.

To enable Member Banks to get rid of dependency on NPCI for user lock issues, NPCI has automated the process for reseting the password and unblocking the user ID in three ways.

Three options to reset the password & unblock the user IDs i) Answer secret question ii) OTP iii) MFA – Multi Factor Authentication.

This functionality is made available to the Member Banks with immediate effect. URCS will block the user IDs if there are duplicate maker and checker details. Member Banks are requested to ensure that correct email IDs and mobile numbers are updated in URCS for the above solution to work.

Upgradation of RuPay (International) back-office system from "iRGCS" to "iRGCS 2.0"

(Release date – 7 January 2025)

NPCI will be upgrading from iRGCS (existing back-office system) to iRGCS 2.0 (upgraded back-office system). The upgradation of the settlement and dispute management process from iRGCS to iRGCS 2.0 would result in following benefits:

- 24/7 File staging in new system as opposed to current system which has a cut off time for file upload and doesn't allow to upload/ process file during settlement.
- Improved security with the introduction of bank admin checker user
- Faster generation of settlement reports along with Raw data and reports and files

NPCI will be imparting training on iRGCS 2.0 to all the RuPay members with demo on test system. NPCI will update the go-live dates and mandate guidelines shortly.

Private Placement of Non-Convertible Debentures (NCDs) with maturity period of more than one year by HFCs – Review of guidelines

(Release date – 29 January 2025)

This Circular intends to align the requirements applicable on HFCs, for private placement of NCDs, with that of NBFCs. The current framework entails stringent requirements on HFCs that are proposing to issue NCDs on a private placement basis. HFCs can issue NCDs only with maturity period of more than one year.

With the current amendment, HFCs will have more flexibility on issuance on NCDs on private placement.

Addendum to OC 193 - compliance to UPI technical specifications – TRAN ID

(Release date – 9 January 2025)

NPCI vide its OC 193 dated 28 March 2024, has advised the UPI ecosystem players to only use alphanumeric characters for generating UPI transaction ID to ensure compliance with UPI technical specifications.

NPCI has observed that few participants are continue to be non-compliant with the above requirement. Considering the criticality, it was decided not to allow any special characters in UPI Transaction ID and effective from 1 February 2025, any transaction with ID containing special characters shall be declined by the central system.

Other notifications: February 2025

Reserve Bank of India

Master Direction - Reserve Bank of India (Access Criteria for NDS-OM) Directions, 2025

(Release date – 7 February 2025)

As announced in the Statement on Developmental and Regulatory Policies dated 8 February 2024, RBI has issued the Master Direction - Reserve Bank of India (Access Criteria for NDS-OM) Directions, 2025, superseding previous directions, to widen access to the Negotiated Dealing System – Order Matching (NDS-OM) bringing the following changes:

- Non-bank brokers registered with SEBI can now directly access NDS-OM on behalf of their clients.
- A new stock broker connect route has been introduced, allowing SEBI-registered stock brokers to provide access to clients maintaining demat accounts with SEBI-registered depositories.
- Interested stock brokers can apply in the prescribed format provided in the annexure to the directions.

Additional Factor of Authentication (AFA) for cross-border Card Not Present (CNP) transactions – Draft Directions

(Release date – 7 February 2025)

RBI, vide this press release has released draft directions on Additional Factor of Authentication (AFA) for cross-border Card Not Present (CNP) transactions for public comments.

The draft mandates card issuers to validate AFA for non-recurring cross-border CNP transactions whenever requested by the overseas merchant or acquirer.

Comments were invited via email or post to the Department of Payment and Settlement System, RBI by10 March 2025.

Foreign Exchange Management (Manner of Receipt and Payment) (Amendment) Regulations, 2025

(Release date – 10 February 2025)

The RBI, through a notification dated 10 February 2025, has amended regulation 3 of the Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2023 to refine payment methods for Asian Clearing Union (ACU) member countries, excluding Nepal and Bhutan. Key changes include:

- Payments between residents of ACU member nations are required to be routed through the ACU mechanism or as per RBI directives to authorised dealers.
- For other transactions, receipt and payment may be made in a manner as provided in the extant Foreign Trade Policy

Credit line on UPI – Extending the scope of Small Finance Banks (SFBs)

(Release date – 12 February 2025)

As announced in the Statement on Developmental and Regulatory Policies dated 8 February 2024, the RBI has extended the facility of pre-sanctioned credit lines through UPI to Small Finance Banks (SFBs).

In this regard, the RBI has updated the circular on Operation of Pre-Sanctioned Credit Lines at Banks through UPI reflecting the change

Export-Import Bank of India's GOI-supported Line of Credit of USD 120 million to the Government of the Socialist Republic of Vietnam (GO-VNM) for procurement of High-Speed Guard Boats in the Borrower's Country

(Release date – 13 February 2025)

RBI vide this Circular has notified Exim Bank Government of India (GOI)-supported Line of Credit (LoC) of USD 120 million to the Government of the Socialist Republic of Vietnam (GO-VNM). This agreement between Exim Bank and Government of Vietnam was signed on 31 July 2024 for procurement of High-Speed Guard Boats in Vietnam, with exports of eligible goods and services from India subject to compliance with India's Foreign Trade Policy.

This LoC, effective from 20 January 2025, allows disbursements up to 60 months after the project's scheduled completion. Shipments under the LOC to be declared in Export Declaration Forms/ Shipping Bills as per extant Reserve Bank guidelines.

No agency commission is payable, but exporters may use their own resources or Exchange Earners' Foreign Currency Account for commission payments in free foreign exchange, as per FEMA sections 10(4) and 11(1). Authorised Dealer Category-I banks are tasked with processing transactions as per these terms.

