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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures to enhance liquidity support for financial markets and other stakeholders; further easing of financial stress caused by COVID-19 disruptions while strengthening credit discipline; improve the flow of credit; deepen digital payments; augment customer safety in cheque payments; and facilitate innovation across the financial sector by leveraging on technology through an Innovation Hub.

I. Liquidity Management and Financial Markets

1. Additional Liquidity Facility for National Housing Bank

Special refinance facilities for a total amount of ₹65,000 crore were provided to all India financial institutions (AIFIs) – the National Bank for Agriculture and Rural Development (NABARD); the Small Industries Development Bank of India (SIDBI); the National Housing Bank (NHB); and EXIM Bank – in order to support their role in meeting funding requirements of various sectors. In order to shield the housing sector from liquidity disruptions under the prevailing conditions and augment the flow of finance to the sector, it has been decided to provide an additional standing liquidity facility (ASLF) of ₹5,000 crore to NHB – over and above ₹10,000 crore already provided – for supporting housing finance companies (HFCs). The facility will be for a period of one year and will be charged at the RBI's repo rate.

2. Additional Liquidity Facility for NABARD

Liquidity support of ₹25,000 crore was extended to the National Bank for Agriculture and Rural Development (NABARD) in April 2020 to back agricultural operations in the wake of challenges posed by COVID-19 and in view of the brightening prospects of the farm sector, its capacity to provide employment in these trying times, and its backward and forward linkages. In order to ameliorate the stress being faced by smaller non-bank finance companies (NBFCs) and micro-finance institutions in obtaining access to liquidity, it has now been decided to provide an additional special liquidity facility (ASLF) of ₹5,000 crore to NABARD for a period of one year at the RBI's policy repo rate for refinancing NBFC-MFIs and other smaller NBFCs of asset size of ₹ 500 crore and less to support agriculture and allied activities and the rural non-farm sector.

3. Introduction of a Flexible Automated Option for Managing CRR Balances

The Reserve Bank will introduce an optional facility to provide banks more flexibility/discretion to manage their day end cash reserve ratio (CRR) balances. Using this facility in e-Kuber system, banks will be able to set the amount (specific or range) that they wish to keep as balance in their current account with RBI at the end of the day. Depending upon this pre-set amount, marginal standing facility (MSF) and reverse repo bids, as the case may be, will be auto-generated at the end of the day.

Detailed guidelines are being issued separately.

II. Regulation and Supervision

Measures Aimed at Mitigating the Economic Fallout of COVID-19

The regulatory focus over the past few months has been to frame appropriate policy responses to mitigate the immediate impact of COVID-19 on the financial institutions and their constituents. These measures were aimed at providing temporary reprieve to borrowers affected by the pandemic, as well as address the liquidity needs of various segments of the financial system, while maintaining its resilience. RBI remains committed to take any further measures felt necessary in this direction while at the same time remaining fully committed to maintaining financial stability. Going forward, as the process for normalisation of economic activity gathers pace, the need to address the deeper cash flow/balance sheet stress that many of the viable entities may have been exposed to on account of the pandemic and the consequent impact on the financial institutions is also recognised.

4. Resolution Framework for COVID-19-related Stress

The "Prudential Framework on Resolution of Stressed Assets" dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under the Prudential Framework which involves granting of any concessions on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained or upgraded to Standard, subject to the prescribed conditions.

The economic fallout on account of the COVID-19 pandemic has led to significant financial stress for a number of borrowers across the board. The resultant stress can potentially impact the long-term viability of a large number of firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate, relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.

Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, it has been decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard subject to specified conditions. Such conditions are considered necessary to ensure that the facility of this resolution window is available only to the COVID-19 related stressed assets. Besides, the crucial aspect of maintaining financial stability has also been suitably factored in.

In light of past experiences with regard to use of regulatory forbearances, necessary safeguards are being incorporated, including prudent entry norms, clearly defined boundary conditions, specific binding covenants, independent validation and strict post-implementation performance monitoring. Given the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, the framework shall not be available for exposures to financial sector entities as well as Central and State Governments, Local Government bodies (e.g. Municipal Corporations) and any body corporate established by an Act of Parliament or State Legislature.

