



RBI
CIRCULARS

APRIL 2024



RBI Circulars April 2024

1. Master Direction on Framework of Incentives for “Currency Distribution & Exchange Scheme (CDES)” for bank branches including currency chests

- **Introduction of CDES:** The Currency Distribution & Exchange Scheme (CDES) is designed to motivate all bank branches, including Currency Chests (CCs), to enhance customer service in alignment with the Clean Note Policy objectives.
- **Incentive Structure:** Banks can receive financial incentives or service charges for establishing infrastructure and managing the exchange/distribution of notes and coins.

Detailed Incentive Breakdown:

For Currency Chests having a population of less than 1 lakh, underbanked areas:

- **Capital Costs:** Up to 50% of capital expenditure reimbursed, capped at ₹50 lakhs, with 100% reimbursement available in the North Eastern region.
- **Revenue Costs:** 50% of revenue expenditure reimbursed for the first 3 years, extended to 5 years in the North Eastern region.

For handling soiled and mutilated notes:

- **Soiled Notes:** ₹2 per packet for exchanging notes up to ₹50 denomination.
- **Mutilated Notes:** ₹2 per adjudicated note.

For coin distribution:

- **Base Rate:** ₹65 per bag.
- **Rural and Semi-Urban Bonus:** Additional ₹10 per bag with a Concurrent Auditor’s certificate.

Cash Deposit Incentives Under Linkage Scheme:

- **Large modern CCs:** ₹8 per 100 pieces.
- **Other CCs:** ₹5 per 100 pieces.

Operational Guidelines for Incentive Payment:

- Incentives for soiled notes are based on the actual volume received by the RBI.
- Incentives for mutilated notes are paid upon receipt, whether included with soiled notes or sent separately.
- Coin distribution incentives are calculated based on net withdrawals from the currency chest.

Incentive Claim Process:

- Banks do not need to submit a separate claim for incentives; incentives are automatically passed to linked branches/chests on a pro-rata basis based on the volume of soiled notes deposited and coins distributed.

Verification and Monitoring:

- The RBI Regional Offices will inspect currency chests and conduct incognito visits to branches to verify the distribution of coins.

Note- The currency chest is essentially the storage facility of the Reserve Bank of India (RBI). It is where the cash for banks and ATMs is stored. These chests are strategically situated within select banks throughout India.

2. Primary (Urban) Co-operative Banks’ Outlook 2022-23

- **Significant Growth in Advances:** Urban Co-operative Banks (UCBs) experienced a substantial increase in priority sector advances, rising over 27% in the financial year 2023 compared to the previous year.
- **Financial Figures:** According to the Reserve Bank of India's report titled "Primary (Urban) Co-operative Banks' Outlook 2022-23," advances for UCBs in FY23 reached Rs 2.2 trillion, up from Rs 1.73 trillion in FY22.
- **Focus on MSMEs:** Urban Co-operative Banks (UCBs) directed a significant portion of their advances to micro, small, and medium enterprises (MSMEs), with the total reaching Rs 1.3 trillion in FY23, up from Rs 1 trillion in FY22.
- **Proportion of Priority Sector Lending:** In FY23, nearly 40% of UCBs' total priority sector lending was allocated to MSMEs, an increase from 34.27% in the previous year.
- **Micro Enterprises' Share:** Within the MSME category, micro-enterprises received the highest proportion of funding, accounting for 17.23% of the total lending by UCBs.
- **UCBs' Priority Sector Lending Achievement:** The Reserve Bank of India (RBI) had set a priority sector lending target of 60% for Urban Co-operative Banks (UCBs) to achieve by FY24. Remarkably, UCBs surpassed this goal in FY23, reaching 66.88%.
- **Comparison with Commercial Banks:** As of March 31, 2023, scheduled commercial banks achieved 44.7% in priority sector lending. Public and private sector banks, including foreign banks, met the prescribed 40% overall priority sector lending target for the fiscal year 2022-23.
- **Impact of MSMEs Recovery Post-COVID:** Sanjay Agarwal, senior director at CARE Ratings, attributed the significant growth in priority sector lending to MSMEs resuming normal operations after the COVID-19 pandemic, which led to an expansion in their business activities.
- **Current Statistics of UCBs:** As of March 31, India hosted 1,502 Urban Co-operative Banks (UCBs) with a network of 10,117 branches nationwide.
- **Financial Overview:** These UCBs held total deposits amounting to Rs 5.3 trillion and provided total advances of Rs 3.3 trillion.

Regional Distribution:

- **Maharashtra:** This state has the highest concentration of UCBs, totaling 475.
- **Western Region:** The western region of India accounts for 693 UCBs, reflecting its significant role in the sector.