Export-Import Bank of India's GOI-supported Line of Credit of USD 180 million to the Government of the Socialist Republic of Vietnam for procurement of four offshore patrol vessels (OPV) in the borrower's country

Export-Import Bank of India's GOI-supported Line of Credit of USD 180 million to the Government of the Socialist Republic of Vietnam for procurement of four offshore patrol vessels (OPV) in the borrower's country

(Release date – 13 February 2025)

Exim Bank has entered into an agreement with the Government of Vietnam for extending a Line of Credit (LoC) of USD 180 million supported by the Government of India for the procurement of 4 offshore patrol vessels. Effective from January 20, 2025, the LoC allows shipments to be declared in Export Declaration Forms/ Shipping Bills as per extant Reserve Bank guidelines.

Further, for exports under the above LoC, no agency commission is payable. Although, if required the exporter may utilise his own resources/balance in Exchange Earners' Foreign Currency Account for the payment of any commission in free foreign exchange. AD-Category I Banks may allow such remittance after realisation of full eligible value of export subject to compliance with the extant instructions for payment of agency commission.

AD Category I Banks are also instructed to inform their exporter clients about this circular and advise them to obtain detailed information about the LoC from the Exim Bank's office or website.

Government securities transactions between a Primary Member (PM) of NDS-OM and its own Gilt Account Holder (GAH) or between two GAHs of the same PM

(Release date – 17 February, 2025)

RBI vide this Circular has permitted the matching of transactions between a Primary Member (PM) and its own Gilt Account Holder (GAH) or between two GAHs of the same PM on the NDS-OM platform, including both the anonymous Order Matching and Request for Quote (RFQ) segments. These transactions will be cleared and settled through the Clearing Corporation of India Limited (CCIL). Additionally, the facility of clearing and settlement through CCIL is extended to bilaterally negotiated transactions reported to NDS-OM on an optional basis. Any settlement failures will be treated as 'SGL bouncing' and subject to penalties. Detailed operational guidelines will be issued by CCIL.

Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 – Amendment

(Release date – 17 February, 2025)

RBI vide this Circular has made amendment to the Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023, applicable to the AIFIs.

As per the amendment, investment made by AIFIs in long-term bonds and debentures issued by non-financial entities shall not be counted towards the ceiling limit of 25% which is applicable to investments included under Held to Maturity (HTM) category.

RBI invites comments on the draft circular on 'Responsible Lending Conduct – Levy of Foreclosure Charges/ Pre-payment Penalties on Loans'

(Release date – 21 February 2025)

As announced in the Statement on Developmental and Regulatory Policies Statement on 9 October 2024, RBI has released a draft circular reviewing the guidelines on levy of foreclosure charges/ pre-payment penalties on loans. Stakeholders and the public were invited to submit their comments and feedback via email by 21 March 2025.

Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025

Release date – 21 February, 2024)

Following the press release dated December 28, 2023, and feedback from market participants, RBI has finalised and issued the "Forward Contracts in Government Securities Directions, 2025 dated February 21, 2025.

Additionally, the following Directions have been updated to facilitate transactions in forward contracts in government securities:

- Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021
- Master Direction – Reserve Bank of India (Margining for Non-Centrally Cleared OTC Derivatives) Directions, 2024

Review and rationalisation of prudential norms – UCBs

(Release date – 25 February, 2025)

RBI vide this Circular has announced key revisions to existing prudential norms. The revised guidelines provide greater operational flexibility while maintaining regulatory discipline across small-value loans, real estate exposure, and provisioning requirements for Security Receipts (SRs). The amendments made by the RBI reflect the balanced approach to strengthening financial soundness while enabling UCBs to play a more significant role in credit distribution.

Exposures of Scheduled Commercial Banks (SCBs) to Non-Banking Financial Companies (NBFCs) – Review of Risk Weights

(Release date – 25 February 2025)

RBI vide this Circular, has specified that earlier in terms of para 2.b of circular 'Regulatory measures towards consumer credit and bank credit to NBFCs' dated November 16, 2023, wherein the risk weight on the exposures of SCBs to NBFCs was increased by 25% where the extant risk weight as per external rating of NBFCs was below 100 percent.

With effect from April 01, 2025, as per the review conducted by RBI, it has been decided to restore the earlier risk weights applicable to such exposures as per the previous external ratings as specified in Paragraph 5.8.1 of the 'Master Circular – Basel III Capital Regulations' dated April 1, 2024, as amended from time to time.

Review of Risk Weights on Microfinance Loans

(Release date – 25 February 2025)

RBI vide circular on Regulatory measures towards consumer credit and bank credit to NBFCs dated November 16, 2023, increased the risk weights on consumer credit, including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery, to 125%.

The RBI, through this Circular, has reviewed the risk weights on microfinance loans and clarified below:

The RBI, through this Circular, has reviewed the risk weights on microfinance loans and clarified below:

In case of Commercial Banks (including Small Finance Banks:

- Microfinance loans, which are in the nature of consumer credit, shall be subject to risk weight of 100% and not 125%.
- Microfinance loans, which are not in the nature of consumer credit but fulfill all four criteria as specified in para 5.9.3 of the Master Circular on Basel III - Capital Regulations dated April 1, 2024, may be classified under regulatory retail portfolio, and thus attract risk weight of 75%

In case of RRBs and local area banks:

- All microfinance loans shall be subject to risk weight of 100% and not 125%

National Payments Corporation of India

Auto acceptance and rejection of chargeback basis the TCC and Returns

(Release date – 10 February 2025)

The current process allows remitting banks to raise chargeback from T+0 onwards in URCS, due to which beneficiary banks are not getting sufficient time to reconcile and process returns (RET)/TCC proactively before a dispute is taking shape of chargeback. There were instances where beneficiary banks have raised RET without checking the status of returns. These instances have been rejected because chargeback is already raised. The chargeback has been closed on deemed acceptance basis along with RBI penalty.

To improve the efficiency and address these challenges, NPCI is implementing auto acceptance/rejection of chargeback basis the TCC/RET raised by the beneficiary bank in next settlement cycle after the chargeback is already raised. The key changes in revised process have been mentioned in the circular in tabular format.

Note: The revised process is applicable only for bulk upload option & UDIR not in front-end option. The above functionality has been implemented in URCS with effect from 15 February 2025.