The key features of the resolution framework for exposures other than personal loans are as under:

i. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. Further, the accounts should continue to remain standard till the date of invocation. All other accounts, as hitherto, may be considered for resolution under the June 7th Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.
ii. The resolution plan may be invoked anytime till December 31, 2020 and shall have to be implemented within 180 days from the date of invocation.
iii. Lenders shall have to keep additional provisions of 10 per cent on the post-resolution debt.
iv. In order to enforce collective action, specific voting thresholds are being prescribed even for invocation of the resolution plan; and those lending institutions not signing the inter-creditor agreement (ICA) within 30 days from the date of invocation shall attract higher provisions of 20.
v. Post-implementation, the asset classification of the account shall be retained as standard, or if the account had slipped into NPA after invocation but before implementation, the asset classification shall be restored upon implementation.

vi. The Reserve Bank is constituting an Expert Committee (Chairman: Shri K.V. Kamath) which shall make recommendations to the RBI on the required financial parameters, along with the sector specific benchmark ranges for such parameters, to be factored into each resolution plans. The final notification in this regard shall be issued by the Reserve Bank after considering the recommendations.

vii. The Expert Committee shall also undertake a process validation of resolution plans for accounts above a specified threshold.

viii. The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years.

ix. Wherever the resolution plans involve conversion of a portion of debt into equity and other debt instruments, the debt instruments with terms similar to the loan shall be counted as part of the post-resolution debt, whereas the portion converted into other non-equity instruments shall be fully written down.

x. In respect of accounts involving consortium or multiple banking arrangements, all receipts by the borrower; all repayments by the borrower to the lending institutions; as well as all additional disbursements, if any, to the borrower by the lending institutions as part of the resolution plan, shall be routed through an escrow account maintained with one of the lending institutions.

With respect to personal loans, a separate framework is being prescribed. The resolution plan for personal loans under this framework may be invoked till December 31, 2020 and shall be implemented within 90 days thereafter. The lending institutions are, however, encouraged to strive for early invocation in eligible cases. The timelines for implementation of resolution plan in case of personal loans are assessed to be adequate since, unlike larger corporate exposures, there will not be any requirement for third party validation by the Expert Committee, or by credit rating agencies, or need for ICA. The contours of the plan may be decided based on the Board approved policies of the lenders subject to extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years.

Guidelines in this regard are being issued today.

5. Restructuring of MSME debt

With regard to MSMEs, a restructuring framework is already in place for MSMEs that were in default but 'standard' as on January 1, 2020, subject to the restructuring being implemented upto December 31, 2020. The scheme has provided relief to a large number of MSMEs. However, the stress in the MSME sector has got accentuated on account of the fallout of COVID-19.

Recognising the need for continued support to MSMEs' meaningful restructuring, it has been decided that, in respect of MSME borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may restructure the debt under the existing framework, provided the borrower's account was classified as standard with the lender as on March 1, 2020. This restructuring shall be implemented by March 31, 2021.

Guidelines in this regard are being issued separately today.

6. Advances against Gold Ornaments and Jewellery

As per the extant guidelines, loans sanctioned by banks against pledge of gold ornaments and jewellery for non-agricultural purposes should not exceed 75 per cent of the value of gold ornaments and jewellery. With a view to further mitigate the economic impact of the COVID-19 pandemic on households, entrepreneurs and small businesses, it has been decided to increase the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent. This relaxation shall be available till March 31, 2021.

Guidelines in this regard are being issued today.

7. Streamlining the Use of Multiple Operating Accounts by Large Borrowers

While permitting the lending institutions to provide necessary relief to the borrowers through various measures, it is also considered necessary to take appropriate measures for strengthening credit discipline. Use of multiple operating accounts by borrowers, both current accounts as well as cash credit (CC)/overdraft (OD) accounts, has been observed to be prone to vitiating credit discipline. The checks and balances put in place in the extant framework, for opening of current accounts, are found to be inadequate.

As such, it has been decided to address the above concerns through appropriate safeguards for opening of current accounts and CC/OD accounts for customers availing credit facilities from multiple banks.

Detailed instructions are being issued in this regard.

The above measures are also expected to bring in the requisite discipline in collective actions by the creditors for speedier resolution of stress in the accounts of borrowers, which will be critical in implementation of the Resolution Framework for COVID-19- related Stress, as mentioned earlier.

8. Investment by Banks in Debt Mutual Funds and Debt Exchange Traded funds – Capital Charge for Market risk

As per RBI's extant Basel III guidelines, if a bank holds a debt instrument directly, it would have to allocate lower capital as compared to holding the same debt instrument through a Mutual Fund (MF)/Exchange Traded Fund (ETF). This is because specific risk capital charge as applicable to equities is applied to investments in MFs/ETFs; whereas if the bank was to hold the debt instrument directly, specific risk capital charge is applied depending on the nature and rating of debt instrument. It has therefore been decided to harmonise the differential treatment existing currently. At the same time, it is observed that a debt MF/ETF also has features akin to equity, since in the event of default of even one of the debt securities in the MF/ETF basket, there is often severe redemption pressure on the fund notwithstanding the fact that the other debt securities in the basket are of high quality. Hence, it has been decided that the general market risk charge of 9 per cent will continue to be applied. Thus, computation of total capital charge for market risk shall incorporate elements of both debt and equity instruments. This will result in substantial capital savings for banks and is expected to give a boost to the bond market.

