

INTRODUCTION

A Bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities. A Bank is the connection between customers that have capital deficits and customers with capital surpluses.

Banks are vital to business and may be likened to the heart in a human being, circulating money through economy.

Banks in India and their activities are regulated by the Banking Regulation Act, 1949. Reserve Bank of India is the apex organisation for regulating Banking activities.

DEFINITION OF BANKING

According to Section 5(b) of the Banking Regulation Act, 1949 “banking” means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise.

DEFINITION OF BANKING COMPANY

According to Section 5(c) of the Banking Regulations Act, 1949 “banking company” means any company which transacts the business of banking [in India].

Explanation— Any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause.

STATUTES GOVERNING BANKING COMPANIES

There is an elaborate legal framework governing the functioning of banks in India. The principal enactments, which govern the functioning of various types of banks, are:

➤ **Banking Regulation Act, 1949**

It is an act that consolidates the law relating to banking and provide for the nature of transaction carried on by banks in India. It contains the provisions of power of RBI to control advances by banking companies, accounts and audit of banks, restrictions as to minimum paid up capital and reserves, restrictions as to payment of dividends, validation of license granted by RBI to multi state co-operative societies. It also contains provisions of suspension of business and winding up of banking business.

➤ **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970**

This act provide provisions for the acquisition and transfer of the undertakings of certain banking companies, having regard to their size, resources, coverage and organisation, in order to control the heights of the economy and to meet progressively, and serve better, the needs of

development of the economy in conformity with national policy and objectives and for matter connected therewith or incidental thereto.

➤ **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980**

This act provides provisions for the acquisition and transfer of the undertakings of certain banking companies, having regard to their size, resources, coverage and organisation, in order to further control the heights of the economy, to meet progressively, and serve better, the needs of the development of the economy and to promote the welfare of the people.

➤ **State Bank of India Act, 1955**

It is an act that constituted State Bank of India and transferred to it the undertaking of the Imperial Bank of India and to provide for other matters connected therewith or incidental thereto. Its purpose is to extend the banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes.

➤ **State Bank of India (Subsidiary Banks) Act, 1959**

It is an act that provide for the formation of certain Government or Government-associated bank as subsidiaries of the State Bank of India and for the constitution, management and control of the subsidiary banks so formed, and for matters connected therewith, or incidental thereto.

➤ **Regional Rural Banks Act, 1976**

It is an act that provide for the incorporation, regulation and winding up of Regional Rural Banks with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto.

➤ **Companies Act, 1956**

As per section 2 of banking regulation act, 1949 the provisions of banking regulation act, 1949 Act shall be in addition to, and not, save as here in after expressly provided, in derogation of the Companies Act, 1956 (1 of 1956), and any other law for the time being in force. The Banking Regulation Act is to be read as supplemental to the Companies Act. .

➤ **Co-operative Societies Act, 1912 or the relevant state Co-operative Societies Act.**

It is an act to facilitate the formation of Co-operative Societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means, and for that purpose to amend the law relating to Co-operative Societies.

➤ **Information Technology Act, 2000**

This act provide legal recognition for transactions carried out by means of electronic data interchange and other means of electronic communication, commonly referred to as "electronic commerce", which involve the use of alternative to paper-based methods of communication and storage of information to facilitate electronic filing of documents with the Government agencies and further to amend the Indian Penal Code, the India Evidence Act, 1872, the Bankers Books Evidence Act, 1891 and the Reserve Bank of India Act, 1934 and for matters connected therewith or incidental thereto.

➤ **Prevention of Money Laundering Act, 2002**

As per the provisions of the Act, every banking company, financial institution and intermediary shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.

➤ **Credit Information (Companies Regulation Act), 2005**

This act provides provisions for regulation of credit information companies and to facilitate efficient distribution of credit and for matters connected therewith or incidental thereto.

➤ **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002**

It is an act to regulate securitisation and reconstruction of financial assets and enforcement of security interest and for matters connected therewith or incidental thereto.

➤ **Banking Cash transaction tax (Chapter VII of Finance act, 2005)**

The Finance Act, 2005 has introduced a new levy, namely, the Banking Cash Transaction Tax on certain banking transactions. The provisions relating to levy of this tax are contained in Chapter VII (sections 93 to 112) of the Act. This act comes into force from 1st June 2005. The tax base for the purposes of BCTT is the value of taxable banking transaction.