Addendum to Introduction of UPI LITE

(Release date – 21 February 2025)

With reference to the NPCI circular NPCI/UPI/OC No. 138/2021-22, UPI LITE for small value transactions was introduced. To further enhance user convenience on UPI LITE, all Issuer banks, PSP banks, and UPI apps live on UPI LITE are required to implement the following:

- All members shall implement 'Transfer Out' functionality. It allows users to withdraw funds from their UPI LITE balance to the source bank account from which it was loaded, without disabling UPI LITE. Purpose Code 46 shall be used to identify 'Transfer Out' transactions.
- All the Issuer Banks live on UPI LITE shall maintain LRN (Lite Reference Number) level balances and ensure that reconciliation is carried out on daily basis with NPCI data so that LRN balances are reconciled in sync with NPCI data on an ongoing basis.
- UPI App with active UPI LITE shall have App passcode, biometrics or pattern-based lock at the time of App login.

Addendum to Enhancement in UPI LITE Limits

(Release date – 27 February 2025)

UPI LITE was introduced and transaction limit was increased from Rs. 200 to Rs. 500 respectively, in circular dated 16th March 2022 and 31st August 2023.

- As per the RBI circular dated 4 December 2024, the enhanced limits shall be INR 1,000 per transaction with INR 5,000 being the total limit. Replenishment of used limit shall be allowed only in online mode with Additional Factor of Authentication. Customer will further have the option to set Auto Top-up for limit replenishment as per NPCI circular, dated 27 August 2024.
- These new limits shall apply to and govern all existing NPCI circulars pertaining to UPI LITE limit (Annexure A-Refer to circular). All the members are required to make the necessary changes immediately.
- Issuer banks live on UPI LITE shall identify all the UPI LITE accounts that have had zero transactions in the past six months. Any balances in these LITE accounts shall be refunded to the source bank account. Issuer banks are required to implement the changes by 30 June 2025

Other notifications: March 2025

Reserve Bank of India

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 12 Entries

(Release date – 15 March 2025)

In line with Section 51A of the UAPA, 1967, and RBI Master Direction on Know Your Customer dated 25 February 2016, Regulated Entities (REs) are required to ensure they do not maintain accounts for individuals/entities listed under the UNSC's sanctions lists. In this regards, the following has been notified:

- Ministry of External Affairs has notified amendments in 12 entries on the UNSC 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List as per UNSC Press Release SC/16017 dated 12 March 2025. These changes are linked to asset freeze, travel ban, and arms embargo obligations under UN Security Council Resolution 2734 (2024).
- REs are required to act as per the UAPA Order dated 2 February 2021 (amended 22 April 2024) annexed to the MD on KYC.
- Any delisting request received by REs shall be forwarded electronically to the Joint Secretary (CTCR), MHA. Affected entities may also approach the UN Ombudsperson for delisting.

Annual Closing of Government Accounts – Transactions of Central/state governments – Special Measures for the Current Financial Year (2024-25)

(Release date – 17 March 2025)

To ensure timely accounting of all Central and State Government transactions for FY 2024-25, RBI, through its notification dated 17 March 2025, has put in place the following arrangements to report and account Government transactions for 31 March 2025:

- Agency banks are required to keep all branches dealing with government receipts and payments open for over the counter transactions up to normal working hours on 31 March 2025.
- A special clearing session for Government cheques will be conducted on 31 March 2025, as per DPSS instructions.
- Reporting of Government transactions including uploading of GST/TIN 2.0/ICEGATE/State e-receipt files will be allowed until 12:00 noon on 1 April 2025.

Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021: Clarifications

(Release date – 20 March 2025)

This Circular applies to all commercial banks and cooperative banks, from 31 March 2025 onwards. There are three key clarifications that have been provided:

- Classification of margin money with lien : lien-marked deposits should be classified under 'Schedule 3:Deposits' and not under 'Other Liabilities and Provisions', with suitable disclosures.
- Disclosure of guaranteed advances : advances which are backed by CGTMSE, CRGFTLIH or NCGTC guarantees should be shown under 'Schedule 9 (B)(ii) - Advances Covered by Bank/Government Guarantee' and not under 'Unsecured Advances'.
- Disclosure of guaranteed advances : advances which are backed by CGTMSE, CRGFTLIH or NCGTC guarantees should be shown under 'Schedule 9 (B)(ii) - Advances Covered by Bank/Government Guarantee' and not under 'Unsecured Advances'.

Amortisation of additional pension liability - Implementation of Pension Scheme in Regional Rural Banks with effect from 1 November 1993 - Prudential Regulatory Treatment

(Release date – 20 March 2025)

RBI vide this Circular, has notified that the RRBs are required to implement the pension scheme effective from November 1, 1993, with the pension liability amortised over a period not exceeding five years, starting from the financial year ending March 31, 2025. The liability must be fully recognised as per applicable accounting standards, with a minimum of 20% of the total pension liability expensed every year and appropriate disclosures made in the financial statements' 'Notes to Accounts'. Pension-related unamortised expenditure will not be reduced from Tier 1 Capital of the RRBs. This circular is applicable to all RRBs from the financial year 2024-25, and the Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 will be updated to reflect these changes.

Treatment of Right-of-Use (ROU) Asset for Regulatory Capital Purposes

(Release date – 21 March 2025)

RBI vide this Circular, has stated that Right-of-Use (ROU) assets created under Ind AS 116 - Leases, do not need to be deducted from regulatory capital if the underlying asset is tangible. These ROU assets will be risk-weighted at 100%, similar to owned tangible assets. This circular is immediately applicable to all NBFCs, including HFCs and Asset Reconstruction Companies.

