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Current Financial sector initiatives of RBI

The macroeconomic frame work in India looks poised for major shifts, with announcements relating to implementation of a **new Indian Financial Code or realignment of regulatory responsibilities between different regulators. Important new reforms in India are as follows:**

- **New banks, New types:** As early as in April last year, the Reserve Bank of India (RBI) awarded universal bank licences to two entities, **infra financier IDFC and micro lender Bandhan Financial Services.** These were issued after more than a decade. The process, completed in April, was started in February 2010.
- **SEBI took over Forwards market Commission(FMC)**
- Also for the first time, RBI opened the sector for differentiated bank licences. Over 100 applications were received, from those who wanted to set up **Payments banks and Small Finance Banks.** Big corporate entities like **Reliance, Bharti Airtel and the Aditya Birla Group had applied for payment banks**. RBI is in the process of vetting the bids and is expected to award licences in the next few months.
- **Governance in Banks: Recommendations of the P J Nayak committee** to review governance issues in banks hasn't been accepted fully but the government has shown an intention to start the reform process. The Narendra Modi-led government has already split the chairman and managing director's post in public sector banks and invited applications from those in private banks to head the state-run ones, at market-linked pay.
- **Capital infusion in public Sector banks:** Public sector banks (PSBs) reeling under the pressure of **stressed assets have seen their capital position worsening due to higher provisioning.** Their capital raising ability from the market is also constrained due to poor valuations. However, breaking the tradition of infusing capital in banks that need it most, the government decided to **do so in banks which are more efficiently run, sending a signal that banks must be run efficiently to survive.**
- **Infra financing:** After an announcement in the Union Budget, the RBI has allowed banks to **raise funds via long-term bonds for financing to the infrastructure sector**. For these, they **don't have to meet the cash reserve ratio, statutory liquidity ratio or priority sector norms.** This will help lenders to boost infrastructure and affordable housing financing. In addition, The RBI had introduced a **flexible financing scheme** in July. **Popularly known as the 5:25 scheme, it allows banks to extend long-term loans of 20-25 years to match the cash flow of projects, while refinancing them every five or seven years.**
- **Growth of Banking:** Amid a slowing economy, when interest rates are high **(RBI has reduced the policy rate by 50 basis points only since January),** bank loan growth was the slowest in more than a decade. According to RBI data, loan growth till March 6 was 10.2 per cent (year on year) as compared to 14.3 per cent in the same period of the previous year. Deposit growth also slowed in the year, at 11.6 per cent as compared to 15.1 per cent the previous year.
- **Monetary policy:** The year also saw the central bank shifting to an inflation targeting framework, with the mandate to keep inflation below six per cent by January 2016 and four per cent, with a variation of two per cent on both sides, in the years after. However, a monetary policy committee, as suggested by the **Urjit Patel panel** is yet to be set up and the government and central bank are in talks on this. RBI, however, stands to lose some of its functions, like managing the government's debt. The Union Budget has proposed setting up of a **Public Debt Management Office, independent of RBI**.

Flashback of financial sector milestones 2015

- After a gap for more than two decades, **new bank licences** were awarded by the Reserve Bank of India (RBI) to two applicants, **IDFC & Bandhan Financial Services**
- A new monetary framework kicks in, **with 6 reviews per year as compared to 8 earlier**

- To boost infra financing **CRR/SLR exemption announced** for banks for funds raised via infra bonds
- RBI issues draft norms for payments and small banks; for the first time a process to issue **differentiated licences initiated**
- CBI arrests Syndicate Bank Chairman and Managing **Director (CMD) S K** Jain over alleged bribery charges. Jain later sacked by the government, which, in an unprecedented move, cancels all CMD appointment decisions taken by the previous government
- **Prime Minister Narendra Modi launches Pradhan mantri Jan Dhan Yojana** – a scheme for opening bank accounts to foster financial inclusion. More than **130 million accounts opened in a matter of five months**
- **Kotak Mahindra Bank** acquired **ING Vysya Bank** to become the fourth largest private bank in the country
- Government **splits chairman and managing director's post in public sector** banks, signalling its intention to initiate long-pending reforms in the banking sector
- Government issues ordinance to allow foreign firms **to have 49 per cent stake in insurance companies,** a decision that was stuck for several years
- In a first, government calls bankers for a brainstorming session, christened as **Gyan Sangam**, to chart the road ahead for the banking sector
- RBI brings out final guidelines on banks **becoming insurance brokers**
- RBI gets **41 applications for payments bank licence, 72 for small finance bank licence**
- Government allocates capital to public sector banks based on their efficiency, clearly indicating its stance — **perform or perish**
- **CEO position in government banks opened for private sector players** with market-linked remuneration
- Union budget starts implementing proposals of the **Financial Sector Legislative Reforms Commission (FSLRC),** which takes away some important functions of the central bank like government debt management
- Insurance Bill passed by both Houses of the Parliament