➤ **Income tax act, 1961**

The income of a Bank is chargeable to income tax under section 28, Profits and Gains of Business and Profession. Apart from normal deductions under section Chapter IV D. Certain Specific Sections deal with the income chargeable to tax of a banking company. Section 43D provides that interest income of bad and doubtful debts, i.e. NPAs shall be chargeable to tax in the year in which they are credited to the profit and loss account or the year in which they are received. Hence the banks are allowed to follow a Hybrid System of Accounting, which is banned in case of other assesseees by virtue of section 145 of the Income tax act.

FUNCTIONS OF BANKS

Some of the main functions of commercial banks are as follows:

❖ **Primary Functions of Banks**

➤ **Accepting Deposits**

- Saving Deposits
- Fixed Deposits
- Current Deposits
- Recurring Deposits

➤ **Granting of Loans and Advances**

- Overdraft
- Cash Credits
- Loans
- Discounting of Bill of Exchange

❖ **Secondary Functions of Banks**

➤ **Agency Functions**

- Transfer of Funds
- Collection of Cheques
- Periodic Payments
- Portfolio Management
- Periodic Collections
- Other Agency Functions

➤ **General Utility Functions**

- Issue of Drafts, Letter of Credits, etc.
- Locker Facility
- Underwriting of Shares
- Dealing in Foreign Exchange
- Project Reports
- Social Welfare Programmes
- Other Utility Functions
- Referee to financial standing of customers
- Traveller's cheque

SYSTEM OF BOOK-KEEPING IN BANKS

➤ **OBJECTIVES**

Every bank is required to maintain proper books of accounts and have its accounts audited.

A bank has to ensure that its books and accounts are

- Accurate, and
- Up-to-date.

➤ **SYSTEM**

❖ **Slip (or Voucher) System of Ledger posting:**

As a safe guard against any payment being made in the account of a customer in excess of the amount standing to his credit or a cheque of a customer being dishonored due to a mistake in the balance in his account, it is necessary that customer's accounts should be kept up-to-date and checked regularly.

❖ **Voucher summary sheets:**

The voucher entered into different personal ledgers each day are summarised on summary sheets, totals of which are posted to the control accounts in the general ledger.

❖ **Daily Trial Balance:**

The general ledger trial balance is extracted and agreed every day.

❖ **Continuous Checks:**

All entries in the detailed personal ledgers and summary sheets are checked by officers other than who have made the entries

❖ **Control Accounts:**

A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control account.

❖ **Double Voucher System:**

Two vouchers are prepared for every transaction not involving cash – one debit voucher and another credit voucher.

BOOKS OF ACCOUNT

❖ GENERAL LEDGER

The General Ledger contains the control accounts of all personal ledgers, the profit and loss accounts (income and expense items) and the balance sheet accounts (assets and liabilities). The General Ledger is kept in such a manner that the Balance Sheet can be readily prepared there from.

❖ SUBSIDIARY BOOKS

➤ **Personal Ledgers:** Banks keep separate ledgers for different types of accounts, such as Current accounts, Savings accounts, Fixed Deposits accounts, Loans, Overdrafts etc. These ledgers are posted directly from the vouchers (mainly pay-in-slips and Cheques).

➤ **Bills Registers:** These record transactions pertaining to different types of bills, such as Bills purchased, Bills for Collection, Outward Bills for Collection etc. Entries in Bills Registers are made on the basis of the original documents or bills.

➤ **Other Subsidiary Registers:** Other subsidiary registers are

- Registers for Demand Drafts, Telegraphic Transfers and Mail Transfers Issued to or Received from Branches and Agencies.
- Letters of Credit Registers.
- Letters of Guarantee Registers etc.

Entries in these subsidiary registers are made from original documents which too are summarised on vouchers every day. These vouchers are posted into the Day Book. Outstanding entries are tallied with the respective control accounts in the General Ledger.

❖ MEMORANDUM BOOKS

➤ **Departmental Journals**

Each department of the bank maintains a journal to record the transfer entries passed by it. These are only Memorandum entries and do not affect the Main Books of account.

➤ **Cash Department**

The Cash Department maintains the following books-

- Receiving Cashiers Cash Book;
- Paying Cashiers Cash Book;
- Main Cash Book;
- Cash Balance Book.

The Main Cash Book is maintained by persons other than the cashiers.

