

**32**

**STANDING COMMITTEE ON FINANCE  
(2025-26)**

**EIGHTEENTH LOK SABHA**

**MINISTRY OF FINANCE  
(DEPARTMENT OF FINANCIAL SERVICES)**

**DEMANDS FOR GRANTS  
2026-27**

**THIRTY-SECOND REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

***March, 2026/ Phalguna, 1947 (Saka)***

**THIRTY- SECOND REPORT**

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(DEPARTMENT OF FINANCIAL SERVICES)**

**DEMANDS FOR GRANTS  
(2026-27)**

*Presented to Lok Sabha on 12 March, 2026*

*Laid in Rajya Sabha on 12 March, 2026*



**LOK SABHA SECRETARIAT  
NEW DELHI**

*March, 2026/ Phalguna, 1947 (Saka)*

<b>CONTENT</b>		
<b>REPORT</b>		
Composition of the Committee		(iv)
Introduction		(v)
<b>PART-I NARRATION ANALYSIS</b>		
		<b>Page No.</b>
<b>Chapter - I</b>	INTRODUCTORY	1
<b>Chapter - II</b>	MAJOR FUNCTIONS OF THE DEPARTMENT	1
<b>Chapter - III</b>	BRIEF IN REGARD TO DEMANDS FOR GRANTS (2026-27) FOR DEMAND NO. 32	3
<b>Chapter - IV</b>	BUDGETARY ALLOCATIONS AND OTHER ISSUES	5
<b>PART-II</b>		
	<b>OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE</b>	<b>74-85</b>
<b>APPENDICES</b>		
<b>Appendix – I</b>	Minutes of the Sitting of the Committee held on 18.02.2026	86
<b>Appendix – I</b>	Minutes of the Sitting of the Committee held on 11.03.2026	90

## **COMPOSITION OF STANDING COMMITTEE ON FINANCE (2025-26)**

**Shri Bhartruhari Mahtab - Chairperson**

### **MEMBERS**

#### **LOK SABHA**

2. Shri Arun Bharti
3. Shri P. P. Chaudhary
4. Shri Rajesh Naranbhai Chudasama
5. Shri Lavu Sri Krishna Devarayalu
6. Shri Gaurav Gogoi
7. Shri K. Gopinath
8. Shri Suresh Kumar Kashyap
9. Shri Kishori Lal
10. Shri Harendra Singh Malik
11. Thiru Arun Nehru
12. Shri N. K. Premachandran
13. Dr. C. M. Ramesh
14. Smt. Sandhya Ray
15. Prof. Sougata Ray
16. Shri P. V. Midhun Reddy
17. Dr. Jayanta Kumar Roy
18. Dr. K. Sudhakar
19. Shri Manish Tewari
20. Shri Balashowry Vallabhaneni
21. Shri Prabhakar Reddy Vemireddy

#### **RAJYA SABHA**

22. Shri P. Chidambaram
23. Shri Narain Dass Gupta
24. Shri Praful Patel
25. Shri Yerram Venkata Subba Reddy
26. Shri S. Selvaganabathy
27. Shri Sanjay Seth
28. Dr. Dinesh Sharma
29. Smt. Darshana Singh
30. Dr. M. Thambidurai
31. Shri Pramod Tiwari

### **SECRETARIAT**

1. Shri Gaurav Goyal Joint Secretary
2. Smt. Bharti Sanjeev Tuteja Director
3. Shri T. Mathivanan Deputy Secretary

## INTRODUCTION

I, the Chairperson, of the Standing Committee on Finance, having been authorised by the Committee, present this Thirty-Second Report (Eighteenth Lok Sabha) on 'Demands for Grants (2026-27)' of the Ministry of Finance (Department of Financial Services).

2. The Demands for Grants (2026-27) of the Ministry of Finance (Department of Financial Services) have been examined by the Committee under Rule Section 331E(1)(a) of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Financial Services) on 18 February, 2026. The Committee wish to express their thanks to the representatives of the Ministry of Finance (Department of Financial Services) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2026-27).

4. The Committee considered and adopted this Report at their Sitting held on 11 March, 2026.

5. For facility of reference, the Observations / Recommendations of the Committee have been printed in bold at the end of the Report.

6. The Committee would also like to place on record their deep sense of appreciation for the invaluable assistance rendered to them by the officials of Lok Sabha Secretariat attached to the Committee.

**New Delhi;**  
**11 March, 2026**  
**20 Phalgun, 1947 (Saka)**

**Bhartruhari Mahtab**  
**Chairperson,**  
**Standing Committee on Finance**

# REPORT PART I

## I. INTRODUCTORY

Department of Financial Services (DFS) being the nodal Department of Banking, Financial Services, and Insurance (BFSI) sector administers various Acts related to the banking, insurance and pension sectors. The Department also executes various initiatives and reforms of the Government concerning the banking, insurance and pension sectors in India including adoption of technology and cybersecurity related matters to ensure ease, availability and security of financial services to the citizens of the country. Besides the Department also implements many flagship financial inclusion schemes of the Government extending the benefit of various financial services to the marginalised sections of the society. The Department is headed by the Secretary (Financial Services) who is assisted by one Additional Secretary, five Joint Secretaries (JS), two Economic Advisers (EA) and a Deputy Director General (DDG).

## II. MAJOR FUNCTIONS OF THE DEPARTMENT OF FINANCIAL SERVICES

Administration of more than 40 Acts related to Financial Systems/ Public Sector Banks, RBI, RRBs, Insurance and Pension Reforms Sector has been allocated to this Department. Some of the prominent are listed below:

- I. Banking Regulation Act, 1949
- II. Payment and Settlement System Act, 2007
- III. Negotiable Instruments Act, 1881
- IV. Chit Funds Act, 1982 and Price Chits and Money Circulation Schemes (Banning) Act, 1978, etc.
- V. Banning of Unregulated Deposit Scheme Act, 2019
- VI. Insurance Act, 1938
- VII. Life insurance Corporation Act, 1956
- VIII. General Insurance Business (nationalisation) Act, 1972
- IX. Reserve Bank of India Act, 1934
- X. Insurance Regulatory and Development Authority Act, 1999
- XI. Pension Fund Regulatory and Development Authority Act, 2013
- XII. Deposit Insurance and Credit guarantee Corporation (DICGC) Act 1961
- XIII. Export-Import Bank (EXIM Bank) Act, 1981
- XIV. National Bank for Financing Infrastructure and Development (NaBFID) Act, 2021

- XV. National Housing Bank (NHB) Act, 1987
- XVI. Small Industries Development Bank of India (SIDBI) Act, 1989
- XVII. State Financial Corporation Act, 1951
- XVIII. Factoring Regulation Act 2011, etc.

2.2 Administrative, monitoring and review of the matters related to Public Sector Banks (PSBs), Public Sector Insurance Companies (PSICs), Public Financial Institutions (PFIs), Regulators including:

- I. National Bank for Agriculture and Rural Development (NABARD)
- II. Small Industries Development Bank of India (SIDBI)
- III. National Housing Board (NHB)
- IV. Export -Import Bank (EXIM)
- V. National Bank for Financing Infrastructure and Development (NaBFID)
- VI. India Infrastructure Finance Company Limited (IIFCL)
- VII. Industrial Finance Corporation of India (IFCI)
- VIII. National Credit Guarantee Trustee Company Ltd. (NCGTC) etc.

2.3 It monitors the performance of these PSBs, PSICs and PFIs and undertakes policy formulation in respect of the banking and insurance sectors in India. Matters relating to International Banking relations are also dealt with by the Department.

2.4 This Department also deals with legislative and policy issues pertaining to the concerned regulatory bodies i.e. the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA). DFS also deals with the legislative framework relating to debt recovery.

2.5 The Department also deals with reforms in the pension sector including matters with respect to National Pension System and Atal Pension Yojana.

2.6 Implementation of Flagship Schemes of the Government of India-

- i. Initiatives and reforms relating to Financial Inclusion, Social Security, and Insurance as a Risk Transfer mechanism; credit flow to the key sectors of the economy including MSME/ farmers/ common man are some of the key focus areas being dealt by the Department.
- ii. The key flagship schemes being currently run/managed by the Department include:

- a. Pradhan Mantri Jan Dhan Yojana (PMJDY),
- b. Pradhan Mantri Suraksha Bima Yojana (PMSBY),
- c. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY),
- d. Pradhan Mantri Mudra Yojana (PMMY),
- e. Atal Pension Yojana (APY),
- f. Pradhan Mantri Vaya Vandana Yojana (PMVVY) and
- g. StandUp India Scheme.

### III. Brief in regard to Demands for Grants (2026-27) for Demand No. 32

The major budget allocation pertaining to this Department are related to social security schemes and gap funding. DFS is facilitating growth of financial sector by way of funding support to Financial Institutions (FIs) to run social security insurance/ pension schemes, wherein, the beneficiaries contribute to be eligible for availing the benefits under each of the schemes.

3.1 The details of projected demand (2026-27) by the Department of Financial Services vis-à-vis allocation made by the Ministry of Finance are given below:-

		(₹ in Crore)		
S.N.	NAME OF SCHEMES	BE 2026-27 (Projected)	BE 2026-27 (Allocated)	Shortfall
	<b>CAPITAL SCHEMES</b>			
1	Subscription to the share capital of NABARD	0.01	0.01	0.00
2	Contribution of Governments share for recapitalisation of Regional Rural Banks (RRBs)	0.01	0.01	0.00
3	Subscription to the Share Capital of Industrial Finance Corporation of India (IFCI)	0.00	0.00	0.00
4	Recapitalisation of Public Sector Banks (PSBs)	0.01	0.01	0.00
5	Recapitalisation of PSBs through issue of Govt. Securities (Bond)	0.01	0.01	0.00
6	Credit Guarantee Scheme for Micro Finance Institutions (CGSMFI)	0.01	0.01	0.00
7	Loan Guarantee Scheme for Covid Affected Sectors (LGSCAS)	0.01	0.01	0.00
	Total: Capital Schemes	0.06	0.06	0.00
	<b>REVENUE SCHEMES</b>			
8	(*) Payment to LIC for Pension Plan for Senior Citizens	188.33	160.00	28.33
9	Pradhan Mantri Vaya Vandana Yojana (PMVVY)	596.40	596.40	0.00
10	Atal Pension Yojana-a. Promotional Campaign	5.00	5.00	0.00
	Atal Pension Yojana-b. Incentive	340.75	340.75	0.00

		(₹ in Crore)		
S.N.	NAME OF SCHEMES	BE 2026-27 (Projected)	BE 2026-27 (Allocated)	Shortfall
	Atal Pension Yojana-c. Gap Fund	202.00	202.00	0.00
11	Grants to NABARD to settle claims under Indo-Swiss Cooperation	0.81	0.81	0.00
12	Grants to ICICI Bank for External Aided Component	0.01	0.01	0.00
13	Interest subvention on Housing Loans to NHB	0.01	0.01	0.00
14	Credit Guarantee Fund for providing Guarantee to Loans extended under Pradhan Mantri Mudra Yojana (PMMY)	0.01	0.01	0.00
15	Assistance to NCGTC to set up Stand-Up India Guarantee Fund	0.01	0.01	0.00
16	Publicity and awareness for PMMY and other initiatives by MUDRA Ltd.	0.01	0.01	0.00
17	Incentive Scheme for Promotion of Low-Valuable BHIM-UPI Transaction (Person to Merchant)	2000.00	2000.00	0.00
18	Promotional Activities	0.00	0.00	0.00
19	“Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana [New]”	0.00	0.00	0.00
	Total : Revenue Schemes	3333.34	3305.01	28.33
	Total Schemes (Capital + Revenue)	3333.40	3305.07	28.33

(\*) VPBY is closed for new business and with reducing number of policies the estimated subsidy can be expected to gradually reduce unless there is adverse variation in investment yield.

3.2 Statement showing increase/decrease (Major Head wise) for both Revenue and Capital Section over the last three years, along with significant reasons for variations, as stated by the Department of Financial Services, is as follows:

(Rs. in crore)							
Major Head	Budget Estimates (BE)	Budget Estimates (BE)	% Increase(+) / Decrease(-)	Budget Estimates (BE)	% Increase (+) / Decrease (-)	Budget Estimates (BE)	% Increase(+) / Decrease(-)
	2023-24	2024-25	Over BE 2023-24	2025-26	Over BE 2024-25	2026-27	Over BE 2025-26
Revenue Section							
2047-Other Fiscal Services	10.21	11.54	13.03	11.46	-0.69	11.39	-0.61
2052- Secretariat-General Services	68.95	76.51	10.96	82.06	7.25	85.24	3.88
2070- Other Administrative Services	208.44	174.46	-16.30	198.43	13.74	282.32	42.28
2235- Social Security and Welfare	823.67	1078.75	30.97	890.21	-17.48	1304.15	46.50
2416- Agricultural Financial Institutions	0.84	0.84	0.00	0.80	-4.76	0.81	1.25
2885- Other Outlays on Industries and Minerals	0.04	0.04	0.00	0.00	-100.00	0.02	-
3465- General Financial and Trading Institutions	0.04	1441.04	100	437.02	-69.67	2000.03	357.65

3475- Other General Economic Services	0.16	0.03	-81.25	0.03	0.00	0.03	0.00
Capital Section							
4070- Capital Outlay on Other Administrative Services	12.10	11.76	-2.81	67.96	477.89	59.77	-12.05
4075- Capital Outlay on Miscellaneous General Services	0.14	0.12	-14.29	0.11	-8.33	0.14	27.27
4416- Investments in Agricultural Financial Institutions	0.01	0.01	0.00	0.02	100.00	0.02	0.00
4885- Other Capital Outlay on Industries and Minerals	0.02	0.02	0.00	0.01	-50.00	0.00	-100.00
65- Investments in General Financial and Trading Institutions	0.04	0.04	0.00	0.02	-50.00	0.02	0.00
6885- Other Loans to Industries and Minerals	100.00	50.00	-50.00	0.01	-99.98	0.01	0.00
7465- Loans to General Financial and Trading Institutions	150.00	0.02	-99.99	0.01	-50.00	0.01	0.00

Reasons for significant variations are as under:

Under the Social Security and Welfare schemes such as Atal Pension Yojana (APY), Pradhan Mantri Vaya Vandana Yojana (PMVVY), Payment to LIC for Pension Plan for Senior Citizens is provided on reimbursement basis by actuarially assessing the funding gaps to ensure financial sustainability and prudent utilisation of resources.

Further, funds under credit guarantee schemes and other Central Sector Schemes viz, Incentive scheme for promotion of RuPAY debit cards and low-value BHIM-UPI transactions (person to merchant), Incentive Scheme for Promotion of Low-Value BHIM-UPI Transaction (Person to Merchant) are released on requirement basis, based on utilisation trends and projections of implementing agencies, thereby avoiding idle parking of funds.

Moreover, capital infusion in Public Sector Banks (PSBs), Regional rural Banks (RRBs), Public Sector Insurance Companies (PSICs), EXIM Bank, National Bank for Agriculture and Rural Development (NABARD), Industrial Finance Corporation of India (IFCI) etc. is calibrated based on regulatory capital requirements, reform measures and performance parameters to strengthen financial institutions and improve lending capacity.

#### **IV. BUDGETARY ALLOCATIONS AND OTHER ISSUES**

##### **A. DEMAND NO.32 - DEPARTMENT OF FINANCIAL SERVICES**

The Department has increased their budget estimates for 2026-27 to Rs. 3,746.96 crore from previous year's Budget Estimate of Rs. 1,688.15 crore: and revised estimates for 2025-26 which stood at Rs. 3696.63 crore, which is an increase of Rs. 2008.48 crore. When the Committee during oral evidence held on 18.2.2026 asked the Department the reasons for increasing the current allocation and setting it at Rs. 3,746.96 crore in Budget Estimate (2026-27) and proposed roadmap for the utilisation of the budgeted funds, along with the challenges

encountered in implementing the funding provisions, the Secretary, Department of Financial Services has stated the following:-

*“The demands for funds for the current year are towards gap funding for PM Vaya Vandana Yojana, pension plan to senior citizens, and APY. Under PM Vaya Vandana Yojana, gap funding to the LIC to the tune of Rs. 596.40 crore is sought for the current year. For senior citizen pension plan, an amount of Rs. 160 crore is estimated to be provided to LIC. Under Atal Pension Yojana (APY), to provide assured pension to subscribers, the PFRDA requests gap funding and this year Rs. 202 crore is proposed for that purpose.*

*The flagship programmes of the Department for financial inclusion are subscription based and no direct budgetary provisions are sought other than for promotional campaigns and incentives. For promotional campaigns and to provide incentive to promote Atal Pension Yojana, this year, the total amount of Rs. 345.75 crore has been requested. Incentive scheme for promotion of low- value BHIM-UPI transactions between person to merchant, a budgetary allocation of Rs. 2000 crore is requested in the year 2026-27.*

*To conclude, we seek a total budgetary grant of Rs. 3,305.07 crore for 2026-27 for the schemes in contrast to the B.E. of 2025-26 at Rs. 1328 crore and R.E. of Rs. 3,335.32 crore. We have explained about the fluctuations. Last year, we had not provided, at the B.E. stage, the BHIM-UPI transaction incentive; now, this year, we have provided that. Therefore, the numbers look little bigger”.*

## **B. PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)**

4.1 PMJDY was launched as the National Mission for Financial Inclusion on 28.08.2014. It aimed to ensure comprehensive financial inclusion of all households in the country by providing universal access to banking facilities, financial literacy, and social security cover.

The scheme offers:

- a basic bank account without any minimum balance requirement, called a Basic Savings Bank Deposit (BSBD) account
- free RuPay debit card, with in-built accident insurance cover of ₹ 2 lakh
- access to overdraft facility of up to ₹ 10,000, subject to eligibility conditions

Year-wise details of the budgetary allocation

(₹ in crore)						
Year	BE	BE % change	RE	RE % change	Actuals	Actuals % change
2022-23	No specific budgetary provision has been made under the Grant of D/o Financial Services.					

4.2 During the oral evidence held on 18.2.2026, the Secretary, Department of Financial Services has deposed the following before the Committee:-

*“.....we have now reached about Rs. 57.58 crore accounts. This is the largest financial inclusion scheme in the world ever. And this is the progress in the last 10 years which we have achieved. Now, the balance in these accounts is Rs. 2.90 lakh crore.*

*Now, the average balance per account is also increasing, unlike in the past initial time. Out of this, as per our regular reports, approximately about 25 per cent of the accounts are inactive for a number of reasons. One is, of course, the Chief is at that point of time, the accounts were opened and then not proper documents were submitted, or people might have migrated, people might have opened different accounts, or they were asked to open the savings bank account. Many reasons are there. Now, this year, we launched a campaign for the financial inclusion, including doing re-KYC. In this campaign, we organised camps in each village in the country. In all the villages of the country, we organised it with the help of the banks and the State Governments. We have done re-KYC of five crore accounts last year. This is one of the biggest numbers we have done in the recent times. Now, we want these accounts to be active. For that, we involve our BC channel and customer calling and finance related camps. We keep doing all those things. But this is a continuous thing. Based on the risk profile of the customer, the re-KYC is done on a regular basis. If it is a very risky profile, it will be done every year. If there is no risk, people do it in 4 years or 5 years, but the maximum is 10 years, as per the RBI guidelines. Within 10 years, every account has to be re-verified, and re-KYC has to be done”.*

4.3 To a specific query asked by the Committee as to out of 57.58 crore Jan Dhan accounts, the total number of accounts with zero customer-induced transactions in the last year to determine if financial inclusion is actively functional or merely a statistical achievement, the DFS has submitted the following written reply:-

“The effectiveness of PMJDY in promoting financial inclusion is measured on various parameters like:

- i. Opening of accounts – Till 11.02.2026, 57.64 crore accounts have been opened in the whole country.
- ii. Percentage of operative accounts – As on 11.02.2026, 73.9% accounts are operative as per RBI guidelines.

Enrolment in Social Security Schemes - Willing and eligible PMJDY account holders are encouraged and are given option to subscribe to Social Security Schemes viz; Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY), and Atal Pension Yojana (APY). As on 11.02.2026, out of total PMJDY account holders, 7.88 crore and 18.71 crore account holders have also enrolled in PMJJBY and PMSBY respectively. Beneficiaries of different Government schemes are being given benefits directly in their Bank accounts including PMJDY accounts”.

4.4 Regarding the reported 26% dormancy rate in Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts—representing over 15 crore inoperative accounts—and the fact that India’s 35% overall account inactivity rate exceeds the average for developing economies, the Committee sought a detailed briefing on the structural reforms and behavioral interventions that are being implemented to bridge the gap between nominal ownership and meaningful financial usage. The Committee further enquired as to how is the Government utilizing outcome-based indicators—such as dormancy trends, transaction frequency, and the comparative cost-efficiency of active versus inactive accounts—to evaluate the impact of public expenditure over the last five years. Furthermore, the Committee sought clarification on the specific regulatory measures and nationwide financial awareness saturation campaigns under the current demand

for grants to ensure a transition from a model of simple numerical expansion to one of substantive, active financial participation. In this regard, the DFS has submitted the following written response:-

“As per RBI guidelines, a savings as well as a current account should be treated as inoperative/dormant, if there are no customer induced transactions in the account for over a period of two years. Banks continuously make concerted efforts to monitor the percentage of operative accounts by organising camps to create awareness about banking habits including the benefits of keeping the account active. This is being regularly monitored by the Government.

RBI has, *inter-alia*, advised Banks:

- to undertake an annual review of accounts/ deposits where there has been no customer induced transactions for more than a year; and
- to take steps to trace the customers of these accounts/ deposits.

Further, banks have been advised to take necessary steps urgently to bring down the number of inoperative accounts and make the process of activation of such accounts smoother and hassle free, including by enabling seamless updation of KYC through mobile/internet banking, non-home branches, Video Customer Identification Process, etc.

As per direction of RBI, periodic updation of KYC has to be carried out once in every 10 years for low risk customers such as PMJDY accounts. Additionally, several measures have been taken by the Govt. to simplify the re-KYC process:

- KYC to be done at any branch of the bank where the customer is maintaining their account.
- Banks are allowed to obtain self-declaration where there is no change in KYC information.
- Video based Customer identification Process (V-CIP)
- Aadhaar OTP based e-KYC authentication in non-face-to face mode has also been permitted for re-KYC purpose.

In the recent saturation campaign, Re-KYC of about 5.20 crore PMJDY accounts was done”.

4.5 Given that the Global Findex Database highlights India’s account inactivity as significantly higher than that of peer economies, the Committee sought to understand whether the next phase of financial inclusion must pivot from account acquisition to sustained utilization. To prevent newly banked households from reverting to cash-based or informal credit channels, the Committee enquired about the specific regulatory frameworks and behavioral interventions being designed to incentivize formal engagement. Furthermore, the Committee asked whether it is time to shift policy benchmarks away from the sheer volume of accounts opened toward outcome-based metrics, such as measurable improvements in household financial resilience. In this regard, the following written reply has been submitted by the DFS:-

“Measures for Cost-Effective account utilisation including the financial literacy initiatives:

- i. Direct Benefit Transfer (DBT): Utilizing the JAM Trinity (Jan Dhan, Aadhaar, and Mobile) to transfer subsidies directly into bank accounts has significantly reduced leakages and removed expensive intermediaries.
- ii. Expansion of Digital Public Infrastructure (DPI) and creation of financial footprint: The total volume of digital and UPI transactions for the FY 2024-25 has grown 6.66 times and

14.8 times respectively when compared to FY 2019-20. This growing adoption of digital payments has revolutionized access to financial services, particularly for underserved and unserved communities. By enabling seamless, traceable transactions through platforms like UPI, digital payments have created a robust financial footprint for individuals and businesses. These footprints serve as alternative data points for financial institutions, allowing them to assess creditworthiness even in the absence of traditional documentation. As a result, more people are able to access formal credit channels, which not only empowers economic participation but also brings more entities into the formal financial ecosystem. Digital platforms like UPI have enabled citizens including small vendors and rural users to accept digital payments, reducing cash dependency and increasing formal economic participation.