Recent Policy Initiatives of RBI

- The operational guidelines of the **Self Employment Programme (SEP**) component of **National Urban Livelihoods Mission (NULM) were issued in line with restructuring of the existing Swarna Jayanti Shahari Rozgar Yojana (SJSRY) as NULM.**
- **SLBC convenor banks and lead banks** were advised to complete the process of providing banking services to unbanked villages with population below **2,000 by August 14, 2015 in line with PMJDY instead of March 2016 as prescribed earlier.**
- Resident individuals were permitted to make remittance under **LRS for purchasing immovable property abroad.**
- **e-KYC service launched** by the **Unique Identification Authority of India (UIDAI)** was accepted as a **valid process for KYC** verification under the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
- The **'20:80 scheme'** which stipulated that 20 per cent of the gold imported had to be exported was withdrawn.
- **FDI up to 49 per cent** under the government route was permitted in the defence sector.
- **FDI in railway infrastructure** was permitted up to 100 per cent under the automatic route.
- An **Alternative Investment Fund registered with SEBI** was allowed to invest overseas on the lines of domestic venture capital funds.
- **FDI in the insurance sector was allowed up to 49 per cent.**

- Limit of remittances under the **liberalised remittance scheme (LRS)** was increased to an umbrella limit of **US$ 2, 50,000**/- subsuming various limits under Schedule III of the Foreign Exchange Management **(Current Account Transaction) Rules, 2000.**
- For streamlining **KYC norms**, client due diligence measures were further simplified, dispensing with the requirement of ‘positive confirmation’ and physical presence of clients at the time of periodic updation.
- The upper **age limit for the MD and CEO and other whole time directors of banks in the private sector was fixed at 70 years** with flexibility to individual banks’ boards to prescribe a lower than 70 years retirement age for WTDs, including the MD & CEO, as an internal policy.
- **KYC norms** were further simplified: ‘low risk’ customers need **not furnish fresh KYC documents at the time of periodic updation; self-certification will suffice** in case of no change. For non-compliant KYC accounts, after repeated reminders, banks may impose ‘partial freezing’ in a phased manner.
- Banks were allowed to review the base rate methodology after three years instead of five years.
- Final guidelines for implementation of **Countercyclical Capital Buffer (CCCB)** were issued.
- A scheme for setting up of **IBUs in Gujarat International Finance Tec-City (GIFT) and other IFSCs that may be set up in India was formulated**. Under the scheme, IBUs will be established with a **minimum capital requirement of US$ 20 million** or equivalent in foreign currency.
- A **Strategic Debt Restructuring (SDR) scheme** was issued, allowing conversion of bank loan dues into equity shares at a ‘fair price’ as per a prescribed pricing formula, which is exempted from the SEBI’s related regulations.
- For **KYC purposes**, banks were advised to accept from low-risk customers additional documents as **OVDs for proof of address, such as utility bills, municipal tax receipt, bank account statement and pension payment orders.**
- **Scheduled UCBs** which were **CBS-enabled with 9 per cent CRAR** and fully compliant with the Reserve Bank’s eligibility criteria, have been extended **Liquidity Adjustment Facility (LAF)** with effect from November 28, 2014.
- **UCBs** were permitted to act as **PAN Service Agents (PSAs)** by entering into a tie-up with any agency authorised by the Income Tax Department, Government of India.
- CBS-enabled UCBs having capacity to build necessary modules in CBS/ hand-held devices and not operating under directions **u/s 35 A of the Banking Regulation Act, 1949 (AACS) were advised to roll out the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY)** by May 31, 2015 and participate in these schemes.
- **NBFCs were advised to obtain a Global Intermediary Identification Number (GIIN)** wherever applicable.
- The RBI had invited applications from companies which want to continue or commence business of **credit information under the Credit Information Companies Act, 2005**.As a result **four Credit Information Companies (CICs) got licences from RBI.** Now **all banks and NBFCs** were mandated to become members of all **CICs.**
- For **NBFC-MFIs, limit on the total indebtedness** of a borrower, excluding educational/medical expenses was raised to **Rs 100,000 from Rs 50,000**. Loans disbursed to a borrower with a rural household annual income not exceeding Rs **100,000 or urban and semi-urban household income not exceeding Rs 160,000 were included as qualifying assets.**
- Banks were advised to employ ‘decoy customers’ and conduct surprise checks for compliance with **KYC/ AML/CFT norms**.
- Public sector banks, select private and foreign banks were advised to **appoint chief customer service officers, i.e., internal ombudsman.**
- The minimum numbers of free transactions at other banks ATMs was **rationalized from five to three at six metros and for own bank ATMs to five.**