➤ **Outward Clearing Department**

The following Memorandum Books are maintained by this department:

- Clearing Cheques Received Book
- Bank wise List of above cheques sent to the Clearing House

➤ **Loans and Overdrafts Department**

The following books are kept by this department

- Register of Securities,
- Overdraft Sanction Register etc.

FINAL ACCOUNTS

Legal Provisions

➤ **Preparation of Accounts and balance-sheet** (Section 29)

At the expiration of each calendar year [or at the expiration of a period of twelve months ending with such date as the Central Government may, by notification in the Official Gazette, specify in this behalf,] every banking company incorporated [in India], in respect of all business transacted by it, and every banking company incorporated [outside India], in respect of all business transacted through its branches [in India], shall prepare with reference to [that year or period, as the case may be,] a balance-sheet and profit and loss account as on the last working day of [that year or the period, as the case may be] in the Forms set out in the Third Schedule or as near thereto as circumstances admit.

➤ **Audit of Accounts** (Section 30)

The balance-sheet and profit and loss account prepared in accordance with section 29 shall be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

➤ **Submission of returns** (Section 31)

The accounts and balance-sheet referred to in section 29 together with the auditor's report shall be published in the prescribed manner and three copies thereof shall be furnished as returns to the Reserve Bank within three months from the end of the period to which they refer.

Provided that the Reserve Bank may in any case extend the said period of three months for the furnishing of such returns by a further period not exceeding three months

➤ **Copies of balance-sheets and accounts to be sent to registrar** (Section 32)

Where a banking company in any year furnishes its accounts and balance-sheet in accordance with the provisions of section 31, it shall at the same time send to the registrar three copies of such accounts and balance-sheet and of the auditor's report, and where such copies are so sent,

it shall not be necessary to file with the registrar, in the case of a public company, copies of the accounts and balance-sheet and of the auditor's report, and, in the case of a private company, copies of the balance-sheet and of the auditor's report as required by sub-section (1) of section 220 of the Companies Act, 1956 (1 of 1956); and the copies so sent shall be chargeable with the same fee and shall be dealt with in all respects as if they were filed in accordance with that section.]

➤ **Display of audited balance-sheet by companies incorporated outside India** (Section 33)

Every banking company incorporated [outside India] shall, not later than the first Monday in August of any year in which it carries on business, display in a conspicuous place in its principal office and in every branch office [in India] a copy of its last audited balance-sheet and profit and loss account prepared under section 29, and shall keep the copy so displayed until replaced by a copy of the subsequent balance-sheet and profit and loss account so prepared, and every such banking company shall display in like manner copies of its complete audited balance-sheet and profit and loss account relating to its banking business as soon as they are available, and shall keep the copies so displayed until copies of such subsequent accounts are available

IndusInd Bank

The idea behind IndusInd Bank, named after the Indus Valley civilization, was conceived by Mr. Srichand P. Hinduja, the head of the Hinduja Group. One of the first new-generation private banks in India, IndusInd Bank was inaugurated in April 1994. It was established with the help of collective contributions from the NRI community, towards the economic and social development of India.

The operations of IndusInd Bank were started with a capital base of Rs. 1,000 million. Of the total 1,000 million, Rs. 600 million was raised through private placements by Indian Residents and Rs. 400 million was contributed by Non-Resident Indians (NRIs). A decade after its establishment i.e. in June 2004, IndusInd Bank was merged with Ashok Leyland Finance Ltd, which was one of the largest leasing finance and hire purchase companies in India, at that time. With this, the bank increased its customer base and geographical penetration.

Vision

IndusInd Bank (we) will be:

- A relevant business and banking partner to our clients
- Customer Responsive, striving at all times to collaborate with clients in providing solutions for their banking needs
- A forerunner in the market place in terms of profitability, productivity and efficiency
- Engaged with all our stakeholders and will deliver sustainable and compliant returns

Mission

We will consistently add value to all our stakeholders and emerge as the 'best-in-class' in the chosen parameters amongst the comity of banks, by doubling our profits, clients and branches within the next three years.

Branches & ATMs

Within a few years of its foundation, IndusInd Bank started climbing the ladder of success and became one of the fastest-growing banks in the Indian banking sector. By 2006, it had expanded its branch network, from 61 in 2004, to 137. Apart from setting up 150 ATM centers of its own, the bank also concluded multilateral arrangements with other banks, taking the total number of authorized ATM outlets to 15,000. All the branches as well as ATMs of IndusInd Bank are connected to its central database, via a satellite that operates on the latest version of IBM's AS400-720 hardware & Midas Kapiti (now Misys) software.

