44

STANDING COMMITTEE ON FINANCE

(2025-26)

EIGHTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)

[Action taken by the Government on the Observations/Recommendations contained in the Thirty-Second Report of the Standing Committee on Finance on ‘Demands for Grants (2026-27)’ of the Ministry of Finance (Department of Financial Services)]

FORTY-FOURTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

August, 2026/ Sravana, 1948 (Saka)

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Presented to Lok Sabha on 12 August, 2026

Laid in Rajya Sabha on 12 August, 2026

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CONTENT		
REPORT		
Composition of the Committee		(iv)
Introduction		(v)
PART-I NARRATION-ANALYSIS		
		Page No.
Chapter - I	Report	1
Chapter - II	Observations/Recommendations which have been accepted by the Government	19
Chapter- III	Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies	45
Chapter- IV	Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee	46
Chapter- V	Observations/Recommendations in respect of which final replies of the Government is still awaited	54
ANNEXURE		
	Minutes of the Sitting of the Committee held on 11.08.2026	55
APPENDIX		
	Analysis of Action Taken by the Government on the Recommendations contained in the Thirty-Second Report (Eighteenth Lok Sabha) of the Standing Committee on Finance on 'Demands for Grants (2026-27)' of the Ministry of Finance (Department of Financial Services)	57

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. Shri Vinod Shridhar Tawde*
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

* Nominated as Member of the Committee *vice* Smt. Darshana Singh w.e.f. 03 June, 2026.

Ceased to be a Member of the Committee on 02 April 2026 and re-nominated as Member of the Committee w.e.f. 03 June, 2026.

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Forty-Fourth Report on action taken by Government on the Observations/Recommendations contained in the Thirty-Second Report of the Committee (Eighteenth Lok Sabha) on Demands for Grants (2026-27) of the Ministry of Finance (Department of Financial Services).

2. The Thirty-Second Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 12 March, 2026. The Action Taken Notes on the Observations/Recommendations were received from Ministry of Finance (Department of Financial Services) on 17 July, 2026.

3. The Committee considered and adopted this Report at their sitting held on 11 August, 2026.

4. An analysis of the action taken by the Government on the recommendations contained in the Thirty-Second Report of the Committee is given in the Appendix.

5. For facility of reference, the Observations/Recommendations of the Committee have been printed in bold in the body 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 August, 2026
20 Sravana, 1948 (Saka)

Bhartruhari Mahtab
Chairperson,
Standing Committee on Finance

CHAPTER – I

REPORT

This Report of the Standing Committee on Finance deals with action taken by the Government on the Observations/Recommendations contained in their Thirty-Second Report (Eighteenth Lok Sabha) on Demands for Grants (2026-27) of the Ministry of Finance (Department of Financial Services) which was presented to Lok Sabha / laid in Rajya Sabha on 12 March, 2026.

1.2 The Action Taken Notes have been received from the Government in respect of all the eleven Observations/ Recommendations contained in the Report on 17 July, 2026. These have been analyzed and categorized as follows:

(i) Observations/Recommendations that have been accepted by the Government:

Recommendation No. 2, 3, 5, 6, 7, 8, 9, 10 and 11

Total - 09
(Chapter- II)

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies:

Recommendation No. Nil

Total - Nil
(Chapter- III)

(iii) Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee:

Recommendation No. 1, 4 and 12

Total - 03
(Chapter -IV)

(iv) Observations/Recommendations in respect of which final replies by the Government are still awaited:

Recommendation No. Nil

Total - Nil
(Chapter- V)

1.3 The Committee desire that the replies to the Observations/Recommendations contained in Chapter-I may be furnished to them expeditiously.

1.4 The Committee will now deal with action taken by the Government on some of their Observations/Recommendations that require reiteration or merit comments.

Recommendation (Sl. No. 1)

DEMAND NO.32 - DEPARTMENT OF FINANCIAL SERVICES

1.5 The Committee, in their Report, had observed/ recommended as under:

> "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."

1.6 Regarding incentive scheme for promotion of Rupay debit cards and low-value BHIM-UPI transactions (person-to-merchant), the Committee, in their Report, had further observed/ recommended as under:

> "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."

1.7 In their action taken reply, the Ministry of Finance (Department of Financial Services) has furnished the following written submission:

1) Regarding Atal Pension Yojana (APY), the following is submitted:

A. “The Pension Fund Regulatory and Development Authority (PFRDA) has been conducting annual actuarial valuations of APY since 2020. Based on these actuarial findings, gap funding requirements are determined and placed before the EFC for approval for the relevant cycle period.

B. In the previous EFC cycle, a gap funding of ₹271 crore per annum was approved annually from FY 2022 to FY 2025. Subsequently, under the new EFC cycle, the approved gap funding for FY 2026 onwards has been revised downward from ₹271 crore to ₹202 crore per annum, valid up to the end of this cycle (i.e., 2031).

C. Further, the gap funds released are invested by PFRDA in accordance with the approved guidelines. As on 31.03.2026, the APY Gap Fund has an AUM of ₹1,457 crore.”

2) Regarding BHIM-UPI transactions, the following is submitted:

A. “Till Dec 2019, MDR upto 0.30% of transaction value was applicable for UPI (P2M) transactions. From Jan 2020, Zero MDR was announced on all UPI (P2M) transactions to accelerate digital payment adoption and encourage a shift from cash to digital.

B. The zero MDR policy had eliminated the core revenue streams for the UPI ecosystem. In order to mitigate this and also to encourage banks and other ecosystem participants to promote digital payments, Government has been implementing the Incentive Scheme.

C. Accordingly, for FY 2026-27, a budget provisioning of ₹2,000 crore was made as part of BE 2026-27, against an estimated cost of ₹20,700 crore incurred by the industry (i.e., cost of ₹1.38 per transaction multiplied by total P2M transactions of 15,000 crore recorded last year). Further, it is submitted that the incentive is paid on reimbursement mode only after the transactions have been completed and data is submitted by the banks. Since, the payout is on actual basis, incidents of parking of idle funds doesn’t arise.

D. Given the sustainability of the UPI ecosystem and the burden on the Government exchequer, the Department is currently exploring two options: (i) Examining the feasibility of restoring MDR for certain high threshold transactions/ merchants; and (ii) a tiered incentive structure to phase-out the Government support in the next few years.”

3) Regarding Pradhan Mantri Vaya Vandana Yojana (PMVVY), the following is submitted:

Pradhan Mantri Vaya Vandana Yojana (PMVVY) was launched 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 Life Insurance Corporation of India (LIC). The scheme enables old age income security for senior citizens through provision of assured pension/return of 7.40% per annum linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC).

The funds are reimbursed to LIC as gap subsidy between the assured returns and the actual returns guaranteed by the investment under the schemes.
At present, the portfolio is generating a yield of about 6.95% p.a., resulting in a negative carry vis-à-vis the assured return.

The scheme's investments were mainly made in Central and State Government Securities during 2020 to 2023 ensuring high credit quality and safety of capital at the then prevailing yield below 7% p.a. The monies were invested in accordance with investment pattern for pension fund as outlined by IRDAI.
Most investments are classified as Held to Maturity (HTM) and are intended to be held until maturity to avoid market volatility.

Also, the rising interest rates have reduced the market value of these securities and any sale of such securities would result in realization of losses. The scheme is a closed-ended fund, limiting LIC's ability to reinvest in higher-yielding instruments. There is also limited secondary market liquidity, especially for State Government Securities.

Given the above factors, the subsidy burden has grown from Rs. 27.58 crore in 2022-23 to Rs. 597.33 crore in 2025-26.

However, the fund continues to follow a prudent and conservative investment strategy, focused on capital preservation and accrual income, ensuring alignment with regulatory and fiduciary responsibilities."

1.8.1 The Committee had specifically recommended that the Department of Financial Services enforce stringent monitoring to prevent the idle parking of funds under the Pradhan Mantri Vaya Vandana Yojana (PMVVY) and the Atal Pension Yojana (APY), while evaluating the long-term financial sustainability of defined-benefit and incentive schemes. Regarding the incentive scheme for promotion of RuPay Debit Cards and low-value BHIM-UPI transactions, the Committee had expressed concern that providing a Rs.2,000 crore budgetary

allocation to offset zero-MDR losses needlessly inflates the overall Demand for Grants of the Department, while covering barely 10 per cent of actual operational costs. The Committee had, therefore, recommended that the Department explore a self-reliant, tiered revenue mechanism to ensure financial sustainability without perpetually straining the exchequer.

1.8.2 The Committee note that, in pursuance of their earlier recommendation emphasizing the imperative of a viable revenue model, legislative enabling provisions for a tiered Merchant Discount Rate (MDR) structure have been brought forward. However, the Committee remain deeply concerned by the staggering mismatch between the Rs.2,000 crore allocation and the industry's estimated operational cost of Rs.20,700 crore. In the view of the Committee, while statutory enablement now exists to permit calibrated MDR on high-value transactions, any delay in notifying and operationalizing this framework leaves payment service providers heavily dependent on inadequate subsidies, thereby threatening critical investments in cybersecurity, fraud prevention, and network infrastructure.