Review of Priority Sector Lending (PSL) Target – Urban Co-operative Banks (UCBs)

(Release date – 24 March 2025)

RBI vide this Circular, has stated that Urban Co-operative Banks (UCBs) are required to achieve a Priority Sector Lending (PSL) target of 75% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-balance Sheet Exposure (CEOBSE), whichever is higher, by FY25-26, with interim targets of 60% for FY23-24 and 65% for FY24-25. From FY24-25 onwards, the overall PSL target for UCBs is revised to 60% of ANBC or CEOBSE, whichever is higher. This new circular supersedes specific paragraphs of previous circulars issued on 8 June 2023, and 13 March 2020, related to PSL targets and limits on exposure.

Priority Sector Lending Certificates

(Release date – 24 March 2025)

RBI vide this Circular, amends previous circular on the subject, dated 7 April 2016. This Circular clarifies that PSLCs for small/marginal farmers (SF/MF) count towards multiple targets, including the SF/MF sub-target, weaker sections sub-target, NCF sub-target, agriculture target, and overall PSL target. The rest of the circular (7 April 2016) remains unchanged, and the notification is addressed to all scheduled commercial banks, including regional rural banks, primary (urban) co-operative banks, and local area banks.

Master Direction – Reserve Bank of India (Prudential Norms on Capital Adequacy for Regional Rural Banks) Directions, 2025

(Release date – 25 March 2025)

RBI has issued Master Direction - Reserve Bank of India (Prudential Norms on Capital Adequacy for Regional Rural Banks) Directions, 2025 which is applicable to Regional Rural Banks ("RRB's"). Basis this Master Directions, RRB's will be able to have current instructions relating to all the existing guidelines / instructions / directives on the subject has been prepared for RRB's for reference. This Direction also incorporates suitable modifications to and rationalisation in existing guidelines.

Participation of Standalone Primary Dealers in Variable Rate Repo operations

(Release date – 26 March 2025)

RBI vide this press release, announced that Standalone Primary Dealers (SPDs) are now permitted to participate in all Repo operations, regardless of the tenor. Previously, SPDs were allowed to engage in overnight liquidity management operations (excluding the Marginal Standing Facility) and certain Variable Rate Repo (VRR) operations on a case-by-case basis.

This move aims to enhance liquidity management and operational flexibility for SPDs.

General Notification for Sale and Issue of Government of India Securities (including Treasury Bills and Cash Management Bills)

(Release date – 27 March 2025)

RBI vide this Circular repeals the earlier RBI circular on the subject, dated 9 April 2018, and the related Govt. of India notifications regarding the sale and auction of GOI securities that include G-Secs, T-bills and cash management bills. It is addressed to all participants in government securities market. The new circular issued outlines the revised terms and framework for issuance and sale of GOI securities through auctions.

Standing facility for standalone primary dealers

(Release date – 28 March 2025)

RBI vide this press release has decided to increase the aggregate limit made available to the Standalone Primary Dealers (SPDs) under the Standing Liquidity Facility at the prevailing repo rate, from INR 10,000 crore to INR 15,000 crore, starting from 2 April 2025. The limit for individual SPDs is being conveyed to them separately. All other terms and conditions of the facility shall remain unchanged.

Revised norms for Government Guaranteed Security Receipts (SRs)

(Release date – 29 March 2025)

RBI has updated its norms for the prudential treatment of loans transferred to Asset Reconstruction Companies (ARCs), specifically for Security Receipts (SRs) guaranteed by the Government of India. If a loan is transferred for a value higher than the net book value (NBV), the excess provision can be reversed to the Profit and Loss Account, provided the sale consideration includes only cash and government-guaranteed SRs. However, the non-cash SR component must be deducted from CET 1 capital, and no dividends can be paid from it. These SRs will be periodically valued based on the Net Asset Value (NAV) declared by the ARC. Unrealised gains from fair valuation must also be deducted from CET 1 capital, with no dividends paid from these gains. Any SRs remaining after the government guarantee expires will be valued at INR 1. If SRs are converted to other instruments during resolution, their valuation and provisioning will follow the Prudential Framework for Resolution of Stressed Assets. This was implemented with immediate effect (29 March 2025).

National Payments Corporation of India

Addendum to circular NPCI/UPI/OC-115/2021-22 on the Numeric UPI ID resolution

(Release date –3 March 2025)

In reference to NPCI circular dated 20 July 2021 and following the UPI Steering Committee Meeting held on 16 July 2024 along with multiple Working Group discussions, additional guidelines have been introduced to enhance interoperability and user convenience in UPI number-based payments. The key points are as follows:

- Banks and PSP Apps are required to use the Mobile Number Revocation List/Digital Intelligence Platform (MRL/DIP) and update their databases on a weekly basis.
- UPI Apps are required to obtain explicit user consent with a clear opt-out option for seeding or porting UPI Numbers.
- If the NPCI mapper response time does not meet the required standards, PSP Apps may resolve the number locally. However, such occurrences must be reported to NPCI on a monthly basis as detailed in Annexure A of the circular.

All members are advised to comply with these guidelines by March 31, 2025.

Addendum to OC 206 Implementation of Generic Good Faith Debit Adjustments in URCS

(Release date – 12 March 2025)

NPCI has simplified the process for claiming offline IPO/Mandate with block functionality executions. Sponsor/acquiring banks can now manage these processes directly through the UPI back-office system (URCS) without NPCI intervention. The key points include:

- Sponsor/Acquiring Banks can raise generic good-faith debit adjustments with mandate creation details (TRANID, RRN, etc.) only on the remitter/issuing bank.
- BGGD adjustments are required to be raised within 45 days from the mandate creation date. If the Sponsor bank raise BGGD after the set TAT, then issuing bank can reject the same with reason code RGD1. Late adjustments will be declined by URCS
- Issuing banks are required to accept or reject adjustments within 3 calendar days, or they will be deemed accepted on the 4th day.
- Funds will be settled by debiting the issuing bank and crediting the acquiring bank for all accepted or deemed accepted adjustments.
- BGGD is allowed only for U2, IPO/Mandate with block functionality transactions with purpose code 01, 25, 76, 77 and RC 00 otherwise URCS will decline the BGGD adjustment.

This functionality will be available to banks from March 15, 2025.