Businesses

IndusInd Bank operates in a diverse range of businesses, which include Corporate Banking, Retail Banking, Treasury and Foreign Exchange, Investment Banking, Capital Markets, Non-Resident Indian (NRI) / High Networth Individual (HNI) Banking and Information Technology (through a subsidiary). It also claims the distinction of being the first bank in India that received ISO 9001:2000 certification for its Corporate Office and its entire network of branches.

Products & Services

IndusInd Bank provides multi-channel facilities, which comprise of ATMs, Net Banking, Mobile Banking, Phone Banking, Multi-city Banking and International Debit Cards. It is also credited for being one of the first banks to become a part of RBI's Real Time Gross Settlement (RTGS) system. Enlisting the help of KPMG, IndusInd Bank has adopted an enterprise-wide risk management system, including global best practices in the area of Risk Management. The other products and services offered by the bank include:

- **Personal Banking**
 - Accounts
 - Deposits
 - Loans
 - Cards - Debit Card, Credit Card, Gold Debit Card, Indus Money
 - Indus Protect

- **Wealth Management Services**
 - Portfolio Management
 - Investments
 - Insurance

- **Corporate Banking**
 - Fund Based Facilities
 - Non Fund Based Facilities
 - Value Added Facilities
 - Supply Chain Management

- **International Banking**
 - Correspondent Banking
 - SWIFT
 - Rupee Drawing Arrangement R
 - Advisory Services A
 - Facilities to Exporters
 - Trade Finance
 - RFC Account for Residents R
 - Gold Banking
 - Remittance Services
 - Suvarna Mudra

- **Others**
 - Investment Banking
 - Treasury
 - NRI Services
 - Online Banking
 - RTGS/ NEFT

FINANCIAL STATEMENTS

BALANCE SHEET AS AT MARCH 31, 2014

in'000s

Particulars	Schedule	As at 31.03.2014	As at 31.03.2013
<u>CAPITAL AND LIABILITIES</u>			
Capital	1	525,63,86	522,86,98
Employee Stock Options Outstanding	18(10)	11,01,96	10,71,19
Reserves and Surplus	2	8506,30,42	7096,67,19
Deposits	3	60502,28,53	54116,71,50
Borrowings	4	14761,95,70	9459,55,61
Other Liabilities and Provisions	5	2718,72,59	2099,99,07
TOTAL		<u>87025,93,06</u>	<u>73306,51,54</u>
<u>ASSETS</u>			
Cash and Balances with Reserve Bank of India	6	4413,91,56	3249,84,45
Balances with Banks and Money at Call and Short Notice	7	2355,52,61	3598,88,79
Investments	8	21562,95,30	19654,16,57
Advances	9	55101,83,59	44320,61,00
Fixed Assets	10	1016,44,72	756,14,18
Other Assets	11	2575,25,28	1726,86,55
TOTAL		<u>87025,93,06</u>	<u>73306,51,54</u>
Contingent Liabilities	12	147804,26,44	134902,88,80
Bills for Collection		5774,56,85	6337,50,73
Significant Accounting Policies	17		
Notes to the financial statements	18		

The schedules referred to above form an integral part of Balance Sheet.

The Balance Sheet has been prepared in conformity with Form A of the Third Schedule to the Banking Regulation Act, 1949.

Insurance Regulatory & Development Authority

A. Organizational Structure of IRDAI:

Composition of IRDAI:

As per Sec. 4 of IRDAI Act, 1999, the composition of the Authority is:

- a) Chairman;
- b) Five whole-time members;
- c) Four part-time members,
(appointed by the Government of India)

IRDAI's Head Office is at Hyderabad

All the major activities of IRDAI including ensuring financial stability of insurers and monitoring market conduct of various regulated entities is carried out from the Head Office.

IRDAI's Regional Offices are at New Delhi & Mumbai

The Regional Office, New Delhi focuses on spreading consumer awareness and handling of Insurance grievances besides providing required support for inspection of Insurance companies and other regulated entities located in the Northern Region. This office is functionally responsible for licensing of Surveyors and Loss Assessors. Regional Office at Mumbai handles similar activities, as in Regional Office Delhi, pertaining to Western Region.

