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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) regulation and supervision; (ii) financial markets; and (ii) payment and settlement systems.

I. Regulation and Supervision

1. Infusion of Capital in Overseas Branches and Subsidiaries of Banks and Retention/Repatriation/Transfer of Profits by these entities

Banks incorporated in India currently seek prior approval of RBI for infusing capital in their overseas branches and subsidiaries as well as for retention and repatriation/transfer of profits from these centres. On a review, and with a view to provide operational flexibility to banks, it has been decided that banks meeting the regulatory capital requirements may, with the approval of their Boards, infuse capital in their overseas branches and subsidiaries; retain profits in these centres; and repatriate/transfer profits therefrom, without prior approval of RBI, subject to post facto reporting. The instructions in this regard are being issued separately.

2. Discussion Paper on Review of Prudential Norms for Investment Portfolio of Banks

Extant regulatory instructions on classification and valuation of investment portfolio by scheduled commercial banks are largely based on a framework introduced in October 2000 drawing upon the then prevailing global standards and best practices. In view of the subsequent significant developments in the global standards on classification, measurement and valuation of investments, the linkages with the capital adequacy framework as well as progress in the domestic financial markets, there is a need to review and update these norms. As a step in this direction, a Discussion Paper covering all relevant aspects will be placed shortly on the RBI's website for comments.

II. Financial Markets

3. External Commercial Borrowing (ECB)/Trade Credit (TC) - Transition from LIBOR to Alternative Reference Rate (ARR)

Currently, the benchmark rate for Foreign Currency (FCY) External Commercial Borrowings (ECB)/Trade Credit (TC) is specified as 6-months LIBOR rate or any other 6-month interbank interest rate applicable to the currency of borrowing. In view of the imminent discontinuance of LIBOR, any widely accepted interbank rate or alternative reference rate (ARR) applicable to the currency of borrowing may be used as a benchmark, post discontinuation. To take into account differences in credit risk and term premia between LIBOR and the ARRs, for new foreign currency ECBs and TCs, it is proposed to revise the all-in-cost ceiling from 450 bps to 500 bps and from 250 bps to 300 bps, respectively, over the ARRs. To enable transition of existing ECBs and TCs linked to LIBOR, it is proposed to revise the all-in-cost ceiling from 450 bps to 550 bps and from 250 bps to 350 bps respectively, over the ARRs.

III. Payment and Settlement Systems

4. Discussion Paper on Charges in Payment Systems

Significant increase in acceptance infrastructure for digital payments has been achieved in recent years through concerted efforts of all stakeholders. Entities involved in providing digital payment services incur costs, which are generally recovered from the merchant or the customer or is borne by one or more of the participants. While there are both advantages and disadvantages of customers bearing these charges, they should be reasonable and should not become a deterrent in the adoption of digital payments. To take a comprehensive view of the issues involved, it is proposed to issue a discussion paper which will cover all aspects related to charges involved in various channels of digital payments such as credit cards, debit cards, prepaid payment instruments (cards and wallets), UPI, etc. The paper will also seek feedback on issues related to convenience fee, surcharging, etc., and the measures required to make digital transactions affordable to users and economically remunerative to the providers. The paper will be released in a month's time.

5. UPI for Feature Phone Users

India has a large mobile phone consumer base of about 118 crore mobile users (TRAI, October 2021)¹ of which about 74 crore (Statista, July 2021) have smart phones indicating that there is a significant number of feature phone users in the country². Feature phone users have limited access to innovative payment products. Although feature phones have NUUP (National Unified USSD Platform) as an option for availing basic payment services using the short code of *99#, the same has not picked up. To deepen financial penetration, it is important to bring feature phone users into the mainstream digital payments. In the first cohort of RBI Regulatory Sandbox, some innovators had successfully demonstrated their solutions for feature phone payments,

¹ https://traigov.in/sites/default/files/PR_No.45of2021_0.pdf

² <https://www.statista.com/statistics/467163/forecast-of-smartphone-users-in-india/>

under the theme of 'Retail Payments'. These products, coupled with other complementary solutions, will facilitate UPI-based digital payment solutions on feature phones to promote wider digitisation. It is proposed to launch a UPI-based payment product for feature phone users. Further details will be announced shortly.

6. Simplification of Process Flow for Small Value Transactions over UPI

UPI is the single largest retail payment system in the country in terms of volume of transactions (14 crore transactions per day, October 2021)³. One of the initial objectives of UPI was to replace cash for low value transactions. Transaction data analysis shows that 50 per cent transactions through UPI were below ₹200, indicating its success. These low value transactions, however, utilise significant system capacity and resources, at times leading to customer inconvenience due to transaction failures because of issues related to connectivity. It is, therefore, proposed to offer a simpler process flow by enabling small value transactions through an "On-device" wallet in UPI app which will conserve banks' system resources, without any change in the transaction experience for the user.

7. Increase in UPI Transaction Limit for Specified Categories

Reserve Bank has been making efforts to facilitate greater participation of retail customers in financial markets, e.g. investment in the G-secs segment through the recent launch of Retail Direct Scheme, where UPI, in addition to other options such as internet banking, can be used to make payments for participating in both the primary and secondary markets. Over time, UPI has also become a popular payment option for Initial Public Offerings (IPOs) since its availability from January 01, 2019⁴. It is reported that IPO applications of ₹2 to ₹5 lakh constitute approximately 10 per cent of subscription applications. The transaction limit in the UPI system was enhanced from ₹1 lakh to ₹2 lakh in March 2020. To further encourage the use of UPI by retail investors, it is proposed to enhance the transaction limit for payments through UPI for Retail Direct Scheme and IPO applications from ₹2 lakh to ₹5 lakh. Separate instructions to NPCI will be issued shortly.

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³ <https://rbidocs.rbi.org.in/rdocs/content/docs/PSDDP04062020.xlsx>

⁴ https://www.sebi.gov.in/sebi_data/commndocs/mar-2019/useofunifiedpaymentinterfacefaq_p.pdf