- iii. Business Correspondent (BC) Model: A strong network of about 16.33 lakh BCs, representing the last mile connect in the Banking Services delivery system is also creating awareness while facilitating transactions in the rural areas, because of their familiarity with Local / Rural population.
- iv. Credit Guarantee Schemes: Instead of direct lending, public funds are used for "risk-sharing" through schemes like the Credit Guarantee Fund for Micro Units (CGFMU). This encourages private banks to lend to MSMEs without requiring full collateral from the borrower.
- v. Financial Literacy:
  - (a) Centre for Financial Literacy (CFL): This project has been initiated by the Reserve Bank of India (RBI) since 2017 with an objective to adopt community-led innovative and participatory approaches to financial literacy. A total of 2,421 CFLs have been set up across the country, as on March 31, 2025, with one CFL generally covering three blocks on an average.
  - (b) Financial Literacy Camps (FLCs) by banks: Banks have been advised to conduct special camps through their FLCs (2 camps per month on digital financial literacy in each FLC) including tailored camps for different target groups viz., farmers, Micro and Small entrepreneurs, school children, Self Help Groups and Senior citizens.
  - (c) Rural Branches of banks are required to conduct one camp per month covering matters pertaining to financial literacy including awareness about digital financial literacy".

### **C. ATAL PENSION YOJANA (APY)**

4.6 APY was launched by the Hon'ble Prime Minister on 9<sup>th</sup> May, 2015, and is being implemented with effect from 1st June, 2015. The Scheme aims to provide monthly pension to eligible subscribers. APY is open to all bank and post office account holders in the age group of 18 to 40 years. For better targeting of guaranteed pension to unorganised sector workers, an income tax payer shall not be eligible to join APY from 1.10.2022. Under this Scheme, any subscriber can opt for a guaranteed pension of ₹1,000, ₹2,000, ₹3,000, ₹4,000 and ₹5,000 receivable at the age of 60 years and above. The contributions to be made vary based on pension amount chosen and the age at the time of enrolment.

4.7 APY is being administered by PFRDA under the overall administrative and institutional architecture of the NPS. Currently, the Scheme is being distributed through more than 269 active APY service providers including all banks and post offices.

The key features of APY are as under:

- i. APY is primarily focused on workers in the unorganised sector. However, all citizens of the country in the eligible category may join the scheme
- ii. Any Indian citizen between 18-40 years of age can join through their savings bank account or post office savings bank account.
- iii. Minimum pension of ₹1000 or ₹2000 or ₹3000 or ₹4000 or ₹5000 is guaranteed by the Government of India to the subscriber at the age of 60 years, with a minimum monthly contribution (for those joining at age 18) of ₹42 or ₹84 or ₹126 or ₹168 and ₹210 respectively.
- iv. After the subscriber's demise, the spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.
- v. After the demise of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age 60 of the subscriber.
- vi. If the actual returns during the accumulation phase are higher than the assumed returns for minimum guaranteed pension, such excess will be passed on to the subscriber.

The contributions can be made at monthly / quarterly / half yearly intervals through auto debit facility from savings bank account/ post office savings bank account of the subscriber. The monthly / quarterly / half yearly contribution depends upon the intended / desired monthly pension and the age of subscriber at entry.

The budgetary provisions under the APY scheme during the last three years are given below:

(₹ in crore)

Schemes	2023-24			2024-25			2025-26			2026-27
	BE	RE	Actuals	BE	RE	Actuals	BE	RE	Actual as on 10.2.2026	BE
<b>2235.60.102.05.0 1.31</b> Funding support to PFRDA for promotional campaign under APY	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	0.00	5.00
<b>2235.60.102.05.0 2.31</b> Funding support to PFRDA for payment of incentive under APY	245.00	245.00	205.00	245.00	224.75	189.05	303.00	252.50	0.00	340.75
<b>2235.60.102.05.0 4.31</b> Gap Fund under APY	271.00	271.00	271.00	271.00	271.00	271.00	0.00	202.00	0.00	202.00

Scheme	BE 2025-26	RE 2025-26	Actual as on 10.2.2026	Explanation for variation (increase/ decrease) w.r.t BE 2025-26	BE 2026-27	Explanation for variation (increase / decrease) w.r.t BE 2025-26
<b>2235.60.102.05.02.31</b> ^Funding support to PFRDA for payment of incentive under APY	303.00	252.50	0.00	The variation is due to the following: i. On the basis of actual number of persistent accounts as on 31.3.2025, the amount for persistency incentive has reduced, and thus, the requirement has been rationalized. ii. Existing funds available with PFRDA.	340.75	i. Enrolment Incentive (Fresh+Volume) for 1.55 cr new enrolments (Avg. Incentive of ₹105 per account) ii. Persistency Incentive (for 7.61 cr APY accounts opened till 31.3.2025*Active Status 85%*Persistency Rate 55%*₹50 per account)

<b>2235.60.102</b> <b>.05.04.31</b> ^Gap Fund under APY	0.00	202.00	0.00	APY is a defined benefit scheme and provides fixed minimum pension guarantee for the subscribers. There may be a gap between the desired rate of return to achieve the guaranteed pension amount and the actual rate of return, which needs to be bridged by the Government. Thus, Gap funding is the funding support to cover the gap between pension liabilities and pension assets. The shortfall can be funded on yearly basis by providing yearly gap funding as estimated through actuarial valuations and approved by Cabinet. For the period FY 2025-26 to FY 2030-31, the proposed amount is ₹202.00 crore annually.	202.00	Gap Funding as per the proposal on Extension of APY beyond 31.3.2026.
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***^The Draft DCN for funding support under APY for 2025-2026 onwards is under submission for approval of Cabinet Secretariat and PMO.***

Physical / Financial Targets for 2024-25 and 2025-26

Year	Physical Targets			Reasons for Shortfall
	Target Number of subscribers to be enrolled	Actual Number of subscribers enrolled	% Achieved	
2024-25	1,30,49,100	1,17,38,327	89.95%	Due to higher target base (based on achievements in the previous two FYs) the achievement vis-à-vis target assigned was slightly lower, however, the actual enrolments had increased from the last FYs.
2025-26 up to 12.1.2025	1,45,07,035	1,02,04,429	70.34%	It is the endeavour to achieve the target by the end of FY.

Year	Financial Targets			
	Target BE	Actual Funds Released	% Achieved	Reasons for Shortfall
2024-25	₹521.00 cr	₹465.05 cr	89.26%	Requirement in RE 2024-25 has been reduced to ₹224.75 under APY incentive and the actual funds released were 189.05 cr. Saving was due to lower enrolments than expected and reduced persistency resulted in reduced demand of funds
2025-26 up to 13.1.2026	₹308.00 cr	Nil	0%	The Draft DCN for funding support under APY for 2025-2026 onwards is under submission for approval of Cabinet Secretariat and PMO.
2026-27	₹547.75 cr	–	–	

Physical / Financial Targets for last 5 years and 2026-27

Physical Targets	
FY	Targets
2021-22	1,00,53,930
2022-23	1,12,76,000
2023-24	1,36,90,000
2024-25	1,30,49,100
2025-26	1,45,07,035
2026-27	To be decided in the 1 <sup>st</sup> quarter of 2026-27

Financial Targets	
FY	Target BE
2021-22	₹153.00 cr
2022-23	₹200.01 cr
2023-24	₹521.00 cr
2024-25	₹521.00 cr
2025-26	₹308.00 cr
2026-27	₹547.75 cr

Steps taken by the Department of Financial Services for improvement in implementation of Scheme

- In the event of pre-mature death of the subscriber, Government has decided to give an option to the spouse of the subscriber to continue contributing to APY account of the subscriber, for the remaining vesting period, till the original subscriber would have attained the age of 60 years. The earlier provision was to hand over lump sum amount to spouse on the premature death (death before 60 years of age) of the subscriber. The spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber

until the death of the spouse. After the death of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age 60 of the subscriber.

- From 1<sup>st</sup> October, 2022, any citizen who is or has been an income-tax payer, shall not be eligible to join APY.
- Periodic advertisements are published in print, electronic, and social media for awareness creation.
- APY Subscribers Information Brochure in 13 vernacular languages
- Virtual capacity building programs for Banking Correspondents (BCs) and field staff of Banks, Self Help Group (SHG) members, bank-sakhis of State Rural Livelihoods Missions (SRLMs) are being organised to propagate APY among the eligible beneficiaries.
- Various Ministries of Government of India, National Centre for Financial Education (NCFE), National Bank for Agriculture and Rural Development (NABARD), National Rural Livelihood Mission (NRLM) and SRLM are engaged to spread awareness and coverage of APY.

Activating online channels such as e-APY, net-banking, mobile app and bank's web-portal, for easy online onboarding.

In respect of Atal Pension Yojana, the Scheme's MIS is already developed for the monitoring over the performance of the Scheme. Further, the Scheme is being monitored on regular basis; at the level of PFRDA and the Department of Financial Services (DFS). The progress report on number of subscribers under the Scheme is also reported to Cabinet Secretariat and NITI Aayog.

4.8 While acknowledging the importance of the Rs. 202.00 crore APY Gap Fund allocation for the rural poor, the Committee highlighted the fiscal risks inherent in recurring return shortfalls and the overall sustainability of the model. Consequently, they requested details on structural mechanisms designed to ensure that future social security schemes remain self-sustaining and independent of government intervention following their initial capitalization, the DFS in their written reply has stated the following:-

*“The existing model of payment of pensions under APY is through the Annuity Service Providers which is Life Insurance Companies empaneled with IRDAI. This insurance-based model transfers longevity and market risks to insurance companies, offering predictable and lifelong pay-outs. The Expenditure Finance Committee (EFC), while appraising the Scheme for the period from 2025-26 to 2030-31, has recommended that the gap funding requirement be reviewed during the appraisal of the scheme in 2030-31 for the next Finance Commission Cycle and the payment of pension through Pension Fund Managers (PFMs) under Atal Pension Yojana (APY) be re-evaluated based on the experience gained under other Pension Scheme till then. The payment through PFMs may likely to minimize gap funding requirement under the scheme”.*

4.9 While acknowledging that APY enrolments for 2024-25 have reached 75% of the annual target, the Committee noted that only 29% of the allocated funds have been utilized, a sharp decline from around 92% utilization rate seen in 2023-24. Consequently, they sought a detailed explanation for this low utilization and questioned whether the remaining funds are expected to be deployed in the final month of the fiscal year or if other underlying factors are hindering the disbursement process, the DFS has submitted written response as under:-

“The funds allocated and the expenditure incurred during 2024-25 under various heads of Atal Pension Yojana (APY) are as follows:

<b>S.No.</b>	<b>Head of Account</b>	<b>BE</b>	<b>RE</b>	<b>Expenditure</b>
1.	Payment of Incentive to Banks	Rs. 245.00 cr	Rs. 224.75 cr	Rs. 189.05 cr
2.	Promotional Campaign	Rs. 5.00 cr	Rs. 5.00 cr	Rs. 5.00 cr
3.	APY Gap Fund	Rs. 271.00 cr	Rs. 271.00 cr	Rs. 271.00 cr

During FY 2024-25, 77.16 % of the allocated funds were utilized and there was a savings of Rs. 55.95 Crores under Payment of Incentives to Banks due to the fact that the actual enrolment during the FY and the persistency of subscribers were lower than the anticipated. During FY 2025-26, due to pending appraisal/approval of the scheme, funds could not be released to PFRDA. So, no utilization of funds has been made in FY 2025-26, as on date. The processing of proposal of release of funds under APY has been initiated as the continuation of the Scheme up to 2030-31 was approved by the Union Cabinet on 21.01.2026”.

4.10 When specifically asked to clarify whether incentives being released with delay, the DFS in their written reply has clarified as follows:-

“The incentives are being released on a regular basis on receipt of the demand from PFRDA. During the current FY 2025-26, no incentives have been released till date. The processing of proposal of release of funds under APY has been initiated as the continuation of the Scheme up to 2030-31 was approved by the Union Cabinet on 21.01.2026”.

4.11 When further asked to clarify whether subscribers discontinuing their contributions, the DFS has submitted the following written response:-

“Currently the persistency in the scheme is around 50-51%. But even among the discontinued subscribers they can come back at any point later and contribute the pending contributions and regularise the accounts. Government/PFRDA in all its outreach programs and the meetings with banks emphasis about persistency. With the efforts of Government/PFRDA and APY-SPs the persistency in the scheme remained at 50-51% for the last 3 years”.

4.12 The Committee further enquired whether a specific policy shift, such as a move toward increased privatization, has contributed to the current low utilization of funds, the DFS has submitted the following written reply:-

“Incentives are provided to banks on per account basis as per the approved guidelines of the scheme”.

4.13 When the Committee sought clarification on why nearly 40% of subscribers remain inactive, the DFS provided the following written response:-

“The reasons for inactive subscribers are due to various factors like the target segment, irregular income patterns, etc. But at any point these inactive subscribers can come back into the scheme by paying the pending contributions”.

4.14 When the Committee asked about the target of 1 crore new subscribers set for the current year, they questioned its feasibility based on the previous financial year's performance. Consequently, they sought clarification on whether this goal represents a realistic projection or remains a merely notional figure aimed at driving enrollment:-

“The annual gross enrolments under APY from 2023-24 to 2025-26 (as on 19.02.2026) have been placed below:

FY	2023-24	2024-25	2025-26 (As on 19.02.2026)
Gross Enrolments	1,22,93,490	1,17,38,327	1,19,44,229

As may be seen, the annual gross enrolments targets of more than 1 Crores enrolment is achieved during the last three years”.

4.15 To a specific query as to whether a mechanism exists to periodically review pension amounts in line with inflation, the DFS has submitted the following reply:-

“APY scheme offers flexible minimum guaranteed pension of Rs. 1000, Rs. 2000, Rs. 3000, Rs.4000 or Rs. 5000 per month based on age of joining and pension amount chosen. Accordingly, per month subscription amount presently varies from Rs. 42 to Rs. 1454 on the basis of chosen option. APY scheme offers a minimum guaranteed pension and any increase in pension amount is likely to increase the subscription amount substantially and put further burden on the subscriber. Presently, it has been decided to continue the scheme with same terms and conditions and not to further increase the pension and consequential subscription amount”.

#### **D. Pradhan Mantri Vaya Vandana Yojana (PMVVY)**

4.16 Government had launched the PMVVY in 2017 to provide social security during old age and to protect elderly persons aged 60 and above against a future fall in their interest income due to uncertain market conditions. The scheme is being implemented through LIC. This scheme was first extended up to 2020 and has further been extended for another three years i.e. up to 31st March 2023. The scheme enables old age income security for senior citizens through provision of assured pension/return linked to the subscription amount based on government guarantee to LIC.

Now, the scheme offers an assured rate of return of 7.40% per annum in line with Senior Citizen Saving Scheme for the year 2020-21 for policy duration of 10 years. In subsequent years, an annual reset of assured rate of return was to be made with effect from April 1<sup>st</sup> of the financial year in line with the prevailing rate of return of Senior Citizens Saving Scheme (SCSS) up to a ceiling of 7.75%. In case of breach of this threshold, at any point, fresh appraisal of the rate under the scheme were to be made. Accordingly, an assured return of 7.40% per annum, in line with SCSS, remained unchanged under PMVVY for the subscribers who opted for the scheme during the financial years 2021-22 and 2022-23.

The differential return, i.e. the difference between return generated by LIC and the assured return, would be borne by Government of India as subsidy on an annual basis. Pension is payable at the end of each period during the policy tenure of 10 years as per the frequency of monthly/quarterly/ half-yearly/yearly as chosen by the subscriber at the time of purchase. Minimum purchase price under the scheme is ₹1,62,162/- for a minimum pension of ₹1,000/- per month and the maximum purchase price is ₹15 lakh per senior citizen for getting a pension amount of ₹9,250/- per month. A total number of 8,25,967 subscribers are being benefited under the scheme as on 30<sup>th</sup> September, 2025.

The budgetary provisions under the scheme during the last three years are given below:

(₹ in crore)

2023-24			2024-25			2025-26			2026-27
BE	RE	Actual	BE	RE	Actual	BE	RE	Actual as on 10.2.2026	BE
189.70	422.78	422.78	422.78	507.22	507.22	423.01	597.33	423.01	596.40

Scheme	BE 2025-26	RE 2025-26	Actual as on 10.2.2026	Explanation for variation (increase/decrease) w.r.t BE 2025-26	BE 2026-27	Explanation for variation (increase / decrease) w.r.t BE 2025-26
<b>2235.60.1</b> <b>02.04.02.</b> <b>33</b> Pradhan Mantri Vaya Vandana Yojana (PMVVY)	423.01	597.33	423.01	LIC is being paid subsidy on reimbursement basis. In respect of PMVVY business, RE 25-26 of ₹596.40 crore is the actual subsidy required for FY 2024-25 as per the annual accounts as at 31.3.2025.	596.40	BE 2026-27 is based on the expected investment income provided by LIC, and expected payout (annuity payments and expenses) for FY 2025-26 based on the data available as at 31.3.2025.

4.17 On being asked about the five-year subsidy projections for PMVVY; the scheme's sensitivity to a falling interest rate environment and possible fiscal impact due to widening gap between market returns and guaranteed payouts, a representative of DFS has deposited before the Committee as under:-

“.....the subsidy estimates are based on expected investment income provided by the investment department of LIC and expected payout for the financial year. It is possible that the annuity payouts projected for a particular year may get deferred to the next year for technical reasons, such as non-submission or delay in submission of existence certificate, etc. The estimated yield is subject to volatility.....”

4.18 Furthermore, the DFS has submitted the following additional information:-

“Government had launched the PMVVY in 2017 to provide social security during old age and to protect elderly persons aged 60 and above against a future fall in their interest income due to uncertain market conditions. The scheme is being implemented through LIC. This scheme was first extended up to 2020 and has further been extended for another three years i.e. up to 31st March 2023. At present, only the policies sold during the scheme period are being serviced by LIC as per rules of the schemes.

Government of India pays the differential return, i.e., the difference between actual return generated by LIC and the assured return under the scheme in addition to expenses incurred for managing the scheme are borne by Government of India.

The subsidy estimates are based on the expected investment income provided by Investment department of LIC, and expected payout (annuity payments and expenses) for the next financial year in proposals for Budget Estimates (BE) based on the data available with LIC.

The subsidy data of PMVVY for last 5 years is given below: -

Year	Subsidy Requirement
2021-22	0*
2022-23	27.58
2023-24	422.78
2024-25	507.22
2025-26	597.33

\* - Earlier subsidy used to be released on estimation basis.

We have submitted record for subsidy payment for last five years but data for subsidy expected over next five years for existing policyholders cannot be provided as we receive data for the scheme on annual basis only after closing of Financial Year from Life Insurance Corporation of India (LIC)".

## E. PRADHAN MANTRI MUDRA YOJANA (PMMY)

4.19 Pradhan Mantri MUDRA Yojana (PMMY), launched by the Hon'ble Prime Minister on April 8, 2015, provides collateral-free institutional credit to the non-corporate, non-farm small/micro enterprises through Member Lending Institutions (MLIs) i.e. Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs). The loan is available for income generating activities in the manufacturing, trading, services sector and also for activities allied to agriculture.

Major aspects of Pradhan Mantri Mudra Yojana (PMMY):

Under PMMY loans are provided upto ₹ 20 Lakh across four loan products namely, 'Shishu', 'Kishor', 'Tarun' and 'Tarun Plus' which signifies the stage of growth or development and funding needs of the borrowers:

- Shishu: covering loans upto ₹ 50,000/-
- Kishor: covering loans above ₹ 50,000/- and upto ₹ 5 lakh
- Tarun: covering loans above ₹ 5 lakh and upto ₹ 10 lakh
- Tarun Plus: covering loans above ₹ 10 lakh and upto ₹ 20 lakh *are given to those entrepreneurs who have availed and successfully repaid previous loans under the 'Tarun' category w.e.f 24.10.2024)*

Year-wise details of the budgetary allocation for Credit Guarantee

(₹ in crore)						
Year	BE	BE % change	RE	RE % change	Actuals	Actuals % change
2022-23	100.00#	-96*	0.00	-100*	0.00	0
2023-24	0.01	-99.99	0.00	0	0.00	0
2024-25	0.01	0	0.01	0	0.00	0
2025-26	0.01	0	0.00	-100	0.00	0
2026-27	0.01	0	---	--	---	--

\*w.r.t. FY 2021-22

# An Expenditure Finance Committee (EFC) meeting was held on 30.09.2022 for appraising the proposal of 'Augmentation of corpus of CGFMU from the initial ₹ 3,000 crore to ₹ 10,000 crore'. After deliberations, the EFC recommended augmentation of corpus by ₹900 crore. Funds were to be released in tranches as per requirement on the depletion of the corpus with the approval of Finance Minister. Any additional corpus support under CGFMU was to be considered as and when the actual requirement arises. There has been no further requirement

The Government allocates annual target under Pradhan Mantri Mudra Yojana (PMMY) to Member Lending Institutions (MLIs). MLIs in turn fix their respective State-wise targets according to potential of the area, their presence and other related parameters.

Regular (Weekly/monthly/quarterly) reporting by member lending Institutions on the Mudra Portal. Frequent reviews at various levels by Government. Further, the Scheme is also reviewed by SLBCs, lead banks and CEOs of public/private sector banks while reviewing the performance of their individual banks.

4.20 On being asked by the Committee to explore the implementation of district-wise targets to rectify the urban-rural imbalance and ensure that credit and monitoring schemes—specifically MUDRA loans, PMEGP, and CJCMS—effectively reach underserved rural districts like Srikakulam and Anantapur, the Department of Financial Services has submitted the following written response-

“Under PMMY, based on the previous years’ achievement, annual targets are assigned to MLIs by the Government. Subsequently, MLIs fix their own respective State-wise target according to their area of potential.

As on 13.02.2026, more than 56.78 crore loans amounting to Rs.38.93 lakh crore have been sanctioned since the launch of Scheme in April 2015.

SLBCs also allocate targets district-wise as a part of Annual Credit Plan (ACP)”.

4.21 When the Committee asked to clarify if the Demands for Grants 2026-27 of DFS provide for an independent impact assessment to evaluate the quality and sustainability of credit under PMMY, and whether specific budgetary allocations have been earmarked for strengthening credit monitoring, borrower tracking, and outcome-based evaluation to prevent evergreening and ensure financial stability, the DFS has submitted the following written reply:-

“NITI Aayog (November 2023) has undertaken the “Impact Assessment of Pradhan Mantri Mudra Yojana (PMMY)”.