B. Insurance Regulatory Framework:

1. Insurance Regulatory and Development Authority of India (IRDAI), is a statutory body formed under an Act of Parliament, i.e., Insurance Regulatory and Development Authority Act, 1999 (IRDAI Act 1999) for overall supervision and development of the Insurance sector in India.
2. The powers and functions of the Authority are laid down in the IRDAI Act, 1999 and Insurance Act, 1938. The key objectives of the IRDAI include promotion of competition so as to enhance customer satisfaction through increased consumer choice and fair premiums, while ensuring the financial security of the Insurance market.

3. The Insurance Act, 1938 is the principal Act governing the Insurance sector in India. It provides the powers to IRDAI to frame regulations which lay down the regulatory framework for supervision of the entities operating in the sector. Further, there are certain other Acts which govern specific lines of Insurance business and functions such as Marine Insurance Act, 1963 and Public Liability Insurance Act, 1991.

4. IRDAI adopted a Mission for itself which is as follows:

- To protect the interest of and secure fair treatment to policyholders;
- To bring about speedy and orderly growth of the Insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;
- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;
- To ensure speedy settlement of genuine claims, to prevent Insurance frauds and other malpractices and put in place effective grievance redressal machinery;
- To promote fairness, transparency and orderly conduct in financial markets dealing with Insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;
- To take action where such standards are inadequate or ineffectively enforced;
- To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation.

5. Entities regulated by IRDA:

a. Life Insurance Companies - Both public and private sector Companies

b. General Insurance Companies - Both public and private sector Companies. Among them, there are some standalone Health Insurance Companies which offer health Insurance policies.

c. Reinsurance Companies

d. Agency Channel

e. Intermediaries which include the following:

- Corporate Agents

- Brokers
- Third Party Administrators
- Surveyors and Loss Assessors.

6. Regulation making process:

- Section 26 (1) of IRDA Act, 1999 and 114A of Insurance Act, 1938 vests power in the Authority to frame regulations, by notification.
- Section 25 of IRDA Act, 1999 lays down the establishment of Insurance Advisory Committee consisting of not more than twenty five members excluding the ex-officio members. The Chairperson and the members of the Authority shall be the ex-officio members of the Insurance Advisory Committee.
- The objects of the Insurance Advisory Committee shall be to advise the Authority on matters relating to making of regulations under Section 26.
- Accordingly the draft regulations are first placed in the meeting of the Insurance Advisory Committee and after obtaining the comments/recommendations of IAC, the draft regulations are placed before the Authority for its approval.
- Every Regulation approved by the Authority is notified in the Gazette of India.
- Every Regulation so made is submitted to the Ministry for placing the same before the Parliament.

7. The Authority has issued regulations and circulars on various aspects of operations of the Insurance companies and other entities covering:

- Protection of policyholders' interest
- Procedures for registration of insurers or licensing of intermediaries, agents, surveyors and Third Party Administrators;
- Fit and proper assessment of the promoters and the management
- Clearance / filing of products before being introduced in the market
- Preparation of accounts and submission of accounts returns to the Authority.

- Actuarial valuation of the liabilities of life Insurance business and forms for filing of the actuarial report;
- Provisioning for liabilities in case of non-life Insurance companies
- Manner of investment of funds and periodic reports on investments
- Maintenance of solvency
- Market conduct issues

C. Supervisory Role:

1. The objective of supervision as stated in the preamble to the IRDAI Act is “to protect the interests of holders of Insurance policies, to regulate, promote and ensure orderly growth of the Insurance industry”, both Insurance and Reinsurance business. The powers and functions of the Authority are laid down in the IRDAI Act, 1999 and Insurance Act, 1938 to enable the Authority to achieve its objectives.

2. Section 25 of IRDAI Act 1999 provides for establishment of Insurance Advisory Committee which has Representatives from commerce, industry, transport, agriculture, consumer for a, surveyors agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees’ association in the Insurance sector are represented. All the rules, regulations, guidelines that are applicable to the industry are hosted on the website of the supervisor and are available in the public domain.

