III DOMESTIC POLICY ENVIRONMENT

Monetary policy easing continued during 2025-26, with a neutral stance since June 2025, to strike the right growth-inflation balance amid the evolving macro-financial conditions. The Reserve Bank ensured comfortable system-level liquidity for smoother monetary policy transmission. The regulatory and supervisory policies focused on reducing compliance burden through consolidation of regulatory instructions, strengthening risk management, promoting harmonisation of prudential norms and addressing emerging risks. Efforts toward enhancing financial inclusion, improving governance standards and transparency, and promoting ease of doing business for regulated entities continued during the year.

Introduction

III.1 The Indian financial system remained resilient during 2024-25 and 2025-26, despite formidable global headwinds, including geopolitical risks, trade policy uncertainty and financial market volatility. This resilience was underpinned by a stable macroeconomic environment, sound macroeconomic policies and an agile regulatory and supervisory framework. The Reserve Bank remained watchful of the emerging risks and challenges to the financial sector, while continuing to support financial innovation and digital transformation. Regulatory efforts were further reinforced through a comprehensive set of measures including strengthening prudential norms, harmonising credit frameworks, improving liquidity risk management, enhancing customer protection *via* transparency and fair lending practices, including through digital and co-lending frameworks. Policy measures also focused on integrating climate-related financial risk management as well as leveraging technology to bolster cyber-resilience of the regulated entities (REs). These measures, in turn, helped ensure financial stability and resilience in a rapidly evolving global landscape.

III.2 Against this backdrop, the chapter provides an overview of the Reserve Bank's key policy initiatives across multiple domains. Section 2 outlines the major monetary and liquidity management measures undertaken during 2024-25 and 2025-26. Section 3 reviews key regulatory and supervisory initiatives undertaken by the Reserve Bank during the period under review. The policy measures related to technological innovations in the financial sector are discussed in Section 4, followed by financial market developments in Section 5. Sections 6 and 7 examine initiatives aimed at strengthening consumer protection, and measures to enhance credit delivery and promote financial inclusion, respectively. Section 8 details the initiatives undertaken to enhance the scope and reach of the payments system in a secure and inclusive manner. Section 9 concludes the chapter with an overall assessment.

2. The Macroeconomic Policy Setting

III.3 The Reserve Bank undertook a calibrated approach in the conduct of monetary policy to support economic growth, as easing inflationary pressures opened space for policy accommodation. After keeping the policy repo rate steady at 6.50 per cent through 2023-24 to Q3:2024-25, the monetary policy committee (MPC) reduced it by a cumulative 125 basis points (bps) – 25 bps each in February and April 2025, followed by a 50 bps reduction in June 2025 and the latest 25 bps reduction in December 2025 – to 5.25 per cent.

III.4 In the backdrop of benign domestic inflation outlook and moderate growth amidst global uncertainty, the MPC decided to change the policy stance from neutral to accommodative in April 2025. Acknowledging the limited space to further support growth amidst the fast-changing global economic situation, the MPC reverted to its neutral stance in June 2025 and maintained the stance thereafter, to strike the right growth-inflation balance. Alongside, the Reserve Bank provided sufficient liquidity to the banking system – through open market purchases, USD/INR Buy/Sell swaps and reduction in the cash reserve ratio (CRR) – to help improve monetary policy transmission.

Developments during 2024-25

III.5 The Reserve Bank undertook a slew of liquidity enhancing measures in Q4:2024-25 including term repo auctions, open market operation (OMO) purchases and USD/INR Buy/Sell swaps to inject durable liquidity into the banking system. The system liquidity, which had turned from surplus during July-November 2024 to deficit during December 2024-February 2025, returned to surplus by end-March 2025. During 2024-25, two-way fine-tuning operations were the key mechanism to manage frictional liquidity.

III.6 Reflecting the comfortable liquidity conditions, the weighted average call rate (WACR) – the operating target of monetary policy – remained broadly within the liquidity adjustment facility (LAF) corridor during 2024-25. Overnight rates in the collateralised segment moved in tandem with the WACR. In other segments of the money market, the average daily spread of certificates of deposit (CD) and commercial paper (CP) rates over treasury bill (T-bill) rates of corresponding maturity increased during 2024-25, mainly reflecting higher issuances of such instruments.

III.7 Government bond yields softened during the year on the back of lower market borrowing requirements by the central Government, inclusion of Indian government securities in the global bond indices[1], liquidity infusion by the Reserve Bank, onset of domestic monetary policy easing cycle, and positive global cues from easing US treasury yields. Corporate bond yields also eased tracking G-sec yields, *albeit* with a widening of spread.

Developments during 2025-26

III.8 In the wake of evolving macro-financial conditions and increased global uncertainty, the Reserve Bank continued providing sufficient liquidity to the banking system. Several measures taken by the Reserve Bank since December 2024 resulted in significant improvement in system liquidity during the year. To further ease liquidity

[1] JP Morgan Government Bond Index-Emerging Markets in June 2024, Bloomberg Emerging Market Local Currency Government Index in January 2025 and FTSE Russell Emerging Markets Government Bond Index in September 2025.

conditions and provide greater certainty to the banking system, the Reserve Bank in June 2025 announced a reduction in the CRR by 100 bps, from 4.0 per cent to 3.0 per cent of net demand and time liabilities (NDTL), which was implemented in a staggered manner between September and November 2025.[2]

III.9 Reflecting surplus liquidity, the WACR broadly hovered below the repo rate. After discontinuing the daily variable repo rate (VRR) auctions since June 11, 2025, due to surplus liquidity, variable rate reverse repo (VRRR) operations of varying maturity (2 to 7 days) commenced from June 27, 2025. They absorbed surplus liquidity and progressively aligned the WACR with the policy rate. The spread of WACR over the policy repo rate averaged (-)13 bps during 2025-26 (up to December 18), with overnight rates in collateralised segments moving in tandem. Yields on 3-month T-bills, CDs, and CPs issued by non-banking financial companies (NBFCs) moderated during 2025-26 (up to December 18), supported by comfortable liquidity in the banking system and policy rate cuts. In the bond market, yields at the shorter tenors declined significantly, while longer-end bond yields softened to a lesser extent on account of global uncertainty and demand-supply mismatches. The transmission of the cumulative 125 bps policy rate cut since February 2025 to banks' deposit and lending rates continued during the year.