1.8.3 Regarding PMVVY and APY, the Committee express grave concern over the exponential surge in PMVVY's subsidy burden—rising from Rs.27.58 crore in FY 2022–23 to Rs.597.33 crore in FY 2025–26 (and Rs.596.40 crore in BE 2026–27)—attributable to a negative carry between lower asset yields (6.95%) locked in Held-to-Maturity securities and assured statutory payouts (7.40%). Similarly, APY remains structurally dependent on continuous Government gap funding (Rs.202 crore annually) to satisfy pension liabilities. The Committee observe that while the Department has furnished retrospective explanations detailing portfolio illiquidity, its reply remains conspicuously silent on formulating concrete, forward-looking measures to insulate guaranteed-return schemes from fluctuating interest rate cycles.

1.8.4 The Committee, therefore, reiterate recommendation to expedite the implementation of a self-reliant, tiered revenue framework for higher-value merchant transactions while safeguarding small merchants and P2P transfers, thereby transitioning the digital payments ecosystem to a self-sustaining model. Additionally, the Department of Financial Services should enforce stringent

monitoring; and evaluate the long-term financial sustainability of defined-benefit schemes like PMVVY and APY to protect the exchequer from escalating gap-funding liabilities.

Recommendation (Sl. No. 4)

PRADHAN MANTRI VAYA VANDANA YOJANA (PMVVY)

1.9 The Committee, in their Report, had observed/ recommended as under:

> "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."

1.10 In their action taken reply, the Ministry of Finance (Department of Financial Services) has furnished the following written submission:

> "Pradhan Mantri Vaya Vandana Yojana (PMVVY) was launched 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 Life Insurance Corporation of India (LIC). The scheme enables old age income security for senior citizens through provision of assured pension/return of 7.40% per annum linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC).
>
> The funds are reimbursed to LIC as gap subsidy between the assured returns and the actual returns guaranteed by the investment under the schemes.
>
> At present, the portfolio is generating a yield of about 6.95% p.a., resulting in a negative carry vis-à-vis the assured return.
>
> The scheme's investments were mainly made in Central and State Government Securities during 2020 to 2023 ensuring high credit quality and safety of capital at the then prevailing yield below 7% p.a. The monies were invested in accordance with investment pattern for pension fund as outlined by IRDAI.
>
> Most investments are classified as Held to Maturity (HTM) and are intended to be held until maturity to avoid market volatility.

Also, the rising interest rates have reduced the market value of these securities and any sale of such securities would result in realization of losses. The scheme is a closed-ended fund, limiting LIC's ability to reinvest in higher-yielding instruments. There is also limited secondary market liquidity, especially for State Government Securities. Given the above factors, the subsidy burden has grown exponentially from Rs. 27.58 crore in 2022-23 to Rs. 597.33 crore in 2025-26.

However, the fund continues to follow a prudent and conservative investment strategy, focused on capital preservation and accrual income, ensuring alignment with regulatory and fiduciary responsibilities."

1.11.1 The Committee had noted with concern the exponential surge in the PMVVY subsidy burden—from Rs.27.58 crore in 2022-23 to Rs.597.33 crore in 2025-26 (and Rs.596.40 crore in BE 2026-27)—driven by the gap between LIC's actual investment yield and the assured 7.40% return, and recommended closely monitoring this yield differential while devising structural mechanisms to insulate future social security initiatives from heavy reliance on direct fiscal support.

1.11.2 In response, the Department of Financial Services has furnished justifications, explaining that funds were locked in lower-yielding (6.95%) Held-to-Maturity (HTM) Central and State Government Securities during 2020–2023, and that the closed-ended nature of the scheme, secondary market illiquidity, and rising interest rates constrained LIC from reinvesting in higher-yielding assets.

1.11.3 The Committee, however, are constrained to observe that while these portfolio explanations account for the past negative carry, the Department's Action Taken Reply is silent on formulating forward-looking structural mechanisms for future schemes.

1.11.4 The Committee are of the considered view that rigid, guaranteed-return structures instituted during low-interest regimes inherently subject the exchequer to open-ended and expanding fiscal liabilities when market cycles shift. While acknowledging the fiduciary compliance and capital preservation

strategy followed by LIC for this closed-ended portfolio, the Committee stress that future social security initiatives ought to avoid such unhedged reliance on direct budgetary gap funding.

1.11.5 The Committee, therefore, reiterate their recommendation and desire that the Department of Financial Services, in consultation with regulatory bodies such as IRDAI and PFRDA, evaluate sustainable structural frameworks for future senior citizen and income-security initiatives. In this regard, the Committee recommend that:

(i) The Department may explore the feasibility of transitioning future social security schemes away from rigid, fixed-return guarantees toward calibrated, floating-rate or periodic rate-reset mechanisms benchmarked against prevailing sovereign yields; and

(ii) The feasibility of incorporating structural risk-mitigation features—such as interest rate stabilization buffers and dynamic Asset-Liability Management (ALM) guidelines—into the design of future government-guaranteed welfare schemes may be examined.

RECOMMENDATION (Sl.No. 8)

DISTRICT CONSULTATIVE COMMITTEE/ DISTRICT LEVEL REVIEW COMMITTEE

1.12 The Committee, in their Report, had observed/ recommended as under:

> "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".

1.13 In their action taken reply, the Ministry of Finance (Department of Financial Services) has submitted the following written replies:

"Under the Lead Bank Scheme, District Consultative Committee (DCC) and District Level Review Committee (DLRC) are the important district level fora facilitating coordination among commercial banks, Government agencies and other stakeholders at the district level to review and find solutions to the problems hindering developmental activities. While the objective of the DCC is to serve as a coordination and implementation forum, the DLRC is expected to serve as a review forum. Both are distinct fora and as per RBI guidelines both the meetings are required to held separately.

The District Collector is the Chairman of the DCC meetings. RBI, NABARD, all commercial banks including Small Finance Banks, Wholly Owned Subsidiary of Foreign Banks, Regional Rural Banks, Payment Banks, State / District Central Co-operative Banks, various State Government departments and allied agencies are the members of the DCC. The participants of the DLRC meetings include all the member of the DCC and Public Representative. Minutes of both DCC and DLRC meetings are recorded separately and conduct of these meeting is monitored by RBI.

The DLRC, constituted under the Lead Bank Scheme, serves as a key district-level forum for reviewing credit plans and improving the flow of credit to priority sectors. It also provides a platform for public representatives, including Members of Parliament and MLAs, to offer feedback on credit requirements and banking services in the district. The DLRC is chaired by the District Collector/District Magistrate and comprises representatives from RBI, NABARD, commercial banks (including SFBs, RRBs, payments banks, and co-operative banks), as well as relevant State Government departments and allied agencies.

Recognising the importance of public representatives in strengthening the effectiveness of DLRC meetings, Lead Banks have been instructed to schedule meetings in consultation with MPs/MLAs, circulate agenda papers well in advance, and prepare an annual calendar of DCC/DLRC meetings at the beginning of each year. This calendar is to be drawn in consultation with the Chairperson, RBI's Lead District Officer, and public representatives, and circulated to all stakeholders to ensure advance blocking of dates and timely participation.

To further strengthen coordination, the Reserve Bank of India has advised its Regional Offices (vide communication dated July 01, 2024) to ensure that DLRC meetings are scheduled strictly in line with the convenience of MPs/MLAs/Zilla Panchayat Chiefs, and that Lead Banks/LDMs make enhanced efforts to secure their participation.

Further, a comprehensive review of the Lead Bank Scheme (LBS) has been undertaken. RBI vide its Circular No. RBI/2026-27/150 FIDD.CO.LBS.BC.No.03/02.01.001/2026-27 dated 19.06.2026…..has issued revised guidelines on the Lead Bank Scheme. The revised guidelines, inter-alia, provide for the standardisation of the functioning of SLBCs/DCCs including the preparation of annual meeting calendars and improved dissemination of information.

Lead Banks are also required to maintain SLBC websites containing relevant data, schedules, and minutes of meetings for greater transparency and accessibility. In addition, a unified data reporting portal for the Lead Bank Scheme is being developed, as announced in the Monetary Policy Statement of February 06, 2026, to replace fragmented reporting systems and enhance data quality, consistency, and real-time monitoring of credit flow and related parameters.

These measures collectively aim to improve stakeholder participation, strengthen coordination with public representatives, and enhance transparency, efficiency, and effectiveness in the implementation of the Lead Bank Scheme"

1.14 The Committee note that the Department of Financial Services has accepted several of their key recommendations regarding the preparation of annual meeting calendars; nomination of senior-level District Co-ordinators by banks for District Consultative Committee (DCC) meetings; issuance of comprehensive Standard Operating Procedures under the revised RBI Lead Bank Scheme guidelines dated 19.06 2026; and the development of a unified Lead Bank Scheme data portal integrated with Centralized Information Management System(CIMS). The Committee, however, observe that while the

DCC functions as a coordination and implementation forum, the District Level Review Committee (DLRC) is explicitly designed to review credit flow. Considering that the DLRC serves as the primary platform for MPs, MLAs and other public representatives, the Committee recommend that the senior-most MP of the District be designated to preside over the DLRC, as in the District Development Coordination and Monitoring Committee (DISHA), to review the fulfilment of the credit needs of the District. The Committee desire to be apprised of the action taken in this regard in the Final Action Taken Statement.

Recommendation (Sl. No. 10)

<u>MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)</u>

1.15 The Committee, in their Report, had observed/ recommended as under:

"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'."