For detailed process and validation rules, refer Annexure -1 to the circular from the link.

Addendum to OC-184 Modification in UPI chargeback rules and procedures

(Release date – 12 March 2025)

In reference to the NPCI circular dated December 5, 2023 (NPCI/UPI/OC No. 184), and based on feedback from member banks, NPCI has exempted the capping of 10 chargebacks (IFSC + Account Number) and 5 chargebacks (Payer VPA to Payee VPA) for chargebacks raised on fraudulent transactions. These exemption changes will be implemented in the URCS effective from March 15, 2025.

Implementation of New Product Type and Transaction Code for ACH/APB CR

(Release date – 26 March 2025)

In reference to the circular dated September 3, 2024, new transaction and product codes for processing DBT transactions will be introduced shortly. These changes are based on proposals discussed with the government and regulators to enhance the ecosystem.

The implementation of these transaction will commence from 1 April 2025, and the purpose of the new codes will be communicated once crystallised, before going live.

Member banks are required to update their systems and disseminate this information to all concerned parties by 31 March 2025. For detailed product and transaction codes, please refer to the link.

Other notifications: March 2025

Reserve Bank of India

Master Circulars – consolidation of existing requirements

(Release date – 1 April 2025)

RBI released various Master Circulars on 1 April 2025, which is a consolidation of the respective requirements into a single Master Circular, thereby repealing the previous circular, on the subject. This consolidation aims to streamline and simplify the guidelines for banks, ensuring they have a comprehensive and up-to-date reference. Further, the RBI intends to enhance clarity, reduce redundancy, and facilitate easier compliance for banks.

The list of Master Circulars released, is as under:

- Master Circular on SHG-Bank Linkage Programme
- Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)
- Master Circular - Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs)
- Master Circular – Lead Bank Scheme
- Master Circular - Disbursement of Government Pension by Agency Banks
- Master Circular on Conduct of Government Business by Agency Banks - Payment of Agency Commission
- Master Circular on Board of Directors - UCBs
- Master Circular – Basel III Capital Regulations
- Master Direction on Counterfeit Notes, 2025 – Detection, Reporting and Monitoring
- Master Circular - Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks (UCBs)
- Master Direction – Facility for Exchange of Notes and Coins
- Master Circular - Guarantees, Co-acceptances & Letters of Credit - UCBs
- Master Circular - Guarantees and Co-acceptances
- Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
- Master Circular - Income Recognition, Asset Classification, Provisioning and Other Related Matters - UCBs
- Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)
- Master Circular – Housing Finance
- Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2025
- Master Circular - Housing Finance for UCBs
- Master Circular - Management of Advances - UCBs
- Master Circular - Exposure Norms and Statutory / Other Restrictions – UCBs

Master Direction on Penal Provisions in reporting of transactions / balances at Currency Chests

(Release date – 1 April 2025)

RBI has issued Master Direction with respect to reporting of transactions / balances at currency chests and consequences of delayed reporting. This is in the backdrop of RBI's policy on Clean Note.

The Master Direction inter-alia provides for the following:

- Minimum amount of deposit into / withdrawal from currency chest shall be INR 1 lakh and thereafter in multiples of INR 50,000
- Reporting of transactions to be done through CyMM-CC portal by 7pm on the same day.
- Delay in reporting shall attract penal interest at 2% over the prevailing bank rate for the period of delayed reporting.

Banks Review of Regulatory Guidelines – Withdrawal of Circulars

(Release date – 8 April 2025)

Following a recommendation by the Regulation Review Authority (RRA) 2.0 and pursuant to the review on existing regulatory guidelines, RBI has withdrawn 20 circulars related to cheques, effective immediately. The list of these circulars is provided in the annexure to the notification dated 8 April 2025.

Liquidity Adjustment Facility - Change in rates

(Release date – 9 April 2025)

Due to reduction in the policy repo rate under the Liquidity Adjustment Facility (LAF), the Standing Liquidity Facility for Primary Dealers will now be available at the revised repo rate of 6.00%, effective immediately.

Standing Liquidity Facility for Primary Dealers

(Release date – 9 April 2025)

Due to reduction in the policy repo rate under the Liquidity Adjustment Facility (LAF), the Standing Liquidity Facility for Primary Dealers will now be available at the revised repo rate of 6.00%, effective immediately.

Penal Interest on shortfall in CRR and SLR requirements- Change in Bank Rate

(Release date – 9 April 2025)

RBI has reduced the Bank Rate by 25 basis points, bringing it down from 6.50% to 6.25%, effective immediately. Consequently, the penal interest rates for shortfalls in the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), which are linked to the Bank Rate, also stands revised. The new penal interest rates are 9.25% (Bank Rate + 3.0 percentage points) and 11.25% (Bank Rate + 5.0 percentage points), down from the previous rates of 9.50% and 11.50%, respectively.

Master Direction - Risk Management and Inter-Bank Dealings (Updated as on 16 April 2025)

(Release date – 16 April 2025)

Following this amendment, the directions outlined in Part B and Paragraph A (x) of Part E of the aforementioned Master Direction concerning Vostro Accounts of non-resident banks have been consolidated into the Master Directions - Deposits and Accounts. Additionally, references to Special Rupee Vostro Accounts and Vostro Accounts of Non-Resident Exchange Houses have been aligned and incorporated into Part III of the Master Directions - Deposits and Accounts.

Master Direction - Deposits and Accounts (Updated as on 16 April 2025)

(Release date – 16 April 2025)

The current amendment has consolidated the directions related to Vostro accounts of non-resident banks, previously found in Part B and Paragraph A (x) of Part E of the Master Direction – Risk Management and Inter-Bank Dealings dated July 5, 2016. Additionally, references to the directions concerning Special Rupee Vostro Accounts and Vostro Accounts of Non-Resident Exchange Houses have been incorporated into the Master Direction under the newly added Part III.