Liquidity Management Framework

III.10 The Reserve Bank finalised the revised liquidity management framework on September 30, 2025, based on the recommendations of the internal working group (IWG) and feedback from stakeholders. The overnight weighted average call rate (WACR) remains the operating target of monetary policy, with continued monitoring of other overnight money market rates to ensure orderly evolution and smooth transmission. The symmetric corridor system is retained, with the policy repo rate at the center and the SDF and MSF forming the floor and ceiling, respectively, at ±25 bps.

III.11 To manage short-term/transient liquidity, the 14-day VRR/VRRR operations were discontinued as the main tool. This was replaced primarily by 7-day VRR/VRRR operations, while other tenors (overnight to 14 days) will be conducted at the Reserve Bank's discretion.

3. Regulatory and Supervisory Policies

III.12 The Reserve Bank of India recently undertook a major exercise to consolidate all the banking/non-banking instructions issued to its regulated entities over several decades. More than 9,000 instructions were screened and consolidated into 244 function-wise Master Directions (including seven new Master Directions on digital banking channel authorisation) organised across 11 types of REs including commercial banks, urban cooperative banks, non-banking financial companies, *etc.* Following the consolidation, 9,445 circulars were repealed. This is expected to significantly improve the accessibility of regulatory instructions for the REs, thereby reducing their compliance cost, as well as improve the clarity on applicability of each instruction to each type of entity. This also serves as a major push towards ease of doing business.

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2 The reduction in the CRR announced on June 6, 2025, was carried out in four equal tranches of 25 bps each with effect from the fortnights beginning September 6, October 4, November 1, and November 29, 2025.

3.1 Credit Information Reporting

III.13 The Reserve Bank issued the Master Direction on Credit Information Reporting on January 6, 2025. The Directions established a standardised framework for reporting and dissemination of credit information, while safeguarding the confidentiality and security of sensitive credit data. It also provided mechanisms for consumers to access their credit information and grievance redressal on related matters. Subsequently, the Master Direction was withdrawn and the instructions contained therein for each RE were issued separately on November 28, 2025.

III.14 In view of the increasing reliance of credit institutions (CIs) on credit information reports (CIRs) in credit underwriting processes, Amendment Directions were issued on December 4, 2025 to ensure more frequent, accurate and timely reporting of credit information by CIs to credit information companies (CICs).

3.2 Project Finance

III.15 To establish a harmonised framework for financing of projects in infrastructure and non-infrastructure (including commercial real estate and commercial real estate-residential housing) sectors by REs, the Reserve Bank issued the Project Finance Directions on June 19, 2025, which have subsequently been subsumed under the consolidated Directions issued on November 28, 2025. The Directions adopt a principle-based approach to resolution of stress with stronger risk safeguards, while balancing flexibility for lenders. Key measures include rationalised timelines for extension of the date of commencement of commercial operations – up to three years for infrastructure projects and two years for non-infrastructure projects – along with calibrated standard asset provisioning starting with 1 per cent for under-construction projects (1.25 per cent for commercial real estate), which increases with each quarter of deferment. Overall, the framework seeks to support timely and disciplined financing of project while adequately mitigating risks associated with execution delays in under-construction exposures.

3.3 Review of Risk Weights on Microfinance Loans

III.16 The risk weight on consumer credit, excluding housing, education, vehicle loans, and loans secured by gold, was increased to 125 per cent on November 16, 2023. Subsequently, on February 25, 2025, the Reserve Bank revised the risk weight for microfinance loans, in the nature of consumer credit, to 100 per cent. Other microfinance loans fulfilling the qualifying criteria of regulatory retail portfolio shall continue to attract a risk weight of 75 per cent, subject to compliance with laid out policies and procedures. Additionally, all microfinance loans extended by regional rural banks (RRBs) and local area banks (LABs) shall attract a risk weight of 100 per cent.

3.4 Exposures of Scheduled Commercial Banks to Non-Banking Financial Companies

III.17 To address the growing reliance of NBFCs on scheduled commercial banks (SCBs) for funding, the Reserve Bank, on November 16, 2023, increased the applicable risk weights on SCBs' exposures to NBFCs by 25 percentage points in cases where the existing risk weight based on external ratings was below 100 per cent. Following a review, on February 25, 2025, risk weights on bank lending to NBFCs were restored to the levels aligned with the respective external ratings, in cases where such ratings prescribe a risk weight below 100 per cent.

3.5 Amendments to Liquidity Coverage Ratio Framework

III.18 To address concomitant increase in liquidity risks due to increased usage of technology, strengthen banks' short-term liquidity resilience, and further align with global standards, the Reserve Bank revised the Basel III liquidity coverage ratio (LCR) norms to be effective from April 1, 2026. The revised guidelines, *inter alia,* prescribe additional 2.5 per cent run-off factor[3] for retail deposits and unsecured wholesale funding from non-financial small business customers enabled with internet and mobile banking, and that the market price of government securities denominated as Level 1 high quality liquid assets would be adjusted for applicable haircuts in line with the margin requirements under the LAF and marginal standing facility (MSF). The guidelines clarified that other legal entities category, where 100 per cent run-off rate applies, shall include deposits and other funding from banks/insurance companies and financial institutions, and entities in the business of financial services, while non-financial corporates (eligible for 40 per cent run-off rate) shall also include trusts, partnerships, limited liability partnerships, and association of persons.

3.6 Digital Lending

III.19 Digital lending has emerged as a key innovation in India's financial system. At the same time, its rapid growth has led to concerns such as mis-selling, data-privacy breaches, unfair practices, opaque interest rates and fees, and unethical recovery methods, especially with the involvement of third-party lending service providers (LSPs). To safeguard public confidence, improve transparency and ensure responsible conduct, the Reserve Bank issued the Digital Lending Directions on May 8, 2025, consolidating all earlier regulatory instructions on digital lending (subsequently consolidated under Directions on Credit Facilities issued on November 28, 2025). The Directions introduced two new measures: (i) LSPs partnering with multiple REs must present loan offers in an unbiased manner to allow borrowers to compare them objectively to enhance borrower choice, ensure fair competition among lenders, and reduce the risk of biased product placement; and (ii) creation of a central directory of digital lending apps to help borrowers verify their legitimacy and association with REs and curb fraudulent practices.