An Impact Assessment study of Pradhan Mantri Mudra Yojana (PMMY) is under way by Management Development Institute, Gurgaon.

A total sum of Rs.3,000 crore has been provided to NCGTC under CGFMU, out of total allocated corpus of Rs.3,900 crore, for providing guarantee cover for PMMY loans to MLIs”.

**F. INCENTIVE SCHEME FOR PROMOTION OF RUPAY DEBIT CARDS AND LOW-VALUE BHIM-UPI TRANSACTIONS (PERSON-TO-MERCHANT):**

4.2 In FY2021-22, Government launched an Incentive Scheme [(Incentive scheme for promotion of RuPay Debit Cards and low-value BHIM-UPI transactions (P2M)], aimed at bolstering the adoption of RuPay and BHIM-UPI. This initiative placed a significant emphasis on adoption of latest innovative products within the digital payments landscape, designed particularly for areas of low internet connectivity. The scheme's primary objective was to accelerate the use of these digital payment platforms across diverse demographics, thereby modernizing financial transactions and promoting financial inclusion on a broader scale. Under the aforementioned incentive scheme, banks, other payment system operators and app providers are to be incentivized by the Government by way of paying a percentage of transaction value of RuPay Debit Card and low-value BHIM-UPI transactions (upto ₹2,000) (P2M).

The budgetary provisions under the scheme during the last three years are given below:

Scheme	2023-24			2024-25			2025-26			2026-27
	BE	RE	Actual	BE	RE	Actual	BE	RE	Actual as on 10.2.2026	BE
<b>3465.01.187.01.01.31</b> Incentive scheme for promotion of RuPay Debit Cards and low-value BHIM-UPI transactions (person-to-merchant)		2485.00	2484.97	1441.00	1146.00	1146.00	--	--	--	2000.00
<b>3465.01.187.01.02.31</b> Incentive scheme for promotion of low-value BHIM-UPI transactions (person-to-merchant)	--	--	--	--	854.00	776.77	435.00	1935.00	269.09	--
<b>3465.01.187.01.03.31</b> Promotional Activities	--	--	--	--	--	--	2.00	2.00	--	--
<b>3465.01.187.01.04.31</b> Lucky Grahak Yojna & Digidhan Vyapar	--	--	--	--	--	--	--	259.21	--	--

Yojna										
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Scheme	BE 2025-26	RE 2025-26	Actual as on 10.2.2026	Explanation for variation (increase/ decrease) w.r.t BE 2025-26	BE 2026-27	Explanation for variation (increase/decrease) w.r.t BE 2025-26
<b>3465.01.187.01.01.31</b> Incentive scheme for promotion of RuPay Debit Cards and low-value BHIM-UPI transactions (person-to-merchant)	--	--	--	--	2000.00	EFC Memo for the revamped scheme for FY 2025-26 to FY 2027-28, which re-includes the RuPay Debit Card is under submission. Further, the incentive data for last quarter (i.e., Q4, FY 25-26) will be available only after 31.3.2026. In view of the above, to meet the expected expenditure for the incentive scheme for FY 2026-27 and remaining expenditure of the scheme for FY 2025-26, an amount of ₹2,000 crore is required in FY 26-27.
<b>3465.01.187.01.02.31</b> Incentive scheme for promotion of low-value BHIM-UPI transactions (person-to-merchant)	435.00	1935.00	269.09	To meet expected expenditure of the new incentive scheme for FY 25-26, an amount of ₹1,66.91 crore is required. This will be utilized for payout of claims to banks for the Quarter 1 to Quarter 3 of FY 25-26.	--	If the re-structured scheme is approved for FY 2025-26 to FY 2027-28, this component of the scheme will no longer be required separately.
<b>3465.01.187.01.03.31</b> Promotional Activities	2.00	2.00	0.00	For promotion of digital payments at national level, fund of ₹2 Crore will be utilized. In this regard, the expenditure on the planned promotional activities will be incurred in FY 25-26.	--	If the re-structured scheme is approved for FY 2025-26 to FY 2027-28, this component of the scheme will no longer be required separately.
<b>3465.01.187.01.04.31</b> Lucky Grahak Yojna & Digidhan Vyapar Yojna	--	259.21	--	The D/o Expenditure (DoE), vide OM dated 24 <sup>th</sup> June, 2019, had agreed that NITI Aayog's recommended amount of ₹259.202 crore on account of expenditure incurred towards implementation of the said schemes would be considered as the final amount to be reimbursed,	--	The scheme has been already fully implemented. Further, the total amount due to be reimbursed to NABARD will be paid in FY 2025-26. In view of this, there is no fund requirement under this head.

			<p>and the said amount should be made available to MeitY under the existing scheme "Promotion of Digital Payments" for onward transmission to NABARD through FIF.</p> <p>Following the transfer of the subject matter "Promotion of Digital Payments" from MeitY to DFS, the matter was taken up with the D/o Economic Affairs (DEA) and DoE, seeking budgetary provisions for reimbursement of ₹259.202 crore to NABARD. The DoE, vide its OM dated 6.8.2025, stated that the matter was discussed with the DEA. DEA has conveyed that if the amount has been ascertained by the concerned agencies (DoE, DFS, Meity, NITI, etc.), it may agree to the proposal of DFS for allocation of ₹259.202 crore under a new line entry in the Grant of DFS in FY 2025-26 through SDG-1. Accordingly, the budget provision of ₹259.902 crore under the said scheme was made at the RE stage to settle the dues of NABARD.</p>	
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Year	Physical Targets			
	Target - BHIM-UPI transactions (in crore)	Actual Achieved (in crore)	% Achieved	Reason for shortfall
24-25	20,330	18,587	91%	In the previous financial year (23-24), UPI grew by 82% in terms of volume of transactions. The target was kept considering this growth trend. However, innovative products catering to new population segment could not be promoted as expected resulting in lesser growth.
25-26 upto 31.12.25	23,000	17,687	77%	It is the endeavor to achieve the target by the end of FY.
26-27	28,750	-	-	-

Year	Financial Targets			
	Target BE (₹ cr)	Actual Funds Released (₹ cr)	% Achieved	Reason for shortfall / Increase
24-25	1,441	1,146.00	80%	The remaining budget of ₹295 cr was shifted to new revamped Incentive scheme i.e., "Incentive Scheme for promotion of low-value BHIM-UPI transaction" in the RE stage.
25-26 upto 10.2.25	435	269.09	62%	The remaining fund will be utilized for payment of incentive under the new scheme which is submitted for consideration /approval
26-27	2000	-	-	-

**Steps taken for improvement:**

- It has been observed that promotion of digital payment is impacting geographies unevenly i.e. urban penetration is increasing significantly higher indicating disparity in adoption of digital payment. In order to sustain UPI growth and democratise digital payment adoption, user base needs to be expanded in currently untapped geographies and underserved strata of society to ensure equitable access to digital payment for all so that everyone becomes the part of digital revolution. To achieve the aforementioned, acceptance infrastructure also needs to be promoted in these geographies which would be addressed by the Cashback component of the scheme.

In the past, due to extensive consultation and approval process, the scheme was finally announced and notified in the last month of the Financial Year. As stakeholders are heavily investing in technology, manpower, distribution, marketing, information security to grow the UPI ecosystem, a multi-year scheme (eg. 3 years) would enable effective management of CAPEX and deployment of the resources in

timely manner for tapping new users and merchants in unbanked geographies. Accordingly, the suggestion has been incorporated in the current scheme.

Internal evaluation of the scheme was conducted annually at the end of each incentive scheme. For external evaluation of the “Incentive Scheme for Promotion of RuPay Debit Cards and Low-Value BHIM UPI transactions (P2M)” DFS had requested NITI Aayog, as per the EFC recommendation. However, NITI Aayog had responded that concerned department, DFS, shall conduct the said evaluation guided by the Terms of References (ToR) prescribed by DoE. Accordingly, DFS had engaged an external agency through NPCI to conduct a socio-economic impact assessment in the prescribed guidelines. The external evaluation of the scheme has been completed.

4.23 On being asked by the Committee whether BHIM-UPI, as the world’s largest real-time payment system, should achieve self-reliance and profitability rather than continuing to require a ₹2,000 crore budgetary allocation, and whether the Department could explore a tiered charging model—maintaining free services for street vendors and small businesses while charging banks and larger entities—, the DFS in their written submission has stated as follows:-

“1. Background on Zero MDR and Incentive Scheme by Government:

- i. From 1<sup>st</sup> Jan 2020, the Zero MDR (Merchant Discount Rate) policy was introduced by the Government of India for RuPay Debit cards and UPI transactions to accelerate digital payment adoption and promote a less-cash economy. MDR is the fee paid by a merchant to the acquiring bank or payment service provider for processing digital transactions. It helps recover costs associated with transaction processing, settlement, and maintaining digital payment infrastructure.
- ii. The objective of introduction of zero MDR was to make digital transactions affordable and widely accessible, supporting the broader goal of strengthening India’s digital economy and enabling seamless low-cost digital payment acceptance.
- iii. However, the absence of MDR makes the UPI ecosystem financially unsustainable.
- iv. In order to support unfavourable market conditions and also to encourage banks to enable RuPay Debit Card and UPI transactions, “Incentive scheme for promotion of RuPay Debit Cards and low-value BHIM-UPI transactions (P2M)” was implemented during FY2021-22 to FY 2024-25.
- v. Accordingly, continuation of the incentive scheme is essential to provide uninterrupted UPI services to the common citizens.

2. Brief Justification on the Budgetary Support for the Scheme for UPI

- i. Cost is incurred by banks and other payment ecosystem partners in facilitating digital payment transaction in various areas like technical infrastructure, cyber security, risk management, awareness, customer support and compliance. The incentive support by Government is the only way for meeting the cost incurred by the ecosystem.

- ii. Incentive support constitutes only 11% of the cost incurred by the industry and 14% of the potential MDR collected by the industry.
- iii. Presently, annual growth rate of UPI transaction volume is projected to decline to 25% in FY 2025-26 from 42% in FY 2024-25.
- iv. UPI capable of expanding 10X given demographics, economic growth, and geographic spread. UPI is expected to add additional 600 million users (i.e., 300 million smartphone and 300 million feature phone users) and process 100 to 150 billion transactions per month over the next five to seven years. However, achieving this scale is challenged by the slowing growth momentum of UPI and the structural funding gap, which limits ecosystem investment in infrastructure, security, and merchant onboarding.
- v. The sustained expansion of UPI requires a viable revenue mechanism to support these investments, especially to promote UPI in Tier 3-6 cities.

### **3. Charges to Banks**

- i. With regards to charging the banks, it is submitted that the scheme covers only the transactions upto ₹ 2,000 and the cost of transactions above the ticket size of ₹ 2,000 which constitute 67% of total transactions (by value), is already being borne by the payment ecosystem, including the Banks. The incentive provided under the scheme during 2021-22 to 2024-25, constitutes only 11% of the cost incurred by the digital payment industry and 14% of the potential MDR collection, if MDR would have been permitted.
- ii. Further, in the absence of MDR, adequate budgetary support by Government is essential to ensure that there is no further strain on the UPI Payment Ecosystem and the broader payments infrastructure. This could result in unsustainability in the ecosystem, hinder innovation and adoption of digital payment in the underserved geographies”.

## **G. STATUS OF BANKING SECTOR**

4.24 The Department of Financial Services has submitted a brief on the current status of banking sector including any key regulatory changes expected in the banking sector over the coming years and the role envisaged for Artificial Intelligence (AI) and Machine Learning (ML) in banking services as under:-

### **“A. Current status of banking sector**

Indian banking has come a long way since the present banking structure emerged as a result of bank nationalisation and other banking reforms, moving from an underserved and underbanked sector to a sector that holds the key for driving growth. Today, the life of every Indian is inextricably linked to the banking sector, and as the economy continues to grow, the importance of banking is getting further accentuated.

A decade ago, banking for many Indians, especially in rural and marginalised communities, was a distant dream. Without access to formal financial services, millions relied on cash savings at home and high-interest loans from informal lenders, trapping them in cycles of vulnerability. In August 2014, this

reality began to change. The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched as National Mission for Financial Inclusion, set out to give every unbanked adult in India a bank account, a financial identity, and access to essential services like credit, insurance, and pensions. Guided by the mission of banking the unbanked, securing the unsecured, funding the unfunded, and serving the unserved and underserved, PMJDY has grown into the largest financial inclusion initiative in the world. PMJDY accounts have grown from 14.72 crore in 2015 to over 57.58 crore, as on 4<sup>th</sup> February 2026.

Major banking reforms undertaken by the Government over last few years including, *inter alia*, Asset Quality Review (AQR) initiated in 2015, 4Rs' strategy (Recognising NPAs transparently, Resolution and Recovery, Recapitalising PSBs, and Reforms in the financial system, have addressed credit discipline, recognition and resolution of stress, responsible lending and improved governance), besides financial inclusion initiatives coupled with adoption of technology, amalgamation of banks, maintaining general confidence of bankers and better management, etc.

#### Robust financial health of the Indian Banking Sector

As a result of Government's overarching policy response to recognition of stress, resolution of stressed accounts, recapitalisation and reforms in banks, the financial health and robustness of banking sector have improved significantly. RBI's macro stress test results reaffirmed the resilience of Scheduled Commercial Banks (SCBs) to adverse macroeconomic shocks.

As per RBI's provisional data:

- a. During FY 2024-25, SCBs have recorded highest ever aggregate net profit of ₹4.01 lakh crore. PSBs have also recorded highest ever aggregate net profit of ₹1.78 lakh crore during FY 2024-25. Further, the net profit of PSBs during the first nine months of FY 2025-26 is ₹1.46 lakh crore.
- b. Asset quality has improved significantly with—
  - o GNPA ratio of SCBs declined to 2.05% (₹4.18 lakh crore) in Sep-25 from 4.28% (₹3.23 lakh crore) in Mar-15, and from a peak of 11.18% (₹10.36 lakh crore) in Mar-18.
  - o NNPA of SCBs declined to ₹0.94 lakh crore (0.47%) in Sep-25 from ₹2.31 lakh crore (3.13%) in Mar-15, and from a peak of ₹5.20 lakh crore (5.94%) in Mar-18.
- c. Resilience has increased with PCR of SCBs increasing from 49.31% in Mar-15 to a healthy 93.23% in Sep-25.
- d. Capital adequacy has improved significantly with CRAR of SCBs improving by 430 bps to reach 17.24% in Sep-25 from 12.94% in Mar-15.
- e. PSBs declared dividend of ₹34,990 crore to shareholders (Gol share ₹22,699 crore) in FY2024-25 against total dividend of ₹27,830 crore to shareholders (Gol share ₹18,013 crore) in FY2023-24.

f. Enabled by implementation of comprehensive reforms, the financial health of PSBs has improved significantly, enhancing their ability to raise capital (*in the form of both equity and bonds*) from the market. PSBs have mobilised capital of ₹5.24 lakh crore from the market from FY 2014-15 to FY 2025-26 (up to 31.12.2025).

A. Key regulatory changes expected in the banking sector over the coming years

RBI in May-2025 issued a policy statement on 'Framework for Formulation of Regulations' with an objective to standardise the process of making regulations in a transparent and consultative manner after conducting impact analysis, as may be feasible. It also stipulates a periodic review of regulations, considering the stated objectives, experience gained through surveillance and supervision, relevant court orders, global best practices or standards prescribed by international standard-setting bodies, the relevance in a changing environment, and the scope for reducing redundancies.

RBI has issued various draft regulatory directions/circular for public comments/feedback for strengthening governance, risk management practices to align with global best practices. These include, *inter alia*:-

Draft Directions on—

- Expected Credit Loss (ECL) framework for provisioning,
- Lending to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)
- Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation Amendment Directions
- Lead Bank Scheme,
- Advertising, Marketing and Sales of Financial Products and Services by Regulated Entities,
- Prudential Norms on Dividend and Remittance of Profit,
- Responsible Business Conduct,
- Urban Co-operative Banks– Undertaking of Financial Services Amendment Directions
- Relief Measures in areas affected by Natural Calamities; and
- Kisan Credit Card (KCC) Scheme.

B. Role envisaged for AI and ML in banking services

Banks leverage data analytics for various purposes to gain a comprehensive understanding of their customers' needs and preferences by introducing new and/or augmenting existing tools with analytical capabilities. By analyzing customers' transaction data, banks identify spending patterns, product preferences, and risk tolerance. Banks employ an array of tools and techniques to unearth patterns and trends, enabling it to connect with its customers more effectively and efficiently, and be in a position to tailor a product specific to customer's needs.

Some areas where AI/ML can be effectively used by banks include, *inter alia*, —

a. Improving decision making:

- Targeted marketing through lead generation by applying rules and risk models across the customer base to identify customers for various products and also offer End-to-End customised digital products.
- Analytics can transform loan collections by automating the granular monitoring of customer risk profile, repayment patterns, etc.
- Holistic review of credit risk is now possible through the analysis of transactional data viz., digital usage pattern, cash flow pattern, cheque dishonouring, market trends.
- Better management of banks' asset and liability portfolios, as well as sub-groups

b. Enhancing customer engagement:

- AI can be used by banks to personalise digital customer experiences through pre-approved offers, personalised engagements via call/SMS/app notifications etc.
- AI/ML models can offer leads for digitization, suggest transactions/customers who may be migrated to self-service or digital channels, to effectively reduce footfall in high-traffic branches and thereby delivering better customer service.

c. Risk Mitigation:

- Automated, AI-based calculation of credit worthiness and loan eligibility allows proactive lending and enables bankers to offer risk-appropriate solutions.
- AI/ML models using historical data to predict customers who are most likely to default and their preferred collection channels, which can be used to augment collection efforts and pro-actively prevent slippage of accounts.
- Analytics can be effectively used to check suspicious patterns in loan portfolio.

AI/ML will work as strategic enabler to transform the banking sector by driving operational efficiency, enhancing customer experiences, improving risk

management and asset liability management practices, reducing compliance and reporting cost and inaccuracies, improving asset quality management and real-time fraud detection and business growth.

4.25 During the deposition before the Committee on February 18, 2026, the Secretary, DFS, provided a brief overview regarding the status of Public Sector Banks (PSBs) as follows:-

*“The financial health of the Public Sector Banks has been continuously improving significantly in the past few years. During the year 2024-25, PSBs made a net profit of Rs. 1.78 lakh crore. Profitability of PSBs continue during 2025-26 also with a net profit of Rs. 1.46 lakh crore up to December, 2025. The Gross NPAs have declined to Rs. 2.54 lakh crore in December, 2025, which is 2.10% of the gross advances made by the banks. The Net NPA is 0.42% in December 2025. All PSBs are well-capitalized with a CRAR of 15.4%; while each PSB is also having CRAR of well above minimum regulatory requirement as on 31<sup>st</sup> December, 2025.*

*Improved financial health has enabled the banks to raise capital from market amounting to Rs. 5.24 lakh crore in the last 12 years. Therefore, the demand under recapitalization for the year 2026-27 for the Public Sector Banks is nil. For the public sector insurance companies also, there is no demand for recapitalization during the year.*

4.26 In light of the announcement of the High-Level Committee on Banking for Viksit Bharat and the reported proposal to raise the FDI limit in PSBs from 20% to 49%, the Committee sought clarification on the rationale for increasing foreign ownership given the public sector banks' improved profitability and recapitalized stability. They further inquired into the potential impact on Priority Sector Lending (PSL) and unremunerative rural branches, including whether any government analysis or international benchmarking has been conducted, to which Secretary, DFS stated the following during oral evidence held on 18.2.2026:-

*“.....The last High-Level Committees on the banking sector were formed, if I am right, in 1991 and 1998, both by Mr. M. Narasimham, which led to the financial sector transformation. Since then, the Government has never appointed any High-Level Committee to look at the sector holistically. Now, why is it required? I think all of you are aware.*

*Now, there is the Government's ambitious goal of becoming Viksit Bharat by 2047. In most developing countries or the countries which have now become developed, bank-led credit growth was the strategy followed everywhere. That is how finance works. Now, as one of the hon. Members has mentioned here, the credit-to-GDP ratio in the country is now currently about 57 per cent. We are among one of the lowest. A large number of*

*countries, including the US, UK, China, France, Germany, Japan and South Korea, have a very high credit-to-GDP ratio. Businesses, individuals and entrepreneurs, where do they get capital from? Not everyone is the son or daughter of a rich billionaire in this country. A large number are very poor people. If they want to set up a small business, they require credit. That credit comes from banks. If the banks are not well capitalised, they will not have good capital and will not be able to lend, irrespective of whatever intentions we may have. We want to lend to everybody, but unless the banks have capital and deposits, they will not be able to lend. Therefore, we need to take a look at this. That is the one point.*

*The second point is that there has been a lot of changes in regulatory mechanism that has happened over the last 30 years, let us say 25 years. We need a complete review and a re-look at it. Are they working well? Are they required? Do we need improvements? What are the challenges faced by other countries? We need to take a comparative analysis of these issues. Then there are also questions about how we maintain capital ratios. I think all of you know that almost 21 per cent of the total capital of the bank is kept in reserves in different forms. Isn't it? This means that for every Rs. 100, they can lend the rest of the amount, but Rs. 21 has to be kept as capital for different instruments such as SLR and CRR. Do we need to maintain these ratios? That is also a consideration.*

*There are also concerns everywhere. I think all of you keep mentioning that during the last ten years, the RBI has issued a banking licence to only one entity till now. However, in a country of our size, we need more banks. On a personal level also, I believe that a country of our size requires more banks because we have a huge population. Credit growth cannot happen on its own, in a vacuum. Thus, there are several issues involved in this.*

*Additionally, regarding bank ownership, how do we transition or graduate small finance banks? How do we look at NBFCs? These are all interrelated issues. Therefore, we wanted a High-Level Committee to review this and suggest actionable steps for the Government. The hon. Finance Minister announced in the Budget. We will shortly publish terms of reference, and thereafter, we will appoint a committee with experts who will guide us on possible solutions and how to ensure the banking sector can support the aspirations and ambitions of the country as we move towards 2047. This is the primary purpose.*

*Now, I am coming to the second point. Sir, you have mentioned private sector lending and FDI increase. Currently, we are discussing within the Government. In private sector banks FDI is allowed up to 74 per cent, while in the public sector banks, it is up to 20 per cent. The valuation of bank stocks is lower because the bank stock liquidity is low in the market. We are not actually finding the value of the banks. As I said, banks require a lot of capital to grow organically. In the last two to three years, our growth has been good, but we need to grow more. There is no doubt about that. For further growth, we need capital. Just because, the Government has yet to decide on*

*increasing the FDI limit to 49 per cent, but that is not going to change the ownership of the banks. The ownership will remain with the Government, as we will hold atleast 51 per cent. Therefore, that situation will not change. The Government ownership will remain in public sector banks. I have no concerns about this. Therefore, that is not going to change in the private sector lending.*

*One is retaining the ownership of the Government. There is no doubt at all that public sector banks will remain public sector banks, Government banks. What I am saying is, for example, if a bank has a Government share of, say, 65 per cent, then 35 per cent is with the public. What we are saying is that Foreign Direct Investment can also buy that 35 per cent, and they can go up to 49 per cent, so that the value of the stock will increase. That is the only thing. Now, when will it happen? In an OFS, let us say, stocks like, for example, for a big bank, they cannot dilute more than one per cent to 1.5 per cent in a year because we do not have that much market capacity. Otherwise, there would be a glut in the share prices. So, all market decisions will be made accordingly. Let us say, for LIC, it is a small percentage. Next year, we are also going to do a very small percentage. For a period of time, they can keep on doing it, not suddenly. There is no consensus yet.*

*The decision is still to be taken, and there are discussions within the Government. Whenever the Government takes a decision, I think of course, Parliament approval will also be required for this.”*

4.27 Further, the Department of Financial Services has submitted the following written reply:-

“Foreign Direct Investment (FDI) in the banking sector in India is presently permitted up to 74% in private sector banks, whereas in Public Sector Banks (PSBs), it is restricted to 20%. At present, there is no Government decision to increase in the FDI limit in PSBs”.