Amendments to Liquidity Coverage Ratio (LCR) Framework

(Release date – 21 April 2025)

The Reserve Bank of India (RBI) vide its notification dated 21 April 2025 stated additional run-off rates of 2.5% for internet and mobile banking enabled retail and small business customer deposits, and adjustments to the market value of Government Securities (Level 1 HQLA) in line with LAF and MSF requirements. Funding from non-financial entities such as trusts, partnerships, and LLPs will now attract a lower run-off rate of 40% instead of 100%. An impact analysis based on data from 31 December 2024, indicates that these measures will improve the LCR of banks by around 6 percentage points, with all banks expected to comfortably meet the minimum regulatory LCR requirements. The revised instructions will become applicable from 1 April 2026, giving banks adequate time to transition their systems.

Opening of and operation in deposit accounts of minors

(Release date – 21 April 2025)

The Reserve Bank of India (RBI) vide its notification dated 21 April 2025 stated that minors can open and operate savings and term deposit accounts through their natural or legal guardian, with those above 10 years able to do so independently, subject to the bank's risk management policy. Accounts can be opened with the mother as the guardian, and upon reaching the age of majority, new operating instructions and specimen signatures are required. Banks may offer additional facilities like internet banking, ATM/debit cards, and cheque books to minor account holders based on their risk management policy. Accounts of minors must always remain in credit and not be overdrawn, with customer due diligence required for opening and maintaining these accounts. Banks must align their policies with these guidelines by 1 July 2025, although existing policies may continue until then.

Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR) – Review of haircuts on High Quality Liquid Assets (HQLA) and review of composition and run-off rates on certain categories of deposits

(Release date – 21 April 2025)

The Reserve Bank of India vide its notification dated 21 April 2025, has issued the amendments to Basel III Framework on Liquidity Standards, effective April 1, 2026, incorporating the feedback received from stakeholders. Key changes include an additional 2.5% run-off factor for retail deposits with internet and mobile banking, updated treatment of unsecured wholesale funding from non-financial small businesses, and revised valuation rules for Level 1 High-Quality Liquid Assets (HQLA). Non-callable fixed deposits pledged as collateral will now be considered callable for Liquidity Coverage Ratio (LCR) purposes. Deposits from trusts, partnerships, and other incorporated entities will be categorised under non-financial corporates with a reduced 40% run-off rate instead of 100%, unless classified as Small Business Customers (SBCs). The amendments aim to improve banks' liquidity resilience while ensuring alignment with global standards in a non-disruptive manner, applicable to all commercial banks except Payments Banks, Regional Rural Banks, and local area banks.

For more details refer to the link.

Circular - Migration to '.bank.in' domain

(Release date – 22 April 2025)

The Reserve Bank of India vide its notification dated April 22, 2025, has referred back to Para 4 of the ' Statement on Developmental and Regulatory Policies dated February 7, 2025' which talks about the cyber security concerns in the financial domain and RBI's consideration of introduction of 'bank.in' and 'fin.in' domains for Banks and non-bank entities to combat the instances of fraud in digital payments space.

In view of the above, the RBI has operationalise the '. bank.in' domain for the Banks through the Institute for Development and Research in Banking Technology (IDRBT) authorised by National Internet Exchange of India (NIXI), working under the support of 'MeitY', to serve as the registrar for the said domain. Banks may contact IDRBT at sahyog@idrbt.ac.in to initiate the registration process and IDRBT will guide the Banks for application and migration process.

The Banks are advised to migrate to the '.bank.in' domain on or before October 31, 2025.

For more details refer to the link.

Amendments to Directions - Compounding of Contraventions under FEMA, 1999

(Release date – 22 April 2025)

The Reserve Bank of India (RBI) vide its notification dated April 22, 2025, has amended the Directions - Compounding of Contraventions under FEMA, 1999, wherein the provision linking the payable compounding amount to earlier orders, has now been deleted. Additionally, applicants must ensure proper reconciliation of electronic payments by providing extra details such as their mobile number, the RBI office where payment was made, and the submission mode. To address delays and mismatched payments, banks are urged to communicate these updated guidelines to their constituents, and the circular will be revised accordingly.

For more details refer to the link.

Note Sorting Machines: Standards issued by the Bureau of Indian Standards - Revised Timeline for Implementation

(Release date – 24 April 2025)

The Reserve Bank of India, vide its notification dated April 24, 2025, has referred back to circular DCM (NPD) No. S2193/09.45.000/2024-25 dated October 30, 2024 on "Note Sorting Machines - Standards issued by the Bureau of Indian Standards".

The timeline for implementing the standards for Note Sorting Machines, as outlined in the aforesaid circular, has been extended by six months to November 1, 2025, due to challenges cited by banks. However, banks are encouraged to comply with the same as soon as possible. All other provisions in the original circular shall remain unchanged.

