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India
Banking & Finance

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This country-specific Q&A provides an overview of banking & finance laws and regulations applicable in India.

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India: Banking & Finance

1. What are the national authorities for banking regulation, supervision and resolution in your jurisdiction?

The Reserve Bank of India ('**RBI**'), established under the Reserve Bank of India Act, 1934 ('**RBI Act**') is the apex financial institution in India and the primary regulator of banking activities within India. The RBI is responsible for regulating and supervising commercial banks, co-operative banks, non-banking financial institutions and other financial institutions under the RBI Act and the Banking Regulation Act, 1949 ('**BR Act**').

2. Which type of activities trigger the requirement of a banking licence?

Under the BR Act, a banking company is one which transacts the business of banking, which means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise. No company can carry on the business of banking in India unless it holds a licence issued in that behalf by the RBI. Further, a banking company can also undertake certain other activities such as borrowing, lending, investing and collecting and transmitting money and securities, agency business, trade finance and other activities that are permitted under the BR Act and directions issued by the RBI from time to time. It is pertinent to note that certain non-banking entities are also permitted to carry on the business of raising money from external sources and undertake lending or investment, which is regulated by the RBI under separate regulatory frameworks.

3. Does your regulatory regime know different licenses for different banking services?

Yes, different licenses are issued by the RBI for different categories of banks, which can be broadly classified into four categories: (i) commercial banks, (ii) co-operative banks, (ii) small finance banks and (iv) payments banks. A commercial bank is typically a profit-driven financial institution accepting deposits, offering loans and providing various banking services and can further be categorized into a public sector bank, private sector bank, a foreign bank or a regional rural bank. Co-operative banks are member-owned financial institutions that operate on co-operative principles, typically providing credit to individuals and small businesses. Small finance banks are specialized banks that cater to small businesses, low-income households and underserved segments of the population, and this category of banks was set up to promote financial inclusion within the country. Lastly, payment banks are those which can accept deposits but cannot lend, and are restricted from undertaking certain activities.

The RBI also designates certain banks as 'authorised dealer' banks ('**AD banks**') which carry out all permissible foreign exchange transactions as per applicable law.

4. Does a banking license automatically permit certain other activities, e.g., broker dealer activities, payment services, issuance of e-money?

Scheduled commercial banks, co-operative banks and small finance banks can undertake certain other activities in addition to banking business, such as drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hoondees, promissory notes, coupons, drafts, bills of lading and certain other instruments and securities; granting and issuing letters of credit, traveller's cheques and circular notes; buying, selling and dealing in bullion and specie; issuing ATM / debit cards and credit cards; buying and selling foreign exchange (including foreign bank notes); providing safe deposit vaults; collecting and transmitting of money and securities; undertaking the administration of estates as executors, trustees or otherwise; undertaking and executing trusts; establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trustees and conveniences calculated to benefit employees or ex-employees of the bank or the dependents or connections of such persons.

In addition, scheduled commercial banks can undertake – departmentally or through a separate subsidiary – investment advisory services, leasing and hire purchase business, underwriting activities, mutual fund business, insurance business, pension fund management, portfolio management services, agency business, stock-broking business. A separate license will also have to be obtained from the RBI or the relevant sectoral regulator for some of these activities.

The RBI specifically requires scheduled commercial banks to undertake certain activities – including equipment leasing, hire purchase business, factoring services, mutual fund business, insurance business – through a separate subsidiary or joint venture entity.

Payment banks are permitted to only accept demand deposits, issue ATM / debit cards (but not credit cards), offer payments and remittance services through various channels, act as business correspondents of other banks (subject to compliance with applicable regulations) and distribute non-risk sharing simple financial products like mutual fund units and insurance products or similar products.

5. Is there a "sandbox" or "license light" for specific activities?

Yes, the RBI has come up with a regulatory sandbox for live testing of new products or services in a controlled regulatory environment to foster responsible innovation in financial services, promote efficiency and bring benefit to consumers. The RBI had opened up applications for its fifth cohort under its 'regulatory sandbox' scheme on October 27, 2023, where entities dealing with innovative products, services and technologies under RBI's regulatory domain were eligible to apply. The themes of the previous cohorts of the 'regulatory sandbox' have revolved around retail payments, cross border payments, lending to micro, small and medium enterprises and prevention and mitigation of financial frauds.