3. RBI's proposed regulations for payment aggregators are pivotal and timely

- **Draft Guidelines Release:** On April 16, the Reserve Bank of India (RBI) issued draft guidelines aimed at enhancing regulations on payment aggregators (PAs) to support the growth of the payment ecosystem.
- **Guideline Focus Areas:**
 - **KYC and Merchant Due Diligence:** The guidelines propose updates to include KYC and due diligence of merchants to ensure proper customer due diligence as prescribed in the Master Directions on Know Your Customer (MD-KYC) from 2016.
 - **Escrow Account Operations:** The draft guidelines address operations in escrow accounts, enhancing the security and reliability of these transactions.
 - **Physical Point-of-Sale Activities:** The guidelines also extend to regulate physical point-of-sale activities conducted by payment aggregators.
 - **Payments Ecosystem:** The Indian payments ecosystem encompasses both online and face-to-face or proximity payment transactions facilitated by PAs.
- **Regulation on Fund Collection and Settlement:**
 - The draft stipulates that marketplaces onboarded by PAs should not collect or settle funds for services not offered through their platform, aiming to prevent misuse of payment systems.
- **Data Storage Regulations:**
 - For card-based face-to-face or proximity payment transactions, starting August 1, 2025, no entity other than card issuers and/or card networks will be allowed to store Card-on-File (CoF) data.
 - Entities must purge any such previously stored data.
- **Financial Requirements for Non-Bank PAs:**
 - Non-bank entities providing PA services must maintain a minimum net worth of Rs 15 crore at the time of application for RBI authorization.
 - They must increase this net worth to Rs 25 crore by March 31, 2028, and maintain it thereafter.

- **Public Feedback Solicitation:**
 - The RBI has invited public comments on these draft guidelines until May 31, 2024, encouraging stakeholder engagement in the regulatory process.

4. Rabi Sankar re-appointed RBI deputy governor

- **Re-Appointment Details:** T Rabi Sankar has been re-appointed as the deputy governor of the Reserve Bank of India (RBI) for one year, starting from May 3, 2024, or until further directives are issued.
- **Educational Background:** He holds an M Phil in economics from Jawaharlal Nehru University.
- **Initial Appointment:** Sankar originally took up the role of deputy governor in May 2021.
- **Previous Position at RBI:** Before becoming deputy governor, he served as an executive director at the RBI.
- **Career at RBI:** Sankar began his career with the RBI in 1990 and has since taken on various key responsibilities, including in the areas of payments and settlement, financial markets, and public debt management.

5. RBI issues Master Direction for Asset Reconstruction Companies

- **RBI Directive to ARCs:** The Reserve Bank of India has issued Master Directions to Asset Reconstruction Companies (ARCs), financial institutions that purchase non-performing assets (NPAs) from banks and financial institutions to help clean up their balance sheets.
- **Role of ARCs:** ARCs are instrumental in resolving stressed financial assets of banks and financial institutions, improving the health of the financial system.
- **Regulatory Requirements:**
 - **Minimum Net Owned Fund:** ARCs are required to have a minimum net owned fund (NOF) of Rs 300 crore to start business activities related to securitization or asset reconstruction.
 - **Registration:** ARCs must apply for and obtain a certificate of registration (CoR) from the RBI before commencing operations.
 - **Investment Restrictions:** ARCs are not allowed to invest in land or buildings, except for their use, which must not exceed 10% of their owned funds.
 - **Prohibition on Deposits:** ARCs cannot raise funds through deposits.
 - **Capital Adequacy:** A minimum capital adequacy ratio of 15% of total risk-weighted assets is mandated.
- **Leadership Guidelines:**
 - **Age Limit:** No MD/CEO or Whole-time Director (WTD) can continue in their role beyond the age of 70 years.





- **Tenure Limitations:** The tenure of an MD/CEO or WTD is capped at five years per term, with a cumulative maximum of fifteen years.

Reporting Requirements:

- ARCs must report to the Indian Banks Association (IBA) the details of professionals (chartered accountants, advocates, valuers) involved in serious irregularities for inclusion in the IBA's fraud database.

Context and Impact:

- **Budget Announcement:** In the Union Budget 2021-22, Finance Minister Nirmala Sitharaman announced the establishment of ARCs in India to manage NPAs of stressed banks.
- **Operational Strategy:** ARCs acquire financial assets through auctions or bilateral negotiations, securitize and reconstruct them to inject liquidity back into the system.
- **Ownership:** ARCs in India are set up by state-owned and private-sector banks without any equity contribution from the government.

These directives are designed to ensure the ARCs operate within a framework of transparency, accountability, and integrity, safeguarding investors' interests and enhancing the financial system's stability.

Understanding Asset Reconstruction Companies (ARCs)

Definition and Role: An Asset Reconstruction Company (ARC) is a specialized financial institution that acquires non-performing assets (NPAs) or bad loans from banks and other financial institutions. This allows these entities to clear off their balance sheets, essentially cleaning up their financial statements.

Functionality: Essentially, ARCs are engaged in the business of purchasing bad loans from banks. This process helps banks to manage and mitigate the impacts of bad debts on their financial health.

