RBI Circular - March 2025

1. RBI Invites Applications for Account Aggregator SROs

Need for SRO-AA:

- Standardize processes such as grievance redressal, consent management, and customer protection.
- Represent the industry's voice.
- Ensure compliance and build user trust in the AA system.
- Promote coordination among regulators and ensure uniform standards.

Broad Rules:

1. Applications for recognition of SRO-AA can be submitted through the PRAVAAH portal.
2. Application deadline: June 15, 2025.
3. SRO-AA will oversee regulatory compliance; technical specifications and implementation will be managed by ReBIT.
4. Applicants will have 15 days to address deficiencies before rejection.
5. If the application is satisfactory, RBI will issue a Letter of Recognition, designating the entity as SRO-AA.
6. RBI reserves the right to deny recognition, and its decision is final.

Key Guidelines – Characteristics of SRO-AA:

1. **Fair Representation:** Must include AAs, FIPs, and FI-Us to ensure all voices are heard.
2. **Set Rules & Monitor Compliance:** Create rules for ethical behavior and professionalism.
3. **Promote Awareness & Training:** Educate on the AA system, technology, and data security.
4. **Stay Neutral:** Ensure fair decisions that benefit the entire ecosystem.
5. **Resolve Disputes:** Act as a mediator to resolve disputes quickly and fairly.

Eligibility of SRO-AA:

1. Must be a not-for-profit company registered under Section 8 of the Companies Act, 2013.
2. Must have a minimum net worth of ₹2 crore within one year of recognition.
3. No single entity should hold more than 10% of share capital to ensure independence.
4. Must have the capability to set up IT infrastructure supporting the AA ecosystem.
5. Must have a good reputation in financial markets (no legal or financial misconduct).

Membership of SRO-AA:

1. Participants of the AA ecosystem: NBFC-AAs, FIPs, and FI-Us.
2. SRO-AA must have at least 25 members each from FIPs and FI-Us.
3. Membership is voluntary, but NBFC-AAs are encouraged to join.
4. REs from all financial regulators can also become members.
5. SRO-AA may charge fees based on member size and capacity, ensuring fairness and accessibility.
6. Members must sign agreements giving SRO-AA authority to enforce compliance.

Governance and Management of SRO-AA:

1. Clear rules must be in Articles of Association or bye-laws.
2. Board of Directors (BoD) should have transparent decision-making and leadership rotation policies.
3. Major changes in the Board or any misconduct must be reported to RBI immediately.
4. The SRO-AA should have knowledgeable staff and strong technology systems.
5. Ensure all members follow RBI and other regulators' laws and guidelines.
6. Governance should ensure equal representation and fairness for all participants.

Directors of SRO-AA Must:

1. Meet RBI's 'fit and proper' criteria.
2. Not be involved in legal disputes.
3. Have a good reputation and professional competence.

Board of SRO-AA Must:

1. Ensure that at least 1/3 of the Board, including the Chairperson, are independent.
2. Include representation from FIPs and FIUs for diverse expertise.
3. Include at least one director with regulatory experience in banking/financial services.
4. Review and update industry norms.
5. Establish consequences for non-compliance.
6. Conduct training programs for industry professionals.
7. Educate customers about their rights.

Additional Board Guidelines: 8. Establish a grievance redressal mechanism for member disputes and customer complaints. 9. Use digital dashboards and metrics for better tracking and transparency. 10. Maintain a repository of participant records, including technology service providers. 11. Provide necessary services and infrastructure to ecosystem participants (with prior RBI approval). 12. Submit regular reports and data to RBI for sector monitoring.

Committees within SRO-AA:

1. Boards must set up specialized committees for key areas like compliance, dispute resolution, and fraud prevention, with independent chairs.

Operational Guidelines for SRO-AA:

1. Provide RBI with timely updates on industry trends and submit annual reports and periodic returns.
2. Information provided to RBI must be accurate and not misleading; false information can lead to revocation of recognition.
3. Must not engage in activities that conflict with its regulatory role.
4. Ensure operations are aligned with the interests of the financial ecosystem.