3.7 Lending Against Gold and Silver Collateral

III.20 In order to address prudential and conduct-related gaps across REs and move towards a principle-based and harmonised framework, the Reserve Bank issued the Lending Against Gold and Silver Collateral Directions on June 6, 2025. For improving credit availability to borrowers requiring small value loans, the regulatory ceilings on loan-to-value (LTV) ratio for consumption loans against gold and silver collaterals were recalibrated. The previous LTV ceiling of 75 per cent was increased to 85 per cent for loans up to ₹2.5 lakh, and to 80 per cent for loans above ₹2.5 lakh but up to ₹5 lakh, while retaining the earlier limit of 75 per cent for loans above ₹5 lakh. The specific limits on amount of bullet repayment of loans against

[3] The runoff factor represents the estimated percentage of deposits a bank expects to be withdrawn or transferred during a period of stress.

gold collateral earlier applicable to co-operative banks and RRBs were removed.

III.21 To support borrowers engaged in industries using gold as input and to widen access to credit, the Reserve Bank amended the Lending Against Gold and Silver Collateral Directions on September 29, 2025. While banks are generally prohibited from lending for purchase of gold or lending against the collateral of primary gold/silver, earlier guidelines permitted SCBs to grant need-based working capital loans to jewellers. The Reserve Bank has extended the permission further to Tier 3 and 4 UCBs to provide need-based working capital finance to borrowers who use gold or silver as a raw material, or as an input in their manufacturing or industrial processing activity.

3.8 Know Your Customer Amendments

III.22 In order to further ease the process of know your customer (KYC) updation for the customers, the Reserve Bank amended the KYC Directions on June 12, 2025. In respect of an individual customer, who is categorised as low risk, the RE shall allow all transactions and ensure the updation of KYC within one year of its due date for KYC or by June 30, 2026, whichever is later. Accounts of such customers shall be subjected to regular monitoring. Banks are allowed to use business correspondents (BCs) to obtain self-declarations from the customers in case of no change in KYC or change only in the address details, either electronically after biometric e-KYC authentication or in physical form until electronic options are available, with BCs providing acknowledgment and banks retaining ultimate responsibility. Additionally, the REs must send at least three advance notices, including one by letter, before the KYC due date, and at least three reminders after the due date, with easy to understand instructions for updating KYC, escalation options for seeking help and consequences of non-compliance, ensuring all communications are recorded, with implementation required by January 1, 2026. Banks are advised to organise camps and launch intensive campaigns, particularly in rural and semi-urban branches to clear the large pendency in periodic updation of KYC accounts.

III.23 To ease the process for customers, especially those with direct benefit transfers (DBT)/electronic benefit transfer (EBT), *Pradhan Mantri Jan-Dhan Yojana* (PMJDY), and scholarship accounts, the Reserve Bank amended instructions on updation/periodic updation of KYC on June 12, 2025. The revised framework allows BCs to assist in KYC updation, in addition to existing options such as *Aadhaar* OTP, DigiLocker, video customer identification process (V-CIP), and self-declarations through digital and non-digital channels.

III.24 To further enhance accessibility, inclusivity, and clarity in KYC compliance, the Reserve Bank issued amendments to the KYC Directions again in August 2025. The key changes include: (i) REs to ensure that onboarding or KYC updation applications are not rejected without due consideration and reasons for rejection are duly recorded; (ii) extending the reliance on customer due diligence done by a third party for occasional transactions of ₹50,000 or more and any international money transfers; (iii) mentioning Aadhaar Face Authentication as one of the modes of Aadhaar e-KYC authentication; and (iv) ensuring liveness checks during V-CIP shall not exclude persons with special needs.

3.9 Inoperative Accounts/ Unclaimed Deposits in Banks

III.25 The Reserve Bank amended its instructions on inoperative accounts and unclaimed deposits on June 12, 2025. Banks must now allow customers to update KYC for reactivating such accounts at all branches (including non-home branches), and also provide the option of video KYC (V-CIP). Banks may use authorised BCs to facilitate KYC updation for activation of these accounts.

III.26 To further the objective of reducing the stock of unclaimed deposits and fresh accretion to the Depositor Education and Awareness (DEA) Fund, the Reserve Bank, on September 30, 2025, launched the Scheme for Facilitating Accelerated Payout – Inoperative Accounts and Unclaimed Deposits, for a period of one year from October 1, 2025 to September 30, 2026. During this period, banks will be eligible for differential pay-out based on period of inoperativeness of account and amount of unclaimed deposits, for the inoperative accounts reactivated and unclaimed deposits paid to rightful claimants.

3.10 Pre-payment Charges on Loans

III.27 To ensure affordable and transparent financing for micro and small enterprises (MSEs) and prevent divergent practices and restrictive clauses by REs that cause customer grievances, the Reserve Bank issued the Pre-payment Charges on Loans Directions, 2025 on July 2, 2025, to be applicable in case of loans and advances sanctioned or renewed on or after January 1, 2026. Under these Directions, the REs shall, *inter alia*, adhere to the following Directions for floating rate loans and advances: (i) no pre-payment charges on loans granted to individuals for non-business purposes; and (ii) no pre-payment charges on loans granted by specified categories of REs for business purposes to individuals and MSEs subject to the threshold limit (*e.g.*, loans up to ₹50 lakh for small finance banks (SFBs), RRBs, rural co-operative banks (RCBs), NBFCs-Middle Layer and Tier 3 urban co-operative banks (UCBs)).

3.11 Investment in Alternative Investment Fund

III.28 To update and streamline regulatory guidelines for investments by REs in alternative investment funds (AIFs), the Reserve Bank issued Directions on July 29, 2025. Key provisions of the directions include: (i) individual RE contributions to an AIF scheme cannot exceed 10 per cent of its corpus, and collective contributions by all REs shall not exceed 20 per cent; (ii) if an RE invests over five per cent in an AIF scheme that has downstream non-equity exposure to the RE's debtor company, it must make 100 per cent provisioning for the proportionate exposure, capped at the direct exposure amount; and (iii) if the RE's contribution is in the form of subordinated units, the entire investment must be deducted from its capital funds, proportionately from both Tier 1 and Tier 2 capital, wherever applicable.