The RBI has not introduced a "licence light" or a similar type of licence for banks.

6. Are there specific restrictions with respect to the issuance or custody of crypto currencies, such as a regulatory or voluntary moratorium?

Presently, cryptocurrencies and virtual currencies in India remain largely unregulated. The RBI has issued circulars from time to time *viz.* in 2013 and 2017 cautioning consumers dealing in virtual currencies considering the potential financial, operational, legal, customer protection and security related risks associated with the virtual currencies. The RBI's circular of 2018 imposing a blanket ban on regulated entities from *inter alia* dealing or providing any services in relation to virtual currencies was struck down by the Hon'ble Supreme Court of India in 2020. The RBI has, thereafter, encouraged regulated entities to carry out their customer due diligence processes in line with extant regulations, including with respect to anti-money laundering, know-your-customer requirements and prevention of money laundering. Moreover, crypto-exchanges operating in India are required to register themselves with the Financial Intelligence Unit – India. The crypto-exchanges are also required to comply with laws relating to prevention of money laundering. As part of the registration process, such exchanges are required to follow stringent procedures to establish their bona fides.

7. Do crypto assets qualify as deposits and, if so, are they covered by deposit insurance and/or segregation of funds?

No, cryptocurrency and crypto assets are not legally recognized in India.

8. If crypto assets are held by the licensed entity, what are the related capital requirements (risk weights, etc.)?

Currently, the RBI has no regulatory framework for crypto assets held by any regulated entities, including any capital requirements. The Basel Committee has published two reports (one in December 2022 and another in July 2024) providing prudential guidelines on crypto assets. It remains to be seen whether the RBI implements these prudential guidelines in India.

9. What is the general application process for bank licenses and what is the average timing?

The application for seeking a banking company license is required to be made to the RBI, in the form specified under the Banking Regulation (Companies) Rules, 1949. The RBI provides a year-round window within which applications can be submitted in the prescribed format. While considering applications, the RBI is *inter alia* guided by certain conditions and is required to satisfy itself of certain pre-requisite conditions as regards the banking company. There is no set predictable period for the bank licensing process but usually it could take anywhere between 12 to 18 months. This also depends on discussions with the RBI, clarifications and information sought by the RBI, and how quickly these issues are resolved.

10. Is mere cross-border activity permissible? If yes, what are the requirements?

India is an exchange controlled economy. All foreign exchange transactions are regulated under the applicable exchange control framework. Broadly, transactions involving foreign exchange are classified into capital account transactions and current account transactions. Capital account transactions alter the assets or liabilities (including contingent liabilities) outside India of persons resident in India or assets or liabilities in India of persons resident outside India. Current account transactions include all transactions which are not capital account transactions such as those involving trade, business and services-related payments. Capital account transactions are regulated by the RBI and, unless specifically permitted under the exchange control framework, require specific approval of the RBI, whereas current account transactions are freely permitted, unless restricted by the RBI. As set out above, foreign exchange transactions are facilitated by AD banks.

11. What legal entities can operate as banks? What legal forms are generally used to operate as banks?

Banks in India operate under various legal structures depending on their type. Under the BR Act, banking business may be carried out by a company or a body registered as a co-operative society. Typically, private sector banks and small finance banks are incorporated as companies. Some large public sector banks are incorporated under their own legislative statutes. Regional rural banks and urban co-operative banks are primarily set up as co-operative societies under respective state laws. Foreign banks which propose to carry out banking business in India may operate either by setting up a wholly owned subsidiary or through the branch model, without incorporating a separate legal entity.