2. RBI Wins Digital Transformation Award 2025

Digital Transformation Award Overview:

- Recognizes central banks and financial institutions for excellence in digital innovation and technology-driven governance.
- **Presented by:** Central Banking, London – a globally recognized institution specializing in monetary policies, governance, and financial transformation.
- **Eligibility:** Open to central banks, financial regulators, and monetary institutions that have successfully implemented digital reforms.
- **2025 Award Winner:** Reserve Bank of India (RBI) for its digital initiatives – 'Saarathi' and 'Pravaah.'

RBI's Digital Initiatives Leading to the Award:

Saarathi Initiative:

- **What it is:** A digital workflow system for RBI employees.
- **Aim:** To enhance record management, automate processes, enable secure digital submissions, and improve data tracking and collaboration.
- **Impact:**
  - Eliminated manual paperwork.
  - Streamlined task tracking.
  - Integrated various RBI departments into a unified system.

Pravaah Initiative:

- **What it is:** A digital regulatory application platform for external users submitting documents to RBI.
- **Aim:** To digitize over 70 regulatory applications, enhance transparency, and improve cybersecurity in financial documentation.
- **Impact:**
  - Created a direct link with Saarathi.
  - Reduced paperwork.
  - Increased efficiency in RBI's external processing systems.

3. RBI governor asks regulated entities to improve grievance redress mechanism

RBI Governor Shaktikanta Das' Remarks on Grievance Redress Mechanisms:

- Urged regulated entities to enhance their grievance redress mechanisms due to identified gaps in their systems and procedures.
- Notified individual banks and non-banking financial companies (NBFCs) about these deficiencies, aiming to collaborate and rectify them.

Internal Ombudsman (IO) Mechanism:

- RBI established the IO mechanism to strengthen internal grievance redress processes within regulated entities.
- Das emphasized that the functioning of the IO requires significant improvement.
- Observations:
  - IOs often merely endorse decisions made by regulated entities.
  - Many rejected complaints are not being referred to IOs.
- Stressed the importance of fair, impartial, and judicious adjudication in internal dispute resolution.
- Raised concerns over the effectiveness of the existing framework and urged entities to ensure the integrity and efficacy of grievance redress systems.

Role of Regulated Entities in Grievance Redressal:

- Das highlighted that regulated entities are the first touchpoints in the grievance redress framework.
- Re-directing aggrieved parties to the RBI's alternate grievance machinery is not ideal.
- Many complaints reaching the RBI's desk should have been resolved by the regulated entities themselves.

Performance of RBI's Integrated Ombudsman Scheme:

- 234,000 grievances were received during the first full year (2022-23), and 268,000 in the current year (2023-24).
- The disposal rate has been approximately 98% in both years.
- Average turnaround time for resolving complaints reduced from 57 days (before the scheme) to 33 days (post-scheme introduction).

Concerns Over Fraudulent Transactions:

- Das stressed the need to strengthen monitoring systems and employ technology to prevent fraud.
- With AI advancements, challenges in cybersecurity may increase, leading to higher risks like identity theft and unauthorized access.
- Financial institutions must prioritize protecting customer information and addressing vulnerabilities that expose customers to risk.

RBI Working Group for Enhancing the Ombudsman Scheme:

- A working group, chaired by Das, has been established to review the functioning of the RBI Integrated Ombudsman Scheme (RB-IOS).
- The group will suggest improvements and submit its report by April.

4. RBI and NCFE's Financial literacy Initiatives

RBI and NCFE Financial Literacy Campaigns:

- Recently, the **Reserve Bank of India (RBI)** and **National Centre for Financial Education (NCFE)** launched nationwide financial literacy campaigns under the **National Strategy for Financial Education (NSFE)** to promote **financial awareness** and **inclusion**.

National Centre for Financial Education (NCFE):

- **Type**: Section 8 (Not-for-profit) Company.
- **Founded**: In 2013 by **RBI**, **SEBI**, **IRDAI**, and **PFRDA**.
- **Objective**: To spread financial literacy across society.
- **Programs**: Financial education for students, senior citizens, business owners, and prevention of fraud.
- **Vision**: A financially aware and empowered India.
- **Mission**: To help people manage money effectively, access appropriate financial products, and ensure consumer protection and grievance redressal.