6. Master Circular on Bank Finance to Non-Banking Financial Companies (NBFCs)

Objective: Establish the Reserve Bank of India's regulatory policy concerning bank financing of Non-Banking Financial Companies (NBFCs).

Regulatory Basis: Classified as a statutory guideline under Section 35A of the Banking Regulation Act, 1949.

- **Regulatory Background:**
 - The Reserve Bank of India regulates the activities of Non-Banking Financial Companies (NBFCs) under Chapter III B of the Reserve Bank of India Act, 1934.
 - Amendments to the Reserve Bank of India Act in January 1997, specifically Section 45 IA, and to the National Housing Bank Act in August 2019, under Section 29 A, now require all NBFCs, including Housing Finance Companies (HFCs), to register with the RBI mandatorily.

Key Terminologies:

- **NBFCs:** Refers to Non-Banking Financial Companies that are registered with the Reserve Bank of India, including Housing Finance Companies registered under Section 29 A of the National Housing Bank Act, 1987.
- **Current Investments:** Investments listed on a borrower's balance sheet as 'current assets', intended to be held for less than one year.
- **Long-Term Investments:** All investments are not classified as 'current assets'.
- **Unsecured Loans:** Loans that are not backed by any tangible asset.
- **Credit Deregulation for Banks:**
 - The Reserve Bank of India has progressively deregulated credit-related matters for banks, granting them more operational freedom in credit dispensation.
 - Following the mandatory registration of NBFCs with the RBI, many aspects of bank financing for NBFCs have also been deregulated.
- **Persistent Restrictions:**
 - Despite deregulation, due to sensitivities associated with financing certain types of activities undertaken by NBFCs, restrictions continue financing specific activities.
- **Bank Finance to Registered NBFCs:**
 - **Withdrawal of Credit Ceilings:** The ceiling on bank credit linked to the Net Owned Fund (NOF) of NBFCs has been removed for all NBFCs statutorily registered with the RBI and engaged in principal business activities such as asset financing, loans, factoring, and investments.
 - **Provision of Working Capital and Term Loans:** Banks are now allowed to offer need-based working capital facilities and term loans to NBFCs registered with the RBI that are involved in infrastructure financing, equipment leasing, hire-purchase, loan, factoring, and investment activities as per paragraph 8 of these guidelines.
- **Financing Second-Hand Assets:**
 - Banks may extend finance to NBFCs against second-hand assets that NBFCs have financed, based on the experience gained in this sector.
- **Formulation of Loan Policies:**
 - Banks are required to formulate suitable loan policies approved by their Boards of Directors, adhering to prudential guidelines and exposure norms set by the Reserve Bank.
- **Bank Finance to Non-Registered NBFCs:**
 - Banks can offer finance to these exempted NBFCs based on standard credit assessment criteria like credit purpose, asset quality, borrower's repayment capacity, and risk perception.





Restrictions on Bank Finance to NBFCs:

- **Ineligible Activities for Bank Credit:**
 - Bills discounted/rediscouted by NBFCs, with exceptions only for certain commercial and two or three-wheeler vehicle transactions under specific conditions.
 - Investments made by NBFCs in shares, debentures, or similar entities, except for stock broking companies which can get credit against shares held as stock.
 - Unsecured loans or inter-corporate deposits extended by NBFCs.
 - Loans and advances by NBFCs to their subsidiaries or group companies.
 - Financing NBFCs that lend to individuals for IPO subscriptions or buying shares in the secondary market.
- **Leasing and Sub-Leasing Restrictions:**
 - Banks should not enter into lease agreements with equipment leasing companies or other NBFCs that are involved in equipment leasing.

Bank Finance to Factoring Companies:

Banks can provide financial assistance to factoring companies ('NBFC-Factors' and 'NBFC-ICCs') registered under the Factoring Regulation Act, 2011, subject to certain conditions:

- The company operates under the Factoring Regulation Act and related RBI notifications.
- The assistance is secured by hypothecation or assignment of receivables.
- NBFC-Factors must derive at least 50% of their income from factoring activities, and the receivables purchased should form at least 50% of their assets.
- Financial criteria exclude income or assets from bill discounting facilities.



7. Women Enterprise Acceleration Fund Overview

- **Purpose of the Fund:** Established to provide medium to long-term debt financing to women entrepreneurs, facilitating investments in viable enterprises. It aims to encourage first-time women entrepreneurs and assist existing women-owned businesses in expansion and scaling.

Key Benefits under the Women Enterprise Acceleration Fund

1. Reimbursement of Credit Guarantee Fees:

- The fund reimburses actual credit guarantee fees incurred by banks or financial institutions for loans secured under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) or the Credit Guarantee Fund for Micro Units (CGFMU) under NCGTC.
- Reimbursement applies to loans provided to individual women Self-Help Group (SHG) members under the Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) up to ₹5 lakh for a maximum of 5 years. For loans exceeding ₹5 lakh, the reimbursement is proportional to the loan amount.