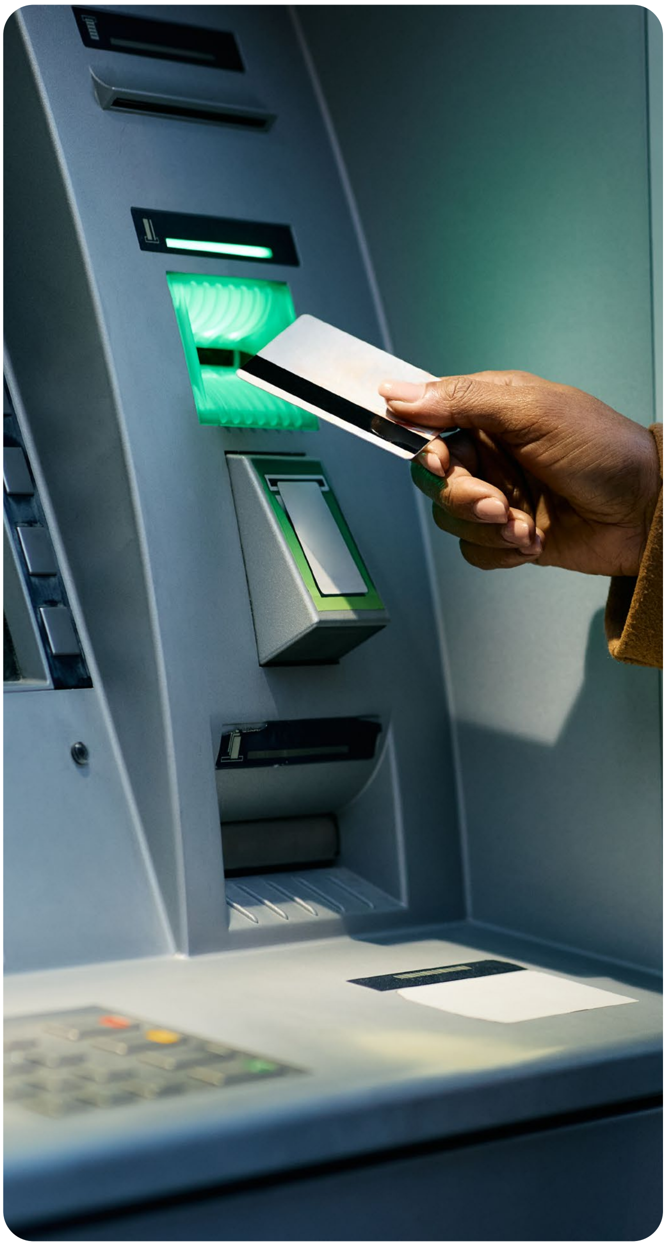
For more details refer to the link.

Amendments to Directions - Compounding of Contraventions under FEMA, 1999

(Release date – 24 April 2025)

The Reserve Bank of India vide its notification dated April 24, 2025, amended the directions to modifications under FEMA, 1999, in which the circular addresses Authorised Dealer (AD) Category-I banks regarding the compounding of contraventions under FEMA, 1999. It refers to the directions issued earlier and introduces a new provision in the Master Directions, allowing the compounding authority, under certain exceptional circumstances and in wider public interest, to cap the maximum compounding amount at INR 2,00,000 per contravention for specific cases. The Master Directions will be updated accordingly, and banks are advised to inform their constituents about this change. These directions are issued under relevant sections of FEMA, 1999, without affecting any other legal permissions or approvals required.

For more details refer to the link.



Dispensation of INR 100 and INR 200 denomination banknotes through ATMs

(Release date – 28 April 2025)

The Reserve Bank of India, vide its notification dated April 28, 2025, have instrcuted all the Banks in order to improve public access to commonly used banknotes, banks and White Label ATM Operators (WLAOs) must ensure that their ATMs regularly dispense INR 100 and INR 200 notes. By September 30, 2025, at least 75% of ATMs must have one cassette dedicated to these denominations, increasing to 90% by March 31, 2026.

For more details refer to the link.

Processing of Regulatory Authorisations/ Licenses/ Approvals through PRAVAAH

(Release date – 28 April 2025)

The Reserve Bank of India, through its notification dated 28 April 2025, has reiterated the launch of PRAVAAH (Platform for Regulatory Application, Validation And Authorisation), a secure web- based portal introduced on 28 May 2024 to streamline the submission of applications for authorisations, licenses, and regulatory approvals. Although nearly 4,000 applications have already been processed through PRAVAAH, some Regulated Entities continue to submit requests outside the platform.

As annouced in the Press Release on April 11, 2025, it is again specified that from May 1, 2025, all Regulated Entities must use PRAVAAH to submit applications using the available forms. The portal provides instructions, a user manual, FAQs, and videos for guidance, and can be accessed at https://pravaah.rbi.org.in.

For more details refer to the link.

National Payments Corporation of India

Addendum to NPCI/UPI/OC-141/2021-22 Safeguarding users on UPI

(Release date – 02 April 2025)

To keep product levels controls for safeguarding UPI users NPCI has issued various circulars like NPCI/UPI/OC-141/2021-22, NPCI/UPI/OC-141A/2022-23, NPCI/UPI/OC-141B/2022-23 and NPCI/UPI/OC-141C/2022-23.

In extention of the above and to further protect the customer and ensure trust in the ecosystem, particiapnts are required to ensure, the following by 15 April 2025:

- With reference to the point 2 of NPCI/UPI/OC-141A/2022-23 relating to Rent payments (MCC 6513), transactions will be allowed on initiation mode 03(Bharat QR). This will be in addition to existing initiation modes 00(subtype Pay), 01, 02, 04, 05, 10.
- This circular is not applicable for Mandate transactions (One time and Recurring Mandates)
- Acquirer/PSP Banks shall be responsible to adhere to these guidelines and communicate the same to respective payment aggregators/merchants.

Implementation of chargeback option for fraudulent transactions

(Release date – 2 April 2025)

NPCI has decided to implement necessary changes in the IMPS chargeback flow to facilitate the banks to raise chargeback under fraudulent transaction category. The following are the key Changes in the Revised Process:

- Chargeback of fraudulent transaction can be raised by the remitting banks, front end and bulk, both the options are made available in the IRCS.
- Beneficiary bank will have to accept, reject with TAT otherwise on completion of TAT, the chargeback shall be deemed accepted.
- All the chargebacks raised on fraudulent transactions which are accepted, rejected and deemed accepted are made available in the existing adjustment report.

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- Separate line item is updated in the DSR/NTSL for member banks to identify the settlement for such chargebacks.
- All the participant banks (as beneficiary) are advised to put best efforts to recover the funds and accept the chargeback upon recovery.
- IRCS will allow to raise re-presentment immediately after the chargeback is raised, there is no minimum cooling period set for re-presenting the chargeback. Hence, participant banks advised not to reject the chargebacks immediately after chargeback is raised.
- Remitting banks may provide the FIR copy to beneficiary banks for faster resolution of chargebacks.

The above functionality will be implemented in IRCS with effect from 20 April 2025. Refer Annexures for more details.