1.16 In their action taken reply, the Ministry of Finance (Department of Financial Services) has furnished the following written submission:

"1. Pradhan Mantri MUDRA Yojana (PMMY) provides access to institutional collateral free credit to micro enterprises upto Rs.20 lakh, which is expanding every year.

As on 31.03.2026, more than Rs.58.31 crore loans amounting to Rs. 40.56 lakh crore have been sanctioned since the launch of Scheme, where about 67% of loan beneficiaries were Women Entrepreneurs & 49% loans have been sanctioned to SC/ST/OBC category of borrowers.

- Category-wise break-up: -

Category	Percentage as per No. of Loans	Percentage as per Amount Sanctioned
Shishu	74%	32%
Kishor	24%	43%
Tarun	2%	25%
Tarun Plus	0%	0%
Total	100%	100%

Year-wise sanction amount: -

Financial Year	No. of Loans Sanctioned (in Crore)	Amount Sanctioned (Rs. in Lakh Crore)
2015-16	3.49	1.37
2016-17	3.97	1.80
2017-18	4.81	2.54
2018-19	5.98	3.22
2019-20	6.22	3.37
2020-21	5.07	3.22
2021-22	5.38	3.39
2022-23	6.23	4.56
2023-24	6.67	5.41
2024-25	5.46	5.52
2025-26*	5.00	6.14
Total	58.31	40.56

**Provisional (as on 31.03.2026)*

2. The Public Sector Banks (PSBs) launched Credit Assessment Model (CAM) for sanctioning of MSME loan based on digital footprints for Micro, Small & Medium Enterprises (MSMEs) in the year 2025, which is being implemented in earnest.

During 1st April 2025 to 31st March, 2026, over 5.95 lakh MSME loan applications amounting to more than ₹87,700 crore have been sanctioned by the Public Sector Banks (PSBs) under the digital credit underwriting programmes.

3. Major PSBs and Private Sector Banks (PVBs) in India actively maintain co-lending partnerships under the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025.

4. Also, to increase liquidity of TReDS, the following improvements are envisaged, as announced in the Union Budget 2026-27:

- Mandate TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs, serving as a benchmark for other corporates.
- Introduce a credit guarantee support mechanism through CGTMSE for invoice discounting on TReDS platform.

- Linking of GeM with TReDS for sharing information with financiers about government purchases from MSMEs, encouraging cheaper and quicker financing.
- Introduce TReDS receivables as asset-backed securities, helping develop a secondary market, enhancing liquidity and settlement of transactions.”

1.17.1 The Committee had recommended expanding Bank-NBFC co-lending arrangements and TReDS to bridge the $530 billion formal MSME credit gap. The Committee note the Department's submission detailing progress under Pradhan Mantri MUDRA Yojana (PMMY), Public Sector Banks' digital Credit Assessment Model (CAM) sanctions (Rs.87,700 crore in FY 2025–26), the RBI (Co-Lending Arrangements) Directions, 2025, and proposed TReDS enhancements in Union Budget 2026–27.

1.17.2 The Committee also note with appreciation the key TReDS measures announced in Union Budget 2026–27—mandating CPSE purchases on TReDS, introducing CGTMSE credit guarantees, integrating GeM, and enabling secondary market ABS securitization. The Committee recognize that enhancing liquidity and financial depth through these mechanisms serves as a direct catalyst for the structural expansion of TReDS, lowering financing costs for MSMEs.

1.17.3 The Committee, however, observe that despite these policy frameworks, credit flow remains heavily skewed—as reflected in the sharp 36 per cent CAGR in NBFC-MSME credit—indicating that MSMEs continue to rely on high-cost standalone NBFC loans rather than benefiting from lower blended interest rates under co-lending partnerships.

1.17.4 Furthermore, the Committee are of the view that the structural expansion of TReDS will remain incomplete if restricted largely to CPSE transactions, making the onboarding of large private sector corporate buyers—who account for the major share of delayed receivables—critical to resolving cash flow constraints for the 'missing middle'.

1.17.5 In view of the above, the Committee emphasize the need to actively scale up and monitor Bank-NBFC co-lending arrangements, ensuring that lower interest rate benefits reach MSMEs directly rather than getting absorbed by financial intermediaries. Simultaneously, the Department of Financial Services, in coordination with the RBI and Ministry of MSME, should fast-track the newly announced TReDS liquidity measures; and explore mechanisms to progressively onboard large private corporate buyers.

Recommendation (Sl. No. 12)

<u>CYBER FRAUD</u>

1.18 The Committee, in their Report, had observed/ recommended as under:

"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."

1.19 In their action taken reply, the Ministry of Finance (Department of Financial Services) has furnished the following written submission:

“The Government has been constantly engaging with the financial sector regulators and other concerned stakeholders to review the issues related to threats such as digital arrest scams, phishing, and investment frauds in the country. Based on the review assessment, various regulatory and supervisory interventions have been taken from time to time. This inter-alia includes the following:

i. Banks have been advised to ensure deployment and adoption of robust software for real-time transaction monitoring and use of AI / ML tools in detecting suspicious and fraudulent transaction patterns as well as use of network analytics in identifying mule networks.
ii. Issuance of various Advisories delineating specific actions to be taken by the banks in mitigating the misuse of banking channel through robust systems and controls for the prevention and detection of cyber enabled frauds & suspected money mules.
iii. Close monitoring of any misuse of the banking channels for proliferation of the cyber-enabled frauds and coordination with other stakeholders to arrest spread of money-mules in banking sector.
iv. Focused thematic assessments carried out in major banks, with high number of money mule accounts, to assess any gaps in the systems and controls so as to prevent cyber-frauds / money mules. This was followed by meetings with the banks concerned and issuance of Supervisory Letters to these banks for rectification of the identified gaps.
v. Reserve Bank of India (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 a common minimum standards of security controls for various payment channels like internet, mobile banking, card payment etc.

vi. 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.

vii. 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.

viii. In order to facilitate citizens to report all types of cyber fraud including financial fraud, Ministry of Home Affairs (MHA) has launched the National Cyber Crime Reporting portal (https://cybercrime.gov.in) as well as a National Cybercrime Helpline Number "1930. Department of Telecommunications has also launched Digital Intelligence Platform (DIP) and 'Chakshu' facility. 'Chakshu' facilitates citizens to report suspected fraud communication received over call, SMS or WhatsApp with the intention of defrauding like KYC expiry or update of bank account / etc.

ix. Regular outreach programmes through seminars / workshops are being conducted to sensitise both Top Management and field functionaries in banks on the importance of adherence to the KYC AML / CFT regulations and consequences of non-compliance. This also includes participation of Law Enforcement Agencies (LEAs) including Indian Cybercrime Coordination Centre (I4C), Ministry of Home Affairs (MHA) and FIU-IND.

Further, the existing instructions on 'Limiting Liability of Customers in Unauthorised Electronic Banking Transactions' were reviewed by the Reserve Bank and the draft revised instructions on 'Customer Protection in Electronic Banking Transactions' have been issued on March 6, 2026 for public consultation. The draft instructions propose to introduce a compensation mechanism for small value fraudulent electronic banking transactions. As per the proposed compensation mechanism, a bona fide victim, being an individual person and having lodged a complaint involving gross loss of an amount up to ₹50,000 on account of fraudulent electronic banking transaction(s) covered under paragraphs 76M and 76N of the draft instructions, shall be compensated 85 per cent of the net loss amount (calculated after reducing recoveries made, whether before or after paying the compensation, from the gross loss amount), or ₹25,000, whichever is less, once during his / her lifetime subject to conditions. Out of the 85 per cent compensated to the customer, 65 per cent shall be borne by the Reserve Bank, 10 per cent by the customer's bank and the remaining 10 per cent by the beneficiary bank.

RBI guidelines on the 'Operation of Bank Accounts and Money Mules', mandates that the bank shall strictly adhere to the instructions on opening of accounts and monitoring of transactions, to minimize the operations of 'Money Mules' that are used to launder the proceeds of fraud schemes (e.g., phishing and identity theft) by criminals who gain illegal access to deposit accounts by recruiting third parties that act as 'money mules'. The bank shall undertake diligence measures and meticulous monitoring to identify accounts which are operated as Money Mules and take appropriate action, including reporting of suspicious transactions to FIU-IND. Further, if it is established that an account opened and operated is that of a Money Mule, but STR was not filed by the concerned bank, it shall then be deemed that the bank has not complied with these directions.

Further, it may be noted that RBI (Commercial Banks - KYC) Directions, 2025 dated November 28, 2025 (updated as on December 29, 2025) do not contain any instructions on imposition of lien or freezing of accounts, except for freezing of financial assets under Section 51A of Unlawful Activities (Prevention) Act (UAPA), 1967 and Section 12A of WMD Act, 2005."

1.20.1 The Committee, in their earlier Report, had expressed grave concern over the escalation of complex cyber-enabled financial crimes, such as "digital arrest" scams, phishing, and investment frauds, and recommended establishing a strict penal framework for negligent bank branches hosting mule accounts, mandating a 24/7 real-time digital interface between banks and the Digital Intelligence Unit (DIU) to freeze funds within the "Golden Hour", integrating AI-driven mule detection tools, implementing double-check verification for high-velocity IMPS transactions, and launching targeted, shame-neutralizing public awareness campaigns.