National Strategy for Financial Education (NSFE):

- **Introduced**: In 2013 by the **Financial Stability and Development Council (FSDC)** under the Ministry of Finance.
- **Goal**: A national-level initiative to improve financial literacy and enable people to make informed financial decisions.
- **Current Version**: **NSFE 2020-2025**.
- **Objectives**:
  - Encourage financial planning and responsible money management.
  - Provide financial education to rural and underserved areas.
  - Promote financial products like insurance, pensions, and investments.
  - Reduce financial frauds through awareness.

Key Financial Literacy Initiatives:

1. **Financial Literacy Centres (FLCs)**: Set up by Lead Banks to educate the public on banking services, credit, digital transactions, and fraud prevention.
2. **'RBI Kehta Hai' Campaign**: A multilingual, multimedia campaign promoting safe banking, fraud prevention, and secure handling of loans, credit cards, and online transactions.
3. **Mass Media Campaigns**: TV, radio, digital platforms, and social media used to spread financial literacy and encourage safe digital transactions.
4. **Financial Awareness Messages (FAME) Booklet**: A standardized guide for financial literacy content.
5. **Financial Literacy Programs in North-East India**: Over 54 programs conducted in 3 years to raise awareness on banking, grievance redressal, and fraud prevention, particularly in tribal and rural areas.
6. **Financial Education Programs by NCFE & CFL**: Focused on groups like children and senior citizens, covering topics such as savings, investments, safe banking, fraud prevention, and grievance redressal mechanisms.

Additional Highlights:

7. **Pan-India Financial Literacy and Inclusion Survey (2017)**: Conducted across 29 states and 5 Union Territories, measuring financial literacy based on:
   - **Financial Knowledge**
   - **Financial Attitude**
   - **Financial Behavior**
   - The survey was based on the OECD/INFE (International Network on Financial Education) Toolkit.
8. **Government's Commitment**: The **Ministry of Finance** actively monitors financial literacy programs across the country.

5. RBI assures IndusInd Bank customers: 'Bank's financial health remains stable'

- **RBI's Addressing Concerns on IndusInd Bank's Financial Health:**
  - Recently, **RBI** reassured that **IndusInd Bank** remains adequately capitalized and stable despite recent market speculations about its financial health.
- **Reason for Speculations:**
  - IndusInd Bank faced an **accounting error** that caused a **loss of 2.35%** of its capital, estimated around **₹1,500-2,000 crore**.
  - This led to market speculations and uncertainties about the bank's stability.
- **RBI's Statement on the Issue:**
  - **Controversy**: IndusInd Bank was accused of **financial fraud** and **misreporting losses**.
  - **Forex Derivatives Losses**: The bank failed to hedge its foreign exchange (forex) positions, which resulted in significant losses.
  - **Misreporting**: The losses were not reported in the **Profit & Loss (P&L) Statement** but were hidden as assets on the bank's **Balance Sheet**.
- **Additional Issues:**
  - **Lack of Mark-to-Market (MTM) Accounting**: The bank did not use standard MTM accounting to reflect the actual value of derivatives quarterly.
  - **Detection Delay**: The issue remained undetected for 5 to 7 years, indicating lapses in **corporate governance**.
  - **Concerns Raised**: Issues regarding **risk management**, **internal audits**, and **regulatory oversight** were highlighted.

- **RBI's Response:**
  1. The **RBI** is closely monitoring the bank's **financial stability** to ensure no risks to depositors or the banking system.
  2. Key Financial Metrics:
     - **Capital Adequacy Ratio (CAR)**: 16.46%
     - **Provision Coverage Ratio (PCR)**: 70.20%
     - **Liquidity Coverage Ratio (LCR)**: 113%
- **Ratings Agency Views:**
  1. **Crisil Ratings**: The bank continues to have strong **pre-provisioning profitability** and **healthy capital adequacy**.
  2. **CARE Ratings**: The losses will be recorded in **Q4 FY25** but are not significant enough to impact the bank's **creditworthiness** or **liquidity position**.