12. What are the organizational requirements for banks, including with respect to corporate governance?

All private sector banks and foreign banks operating in India under the wholly-owned subsidiary model are required to comply with corporate governance norms issued by the RBI. The banks are *inter alia* required to appoint an independent director as the chairman of the board of directors of the bank. The aforesaid banks are also required to constitute an audit committee, a risk management committee and a nomination and remuneration committee. The RBI has also prescribed an upper age limit of 75 years for non-executive directors (including the chairman of the board of directors) and of 70 years for the managing directors, chief executive officers and whole-time directors, along with detailed provisions regulating the tenure of such persons while serving as members of the board of a bank. The RBI further requires all regulated entities, including banks, to put in place an extensive operational risk management framework, in accordance with guidelines issued by the RBI.

13. Do any restrictions on remuneration policies apply?

Yes. The remuneration policies adopted by banks, particularly towards its senior management personnel, attract supervisory oversight from the RBI. No banking company can employ any person whose remuneration takes the form of commission or of a share in the profits of the bank, or which remuneration is, in the opinion of the RBI, excessive. Further, no change in the remuneration of the chairman, managing director, director, whole-time director, manager or chief executive officer can be carried out without the approval of the RBI.

The RBI has issued detailed guidelines on the compensation of whole-time directors, chief executive officers and other managerial personnel, which are applicable to all private sector banks and foreign banks operating in India. These guidelines *inter alia* require banks to adopt a comprehensive compensation policy covering all their employees. Banks are required to review the policy annually and constitute a nomination and remuneration committee for the implementation of the policy. The guidelines also deal with fixed-pay and variable-pay components, malus and clawback arrangements in the compensation structures offered to employees and impose restrictions on guaranteed bonuses.

14. Has your jurisdiction implemented the Basel III framework with respect to regulatory capital? Are there any major deviations, e.g., with respect to certain categories of banks?

Yes, the Basel III framework was introduced in a phased manner from April 1, 2013, and has now been fully implemented in India from October 1, 2021. The RBI has issued directions based on the Basel III framework, which implement stricter capital requirements as compared to the Basel III requirements, reflecting a more conservative approach to ensure the stability and resilience of the Indian banking sector.

For example, (i) the minimum common equity capital Tier 1 ratio required to be maintained by banks in India is 5.5% of their risk weighted assets ('**RWAs**'), while the Basel III regulations prescribe 4.5% of RWAs, and (ii) the minimum total capital ratio (i.e., minimum tier 1 capital ratio plus tier 2 capital) to be maintained by banks as prescribed by the RBI is 9% of RWAs, while the Basel III regulations require the ratio to be maintained at 8% of RWAs.

15. Are there any requirements with respect to the leverage ratio?

Yes, the minimum leverage ratio, i.e., capital measure (as numerator) divided by the exposure measure (as denominator) prescribed by the RBI for domestic systematically important banks is 4%, whereas for other banks, the leverage ratio is required to be maintained at 3.5%. Banks are required to disclose the capital and exposure measures along with leverage ratio on a quarterly basis, while ensuring that they meet the minimum leverage ratio requirements at all times.

16. What liquidity requirements apply? Has your jurisdiction implemented the Basel III liquidity requirements, including regarding LCR and NSFR?

Banks are required to maintain a cash reserve ratio and a statutory liquidity ratio, as applicable to each category of bank. For the sake of illustration, every scheduled commercial bank in India is required to maintain with the RBI, an average daily cash balance, amounting to at least 4.50% of the bank's total 'net demand and time liabilities'. Scheduled commercial banks are also required to maintain assets in India the value of which shall not be less than 18% of their total net demand and time liabilities in India. Such assets can be maintained in the form of cash, or gold or unencumbered investment in any of the instruments specified by the RBI in this regard.

India has also adopted the Basel III liquidity requirements with respect to liquidity coverage ratio ('**LCR**') and net stable funding ratio ('**NSFR**'). The RBI has prescribed a minimum LCR requirement of 60% binding from January 1, 2015, and has subsequently increased it to 100% from January 1, 2019, on an ongoing basis. As per extant regulations, banks are required to ensure that the NSFR should be equal to at least 100% on an ongoing basis.