3. Section 14 of the IRDAI Act,1999 specifies the Duties, Powers and functions of the Authority. These include the following:

- To grant licenses to (re) Insurance companies and Insurance intermediaries
- To protect interests of policyholders,
- To regulate investment of funds by Insurance companies, professional organisations connected with the (re)Insurance business; maintenance of margin of solvency;
- To call for information from, undertaking inspection of, conducting enquiries and investigations of the entities connected with the Insurance business;

- To specify requisite qualifications, code of conduct and practical training for intermediary or Insurance intermediaries, agents and surveyors and loss assessors
- To prescribe form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other Insurance intermediaries;

D. Prudential approach: Reporting, Risk monitoring and intervention:

1. Reporting Requirements:

Insurers are required to submit various returns like financial statements on an annual basis duly accompanied by the Auditors' opinion statement on the annual accounts; reports of valuation of assets, valuation of liabilities and solvency margin; actuarial report and abstract and annual valuation returns giving information about the financial condition for life Insurance business; Incurred But Not Reported claims in case of general Insurance business; Reinsurance plans on an annual basis; and monthly statement on underwriting of large risks in case of general Insurance companies; details of capital market exposure on a monthly basis; Investment policy, Quarterly and annual returns on investments.

2. Solvency of Insurers:

In order to monitor and control solvency requirements, it has been made mandatory to the insurers to submit solvency report on quarterly basis. In case of any deviation, the Supervisor initiates necessary and suitable steps so as to ensure that the Insurer takes immediate corrective action to restore the solvency position at the minimum statutory level.

Computation of solvency margin takes into account the inherent risk that respective line of business poses to the insurer. Higher requirements are placed for risky lines of business compared to others posing less risk to the insurers. Even though the insurers are required to maintain a minimum solvency ratio of 150% at all times, the actual solvency margin maintained by insurers are well above the required solvency margin leading to the solvency margin ratio significantly higher than 150% on average.

Quarterly solvency ratio reports have to be submitted to the Supervisor, maintaining minimum solvency ratio of 150%. This provides the regular a mechanism to monitor the solvency position

periodically over the financial year in order to ensure compliance with the requirements and hence to initiate suitable action in the event of any early warning signal on the Insurer's financial condition.

3. Asset-Liability Management:

Under Asset-Liability Management reporting, Insurer must provide the year wise projected cash flows, in respect of both assets and liabilities. Insurers must maintain mismatching reserves in case of any mismatch between assets and liabilities as a part of the global reserves. Further, Life insurers are required to submit a report on sensitivity and scenario testing exercise in the prescribed format. Non-life insurers must submit a report on 'Financial Condition' covering the sensitivity analysis of the financial soundness in meeting the policyholders' liabilities.

The supervisor requires management of investments to be within the insurer's own organization. In order to ensure a minimum level of security of investments in line with Insurance Act Provisions, the regulations prescribe certain percentages of the funds to be invested in government securities and in approved securities. The regulatory framework lays down the norms for the mix and diversification of investments in terms of Types of Investment, Limits on exposure to Group Company, Insurer's Promoter Group Company. Investment Regulations lay down the framework for the management of investments. The exposure limits are also prescribed in the Regulations. The Investment Regulations require a proper methodology to be adopted by the insurer for matching of assets and liabilities.

4. Reinsurance:

Transfer of risk through Reinsurance is recognized only to the extent specified in the regulations. Due safeguards are built in to ensure that adjustments are made to provide for quality of assets held. No other risk transfer mechanism exists in the current system. In order to minimize the counterparty risk, the re-insurers with whom business is placed must have the minimum prescribed rating by an independent credit rating agency as specified in the regulations. Legislation has specified the minimum capital requirements for an Insurance company. It further, prescribes that Insurance companies can capitalize their operations only through ordinary shares which have a single face value.

Reinsurer

General Insurance Corporation of India (GIC of India) is the sole National Reinsurer, providing Reinsurance to the Insurance companies in India. The Corporation's Reinsurance programme has

been designed to meet the objectives of optimising the retention within the country, ensuring adequate coverage for exposure and developing adequate capacities within the domestic market. It is also administering the Indian Motor Third Party Declined Risk Insurance Pool – a multilateral Reinsurance arrangement in respect of specified commercial vehicles where the policy issuing member insurers cede Insurance premium to the Declined Risk pool based on the underwriting policy approved by IRDAI.