6. RRBs Get Five More Years to Amortize Additional Pension Liabilities

- The Reserve Bank of India (RBI) has granted Regional Rural Banks (RRBs) an additional five years (starting FY25) to amortize the extra expenditure arising from the revision in pensions. This decision addresses concerns about the ability to absorb the increased liability in a single year.
- Initially, RRBs were allowed to amortize their pension liability under the Employee Pension Scheme 2018 over five years, starting from FY19. However, they are now required to implement the pension scheme retroactively from November 1, 1993.

Key Points:

1. **Extension of Amortization Period:** RRBs now have an additional five years (from FY25) to spread their pension liability.
2. **Previous Amortization Rule:** Pension liabilities were previously amortized over five years, starting from FY19.
3. **Implementation Date:** The pension scheme must be implemented retroactively from November 1, 1993.
4. **Provisioning Requirements:** RRBs must allocate at least 20% of the total pension liability annually.

Accounting and Disclosure:

1. RRBs must fully recognize pension liabilities according to applicable accounting standards.
2. RRBs should disclose the accounting policy used in the 'Notes to Accounts' section of their financial statements.

Impact on Financial Statements:

1. Any unamortized pension expenditure must be disclosed.
2. Banks should report the net profit impact if full expenditure is recognized in the profit and loss account.
3. Tier-I Capital will remain unaffected by unamortized pension expenditure.

RBI Notification: The central bank has issued official guidelines to ensure compliance and transparency.

Summary/Static	Details
Why in the news?	RRBs Get Five More Years to Amortize Additional Pension Liabilities
Regulating Authority	Reserve Bank of India (RBI)
Banks Affected	Regional Rural Banks (RRBs)
Additional Amortization Period	Five years starting from FY25
Previous Amortization Period	Five years (FY19 to FY24)
Implementation Date of Pension Scheme	November 1, 1993
Annual Provisioning Requirement	At least 20% of total pension liability per year
Disclosure Requirements	Notes to Accounts in financial statements
Impact on Tier-I Capital	Pension-related unamortized expenditure not deducted

7. Revised Priority Sector Lending Guidelines

- The Reserve Bank of India (RBI) has introduced new guidelines for Priority Sector Lending (PSL), effective from April 1, 2025. These revised rules aim to improve credit access for essential sectors while ensuring that financial institutions meet their social responsibility targets.
- The updated guidelines apply to all commercial banks, Regional Rural Banks (RRBs), Small Finance Banks (SFBs), Local Area Banks (LABs), and Primary (Urban) Co-operative Banks (UCBs), excluding Salary Earners' Banks.

Key Changes in the New Guidelines:

1. **Higher Loan Limits for Housing and Renewable Energy:**
   - Housing loans limits have been increased to enhance financial access in both urban and rural areas.
   - The 'Renewable Energy' category now includes more loan purposes, encouraging investments in clean energy projects.
2. **Revised Targets for Urban Cooperative Banks (UCBs):**
   - PSL target for UCBs is now 60% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBSE), whichever is higher. This aims to strengthen UCBs' role in supporting priority sectors.
3. **Expanded Definition of Weaker Sections:**
   - The 'Weaker Sections' category now includes more eligible borrowers.
   - The cap on loans to individual women beneficiaries by UCBs has been removed, promoting financial inclusion for disadvantaged groups and women entrepreneurs.

Understanding the Priority Sector Targets:

- **Domestic commercial banks and foreign banks (20+ branches):** Must allocate 40% of ANBC/CEOBSE to PSL.
- **RRBs and SFBs:** Higher target of 75% for greater credit flow to rural and small-scale enterprises.
- **UCBs:** Have targets based on their operational scale and reach.

Sectoral Breakdown of PSL: PSL covers multiple categories including:

- **Agriculture** – Farmers, agri-infrastructure, and allied activities.
- **Micro, Small, and Medium Enterprises (MSMEs)** – Small business financing and startups.
- **Export Credit** – Boosting India's trade sector.
- **Education** – Loans for higher education and vocational courses.
- **Housing** – Home loans, slum rehabilitation, and infrastructure projects.
- **Social Infrastructure** – Schools, hospitals, and sanitation projects.
- **Renewable Energy** – Solar, wind, and other clean energy projects.