4.28 The Committee sought clarification on whether a further merger of PSBs is under contemplation, citing the potential risk that consolidating into mega-banks could prioritize balance sheet size over consumer outreach and market competition, to which DFS has submitted written response as follows:-

“Currently, no proposal is under consideration for merger of PSBs. The same has been also furnished in a reply during question hour in the Parliament recently”.

4.29 In response to a specific query regarding the post-merger integration of PSBs, the Committee inquired whether the transition of assets, liabilities, and consumer bases was truly seamless or hindered by disparate working cultures, and requested

a detailed assessment of the actual learnings beyond the mere cleaning of balance sheets, Secretary, DFS has tendered the following during oral evidence before the Committee:-

*“..... the previous mergers have gone very smoothly. The merged entities are all profitable and doing very well. There is a cultural fit; there is a geographical fit. The purpose for which the banks were merged has actually been fulfilled. In fact, this is a classic case of how mergers should take place. People who meet with the stakeholders, everyone is actually on the same page. Earlier, it became a little difficult. However, the last round of mergers has been very smooth.....”*

4.30 Responding to further query whether the merger achieved the objective of creating large-scale institutions capable of competing with international banks, Secretary, DFS has added as follows:-

*“The three biggest banks in the country today are SBI, ICICI, and HDFC. Currently, we do not figure in the top rankings globally. In a country of our size, where there is a huge credit requirement, we need larger banks to undertake bigger risks. If we have smaller banks, they may not be equipped to take the necessary risks. We need to fund larger infrastructure projects and long-term infrastructure projects. If you remember, many of the infrastructure projects are funded by both public sector and private sector banks. Many of them come together because a single bank does not have the capital capacity to fully finance. Typically, five or six banks will collaborate to fund a project of Rs. 2,000 crore or Rs. 5,000 crore. A single bank does not finance such amounts as it may not want to take on the risk.*

*.....I cannot deny that providing private sector lending and supporting MSMEs is a priority. However, Indian banks should also provide financing for corporate ventures, which is very much required. When large Indian companies go abroad for financing, it indicates either we lack capital or our capital costs are higher. The capital costs will only decrease if we achieve the requisite size.*

*Now, if there are underlying issues, there is also risk involved. Larger companies accessing finance from abroad pose a risk to the country. We cannot keep relying on that. Currently, we are the fourth-largest economy, and in the next year, we will become the third-largest economy in the world. Imagine if we do not have the means to finance larger projects.”*

4.31 Furthermore, the DFS has submitted the following written reply:-

“The Union Cabinet in its meeting dated 2.1.2019 had approved amalgamation of Vijaya Bank and Dena Bank into Bank of Baroda, w.e.f. 1.4.2019. Further, amalgamation of Oriental Bank of Commerce and United Bank of India into Punjab National Bank, amalgamation of Syndicate Bank into Canara Bank, Amalgamation of Andhra Bank and Corporation Bank into Union Bank of India, and amalgamation of Allahabad Bank into Indian Bank, was also approved by the Union Cabinet in 2020, w.e.f. 1.4.2020.

The amalgamation helped create stronger competitive banks with economies of scale and scope while enabling realisation of wide-ranging synergies. Leveraging of networks, better access to low-cost deposits, increased ability to support larger ticket-size lending and competitive operations by virtue of greater financial capacity has provided the amalgamated banks a substantial rise in customer base, market reach and operational efficiency. Synergy was also gained due to increased scope of operations, and improvement in cost efficiency with adoption of best practices and digitisation.

The key tangible saving benefits such as lower cost of capital on account of lower perceived risk and lower cost of deposits are to be accrued to banks for perpetuity. Customers are also benefited through access to — wider bouquet of products and services, larger branch network and better technological platform.

Significant improvement in financial performance of banks was also observed postamalgamation, which can be seen by in sharp increase in profitability of banks involved in amalgamation —

- Pre-amalgamation Return on Assets (RoA) of Bank of Baroda, Dena Bank and Vijaya Bank was -0.36%, -1.58% and 0.46% in FY2017-18, which improved postamalgamation to 1.2% in FY2024-25 for Bank of Baroda.
- Pre-amalgamation Return on Assets (RoA) of Punjab National Bank, Oriental Bank of Commerce and United Bank of India was -1.6%, -2.4% and -1.0% in FY2018-19, which improved post-amalgamation to 1.0% in FY2024-25 for Punjab National Bank.
- Pre-amalgamation Return on Assets (RoA) of Union Bank of India, Corporation Bank and Andhra Bank was -1.1%, -1.7% and -1.5% in FY2018-19, which improved post-amalgamation to 1.3% in FY2024-25 for Union Bank of India.
- Pre-amalgamation Return on Assets (RoA) of Canara Bank and Syndicate Bank was -0.7% and -1.0% in FY2018-19, which improved post-amalgamation to 1.1% in FY2024-25 for Canara Bank.
- Pre-amalgamation Return on Assets (RoA) of Indian Bank and Allahabad Bank was 0.6% and -1.9% in FY2018-19, which improved post-amalgamation to 1.3% in FY2024-25 for Indian Bank.

Integration process of various banking related operations, including, *inter alia*, NPAs, the consumer base, and various other assets and liabilities has been integrated seamlessly by

PSBs involved in the amalgamation. In reference to the difference in working cultures of PSBs, it may be noted that employees of all PSBs are governed through common wage settlements and amalgamation has resulted in improved benefits for smaller banks. Cultural integration is an ongoing practice and several steps, including, *inter alia*, townhall meetings and senior management communications had been undertaken by the PSBs to ensure cultural integration among all employees of the banks, post-amalgamation”.

4.32 With regard to turn-around of banks from NPAs to profit and its tangible impact on customers, the DFS has submitted the following written reply:-

“Major banking reforms undertaken by the Government and the Reserve Bank of India over the last few years, including, inter-alia, the 4Rs’ strategy (Recognising NPAs transparently, Resolution and Recovery, Recapitalising PSBs, and Reforms in the financial system), have strengthened credit discipline, improved recognition and resolution of stress, enabled responsible lending, and enhanced governance in banks.

These reforms, along with financial inclusion initiatives, adoption of technology, amalgamation of banks, and measures to improve management and maintain confidence in the banking system, have helped banks turn the corner and significantly improve their financial health and resilience.

Further, under the Enhanced Access and Service Excellence (EASE) reforms agenda, Public Sector Banks have undertaken a series of customer-centric initiatives aimed at improving service delivery, digital enablement, transparency, and ease of access to banking services. Implementation of Basel III capital and prudential norms, as prescribed by Reserve Bank of India (RBI) has also strengthened capital buffers, improved risk management, and enhanced the overall resilience of banks. RBI’s macro stress test results, as per the Financial Stability Report of RBI in 2025, have also reaffirmed the resilience of Scheduled Commercial Banks (SCBs) to adverse macroeconomic shocks.

As per RBI’s provisional data:

- a. During FY 2024-25, SCBs have recorded highest ever aggregate net profit of ₹4.01 lakh crore. PSBs have also recorded highest ever aggregate net profit of ₹1.78 lakh crore during FY 2024-25. Further, the net profit of PSBs during the first nine months of FY 2025-26 is ₹1.46 lakh crore.
- b. Asset quality has improved significantly with—
  - o GNPA ratio of SCBs declined to 2.05% (₹4.18 lakh crore) in Sep-25 from 4.28% (₹3.23 lakh crore) in Mar-15, and from a peak of 11.18% (₹10.36 lakh crore) in Mar-18.
  - o NNPA of SCBs declined to ₹0.94 lakh crore (0.47%) in Sep-25 from ₹2.31 lakh crore (3.13%) in Mar-15, and from a peak of ₹5.20 lakh crore (5.94%) in Mar-18.

- c. Resilience has increased with PCR of SCBs increasing from 49.31% in Mar-15 to a healthy 93.23% in Sep-25.
- d. Capital adequacy has improved significantly with CRAR of SCBs improving by 430 bps to reach 17.24% in Sep-25 from 12.94% in Mar-15.
- e. PSBs declared dividend of ₹34,990 crore to shareholders (Gol share ₹22,699 crore) in FY2024-25 against total dividend of ₹27,830 crore to shareholders (Gol share ₹18,013 crore) in FY2023-24.
- f. Enabled by implementation of comprehensive reforms, the financial health of PSBs has improved significantly, enhancing their ability to raise capital (*in the form of both equity and bonds*) from the market. PSBs have mobilised capital of ₹5.24 lakh crore from the market from FY 2014-15 to FY 2025-26 (up to 31.12.2025).

The improved financial health has enabled banks to better serve common customers through enhanced credit availability, improved transmission of policy interest rates, strengthened depositor confidence, and wider access to digital and financial services. Customer-centric reforms under the EASE agenda and technology adoption have also improved service delivery, transparency, and ease of access to banking services, particularly benefiting retail customers, MSMEs, and rural populations”.

4.33 With regard to measures that have been undertaken to address the challenges related to persistent gap in last mile digital access, the pace of credit flow to undeserved segments, efficiency in processing claims related to unclaimed financial assets and measures are being taken to support the funding architecture of such initiatives along with the timelines for implementation and the measurable outcomes expected, the DFS has stated the following in their written reply:-

“Indian banking has come a long way since the present banking structure emerged as a result of bank nationalisation and other banking reforms, moving from an underserved and underbanked sector to a sector that holds the key for driving growth. Today, the life of every Indian is inextricably linked to the banking sector, and as the economy continues to grow, the importance of banking is getting further accentuated.

A decade ago, banking for many Indians, especially in rural and marginalised communities, was a distant dream. Without access to formal financial services, millions relied on cash savings at home and high-interest loans from informal lenders, trapping them in cycles of vulnerability. In August 2014, this reality began to change. The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched as National Mission for Financial Inclusion, set out to give every unbanked adult in India a bank account, a financial identity, and access to essential services like credit, insurance, and pensions. Guided by the mission of banking the unbanked, securing the unsecured, funding the unfunded, and serving the unserved and underserved, PMJDY has grown into the largest

financial inclusion initiative in the world. PMJDY accounts have grown from 14.72 crore in 2015 to over 57.58 crore, as on 4<sup>th</sup> February 2026.

Additionally, various schemes have also been launched by the Government to increase credit penetration, specially focused to ensure credit flow to undeserved segment, such as, PM SVANidhi, PM Vishwakarma, Overdraft facility in PMJDY, PM SuryaGhar Muft Bijli Yojana, Exporter credit loan, e-Kisan Upaj Nidhi, Agri-loan Kisan Credit Card, Agriculture Infrastructure Loan, etc.

One-stop digital portal named, Jan Samarth, was launched by the Government, linking Government schemes, to enable customers to check their loan eligibility online to apply for loan online and to get it digitally approved. The portal enables the customers as well as Government to track access of credit under such schemes to the customers, maintenance of turn-around-time and easy credit availability under the schemes to different segments. A nationwide campaign “आपकी पूंजी, आपका अधिकार” (Your Money, Your Right) was launched by the Government to create awareness of about unclaimed financial assets, while also enabling the customers to reclaim their unclaimed financial assets through simplified process. The three-month campaign was firmly anchored in the Government’s commitment to the philosophy of *Antyodaya*, with a focus on ensuring that the benefits of the financial system reach the last mile and that citizens are empowered to reclaim what is rightfully theirs. The campaign was guided by the **3A** Framework—Awareness, Access, and Action. Awareness focused on sensitising citizens about the existence of unclaimed financial assets and the mechanisms available to trace and claim them. Access emphasised simplified digital platforms, district-level physical outreach, and handholding support to make the claim process citizen-friendly. Action underscored time-bound, transparent, and efficient settlement of claims by financial institutions. During the campaign period from October to December 2025, camps were organised in 748 districts across the country in a structured and phased manner. Extensive outreach through print, electronic, and digital media significantly enhanced public awareness and understanding of the claim-settlement process. As a direct outcome of these efforts, unclaimed financial assets amounting to more than ₹4,800 crore have already been claimed by their rightful owners.

State Level Bankers’ Committees (SLBCs) played a pivotal role in the successful implementation of the campaign and were entrusted with the responsibility of organising district-level camps in coordination with State Level Insurance Committees (SLICs), SEBI, and participating banks. Lead District Managers (LDMs), acting as nodal officers at the district level, ensured extensive pre- and post-camp publicity. To maximise outreach and ensure uniformity, Standard Operating Procedures (SOPs), Frequently Asked Questions (FAQs), and awareness material in major regional languages, along with short audio-visual messages, were widely disseminated during the camps.

Dedicated service counters of banks, insurance companies, and other financial institutions were set up at each camp to assist citizens in identifying unclaimed assets, provide end-to-end support for filing claims, and facilitate on-the-spot grievance redressal. The camps witnessed **active participation** by Members of Parliament, Members of Legislative Assemblies, local elected representatives, and senior Government officials, which further encouraged citizens to come forward and verify their long-pending financial assets. Certificates were also handed over to beneficiaries who successfully reclaimed their unclaimed assets, symbolising the campaign's core philosophy of reaching out to citizens rather than waiting for citizens to approach institutions.

Further, a series of policy reforms have been introduced to prevent the future accumulation of unclaimed deposits. These include simplified procedures for settlement of deceased accounts without nominees, incentives for banks to proactively trace and settle unclaimed deposits, and the provision for multiple nominations in bank deposits. The Government remains committed to sustaining awareness and outreach efforts and to strengthening institutional mechanisms to ensure timely restitution of unclaimed financial assets, thereby reinforcing public confidence and trust in the financial system”.

#### **DISTRICT CONSULTATIVE COMMITTEE / DISTRICT LEVEL REVIEW COMMITTEE**

4.34 On being asked by the Committee to provide a specific note on the role and functioning of District Level Review Committees (DLRCs), with a view to enhancing the active participation of Members of Parliament and ensuring local elected representatives are effectively integrated into block and state-level credit monitoring deliberations, the Secretary, DFS has made the following deposition before the Committee:-

*“...On the DCC, DLRC, or DLC, the different names in the States, but SLBC is the common name in all the States. It is the State-Level Bankers Committee, and District-Level Bankers Committee. Normally, in many States, it is the district collector or the district magistrate who chairs it. But all the MPs and the MLAs are its members. I think, MP's attending this committee give a lot of importance to it. One is, of course, you can provide a lot of guidance to them, and also to ensure that if there are any policy-level issues, you will be able to bring it to the notice of the Central Government here. Many others will not have that opportunity. Even the collector will not have that opportunity. He will be benefited if the MPs attend this committee's meeting.....So, it is coordinating the date, and as because you have Parliament Sessions here, Committees, and tours, generally we used to coordinate, and then meetings are scheduled accordingly. And then the presence of the MPs brings a lot of seriousness to the proceedings, and ultimately the people get benefited. We actually want the people should get benefitted from it. We want the people should get credits and loans....’*

4.35 Further, the DFS has made the following written submission:-

“Involvement of Public Representatives (MPs/MLAs/Zila Panchayat Chiefs) in various Government Schemes: Public Representatives play a significant role through their presence and participation in the implementation, monitoring and promotion of the banking sector schemes particularly those focussed on financial inclusion, economic empowerment and rural development. Their involvement is typically non-executive but influential due to their legislative and representative abilities.

Public Representatives are invited to District Level Review Committee (DLRC) meetings, where they can provide feedback and review the progress of the Lead Bank Scheme (LBS) implementation, ensuring effective implementation and achieving the goals of the Schemes.

Role of Public Representatives under the LBS:

- i. DLRC Meetings: Public Representatives are invited to attend DLRC meetings, which are chaired by the District Collector and attended by various stakeholders, including the DCC members and Zila Parishad Chiefs. These meetings are held quarterly to:
  - a) Review the progress of banking performance;
  - b) Monitor credit flow to priority sector; and
  - c) Discuss implementation challenges
- ii. Feedback and Review: Public Representatives can provide valuable feedback and insights into the implementation of the LBS, helping to identify areas for improvement and ensure that the scheme effectively meets the needs of the local community.
- iii. Ensuring Public Representation and Legislative oversight: The presence of Public Representatives in DLRC meetings ensures public representation. They can inquire matters related to banking policies, services in rural and unserved and underserved areas including problems with implementation of Schemes which helps to build trust and confidence in the scheme.
- iv. Involvement in Bank Functions: Lead Banks are encouraged to involve Public Representatives in various functions, such as opening new branches, distributing Kisan Credit Cards, and implementing SHG credit linkage programs.

The involvement of Public Representatives in the LBS ensures that the scheme is aligned with the needs and priorities of the local community, and that it is implemented effectively and efficiently”.

4.36 On being asked by the Committee to consider the development of a structured digital dashboard—similar to the DISHA platform used by the Ministry of Rural Development—to monitor and streamline DLRC and DCC meetings, thereby ensuring the active and organized participation of Members of Parliament in credit and social security oversight, the DFS has submitted the following written reply:-

“As per Reserve Bank of India (RBI) Master Circular on Lead Bank Scheme (RBI/2025-26/04 FIDD.CO.LBS.BC. No.03/02.01.001/2025-26 Dated

01.04.2025), State Level Bankers' Committees (SLBC) and Union Territory Level Bankers' Committees (UTLBC) are required to maintain official websites that provide details regarding SLBC/UTLBC meetings, Annual Credit Plan viz-a-viz Targets and achievements, Credit and Deposit Ratio, Banking Services, Performance of Central/State sponsored schemes etc. The SLBC/UTLBC convenor banks ensure their websites are accessible to the public and updated at least quarterly”.

## **I. REGIONAL RURAL BANKS (RRBs):**

4.37 Regarding the various issues related to budget provision in Financial Year 2026-27 for RRB amalgamations/cyber security, impact of RRB amalgamations on financial inclusion, the systemic challenge of education loan NPAs, and the strategies to balance rural climatic risks with operational efficiency, the DFS has submitted written replies as follows:-

### “Budget provision 2026-27 for Recapitalization and Cyber security in respect of RRBs:-

Recapitalisation of RRBs, which included amalgamation based on the on the principle of ‘One State One RRB’ has been completed in 2025-26. Notifications regarding amalgamation of 26 RRBs across 11 States/UTs were issued on 05.04.2025, with effect from 01.05.2025. Accordingly, no budgetary allocation for further capital infusion has been made for the year 2026-27.

However, a token provision of ₹0.01 crore has been included in the Union Budget for FY 2026-27 under the head Recapitalization of RRBs.

There is no budgetary provision from Government on Cybersecurity expenses for RRBs. However, RRBs are capable of meeting their IT-related expenses—including those pertaining to cybersecurity—from their own resources; similar to the practice followed by other scheduled commercial banks. These resources include internal accruals, own funds, and operational income.

NABARD supports RRBs in strengthening their cybersecurity resilience through a range of capacity-building initiatives. These include specialized cybersecurity workshops, the publication of a Cyber Security Handbook, and periodic advisories aimed at enhancing cybersecurity preparedness and best practices across RRBs.

### Impact of amalgamation of RRBs:

None of the State Governments have expressed that RRBs are not functioning well.

It was observed that the amalgamation process in the past had resulted in improved viability and financial performance of the RRBs. Further consolidation of RRBs on the principle of ‘One State – One RRB’ was recommended by the Expert Committee set up in DFS, with a view to improving scale efficiency and cost rationalisation without compromising the local feel and character of these institutions.

Accordingly, the Central Government, in consultation with NABARD, concerned State Governments and the respective Sponsor Banks in public interest, in the interest of the development of the area served by any Regional Rural Bank and in the interest of the Regional Rural Banks themselves, have amalgamated Regional Rural Banks in four phases over the period 2004-05 to 2025-26.

To enable RRBs to minimize their overhead expenses, optimize the use of technology, enhance the capital base, expand area of operations and increase their exposure, Government of India (GoI) had initiated structural consolidation of RRBs in FY 2004-05 through 4 phases of amalgamation which has resulted in reduction in the number of RRBs from 196 to 28 in FY 2025-26. The amalgamation of RRBs is expected to result in following benefits: -

- a) **Reduction in Operating Costs:** By consolidating operations and eliminating redundancies on account of separate administrative structures, amalgamation is expected to lead to reduction in operating costs.
- b) **Improvement in Profitability:** The reduction in operating costs and improvement in capital base are expected to have a positive impact on the profitability of RRBs. The consolidated net profit of RRBs has already increased by 47.3% (YoY) to ₹ 7,720 Cr during the first 9 months of FY 2025-26. Notably, the profit achieved in this nine-month period exceeded the consolidated net profit recorded for the entire FY 2024–25 (₹6,820 crore).
- c) **Stronger Branch Network:** During the amalgamation process, two or more RRBs in a state with distinct/non-overlapping area of operation were amalgamated to form one amalgamated RRB for each State. Consequently, there has been no adverse impact on the branch network as branch closures arising from overlapping jurisdictions, did not arise. In fact, today RRBs are having a strong branch network of around 22,158 branches across the country.

NPAs in RRBs:-

RRBs have shown a steady improvement in asset quality over the past three years. GNPA has declined from 7.3% (31 March 2023) to 6.1% (31 March 2024) and further to 5.4% (31 March 2025), which is the lowest in the previous 13 years. Similarly, NNPA has reduced from 3.2% to 2.4% and further to 2.0% over the last three years.

<b>Trend in Asset Quality of RRBs</b>		
<b>As on</b>	<b>GNPA (%)</b>	<b>NNPA (%)</b>
31-Mar-23	7.3	3.2
31-Mar-24	6.1	2.4
31-Mar-25	5.4	2.0

In line with the efforts being made to improve the financial performance of RRBs, the GNPA of RRBs in the priority sector loans under education sector though high, has witnessed a steady and continuous decline over the last 5 years, as captured below:

<b>GNPA (%) in Education Loans under Priority Sector - RRBs</b>					
<b>Parameter</b>	<b>31-Mar-21</b>	<b>31-Mar-22</b>	<b>31-Mar-23</b>	<b>31-Mar-24</b>	<b>31-Mar-25</b>
Education Loans - GNPA (%)	23.1	24.0	20.4	18.4	13.8

In order to strengthen the education loan portfolio of RRBs, Gol vide Gazette notification dated 24 November 2025 has included RRBs as eligible Lending Institutions of the Credit Guarantee Fund Scheme for Education Loans (CGFSEL) administered by National Credit Guarantee Trustee Company Ltd (NCGTC).

Further, RRBs are being encouraged to partner with reputed institutions ranked under the NIRF framework to enable targeted loan offerings for meritorious students from economically weaker sections. Such partnerships are expected to enhance loan credibility, reduce risk, and support inclusive access to quality education.

RRBs have also been advised to launch loan products in convergence with the PM- Vidyalaxmi scheme under which any student who gets admission in quality Higher Education Institution (QHEIs) will be eligible to get collateral free, guarantor free loan from banks (including RRBs) to cover the full amount of the tuition fees and other expenses related to his/her course.