5. Corporate Governance:

In order to protect long- terms interests of policyholders, the IRDAI has outlined appropriate governance practices applicable to Insurance companies for maintenance of solvency, sound long-term investment policy and assumption of underwriting risks on a prudential basis from time to time. The IRDAI has issued comprehensive guidelines for adoption by Insurance companies on the governance responsibilities of the Board in the management of the Insurance functions. These guidelines are in addition to provisions of the Companies Act, 1956, Insurance Act, 1938 and other applicable laws.

Corporate Governance Guidelines issued by IRDAI, requires insurers to have in place requisite control functions. The oversight of the control functions is vested with the Boards of the respective insurer. It lays down the structure, responsibilities and functions of Board of Directors and the senior management of the companies. Insurers are required to adopt sound prudent principles and practices for the governance of the company and should have the ability to quickly address issues of non-compliance or weak oversight and controls.

The Guidelines mandated the insurers to constitute various committees viz., Audit Committee, Investment Committee, Risk Management Committee, Policyholder Protection Committee and Asset-Liability Management Committee. These committees play a critical role in strengthening the control environment in the company.

6. On and off site Supervision:

Onsite Inspections:

The Authority has the power to call for any information from entities related to insurance business – Insurance companies and the intermediaries, as may be required from time to time.

On site inspection is normally carried out on an annual basis which includes inspection of corporate offices and branch offices of the companies. These inspections are conducted with view to check compliance with the provisions of Insurance Act, Rules and regulations framed thereunder.

The inspection may be comprehensive to cover all areas, or may be targeted on one, or a combination of, key areas. When a market-wide event having an impact on the insurers occurs, the Supervisor obtains relevant information from the insurers, monitors developments and issues directions as it may consider necessary. Though there is no specific requirement, events of importance trigger such action. The supervisor reviews the “internal controls and checks” at the offices of Insurance companies, as part of on-site inspection.

Off-site Inspection:

The primary objective of off-site surveillance is to monitor the financial health of Insurance companies, identifying companies which show financial deterioration and would be a source for supervisory concerns. This acts as a trigger for timely remedial action.

The off-site inspection conducted by analyzing periodic statements, returns, reports, policies and compliance certificates mandated under the directions issued by the Authority from time to time. The periodicity of these filings is generally annual, half-yearly, quarterly and monthly and are related to business performance, investment of funds, remuneration details, expenses of management, business statistics, auditor certificates related to various compliance requirements.

The statutory and the internal auditors are required to audit all the areas of functioning of the Insurance companies. The particular area of focus is the preparation of accounts of the company to reflect the true and fair position of the company as at the Balance Sheet date. The auditors also examine compliance or otherwise with all statutory and regulatory requirements, and in particular whether the Insurance company has been compliant with the various directions issued by the supervisor. In addition, the Authority relies upon the certifications which form part of the Management Report. The Board is required to certify that the management has put in place an internal audit system commensurate with the size and nature of its business and that it is operating effectively.

All Insurance companies are required to publish financial results and other information in the prescribed formats in newspapers and on their websites at periodic intervals.

7. Micro Insurance and Rural & Social Sector Obligations

The IRDA had issued micro Insurance regulations for the protection of low income people with affordable Insurance products to help cope with and recover from common risks with standardised popular Insurance products adhering to certain levels of cover, premium and benefit standards. These regulations have allowed Non Governmental Organisations (NGOs), Self Help Groups (SHGs) and other permitted entities to act as agents to Insurance companies in marketing the micro Insurance products and have also allowed both life and non-life insurers to promote combi-micro Insurance products.

The Regulations framed by the Authority on the obligations of the insurers towards rural and social sector stipulate targets to be fulfilled by insurers on an annual basis. In terms of these regulations, insurers are required to cover year wise prescribed targets (i) in terms of number of lives under social obligations; and (ii) in terms of percentage of policies to be underwritten and percentage of total gross premium income written direct by the life and non-life insurers respectively under rural obligations.

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

I. Liquidity Management and Financial Markets

1. Additional Liquidity Facility for National Housing Bank

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

2. Additional Liquidity Facility for NABARD

Liquidity support of ₹25,000 crore was extended to the National Bank for Agriculture and Rural Development (NABARD) in April 2020 to back agricultural operations in the wake of challenges posed by COVID-19 and in view of the brightening prospects of

the farm sector, its capacity to provide employment in these trying times, and its backward and forward linkages. In order to ameliorate the stress being faced by smaller non-bank finance companies (NBFCs) and micro-finance institutions in obtaining access to liquidity, it has now been decided to provide an additional special liquidity facility (ASLF) of ₹5,000 crore to NABARD for a period of one year at the RBI's policy repo rate for refinancing NBFC-MFIs and other smaller NBFCs of asset size of ₹ 500 crore and less to support agriculture and allied activities and the rural non-farm sector.