3.12 Co-Lending Arrangements

III.29 In order to provide a clear regulatory framework and broaden the scope of co-lending arrangements (CLAs) between REs, the Reserve Bank issued the Co-Lending Arrangements Directions on August 6, 2025. These Directions, effective January 1, 2026, aim to ensure prudential and conduct standards, transparency, and operational clarity. Key measures include: (i) expanding the co-lending framework to all loans – priority sector lending (PSL) or otherwise; (ii) reducing minimum loan retention by the originating lender from 20 per cent to 10 per cent; (iii) permitting default loss guarantee cover up to 5 per cent of outstanding loans; and (iv) mandating transfer of loan exposures within 15 days to avoid regulatory arbitrage. The Directions also strengthen borrower safeguards and market discipline. Collectively, these measures aim to encourage growth of the co-lending market while improving underwriting standards, ensuring transparency, and preventing misuse of co-lending structures.

3.13 Non-Fund Based Credit Facilities

III.30 To harmonise and consolidate guidelines on non-fund based (NFB) credit facilities such as guarantees, letters of credit, and co-acceptances as well as to broaden funding sources for infrastructure financing, the Reserve Bank issued the Directions on Non-Fund Based Credit Facilities on August 6, 2025. This framework explicitly recognises electronic guarantees and also introduces prudential safeguards, including specific limits on the issuance of guarantees by co-operative banks, RRBs and LABs. Key changes with regard to partial credit enhancement (PCE) guidelines include expansion of scope and rationalisation of the capital requirements for PCE to balance prudential oversight with market development.

3.14 Framework for Formulation of Regulations

III.31 To ensure that the formulation and amendment of regulations[4] follow a transparent, consultative, and standardised approach, the Reserve Bank issued Framework for Formulation of Regulations on May 7, 2025. The framework establishes broad principles for drafting, amending, and reviewing regulations by the Reserve Bank. Key processes include: (i) public consultation through issuance of a draft and a statement of particulars highlighting, *inter alia*, the objective of the regulation; (ii) impact analysis (to the extent feasible); (iii) issuance of general statement of response to the public comments received; and (iv) periodic review taking into account aspects such as the stated objectives, experience gained, relevance in a changed environment and the scope for reducing redundancies.

3.15 Nomination Facility Directions

III.32 To align the regulatory instructions on nomination facility with amendments in the Banking Regulation Act, 1949 and Nomination Rules, the Reserve Bank issued Nomination Facility in Deposit Accounts, Safe Deposit Lockers and Articles kept in Safe Custody with the Banks Directions on October 28, 2025. Under these Directions, all banks are required to offer nomination facility and must inform customers about the facility, record and acknowledge nominations after due verification within three working days of receiving the application form, and display “Nomination Registered” with nominee details in passbooks /statement of account /term deposit receipt.

3.16 Settlement of Claims in Respect of Deceased Customers of Banks

III.33 To reduce distress and inconvenience faced by the families of deceased customers and to simplify procedures for settlement of claims, the Reserve Bank issued Settlement of Claims in respect of Deceased Customers of

4 For the purpose of this Framework, “Regulations” include all regulations, directions, guidelines, notifications, orders, policies, specifications, and standards as issued by the Bank in exercise of the powers conferred on it by or under the provisions of the Acts and Rules.

Banks Directions on September 26, 2025. For accounts with a valid nomination or survivorship clause, banks shall pay balances directly to the nominee or survivor without requiring legal documentation such as Succession Certificates, Letter of Administration, Probate of Will, provided identity of the nominee /survivor and deceased status of the customer are verified and no court order restrains the bank from making or nominee /survivor from receiving the payment. For accounts without nominee / survivorship clause, banks shall set a threshold limit as prescribed in the circular or a higher limit as may be decided by them for settlement of claim. Further, documents as prescribed in the circular shall be obtained instead of being left to the discretion of the banks. Access to safe deposit lockers and articles kept in safe custody follows similar simplified rules. Banks must settle claims within 15 calendar days otherwise compensation shall be paid to the claimant.

3.17 Guidelines on Settlement of Dues of Borrowers by Asset Reconstruction Companies

III.34 A comprehensive review of the extant guidelines applicable to one-time settlement (OTS) of dues by asset reconstruction companies (ARCs) was undertaken and revised guidelines were issued on January 20, 2025. These guidelines, *inter alia*, prescribe that: (i) settlement should be done with the borrower after all possible ways to recover the dues have been examined and OTS is considered to be the best option available; (ii) settlement of accounts having aggregate outstanding value of more than ₹1 crore as well as of all accounts of borrowers classified as fraud or wilful defaulter should be done after the proposal is examined by an independent advisory committee (IAC) of professionals followed by a review by the Board of Directors comprising at least two independent directors; and (iii) settlement of accounts having aggregate outstanding value of less than ₹1 crore shall be done as per the Board approved policy, subject to the condition that any official who was part of the acquisition of the concerned financial asset shall not be part of processing/ approving the OTS proposal of the same financial asset.

3.18 Interest Rate on Advances

III.35 To benefit the borrowers, while providing greater flexibility to the lenders, the Reserve Bank revised the framework governing floating rate loans *vide* amendment to the Interest Rate on Advances Directions on September 29, 2025. Previously, while floating rate retail and micro, small and medium enterprise (MSME) loans were benchmarked to an external benchmark, banks could alter the spread components (other than credit risk premium) in such interest rates only once in three years. Further, the REs were mandated to offer borrowers the option to switch to fixed rates in respect of equated monthly instalments (EMI) based personal loans at the time of reset of interest rates. The amendment allows banks to reduce the other spread components earlier than three years for customer retention, on justifiable grounds, in a non-discriminatory manner, and in terms of the bank's policy. Further, REs may, at their option, provide a choice to the borrowers to switch over to a fixed rate at the time of reset, as per their Board approved policy.

3.19 Basel III Capital Regulations – Additional Tier 1 Capital Perpetual Debt Instruments Limit

III.36 To provide greater headroom to banks for augmenting their Tier 1 capital *via* overseas markets, the Reserve Bank revised the existing eligible limit applicable to perpetual debt instruments denominated in foreign currency/ rupee denominated bonds on September 29, 2025.

3.20 Gold Metal Loans

III.37 With a view to harmonising the extant Gold Metal Loan (GML) scheme, across eligible borrower segments, and providing more operational freedom to banks, the Reserve Bank has issued a comprehensive and principle-based regulations on GML on December 04, 2025[5] after the requisite public discussion. The key changes include: (i) permitting a bank to fix repayment tenor for GML to jewellers (other than jewellery exporters) as per its policy, in alignment with working capital cycle of the jeweller, subject to a ceiling of 270 days (revised from the existing 180 days); and (ii) expanding eligibility by permitting GML to jewellers who are not manufacturers themselves but outsource their manufacturing of jewellery on job basis to manufacturing firms /artisans / goldsmiths.