17. Which different sources of funding exist in your jurisdiction for banks from the national bank or central bank?

The RBI acts as the banker to banks in India. It *inter alia* enables banks to maintain their accounts with it for statutory cash reserve requirements and maintenance of transaction balances. Another method by which the RBI provides funding or liquidity to banks in India is by using mechanisms such as the repo rate and the reverse repo rate. Repo rate, or repurchase rate, is a key monetary policy rate of interest at which the RBI lends money to banks on a short term basis. Reverse repo rate is the rate at which banks park money with the RBI for a short term at the prevailing reverse repo rate.

Certain other facilities such as the liquidity adjustment facility and the marginal standing facility are also utilized by banks for management of liquidity.

18. Do banks have to publish their financial statements? Is there interim reporting and, if so, in which intervals?

Banking companies are required to prepare standalone financial statements and consolidated financial statements (consolidating financial statements of domestic and foreign subsidiaries of the bank) with reference to a financial year, as on the last working day of that year in the manner specified under the BR Act and the directions issued by the RBI. These are required to be submitted to *inter alia* to the RBI, as returns, within three months from the end of period to which they refer. Commercial banks, whether listed or unlisted, must also disclose their consolidated financial statements in their annual reports. The consolidated financial statements must be submitted by the banks on a half-yearly basis, as part of the consolidated prudential returns to the RBI's Department of Banking Supervision. Banks, whose shares are listed on a stock-exchange, are subject to additional compliances with respect to disclosures and submission of financial statements under various securities laws.

Banking companies incorporated in India (including any subsidiaries of foreign banks) as well as foreign banks having branches in India are required to also submit financial statements and undertake certain reporting requirements to the applicable registrar of companies.

19. Does consolidated supervision of a bank exist in your jurisdiction? If so, what are the consequences?

Yes, the RBI undertakes consolidated supervision of banks in several forms.

As discussed above, from the point of view of preparing financial statements, banks are required to prepare consolidated financial statements. Separately, the RBI may also direct a banking company to provide statements and information relating to the business or affairs of any of its associate enterprises, which may include a holding company, subsidiary company or joint venture of the banking company, or a subsidiary company or joint venture of the holding company of the banking company, or any enterprise which controls the composition of the board of directors or exercises significant influence on the banking company in taking financial or policy decisions, or is able to obtain economic benefits from the activities of the banking company. All commercial banks are required by the RBI to submit consolidated prudential returns on a half-yearly basis. The RBI may also cause an inspection into associate enterprises of a banking company and their books of accounts.

Further, the RBI also regulates and restricts the activities that can be undertaken by a bank's group entities. For example, a subsidiary formed by a banking company can only undertake any business which the banking company is permitted to undertake under the BR Act, and any other business proposeed to be carried on by such subsidiary requires the prior approval of the RBI (and in some cases, of the central government of India).

The RBI also regulates and restricts the investments made by a bank in group entities. For example, banking companies can hold (whether as a pledgee, a mortgagee or owner) or invest in the lesser of (i) 30% of the paid-up share capital of a company and (ii) 30% of the banking company's own paid-up share capital and reserves. Equity investments by banks in its subsidiary companies and financial services companies (which are not its subsidiaries) cannot exceed 10% of the bank's paid-up share capital and reserves and the total of such investments cannot exceed 20% of the bank's paid-up share capital and reserves. Equity investment by banks in companies engaged in non-financial services activities, on the other hand, cannot exceed 10% of the investee company's paid-up share capital or 10% of the concerned bank's paid-up share capital and reserves (whichever is lesser). It must also be noted that, equity investments by banks in any non-financial services company, either held by (i) the bank; (ii) the bank's subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and (iii) mutual funds managed by asset management companies controlled by the bank, cannot, in the aggregate, exceed 20% of the investee company's paid-up share capital.

It is pertinent to note that, unlike in the case of subsidiaries, there are no statutory restrictions on the activities that may be undertaken by companies in which banking companies hold shares within the ceiling mentioned above.