- **The Central Repository of Information on Large Credits (CRILC**) has been set up in the Reserve Bank to collect, store and disseminate information on borrowers enjoying exposure of Rs 50 million and above from banks/ non-banking finance companies (NBFCs) and insurance companies.
- Framework for dealing with loan frauds is developed by RBI to have a system of check at different stages of the loan life cycle and identification of red flagged accounts (RFAs) based on early warning signals for accounts above Rs **500 million and classification of RFAs either as fraud or otherwise within six months**.
- RBI in association with SEBI has significantly cracked down on various unregistered **collective investment schemes (CIS)/deemed public issue (DPI)** in the last year.RBI also closely monitoring **shadow banking trends in India.** Under the initiative of the **Financial Stability and Development Council (FSDC),** several steps have been taken to make **State Level Coordination Committee**s **(SLCCs)** more effective for better dissemination of market intelligence with regard to unauthorised deposit schemes and CIS. The **shadow banking system** is a term for the collection of **non-bank financial intermediaries** that provide services similar to traditional **commercial banks**
- **Financial inclusion plans (FIPs)** are encouraged by RBI to enable banks to improve their penetration in unbanked areas by providing **Basic savings bank deposit accounts (BSBDAs), small credits and business correspondent-information and communication technology) (BC-ICT) transactions**.
- **Algorithm (Algo) trading/high frequency trading (HFT)** in financial markets have undergone substantial change with the development in information processing and communications technologies over the last two to three decades. **Algo trading** was introduced in India in April 2008 with the introduction of **direct market access (DMA).**
- **SEBI (Prohibition of Insider Trading) Regulations, 2015** were notified in January 2015 which came into force from May 15, 2015, replacing the SEBI (Prohibition of Insider Trading Regulations), 1992
- In order to increase the penetration of crop insurance, it has been decided to use the agency network of the four **General Insurance Public Sector Association (GIPSA) companies** to sell crop insurance. In this regard the **Insurance Regulatory and Development Authority of India (IRDAI)** has given its approval for the co-insurance arrangement between **Agriculture Insurance Company (AIC)** and the four GIPSA Companies which will cover only non loanee farmers under **Weather Based Crop Insurance Scheme (WBCIS) and Modified National Agricultural Insurance Scheme (MNAIS).**
- Specifically, with a view to addressing longevity risks among workers in **the unorganised sector** who constitute 88 per cent of the total labour force and encouraging them to voluntarily save for their retirement, the government has launched a new initiative called the **Atal Pension Yojana (APY),** in May 2015. APY will focus on all citizens in the **unorganized sector** who join the **National Pension Scheme (NPS), administered by the Pension Fund Regulatory and Development Authority (PFRDA).** Under APY, subscribers will receive the minimum guaranteed pension of ₹1,000 per month, Rs 2,000 per month, Rs 3,000 per month, Rs 4,000 per month and Rs 5,000 per month, at the age of 60 years, depending on their contributions, which will vary according to the age at the time of joining APY. The minimum age for joining APY is **18 years while the maximum age is 40 years**. Therefore, the minimum period of contribution by a subscriber under **APY will be 20 years or more**. Government is also planning to implement major recommendations of the **Bajpai Committee on the Pension Sector.**
- Reserve Bank is engaged in the process of setting up two nationwide systems—**Bharat Bill Payments System (BBPS)** which is a centralised interoperable bill payment infrastructure providing an anytime anywhere bill payment environment for customers and the **Trade Receivables Discounting System (TreDS)** which will provide the institutional mechanism to facilitate financing of trade receivables of **micro, small and medium enterprises (MSMEs)**