3.21 Large Exposures Framework and Intra-group Transactions and Exposures

III.38 In order to clarify prudential treatment of exposures of foreign bank branches in India to their head offices and other group entities, as also to harmonise certain norms under the large exposures framework (LEF) and intra-group transactions and exposures (ITE), the Reserve Bank on December 4, 2025 issued Commercial Banks – Concentration Risk Management Amendment Directions. The key changes include: (i) exposures of Indian branches of foreign banks to distinct legal entities within their own group shall be reckoned under ITEs. Further, exposures of Indian branches of foreign banks to their Head Office shall be reckoned under LEF and such exposures, centrally cleared or otherwise shall be considered on a gross basis; (ii) extension in the scope of credit risk mitigation (CRM) benefit for all exposures of foreign bank branches to their Head Office; (iii) alignment of ITE computation with LEF by permitting use of credit conversion factors and CRM offsets; and (iv) linking the ITE threshold to Tier 1 capital instead of paid-up capital and reserves.

3.22 Digital Banking Channels Authorisation

III.39 Recognising the growing importance of internet and mobile banking services and to facilitate the growth of digital banking services, a consolidated and updated framework for launching Digital Banking Channels for REs was issued on November 28, 2025.

3.23 Instructions on the Forms of Business and Investments by Banks

III.40 Keeping in view the need to ring fence banks from risk bearing activities as well as to have a streamlined bank group structure, final instructions on the Forms of Business and Investments by Banks were issued on December 5, 2025. The key provisions include: (i) insertion of the principle that each line of business shall preferably be carried out by a single entity in the bank group; (ii) prescription of specific conditions for group entities of banks undertaking lending business; (iii) requirement of framework for group-wide capital planning and allocation by banks; (iv) relaxation in general permission limit for undertaking investment in an entity by the

5 Reserve Bank of India (Commercial Banks - Credit Facilities) Amendment Directions, 2025 and Reserve Bank of India (Small Finance Banks - Credit Facilities) Amendment Directions, 2025.

bank group (with or without investment by the bank); and (v) limiting sponsorship of a bank for ARCs to one ARC, with aggregate shareholding of a bank group in an ARC restricted to less than 20 per cent.

3.24 Transaction Account Directions

III.41 In order to enforce credit discipline among borrowers as well as to facilitate better monitoring by lenders, restrictions were placed on the operation of transaction accounts[6], for ensuring that cashflows of borrowers are routed through the lending bank(s). The instructions were reviewed to rationalise and simplify the restrictions while maintaining their underlying intent. Final guidelines were issued by the Reserve Bank in this regard on December 11, 2025. As cash credit account is primarily a working capital facility, no restrictions are placed on such accounts. Further, banks having minimum 10 per cent share either in banking system's aggregate exposure to the borrower; or in banking system's aggregate fund-based exposure to the borrower[7] can maintain current accounts and overdraft accounts without restrictions.

3.25 Withdrawal of Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism

III.42 The Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism were introduced in August 2016 with an objective to address the concentration risk arising from the aggregate credit exposure of the banking system to a single large corporate and encourage such large corporates to diversify their funding requirements. Upon a review, considering, *inter alia,* the changes evident in the profile of bank funding to the corporate sector since the introduction of the guidelines, it was proposed to withdraw the guidelines on October 1, 2025. After examination of the stakeholder's feedback, it was decided to repeal the extant instructions on Market Mechanism Framework on December 4, 2025. While the Large Exposures Framework addresses concentration risk at an individual bank-level, concentration risk at the banking system level will be monitored and managed as part of financial stability surveillance.

Non-Banking Financial Companies

3.26 Review of Qualifying Assets Criteria for Non-Banking Financial Companies – Microfinance Institutions

III.43 Based on recent developments in the microfinance sector, feedback from the industry, and to allow non-banking financial companies – microfinance institutions (NBFC-MFIs) to diversify their assets into relatively less vulnerable sectors, the Reserve Bank revised the qualifying asset (QA) criteria for NBFC-MFIs from the earlier prescription of 75 per cent of total assets to 60 per cent of total assets (netted off by intangible assets) on June 6, 2025.

Co-operative Banks

3.27 Review and Rationalisation of Prudential Norms of Urban Co-operative Banks

III.44 With a view to enhancing the credit flow to individual housing loans while balancing the exposures to riskier real estates, prudential

6 Current accounts, cash credit accounts and overdraft accounts are collectively referred to as transaction accounts.

7 These conditions are applicable for customers to whom the exposure of the banking system is ₹10 crore or more, while in case of less than ₹10 crore aggregate exposure, bank can maintain current account or overdraft account without any restrictions.

limits and reference parameter of UCBs' loans to real estate exposures were rationalised on February 24, 2025. The prudential ceilings on a UCB's aggregate exposures to 'non-priority sector housing loans to individuals', and 'real estate sector – excluding housing loans to individuals' were revised to 25 per cent and 5 per cent, respectively, of its total loans and advances from the previous aggregate ceiling of 10 per cent of total assets for all real estate exposures. No aggregate exposure limit is prescribed for housing loans to individuals eligible to be classified as priority sector. The limits on quantum of individual housing loans offered by Tier 3 and Tier 4 UCBs were enhanced to ₹2 crore and ₹3 crore, respectively, from the previous limit of ₹1.40 crore. The capital-linked monetary ceiling for a small value loan of a UCB was also increased from 0.2 per cent to 0.4 per cent of its Tier 1 capital, while simultaneously increasing the static cap on such loans from ₹1 crore to ₹3 crore. It will be pertinent to mention that UCBs are required to have at least 50 per cent of their aggregate loans and advances comprising of small value loans by March 31, 2026.