Targeted measures 2026-27 to reduce NPA in Agriculture, MSME and SHG Loans

There has been a consistent improvement in Asset Quality of RRBs across all sectors including Agriculture, MSME and SHG Loans.

<b>Sectoral GNPA (%) across different sectors- RRBs</b>				
<b>S. No.</b>	<b>Sector</b>	<b>31-Mar-23</b>	<b>31-Mar-24</b>	<b>31-Mar-25</b>
1	Agriculture	7.4	6.5	6.0
2	MSME	12.7	9.7	8.7
3	SHG	2.5	1.6	1.2

Some of the targeted measures to improve Asset Quality are:

- a) Guidance Note on Credit Risk Management: NABARD has circulated Guidance Note on Credit Risk Management to guide banks in enhancing their risk management framework. The Guidance Note provides banks with a structured framework to mitigate default risk by strengthening every stage of the credit process. It emphasizes the

need for robust credit risk identification and assessment, including early warning signals, stress testing, and root cause analysis to detect potential defaults before they materialize.

- b) Banks are encouraged to adopt emerging technologies to improve monitoring of asset quality and repayments through features such as automated Early Warning Signals (EWS) and reminders/alerts for repayments.
- c) RRBs having Gross NPAs of more than 10% have been identified as 'RRBs in Focus' and advised to prepare Monitorable Action Plans to reduce the level of NPA and review the same in the Board meetings.
- d) NPA management cells have been created in RRBs to monitor the recovery and ensure targeted reduction in NPAs.
- e) Periodic Review by DFS, GoI with RRBs, NABARD and Sponsor Banks are held to ensure effective implementation of measures mentioned above.

#### Performance metrics of RRBs:

All RRBs have put in place a Board approved 3-year Viability Plan (VP) with SMART (Specific, Measurable, Achievable, Relevant, Time-bound) metrics for the period FY 2022-23 to FY 2024-25 along with a well-defined implementation mechanism aimed at achieving sustainable viability through credit expansion, business diversification, asset quality improvement, cost rationalization, technology adoption and improvement in corporate governance.

The performance of RRBs has been steadily improving and has reached historic highs on many fronts. RRBs posted their highest ever consolidated net profit of ₹ 7,571 crore during FY 2023-24 and the second highest ever consolidated net profit of ₹ 6,820 crore during FY 2024-25. The consolidated CRAR reached an all-time high of 14.4% at the end of FY 2024-25. The asset quality measured by GNPA (%) at 5.4% in FY 2024-25 was the lowest in the previous 13 years. Credit expansion led to an increase in consolidated CD ratio in FY 2024-25 to 73.1%, which was the highest in 35 years. The pace of technology adoption has increased as more RRBs have started rolling out digital services to their customers.

Government regularly reviews the financial performance of Regional Rural Banks (RRBs) at national and regional levels. 2 National Level review meetings have been held during the current FY and during last 2 years, 7 regional level/national level performance review of RRBs have also been held under the Chairmanship of Finance Minister. Which, *inter-alia*, included the review of the performance of RRBs on financial parameters, technology upgradation, performance in Micro Small and Medium Enterprise (MSME) segment and loan diversification towards Agri-allied, MSME and Retail Sectors.

RRBs have evolved as unique category of banks which are balancing the professionalism and a strong performance metrics of commercial banks like

PSBs, while continuing to deliver financial services tailored to local needs—thus fulfilling the original vision behind their creation.

The performance of RRBs vis-à-vis the performance of PSBs in some of the performance metrics are summarized below:

S.No	Parameter	RRBs	PSBs
1	Growth in Deposits – FY 2024-25 (%)	8.2%	9.5%
2	Growth in Loans – FY 2024-25 (%)	11.0%	12.2%
3	CASA Deposits (%) -31 Mar 25	53.5%	39.1%
4	CD Ratio (%) -31 Mar 25	73.1%	69.1%
5	GNPA (%) -31 Mar 25	5.4%	2.8%
6	NNPA (%) -31 Mar 25	2.0%	0.6%
7	Provision Coverage Ratio (%) -31 Mar 25	65.1%	78.5%
8	Net Interest Margin (%) - FY 2024-25	3.5%	3.0%
9	Profitability- RoA (%) - FY 2024-25	0.8%	1.1%
10	CRAR (%) -31 Mar 25	14.4%	16.1%

While being almost on-par with PSBs in terms of performance metrics, RRBs have also successfully implemented Financial Inclusion schemes and have promoted access to various financial services, especially in rural and semi-urban areas.

The YoY growth (%) in enrolments/loans disbursed by RRBs under most of the Financial Inclusion schemes has been greater than that in all banks during FY 2024-25. As a result, the share of RRBs in implementation of financial inclusion schemes improved during FY 2024-25, ranging from 7.2% to 20.6%. This is in comparison to the 2.9% share of RRBs in the total business of all commercial banks and 14% share of RRBs in branch network of all commercial banks.

Performance under Financial Inclusion Schemes- Cumulative Accounts / Enrolments in Crore									
S.N	Government Scheme	31-Mar-24			31-Mar-25			YoY Growth (%)	
		RRBs	All Banks	RRBs Share (%)	RRBs	All Banks <sup>1</sup>	RRBs Share (%)	RRBs	All Banks
1	Pradhan Mantri Jan Dhan Yojana	9.83	51.99	18.9	10.63	55.18	19.3	8.1	6.1
2	Pradhan Mantri Suraksha Bima Yojana	7.24	43.69	16.5	8.96	50.78	17.6	23.8	16.2
3	Pradhan Mantri Jeevan Jyoti Bima Yojana	3.17	19.85	15.9	4.18	23.47	17.8	31.9	18.2
4	Atal Pension Yojana	1.25	6.44	19.4	1.57	7.61	20.6	25.6	18.2
5	MUDRA Loans Disbursed (₹ Lakh Crore)	0.35	4.76	7.3	0.39	5.42	7.2	11.4	13.9

Further, Secretary, DFS has stated the following before the Committee during oral evidence held on 18.2.2026:-

*“All the Regional Rural Banks (RRBs) have been recapitalized and there is no further requirement. Among other financial institutions also, the Demand for this year at BE stage is nil.*

*.....in the last round of amalgamation of Regional Rural Banks undertaken last year, we had 43 RRBs, and these have now been consolidated into 28 banks across the country. In some States, there were more than one RRB – for example, in Gujarat or Andhra Pradesh. However, their geographical areas of operation were distinct. In the same district, there were not two RRBs operating; they had demarcated territories and functioned separately. Now, instead of having two or three RRBs in a single State, we have amalgamated them. This has not resulted in any reduction of branches. No such step has been taken. Since the amalgamation, total advances have increased, and total business per branch has gone up from Rs. 51.2 crore to Rs. 55.8 crore as of March last year. Gross NPAs have declined from 6.1 per cent to 5.4 per*

cent. Total business per employee has increased from Rs. 12.2 crore to Rs. 12.7 crore. Total income has risen from Rs. 70,443 crore to Rs. 78,090 crore. Net profit has remained at around Rs. 6,820 crore.

*We are positioning RRBs as the front end for the sponsor banks. Our objective is that all facilities and services available with the sponsor banks should also be made available through RRBs. A large number of products are now being digitised. Most of the products available in PSBs are now accessible through RRBs, including online services. An online services entity is being set up. We are also strengthening cyber security measures. We want RRBs to further improve financial inclusion. We are encouraging them to undertake co-lending with sponsor banks, as they have grassroots presence. Our objective is to strengthen RRBs further. In fact, there is now significant interest in RRBs. Some of the RRBs are performing very well; a few are larger than our smallest PSBs. For instance, RRBs in Uttar Pradesh and Andhra Pradesh are almost comparable in size to one of the smaller PSBs in the country. Going forward, we would like profit-making RRBs to explore the IPO route, which would enhance accountability and responsibility. We are working in that direction.*

*All the RRBs are making profits except one because of the past dues. Last year, most RRBs made profits. We are improving the productivity, and we are improving the efficiency. We hope that they will continue to play a very important role in the country's development in the rural areas”*

## **J. MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)**

4.38 With India's credit-to-private sector GDP ratio at 57%—significantly trailing peers like China (185%), South Korea (160%), and Brazil (74%)—the Committee identifies a critical structural deficit in formal lending. Given that closing just 20% of the estimated \$530 billion SME credit gap could inject nearly ₹2 lakh crore into annual GDP, the Committee asked about steps that have been taken by the Government to increase the credit to private sector to GDP ratio in the economy and address the structural deficit of funds to MSMEs. The DFS in their written reply stated the following:-

“There has been a significant enhancement in the asset quality of banks, led by improved borrower selection, more effective debt recovery and heightened debt awareness among large borrowers. In addition to regulatory capital and liquidity requirements, qualitative metrics such as enhanced disclosures, robust code of conduct, and transparent governance structures also improved banking performance. The macro-and micro-prudential measures by RBI and the Government have enhanced risk absorption capacity in recent years, improving the banking system's stability. For the top 10 Indian banks in asset

size, loans constitute more than 50 per cent of their total assets, making banks immune to the rising interest rate cycle.

Aided by the reforms undertaken, bank credit growth registered sustainable improvement, leading to total bank credit growing from Rs. 118.5 lakh crore as on 31.3.2022 to Rs. 181.3 lakh crore as on 31.3.2025, registering a staggering growth of 11.2% CAGR, thereby outpacing the GDP growth. The steps taken by the Government to reform and restructure the banking sector, specially increasing the risk appetite of banks and built-up of capital buffers, has led to improvement in Credit from All sectors to Private non-financial sector to GDP ratio from 89.1% as on 31.3.2022 to 93.3% as on 31.3.2025, as per BIS. As part of aspiration for Viksit Bharat 2047, Government aims to increase the 'credit to private nonfinancial sector (percentage to GDP) ratio' to 130% by 2047.

The Micro, Small and Medium Enterprises (MSME) sector plays a pivotal role in India's industrial ecosystem, employment generation and export performance. As of January 2026, 7.55 crore MSMEs have been registered on the Udyam Portal, with reported employment generation to the tune of 33.34 crore. The policy framework over the years has evolved into a comprehensive ecosystem-based approach to strengthen credit access, formalisation, liquidity management, export competitiveness and expansion in scale and scope. Improving credit flow to the MSME sector at low cost has been a policy priority of the Government and RBI.

The key initiatives undertaken to strengthen the MSME sector, *inter-alia*, include the following:

- i. Credit access has been strengthened through enhancement of credit guarantee cover for micro and small enterprises from ₹5 crore to ₹10 crore, enabling additional credit flow of ₹1.5 lakh crore over five years. Guarantee cover for startups has been doubled from ₹10 crore to ₹20 crore, and exporter MSMEs are eligible for enhanced term loans up to ₹20 crore with guarantee backing.
- ii. A customised credit card scheme has been introduced to provide working capital credit of up to ₹5 lakh to Udyam-registered micro enterprises, with the objective of improving access to short-term finance and enhancing operational liquidity.
- iii. A dedicated ₹10,000 crore SME Growth Fund has been announced in Union Budget 2026-2027 to create "future champions" by providing equity and growth capital support to high-potential enterprises.
- iv. ₹10,000 crore Fund of Funds has been announced in Union Budget 2025-2026 to expand equity support for startups and growth-oriented enterprises, operationalised through appropriate financial institutions for onward investment in eligible funds and enterprises.
- v. In the Union Budget 2026–27, an additional ₹2,000 crore has been announced to top up the Self-Reliant India (SRI) Fund, established in 2021. The Fund aims to facilitate equity infusion of up to ₹50,000 crore in growth-oriented MSMEs, comprising ₹10,000 crore Government

- contribution and ₹40,000 crore mobilised through Private Equity and Venture Capital funds.
- vi. Formalisation has been promoted through the paperless Udyam Registration Portal and the Udyam Assist Platform, integrating informal enterprises into the formal credit ecosystem and enabling access to Priority Sector Lending.
  - vii. Liquidity constraints are being addressed through strengthening of the Trade Receivables Discounting System (TReDS), enabling MSMEs to discount receivables and obtain early payment. Linkage of TReDS with the Government eMarketplace (GeM) has facilitated faster financing of receivables arising from public procurement.
  - viii. MSME classification criteria have been revised by increasing investment and turnover limits, thereby removing scale disincentives and enabling enterprises to expand without loss of MSME benefits.
  - ix. The Pradhan Mantri MUDRA Yojana (PMMY) provides collateral-free loans up to ₹10 lakh under the Shishu, Kishor and Tarun categories to micro and small enterprises, thereby promoting financial inclusion, self-employment and access to formal credit for non-corporate and small business segments.
  - x. The Stand-Up India Scheme facilitates bank loans ranging from ₹10 lakh to ₹1 crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one-woman borrower per bank branch for setting up greenfield enterprises, thereby promoting inclusive entrepreneurship and enhancing access to formal credit for underrepresented segments.
  - xi. The Production Linked Incentive (PLI) scheme supports manufacturing growth in identified sectors by providing performance-linked incentives based on incremental production, thereby encouraging capacity expansion, technology upgradation, domestic value addition and greater participation of MSMEs in national and global supply chains.
  - xii. Subsequent to the Union Budget Announcement in 2025-2026, Public Sector Banks have launched a Credit Assessment Model (CAM) in 2025 based on a cash flow– based lending approach, leveraging digitally fetched and verifiable data to enable automated and objective loan appraisal, with model-based limit assessment for both existing-to-bank and new-to-bank MSME borrowers.
  - xiii. Subsequent to the Union Budget announcement for 2024–25, the Mutual Credit Guarantee Scheme for MSMEs (MCGS–MSME) has been introduced to provide 60 per cent guarantee coverage by the National Credit Guarantee Trustee Company Limited (NCGTC) to Member Lending Institutions for credit facilities up to ₹100 crore sanctioned to eligible MSMEs for purchase of equipment and machinery, thereby supporting technology upgradation and capacity expansion.
  - xiv. Export competitiveness has been supported through enhanced guarantee-backed credit, trade facilitation measures, duty rationalisation and SEZ flexibility.
  - xv. Sector-specific initiatives such as the PM Vishwakarma scheme and the Prime Minister’s Employment Generation Programme (PMEGP)

promote inclusive entrepreneurship and employment generation by providing skill support, collateral-free credit and credit-linked subsidies, particularly in labour-intensive and rural sectors.

The cumulative impact of these measures is reflected in sustained growth in credit flow and export performance. In November 2025, bank credit to the MSME sector increased by 21.8 per cent year-on-year, compared to 13 per cent in November 2024. Credit to micro and small enterprises grew by 24.6 per cent year-on-year in November 2025, up from 10.2 per cent in November 2024, indicating improved credit penetration. MSME exports have grown from ₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in 2024-25, with their share in India's total exports rising to nearly 46 per cent. These outcomes reflect strengthened productivity, deeper formalisation and enhanced integration into domestic and global value chains. Further, credit to MSMEs through NBFCs has also increased multifold, from Rs. 1.41 lakh crore as on 31.3.2021 to Rs. 4.82 lakh crore as on 31.3.2025, registering a staggering compound annual growth of 36%.

Despite the progress achieved, certain structural challenges continue to affect timely and adequate access to formal credit by MSMEs. These include, *inter-alia*, limited collateral availability, inadequate financial documentation, information asymmetry in credit appraisal, delayed receivables and higher perceived risk for new-to-bank borrowers. Regional disparities in banking penetration and financial literacy further constrain credit access across certain geographies.

These challenges are being addressed through expansion of credit guarantee schemes, promotion of cash flow-based lending models leveraging digital footprints, strengthening of TReDS to reduce receivable cycles, deployment of technology-driven credit appraisal systems, and operationalisation of the Account Aggregator framework to facilitate data-based lending. Continued efforts are directed towards reducing cost of capital, enhancing risk-sharing mechanisms and deepening fintech-bank partnerships to ensure sustained and adequate formal credit flow to MSMEs.

4.39 Since NBFCs bridge the PSB credit gap by lending to MSMEs at higher risk-adjusted rates despite relying on those same PSBs for their own funding, the Committee asked if a more direct, structured mechanism is being developed to reduce systemic risk and lower borrowing costs for small enterprises. The following written reply has been submitted by the DFS:-

“Government has introduced several structured initiatives to strengthen systems, support Small and Medium Enterprises (SMEs), and reduce financial and operational. The year-on-year outstanding credit to MSMEs by Public Sector Banks (PSBs) has been increased by 15% as on 30.09.2025, reflecting a strong push towards strengthening the MSME sector. NBFCs also cater to MSMEs and address the credit needs based on their risk assessments. This growth has been supported by targeted government initiatives due to the following reasons:

i. Credit Guarantee Schemes

Credit Guarantee Schemes provide MSMEs with easier access to finance by reducing the risk for lenders, often allowing collateral-free loans and lower interest rates. They enable new and small enterprises to secure credit, manage cash flow, and invest in growth or expansion. By improving financial credibility and promoting inclusion in the formal banking system, these schemes support entrepreneurship, business stability, and overall economic development.

ii. Digital Credit assessment model

A New Digital Credit assessment model has been launched for Micro, Small & Medium Enterprises. This credit assessment model leverages the digitally fetched and verifiable data available in the ecosystem and devise automated journeys for MSME Loan appraisal using objective decisioning for all loan applications and model-based limit assessment for both Existing to Bank (ETB) as well as New to Bank (NTB) MSME borrowers. All the Public Sector Banks (PSBs) have the model live for their ETB and NTB customers.

iii. Priority Sector Lending Guidelines: In terms of RBI, Master Direction on 'Priority Sector Lending (PSL) – Targets and Classification' dated September 4, 2020, all bank loans to MSMEs conforming to the conditions prescribed therein qualify for classification under priority sector lending. A target of 7.5 percent of ANBC or Credit Equivalent Amount of Off- Balance Sheet Exposure, whichever is higher, has been prescribed for SCBs for lending to Micro Enterprises.

iv. Streamlining flow of credit to Micro and Small Enterprises for facilitating timely and adequate credit flow during their 'Life Cycle': In terms of RBI circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015 on 'Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle', banks have been advised to tune their policies for lending to MSME sector by incorporating therein the provisions for sanctioning of, inter alia, Additional Working Capital Limits, Mid Term Review of Regular Working Capital Limits, Timelines for Credit Decisions, so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances.

v. Trade Receivables Discounting System (TReDS): TReDS facilitates the financing of trade receivables of MSMEs from corporate and other buyers, including government departments and public sector undertakings (PSUs) through multiple financiers electronically. The factoring transactions taking place through TReDS are also eligible for classification under priority sector. The number of invoices on the platform increased from 1.42 crore as on 31.12.2024 to 2.15 crore as on 31.12.2025, reflecting a year-on-year growth of 51.8%. Similarly, the total amount discounted rose from Rs. 4,50,306.45 lakh in 2024 to Rs. 7,60,237.05 lakh in 2025, marking a year-on-year increase of 68.9%".

4.40 The DFS has stated further as follows:-

“NBFCs are an important intermediary in India’s financial system and play a complementary role to banks in expanding credit access, particularly to MSMEs and underserved segments. While banks remain the primary source of low-cost funds in the financial system, NBFCs facilitate credit delivery to segments and geographies which may not be fully serviced by banks due to operational and viability considerations. However, NBFCs generally have a relatively higher cost of funds compared to banks, as they do not have access to low-cost Current and Savings Account (CASA) deposits and are largely dependent on market borrowings, bank funding, and other debt instruments. This higher cost of funds may, in certain cases, translate into relatively higher lending rates compared to direct bank lending.

At the same time, NBFCs have certain operational advantages, including specialised credit appraisal models, well-developed collection mechanisms, customer proximity, and the ability to serve niche and geographically dispersed segments. This enables them to complement the efforts of banks by facilitating last-mile credit delivery, including to MSMEs that may not have adequate access to formal bank credit.

In order to ensure adequate and cost-effective flow of credit to MSMEs while leveraging the strengths of both banks and NBFCs, structured mechanisms have been put in place. These include co-lending arrangements between banks and NBFCs, wherein banks provide a larger share of funding at relatively lower cost while NBFCs undertake sourcing, underwriting, and servicing of loans, thereby enabling reduction in the overall cost of credit. Banks also support MSME credit through purchase of eligible loan portfolios from NBFCs under regulatory guidelines, which provides liquidity to NBFCs and facilitates increased credit flow at competitive rates. Further, credit guarantee support through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) helps reduce credit risk for lenders, including eligible NBFCs, and facilitates improved availability of collateral-free credit to MSMEs.

These measures, supported by the regulatory and policy framework, are aimed at creating a more efficient and structured credit delivery system by leveraging the respective strengths of banks and NBFCs, thereby improving credit availability to MSMEs while optimising cost and risk, and ensuring wider reach of formal credit”.

## **K. INSURANCE SECTOR**

4.41 With respect to the trend in insurance penetration and density in India over the last five years, and correlation of the Budgetary allocations and tax incentives for the insurance sector with these trends during this period, the following written submission has been made by the DFS:-

“Insurance penetration (total premiums as a percentage of GDP) and insurance density (per capita premium in USD) are key indicators used by IRDAI and Swiss Re to assess the development of the insurance sector. The five-year trend shows a surge during the pandemic period, followed by a structural decline, even though absolute premium volumes have continued to grow.

Financial Year	Overall Penetration (%)	Life Penetration (%)	Non-Life Penetration (%)	Density (USD)
FY 2019-20 (pre-pandemic baseline)	3.8	2.82	0.9	78
FY 2020-21	4.2	3.2	1	78
FY 2021-22	4.2	3.2	1	91
FY 2022-23	4	3	1	92
FY 2023-24	3.70	2.80	1	95
FY 2024-25	3.70	2.70	1	97

*Sources: IRDAI Annual Reports 2021-22 through 2024-25; Swiss Re Sigma World Insurance Reports*

Major Budgetary Initiatives (FY 2020–21 to FY 2024–25):

(a) Budget 2021–22: Introduced taxation on high-value ULIPs (annual premium above ₹2.5 lakh).

(b) Budget 2023–24: Proposed that income from life insurance policies (other than ULIPs) having an aggregate annual premium above ₹5 lakh would be taxable under the head “Income from Other Sources”, applicable to policies issued on or after 1 April 2023.

(c) Budget 2025–26: The FDI limit in insurance was hiked to 100 per cent from 74 per cent for companies investing the entire premium in India, and life insurance policy proceeds from IFSC insurance intermediary offices were exempted from the ₹5 lakh premium cap to promote activities in GIFT City.

(d) GST Regime (2025): Based on the recommendations of the GST Council at its 56th meeting, a GST exemption was granted on all individual life insurance and individual health insurance policies (including family floaters), along with their reinsurance, effective from 22 September 2025. This removed the 18 per cent GST on such premiums, thereby reducing costs and improving affordability.

(e) New Tax Regime: The New Tax Regime was introduced in 2020 to simplify India's personal income tax system. It offers lower tax rates compared to the old regime but removes most exemptions and deductions such as Section 80C, 80D, HRA, and home loan interest. From FY 2023–24, it became the default tax regime, though taxpayers can still choose the old regime”.