1.20.2 In response, the Committee note the Department's submission detailing various supervisory and regulatory measures, including the deployment of AI/ML tools by banks, thematic assessments resulting in Supervisory Letters, the launch of 'MuleHunter' by the RBI, NPCI's fraud monitoring model, MHA's 1930 helpline, DoT's 'Chakshu' portal, the RBI (Commercial Banks - KYC) Directions, 2025, and the draft instructions on 'Customer Protection in Electronic Banking Transactions' proposing a compensation framework for small-value frauds up to Rs.25,000.

1.20.3 The Committee, however, are constrained to observe that the Department's reply remains largely procedural and fails to offer effective solutions to plug critical operational gaps. In particular, assigning 65 per cent of compensation payouts to the RBI while imposing a mere 10 per cent burden on beneficiary banks creates a severe moral hazard, failing to enforce direct accountability on receiving institutions that host mule accounts. Furthermore, retrospective STR filings and macro-level advisories do not resolve the "Golden

Hour" bottleneck or establish branch-level deterrence against negligent KYC verification.

1.20.4 The Committee, therefore, stress that curbing cyber-fraud requires holding receiving institutions directly accountable, necessitating a re-calibration of the draft liability framework to impose substantial loss-sharing burdens on banks harboring mule accounts. Concurrently, the Department of Financial Services and RBI should deploy an automated 24/7 API interface between reporting portals and Core Banking Systems for Golden-Hour fund recovery, accompanied by mandatory transaction safeguards and strict branch-level accountability for KYC lapses.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 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).

Reply of the Government

As per RBI guidelines, savings and current accounts are treated as inoperative if there are no customer-induced transactions for more than two years. Banks have been advised to undertake annual reviews of such accounts, trace account holders, and simplify the activation process through measures such as updation of KYC via mobile/internet banking, non-home branches, Video Customer Identification Process (V-CIP), Aadhaar OTP-based e-KYC, and self-declaration where there is no change in KYC details. During the recent saturation campaign, re-KYC of about 5.20 crore PMJDY accounts was completed. Banks also conduct regular awareness programmes and camps to encourage active usage of accounts, which is being continuously monitored by the Government.

Further, the Government has undertaken several initiatives to promote meaningful account utilisation, digital inclusion, and financial literacy, including the following:

i. **Direct Benefit Transfer (DBT):** Leveraging the JAM Trinity to facilitate direct transfer of benefits into bank accounts, thereby promoting active account usage and reducing leakages.

ii. **Expansion of Digital Public Infrastructure (DPI):** Significant growth in digital and UPI transactions has strengthened financial inclusion, enabled creation of digital financial footprints, and improved access to formal credit channels, especially for underserved sections. UPI has been the major driving force in the overall growth of digital payment transactions in the country accounting for 84% of digital payment transactions in FY 2025-26.

    No. of UPI transactions have grown from 92 crore in FY 2017-18 to 24,162 crore in FY 2025-26 at CAGR of 101%. During the same period, the overall value of transactions has grown from ₹ 1.10 lakh crore to ₹ 314 lakh crore. During the current financial year FY 2026-27 (as on 06.05.2026), volume of UPI transactions stands at 3,155 crore and value stands at ₹ 42 lakh crore.

iii. **Business Correspondent (BC) Network:** A strong network of about 17.05 lakh BCs is facilitating last-mile banking services and spreading awareness regarding digital and financial services in rural and remote areas. As per banks, currently around 47 banking services are being offered by these BCs.

iv. **Financial Literacy Initiatives:** As per Reserve Bank of India (RBI), the country has built a massive financial education network consisting of 2,421 Centres for Financial Literacy (CFLs) and 1,516 Financial Literacy Camps (FLCs) as on December 31, 2025. Between 01.04.2025 and 31.12.2025, these CFLs and FLCs actively conducted 7,99,796 and 1,38,347 awareness camps, respectively. These initiatives successfully drive grassroots financial inclusion by educating diverse target groups on secure digital payments, smart banking habits, and basic financial management.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

Recommendation (Sl. No. 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.

Reply of the Government

Atal Pension Yojana (APY) was launched on 09.05.2015, with the objective of creating a universal social security system for all Indians, especially the poor, the under-privileged and the workers in the unorganised sector. APY is being administered by the Pension Fund Regulatory and Development Authority (PFRDA) under the overall administrative and institutional architecture of National Pension System (NPS).

The gross enrolment figure of 1.35 crore in FY 2025-26, continuing a trend of exceeding 1 crore enrolments over the last 4 years reflects the coordinated efforts of PFRDA, APY Providers (APY-SPs), State Level Bankers' Committees (SLBCs), LDMs and other stakeholders making it the highest ever APY enrolment in a financial year since the inception of the Scheme.

Improving subscriber retention has been a sustained focus area for PFRDA and it is pertinent to note that the persistency rate has been consistently maintained at around 50-51% over the last three years even after enrolling nearly 4 crore subscribers, which is a testament to the continued and concerted efforts of PFRDA, APY-SPs, SLBCs, and other stakeholder institutions in retaining subscribers who predominantly belong to the informal sector with irregular and seasonal income flows. Sustaining even this level of persistency among such a financially vulnerable segment of the population, in itself, reflects the effectiveness of the outreach and engagement mechanisms put in place by PFRDA.

However, the Department/PFRDA is fully committed to building upon the existing momentum through a series of well-targeted and strengthened interventions.

Detailed below are the initiatives undertaken by PFRDA to improve persistency and outreach:

(a) Targeted Capacity-Building and Outreach

PFRDA has proactively engaged in extensive outreach and capacity-building initiatives at the ground level for targeted capacity-building and outreach. The details are as under:

- 32 APY Outreach Programs have been conducted across the country in FY 2025-26, in coordination with State Level Bankers' Committees (SLBCs) and Lead District Managers (LDMs), attended by senior officials of PFRDA, Banks, Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), State Governments, and State Rural Livelihood Missions (SRLMs).
- A dedicated campaign ‘Power to Persist’ has been launched to encourage the banks to improve the persistency and 382 APY Awareness Programs were conducted in FY 2025-26 (till Q3, FY 2025-26) in Hindi, English, and regional languages, specifically targeting APY subscribers to reinforce the importance of regular contributions and the long-term benefits of the scheme.
- PFRDA has empaneled a dedicated training agency for imparting Awareness Programs through for ensuring wider reach even in geographically remote areas.
- Engagement with National Rural Livelihood Mission (NRLM) has been done for outreach at the grassroot level, as Sakhis under NRLM are well suited for re-engaging non-persistent subscribers.

- Protean Central Recordkeeping Agency (PCRA) also conducts need-based training programs for Banks, SLBCs/UTLBCs, LDMs, and SRLMs on a regular basis, equipping field functionaries with the knowledge and tools to actively pursue and retain subscribers.

(b) Engagement with Banks, SLBCs, BCs and SHGs

Sustained engagement with banks at every level is at the heart of making APY a truly inclusive scheme. To this end, PFRDA maintains regular and structured engagement with all APY Service Provider banks through a multi-pronged approach encompassing periodic performance review letters, regular data sharing on enrolment and persistency metrics, and Video Conference (VC) calls with Nodal Officers of banks and SLBCs. These interactions are not merely administrative in nature but also serve as meaningful platforms where challenges faced by banks on the ground is heard, actionable strategies are jointly deliberated, and successful practices of well-performing banks are shared. Banks have been specifically advised to leverage their Banking Correspondent (BC) networks as a critical last-mile channel.

(c) Flexibility in Contribution Mechanisms for Informal Workers

The APY scheme already has built-in flexibility in its contribution structure, specifically designed keeping in mind the irregular and seasonal income patterns of informal sector workers. Subscribers have the option to contribute on a monthly, quarterly, or half-yearly basis, allowing them to align their contributions with their income. This reflects PFRDA's longstanding sensitivity to the financial circumstances of the target subscriber base. Furthermore, a non-persistent subscriber can seamlessly re-activate their account by paying a nominal delayed contribution interest of merely Rs. 1 for every Rs. 100 or part thereof of contribution for each month of delay. It is also noteworthy that this amount is not a penalty in the conventional sense, it is essentially the interest foregone due to the delayed investment of funds, and importantly, this amount is credited directly into the subscriber's own account, thereby further building their pension corpus rather than being forfeited. This subscriber-friendly provision ensures that temporary financial hardships do not permanently exclude informal workers from the long-term benefits of the scheme.

PFRDA shall nonetheless continue to explore further to the contribution framework through its ongoing policy reviews and stakeholder consultations including DFS, remaining responsive to the evolving needs of its subscriber base.

(d) Encouragement of APY-SPs (Banks/DoP)

For the re-engagement of non-persistent subscribers, PFRDA has been actively encouraging APY-Service Providers (APY-SPs) to contact the subscribers via regular SMS or telephone and also through branches and channel partners.

(e) Media and Communication Campaigns

PFRDA undertakes multi-media campaigns for APY promotion and subscriber awareness in Hindi, English, and regional languages, covering TV, Radio, Print, social media and theatre campaigns. A special advertisement on Persistency has also been released. PFRDA and APY also maintain an active presence across LinkedIn, X, Instagram, Facebook, and YouTube.

On the Transition of Pension Payments to Pension Fund Managers (PFMs) by 2030-31 EFC, during the appraisal of the scheme recommended to closely monitor the learnings and outcomes emerging from the Unified Pension Scheme (UPS) model for Central government employees over the next 2-3 years. The insights drawn from the UPS experience shall be duly incorporated in the next EFC proposal in 2031.