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

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

Detailed guidelines are being issued separately.

II. Regulation and Supervision

Measures Aimed at Mitigating the Economic Fallout of COVID-19

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

4. Resolution Framework for COVID-19-related Stress

The [“Prudential Framework on Resolution of Stressed Assets”](#) dated June 7, 2019 provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under the Prudential Framework which involves granting of any concessions on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is

accompanied by a change in ownership, which allows the asset classification to be retained or upgraded to Standard, subject to the prescribed conditions.

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

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

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

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

1. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. Further, the accounts should continue to remain standard till the date of invocation. All other accounts, as hitherto, may be considered for resolution under the June 7th Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.
2. The resolution plan may be invoked anytime till December 31, 2020 and shall have to be implemented within 180 days from the date of invocation.

3. Lenders shall have to keep additional provisions of 10 per cent on the post-resolution debt.
4. In order to enforce collective action, specific voting thresholds are being prescribed even for invocation of the resolution plan; and those lending institutions not signing the inter-creditor agreement (ICA) within 30 days from the date of invocation shall attract higher provisions of 20.
5. Post-implementation, the asset classification of the account shall be retained as standard, or if the account had slipped into NPA after invocation but before implementation, the asset classification shall be restored upon implementation.
6. The Reserve Bank is constituting an Expert Committee (Chairman: Shri K.V. Kamath) which shall make recommendations to the RBI on the required financial parameters, along with the sector specific benchmark ranges for such parameters, to be factored into each resolution plans. The final notification in this regard shall be issued by the Reserve Bank after considering the recommendations.
7. The Expert Committee shall also undertake a process validation of resolution plans for accounts above a specified threshold.
8. The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years.
9. Wherever the resolution plans involve conversion of a portion of debt into equity and other debt instruments, the debt instruments with terms similar to the loan shall be counted as part of the post-resolution debt, whereas the portion converted into other non-equity instruments shall be fully written down.
10. In respect of accounts involving consortium or multiple banking arrangements, all receipts by the borrower; all repayments by the borrower to the lending institutions; as well as all additional disbursements, if any, to the borrower by the lending institutions as part of the resolution plan, shall be routed through an escrow account maintained with one of the lending institutions.

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

Guidelines in this regard are being issued today.

5. Restructuring of MSME debt

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

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

Guidelines in this regard are being issued separately today.

6. Advances against Gold Ornaments and Jewellery

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

Guidelines in this regard are being issued today.

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

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

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

Detailed instructions are being issued in this regard.

The above measures are also expected to bring in the requisite discipline in collective actions by the creditors for speedier resolution of stress in the accounts of borrowers,

which will be critical in implementation of the Resolution Framework for COVID-19-related Stress, as mentioned earlier.

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

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

The circular in this regard is being issued separately.

III. Financial Inclusion

9. Review of Priority Sector Lending Guidelines

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

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

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

Detailed guidelines in this regard will be issued shortly.

IV. Payment and Settlement Systems

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

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

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

11. Online Dispute Resolution (ODR) for Digital Payments

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

Instructions in this regard will be issued today.

12. Positive Pay Mechanism for Cheques

The Cheque Truncation System (CTS) for clearing cheques is operational pan-India and presently covers 2 per cent and 15 per cent of total retail payments in terms of volume and value respectively; the average value of a cheque cleared in CTS presently is ₹82,000. The CTS-2010 standard specifying minimum-security features on cheque leaves acts as a deterrent against cheque frauds, while standardisation of field placements on cheque forms enables straight-through-processing by use of optical / image character recognition technology. To further augment customer safety in cheque payments and reduce instances of fraud occurring on account of tampering of cheque leaves, it has been decided to introduce a mechanism of Positive Pay for all cheques of value ₹50,000 and above. Under this mechanism, cheques will be processed for payment by the drawee bank based on information passed on by its customer at the

time of issuance of cheque. This measure will cover approximately 20 per cent and 80 per cent of total cheques issued in the country by volume and value, respectively.

Operational guidelines for the purpose will be issued separately.

13. Creation of Reserve Bank Innovation Hub

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