2. Interest Subvention for Prompt Repayment:

- Women entrepreneurs who make timely repayments will receive a 2% interest subvention, enhancing credit affordability and encouraging good repayment behavior.
 - This subvention is available for loans up to ₹1.5 lakh per borrower under the Women Enterprise Acceleration Fund, limited to the loan outstanding amount. For amounts exceeding ₹1.5 lakh, the subvention will not exceed the ₹1.5 lakh limit.
 - The duration of the interest subvention is capped at 3 years.
- **Eligibility for Benefits:** These benefits are available to individual women entrepreneurs and can be accessed only once.

Implementation Strategy

- **Management and Operationalization:** The Women Enterprise Acceleration Fund schemes are implemented by the Nodal Bank responsible for the Interest Subvention Scheme for Women SHGs under DAY-NRLM.
- **Platform for Operation:** The Nodal Bank will use a web-based platform for scheme operations as directed by the Department of Rural Development (DoRD).





8. Overview of Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)

Background

- **Initiation and Evolution:** Originally launched as the National Rural Livelihood Mission (NRLM) by the Ministry of Rural Development (MoRD) on April 1, 2013, by restructuring the Swarnajayanti Gram Swarojgar Yojana (SGSY). It was renamed DAY-NRLM on March 29, 2016.
- **Objective:** DAY-NRLM aims to reduce poverty by building strong community institutions, primarily for women, to facilitate access to financial services and livelihood opportunities.
- **Approach:** The program adopts a demand-driven strategy, allowing states to develop specific poverty reduction plans tailored to their needs.

Women SHGs and Federations

- **Formation of SHGs:** Promotes the formation of women-centric Self-Help Groups (SHGs), although groups including persons with disabilities and other special categories like elders and transgenders can be mixed-gender.
- **SHG Size:** Typically consists of 10-20 members, but can be as few as 5 members in special circumstances such as difficult areas, disabled persons' groups, or remote tribal locations.
- **Federations:** SHGs can form federations at various levels (village, gram panchayat, cluster) which may be registered under relevant state acts.

Financial Assistance to SHGs

- **Revolving Fund (RF):** Provides RF support of ₹20,000 - ₹30,000 per SHG to enhance their financial management capabilities and establish a good credit history, available to SHGs that adhere to 'Panchasutras' norms and have existed for at least 3/6 months without prior RF support.
- **Capital Subsidy:** No capital subsidies are provided to SHGs under DAY-NRLM.
- **Community Investment Support Fund (CIF):** MoRD provides CIF to SHGs for loan disbursement or collective socio-economic activities, managed through local federations.
- **Interest Subvention:** Available to women SHGs to encourage lower borrowing costs and promote timely repayment.

This comprehensive program by the Indian government is designed to empower rural communities, especially women, by providing them with the necessary financial tools and support to improve their livelihoods and economic stability.

9. Master Circular on Credit Facilities to SCs and STs

Overview

- **Objective:** This circular aims to guide banks in enhancing their lending to Scheduled Castes (SCs) and Scheduled Tribes (STs).

Strategic Planning Process

- **District Coordination:** District Level Consultative Committees under the Lead Bank Scheme act as the main coordination mechanism, linking credit with employment and development initiatives.
- **Industry Collaboration:** Banks are encouraged to work closely with District Industries Centres to promote self-employment among SC/ST communities.
- **Block-Level Planning:** Special attention and weightage are to be given to SC/ST communities in credit planning at the block level, with the development of specialized bankable schemes to ensure significant credit flow to these groups.
- **Review Mechanisms:** Banks should regularly review lending procedures to ensure timely, adequate, and productive loans.

Role of Banks

- **Assistance in Application Process:** Bank staff should assist borrowers in completing application forms and other formalities to expedite the credit process.
- **Awareness Programs:** Banks need to create awareness among SC/ST borrowers about various credit schemes through brochures, field visits, and meetings to discuss their specific credit needs.
- **Regulatory Compliance:** Ensure all RBI and NABARD circulars are followed and communicated to the bank staff.
- **No Deposit Requirement:** When considering loan applications under government programs, banks should not require deposits from SC/ST borrowers.
- **Institutional Support:** Banks should support National SC/ST Finance & Development Corporations to achieve their objectives by providing necessary institutional support.

Specific Financing Programs and Restrictions

- **Prohibited Financing:** Banks are not to finance certain activities such as the discounting of bills (except specific vehicle-related bills), investments in shares by NBFCs, unsecured loans, and loans for subscribing to IPOs.
- **Support to Factoring Companies:** Despite certain restrictions, banks can extend financial support to factoring companies under specific conditions laid out by the Factoring Regulation Act, of 2011.