The first pay out from the scheme will commence in 2035.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

Recommendation (Sl. No. 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.

Reply of the Government

The Jan Samarth portal is a one-stop digital platform for linking twelve Government-sponsored loans and subsidies schemes. It provides a quick and efficient way to apply for loans and obtain approvals based on a digital evaluation of the applicant's data.

Further, many banks and financial institutions have developed online platforms and mobile apps for end to end digital processing of loan applications, reducing the need for physical paperwork and in-person visits. Applications submitted by borrowers are reflected in the banks' portal, while sanction/disbursement updates are transmitted back to the Jan Samarth Portal via reverse API.

As per RBI Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, MSMEs are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate' and for Priority Sector Lending (PSL) purposes banks shall be guided by the classification recorded in the Udyam Registration Certificate (URC). Banks are mandated to obtain URC from MSME borrowers. Further, banks also facilitate the prospective borrowers to obtain the same.

The digital lending process incorporates multiple due diligence mechanisms, including mandatory E-KYC and Udyam Registration. Member Lending Institutions (MLIs) utilize various Digital Public Infrastructure (DPI) tools such as PAN validation, GSTIN verification, ITR verification, Bank Statement Analyzer, and credit history reports for digital background checks and credit assessment.

To enhance awareness regarding PMMY, the Government undertakes publicity campaigns through print, electronic and social media, financial literacy camps, town hall meetings, and financial inclusion drives. Banks also conduct outreach activities through branches and Banking Correspondents (BCs).

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

Recommendation (Sl. No. 6)

<u>INCENTIVE SCHEME FOR PROMOTION OF RUPAY DEBIT CARDS AND LOW-VALUE BHIM-UPI TRANSACTIONS (PERSON-TO-MERCHANT)</u>

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.

Reply of the Government

Given the sustainability of the UPI ecosystem and the burden on the Government exchequer, the Department is currently exploring two options: (i) Examining the feasibility of restoring MDR for certain high threshold transactions/ merchants; and (ii) a tiered incentive structure to phase-out the Government support in the next few years.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

Recommendation (Sl. No. 7)

<u>STATUS OF BANKING SECTOR</u>

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.

Reply of the Government

Artificial Intelligence and Machine Learning (AI and ML) have gained prominence, especially with advancements in generative AI models based on large language models. The banking sector is integrating AI/ Gen-AI into its operations to enhance operational efficiency, accuracy, risk management, and customer experience, thereby transforming itself into a more innovative, inclusive and customer-centric financial ecosystem.

AI/ML solutions have huge potential to enhance risk management capabilities, by undertaking analysis of massive datasets, finding solutions not available earlier and getting better perspectives on the real-time market conditions; thereby allowing for more accurate and timely business risk predictions, contributing to improved portfolio management, loan underwriting, and fraud detection.

With regard to deployment of AI/ML for optimising **early warning systems**, banks are leveraging AI/ML by integrating multiple internal and external data sources to enable proactive risk identification, continuous monitoring and early detection of incipient stress.

Banks are implementing AI/ML-driven analytics for **assessing credit worthiness** of borrowers using transaction history, repayment behaviour, and cash flows. It fosters dynamic assessment of creditworthiness through digital data like GST returns, ITR and banks statements, etc. Some PSBs have deployed AI/ML-led models for credit assessment of MSME borrowers *viz.,* SLICE model by Indian Bank, Business Rule Engine (BRE) for Straight-Through Processing by Punjab & Sind Bank, BRE framework by State Bank of India, and AI/ML-driven analytics for assessment by Bank of Maharashtra.

Banks are leveraging AI/ML to strengthen **real time fraud detection**. To accelerate deployment and maximise effectiveness, strategic and technological measures being implemented by the banks include, *inter alia*, the following-

a. Investment in Advanced Data Infrastructure
b. Deployment of Reserve Bank of India's (RBI's) Mule-Hunter. AI for identifying suspected mule accounts

c. Deployment of Machine learning models to identify risk patterns
d. Integration of AI/ML solutions with big data lake and payment channels for seamless fraud detection
e. Deployment of AI/ML powered decision engines to automate fraud response actions *viz.,* transaction blocking, alert generation, customer intimation, etc.

Going forward, it is proposed to expand the usage of AI/ML for improving customer service through multilingual chatbots and virtual sales assistants, process automation, document summarization, and internal reporting, alongside greater adoption in credit underwriting, fraud analytics, risk and compliance monitoring, predictive analytics, customer engagement, and operational efficiency.

To ensure safe, secure and effective deployment of AI and ML, **safeguard measures** outlined by RBI, and implemented/adopted by the Indian banking sector, include, *inter alia*, the following:

a. RBI has released guidelines and directions to ensure that AI/ML applications are used responsibly and consistent with regulatory requirements.
b. RBI's Regulatory Sandbox framework fosters responsible innovation in financial services, promote efficiency and bring benefit to consumers, and allows banks to test AI/ML applications before full-scale deployment, helping to identify potential risks and improve compliance.
c. In order to encourage responsible and ethical adoption of AI in the financial sector, the FREE-AI Committee was constituted by RBI. Committee formulated 7 Sutras that represent the core principles to guide AI adoption in the financial sector. These include Trust is the Foundation, People First, Innovation over Restraint, Fairness and Equity, Accountability, Understandable by Design, and Safety, Resilience and Sustainability.
d. The Digital Personal Data Protection Act, 2023 establishes a legal framework for processing personal data, emphasizing individual privacy, consent, and data security.

e. Banks are required to implement robust cybersecurity measures to protect against risks such as algorithmic discrimination, financial fraud, and regulatory arbitrage.
f. Banks are encouraged to self-govern and self-regulate their AI/ML applications to avoid non-compliance and to use emerging technologies prudently.

With regards to PSBs' foundational mandate of driving **Priority Sector Lending (PSL)**, PSBs are committed by their governing Acts[1] to serve economic development in conformity with national policy and objectives, expand banking facilities particularly in underserved areas, and fulfil other public purposes. In line with the legislative intent, PSBs have consistently played an important role in nation-building as the principal source of finance and financial inclusion.

Further, in terms of RBI Master Direction on Priority Sector Lending-Targets and Classification, a target of 40 per cent of Adjusted Net Bank Credit or Credit Equivalent amount of Off-Balance Sheet Exposures (ANBC or CEOBSE), whichever is higher, has been set for lending to the priority sector by domestic commercial banks, including PSBs and foreign banks with 20 and above branches. PSBs extended 42.3 per cent of their ANBC/ CEOBSE to the priority sector at end-March 2025. Moreover, PSBs have exceeded PSL sub-segmental (Agriculture, Small and Marginal Farmers, Non-corporate Individual Farmers, Micro Enterprises, and Weaker Sections) targets.

PSBs have a key role in meeting national development priorities and have significantly contributed to extend lending towards priority sector and expand financial inclusion, expand of banking services in rural and semi-urban areas. In addition to these, PSBs are major contributor in Government's flagship initiatives like the PMJDY, Mudra Yojana, PM Jeevan Jyoti Bima Yojana, PM Suraksha Bima Yojana and Atal Pension Yojana. These initiatives are contributing significantly to empowering marginalised sections, fostering financial inclusion, and promoting economic resilience across the country, specially the rural and semi urban areas.

[1] The preambles to the State Bank of India Act, 1955 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980

In order to prevent banks and financial system from being misused for ML / TF / PF purposes, RBI has issued RBI (Commercial Banks – KYC) Directions, 2025, dated November 28, 2025 (updated as on December 29, 2025), which are in alignment with FATF Recommendations. The relevant instructions on this action item are mentioned below.

- In terms of **paragraph 39** of the said Directions, the bank shall undertake ***ongoing due diligence of customers*** to ensure that their transactions are consistent with their knowledge about the customers, customers' business and risk profile, the source of funds / wealth.

- **Paragraph 40** of the said Directions mentions that without prejudice to the generality of factors that call for ***close monitoring, the bank shall necessarily monitor the following types of transactions***:
  1. Large and complex transactions including RTGS transactions, and those with unusual patterns, inconsistent with the normal and expected activity of the customer, which have no apparent economic rationale or legitimate purpose.
  2. Transactions which exceed the thresholds prescribed for specific categories of accounts.
  3. High account turnover inconsistent with the size of the balance maintained.
  4. Deposit of third-party cheques, drafts, etc. in the existing and newly opened accounts followed by cash withdrawals for large amounts.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

Recommendation (Sl. No. 8)

<u>DISTRICT CONSULTATIVE COMMITTEE / DISTRICT LEVEL REVIEW COMMITTEE</u>

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.

Reply of the Government

Under the Lead Bank Scheme, District Consultative Committee (DCC) and District Level Review Committee (DLRC) are the important district level fora facilitating coordination among commercial banks, Government agencies and other stakeholders at the district level to review and find solutions to the problems hindering developmental activities. While the objective of the DCC is to serve as a coordination and implementation forum, the DLRC is expected to serve as a review forum. Both are distinct fora and as per RBI guidelines both the meetings are required to held separately.

The District Collector is the Chairman of the DCC meetings. RBI, NABARD, all commercial banks including Small Finance Banks, Wholly Owned Subsidiary of Foreign Banks, Regional Rural Banks, Payment Banks, State / District Central Co-operative Banks, various State Government departments and allied agencies are the members of the DCC. The participants of the DLRC meetings include all the member of the DCC and Public Representative. Minutes of both DCC and DLRC meetings are recorded separately and conduct of these meeting is monitored by RBI.