4.42 During the oral evidence held on 18.2.2026, the Secretary, DFS, provided the Committee with a brief overview of the transition toward 100% Foreign Direct Investment (FDI) in the insurance sector as follows:-

*“...Parliament has approved, the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025. This is one of the most transformative reforms in the insurance sector for a long time. Now, we have allowed 100 per cent of FDI in this sector. We have notified the rules, the laws. Apart from that, we have also taken a number of measures. We have given statutory backing to measures to protect policyholders and also to punish the wrongdoers. We have sufficiently strengthened IRDAI. Now, they can actually disgorge, they can impose penalties, use that fund to provide for policyholders' education. We have created a fund. We also allowed a lot of flexibility to the insurance companies to have their board of directors and CEO, chairman. And then we have removed a large number of redundant provisions requiring insurance companies to comply, to promote ease of doing business. All these measures, we hope, I think one or two Members have rightly mentioned, the insurance penetration is not catching up with the growth of GDP. I think that is the right thing. When insurance penetration declines in a year, it is not that actually it is declining on its standalone basis. It is actually in relation to the GDP. GDP growth is actually outpacing the penetration. Therefore, we need to promote the necessity for citizens to have insurance. That we are actually not doing very well. Now, we hope with this insurance law amendment, we expect additional capital into the insurance companies and they will be able to. Now in the metro, we have good coverage, but the rural and semi-urban areas, we do not have good coverage. We are hoping that with the technology, the insurance companies will be able to penetrate the rural areas and provide insurance coverage.*

4.43 In this regard, the DFS has submitted the following written reply including on the issue of passing of benefits of the GST exemption on life and health premiums to the policy holders:-

“The amendment raised the Foreign Direct Investment limit in Indian Insurance Companies from 74% to 100%. This will help in attracting stable and sustainable investment, increase the number of insurers thereby increasing competition amongst them, facilitate technology transfer, enhance insurance penetration & social protection.

Section 27E of the Insurance Act, 1938 stipulates that no insurer shall directly or indirectly invest the policyholders' fund outside India. This provision is there since 1999. Further, there are detailed regulations issued by IRDAI, on investment by insurers.

Insurance Regulatory and Development Authority of India (IRDAI) has informed that for ensuring full transmission of the GST rate reduction, a day long in-person interaction was held with the insurance companies on 17th September, 2025. The need to pass on the full benefits to the policyholders in letter and spirit was impressed on them. Further, IRDAI has collected the premium rates prevailing as on 3rd September, 2025 and has been regularly monitoring the premiums being charged for new policies as well as for renewal of policies to ensure benefits are passed on to insured individuals.

In this regard, IRDAI has informed that a confirmation has been received from all General and Health Insurance companies in January, 2026 that they have not revised premiums following the Government's announcement of GST relief. They have further confirmed that the GST relief granted by the Government has been fully passed on to the policyholders.”

4.44 The Committee enquired whether the divergence between insurance sector growth and actual coverage indicates that insurance penetration remains critically low, a concern echoed in this year's Economic Survey which highlighted a persistent protection gap despite assets under management reaching Rs. 74.4 lakh crore and premium income rising to Rs. 11.9 lakh crore in FY25. Furthermore, the Committee asked whether this disparity suggests that the current regulatory architecture—including the recently enacted Sabka Bima Sabki Suraksha Act, 2025—is more effective at facilitating balance sheet expansion for providers than at ensuring universal risk protection for the large proportion of households and MSMEs that remain uninsured. In this regard, the following written submission has been made by the DFS:-

“The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 has amended various provisions of the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and Insurance Regulatory and Development Authority Act, 1999, with a view to enhance citizens protection, deepen insurance penetration, accelerate growth and development of the insurance sector and to enhance the ease of doing business. The amendment raised the Foreign Direct Investment limit in Indian Insurance Companies from 74% to 100%. This will help in attracting stable and sustainable investment, increase the number of insurers thereby increasing competition amongst them, facilitate technology transfer, enhance insurance penetration & social protection. One-time registration of insurance intermediaries will promote

ease of doing business and ensure uninterrupted service and support to policyholders. The requirement of Net Owned Funds for foreign re-insurers has been reduced from Rs. 5,000 crores to Rs. 1,000 crores to facilitate entry of more re-insurers helping build greater re-insurance capacities in the country.

The amendment also provides for creation of a Policyholders' Education and Protection Fund, to increase citizens' awareness towards risk protection and promote education for policyholders. For greater Policyholders' protection, Insurance Regulatory and Development Authority of India (IRDAI) is being granted the power of disgorgement of wrongful gains made by an insurer or intermediary. The maximum limit of penalty on insurers for default in complying with or acting in contravention of Insurance Act or IRDAI Act has been increased from Rs.1 Crore to Rs.10 Crore. Insurance intermediaries have also been included under this provision. This would act as a deterrent and encourage legal and regulatory compliance.

The amendment creates a legal anchor for effective use of digital public infrastructure in insurance sector to ensure that policyholders' information is duly secured and protected.”

4.45 Drawing the attention of the Department of Financial Services (DFS) to the decline in insurance penetration from 4.2% in FY21 to 3.70% in FY25—representing a 50-basis-point drop over four years despite the Sabka Bima, Sabki Raksha Mission—the Committee sought to understand why GDP growth is significantly outpacing insurance uptake. The Committee enquired whether this divergence indicates that current insurance products are fundamentally mispriced for the ‘missing middle’ and if the current regulatory architecture, including the Sabka Bima Sabki Suraksha Act, 2025, is more effective at enabling balance sheet expansion for providers than at ensuring universal risk protection for uninsured households and MSMEs. Furthermore, the Committee asked whether the Ministry will mandate parametric insurance as the default mechanism for rural areas to bypass the cumbersome claims processes that currently deter adoption. In this regard, the DFS has stated the following in their written reply:-

“In health insurance policies, premiums are structured based on several factors including the age of the policyholder, with older individuals generally facing higher premiums due to increased health risks. Also, the sum insured for greater coverage amounts, leads to higher premiums. The specific coverage options selected, such as additional treatments or enhanced benefits, may also contribute to pricing of the insurance products.

In addition, insurers look into factors such as actuarial principles, and claim experience, morbidity, medical inflation, medical conditions and pre-existing diseases, commission and expenses of management, interest rates, cost of capital, product features etc. in computing/revising the premium. There is no proposal under consideration at the Ministry to mandate parametric insurance as default for rural areas”.

4.46 The Committee asked to provide a comparative analysis of claim rejection ratios between public and private insurers, specifically addressing the systemic failure, that leads to frivolous repudiations during active hospitalizations. Further, the Committee enquired why recurring structural deficiencies persist in the private segment—especially in critical illness cases—and what measures are being taken to ensure the system functions reliably to secure legitimate payouts. In a written reply, the DFS has stated the following:-

“Insurance companies process health insurance claims as per the terms and conditions of the policy. As per data published by Insurance Regulatory and Development Authority of India (IRDAI), during FY 2024-25, insurers had received 372.58 lakh health insurance claims including 20.73 lakh claims outstanding from FY 2023-24. Out of these, 326.01 lakh (87.5%) claims were paid during the same year, 29.51 lakh (7.92%) claims were repudiated and 17.07 lakh (4.58%) claims carried forward to next year. As per IRDAI Handbook data of 2024-25, the status of claims of general insurers, including public, private and Stand alone Health insurers is as below:

Status of Claims of General Insurers 24-25 (IRDAI Handbook data)					
	Claims O/S at start of the period	Claims intimated/ booked during the period	Claims paid during the period	Claims repudiated during the period	Claims O/S at the end of period
Public Sector	22,95,420	2,15,51,599	2,14,07,868	5,44,687	18,21,741
Private Sector	2,48,39,601	7,96,82,778	5,92,35,233	16,71,436	3,07,02,120
Stand alone Health Insurers	2,58,557	77,86,645	71,43,761	5,67,722	3,33,719

Some of the reasons for repudiating the claims could be claim being inadmissible on account of being an exclusion, hospitalization within waiting period, sum insured limit being exhausted, claim within deductible limit, fraudulent claims, etc. A few reasons for disallowance could be non-medical

expenses, co-payment, deductibles, various sub-limits opted under the policy, capping of benefits, etc.

Further, IRDAI has advised insurance companies to take various measures to improve the customer claim settlement experience. Some of the measures are:

- i. Insurers to have in place, a Policyholders' Protection, Grievance Redressal and Claims Monitoring Committee (PPGR&CM) which shall establish suitable systems and processes towards protection of the interests of policyholders through efficient and effective grievance redressal mechanism and monitoring of claims settlement processes.
- ii. No claim shall be repudiated without the approval of the Insurer's Product Management Committee (PMC) or a three-member sub-group of PMC called the Claims Review Committee (CRC).
- iii. In case, the claim is repudiated or rejected or disallowed partially, details shall be communicated to the claimant along with full details giving reference to the specific terms and conditions of the policy document.
- iv. If a customer is not satisfied with decision of the insurer on the claim, he/she may lodge a complaint with grievance redressal officer of insurer. The policyholders have the right to approach the Insurance Ombudsman without any charges. Insurers must comply with the Ombudsman's decision within 30 days, or they need to pay penal charges of Rs. 5000 per day for each day of delay.

In order to ensure that customers are fully aware about the terms and conditions of the policy and to build policyholder confidence, IRDAI has mandated that:-

- i. Insurance companies will provide Customer Information Sheet (CIS) to each policyholder. CIS shall provide details of coverage offered, exclusions, sub-limits/deductibles, capping, waiting periods, etc.
- ii. Insurers to have in place well-defined service parameters, turnaround times, procedure for expeditious resolution of complaints, steps to prevent mis-selling and unfair business practice;
- iii. Free look period of 30 days (from the date of receipt of the policy document) is given to the policyholder to review the terms and conditions of the policy. If he/she is not satisfied with any of the terms, he/she has the option to cancel his/her policy".

4.47 Regarding budgetary support, capital infusion, or guarantees that have been provided to public sector insurance companies during the last five years, and achievement of outcomes in terms of solvency, claim settlement ratios, and coverage expansion, the DFS has submitted written reply as under:-

"While no capital infusion has been given to LIC, GIC Re, AICIL and NIACL during the period, the details in respect of other companies is as follows:

(₹ in crore)

FY	Particulars	NICL	UIICL	OICL	Total
2019-20	Capital Infusion of ₹ 2500 crore released on 11.03.2020	2400	50	50	2500
2020-21	Capital Infusion of ₹3475 crore released on 29.7.2020	1675	1080	720	3475
2020-21	Capital Infusion of ₹ 3475 crore released on 18.11.2020	800	1825	850	3475
2020-21	Capital Infusion of ₹ 3000 crore released on 30.3.2021	700	700	1600	3000
2021-22	Capital Infusion of ₹ 5000 crore released on 30.3.2022	3700	100	1200	5000
	<b>Total</b>	9275	3755	4420	17450

The 4 PSGICs including NIACL have made a turnaround from total aggregate losses of ₹ 10,607 crore in 2022–23 to total aggregate profits of ₹ 803 crore in 2024–25. With a robust grievance redressal mechanism and digitization of processes, the companies have achieved claims efficiency. They have also implemented customer-centric measures such as introducing new products, a 'go-to-market' approach, etc. Information regarding the performance indicators of the companies is given below:

<u>United India Insurance Company Limited</u>						
Particulars	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gross Premium (Rs Cr)	17,515	16,705	15,722	17,644	19,853	20,072
Average Solvency Ratio (without forbearance)	0.3	1	0.51	-0.29	-0.59	-0.65
Average Net Incurred Claims Ratio	101.46%	88.45%	98.57%	92.84%	96.50%	92.93%
Average Expense Ratio	24.99%	27.73%	30.82%	40.97%	21.49%	16.68%
Profit / Loss (in Crores)	-1486.00	-985.00	-2136	-2829	-804	154
<u>The Oriental Insurance Company Limited</u>						
Particulars	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gross Premium (Rs Cr)	13,996	12,747	14,020	15,993	18,794	20,327
Average Solvency Ratio (without forbearance)	0.92	1.32	0.15	-0.96	-1.06	-1.03
Average Net Incurred Claim Ratio	102.34%	95.33%	110.80%	112.14%	98.89%	100.75%
Average Expense Ratio	40.04%	36.82%	34.27%	42.44%	22.51%	16.84%
Profit / Loss (in Crores)	-1,524.11	-1,525.44	-3,115.16	-4,968.11	18.61	143.97
<u>National Insurance Company Limited</u>						
Particulars	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gross Premium (Rs Cr)	15,312	14,186	13,077	15,206	15,180	16,833
Average Solvency Ratio (without forbearance)	-0.75	0.29	0.59	-0.29	-0.45	-0.67
Average Net Incurred Claims Ratio	105.86%	86.23%	104.21%	100.85%	95.90%	100.22%
Average Expense Ratio	57.18%	34.82%	29.95%	44.61%	31.01%	27.47%
Profit / Loss (in Crores)	-4,108	-562	-1,674	-3,865	-187	-483.18

4.48 As the solvency ratios of Oriental Insurance and National Insurance have fallen into negative territory—well below the mandatory regulatory threshold of 1.5—and no further capital infusion has been proposed, the Committee desired to know whether there is a plan to list these entities on the stock exchanges to raise the necessary capital and strategy for restoring their financial viability without direct fiscal support, the DFS has stated the following in their written submission:-

“As of the projections for FY 2024-25, the three PSGICs, Oriental Insurance Company Ltd, National Insurance Company Ltd and United India Insurance Company Ltd have negative solvency. However, the 3 PSGICs have considerable assets and Regulatory forbearance allows for the inclusion of a portion of unrealized gains (represented in the Fair Value Change Account) into the calculation of the Available Solvency Margin. In regard to the listing of share, there is no proposal under consideration.

The Indian Accounting Standards (Ind AS) will tentatively be implemented for insurers in India from 1st April, 2027 and it is expected to enhance the overall transparency of financial reporting and provide a clearer view of insurers' financial position and performance, including solvency. Ind AS are Indian financial reporting standards aligned with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). IFRS provide globally accepted accounting framework designed to enhance consistency, transparency, and comparability of financial statements across jurisdictions. The standard introduces a more granular approach to grouping insurance contracts and early recognition of losses on loss-making contracts. In addition, Ind AS 117 requires enhanced disclosures relating to assumptions, movements in insurance liabilities and profit, enabling better understanding and comparability across insurers. Overall, the transition to Ind AS enhances transparency and comparability, improves the quality of disclosures, and strengthens investor confidence, thereby benefiting various stakeholders."

4.49 Regarding the issue of public concern over private-sector claim settlement difficulties, the Committee asked whether LIC can be empowered to provide greater assurance and more robust health insurance protection to policyholders, particularly to address the serious challenges patients face at the point of care, the DFS has submitted written reply as under:-

"IRDAI has advised insurance companies to take various measures to improve the customer claim settlement experience. Some of the measures are:

- i. Insurers to have in place, a Policyholders' Protection, Grievance Redressal and Claims Monitoring Committee (PPGR&CM) which shall establish suitable systems and processes towards protection of the interests of policyholders through efficient and effective grievance redressal mechanism and monitoring of claims settlement processes.
- ii. No claim shall be repudiated without the approval of the Insurer's Product Management Committee (PMC) or a three-member sub-group of PMC called the Claims Review Committee (CRC).
- iii. In case, the claim is repudiated or rejected or disallowed partially, details shall be communicated to the claimant along with full details giving reference to the specific terms and conditions of the policy document.
- iv. If a customer is not satisfied with decision of the insurer on the claim, he/she may lodge a complaint with grievance redressal officer of insurer. The policyholders have the right to approach the Insurance Ombudsman without any charges. Insurers must comply with the Ombudsman's decision within 30 days, or they need to pay penal charges of Rs. 5000 per day for each day of delay.

Further, as per Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests, Operations and Allied Matters of Insurers) Regulations, 2024:

- Every insurer shall have a system, including IT systems, and a procedure for receiving, registering and disposing of grievances in each of its offices. Every insurer shall publicize its grievance redressal procedure and ensure that it is specifically made available on its website.
- Every insurer and where relevant, the distribution channel, shall have in place robust procedures and effective mechanism to resolve grievances of policyholders and/ or claimants efficiently, effectively and in a timely manner.
- No insurer or distribution channel shall prohibit, bar or discourage any policyholder or claimant from lodging any grievance to the Authority.
- The Grievance Redressal Procedure as may be specified shall be followed by all insurers and distribution channels.
- Insurers shall widely publish the availability of option to the complainant for taking up grievance with Insurance Ombudsman, in case the grievance is not resolved to the satisfaction of the complainant”.

4.50 With regard to guardrails that are in place to control exposure limits and concentration risk, with respect to investments made by LIC of India into large private corporate companies, the following written reply has been submitted by DFS:-

“As on 30<sup>th</sup> Sep 2025, LIC’s investment exposure in the Debt and Equity of public and private sector companies is as follows:

(in Rs. Crore)

Particulars	Book value – Equity	Book value – Debt
Public Sector	2,35,469.10	262,695.00
Private Sector	7,04,024.67	202,046.00
	9,39,493.77	4,64,741.00

As per SEBI guidelines, all listed companies have to disclose the names of the shareholders holding 1% or more of the shares held in the company. Accordingly, the information about companies, where LIC holds 1% or more equity stake, is available in public domain.

List of business groups in which combined exposure of LIC exceeds ₹10,000 Crore is placed below:

(in Rs. Crore)

Sr No	Group name	Book value ( Debt and Equity)
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1	Tata	88,404.28
2	HDFC	80,843.01
3	Reliance	60,065.56
4	Adani	47,633.78
5	SBI	46,621.76
6	L&T	40,276.72
7	Unilever	29,814.40
8	I.D.B.I.	29,134.51
9	Mahindra	26,337.95
10	Birla Aditya	26,156.49
11	I.C.I.C.I.	25,356.38
12	Bajaj	25,345.47
13	I.T.C.	22,846.27
14	Asian Paints	20,324.26
15	Kotak Mahindra	20,071.80
16	HCL	18,847.54
17	Vedanta	16,969.94
18	Punjab National Bank	15,053.64
19	Bank of Baroda	13,530.85
20	Shriram	12,262.70
21	Bharti Telecom	11,972.85
22	Samman	11,874.35
23	JSW (SAJJAN )	11,872.57
24	Canara Bank	10,699.48
25	Sun Pharmaceutical	10,171.28

4.51 The Committee asked whether pre-insurance inspections are being consistently undertaken by motor vehicle insurers, the specific circumstances under which such inspections are mandated, and the measures being implemented to streamline the process and improve the overall customer experience. The DFS has submitted the following written reply:-

“In respect of motor vehicle insurance, a pre-insurance inspection or pre-policy inspection, is initiated by the insurance company to confirm the vehicle's existence, value, and current state and are done by professional investigators. The purpose is to check for pre-existing damages or modifications, validate vehicle details (engine/chassis, age, condition) which enables to determine the premium and risk the insurer will take on thus helps to prevent fraudulent claims on pre-existing defects. This further helps in smooth claim processing thereby ensuring policyholders protections. The process is generally done if there is a “break in insurance” i.e., policy lapsed or has already expired or when coverage is being changed or enhanced. Many insurers now use mobile apps to allow owners to take 360-degree videos and photos of the car for AI-powered assessment”.

4.52 Regarding the key challenges currently faced by the insurance sector, along with the reforms proposed or under consideration to address these challenges; and the estimated fiscal implications of the proposed reforms in the insurance and pension sectors, including the impact on Budgetary allocations, tax expenditures, and government liabilities, the following written submission has been made by the DFS:-

#### “Challenges Faced by the Insurance Sector

- i. Low penetration and density: A substantial portion of the population, particularly in rural areas, remains underinsured. This limited reach impedes sectoral growth and restricts broader financial inclusion.
- ii. Rural and social sector coverage.
- iii. NatCat events and losses are likely to increase with rising climate risk exposures, infrastructure development, and rural-to-urban migration. As India is facing an increasing number of natural calamities, insurance coverage for these catastrophes should be part of the country's vision, especially for properties of economically vulnerable groups in areas susceptible to calamities. It should provide the option to seek additional reinsurance support and accessibility for innovative risk solutions at the regional or state level.
- iv. Bridging the protection gap: The protection gap refers to the difference between the insurance amount that is economically beneficial and the coverage amount purchased. This recognizes the need for new protection products to address evolving risks, increase reach, and ease of doing business through technical interventions, and the focus of the Government to drive financial inclusion with far-reaching insurance schemes.

#### Reforms

- i. Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025

The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 has amended various provisions of the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the Insurance Regulatory and Development Authority Act, 1999, with a view to enhance citizen protection, deepen insurance penetration, accelerate the growth and development of the insurance sector, and enhance the ease of doing business. The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 was notified on 21.12.2025 and came into effect on 05.02.2026. Important provisions are as below:

- **Increased FDI limit:** The amendment raised the Foreign Direct Investment limit in Indian insurance companies from 74% to 100%. This will help in attracting stable and sustainable investment, facilitate technology transfer, and enhance insurance penetration and social protection.
- **Promote Ease of Doing Business:** To ensure uninterrupted service and support to policyholders and to promote ease of doing business, the Act provides for one-time registration of insurance intermediaries. Further, the limit for seeking IRDAI approval for transfer of shares of paid-up equity capital has been raised from the current 1% to 5% for insurance companies. The requirement of Net Owned Funds for foreign re-insurers has been reduced from Rs. 5,000 crores to Rs. 1,000 crores to facilitate entry of more re-insurers, helping build greater reinsurance capacities in the country.
- **Creation of Insurance Awareness:** The amendment also provides for the creation of a Policyholders' Education and Protection Fund to increase citizens' awareness towards risk protection and promote education for policyholders.
- **Improved Policyholders' Protection:** For greater policyholders' protection, the Insurance Regulatory and Development Authority of India (IRDAI) has been granted the power of disgorgement of wrongful gains made by an insurer or intermediary. The maximum limit of penalty on insurers for default in complying with or acting in contravention of the Insurance Act or the IRDAI Act has been increased from Rs. 1 crore to Rs. 10 crore. Insurance intermediaries have also been included under this provision. This would act as a deterrent and encourage legal and regulatory compliance.
- **Alignment with the Digital Personal Data Protection Act, 2023:** The amendment creates a legal anchor for the effective use of digital public infrastructure in the insurance sector to ensure that policyholders' information is duly secured and protected.

ii. Amendment of Indian Insurance Companies (Foreign Investment) Rules, 2015

The Indian Insurance Companies (Foreign Investment) Amendment Rules, 2025 were notified on 30.12.2025 to facilitate ease of doing business by

rationalising the conditions for Indian insurance companies and insurance intermediaries.

- Earlier, the Indian Insurance Companies (Foreign Investment) Rules, 2015 imposed several restrictions on insurance companies and insurance intermediaries with respect to board composition, i.e., proportion of independent directors and nationality of board members and key managerial personnel (KMPs), dividend repatriation, and related party transactions. The said rules have been amended in line with global best practices. The condition of a majority of directors and KMPs to be Resident Indian Citizens has been done away with.

- Further, Rule 4A prescribing conditions (in terms of solvency requirement and number of independent directors) for insurers with foreign shareholding of more than 49% has also been omitted to provide a level playing field to insurers.