Addendum to NPCI/UPI/2024-25/OC76-Revision in transaction limits based on merchant & Transaction type

(Release date – 8 April 2025)

NPCI had released guidelines regarding transaction limits based on merchant segment and transaction types wide earlier circulars dated 31 October 2019, 12 March 2024 and 23 August 2024.

Taking into consideration constantly expanding UPI merchant ecosystem for both domestic and international transactions and impending risks which can arise, NPCI has advised to take note of the guidelines as listed in the Circular and the same to be implemented by the respective entities.

Enhancement in Mandate Cancellation Process

(Release date – 8 April 2025)

This Circular aims to enhance the mandate cancellation process under the National Automated Clearing House (NACH) by providing mandate cancellation facility to any one of the sponsor banks. This aims to remove the dependency on registered sponsor banks.

However, following points are required to be taken care of:

- All corporates and sponsor banks should maintain their own mandate data and they shall be responsible for independently verifying the mandate data
- Sponsor banks are required to take confirmation of corporate before proceeding with mandate cancellation and shall take full responsibility for cancellation of mandates and subsequent consequence
- Sponsor banks shall not cancel mandates at the request of aggregator/service provider or at its own discretion, until confirmation is sought from the corporate in whose favor the mandate is registered.

NPCI has made this functionality effective from April 04, 2025

• Reset Password & Unblock User ID Process for IRCS.

• System checks to block identical email IDs and Mobile numbers in maker and checker IDs

(Release date – 11 April 2025)

In order to facilitate IMPS participants to reset pasword and unblock user ID for IRCS on their own and reduce the dependency on NPCI, the reset password and unblock user ID process has been automated with three different options as follows:

- Answer secret question
- OTP
- MFA - Multi Factor Authentication

Further, a check is being made to identify identical email IDs and mobile number for maker and checker, therefore, member banks are required to update unique email ID and mobile number for maker and checker, otherwise OTP and MFA cannot be sent to the old identical users.

This functionality will be made available to the member banks with effect from 15 April 2025.

Addendum to OC-101: Strengthening beneficiary name verification and display during UPI transactions

(Release date – 24 April 2025)

NPCI vide circular NPCI/UPI/OC No. 101/2020-21, mandated ultimate beneficiary name to be showcased in UPI transaction, on the payer app as well as during display of transaction statement/history.

To instill confidence in customers that they are sending money to the correct beneficiary and to avoid potential risk, the following changes are required to be made in the UPI apps:

- Display only the Ultimate Beneficiary Name (CBS name) for P2P and P2PM transactions, and any other alias or logic should not be displayed;
- Users shall not be allowed to modify their Beneficiary Name.

The Members of UPI are required to adhere to above latest by 30 June 2025, post which it shall be treated as non-compliance.

Initial streamlining the check transaction usage in UPI and overuse/ misuse of all UPI APIs

(Release date – 26 April 2025)

NPCI has issued this circular to address the situation that has resulted to initiation of high number of "Check Transaction Status" APIs by PSP banks at a very high Transactions Per Second (TPS) rate in repetitive manner. In order to ensure that UPI system is able to operate as per ecosystem expectations, certain guidelines are issued and the same needs to be adhered by UPI members. These guidelines are listed below:

However, following points are required to be taken care of:

- All the API requests (traffic) sent to UPI is monitored and moderated in terms of appropriate usage.
- There is no batch processing (by processing file and converting to online request at high TPS) of any of the non-financial APIs sent to UPI Online systems.
- Initiate the first check transaction status API after 90 seconds from the initiation/authentication of the original transaction. After the timers are changed, members may initiate the same after 45 to 60 seconds of the initiation/authentication of original transaction.
- Initiate maximum of 3 check transaction status APIs, preferably within 2 hours from the initiation/authentication of the original transaction.
- In case of U48 error (Transaction ID not present or not found in UPI System) within first two 2 hours from initiation of the original transaction, then PSP banks/acquiring banks shall refer the NPCI settlement files (available to payee, payer or PSP banks) after the settlement cycle is completed, alternatively members may initiate a maximum of one check transaction status API on Unified Dispute and Issue Resolution (UDIR) which in turn checks URCS (UPI Backoffice) to fetch the final settlement status of the transaction.
- If the transaction failed, if they receive an error from the list mentioned in Annexure 1(Refer Circular) and shall not initiate further check transaction status API.
- Audit their systems by Cert-in empanelled auditor on an immediate basis, to review the API usage and existing systems behaviour, and annually hereafter.
- The remitter bank/PSP shall have visibility over specific UPI APIs and are responsible for regularly reviewing their usage. Any exceptions or anomalies observed shall be reported to NPCI.
- NPCI may also consider implementing rate limiters on select UPI API's in consultation with steering committee and subject to other approvals in due course.

These measures are to be implemented by the PSP banks / Acquiring banks on immediate basis. NPCI may also review the API requests on ongoing basis.

Members can also reach out for any further suggestions and changes in above, after reviewing the feedback and data in next 4 weeks' time to upi.compliance@pci.org.in so that they are incorporated and revised guidelines in this regard can be issued, if necessary.

Reduction in response time of UPI Transactions

(Release date – 26 April 2025)

NPCI issues the aforesaid circular with the objective to streamline the performance of UPI. The response time for UPI APIs initiated by NPCI is revised as follows:

- Request Pay, Response Pay (Debit and Credit) - Existing response time was 30 seconds changed response time to 15 Seconds.
- Check Transaction Status - Existing response time was 30 Seconds changed response time to 10 Seconds.
- Transaction Reversal (Debit and Credit) - Existing response time was 30 Seconds changed response time to 10 Seconds.
- Validate Address (Pay, Collect) - Existing response time was 15 Seconds changed response time to 10 Seconds.

These response time are changed to improve the customer experience. The members are required to ensure that they make the necessary changes in their system so that responses are handled within the revised timelines. Members are requested to ensure that changes to the response time should not adversely impact technical decline (TD) thresholds.

The above-mentioned changes shall be implemented with effect from 16 June 2025.

Acknowledgments

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