The DLRC, constituted under the Lead Bank Scheme, serves as a key district-level forum for reviewing credit plans and improving the flow of credit to priority sectors. It also provides a platform for public representatives, including Members of Parliament and MLAs, to offer feedback on credit requirements and banking services in the district. The DLRC is chaired by the District Collector/District Magistrate and comprises representatives from RBI, NABARD, commercial banks (including SFBs, RRBs, payments banks, and co-operative banks), as well as relevant State Government departments and allied agencies.

Recognising the importance of public representatives in strengthening the effectiveness of DLRC meetings, Lead Banks have been instructed to schedule meetings in consultation with MPs/MLAs, circulate agenda papers well in advance, and prepare an annual calendar of DCC/DLRC meetings at the beginning of each year. This calendar is to be drawn in consultation with the Chairperson, RBI's Lead District Officer, and public representatives, and circulated to all stakeholders to ensure advance blocking of dates and timely participation.

To further strengthen coordination, the Reserve Bank of India has advised its Regional Offices (vide communication dated July 01, 2024) to ensure that DLRC meetings are scheduled strictly in line with the convenience of MPs/MLAs/Zilla Panchayat Chiefs, and that Lead Banks/LDMs make enhanced efforts to secure their participation.

Further, a comprehensive review of the Lead Bank Scheme (LBS) has been undertaken. RBI vide its Circular No. RBI/2026-27/150 FIDD.CO.LBS.BC.No.03/02.01.001/2026-27 dated 19.06.2026 (copy enclosed), has issued revised guidelines on the Lead Bank Scheme. The revised guidelines, inter-alia, provide for the standardisation of the functioning of SLBCs/DCCs including the preparation of annual meeting calendars and improved dissemination of information.

Lead Banks are also required to maintain SLBC websites containing relevant data, schedules, and minutes of meetings for greater transparency and accessibility. In addition, a unified data reporting portal for the Lead Bank Scheme is being developed, as announced in the Monetary Policy Statement of February 06, 2026, to replace fragmented reporting systems and enhance data quality, consistency, and real-time monitoring of credit flow and related parameters.

These measures collectively aim to improve stakeholder participation, strengthen coordination with public representatives, and enhance transparency, efficiency, and effectiveness in the implementation of the Lead Bank Scheme.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

(For Comments of the Committee, please refer Para No. 1.14 of Chapter I)

Recommendation (Sl. No. 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.

Reply of the Government

Regarding Asset Quality Concerns in Priority Sector Education Loans:

All 28 RRBs have been enrolled as Member Lending Institutions under Credit Guarantee Fund Scheme for Education Loans (CGFSEL), enabling credit risk mitigation in education loans. Further, initiatives such as proposed tie-ups with NIRF-ranked institutions and convergence with PM Vidyalaxmi Scheme are aimed at improving credit appraisal and ensuring better asset quality.

Regarding Implementation of Early Warning Signals:

DFS has initiated steps towards implementation of an Enhanced Access and Service Excellence (EASE) based reform framework for RRBs, which includes strengthening of risk monitoring systems. An AI/ML-based model for early identification of stress in loan accounts has been developed at Banker's Institute for Rural Development (BIRD), Lucknow and is currently under pilot implementation, with provision for subsequent scaling across RRBs.

Regarding IPOs of Profitable RRBs

Government has already issued guidelines for capital raising by RRBs through IPOs. Based on prescribed eligibility criteria, three RRBs have been identified and are in the process of submitting their proposals for consideration, which will facilitate capital augmentation and improved governance standards.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

Recommendation (Sl. No. 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'.

Reply of the Government

1. Pradhan Mantri MUDRA Yojana (PMMY) provides access to institutional collateral free credit to micro enterprises upto Rs.20 lakh, which is expanding every year.

As on 31.03.2026, more than **58.31 crore** loans amounting to **Rs. 40.56 lakh crore** have been sanctioned since the launch of Scheme, where about **67%** of loan beneficiaries were Women Entrepreneurs & **49%** loans have been sanctioned to SC/ST/OBC category of borrowers.

- Category-wise break-up: -

Category	**Percentage as per No. of Loans**	**Percentage as per Amount Sanctioned**
Shishu	74%	32%
Kishor	24%	43%
Tarun	2%	25%
Tarun Plus	0%	0%
Total	**100%**	**100%**

- Year-wise sanction amount: -

Financial Year	**No. of Loans Sanctioned** (in Crore)	**Amount Sanctioned** (Rs. in Lakh Crore)
2015-16	3.49	1.37

2016-17	3.97	1.80
2017-18	4.81	2.54
2018-19	5.98	3.22
2019-20	6.22	3.37
2020-21	5.07	3.22
2021-22	5.38	3.39
2022-23	6.23	4.56
2023-24	6.67	5.41
2024-25	5.46	5.52
2025-26*	5.00	6.14
Total	**58.31**	**40.56**

**Provisional (as on 31.03.2026)*

2. The Public Sector Banks (PSBs) launched Credit Assessment Model (CAM) for sanctioning of MSME loan based on digital footprints for Micro, Small & Medium Enterprises (MSMEs) in the year 2025, which is being implemented in earnest.

During 1st April 2025 to 31st March, 2026, over 5.95 lakh MSME loan applications amounting to more than ₹87,700 crore have been sanctioned by the Public Sector Banks (PSBs) under the digital credit underwriting programmes.

3. Major PSBs and Private Sector Banks (PVBs) in India actively maintain co-lending partnerships under the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025.

4. Also, to increase liquidity of TReDS, the following improvements are envisaged, as announced in the Union Budget 2026-27:

- Mandate TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs, serving as a benchmark for other corporates.
- Introduce a credit guarantee support mechanism through CGTMSE for invoice discounting on TReDS platform.
- Linking of GeM with TReDS for sharing information with financiers about government purchases from MSMEs, encouraging cheaper and quicker financing.
- Introduce TReDS receivables as asset-backed securities, helping develop a secondary market, enhancing liquidity and settlement of transactions.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. Dated 17.07.2026]

(For Comments of the Committee, please refer Para No. 1.17 of Chapter I)

Recommendation (Sl. No. 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.

Reply of the Government

Insurance Regulator IRDAI has informed that the recent decline in insurance penetration (measured as premium as a % of GDP) is largely attributable to the relatively higher growth trajectory of nominal GDP during the period under consideration, rather than a contraction in the insurance sector. During the period, the total premium collected by Indian Insurance market grew by 43.6% from Rs 8,30,813.34 crore in FY 2020-21 to Rs 11,93,444 crore in FY 2024-25. The number of policies issued also rose by 52.2% from 2748.60 lakh to 4183.75 lakh. These trends indicate that the sector continues to grow steadily though, its growth has not kept pace with the relatively higher expansion in nominal GDP.

The proposed reforms by the IRDAI and broader policy changes of the government are expected to bring more accelerated growth. Therefore, the decline in penetration may not be construed as a structural weakness of the sector, but rather as a transitional outcome in a phase of high economic growth and ongoing structural reforms. The current policy and regulatory initiatives are expected to improve penetration levels over the medium to long term, particularly as inclusion efforts mature and insurance adoption deepens across previously underserved segments.

(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.

IRDAI has established a robust regulatory framework to ensure timely compliance with Insurance Ombudsman awards and to strengthen transparency at the point of sale through standardized disclosures. Insurers are mandatorily required to comply with the awards within a prescribed period of 30 days. IRDAI has introduced explicit enforcement provisions, including the imposition of a monetary penalty of ₹5,000 per day for any delay in compliance beyond the stipulated timeline, payable to the complainant. This measure is aimed at ensuring accountability, expediting grievance redressal, and reinforcing policyholder confidence in the Ombudsman mechanism. Further, compliance is subject to supervisory monitoring, and insurers are required to establish internal governance mechanisms to track and ensure timely implementation

of such awards. Additionally, Vide Regulation (12) of IRDAI Protection of Policyholders Interest Regulations, 2024, IRDAI has mandated Customer Information Sheets (CIS) across insurance products as part of its broader policyholder protection framework. The CIS is designed to present key features of insurance policies including benefits, exclusions, terms and conditions, and obligations of policyholders in a simple, clear, and standardized format. This provision is aimed at reducing information asymmetry, promotes transparency, and enables informed decision-making at the point of sale, thereby mitigating risks of mis-selling and disputes.
With regard to the claim repudiation, the details of health insurance claim settlement performance of private insurance companies (General and SAHI) of FY 2023-24 and FY 2024-25.

Sl.No	Parameters	Unit	FY 2023-24	FY 2024-25
1.	Claims Processed*	No.	1.30 crore	1.69 crore
2.	Claims Paid	No.	1.12 crore	1.49 crore
3.	Claims Paid per 10,000 Claims processed	No.	8,637	8,796
4.	Claims repudiated per 10,000 Claims processed	No.	901	790
5.	Claims carried forward (for processing to next FY) per 10,000 Claims processed	No.	462	414
6.	Total Health Insurance premiums collected by private insurance companies (General and SAHI)	₹	66,687.80 crore	75,084.03 crore
7.	Total Claims Pay-outs by private insurance companies (General and SAHI)	₹	42,001.75 crore	52,414.47 crore

Note: Above relates to the health insurance claim settlement performance of private insurance companies (General and SAHI)
** Claims Processed = Claims Outstanding at the beginning of the financial year + New claims registered during the period*

IRDAI has undertaken comprehensive measures to ensure efficient settlement of all legitimate health insurance claims. The regulatory framework has been significantly strengthened through the IRDAI (Protection of Policyholders' Interests, Operations and Allied Matters of Insurers) Regulations, 2024 and Master Circulars issued thereunder, which mandate strict timelines for claim settlement, enhanced disclosure standards, and robust governance mechanisms.