Centrally Sponsored Schemes and Reservations

- **Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM):** DAY-NRLM (previously known as NRLM) was launched by the Ministry of Rural Development, Government of India by restructuring the erstwhile Swarnajayanti Gram Swarozgar Yojana, effective from April 1, 2013. DAY-NRLM would ensure adequate coverage of vulnerable sections of society such that 50% of these beneficiaries are SCs/STs.
- **Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM):** The Ministry of Housing and Urban Affairs (MoHUA), Government of India, launched the DAY-NULM (previously known as NULM) by restructuring the erstwhile Swarna Jayanti Shahari Rozgar Yojana (SJSRY), effective from September 24, 2013. Under DAY-NULM, advances should be extended to SCs/STs to the extent of their strength in the local population.
- **Differential Rate of Interest (DRI) Scheme:** Under the Differential Rate of Interest (DRI) Scheme, banks offer financing up to ₹15,000 at a reduced interest rate of 4% per annum to economically weaker sections for productive purposes.
 - **SC/ST Allocation:** At least 40% (2/5th) of all DRI advances are reserved for eligible SC/ST borrowers to ensure they benefit adequately from the scheme.
 - **Eligibility Criteria Adjustments for SC/ST:**
 - The standard landholding size limits under DRI, which typically restrict to 1 acre of irrigated or 2.5 acres of unirrigated land, do not apply to SC/ST members.
 - SC/ST members meeting the income requirements of the scheme are eligible for an additional housing loan of up to ₹20,000 per beneficiary, beyond the standard ₹15,000 loan limit under DRI.

Guarantee and Monitoring

- **Credit Enhancement Guarantee Scheme: Launch of CEGSSC:** The Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC) was initiated on May 6, 2015, by the Ministry of Social Justice & Empowerment to foster entrepreneurship among Scheduled Castes by providing credit enhancement guarantees to lending institutions.
 - **Nodal Agency:** IFCI Ltd. has been appointed as the nodal agency for CEGSSC, responsible for issuing guarantee covers to Member Lending Institutions (MLIs) that finance SC entrepreneurs.

Eligibility for Guarantee:

- SC entrepreneurs, registered companies, societies, partnership firms, and sole proprietorships controlled (over 51% shareholding and management) by SC members for at least the previous six months are eligible for guarantees.
- IFCI Ltd. provides these guarantees against loans offered by MLIs to the eligible entities.

Guarantee Cover Details:

- The guarantee cover provided under CEGSSC ranges from a minimum of ₹0.15 crore to a maximum of ₹5.00 crore.

Guarantee Tenure:

- The tenure of the guarantee can last up to a maximum of 7 years, or until the loan repayment period ends, whichever comes first.

- **Monitoring and Review:** Banks are required to establish special cells to monitor and ensure the flow of credit to SC/ST beneficiaries, with periodic reviews and reports to RBI and the government.

Stakeholder Engagement

- **SLBC Meetings:** Representatives from the National Commission for SCs/STs and relevant SC/ST Finance and Development Corporations should be invited to State Level Bankers' Committee (SLBC) meetings to discuss progress and engagement.

This circular outlines comprehensive measures for banks to effectively cater to the financial needs of the SC and ST communities, promoting greater financial inclusion and support.

10. RBI Proposes Digital View Of All Lenders For LSP: Read RBI's Guidelines On Digital Lending

- On April 26, the Reserve Bank of India (RBI) released draft guidelines titled 'Digital Lending — Transparency in Aggregation of Loan Products from Multiple Lenders' to promote transparency in digital lending.
- The draft guidelines are designed to ensure that lending service providers (LSPs) provide a clear digital overview of loan offerings to customers in collaboration with various partners.
- The public is invited to submit comments on the draft guidelines by May 31, 2024, via email with the subject line "Comments on Draft Circular on Digital Lending – Transparency in Aggregation of Loan Products from Multiple Lenders".
- The RBI highlighted that in the current digital lending landscape, borrowers may not always know the identity of their lenders when LSPs have agreements with multiple lenders.





- The guidelines address the issue by regulating LSPs, who act as intermediaries for regulated entities (REs), helping them in customer acquisition, underwriting, pricing, servicing, monitoring, and recovery of loans according to existing outsourcing regulations.

New Guidelines

- Introduction of New Draft Guidelines:** The Reserve Bank of India (RBI) has introduced new draft guidelines to enhance transparency in digital lending.
- Purpose of the Guidelines:** To ensure that customers are well-informed about potential lenders, the RBI mandates that a digital view of loan details be provided. This includes information on the lenders involved, loan amounts, terms, Annual Percentage Rates (APR), and other essential terms and conditions.
- Details Required in Digital View:** Lending service providers (LSPs) must offer a digital view that lists the names of the regulated entities (REs) offering loans, the loan amounts, loan tenure, APRs, and other key terms. This will help borrowers make informed decisions and fairly compare different loan offers. Each loan offer must also include a link to the Key Facts Statement (KFS) for each RE.
- Unbiased Content Requirement:** The draft guidelines require that the content displayed by LSPs be unbiased and not promote any particular RE directly or indirectly. The use of deceptive practices or 'dark patterns' that could mislead borrowers into choosing specific loans is strictly prohibited.
- Alignment with Regulatory Policies:** These guidelines align with the RBI's statement on Developmental and Regulatory Policies from December of the previous year, where the central bank announced the creation of a regulatory framework for Web Aggregators of Loan Products (WALP). This framework aims to ensure transparency and neutrality in lending.
- Concerns Over Connected Lending:** The RBI highlights concerns regarding connected lending—where lending occurs to persons who can control or influence the decisions of a lender, potentially leading to compromised pricing decisions and credit management.
- Transparency in Charges:** The RBI's earlier guidelines on digital lending state that any fees or charges payable to LSPs should be paid by the REs directly and not passed on to borrowers. Furthermore, any penal interest or charges must be based on the outstanding loan amount and disclosed upfront annually in the KFS.