- Also, Rules 9(3)(iii), (v), and (vii), which prescribe conditions for insurance intermediaries with majority shareholding of foreign investors, have been omitted to promote ease of doing business.

iii. Digital Infrastructure: Leveraging digital infrastructure, mobile platforms, etc., to simplify onboarding, premium payments, and claims settlement, thereby reducing barriers for rural populations.

iv. Affordable and Tailored Products: Development of micro-insurance and parametric insurance schemes designed for farmers, small businesses, and informal workers.

v. Innovative Distribution Channels: Use of local agents, self-help groups, cooperatives, and microfinance institutions to deliver insurance products in remote areas.

vi. As per rural and social sector obligations mandated by IRDAI, the minimum number of lives to be covered is 15% in any Panchayat. Insurers may also be encouraged to design affordable, simple products tailored for rural households, farmers, and informal workers.

vii. Parametric Insurance Development: Promote parametric products that trigger payouts based on measurable events (e.g., rainfall, earthquake magnitude) rather than lengthy claims processes.

viii. Awareness and Education: Conduct campaigns in disaster-prone regions to build trust and explain how parametric insurance can provide quick relief.

ix. Product Innovation: New protection products may be tailored to evolving risks (e.g., health pandemics, lifestyle diseases, climate-related risks).

x. Awareness and Education: Partner with schools, community groups, and MSME associations to spread insurance literacy.

## L. CYBER FRAUD

4.53 Recent developments relating to the Department of Financial Services indicate a sustained policy focus on financial inclusion, institutional performance, and protection of citizens' financial assets. However, the latest reports from the RBI (Annual Report 2024–25, 13,516 digital fraud cases) highlight critical regulatory concerns, particularly the rise in sophisticated financial fraud and the need for more robust preventive measures. As digital transactions scale, the Committee asked DFS regarding steps taken to address the “human element” in cyber-fraud and the efficacy of the current grievance redressal mechanisms, availability of cyber insurance products aimed at mitigating losses arising from digital fraud, coordination among stakeholders, technology to combat digital fraud, ensuring that the push for digital deep-linking does not compromise the security of vulnerable depositors. In this regard, Secretary, DFS has narrated the following before the Committee during oral evidence held on 18.2.2026:-

*“We have now a very structured mechanism for coordination among all the agencies involved in the prevention and prosecution of national frauds in the financial sector. We have I4C, which coordinates with RBI, DFS, MeitY, Telecom, banks and State Police Departments, and takes preventive action. We do hold regular coordination meetings and ensure that all the fraud-related matters are sorted out at the higher level....*

*....There are three categories of actions taken from three different organizations. One is from the Government side, and the other is from RBI side. The third is from the bank side. From the Government side, from the MeitY, we have what is known as CERT-In. They do periodical audit to determine the resilience of all the financial institutions and that report is shared with us and the banks. The banks have to report back to the respective Boards what action they have taken.*

*Now, we also recently introduced shifting of bank domains to exclusive internet domain (bank.in), so that fraudsters cannot use this thing. We have done that. Under the MHA, I4C, a coordinating agency with law enforcement agencies was started. We hold regular coordination meetings with them. They coordinate with State Governments, the banks, the DOT and MeitY.*

*Now, we also use UIDAI for the verification. They are also with us. We conduct regular review meetings with all the stakeholders, including all the regulators, the banks, all the Ministries involved, whoever is there. We have issued several advisories on the preventive steps they need to take.*

*Recently, we also constituted Payment Regulatory Board under the Parliamentary Act. Payment Regulatory Board, which is legally empowered body to issue guidelines on the cyber security now.*

*Last month we have also formed a separate India Digital Payments Intelligence Corporation to support financial institutions to prevent the cyber attacks and cyber frauds in the country. This is a separate intelligence corporation which we created. This is going to support all the financial institutions.*

*From the RBI side, the RBI has issued a cyber security framework for the banks and master directions on IT governance, risk controls and assurance practices. The RBI also issued master directions on fraud risk management in commercial banks in 2024. For mule accounts also, RBI has issued advisory in December 2024. We have what is known as cyber crisis management plan if there are cyber attacks.*

*We have a 24 x 7 control room. If there is any major incident and if any of the bank or the Ministry get reported, and the CERT-In also gets reported, then we will immediately take action, whatever is required.*

*Other than that, there are major three categories of cyber frauds. One is, of course, people share their OTP or they give the phone, forget about it, and then cyber frauds happens. The second one is and I call it as actually greediness. Large number of people are actually greedy. They think that money can double in one day or one week or 10 days. They are all actually victims of fraud. That is investment frauds. It is not just they are sharing OTP. They do not share OTP. Actually, they invest their money in the fraud schemes. They get some lucrative investment message on WhatsApp, and then they become greedy. These are all things which are happening. Most of the large amounts have been lost due to investment in fraudulent schemes. They get attracted through some WhatsApp message or through other source. Here, we cannot do anything. If the fraud happens without their involvement and if it is reported to the bank, banks actually compensate. I think the master directions are available. Without their involvement, if it happens, the banks compensate. We have a system in place. But the biggest thing we need to do is the customer awareness about cyber frauds*

*I think when people receive attractive offers, they are drawn to them. But there are no such things – money cannot be doubled in one week or ten days. I believe people should understand this. They should invest carefully, they should take care of these matters. Banks have been running a lot of awareness campaigns. The RBI also has been conducting campaigns. IRDAI does a lot of campaigning as well. Over the last year, I do not know how many of you have seen it, but we have been extensively campaigning to educate citizens about potential cyber frauds.*

*We also receive a large number of complaints. I receive a few every day. Many come through email, SMS, from unknown persons. We try to address them, try to resolve them. But the best prevention is complete awareness*

*about these issues. I hope that with the new guidelines we have issued, and with the India Digital Payment Intelligence Corporation that we launched last month, cyber threats and cyber attacks can be reduced.*

*This is happening everywhere. It is not just Jamtara, where we often see it highlighted on the India heat map. People are operating from everywhere. There is no State that is not a source of these attacks. Every State can be a source. It is happening everywhere”.*

4.54 Regarding the number of cyber frauds in Public Sector banks vis – a- vis private sector banks, Secretary, DFS has stated as under:-

*“...it happens equally – public sector banks, private sector banks, even small finance banks. All are affected; the victims are across institutions.*

*Two things are required for such frauds. One is a SIM card. The other is a bank account. To transfer money, they use technology. The transfer happens very fast. By the time you realise it, the money is already gone. Whenever we get the opportunity, we freeze the accounts. Then we conduct an investigation. That is another regulatory matter”.*

4.55 Furthermore, DFS has submitted the following written replies with regard to digital fraud: -

“IRDAI has undertaken a series of regulatory and institutional measures to strengthen data protection and cyber security in the insurance sector, in alignment with the evolving national data protection framework. IRDAI has mandated protection of policyholder data residing in the IT systems of regulated entities through the issuance of the IRDAI Information and Cyber Security Guidelines, 2023, which require classification of data based on sensitivity, end-to-end encryption of data, implementation of risk-based access controls, robust incident reporting mechanisms, a clearly defined governance structure ensuring accountability at the Board level, enhanced due diligence when onboarding third party service providers, stakeholder awareness across the sector and an annual cyber security assurance audit to be carried out by the Cert-In empanelled vendor. Further, under the IRDAI (Maintenance of Information by the Regulated Entities and Sharing of Information by the Authority) Regulations, 2024, insurers are mandated to maintain electronic records of all policies issued and claims made, with a specific requirement that such data be stored and maintained only in data centres located in India. Consistent with this, the Information and Cyber Security Guidelines also mandate that business and critical data, including ICT logs, be stored within India. These measures reflect a coordinated and forward-looking approach by IRDAI and other stakeholders to ensure robust data protection, cyber resilience, and enhanced trust in the insurance ecosystem. As on date, Cyber Insurance is available in the Indian Insurance market being offered by general insurance companies through various tailor-made insurance products catering to both retail and commercial segments”.

RBI has issued Master Direction on Know Your Customer (KYC), which lays down detailed requirements for Customer Due Diligence (CDD), ensuring that REs undertake proper identification and verification at the time of onboarding of customers and maintain continuous monitoring thereafter. Ongoing due diligence, including periodic KYC updates, transaction monitoring, and scrutiny of high-risk accounts, ensures that any inconsistencies or unusual patterns are promptly identified and addressed. These measures not only enhance the integrity of the financial system but also play a critical role in detecting and preventing the misuse of accounts, such as their operation as mule accounts by fraudsters, thus supporting both compliance objectives and the broader fight against financial crime.

Banks have also proactively implemented robust measures to detect, prevent, and monitor mule accounts, leveraging advanced technology and meticulous verification processes. Automated systems like Anti-Money Laundering (AML) tools, Enhanced Fraud Risk Management Systems (EFRMS), and AI/ML-based solutions enable real-time monitoring and detection of suspicious transaction patterns

The Indian Digital Payment Intelligence Corporation (IDPIC) has been envisaged as a Digital Public Infrastructure (DPI) for mitigating digital payment frauds through real-time intelligence sharing and deployment of advanced technological solutions across the financial ecosystem. IDPIC was incorporated by the Indian Banks' Association on 16 October 2025 as a Section 8 company under the Companies Act, 2013. The objectives of the DPIP is to assist banks in identifying suspicious payment transactions on a real-time basis by factoring in the transaction behaviour of both the sender and the beneficiary

The Department of Financial Services (DFS) has been continuously reviewing the issue of digital payment frauds and sensitising banks through targeted advisories and follow-up actions. DFS issued an advisory dated 23.06.2025 on enhanced due diligence and monitoring measures for detection and prevention of mule accounts, emphasising robust Know your Customer / Enhanced Due Diligence (KYC/EDD), real-time transaction monitoring, inter-agency intelligence sharing, and accountability mechanisms. Further, vide advisory dated 28.01.2026, DFS highlighted emerging misuse of Udyam Registration Certificates, Form-60, and digitally opened accounts for cyber-enabled frauds, and advised banks to undertake stricter onboarding controls, enhanced monitoring of high-risk accounts, and systemic interventions to plug identified gaps.

Reserve Bank of India (RBI) set up a Cyber Security and IT Risk (CSITE) Group within its Department of Supervision in 2015. Under CSITE Group, appropriate regulatory and supervisory mechanism has been put in place to take care of regulation and supervision of the Regulated Entities (REs) from cyber security perspective. A detailed cyber security framework was prescribed for all Commercial Banks in 2016. The framework was derived from international frameworks (such as NIST) and tuned to the requirements of the Indian banking sector.

The framework mandates:

- Role-based cybersecurity training for IT and security personnel.
- Periodic awareness programs for all employees to foster a cyber-aware culture.
- Simulation exercises and red team-blue team drills to enhance preparedness and response capabilities.
- Continuous skill development of Chief Information Security Officers (CISOs) and IT risk teams.

Further, Banks are assessed periodically by RBI for their compliance to its instructions/ regulation including cybersecurity and eKYC. RBI also conducts risk based on site IT Examinations of its supervised entities (SEs) periodically to ensure compliance with relevant instructions on Cybersecurity. RBI has prescribed third party audit by CERT-In empanelled auditors where appropriate, for assurance on IT/ cyber risk in supervised entities. Further, various periodic offsite data are collated and analysed to ensure continuous monitoring of the supervised entities.

National Payment Corporation of India (NPCI) and its applications such as Unified Payments Interface (UPI) and Bharat Bill Payment System (BBPS) are regularly audited as per the guidelines issued by the Ministry of Electronics and Information Technology (MeitY) for cybersecurity. As a part of these audits systematic and manual penetration testing, and configuration audit, including checks of DoS and DDoS attacks are done by a Indian Computer Emergency Response Team (CERT-In) empanelled auditor.

Ministry of Home Affairs (MHA) has established the 'Indian Cyber Crime Coordination Centre' (I4C) to deal with all types of cybercrime in a coordinated and comprehensive manner. The scheme is envisaged to act as a nodal point to curb cybercrime, ensure ease of filing cybercrime related complaints, identifying cybercrime trends/ patterns, focus on public awareness about cybercrime modus operandi and patterns and creating national ecosystem to combat all types of cybercrime.

Further, Indian Cyber Crime Coordination Center (I4C) has formulated the Standard Operating Procedure (SOP) for the National Cybercrime Reporting Portal (NCRP). The SOP aims to establish a uniform, transparent and time-bound mechanism for handling cyber-enabled financial crime complaints, including custody of funds, retrieving the defrauded money to victims and grievance redressal, across all States/UTs, banks, financial intermediaries and other stakeholders.

Banks have also proactively implemented AI-powered solutions to detect and prevent mule accounts, which are commonly used for financial fraud. AI/ML-based Enhanced Fraud Risk Management Systems (EFRMS) and Anti-Money Laundering (AML) tools analyse transaction patterns to identify suspicious activities in real-time.

In order to balance the effective deployment of technologies with the necessary cyber security safeguards, Public Sector Banks (PSBs) are organising a series of 'Hackathons' in collaboration with different IITs, Universities and Science Institutions. All 12 PSBs are working on problem statements focused on areas such as AI-powered fraud detection, digital payments security, and blockchain-based reconciliation.

AI models such as MuleHunter.AI™ have been deployed through the Reserve Bank Innovation Hub, a subsidiary of the Reserve Bank of India (RBI), to identify and eliminate mule accounts used for fraudulent transactions. AI-driven machine learning algorithms help in monitoring transactions, detecting anomalies, and preventing money laundering and cyber fraud. Additionally, it reduces the identification time substantially, enabling timely and effective detection of mule accounts.

With regards to compensation mechanism to immediately compensate the hapless customer, pending further investigation and final traceability of funds, RBI issued circular dated July 06, 2017 on 'Limited liability of customers in unauthorized electronic banking transactions' addressed to SCBs, Small finance banks and Payment banks and circular dated December 14, 2017 on 'Limiting Liability of Customers of Co-operative Banks in Unauthorised Electronic Banking Transactions' addressed to all cooperative banks has been issued. Further, the burden of proving customer liability in case of unauthorised electronic banking transactions shall lie on the bank." The Reserve Bank has, vide circular dated September 20, 2019, put in place a framework on Turn Around Time (TAT) for resolution of failed transactions and compensation framework across all authorised payment systems.

Further, RBI and Banks have been taking up awareness campaigns through SMS, radio campaign, publicity on prevention of 'cyber-crime'. Further, RBI has been conducting electronic-banking awareness and training (e-BAAT) programmes which focuses on awareness about frauds and risk mitigation. CERT-In is regularly sharing safety and security tips, awareness posters, infographics, booklets and videos through its official websites and social media handles for sensitizing internet users on cyber security threats and prevention measures.

CERT-In conducts Cyber security mock drills regularly to enable assessment of cyber security posture and preparedness of organisations in the critical sectors including banking sector. Further, it also conducts cyber security training programs in collaboration with industry partners to upskill the cyber security workforce in Government, public and private organizations.

Indian Digital Payment Intelligence Corporation (IDPIC) has been envisaged as a Digital Public Infrastructure for mitigating payment fraud through real-time data exchange and deployment of advanced technological solutions. The Indian Banks' Association incorporated IDPIC on 16 October 2025 as a Section 8 company under the Companies Act, 2013.

In terms of Section 3(2) of the Payment and Settlement Systems Act, 2007, the Payments Regulatory Board has been constituted to exercise and perform the powers and functions relating to regulation and supervision of payment systems in the country. The Board comprises senior representatives including Secretary, Department of Financial Services (DFS), as a member. This provides an institutional, statutory mechanism at the central level for coordinated oversight and policy direction in the payments ecosystem, including aspects relating to safety, security and resilience of payment systems.

RBI has launched an Artificial Intelligence (AI) based tool 'MuleHunter' for identification of money mule and advised the banks and financial institutions for its uses. Additionally, National Payment Corporation of India (NPCI) provides a fraud monitoring solution to all the banks to generate alerts and decline suspicious transactions by using AI/ ML based models for UPI transactions.

RBI has issued Master Directions on Digital Payment Security Controls in February, 2021 to combat web and mobile app threats. These guidelines mandate the banks to implement common minimum standards of security controls for various payment channels like internet, mobile banking, card payment etc. RBI and banks have also been taking up awareness campaigns through short SMS, radio campaign, publicity on prevention of 'cyber-crime' etc.

Further, in order to prevent frauds related to UPI transaction, NPCI has implemented device binding between mobile number and the device, two-factor authentications through PIN, daily transaction limit, limits and curbs on use cases etc. NPCI also provides a AI / Machine Learning (ML) based fraud monitoring solution to all the banks to generate alerts and decline transactions”.

4.56 On being asked by the Committee as to whether a dedicated funding framework exists for fintech supervision and technological upgrades and to provide the details of expenditure incurred on cybersecurity infrastructure for banking and digital payment systems, the DFS has submitted the following:-

“The banks and other payment system providers incur expenses based on the scale of operations, transaction volumes processed and their envisaged growth in the future. The overall expenditure incurred on cybersecurity infrastructure for banking and digital payment systems is not specifically available. However, the IT expenditure of PSBs (including Data Centre Costs, Cyber Security tools, Infosec and Risk Management Expenses, Testing and Certification etc) ranges from 20% to 40 % of the total expenditure of the bank. Of this approx. cost incurred on cybersecurity infrastructure is 10-12 percentage of the total IT/ digital system budget.

Since, most of the entities in the fintech sector are not directly regulated at present, therefore each bank has their own bank approved policy for onboarding the fintech's, with a view to getting innovative products/ technologies/ services/ solutions. These partners typically have few barriers, rules, limitations, constraints, and as such their success is based on experimentation and simulation, unhindered by credentials and experience. Banks have on-boarded several leading Fintech firms to co-develop products that cater to diverse segments such as pre-approved personal loans, digital savings and current account openings with video- KYC implementation”.

4.57 The Standing Committee on Finance, in its Fifty-Ninth Report (17th Lok Sabha) on “Cyber Security and Rising Incidence of Digital Payment Frauds,” had emphasized the need for stronger customer protection frameworks, including time-bound and automatic compensation for victims of unauthorized digital transactions. It has been reported that the Reserve Bank of India (RBI) Governor has recently announced additional customer protection measures, including a proposal for compensation of up to ₹25,000 in cases of digital fraud, along with a broader review of existing schemes to enhance consumer safeguards.

In this context, on being asked by the Committee as to whether the Ministry of Finance has examined the recently announced measures of the RBI in light of the Committee's recommendations, furnish details of the Ministry's assessment and indicate the extent to which the Committee's recommendations have been operationalized, and to what extent do these measures align with international benchmarks, the following written submission has been made by the DFS:-

“The Government has examined the recommendations contained in the 59th Report of the Standing Committee on Finance regarding cyber security and cyber-enabled financial frauds, and most of the recommendations have been accepted and are under implementation through coordinated action by the Ministry of Finance, Department of Financial Services (DFS), RBI, MeitY, MHA and DoT. Key measures taken include:

- Indian Digital Payment Intelligence Corporation (IDPIC) has been envisaged as a Digital Public Infrastructure for mitigating payment fraud through real-time data exchange and deployment of advanced technological solutions. The Indian Banks' Association incorporated IDPIC on 16 October 2025 as a Section 8 company under the Companies Act, 2013.
- The Cabinet Secretariat, through gazetted notification no. CG-DL-E-27092024-257563, dated 27.09.2024 has recently amended the Government of India (Allocation of Business) Rules, 1961. As per the notification, National Security

Council Secretariat (Rashtriya Suraksha Parishad Sachivalaya) has been assigned the responsibility of providing overall coordination and strategic direction for cybersecurity. Further, the notification also states “matters relating to security of telecom networks” has been assigned to Department of Telecommunications under Ministry of communications. “Matters relating to Cyber Security as assigned in the Information Technology Act, 2000 (21 of 2000) and support to other Ministries / Departments on Cyber Security” have been assigned to Ministry of Electronics and Information Technology. “Matters relating to Cyber Crime” has been assigned to Ministry of Home Affairs.

- In terms of Section 3(2) of the Payment and Settlement Systems Act, 2007, the Payments Regulatory Board has been constituted to exercise and perform the powers and functions relating to regulation and supervision of payment systems in the country. The Board comprises senior representatives including Secretary, Department of Financial Services (DFS), as a member. This provides an institutional, statutory mechanism at the central level for coordinated oversight and policy direction in the payments ecosystem, including aspects relating to safety, security and resilience of payment systems
- MHA has established the ‘Indian Cyber Crime Coordination Centre’ (I4C) to deal with all types of cyber crime in a coordinated and comprehensive manner. The scheme is envisaged to act as a nodal point to curb cybercrime, ensure ease of filing cybercrime related complaints, identifying cybercrime trends/ patterns, focus on public awareness about cybercrime modus operandi and patterns and creating national ecosystem to combat all types of cybercrime.
- Further, I4C has formularised the Standard Operating Procedure (SOP) for the National Cybercrime Reporting Portal (NCRP). The SOP aims to establish a uniform, transparent and time-bound mechanism for handling cyber-enabled financial crime complaints, including custody of funds, restoration of money to victims and grievance redressal, across all States/UTs, banks, financial intermediaries and other stakeholders.
- The Department of Financial Services (DFS), in collaboration with Public Sector Banks (PSBs) and the Indian Banks Association (IBA), has successfully completed Hackathon 2024 to drive innovation and technology adoption in public sector banking. the hackathon aims to develop practical, scalable solutions to real-world challenges. The problem statements focus on critical areas such as fraud detection, AI-powered analytics, customer service enhancement, digital authentication, VKYC resilience, blockchain-based reconciliation, cybersecurity, and financial literacy. Hackathon 2026 is underway with the theme of Cybersecurity and fraud.
- RBI has launched an Artificial Intelligence (AI) based tool ‘MuleHunter’ for identification of money mule and advised the banks and financial institutions for its uses. Additionally, National Payment Corporation of India (NPCI) provides a fraud monitoring solution to all the banks to generate alerts and decline transactions by using AI/ ML based models for UPI transactions.

With regards to committees’ recommendation regarding the automatic compensation mechanism to immediately compensate the hapless customer, pending further investigation and final traceability of funds, RBI issued circular dated July 06, 2017 on ‘Limited liability of customers in unauthorized electronic banking transactions’ addressed to SCBs, Small finance banks and Payment

banks and circular dated December 14, 2017 on 'Limiting Liability of Customers of Co-operative Banks in Unauthorised Electronic Banking Transactions' addressed to all cooperative banks has issued. Further, the burden of proving customer liability in case of unauthorised electronic banking transactions shall lie on the bank." The Reserve Bank has, vide circular dated September 20, 2019, put in place a framework on Turn Around Time (TAT) for resolution of failed transactions and compensation framework across all authorised payment systems.

Further, regarding alleged cybercrime frauds, it is observed that despite the efforts of stakeholders, the recovery rate of defrauded amount is not very encouraging. Considering the same The Reserve Bank's Payments Vision 2025 provides for conducting a study on scope / feasibility of creation of Digital Payments Protection Fund (DPPF). Immediately reimbursing a customer without following due process as laid out in the payment system's guideline may create perverse incentives wherein the customer may report even a genuine transaction as fraudulent and claim the amount."

4.58 Regarding the financial implications for Public Sector Banks due to upfront customer compensation, a dedicated funding or risk-sharing framework, timeline for final settlement of digital fraud claims and institutional preparedness to handle a potential surge in compensation claims, the following written submission has been made by the DFS:

"Based on the past data from I4C, MHA (period from January to August 2025 and annualised), the maximum annual compensation to be paid under the framework is estimated to be ~₹3,000 crore, out of which ~₹2,500 crore is to be borne by RBI and ~₹500 crore is to be borne by banks. However, actual compensation may vary depending on number and value of frauds in the period for which the framework is in operation.