- In order to ensure transparency in the settlement, repudiation, and partial payment of claims, particularly with regard to the application of policy terms and conditions at the claims stage, insurers are mandated that: -

    i. 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).
    ii. In case, the claim is repudiated or rejected or disallowed partially, complete details shall be communicated to the claimant giving reference to the specific terms and conditions of the policy document. 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 insurer shall acknowledge the complaint immediately on receipt. Insurers should provide resolution to the complaint within 14 days along with the reasons for not accepting the complaint with specific reference to the relevant terms and conditions of the policy. If the complainant is not satisfied with the resolution so provided by the insurer, he/she may approach insurance ombudsman who may conduct hearing and adjudicate the matter by passing an award.
    iii. The policyholder or the claimant also has the option to register the complaint online at IRDAI's Bima Bharosa by visiting https://bimabharosa.irdai.gov.in/, an integrated grievance portal to facilitate the registering/ tracking of grievance online by the policyholders. The insurer's system must be equipped with a real-time mirroring functionality that ensures their grievance database is consistently synchronized with the Bima Bharosa.
    iv. If any claim is repudiated/rejected, there shall be a system in place to ensure timely and efficient resolution of grievances. Measures are also put in place to ensure that the grievances are resolved with accountability in a time bound manner.
    v. No claim shall be rejected or closed for want of documents or for delayed intimation of claim.
    vi. Stringent turnaround times have been prescribed for both cashless and reimbursement claims, along with penal interest provisions for delays.

- Some of the major reasons for Partial Settlement/Disallowance of claims:

    i. Claims exceeding Sum Insured: Insurers register the full billed amount but pay only up to the Sum Insured; the excess is disallowed.
    ii. Co-payment clauses: Where co-payment applies, as per policy conditions, insurers pay only their share and disallow the policyholder's portion.
    iii. Sub-limits: For policies with defined sub-limits (e.g., cataract, maternity), insurers pay only up to the sub-limit and disallow the excess.

iv. Top-up policies with deductibles: In top-up policies, claim amounts up to the deductible are disallowed, and insurers pay only the amount above the deductible.
v. Room rent capping: If the claimed room rent exceeds the eligible limit, the excess amount is disallowed.
vi. Proportionate charges: When a patient stay in a higher-category room, insurers pay charges applicable to the eligible room category and disallow the differential amount.
vii. Non-medical expenses: Items not covered under the policy (e.g., attendant charges, consumables, PPE kits) are disallowed as per policy terms

(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.

In order to ensure financial stability in the insurance sector and protection of policyholders, the Act further mandates every insurer to maintain at all times, an excess of assets over liabilities of not less than 50% of the minimum capital amount. IRDAI further mandates insurers to maintain the control level of solvency of 150% at all times. Further, the regulatory oversight of the IRDAI ensures transparency and policyholder protection by promoting fair business practices, solvency monitoring, supervision and efficient grievance redressal.

The solvency position of three PSGICs, namely, Oriental Insurance Company Ltd., United India Insurance Company Ltd., and National Insurance Company Ltd. has remained below the prescribed control level of solvency, and in some cases, negative over the past few years. DFS and IRDAI are continuously monitoring the issue and there have been multiple reviews and correspondences with the three PSGICs in this matter.

(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.

To scale up AI powered assessments and 360-degree digital inspections, IRDAI has informed that:

i. As per the Master Circulars issued by IRDAI, Insurers are required to put in place end to end technology solutions so as to ensure effective, efficient and seamless on-boarding of policyholder, renewal of policy, policy servicing, grievance redressal and claim settlement process. Insurers shall also endeavour to establish appropriate technology based infrastructure to handle all the claims processing facilitating registration of claims intimation, providing acknowledgements, submission of documents etc.

ii. The use of photo/video-based surveys, telematics, and data analytics can strengthen insurers' ability to detect anomalies, validate claims, and assess losses in a consistent and auditable manner. These measures have contributed to improved operational efficiency, reduced subjectivity in assessments, and better control over loss ratios. PSGICs may also actively adopt and scale up the use of such technologies to enhance efficiency and strengthen claims assessment.

iii. In addition, insurers are being encouraged to leverage advanced analytics, external data integration, and risk-modelling tools to enhance underwriting quality, pricing accuracy, and fraud detection capabilities. IRDAI also supports continuous upgradation of IT infrastructure and adoption of emerging technologies, while prioritizing adequate safeguards relating to data protection, cyber security, and governance.

iv. At the same time, it is recognised that large-scale deployment and continuous upgradation of advanced technologies involve significant investments in IT infrastructure, data systems and skilled human resources. In the case of PSGICs, such initiatives may require calibrated implementation, considering legacy systems, operational constraints and the need for adequate capital support to sustain technology transformation.

(iv) <u>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.</u>

It may be noted that IRDAI has de-notified tariff wordings and encouraged product innovation, thereby enabling insurers to design and offer parametric and index-based insurance products, where pay-outs are triggered by predefined parameters such as rainfall levels or wind speed rather than assessment of actual losses. Such products are particularly relevant in addressing climate-related risks including floods, droughts, and other natural catastrophes. General insurers are already developing and offering such parametric solutions, especially for vulnerable and underserved segments, although the segment is currently at a nascent stage and evolving rapidly.

IRDAI's approach emphasises enabling innovation and market-driven adoption, rather than mandating specific products or channels, while continuing to support increased insurance penetration and resilience against climate-related risks. Additionally, the regulatory framework provides for testing and scaling of innovative solutions through mechanisms such as the Regulatory Sandbox, which facilitates development of parametric and technology-driven insurance products in a controlled environment.

With respect to enhancing insurance penetration in Tier 3–6 cities and rural areas, IRDAI aims at improving last-mile accessibility and awareness. This includes strengthening rural and social sector obligations, promoting insurance coverage at the Gram Panchayat level, and implementing State Level Insurance Plan wherein specific insurers are designated to drive penetration and awareness in identified states. Further, IRDAI has been encouraging the use of multiple distribution channels, including intermediaries, digital platforms, to expand outreach in underserved geographies. In addition, focused efforts are being undertaken to enhance insurance literacy and consumer awareness, including collaboration with institutions such as the National Centre for Financial Education (NCFE) and the development of dedicated policyholder education platforms. While the Business Correspondent (BC) network represents a potential distribution channel, its operational aspects fall within the domain of the banking ecosystem, and currently BCs are allowed to sell only micro insurance products as per RBI guidelines.

(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.**

IRDAI issued the Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers) (Amendment) Regulations, 2026, which came into effect from 1st April 2026. These amendments mandate the preparation and presentation of financial statements by insurers in accordance with applicable Indian Accounting Standards (Ind AS). These will be applicable to all categories of insurers, including Life, General, Stand Alone Health Insurers, and Reinsurers. To facilitate smooth transition, for insurers facing challenges in immediately shifting to Ind AS, a provision has been made to grant forbearance for one-year. Introduction of Ind AS aims to enhance consistency, transparency, and comparability in financial reporting across the insurance sector, in alignment with globally accepted standards.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

CHAPTER III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

-NIL-

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 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.

Reply of the Government

4) Regarding Atal Pension Yojana (APY), the following is submitted:

D. The Pension Fund Regulatory and Development Authority (PFRDA) has been conducting annual actuarial valuations of APY since 2020. Based on these actuarial findings, gap funding requirements are determined and placed before the EFC for approval for the relevant cycle period.

E. In the previous EFC cycle, a gap funding of ₹271 crore per annum was approved annually from FY 2022 to FY 2025. Subsequently, under the new EFC cycle, the approved gap funding for FY 2026 onwards has been revised downward from ₹271 crore to ₹202 crore per annum, valid up to the end of this cycle (i.e., 2031).

F. Further, the gap funds released are invested by PFRDA in accordance with the approved guidelines. As on 31.03.2026, the APY Gap Fund has an AUM of ₹1,457 crore.

5) Regarding BHIM-UPI transactions, the following is submitted:

E. Till Dec 2019, MDR upto 0.30% of transaction value was applicable for UPI (P2M) transactions. From Jan 2020, Zero MDR was announced on all UPI (P2M) transactions to accelerate digital payment adoption and encourage a shift from cash to digital.

F. The zero MDR policy had eliminated the core revenue streams for the UPI ecosystem. In order to mitigate this and also to encourage banks and other ecosystem participants to promote digital payments, Government has been implementing the Incentive Scheme.

G. Accordingly, for FY 2026-27, a budget provisioning of ₹2,000 crore was made as part of BE 2026-27, against an estimated cost of ₹20,700 crore incurred by the industry (i.e., cost of ₹1.38 per transaction multiplied by total P2M transactions of 15,000 crore recorded last year). Further, it is submitted that the incentive is paid on reimbursement mode only after the transactions have been completed and data is submitted by the banks. Since, the payout is on actual basis, incidents of parking of idle funds doesn’t arise.