11. Voluntary transition of Small Finance Banks to Universal Banks

- Introduction of Guidelines:** The Reserve Bank of India (RBI) announced guidelines on Friday for the voluntary conversion of small finance banks (SFBs) into universal banks.
- Previous Guidelines Reference:** These guidelines, named "Guidelines for 'on-tap' Licensing of SFBs in Private Sector," were initially published on December 5, 2019. They outline a pathway for SFBs to transition into universal banks.
- Conversion Criteria:** Conversion to a universal bank is contingent upon the SFB meeting certain criteria: a minimum paid-up capital/net worth of ₹1,000 crore, a satisfactory track record for at least five years, a gross non-performing asset (NPA) of 3% or less, and a net NPA of 1% or less in the last two financial years. Furthermore, the SFB must be listed, have a scheduled status, and have reported net profits for the past two financial years.
- Regulatory Due Diligence:** The RBI will conduct a due diligence exercise, assessing the SFB's performance and stability before approval.
- Rationale and Portfolio Requirements:** SFBs interested in conversion need to provide a detailed rationale for their transition and prefer to have a diversified loan portfolio.
- Assessment Process:** Conversion applications will be assessed according to the "Guidelines for 'on tap' Licensing of Universal Banks in the Private Sector" dated August 1, 2016, and the RBI (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023, dated January 16, 2023, as periodically amended.
- Post-Transition Compliance:** Upon successful conversion, the new universal bank will need to comply with all relevant norms, including the NOFHC (Non-Operative Financial Holding Company) structure as applicable per the guidelines.

Name	Net worth (₹ cr)	Capital adequacy ratio (%)	FY23		Latest	
			Gross NPA (%)	Net NPA (%)	Gross NPA (%)	Net NPA (%)
AU SFB	12,496.8	20.1	1.66	0.42	1.7	0.6
Equitas SFB	5,968.7	21.7	2.76	1.21	2.6	1.2
Ujjivan SFB	5,083.0	24.4	2.88	0.04	2.2	0.2
Utkarsh SFB	2,973.2	22.6	3.23	0.39	2.5	0.0
ESAF SFB	2,442.0	21.0	2.49	1.13	4.2	2.2
Jana SFB	2,436.6	16.3	3.60	2.40	2.2	0.7
Suryoday SFB	1,742.7	27.8	3.13	1.55	3.1	1.4
Capital SFB	743.4	20.1	2.77	1.36	3.0	1.5

Data for AU SFB, Equitas SFB and Utkarsh SFB until March 2024; data for the rest until December 2023
All the above listed SFBs reported a net profit in FY23, and also in the trailing 12-month period ended Dec '23/FY24
Source: Capitaline
Compiled by BS Research Bureau





- **Leader in Conversion Interest:** AU SFB, recognized as the largest among small finance banks (SFBs), is viewed as a likely candidate to apply for conversion into a universal bank, according to industry sources.
- **Pre-Merger Considerations:** An executive from an SFB revealed that AU SFB had been considering conversion to a universal bank even before its merger with Fincare SFB.
- **Benefits of Conversion:** Conversion from SFB to a universal bank status could improve AU SFB's market position, allowing it to attract deposits at lower interest rates due to increased acceptability. It would also reduce the mandatory priority sector lending requirement from 75% to 40%, bringing substantial operational benefits.
- **SFB Licensing and Operations:** The RBI issued licenses to the first set of 10 SFBs in 2015, with operations starting mostly during 2016-17. As of the end of June 2023, there were 12 operational SFBs with 6,589 branches nationwide; post-merger, the count stands at 11.
- **Industry Reaction:** A senior executive from another listed SFB appreciated the RBI's clarification on the conversion process, noting the conditions as reasonable and expressing readiness to evaluate and decide on the conversion.
- **Regulations on Shareholding:** The RBI clarified that while there is no requirement for SFBs to identify a new promoter for conversion, existing promoters will retain their roles. Changes to the promoter lineup during the transition are not allowed.
- **Post-Conversion Shareholding Norms:** After transitioning to a universal bank, there will be no new mandatory lock-in requirements for promoters, nor will there be any changes to the previously approved promoter shareholding dilution plans by the RBI.