Addressing Regional Credit Disparities:

- A differential weight system has been introduced:
  - **Lower credit flow districts:** 125% weightage for PSL achievement.
  - **Higher credit flow districts:** 90% weightage for PSL achievement.

Consequences for Banks Missing Targets:

- Banks failing to meet their PSL targets must contribute to the Rural Infrastructure Development Fund (RIDF) and other designated funds at predetermined interest rates. This ensures funds still reach priority sectors.

Impact of the Revised PSL Guidelines:

- The new guidelines are designed to channel more credit into critical areas such as agriculture, MSMEs, education, housing, and renewable energy, supporting sustainable economic development. Banks must adjust their lending strategies to align with these changes and ensure continued credit flow to priority sectors.

8. Priority Sector Lending Certificates (PSLCs)

RBI recently made changes to the rules for Priority Sector Lending Certificates (PSLCs)

Key Changes:

- **PSLC for Small and Marginal Farmers (PSLC-SF/MF)** will now count towards multiple targets, including:
  - **Small/Marginal Farmers (SF/MF) sub-target**
  - **Weaker Sections sub-target**
  - **Non-Corporate Farmers (NCF) sub-target**
  - **Overall Agriculture target**
  - **Overall Priority Sector Lending (PSL) target**

Benefits:

- **Easier PSL Compliance**: Banks can meet their **Priority Sector Lending (PSL)** obligations more easily.
- **Multi-Category Coverage**: Banks can use these certificates to cover multiple PSL categories simultaneously.

9. Digital Payments Awareness Week (DPAW) 2025

1. **Inauguration:**
   - RBI's Governor inaugurated the **5th Digital Payments Awareness Week (DPAW)** from **March 10 to 16, 2025**.
   - The event aims to promote the adoption and secure usage of digital payments across India.
2. **Mission:**
   - **"Har Payment Digital"**: Encouraging every payment to be made digitally.
3. **Theme for 2025:**
   - **"India Pays Digitally"**.
4. **Objectives:**
   - **Public Awareness**: Educating the public about secure digital transactions.
   - **Promoting a Cashless Economy**: Encouraging the shift towards digital payments.
   - **Addressing Challenges**: Tackling issues like digital literacy and payment security.
5. **DPAW Overview:**
   - **Annual Event**: Observed every year in March to raise awareness about digital payments.
   - **2025 Marks the 3rd Year** of the mission, reflecting India's journey toward a digitally empowered citizenry.
6. **Governor's Speech Highlights:**
   - **Broad Areas of Focus**:
     1. **Payment Systems**: Soft-touch regulations to encourage innovation.
     2. **Awareness Generation**: Promoting digital payments, as nearly 40% of adults still avoid them due to lack of familiarity.
     3. **Expansion of UPI for Cross-Border Payments**: UPI linkages with other countries' payment systems and participation in **Project Nexus** for instant retail cross-border payments.
7. **Project Nexus:**
   - **Concept**: Developed by the **Bank for International Settlements (BIS)** to enhance cross-border payments by connecting multiple fast payment systems.
   - **RBI's Role**: Joined Project Nexus in 2024 to enable instant cross-border retail payments through a single platform.
8. **Electronic Banking Awareness and Training (eBAAT):**
   - Launched in **2012**, eBAAT educates the public on banking, digital payments, and financial security.
   - Over **1,800 sessions** have been conducted over the past 8 years in schools, colleges, villages, and urban centers.
9. **RBI's Efforts in Digital Payments:**
   - Continuation of **Soft Touch Regulations** to promote innovation in payment systems.
   - Plans to **revise eBAAT content** and launch pilot programs to reach more people effectively.

10. RBI Revises Norms on Government-Guaranteed Security Receipts

Introduction of New Guidelines by RBI:

- RBI introduces new regulations for Government of India-guaranteed Security Receipts (SRs) issued by Asset Reconstruction Companies (ARCs).
- Aims to differentiate sovereign-backed SRs from regular SRs.
- Provides banks with more flexibility in provisioning while ensuring stricter capital discipline.
- Expected to streamline bad loan resolutions, enhance investor confidence, and strengthen financial stability.