3.28 Business Authorisation for Co-operative Banks

III.45 To harmonise the framework for authorisation, regulation, and reporting of business activities of UCBs, state co-operative banks (StCBs), and district central co-operative banks (DCCBs), the Reserve Bank issued the Urban Cooperative Banks – Branch Authorisation Directions, 2025 and Rural Cooperative Banks – Branch Authorisation Directions, 2025 on December 4, 2025. The Directions replaced the earlier financially sound and well managed (FSWM) criteria applicable to UCBs with new eligibility criteria for business authorisation (ECBA) and same was extended to RCBs as well. Accordingly, banks are required to maintain a capital to risk weighted assets ratio (CRAR) of at least one percentage point above the regulatory minimum, net non-performing assets (NPAs) of not more than 3 per cent and net profits during the preceding two financial years, adhere to CRR/ statutory liquidity ratio (SLR) prescriptions, and implement core banking solution (CBS) and governance standards.

III.46 UCBs are categorised into four tiers based on deposit size, with higher tiers subject to stricter prudential norms. Large UCBs in Tier 3 and 4, with minimum assessed net worth of ₹50 crore and ECBA compliance, were allowed to expand their operations beyond their state, that is, up to two states per year subject to Reserve Bank's approval along with sufficient headroom capital for at least five branches in each proposed state. Further, each UCB was allowed to extend to whole of its district and extend to up to three additional districts within the state of registration if ECBA-compliant, without prior approval.

3.29 Climate Change Risks

III.47 The regulatory landscape for climate change risks is evolving considering the global developments as well as the maturity of the domestic ecosystem. In this regard, the Reserve Bank is following a building block approach, focusing on development of specific capacities and technical expertise in the REs. Towards this end, extensive stakeholder discussions and capacity building initiatives were carried out over the year, which also included sensitising the board members and top management of the REs. The work regarding the operationalisation of Reserve Bank – Climate Risk Information System (RB-CRIS)[8] is underway.

4. Technological Innovations

III.48 The Reserve Bank introduced a series of technological advancements during the review period to strengthen and modernise the financial system. Key measures included: (i) the release of the framework for responsible and ethical enablement of artificial intelligence (AI) to promote safe and transparent adoption of artificial intelligence in financial services; (ii) the rollout of PRAVAAH, a unified web-based portal digitising all regulatory applications; and (iii) the introduction of exclusive internet domains like .bank.in and .fin.in to curb cyber fraud. Further, in order to strengthen the minimum two factor authentication framework and encourage innovation, the Reserve Bank issued a principle-based authentication framework, which will come into effect from April 1, 2026. Together, these efforts reflect the Reserve Bank's commitment to fostering a secure, seamless, and inclusive digital economy in India.

4.1 Framework for Responsible and Ethical Enablement of AI

III.49 The Reserve Bank released the Framework for Responsible and Ethical Enablement of AI (FREE-AI) on August 13, 2025, outlining a comprehensive approach to foster responsible and ethical adoption of AI in financial services, balancing innovation with risk mitigation. AI is recognised as a transformative technology, offering benefits in financial inclusion, efficiency, and customer service, while posing risks like bias, opacity, cybersecurity threats, and data privacy concerns. To guide AI adoption, the FREE-AI Committee conducted surveys, stakeholder consultations, and developed seven Sutras – Trust, People First, Innovation over Restraint, Accountability, Fairness & Equity, Understandable by Design, and Safety, Resilience & Sustainability – serving as core principles.

III.50 The Framework promotes innovation through three pillars — Infrastructure, Policy, and Capacity — including initiatives such as shared financial sector data platforms, AI innovation sandboxes, indigenous sector-specific AI models, integration with digital public infrastructure (DPI), funding support, and capacity-building programmes for both REs and the regulators. To mitigate risks, it establishes governance, protection, and assurance measures: Board-approved AI policies, data lifecycle and model governance, AI-specific product approvals, cybersecurity, red-teaming, business continuity planning, incident reporting, AI inventories, audits, and public disclosures.

III.51 Two distinct surveys conducted by the Reserve Bank revealed limited AI adoption among smaller UCBs, NBFCs, and ARCs, primarily using simple rule-based or moderately complex machine learning (ML) models, with larger banks exploring early-stage AI applications. Adoption barriers include high costs, talent gaps, insufficient data, and supportive infrastructure, while inclusion-oriented use cases show potential in alternate credit scoring, multilingual chatbots, automated KYC and agent banking.

4.2 Platform for Regulatory Application, Validation and AutHorisation (PRAVAAH)

III.52 PRAVAAH, a secure, centralised web-based portal for digitising the submission

8 To bridge climate-related data gaps and enable comprehensive climate risk assessments by the REs, RBI announced creation of a data repository, *viz.*, Reserve Bank – Climate Risk Information System (RB-CRIS) in October 2024.

and processing of applications, requests and references from REs and individuals was successfully launched on May 28, 2024, to ensure seamless and faster delivery of services in a transparent manner. It is integrated with *Sarthi*, the internal workflow application of the Reserve Bank, thereby ensuring end-to-end digitisation of the entire processing lifecycle of applications. PRAVAAH has facilitated ease of doing business for the REs and individuals. The Reserve Bank had mandated that from May 1, 2025, all REs must submit applications for regulatory authorisations, licenses, and approvals exclusively through the PRAVAAH portal. As on December 18, 2025, forms pertaining to 191 services are available in PRAVAAH.

4.3 Exclusive Internet Domains –.bank.in and .fin.in

III.53 To combat the rising instances of fraud in digital payments, an exclusive internet domain for Indian banks in the form of '.bank.in' was introduced on April 22, 2025, with a proposal to later extend it to non-bank entities in the financial sector through '.fin.in'. These domains aim to help customers identify legitimate bank websites and reduce the risk of phishing and other cyberattacks. As of December 1, 2025, 638 banks have initiated the process of obtaining the domain, of which 479 banks have migrated to the '.bank.in' domain.

4.4 Authentication Mechanisms for Digital Payment Transactions

III.54 To strengthen the safety and resilience of India's growing digital payments ecosystem, the Reserve Bank issued the Authentication Mechanisms for Digital Payment Transactions Directions on September 25, 2025. Effective April 1, 2026, the Directions require that at least one of the factors of authentication is dynamically created or proven. It emphasises robustness, interoperability, and risk-based checks, while making issuers fully liable for customer losses in case of non-compliance. It also mandates compliance with the Digital Personal Data Protection Act, 2023 and introduces mechanisms for validating cross-border card-not-present transactions, thereby enhancing both security and trust in digital transactions.