12. Fair Practices Code for Lenders – Charging of Interest

- **RBI Directive on Lending Practices:** The Reserve Bank of India (RBI) issued a directive to banks and non-bank financiers on Monday to review their lending practices, focusing on how interest and other charges are applied to borrowers and the methods of loan disbursement.
- **Purpose of Review:** The review is aimed at enhancing fairness and transparency in lending practices. This action was prompted by the discovery of certain unfair practices by lenders, particularly in how interest charges are applied.
- **Specific Unfair Practices Identified:** The RBI noted issues where some lenders charged interest starting from the loan sanction date or the loan agreement execution date rather than from the actual disbursement date. Additionally, for loans disbursed via cheque, interest was sometimes charged from the cheque issuance date rather than when the cheque was handed over to the borrower.
- **Fair Practices Code Guidelines:** Since 2003, the RBI has issued guidelines under the fair practices code to various regulated entities. These guidelines advocate for fairness and transparency in charging interest, while still allowing lenders freedom in their loan pricing policies.
- **Entities Affected by the Directive:** The directive applies to all commercial banks, including small finance banks, local area banks, and regional rural banks. It also covers all urban co-operative banks, state co-operative banks, district central co-operative banks, and non-banking financial companies, but excludes payments banks.
- **Issues with Interest Charging:** The RBI also found that some regulated entities were charging interest for an entire month, even if the loan was not outstanding for the whole month. Furthermore, some lenders were found to be collecting one or more installments in advance but still charging interest on the full loan amount.
- **RBI's Concerns and Actions:** These practices are of serious concern to the RBI as they compromise the spirit of fairness and transparency. Where such practices have been identified, the RBI has advised lenders to refund any excess interest and other charges to affected customers.
- **Encouragement for Modern Disbursal Methods:** The RBI is encouraging lenders to adopt more modern practices like online account transfers for loan disbursement instead of using cheques to avoid delays and related unfair interest charges.





13. RBI releases Draft Master Direction – Reserve Bank of India (Electronic Trading Platforms) Directions, 2024

- **Release of Draft Master Direction:** The Reserve Bank of India (RBI) issued a draft Master Direction for Electronic Trading Platforms (ETPs) on Monday, seeking to regulate electronic systems that facilitate trading in various financial instruments.
- **Invitation for Feedback:** RBI has opened the floor for comments and feedback on the draft directions from operators, banks, market participants, and other stakeholders, with a deadline set for May 31.
- **Background and Purpose:** This initiative follows RBI Governor Shaktikanta Das's announcement during the February monetary policy review, aiming to refine the regulatory framework for ETPs and improve market makers' access to offshore platforms offering Indian Rupee (INR) financial products.
- **Historical Context:** In October 2018, the RBI introduced a framework to authorize ETPs, which support transactions in regulated financial market instruments such as securities, money market instruments, foreign exchange instruments, and derivatives. ETPs are distinct from recognized stock exchanges.
- **Recent Concerns on Unauthorized Trading:** The draft directions were preceded by RBI's warning about unauthorized entities offering foreign exchange trading with promises of high returns. The RBI emphasized that authorized dealers should report such activities to the Enforcement Directorate immediately upon detection.
- **Investigation Findings:** The RBI's investigations revealed that unauthorized forex trading was facilitated by local agents who opened bank accounts at various branches to collect funds related to margins, investments, and other charges. These accounts were set up under the names of individuals, proprietary concerns, and trading firms.

14. RBI issues FAQs on guidelines for default loss guarantee in digital lending

- **Issuance of FAQs:** The Reserve Bank of India (RBI) released Frequently Asked Questions (FAQs) on April 26 concerning the guidelines for Default Loss Guarantee (DLG) in digital lending.
- **Definition of DLG:** DLG is described as a contractual arrangement where an entity agrees to compensate a bank for losses incurred due to defaults, covering up to a certain percentage of the bank's loan portfolio.
- **Guidelines Established:** In June 2023, the RBI issued guidelines stipulating that the total DLG coverage on any outstanding loan portfolio must not exceed 5% of that portfolio, specified upfront.

- **Implicit Guarantee Limitations:** For implicit guarantee arrangements, the DLG provider's performance risk is capped at an amount equivalent to 5% of the underlying loan portfolio.
- **DLG Portfolio Requirements:** On April 26, alongside the FAQ release, the RBI clarified that the loan portfolio eligible for DLG must be comprised of identifiable and measurable loan assets, which should remain fixed for the duration of the DLG cover and not change dynamically.
- **DLG Disbursement Cap:** The cap on the total amount that can be disbursed from the DLG at any given time was highlighted, ensuring that the DLG amount, once invoked by the regulated entity (RE), cannot be reinstated, even through loan recovery.
- **Policy Requirements for Banks:** The guidelines require banks accepting DLG cover to establish a Board-approved policy. Similarly, banks acting as DLG providers are also required to have a Board-approved policy in place as a prudent measure.