Considering that public sector banks had reported aggregate net profit of ₹1.78 lakh crore during FY 2024-25 (corresponding figure for all scheduled commercial banks was ₹4.01 lakh crore), the proposed compensation framework is expected to have negligible impact on the profitability of public sector banks and in general, on the profitability of entire banking sector.

The compensation framework will be funded by RBI from the Depositor Education and Awareness Fund (DEAF) and banks as per the arrangement...the proposed compensation framework is expected to have minimal impact on the profitability of banks.

The proposal related to providing compensation for small value digital frauds was announced by RBI on February 6, 2026 and draft guidelines will be issued shortly for public comments.

Aspects related to institutional preparedness will also be considered while operationalising the framework".

**PART -II**  
**OBSERVATIONS / RECOMMENDATIONS**

**1. DEMAND NO.32 - DEPARTMENT OF FINANCIAL SERVICES**

The Committee note that the Department's budget estimates for 2026-27 have seen a substantial increase, reaching Rs. 3,746.95 crore from the previous year's budget estimate of Rs. 1,688.14 crore. The Committee observe that this surge is predominantly driven by gap funding requirements for social security schemes, including Rs. 596.40 crore for the Pradhan Mantri Vaya Vandana Yojana (PMVVY), Rs. 160 crore for the senior citizen pension plan, and Rs. 202 crore for the Atal Pension Yojana (APY). Additionally, the introduction of a Rs. 2000 crore allocation to incentivize low-value BHIM-UPI transactions significantly inflates the overall demand. The Committee recommend that the Department of Financial Services enforce stringent monitoring mechanisms to ensure these funds are released strictly based on utilization trends and the projections of implementing agencies to prevent the idle parking of funds. Furthermore, the Department must strategically balance these gap funding requirements by evaluating the long-term financial sustainability of defined-benefit schemes.

**2. PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)**

The Committee note the monumental scale of PMJDY, which has evolved into the world's largest financial inclusion initiative, successfully opening of 57.64 crore accounts with a cumulative balance of Rs. 2.90 lakh crore as of February 2026. The Committee, however, observe that approximately 25% to 26% of these accounts remain inoperative or dormant,

**prompting the Government to conduct a massive saturation campaign resulting in the re-KYC of over 5.20 crore accounts. The Committee urge the Government to officially pivot its policy focus from mere account acquisition to active usage, increased digital literacy and sustained, outcome-based financial utilization. To achieve this, the Committee recommend aggressive leveraging of the 16.33 lakh Business Correspondent (BC) network of the banks and the 2,421 Centres for Financial Literacy (CFLs) to drive continuous behavioral interventions, ensuring that newly banked households are seamlessly integrated into the formal digital footprint via UPI and Direct Benefit Transfers (DBT).**

### **3. ATAL PENSION YOJANA (APY)**

**The Committee note the allocation of Rs. 202 crore towards the APY Gap Fund for 2026-27, alongside impressive gross enrolments that consistently exceed 1 crore annually, reaching 1.19 crore as of February 2026. The Committee observe, however, that the persistency rate of subscribers remains stagnant at around 50-51%, which directly resulted in a significant underutilization of incentive funds during the 2024-25 fiscal year, leaving Rs. 55.95 crore in savings. The Committee, therefore, recommend that the Department of Financial Services deploy highly targeted capacity-building programs for field staff, BCs, and Self-Help Groups (SHGs) to actively pursue inactive subscribers. The department can also consider introducing flexibility in contributions for informal workers to improve overall persistency. Furthermore, as recommended by the Expenditure Finance Committee (EFC), the Committee strongly urge the Department to critically re-evaluate the**

transition of pension payments to Pension Fund Managers (PFMs) by 2030-31, a move that could significantly minimize the reliance on government gap funding.

#### **4. PRADHAN MANTRI VAYA VANDANA YOJANA (PMVVY)**

The Committee note the escalating gap funding requirement for PMVVY, which has reached Rs. 596.40 crore for the fiscal year 2026-27. The Committee observe that while the scheme effectively provides an assured 7.40% return to 8,25,967 senior citizen subscribers, the subsidy burden borne by the Government—covering the differential between LIC's actual investment yields and the guaranteed payouts—has grown exponentially from Rs. 27.58 crore in 2022-23 to Rs. 597.33 crore in 2025-26 due to market volatility. The Committee recommend that the Government closely monitor this widening differential and its sensitivity to fluctuating interest rate environments. The Department should devise structural mechanisms to insulate future social security initiatives from such unpredictable and heavy reliance on direct fiscal support.

#### **5. PRADHAN MANTRI MUDRA YOJANA (PMMY)**

The Committee note the massive scale and transformative economic impact of PMMY, under which more than 56.78 crore collateral-free loans amounting to ₹38.93 lakh crore have been sanctioned to non-corporate, small enterprises since its inception in April 2015. The Committee observe the critical insights and key recommendations from the "Impact Assessment Report of Pradhan Mantri Mudra Yojana" (2023) conducted by NITI Aayog. The key recommendations of NITI Aayog include the complete digitization of the

lending process for transparency, the establishment of a real-time beneficiary data portal, and the mandate for E-KYC and Udyam registration for robust credit checks. Furthermore, NITI Aayog recommended a shift toward online and social media advertising to reach tech-savvy youth, the implementation of Chatbots for grievance redressal, and the creation of a recognition mechanism to incentivize Member Lending Institutions (MLIs) performing well in aspirational districts and among SC/ST/OBC categories. The Committee further note that while the scheme has successfully generated self-employment—with nearly 68% of loans sanctioned to women entrepreneurs—the assessment identifies a persistent structural imbalance with credit saturation being significantly higher in urban clusters compared to deep rural pockets. The Committee acknowledge that the credit guarantee framework is robustly supported by a ₹3,000 crore corpus provided to the National Credit Guarantee Trustee Company (NCGTC) under the Credit Guarantee Fund for Micro Units (CGFMU). The Committee recommend that the Department of Financial Services (DFS) proactively implement the NITI Aayog recommendations to strengthen the scheme's architecture. Specifically, the Department should prioritize the development of a real-time tracking portal and enforce the use of digital background checks to provide a security net for collateral-free lending.

#### **6. INCENTIVE SCHEME FOR PROMOTION OF RUPAY DEBIT CARDS AND LOW-VALUE BHIM-UPI TRANSACTIONS (PERSON-TO-MERCHANT)**

The Committee note the massive Rs. 2000 crore budgetary allocation for 2026-27 designed to offset ecosystem costs caused by the zero-MDR policy on

RuPay and low-value UPI transactions. The Committee observe that while UPI is expected to process up to 150 billion transactions per month and add 600 million new users, the current government incentive covers merely 11% of the industry's actual costs and 14% of potential MDR collections, creating a structural funding gap impacting long-term infrastructural investment. The Committee recommend that while the proposed 3-year multi-year scheme and cashback components are necessary to democratize digital payments in untapped Tier 3-6 cities, the Department of Financial Services must concurrently explore a self-reliant, tiered revenue model. The Committee would like to emphasize that establishing a viable revenue mechanism is critical to ensuring the UPI ecosystem achieves financial sustainability without perpetually straining the Government exchequer.

## **7. STATUS OF BANKING SECTOR**

The Committee note the unprecedented financial turnaround of the Indian banking sector, highlighted by Public Sector Banks (PSBs) achieving their highest ever aggregate net profit of Rs. 1.78 lakh crore in FY 2024-25, alongside a historic reduction in Gross NPAs to 2.05%. The Committee observe that to fuel the ambitious Viksit Bharat 2047 goals, the Government aims to dramatically increase the credit-to-GDP ratio from its current around 57% and has formed a High-Level Committee to strategize this transition while safeguarding financial stability, inclusion and consumer protection, alongside exploring an increase in the FDI limit for PSBs to 49% to boost stock valuation. The Committee recommend the accelerated deployment of Artificial Intelligence and Machine Learning (AI/ML) to optimize cash-flow-based

lending, early warning systems, and real-time fraud detection. Concurrently, the Committee urge the Government to ensure that aggressive capital expansion, potential mega-mergers, and foreign investment drives do not dilute the PSBs' foundational mandate of driving Priority Sector Lending (PSL) and servicing unremunerative rural branches.

#### **8. DISTRICT CONSULTATIVE COMMITTEE / DISTRICT LEVEL REVIEW COMMITTEE**

The Committee note the pivotal role played by Public Representatives, including Members of Parliament and MLAs, in the quarterly District Consultative Committee (DCC) and District Level Review Committee (DLRC) meetings. These meetings, serve as the primary oversight mechanism for monitoring the Lead Bank Scheme and ensuring that credit flow is prioritized toward the needs of the local community and the priority sector. The Committee observe that the active participation of elected representatives brings necessary legislative accountability to the implementation of financial schemes and ensures that credit distribution aligns with the immediate needs of rural and underserved populations. The Committee observe, however, that the effectiveness of these oversight bodies is frequently undermined by procedural lapses and a lack of seniority in representation. In many instances, meetings are scheduled without providing sufficient notice to Members of Parliament, hindering their ability to participate and provide legislative guidance. Furthermore, the Committee is concerned by the trend of banks deputing junior-level staff who lack the decision-making authority required to resolve systemic bottlenecks or commit to the district-wise credit targets

discussed during these sessions. Such practices render the consultative process redundant and dilute the impact of the Lead Bank Scheme. The Committee, therefore, recommend that the Department of Financial Services issue a comprehensive Standard Operating Procedure (SOP) for holding State Level Bankers' Committees (SLBCs) meetings. To augment this oversight, the Committee further recommend the development of a structured, centralized digital dashboard—modeled after the DISHA platform—to streamline the tracking of DCC/DLRC and SLBC data. The DCC be presided over by the senior most MP of the district. The Committee emphasize that replacing fragmented, quarterly-updated SLBC websites with a real-time tracking mechanism will significantly empower stakeholders to monitor Annual Credit Plans, credit-deposit ratios, and systemic bottlenecks effectively, thereby ensuring that financial inclusion goals are met with transparency and precision.

#### **9. REGIONAL RURAL BANKS (RRBs)**

The Committee note the successful completion of the structural consolidation of RRBs, reducing their number from 43 to 28 highly viable entities across 11 States, eliminating the need for further capital infusion in 2026-27. The Committee observe that RRBs have achieved a historic consolidated net profit of Rs. 7,720 crore in just the first nine months of FY 2025-26, driving Gross NPAs down to a 13-year low of 5.4%, though vulnerabilities remain, particularly the 13.8% GNPA in priority sector education loans. The Committee recommend that RRBs actively mitigate these specific sectoral risks by fully leveraging their inclusion in the Credit Guarantee Fund Scheme for Education Loans (CGFSEL) and aggressively deploying AI-driven

automated Early Warning Signals (EWS). Furthermore, the Committee strongly urge the Government to proceed with guiding highly profitable RRBs toward Initial Public Offerings (IPOs) to attract market capital and enforce higher standards of corporate governance.

#### **10. MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)**

The Committee note the critical importance of the MSME sector—employing 33.34 crore individuals across 7.55 crore registered enterprises—and commend initiatives like the Rs. 10,000 crore SME Growth Fund and the deployment of new digital credit assessment models. The Committee observe that despite a 21.8% year-on-year growth in bank credit to MSMEs, structural deficits persist, forcing MSMEs to rely heavily on NBFCs, which borrow from PSBs but lend at higher risk-adjusted rates, resulting in a 36% CAGR in NBFC-MSME credit. The Committee urge the Government to further bridge this \$530 billion formal credit gap by aggressively expanding structured co-lending arrangements between banks and NBFCs to reduce the overall cost of capital. Additionally, the Committee recommend the robust expansion of the Trade Receivables Discounting System (TReDS) to resolve acute liquidity constraints caused by delayed receivables, thereby ensuring uninterrupted operational cash flow for the 'missing middle'.

#### **11. INSURANCE SECTOR**

The Committee note that the insurance sector is undergoing a significant legislative and structural transition, highlighted by the *Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025*, which has increased the FDI limit to 100% and empowered IRDAI with enhanced regulatory tools,

including the power to disgorge wrongful gains. The Committee further note the welcome fiscal intervention of GST exemptions on individual life and health insurance policies effective from September 2025, and the turnaround of Public Sector General Insurance Companies (PSGICs) to an aggregate profit of ₹803 crore in FY 2024-25. However, the Committee observe that overall insurance penetration has structurally declined from 4.2% in FY 2020-21 to 3.70% in FY 2024-25, indicating that the sector's growth is failing to keep pace with national GDP expansion. Furthermore, the critical solvency crisis within PSGICs, specifically the negative solvency ratios of Oriental Insurance (-1.03) and National Insurance (-0.67), which remain far below the regulatory mandate of 1.5. In the private sector, the Committee observe that high claim repudiation rates and high rate of rejections continue to erode public trust in health insurance products. The Committee, therefore, recommend that the Department of Financial Services and IRDAI adopt a multi-pronged strategy to bridge the "protection gap" and restore the health of the public sector:

- (i) **Regulatory Enforcement on Claims:** IRDAI must strictly enforce the 30-day turnaround time for Ombudsman compliance and mandate the use of standardized Customer Information Sheets (CIS). There must be zero tolerance for claim repudiations during active hospitalizations in the private sector.
- (ii) **PSGIC Revitalization:** While the Committee support the temporary use of "regulatory forbearance" regarding unrealized gains for solvency calculations, they urge the Department to prepare a time-bound roadmap for these companies to achieve organic solvency without

perpetual reliance on accounting adjustments or emergency capital infusions.

(iii) **Technological Integration:** PSGICs must aggressively scale up AI-powered assessments and 360-degree digital inspections for motor and property insurance to curb the high loss ratios caused by fraudulent claims.

(iv) **Expanding Reach:** To counter the decline in penetration, the Department should mandate the development of parametric insurance products for climate-related risks (NatCat) and leverage the 16.33 lakh Business Correspondent (BC) network to penetrate Tier 3-6 cities and rural heartlands.

(v) **Accounting Transparency:** The Committee urge the timely implementation of Indian Accounting Standards (Ind AS) by April 2027 to ensure that the financial health and liabilities of insurers are reported with global transparency and accuracy.

## **12. CYBER FRAUD**

The Committee note with grave concern the escalating sophistication of cyber-enabled financial crimes, which have evolved from simple greed-based inducements to complex "extraneous" threats such as digital arrest scams, phishing, and investment frauds. The Committee note that while the *Chakshu* portal and the Digital Intelligence Unit (DIU) under the Department of Telecommunications are operational, their success is entirely contingent upon real-time financial API integration and seamless data sharing managed by the Department of Financial Services and the banking sector. The Committee

further acknowledge the submission of Department of Financial Services regarding a proposed compensation framework for small-value digital frauds (up to ₹25,000) to be funded via the Depositor Education and Awareness Fund (DEAF) and banks, which is expected to have a negligible impact on the record profits of Public Sector Banks.

The Committee observe several critical systemic failures that facilitate the laundering of proceeds of crime within the formal banking system. Firstly, there is a glaring failure in KYC and real-time monitoring; despite large, high-velocity inflows and outflows of unaccounted money, bank systems often fail to trigger red flags, raising serious questions about technological obsolescence or potential complicity at the branch level. Secondly, the "Golden Hour"—the critical 3-to-4-hour window for freezing defrauded funds—is frequently lost because victims are often too ashamed to report crimes immediately, and local law enforcement (at the District SP level) lacks the technological wherewithal and specialized training to interface with banks to stop transactions in real-time. Finally, while criminals leverage government-enabled modes like IMPS for rapid fund siphoning, banking technology has not kept pace with distributed ledger solutions or advanced DDoS protection.

The Committee, therefore, recommend that the Department of Financial Services and RBI implement a "Penal Framework for Negligent Branches," where banks hosting multiple "mule accounts" are strictly penalized and held accountable for KYC lapses. Further, the Committee urge the Department to mandate that all public and private sector banks provide a seamless, 24/7 digital interface with the DIU to ensure that "Freezing Orders" are executed within the golden hour. Furthermore, the Department must evaluate the

integration of Blockchain-based security and AI-driven Mule Account Detection (such as *MuleHunter.AI*) to proactively flag suspicious account activity. To bridge the enforcement gap, the Department must lead a "Knowledge Sharing Initiative" to equip district-level police with the technical knowledge needed to recover funds. Lastly, the Committee recommend exploring "Double-Check Verification" for high-velocity IMPS transactions and launching a massive, shame-neutralizing awareness campaign to educate the public on the mechanics of non-greed scams like "Digital Arrests."

New Delhi;  
11 March, 2026  
20 Phalgun, 1947 (Saka)

Bhartruhari Mahtab  
Chairperson,  
Standing Committee on Finance

**STANDING COMMITTEE ON FINANCE BRANCH**

**Minutes of the Fifteenth sitting of the Standing Committee on Finance (2025-26).**

The Committee sat on Wednesday, the 18<sup>th</sup> February, 2026 from 1100 hrs. to 1340 hrs in Committee Room - D, Parliament House Annexe, New Delhi.

**PRESENT**

**Shri Bhartruhari Mahtab - Chairperson**

**LOK SABHA**

2. Shri Arun Bharti
3. Shri P. P. Chaudhary
4. Shri Lavu Sri Krishna Devarayalu
5. Shri Suresh Kumar Kashyap
6. Shri Kishori Lal
7. Thiru Arun Nehru
8. Smt. Sandhya Ray
9. Prof. Sougata Ray
10. Shri Manish Tewari
11. Shri Balashowry Vallabhaneni
12. Shri Prabhakar Reddy Vemireddy

**RAJYA SABHA**

13. Shri Narain Dass Gupta
14. Shri Yerram Venkata Subba Reddy
15. Shri S. Selvaganabathy
16. Shri Sanjay Seth
17. Dr. Dinesh Sharma
18. Dr. M. Thambidurai

**SECRETARIAT**

- |                               |   |                  |
|-------------------------------|---|------------------|
| 1. Shri Gaurav Goyal          | - | Joint Secretary  |
| 2. Smt. Bharti Sanjeev Tuteja | - | Director         |
| 3. Shri Kuldeep Singh Rana    | - | Deputy Secretary |

## WITNESSES

### Ministry of Finance

#### Department of Financial Services

1. Shri Nagaraju Maddirala, Secretary
2. Shri Manoj Sahay, Additional Secretary & Financial Advisor, MoF
3. Ms. Shalini Pandit, JS
4. Shri Ashish Madhaorao More, JS
5. Shri Manoj Ayyappan, JS
6. Shri Chandradeep Kumar Jha, DDG
7. Shri Abhijit Phukon, EA
8. Shri Rohan Chand Thakur, DIR
9. Shri Surjith Karthikeyan, DIR
10. Shri Ajay Kumar Mishra, DIR, IFU

2 At the outset, the Chairperson welcomed the Members and witnesses to the Sitting of the Committee and apprised them of the agenda, i.e., examination of the Demands for Grants (2026-27) of the Ministry of Finance (Department of Financial Services).

3. Thereafter, the representatives from the Department of Financial Services (DFS) made a brief on Demand No. 32, which *inter-alia*, covered the Department's key programmes in banking, insurance, and pensions, including six flagship schemes promoting financial inclusion and social security. The brief highlighted budgetary requirements for recapitalization, credit guarantees, and gap funding for schemes such as PM Vaya Vandana Yojana and Atal Pension Yojana. It also outlined the improving financial health of Public Sector Banks, projected allocations for 2026-27, regulatory mechanisms to prevent financial fraud, inter-agency coordination under I4C, and the nationwide campaign to return unclaimed deposits to citizens.

4. After the presentation, the Committee, *inter-alia*, deliberated upon the following points:

- Rationale for raising FDI in Public Sector Banks from 20% to 49% despite improved profitability and balance sheets;
- Potential impact of PSB mergers on consumer outreach, priority sector lending, and social mandate;
- Lessons from past bank mergers regarding NPAs, asset integration, and work culture differences;
- Strategies to address SME credit gaps and optimization of PSB support to NBFCs;
- Effectiveness of NPA resolution under IBC, SARFAESI, and DRT processes;
- Capital adequacy and financial health of Regional Rural Banks (RRBs) and impact of amalgamation of RRBs
- Need for review of banking regulations, capital ratios, and international best practices;
- Role of High-Level Committees in guiding sectoral reforms and achieving Viksit Bharat 2047
- Issues related to solvency ratios, capital infusion, and financial health of public sector insurance companies;
- Mechanisms to ensure government reforms translate into broader financial inclusion and risk protection for citizens.
- Issues relating to Cybersecurity and digital frauds, adequacy of KYC, and effectiveness of preventive and compensatory measures;
- Implementation challenges in schemes such as PMJDY, PMMY, APY and PMVVY;
- Facilitating FDI in insurance while ensuring profit repatriation and regulatory compliance; and
- Need for reforms in DCC/DLRC meetings to enhance transparency and effective functioning of the Committees.

5. Hon'ble Members also sought clarifications on various other issues relating to the subject and the witnesses responded to the queries raised by the Members. The Chairperson then directed the representatives to furnish written replies to the points raised by the Members, which could not be readily replied by them during the discussion to the Secretariat within 5 working days.

The witnesses then withdrew.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

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**STANDING COMMITTEE ON FINANCE BRANCH**

**Minutes of the Twenty-First Sitting of the Standing Committee on Finance  
(2025-26)**

The Committee sat on Wednesday, the 11<sup>th</sup> March, 2026 from 1030 hrs. to 1100 hrs in Committee Room Samanvay-3, Parliament House, New Delhi.

**PRESENT**

**Shri Bhartruhari Mahtab – Chairperson**

**LOK SABHA**

2. Shri Arun Bharti
3. Shri P. P. Chaudhary
4. Shri Lavu Sri Krishna Devarayalu
5. Shri Suresh Kumar Kashyap
6. Thiru Arun Nehru
7. Shri N. K. Premachandran
8. Dr. C. M. Ramesh
9. Prof. Sougata Ray
10. Shri P. V. Midhun Reddy
11. Dr. K. Sudhakar
12. Shri Manish Tewari
13. Shri Balashowry Vallabhaneni
14. Shri Prabhakar Reddy Vemireddy

**RAJYA SABHA**

15. Shri Narain Dass Gupta
16. Shri Yerram Venkata Subba Reddy
17. Shri S. Selvaganabathy
18. Shri Sanjay Seth
19. Dr. Dinesh Sharma
20. Smt. Darshana Singh
21. Shri Pramod Tiwari

**SECRETARIAT**

- |    |                            |   |                  |
|----|----------------------------|---|------------------|
| 1. | Smt. Bharti Sanjeev Tuteja | - | Director         |
| 2. | Shri T. Mathivanan         | - | Deputy Secretary |

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee. Thereafter, the Committee took up the following draft Reports for consideration and adoption:

- i) Thirtieth Report on Demands for Grants (2026-27) of the Ministry of Finance (Department of Revenue).
- ii) Thirty-First Report on Demands for Grants (2026-27) of the Ministry of Corporate Affairs.
- iii) Thirty-Second Report on Demands for Grants (2026-27) of the Ministry of Finance (Department of Financial Services).

3. After some deliberations, the Committee adopted the above draft Reports with minor modifications and authorised the Chairperson to finalise them and present the Reports to the Parliament.

4. XX            XX            XX            XX            XX            XX  
         XX            XX            XX            XX            XX            XX.

The Committee then adjourned.

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