The circular in this regard is being issued separately.

III. Financial Inclusion

9. Review of Priority Sector Lending Guidelines

The Priority Sector Lending (PSL) guidelines issued by Reserve Bank of India were last reviewed in April 2015. With a view to align the guidelines with emerging national priorities and bring sharper focus on inclusive development, the guidelines have been reviewed after wide ranging consultations with all stakeholders. The revised guidelines also aim to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs).

With a view to address the regional disparities in the flow of priority sector credit, an incentive framework has been put in place for banks. While higher weight will be assigned for incremental priority sector credit in the identified districts where credit flow is comparatively lower, a lower weight would be assigned to incremental priority sector credit in identified districts where the credit flow is comparatively higher.

Other changes include broadening the scope of PSL to include start-ups; increasing the limits for renewable energy, including solar power and compressed bio gas plants; and, increasing the targets for lending to 'Small and Marginal Farmers' and 'Weaker Sections'.

Detailed guidelines in this regard will be issued shortly.

IV. Payment and Settlement Systems

10. Scheme of Offline Retail Payments Using Cards and Mobile Devices

There has been considerable growth in digital payments using mobile phones, cards, wallets, etc. Lack of internet connectivity or low speed of internet, especially in remote areas, is a major impediment in adoption of digital payments. Against this backdrop, providing an option of off-line payments through cards, wallets and mobile devices is expected to further the adoption of digital payments. The Reserve Bank has been encouraging entities to develop offline payment solutions. It is, therefore, proposed to allow a pilot scheme for small value payments in off-line mode with built-in features for safeguarding interest of users, liability protection, etc.

The instructions in this regard will be issued shortly. Based on experience gained, detailed guidelines for roll-out of the scheme will be announced in due course.

11. Online Dispute Resolution (ODR) for Digital Payments

As the number of digital transactions rise significantly, there is a concomitant increase in the number of disputes and grievances. Recourse to technology-driven redressal mechanisms that are rule-based, transparent and involve minimum (or no) manual intervention is necessary to deal with them in a timely and effective manner. Accordingly, the Reserve Bank shall require Payment System Operators (PSOs) to introduce Online Dispute Resolution (ODR) Systems in a phased manner. To begin with, authorised PSOs shall be required to implement ODR systems for failed transactions in their respective Payment Systems. Based on the experience gained, ODR arrangements will be extended to other types of disputes and grievances.

Instructions in this regard will be issued today.

12. Positive Pay Mechanism for Cheques

The Cheque Truncation System (CTS) for clearing cheques is operational pan-India and presently covers 2 per cent and 15 per cent of total retail payments in terms of volume and value respectively; the average value of a cheque cleared in CTS presently is ₹82,000. The CTS-2010 standard specifying minimum-security features on cheque leaves acts as a deterrent against cheque frauds, while standardisation of field placements on cheque forms enables straight-through-processing by use of optical / image character recognition technology. To further augment customer safety in cheque payments and reduce instances of fraud occurring on account of tampering of cheque leaves, it has been decided to introduce a mechanism of Positive Pay for all cheques of value

₹50,000 and above. Under this mechanism, cheques will be processed for payment by the drawee bank based on information passed on by its customer at the time of issuance of cheque. This measure will cover approximately 20 per cent and 80 per cent of total cheques issued in the country by volume and value, respectively.

Operational guidelines for the purpose will be issued separately.

13. Creation of Reserve Bank Innovation Hub

The Reserve Bank has constantly endeavoured to encourage responsible innovation by entities in the financial services sector. The Regulatory Sandbox framework was one such recent initiative in which Digital Payments were the first cohort. Six proposals were accepted under the Sandbox, the pilot studies / trials of which have been delayed on account of the present COVID-19 situation. Areas such as cyber security, data analytics, delivery platforms, payments services, etc., remain in the forefront when we think of innovation in the financial sector. To promote innovation across the financial sector by leveraging on technology and create an environment which would facilitate and foster innovation, Reserve Bank will set up an Innovation Hub in India. The Innovation Hub will act as a centre for ideation and incubation of new capabilities which can be leveraged to create innovative and viable financial products and / or services to help achieve the wider objectives of deepening financial inclusion, efficient banking services, business continuity in times of emergency, strengthening consumer protection, etc. The Innovation Hub will support, promote and hand-hold cross-thinking spanning regulatory remits and national boundaries.

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