Moreover, banks (including foreign banks operating in India) cannot hold more than 10% of the paid-up capital of a non-banking financial company ('**NBFC**') which accepts deposits from the public. The RBI considers NBFCs which are *inter alia* under the management control or are subsidiaries of the parent or group of a foreign bank having presence in India, as part of that foreign bank's operations in India. Resultantly, such NBFCs are subject to RBI's consolidated supervision in the manner as applicable to Indian banks. These NBFCs are also required to submit consolidated prudential returns to the RBI and comply with other directions of the RBI as may be notified from time to time.

20. What reporting and/or approval requirements apply to the acquisition of shareholdings in, or control of, banks?

The approval of the RBI is required to be obtained by any person intending to acquire an aggregate holding of 5% or more ('**Major Shareholding**') of the paid-up share capital or voting rights in a bank. The RBI may grant such approval *inter alia* upon being satisfied that granting of such approval is: (a) in the public interest; or (b) in the interest of banking policy; or (c) to prevent the affairs of any banking company being conducted in a manner detrimental or prejudicial to the interests of the banking company; or (d) in view of the emerging trends in banking and international best practices; or (e) in the interest of the banking and financial system in India, and that the applicant is a fit and proper person to acquire shares or voting rights.

RBI's approval for acquisition of shares or voting rights in a banking company, is however, subject to compliance with the limits prescribed for applicants who may be promoter or non-promoter entities. The promoters' shareholding in a banking company is restricted to up to 26% of the banking company's paid-up share capital or voting rights after the completion of 15 years from the commencement of business of the banking company. While the RBI has not specified the limits on promoters' share during the period ranging from the date of commencement of business to the completion of 15 years, the limits and conditions may be specified by the RBI at the time of issuing the banking licence or as part of the shareholding dilution plan submitted by the banking company and approved by the RBI. Non-promoter entities, including natural persons, non-financial institutions, financial institutions, supranational institutions, public sector undertakings and central or state governments may acquire and hold upto 10% or 15% of the paid-up share capital or voting rights of the banking company (as applicable).

Banking companies are required to establish continuous monitoring mechanisms to ensure compliance in this respect. Subsequent to the issue and allotment of shares, banking companies are required to report the details to the RBI within 14 days of completion of the allotment process.

21. Does your regulatory regime impose conditions for eligible owners of banks (e.g., with respect to major participations)?

Yes, the RBI also prescribes additional conditions to be satisfied by any person who intends to acquire Major Shareholding in a banking company. Banks are required put in place a board-approved 'fit and proper' criteria for major shareholders in accordance with the criteria prescribed by the RBI.

The factors that may be considered by the RBI while deciding upon an application for acquisition of Major Shareholding is not exhaustive. An indicative list of factors include: (i) the applicant's integrity, (ii) whether the applicant has been the subject of any proceedings of a serious disciplinary or criminal nature, (iii) whether applicant has been convicted of an offence under any legislation designed to protect members of the public from financial loss, (iv) the source of funds. To ensure the stability of the banking sector, the RBI adopts a conservative approach while considering applications. Further, applicants belonging to any Financial Action Task Force (FATF) non-compliant jurisdictions are prohibited from acquiring major shareholding in a banking company, including jurisdictions through which the funds for such investments are routed.

22. Are there specific restrictions on foreign shareholdings in banks?

In India, the acquisition of shareholding in banks by any foreign entity is regulated by the limits and conditions prescribed in the Consolidated Foreign Direct Investment Policy ('**FDI Policy**') issued by the Indian government. Under the extant FDI Policy, the aggregate foreign investment in a private bank from all sources is allowed up to a maximum of 74% of the paid-up capital of the bank, where investment up to 49% may be made through the automatic route and beyond 49% and up to 74% through the government route. At least 26% of the paid-up capital of the bank shall be held by residents, at all times, except in case of a wholly-owned subsidiary of a foreign bank.