5. Financial Markets

III.55 Financial markets in India play a pivotal role in the country's economic development by facilitating efficient mobilisation and allocation of capital. By providing avenues for investment and liquidity, financial markets contribute to price discovery, risk management, and long-term capital formation. Furthermore, they support economic growth by encouraging savings, enhancing financial inclusion, and enabling businesses to raise funds for expansion. As India continues to liberalise and digitalise its financial ecosystem, the significance of well-regulated and deep financial markets becomes increasingly central to sustaining inclusive and resilient economic progress. In this direction, the Reserve Bank has continued to advance efforts to deepen and develop financial markets by simplifying regulations and encouraging innovations.

5.1 Repurchase Transactions (Repo) Directions

III.56 The extant directions on repo transactions included government securities issued by the central and state Governments, listed corporate bond and debentures, commercial papers, certificate of deposits and units of debt ETFs as eligible securities. On a review, municipal debt securities have been included as eligible securities for repo transactions. This would help improve the liquidity of such securities and provide a fillip to the market for municipal bonds while also adding to the suite of instruments available for the repo and reverse repo markets.

5.2 Review of the Regulatory Framework for Electronic Trading Platforms

III.57 Strengthening the regulatory framework for electronic trading platforms, the Master Directions on Electronic Trading Platforms, issued on June 16, 2025, replaced the 2018 framework facilitating transactions in eligible instruments like securities, money market instruments, foreign exchange instruments, and derivatives, on any electronic system excluding recognised stock exchanges. The framework prescribes detailed requirements for operations, risk management, and compliance, including fair access rules, due diligence in onboarding, transparent pre-trade and post-trade disclosures, dispute resolution, surveillance, information security, annual information technology (IT)/ information systems (IS) audits, business continuity planning, and strict data preservation norms. The framework also streamlines authorisation, adapts to emerging technologies like algorithmic trading, and balances regulatory oversight with operational flexibility for exempt entities.

5.3 Access of SEBI-registered Non-bank Brokers to Negotiated Dealing System-Order Matching

III.58 With a view to widening access, non-bank brokers registered with SEBI have been granted direct access to Negotiated Dealing System-Order Matching (NDS-OM) for secondary market transactions in government securities on behalf of their clients. These brokers may access NDS-OM subject to the regulations and conditions laid down by the Reserve Bank in this regard.

5.4 Introduction of Forward Contracts in Government Securities

III.59 To enable long-term investors such as insurance funds to manage their interest rate risk across interest rate cycles, forward contracts in government securities have been introduced, which will also facilitate efficient pricing of derivatives that use bonds as underlying instruments.

5.5 Investments by Foreign Portfolio Investors in Corporate Debt Securities through the General Route – Relaxations

III.60 To provide greater ease of investment to foreign portfolio investors (FPIs), the Reserve Bank, on May 8, 2025, announced relaxations for FPIs investing in corporate debt securities under the General Route. Specifically, the requirement to adhere to the short-term investment limit and the concentration limit in debt instruments, has been withdrawn with immediate effect.

5.6 Extension of Market Timings for Money Market Segments

III.61 With a view to facilitating market development, enhancing price discovery, and optimising liquidity requirements, the Reserve Bank announced changes in the market timings of both the collateralised and uncollateralised segments of the money market. The market trading timings for call money transactions have been extended from 5:00 PM to 7:00 PM with effect from July 1, 2025, and for market repo and triparty repo (TREP) transactions, from 2:30 PM/3:00 PM to 4:00 PM with effect from August 1, 2025.

6. Consumer Protection

III.62 The Reserve Bank's customer protection policies reinforced its commitment to safeguarding consumer rights, improving service quality, enhancing awareness, and ensuring robust grievance redressal, with focus on combating emerging digital frauds. For consumer awareness, the Reserve Bank has been undertaking several initiatives including conducting town-hall meetings and awareness programmes, with a focus on specific groups such as students, senior citizens and women, and distributing awareness booklets to the trainees of Rural Self Employment Training Institutes (RSETIs) through their sponsor banks.

6.1 Institutional Safeguards against Voice and SMS Financial Frauds

III.63 To prevent financial frauds using voice calls and SMS, the Reserve Bank issued guidelines on January 17, 2025, directing all REs to strengthen safeguards against misuse of customer mobile numbers in frauds. REs were advised to utilise the mobile number revocation list on the Digital Intelligence Platform (DIP) of the Department of Telecommunications (DoT) to monitor and clean customer databases. REs were required to develop standard operating procedure (SOP) to, *inter alia*, verify and update registered mobile numbers, and enhance monitoring of accounts linked to revoked numbers to prevent fraudulent activities. REs were also advised to share their verified customer care numbers to DIP to be published on "*Sanchar Saathi*" Portal, to use only '1600xx' numbering series to undertake service/transactional calls and '140xx' numbering series for promotional calls, follow Telecom Regulatory Authority of India (TRAI) commercial communication guidelines, and undertake extensive awareness measures.

7. Credit Delivery and Financial Inclusion

III.64 The Reserve Bank has consistently recognised that meaningful financial inclusion requires both access and awareness. Accordingly, the Reserve Bank has undertaken several financial literacy initiatives to strengthen the demand side of inclusion. These include financial literacy camps conducted through Centres for Financial Literacy (CFLs) and the development and periodic updating of financial literacy content by the National Centre for Financial Education (NCFE), set up jointly by financial sector regulators. By promoting awareness alongside access, these initiatives aim to ensure responsible and equitable use of financial services, thereby reinforcing the broader financial inclusion agenda.

7.1 Voluntary Pledge of Gold and Silver – Agriculture and MSME Loans

III.65 The Reserve Bank, on December 6, 2024, announced an increase in the limit for collateral-free agriculture loans from ₹1.6 lakh to ₹2 lakh per borrower to enhance credit availability for small and marginal farmers. Further, to offer greater flexibility to farmers seeking to improve their credit worthiness by utilising their available assets, it was clarified on July 11, 2025 that the voluntary pledge of gold and silver as collateral for agriculture and MSME loans up to the collateral-free limit will not be considered a breach of the guidelines on collateral-free lending to the agriculture and MSME sectors.