Key Provisions of the Circular:

- **Reversal of Excess Provisions**:
  - Banks can reverse excess provisions to their Profit & Loss (P&L) account.
  - Applicable only if the sale consideration is received in cash and government-guaranteed SRs.
- **Capital Treatment of SRs**:
  - Non-cash SRs must be deducted from Common Equity Tier 1 (CET1) capital.
  - Ensures unrealized gains do not inflate capital reserves.
  - Banks cannot distribute dividends from this portion of capital.

- **Revised Valuation Methodology**:
  - Government-backed SRs must be valued periodically based on the Net Asset Value (NAV) declared by ARCs.
  - Adjustments will be linked to recovery ratings.
  - Unrealized fair valuation gains must be deducted from CET1 capital, preventing dividend payouts.
- **Differentiation from Previous Norms**:
  - The 2021 Master Direction on Transfer of Loan Exposures (MD-TLE) applied uniform regulations to all SRs.
  - The new guidelines recognize the lower risk profile of government-backed SRs, optimizing provisioning while maintaining prudent capital buffers.

Entities Covered Under the Circular:
- Commercial Banks (including Small Finance Banks, Regional Rural Banks, and Local Area Banks)
- Cooperative Banks (urban, state, and central)
- All-India Financial Institutions (AIFIs)
- Non-Banking Financial Companies (NBFCs), including Housing Finance Companies (HFCs)

Impact on the Banking Sector:
- **Enhancing Investor Confidence**:
  - Encourages greater participation in ARC transactions involving government-backed SRs.
- **Expediting Stressed Asset Resolutions**:
  - Provides a clearer valuation methodology, making transactions more transparent and efficient.
- **Strengthening Capital Discipline**:
  - Prevents premature dividend payouts from unrealized valuation gains.

Summary/Static	Details
Why in the news?	RBI Revises Norms on Government-Guaranteed Security Receipts to Strengthen Bad Loan Resolutions
Provisioning	Banks can reverse excess provisions if SRs are government-backed and received in cash.
Capital Treatment	Non-cash SRs to be deducted from CET1 capital; no dividend payouts from unrealized gains.
Valuation	Periodic valuation of government-backed SRs based on NAV and recovery ratings.
Entities Covered	Commercial banks, cooperative banks, AIFIs, NBFCs, HFCs.
Expected Impact	Boosts investor confidence, accelerates loan resolutions, ensures capital discipline.

11. Reserve Bank of India and Bank of Mauritius Sign Memorandum of Understanding to Promote Use of Local Currencies for Bilateral Transactions

RBI and BOM Sign MoU:
- The Reserve Bank of India (RBI) and the Bank of Mauritius (BOM) signed a Memorandum of Understanding (MoU) to promote the use of local currencies—Indian Rupee (INR) and Mauritian Rupee (MUR)—for cross-border transactions.
- The MoU was signed by Shri Sanjay Malhotra, Governor of RBI, and Dr. Rama Krishna Sithanen G.C.S.K., Governor of BOM.
- The MoU exchange took place in Port Louis, Mauritius, in the presence of Prime Ministers Shri Narendra Modi (India) and Dr. Navinchandra Ramgoolam (Mauritius) on March 12, 2025.

Objectives of the MoU:

- The MoU aims to promote the use of INR and MUR in bilateral trade between India and Mauritius.
- It covers all current account transactions and permissible capital account transactions as agreed by both countries.
- The framework will allow exporters and importers to invoice and make payments in their respective domestic currencies, facilitating the development of a market for the INR-MUR pair.
- The use of local currencies is expected to reduce transaction costs and settlement times.

Significance of the Collaboration:

- This MoU represents a major step in strengthening bilateral cooperation between RBI and BOM.
- Using local currencies in transactions will promote trade between India and Mauritius, deepen financial integration, and further strengthen the historical, cultural, and economic ties between the two nations.