15. RBI extends Key Fact Statement rules to all retail, MSME borrowers

- The Reserve Bank of India (RBI) extended the Key Fact Statement (KFS) requirement to all retail and MSME term loans on April 15, aiming to improve transparency in lending agreements.
- The KFS provides borrowers with clear and understandable details of loan agreements in a standardized format.
- RBI's directive stipulates that banks are prohibited from charging any fees not listed in the KFS without obtaining explicit consent from the borrower.
- The KFS must include both a computation sheet for the annual percentage rate (APR) and the amortization schedule for the loan across its tenure.
- Initially mentioned in the February monetary policy, this extension aims to minimize information asymmetry and empower borrowers to make informed financial decisions.
- The updated guidelines apply to all retail and MSME term loan offerings by regulated entities (REs).
- The KFS must be written in easily understandable language and include a unique proposal number; it should also remain valid for at least three working days for loans longer than a week and one working day for shorter loans.
- Lenders must disclose any third-party charges, such as insurance and legal fees, which should be included in the APR and noted separately in the KFS.





Here are the main points from the image about the Key Fact Statement (KFS) as mandated by the RBI:

1. **Mandate:** The RBI required all regulated entities (RE) to provide a Key Fact Statement (KFS) to retail and MSME borrowers, as stated in February's Monetary Policy.
2. **Contents of KFS:** The KFS is a document that lists essential details of a loan, presented in an easy-to-understand language and a standardized format.
3. **Inclusion of APR:** The KFS must include the Annual Percentage Rate (APR), representing the total cost of credit to the borrower. This includes interest rates and all other associated charges.
4. **Details Required:** The statement should contain a computation sheet that outlines the APR and the amortization schedule of the loan throughout its term.
5. **Disclosure of Charges:** The APR must detail all charges levied by the entity and those recovered from the borrower that are paid to third-party service providers. All such charges must be fully disclosed.
6. **Language of the KFS:** The KFS should be written in a language that is easily understandable by borrowers to ensure clear communication.
7. **Acknowledgment Requirement:** Regulated entities must obtain an acknowledgment from borrowers confirming their understanding of the KFS.

16. Lead Bank Scheme

- **Launch of Lead Bank Scheme:** The Reserve Bank of India introduced the Lead Bank Scheme to promote financial inclusion and enhance access to banking services across all societal sections.
- **District-Level Implementation:** The scheme designates a lead bank for each district in India to spearhead coordination among various banks and financial institutions within the district.
- **Coordination Role:** The lead bank is responsible for ensuring effective collaboration between different financial entities to optimize the use of banking services in its area.
- **Enhancing Banking Efficiency:** The primary goal is to improve the efficiency of banking facilities and ensure they effectively serve the community's needs.
- **Focus on Priority Sectors:** The scheme emphasizes increasing credit flow to sectors considered as a priority, supporting essential areas of the economy.
- **Promotion of Rural Development:** A significant aim of the scheme is to foster rural development through better financial services and increased credit availability.
- **Introduction Date:** The Lead Bank Scheme was initiated in 1969.
- **Objective:** It is designed to extend banking and credit facilities to rural areas.
- **Service Area Approach:** The scheme operates on a 'service area approach,' where a specific bank is assigned to service each designated area.

- **Origin of the Scheme:** The implementation of the Lead Bank Scheme was suggested by the Gadgil Study Group and the Banker's Committee.

Features of the scheme

1. **Coordination:** The Lead Bank Scheme ensures coordination among various banks to optimize resource allocation and service delivery.
2. **Credit Planning:** It involves the preparation and execution of District Credit Plans, which aim to distribute credit systematically and equitably across different sectors.
3. **Priority Sector Lending:** The scheme prioritizes directing credit flow to essential sectors such as agriculture, small-scale industries, and socially weaker sections.
4. **Financial Inclusion:** Lead banks play a crucial role in extending banking services to unbanked and underserved areas, thereby promoting financial inclusion.
5. **Credit Monitoring:** They are responsible for monitoring the distribution of credit and assessing the progress of various credit-linked governmental schemes and initiatives.
6. **Stakeholder Engagement:** Lead banks actively engage with diverse stakeholders like government agencies, local bodies, and self-help groups to enhance the effectiveness of developmental programs.
7. **Training and Capacity Building:** The scheme includes conducting training sessions to improve the skills and knowledge of bank officials and staff.
8. **Evaluation and Reporting:** Lead banks assess the impact of credit distribution and regularly report their findings to the Reserve Bank of India (RBI) and other relevant authorities.
9. **Dispute Resolution:** They assist in resolving disputes related to credit and financial services, fostering a supportive business environment.
10. **Promoting Financial Literacy:** Lead banks initiate efforts to enhance financial literacy among the public, educating them about various banking products and services.