7.2 Priority Sector Lending

III.66 The Reserve Bank released revised priority sector lending (PSL) guidelines, effective from April 1, 2025, following a comprehensive review and stakeholder consultation. Key changes include enhanced loan limits across several categories — particularly housing — to expand PSL coverage, broader eligibility for loans under the 'Renewable Energy' segment, and a revised overall PSL target of 60 per cent of adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposures (CEOBSE) (whichever is higher) for UCBs. Additionally, the guidelines expand the list of eligible borrowers under the 'Weaker Sections' category and remove the cap on loans extended by UCBs to individual women beneficiaries. These revisions aim to improve the targeting and flow of bank credit to critical sectors of the economy.

III.67 The Reserve Bank revised the PSL norms for small finance banks (SFBs), to be effective from financial year 2025-26. Under the new framework, the overall PSL obligation for SFBs is reduced from 75 per cent to 60 per cent of ANBC or CEOBSE, whichever is higher. The SFBs shall continue to allocate 40 percent of its ANBC or CEOBSE, whichever is higher, to different sub-sectors under PSL, such as agriculture, MSMEs, housing, and weaker sections *etc.*, as per the extant PSL prescriptions. The remaining 20 per cent, replaces the earlier 35 per cent flexible allocation, which can be allocated to any PSL categories where the bank has a competitive edge.

8. Payment and Settlement Systems

III.68 The Reserve Bank has been at the forefront of enhancing the payment and settlement system through technology-driven innovations, accessibility measures, and global outreach initiatives. The Reserve Bank strengthened digital payment security and efficiency of payment systems through comprehensive regulation of payment aggregators, mandating due diligence for Aadhaar Enabled Payment System (AePS) operators, beneficiary name verification for real-time gross settlement (RTGS) and national electronic funds transfer (NEFT), continuous cheque clearing and UPI access for full-KYC prepaid payment instruments through third-party applications. As a part of efforts to address the challenges of high cost, slow speed, and insufficient access and transparency in cross-border payments, the global reach of UPI is being expanded through bilateral and multilateral linkages for cross-border remittances, Quick Response (QR) code based acceptance of UPI at merchant locations abroad and collaboration with partner jurisdictions to deploy UPI-like sovereign payment systems. Further, RuPay technology stack is also offered to other countries for development of their sovereign domestic card scheme. These sustained efforts reflect a strategic vision of building an integrated, resilient, and globally connected digital payments ecosystem.

8.1 Regulation of Payment Aggregator

III.69 To enhance governance, transparency, and security of payment aggregators, the Reserve Bank issued the Master Direction on Regulation of Payment Aggregators (PAs) on September 15, 2025. This consolidates prior guidelines on PA and cross-border operations and establishes a comprehensive regulatory framework for all bank and non-bank entities engaged in payment aggregation in India. It establishes a rigorous authorisation process with eligibility criteria, minimum capital, governance standards, and fit-and-proper tests to allow only credible and financially sound entities to operate. PAs must conduct thorough KYC and AML checks on merchants to prevent fraud and protect consumer trust, while escrow account operations are regulated to ensure proper usage, accounting, reporting, and liquidity management.

8.2 Aadhaar Enabled Payment System (AePS) *– Due Diligence of AePS Touchpoint Operators*

III.70 Aadhaar Enabled Payment System, operated by National Payments Corporation of India (NPCI), enables interoperable banking transactions using Aadhaar authentication. To enhance the security and integrity of AePS transactions, it was considered necessary to specifically recognise AePS Touchpoint Operators (ATOs), streamline their onboarding, and strengthen risk management practices. Accordingly, on June 27, 2025, the Reserve Bank issued Directions mandating stricter due diligence and risk management for ATOs to be effective from January 1, 2026. Acquiring banks must conduct full KYC of ATOs (or adopt existing KYC, if already done by BCs /sub-agents), ensure periodic updates, and re-do KYC if an ATO remains inactive for over three months. Banks are also required to continuously monitor ATOs' activities through transaction monitoring systems, set and periodically review operational parameters (such as location, transaction volume and velocity), and strengthen fraud risk management measures. These measures aim to enhance security, prevent fraud, and protect customer trust in AePS.

8.3 Introduction of Beneficiary Account Name Look-up Facility

III.71 To reduce errors and prevent frauds in electronic fund transfers, the Beneficiary Account Name Look-up Facility for RTGS and NEFT was implemented. The Reserve Bank advised all banks to provide the facility to their customers through mobile app and net banking. Like the facility already available in UPI and immediate payment service (IMPS), this facility allows remitters to verify the beneficiary's account name before initiating a payment transaction. The facility, developed by NPCI, has been designed to fetch the account name from the beneficiary bank's core banking solution (CBS) based on the account number and Indian financial system code (IFSC) entered by the remitter.

8.4 Continuous Clearing of Cheques under Cheque Truncation System

III.72 With the objective of making cheque clearing faster and reducing settlement risks, continuous clearing and settlement on realisation was implemented in cheque truncation system (CTS), with phase 1 of the project going-live on October 4, 2025. Under this, cheques are scanned, presented, and passed in a few hours and on a continuous basis during business hours, instead of the batch processing approach followed earlier. Settlements occur based on positive or deemed confirmations, while dishonoured cheques are not settled. Once settlement is complete, presenting banks must credit customer accounts immediately, and no later than one hour after settlement.

8.5 UPI Access for Prepaid Payment Instruments through Third-party Applications

III.73 The Reserve Bank allowed full-KYC prepaid payment instrument (PPI) holders to make/receive UPI payments through third-party UPI applications. While UPI payments from bank accounts can be made by linking a bank account through the UPI App of the bank or using any third-party UPI application, the same facility was not available for PPIs. PPIs could be used to make UPI transactions only by using the application provided by the PPI issuer. Discovery and linking of full-KYC PPIs has now been permitted on third party UPI applications.

9. Overall Assessment

III.74 The Indian financial sector is undergoing a transformative phase, shaped by evolving market dynamics, technological innovations, and increasing sophistication of consumers and businesses. The Reserve Bank's policy measures aimed at strengthening the resilience and competitiveness of banks, enhancing credit flow, improving ease of doing business, promoting consumer protection, and further internationalising the Indian Rupee.

III.75 In the current uncertain global environment, these initiatives will support the ability of regulated entities to finance productive economic activities, manage risk prudently, and respond effectively to emerging challenges and opportunities. By aligning regulatory practices with international standards while adapting to India's national priorities, the Reserve Bank seeks to foster a robust, inclusive, and efficient financial system, ensure financial stability, bolster public confidence, and promote sustainable growth.