Foreign banks which propose to carry out banking business in India may set up operations in India either under the (a) branch model; or (b) wholly owned subsidiary model. Under the branch model, subject to fulfilment of certain prescribed conditions, the foreign bank can establish its presence in India with the prior approval of the RBI through a branch in India and a separate legal entity would not be required to be incorporated. However, the RBI has provided certain cases where a foreign bank would mandatorily be required to carry on banking business in India only through a wholly owned subsidiary.

23. Is there a special regime for domestic and/or globally systemically important banks?

Yes, the RBI has issued a framework dealing with Domestic Systemically Important Banks ('**D-SIBs**'). The RBI considers various factors before classifying a bank as a D-SIB, including, size, interconnectedness, lack of readily available substitutes and complexity. Presently, State Bank of India, HDFC Bank and ICICI Bank have been recognized as D-SIBs in India.

The RBI imposes a requirement on D-SIBs to maintain additional common equity tier 1 capital as a percentage of its risk weighted assets, compared to other banks. Where a foreign bank which is a Global Systemically Important Bank ('**G-SIB**') has established its presence in India under the branch model, such bank is required to maintain such additional common equity tier 1 capital surcharge in India as applicable to such bank as a G-SIB under the regulations applicable in its home country.

24. What are the sanctions the regulator(s) can order in the case of a violation of banking regulations?

The RBI enforces strict sanctions on banks violating regulations to safeguard financial stability and consumer interests. It can impose monetary penalties, restrict operations, or place banks under the Prompt Corrective Action ('**PCA**') framework, limiting, amongst other things, the distribution of dividends or remittances of profits by the banks. In severe cases, the RBI can cancel banking licenses, order forced mergers, or initiate criminal proceedings against bank officials. Recent actions by the RBI involving the imposition penalties on public and private sector banks, highlight its proactive oversight. These measures ensure compliance, transparency, and accountability, reinforcing trust in India's banking system.

25. What is the resolution regime for banks?

India's bank resolution regime under the BR Act empowers the RBI to intervene in stressed banks through measures such as imposing moratoriums, restructuring liabilities, and facilitating mergers or amalgamations, which have been implemented in the past *via* schemes framed by the RBI. Complementing this, the PCA framework serves as an early intervention mechanism, under which banks breaching capital adequacy, asset quality, or profitability thresholds face restrictions on lending, expansion, and dividend distribution.

26. How are client's assets and cash deposits protected?

The Deposit Insurance and Credit Guarantee Corporation ('**DICGC**'), a subsidiary of the RBI, insures deposits up to 5 lakh per depositor per bank, covering savings, fixed, current, and recurring deposits. All commercial and co-operative banks in India are registered as insured banks with the DICGC. In case of bank failure, DICGC ensures timely reimbursement to depositors. Further, conservative capital adequacy requirements and strict loan classification and provisioning requirements imposed by the RBI on banks also go some distance in ensuring that banks do not take on excessive risks. The RBI also enforces strict cybersecurity norms to protect customer deposits from fraud and cyber threats in the digital banking era. Under its digital payment security framework, banks must implement robust encryption, multi-factor authentication, and real-time fraud monitoring. Additionally, the RBI's limited liability policy ensures that customers are not held responsible for unauthorized transactions if reported within the stipulated time.

Another measure introduced by the RBI, to prevent fraud, cyber-attacks and to protect assets and deposits of customers, is a two-factor authentication method, under which domestic online transactions using a debit card or a credit card can be undertaken only if customers authenticate the transaction via two modes of authentications. Further, banks have also been mandated to not allow payments using a debit card or a credit card *via* the 'tap' mode on physical payment / point-of-sale terminals for transactions of a certain prescribed amount.

27. Does your jurisdiction know a bail-in tool in bank resolution and which liabilities are covered? Does it apply in situations of a mere liquidity crisis (breach of LCR etc.)?

Presently, India does not have a separate bail-in mechanism for distressed banks. However, the RBI, has put in place the PCA framework, applicable to all banks operating in India including foreign banks operating through branches or subsidiaries. The PCA facilitates the continuous supervision by the RBI and enables it to intervene at the appropriate time to initiate and implement remedial measures in a bank in a timely manner, so as to restore its financial health.

