

"Integrity and quality of governance are key to good health and robustness of banks and NBFCs"
– Shaktikanta Das, Governor Reserve Bank of India

Internal Audit Function in Banks

Continuing in its regulatory focus around strengthening controls, compliance and governance in banks, the RBI has now turned its attention onto the in-house internal audit function in banks, mandating key standards that align with global best practices and ensure the required empowerment, status, independence and objectivity for the function.

Regulatory Framework for NBFCs

Recognising the increasing systemic risks that the bank-like or systemically important NBFCs pose, the proposed approach envisages holding such NBFCs to regulatory standards and supervisory focus that otherwise apply to banks in the country. While these "upper layer" NBFCs will see capital, leverage, exposure norms and listing/ governance requirements similar to the banks, the next "middle layer" NBFCs will also see a real reduction in the regulatory and governance arbitrage that they currently enjoy over the banks.

SEBI to reprise the role of KRAs in centralisation of KYC

In order to standardize the KYC process, to make the KYC process more robust, avoid duplication and save cost to market intermediaries, SEBI is proposing that KRAs centrally take ownership of the KYC process. At present the KYC process in the securities market is undertaken by market intermediaries and KYC information is uploaded to the central KRA database. While this proposal is being seen as a welcome change that will enhance quality and efficiency, there are fears that the turnaround time may be much more affecting onboarding and transactions that may be sensitive to market timelines...unless KRAs commit to the required TAT discipline.

Grievance Redress Mechanism

Strengthening the customer grievance redress mechanism in banks further, RBI now requires, inter-alia, enhanced /granular disclosures on customer complaints, recovery of cost of redress incurred by the Banking Ombudsman in excess of the peer group average, intensive review of the grievance redress mechanism and supervisory action where improvements are not timely.

Digital lending under the microscope

Even as digital lending increasingly enables those with no/minimal access to credit, inappropriate lending and recovery practices by the mushrooming app based lenders have led to significant pain and victimisation of affected small borrowers. Recognizing this, the RBI has constituted a Working Group to scrutinize all elements of digital lending with the objective of formalising an appropriate regulatory approach. It would appear that the RBI may now require NBFCs to exercise a greater degree of due diligence on their online lending partners and hold them to appropriate fair practice standards.

RBI Governor on Governance in banks/NBFCs

Speaking at the Nani Palkhivala Memorial Lecture January 16, 2021, the Governor emphasised-

- that effective risk management, compliance and assurance mechanisms underpin good governance
- the need to identify risks early and the role effective early warning systems and a forward looking stress testing can play.
- the role of the Board and senior management in instilling an appropriate risk and compliance culture.
- that cost of compliance should be perceived as an investment as any inadequacy in this regard will prove to be detrimental.
- that Internal Audit should provide independent evaluation and assurance to the Board on the functioning of the entity.

Besides recent measures by RBI to enhance effectiveness of compliance and internal audit in banks, some more measures on improving governance in banks and NBFCs are expected.

RBI on Payment Systems

RBI has issued its 3rd publication covering the journey of the Payment and Settlement System in India during 2010-2020. As the foreword to the booklet states Payment systems are not only the lifeline of an economy but increasingly a means of achieving financial inclusion.

It captures the transformation in the sphere of Payment and Settlement systems, the underpinning regulatory/legal environment, the institutional framework that laid its foundations, payment options available to customers, major milestones and the Road map ahead.

Stay tuned:

- ❖ Setting up of Bad Bank – To expedite resolution of stressed assets
- ❖ Foreign Direct Investment in the insurance sector is being raised to 74%
- ❖ One Country – One Securities Code – (Unifying Securities Law)
- ❖ Account holders to be allowed to withdraw up to deposit insurance limit of Rs. 5 Lakhs irrespective of the bank being placed under moratorium

Penalty Corner

RBI:

Standard Chartered was given a show cause notice and fined 2 Crores for delayed reporting of frauds to RBI and deficiencies in regulatory compliance.

The RBI imposed a monetary penalty of Rs. 2.5 Crores on **Bajaj Finance** for failure to ensure their recovery agents didn't resort to harassment or intimidation of customers.

Deutsche Bank was fined Rs. 2 Crores for non-compliance with the RBI directions on Interest Rate on Deposits.

SEBI:

SEBI imposed a penalty of **Rs. 1 Crore** on **HDFC Bank** for invoking pledged securities of stockbroker BRH Wealth Kretors, in violation of the regulator's interim orders.

Foreign Regulators:

The Central Bank of the United Arab Emirates levied a fine worth 6.8 million UAE dirhams (Rs 13.56 crores) on **Bank of Baroda's** GCC operations in Dubai for deficiencies in compliance with regulations relating to anti-money laundering, financing terrorism and illegal organization financing.