Under the PCA framework, the RBI monitors banks based on certain key indicators: Capital Adequacy Ratio, Net Non-Performing Assets and Leverage Ratio. If a bank breaches the thresholds prescribed by the RBI, it is placed under PCA, triggering corrective measures in stages. These may include restrictions on dividend distribution, on branch expansion and on high-risk lending, along with heightened regulatory oversight. In severe cases, the RBI can impose management changes, capital infusion requirements, forced mergers, or even license revocation. The PCA framework serves as an early warning system, ensuring banks take corrective steps before financial risks escalate.

28. Is there a requirement for banks to hold gone concern capital ("TLAC")? Does the regime differentiate between different types of banks?

India does not currently mandate banks to hold Total Loss-Absorbing Capacity ('**TLAC**'), a requirement under Basel III for G-SIBs. However, D-SIBs in India are subject to higher capital buffer requirements, which serve a similar function by ensuring stronger loss-absorption capacity. Indian banks maintain gone concern capital primarily through Additional Tier-1 ('**AT-1**') bonds and Tier 2 capital instruments, both of which absorb losses in times of distress. AT-1 bonds are high-risk, perpetual securities that can be written down or converted into equity when a bank's capital falls below the regulatory threshold. Tier 2 capital includes long-term bonds and loan loss reserves, which provide an additional capital cushion but are less loss-absorbing than AT-1 instruments.

29. Is there a special liability or responsibility regime for managers of a bank (e.g. a "senior

managers regime")?

Bank managers and key executives in India are subject to higher standards of responsibility under various laws and regulations. The RBI, along with other regulatory bodies like the Ministry of Corporate Affairs, Securities and Exchange Board of India, and investigative agencies (CBI, ED, SFIO), enforce strict accountability standards. Bank managers and board members are required to act in the best interests of depositors and shareholders. The RBI can hold chief executive officers, directors, and senior officers personally liable for non-compliance with prudential norms, fraud, or mismanagement. The RBI has powers under the BR Act to remove, suspend, or debar bank managers and directors for actions that jeopardize banking stability. The management of a bank may also be charged under special statutes for offences such as money laundering or fraud.

30. In your view, what are the recent trends in bank regulation in your jurisdiction?

The Indian banking and financial sectors are undergoing a significant transformation owing to the rapid technological innovations by not only banks, but also other financial institutions. The RBI is actively pushing for the development of digital financial infrastructure by adopting mechanisms such as the united payment interface and the regulatory sandbox and digital lending and co-lending models. These, coupled with the increased accessibility to internet networks across the Indian demographic has enabled banks and financial institutions to widen their target segments and resulted in increased financial inclusion. The RBI has also indicated a willingness to warm the Indian financial markets to the idea of virtual currencies, by the introduction of a pilot model of its own central bank digital currency.

In line with global trends, there is also a growing interest within the banking and financial sector towards the integration of generative artificial intelligence (‘**GenAI**’) into the financial sector. Although recent surveys conducted by the RBI indicate that banks in India are at a nascent stage in the adoption of GenAI, one cannot ignore the potential benefits that its adoption may bring about.

31. What do you believe to be the biggest threat to the success of the financial sector in your jurisdiction?

Banks and financial institutions in India are leveraging digital systems to attain greater levels of efficiency while also widening their target segments in India. However, the adoption of such technology in their day-to-day functioning has increased the likelihood of operational failures in their systems and exposes these institutions to the risks of cyber-attacks, digital frauds and data breaches. The RBI has repeatedly stressed on the importance of making the banks’ and financial institutions’ technology systems and infrastructure more resilient, robust and secure. However, there have been several reports of cyber threats and digital frauds against these institutions and their customers. Banks and financial institutions, must therefore, invest in and develop their capabilities to successfully tackle these challenges.

Despite the significant progress towards financial inclusion brought about by the recent push towards digital payments, a significant amount of the population of India remains unbanked due to inherent demographical and geographical limitations in a country like India. Therefore, achieving 100% financial inclusion remains a challenge for the banking sector to overcome.

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