6) Regarding Pradhan Mantri Vaya Vandana Yojana (PMVVY), the following is submitted:

Pradhan Mantri Vaya Vandana Yojana (PMVVY) was launched 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 Life Insurance Corporation of India (LIC). The scheme enables old age income security for senior citizens through provision of assured pension/return of 7.40% per annum linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC).

The funds are reimbursed to LIC as gap subsidy between the assured returns and the actual returns guaranteed by the investment under the schemes.
At present, the portfolio is generating a yield of about 6.95% p.a., resulting in a negative carry vis-à-vis the assured return.

The scheme's investments were mainly made in Central and State Government Securities during 2020 to 2023 ensuring high credit quality and safety of capital at the then prevailing yield below 7% p.a. The monies were invested in accordance with investment pattern for pension fund as outlined by IRDAI.
Most investments are classified as Held to Maturity (HTM) and are intended to be held until maturity to avoid market volatility.

Also, the rising interest rates have reduced the market value of these securities and any sale of such securities would result in realization of losses. The scheme is a closed-ended fund, limiting LIC's ability to reinvest in higher-yielding instruments. There is also limited secondary market liquidity, especially for State Government Securities.

Given the above factors, the subsidy burden has grown from Rs. 27.58 crore in 2022-23 to Rs. 597.33 crore in 2025-26.

However, the fund continues to follow a prudent and conservative investment strategy, focused on capital preservation and accrual income, ensuring alignment with regulatory and fiduciary responsibilities.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

(For Comments of the Committee, please refer Para No. 1.8 of Chapter I)

Recommendation (Sl. No. 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.

Reply of the Government

Pradhan Mantri Vaya Vandana Yojana (PMVVY) was launched 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 Life Insurance Corporation of India (LIC). The scheme enables old age income security for senior citizens through provision of assured pension/return of 7.40% per annum linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC).

The funds are reimbursed to LIC as gap subsidy between the assured returns and the actual returns guaranteed by the investment under the schemes.
At present, the portfolio is generating a yield of about 6.95% p.a., resulting in a negative carry vis-à-vis the assured return.

The scheme's investments were mainly made in Central and State Government Securities during 2020 to 2023 ensuring high credit quality and safety of capital at the then prevailing yield below 7% p.a. The monies were invested in accordance with investment pattern for pension fund as outlined by IRDAI.

Most investments are classified as Held to Maturity (HTM) and are intended to be held until maturity to avoid market volatility.

Also, the rising interest rates have reduced the market value of these securities and any sale of such securities would result in realization of losses. The scheme is a closed-ended fund, limiting LIC's ability to reinvest in higher-yielding instruments. There is also limited secondary market liquidity, especially for State Government Securities. Given the above factors, the subsidy burden has grown exponentially from Rs. 27.58 crore in 2022-23 to Rs. 597.33 crore in 2025-26.

However, the fund continues to follow a prudent and conservative investment strategy, focused on capital preservation and accrual income, ensuring alignment with regulatory and fiduciary responsibilities.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

(For Comments of the Committee, please refer Para No. 1.11 of Chapter I)

Recommendation (Sl. No. 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."

Reply of the Government

The Government has been constantly engaging with the financial sector regulators and other concerned stakeholders to review the issues related to threats such as digital arrest scams, phishing, and investment frauds in the country. Based on the review assessment, various regulatory and supervisory interventions have been taken from time to time. This inter-alia includes the following:

i. Banks have been advised to ensure deployment and adoption of robust software for real-time transaction monitoring and use of AI / ML tools in detecting suspicious and fraudulent transaction patterns as well as use of network analytics in identifying mule networks.
ii. Issuance of various Advisories delineating specific actions to be taken by the banks in mitigating the misuse of banking channel through robust systems and controls for the prevention and detection of cyber enabled frauds & suspected money mules.
iii. Close monitoring of any misuse of the banking channels for proliferation of the cyber-enabled frauds and coordination with other stakeholders to arrest spread of money-mules in banking sector.
iv. Focused thematic assessments carried out in major banks, with high number of money mule accounts, to assess any gaps in the systems and controls so as to prevent cyber-frauds / money mules. This was followed by meetings with the banks concerned and issuance of Supervisory Letters to these banks for rectification of the identified gaps.
v. Reserve Bank of India (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 a common minimum standards of security controls for various payment channels like internet, mobile banking, card payment etc.

vi. 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.
vii. 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.
viii. In order to facilitate citizens to report all types of cyber fraud including financial fraud, Ministry of Home Affairs (MHA) has launched the National Cyber Crime Reporting portal (https://cybercrime.gov.in) as well as a National Cybercrime Helpline Number "1930. Department of Telecommunications has also launched Digital Intelligence Platform (DIP) and 'Chakshu' facility. 'Chakshu' facilitates citizens to report suspected fraud communication received over call, SMS or WhatsApp with the intention of defrauding like KYC expiry or update of bank account / etc.
ix. Regular outreach programmes through seminars / workshops are being conducted to sensitise both Top Management and field functionaries in banks on the importance of adherence to the KYC AML / CFT regulations and consequences of non-compliance. This also includes participation of Law Enforcement Agencies (LEAs) including Indian Cybercrime Coordination Centre (I4C), Ministry of Home Affairs (MHA) and FIU-IND.

Further, the existing instructions on 'Limiting Liability of Customers in Unauthorised Electronic Banking Transactions' were reviewed by the Reserve Bank and the draft revised instructions on 'Customer Protection in Electronic Banking Transactions' have been issued on March 6, 2026 for public consultation. The draft instructions propose to introduce a compensation mechanism for small value fraudulent electronic banking transactions. As per the proposed compensation mechanism, a bona fide victim, being an individual person and having lodged a complaint involving gross loss of an amount up to ₹50,000 on account of fraudulent electronic banking transaction(s) covered under paragraphs 76M and 76N of the draft instructions, shall be compensated 85 per cent of the net loss amount (calculated after reducing recoveries made, whether before or after paying the compensation, from the gross loss amount), or ₹25,000, whichever is less, once during his / her lifetime subject to conditions. Out of the 85 per cent compensated to the customer, 65 per cent shall be borne by the Reserve Bank, 10 per cent by the customer's bank and the remaining 10 per cent by the beneficiary bank.

RBI guidelines on the 'Operation of Bank Accounts and Money Mules', mandates that the bank shall strictly adhere to the instructions on opening of accounts and monitoring of transactions, to minimize the operations of 'Money Mules' that are used to launder the proceeds of fraud schemes (e.g., phishing and identity theft) by criminals who gain illegal access to deposit accounts by recruiting third parties that act as 'money mules'. The bank shall undertake diligence measures and meticulous monitoring to identify accounts which are operated as Money Mules and take appropriate action, including reporting of suspicious transactions to FIU-IND. Further, if it is established that an account opened and operated is that of a Money Mule, but STR was not filed by the concerned bank, it shall then be deemed that the bank has not complied with these directions.

Further, it may be noted that RBI (Commercial Banks - KYC) Directions, 2025 dated November 28, 2025 (updated as on December 29, 2025) do not contain any instructions on imposition of lien or freezing of accounts, except for freezing of financial assets under Section 51A of Unlawful Activities (Prevention) Act (UAPA), 1967 and Section 12A of WMD Act, 2005.

[Ministry of Finance (Department of Financial Services) O.M. No. 07/12/2026-Parl. dated 17.07.2026]

(For Comments of the Committee, please refer Para No. 1.20 of Chapter I)

CHAPTER V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

-NIL-

New Delhi;
11 August, 2026
20 Sravana, 1948 (Saka)

BHARTRUHARI MAHTAB
Chairperson
Standing Committee on Finance

ANNEXURE

Minutes of the Forty-Ninth Sitting of the Standing Committee on Finance (2025-26)

The Committee sat on Tuesday, the 11th August, 2026 from 1500 hrs. to 1700 hrs in Committee Room '62', First Floor, Samvidhan Sadan, New Delhi.

PRESENT

Shri Bhartruhari Mahtab – Chairperson

LOK SABHA

2. Shri P. P. Chaudhary
3. Shri Lavu Sri Krishna Devarayalu
4. Shri Gaurav Gogoi
5. Shri K. Gopinath
6. Shri Suresh Kumar Kashyap
7. Shri Kishori Lal
8. Thiru Arun Nehru
9. Shri N. K. Premachandran
10. Smt. Sandhya Ray
11. Prof. Sougata Ray
12. Dr. K. Sudhakar
13. Shri Manish Tewari
14. Shri Prabhakar Reddy Vemireddy

RAJYA SABHA

15. Shri P. Chidambaram
16. Shri Narain Dass Gupta
17. Shri Praful Patel
18. Shri Yerram Venkata Subba Reddy
19. Shri S. Selvaganabathy
20. Shri Sanjay Seth
21. Dr. Dinesh Sharma

SECRETARIAT

1.	Smt. Bharti Sanjeev Tuteja	-	Director
2.	Shri Kuldeep Singh Rana	-	Deputy Secretary
3.	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) Forty-Third Report on Action taken by the Government on the Observations/Recommendations contained in Twenty-Eighth Report of the Standing Committee on Finance on the subject ‘Review of working of Insolvency and Bankruptcy Code and Emerging Issues’ of the Ministry of Corporate Affairs.

ii) Forty-Fourth Report on Action taken by the Government on the Observations/Recommendations contained in Thirty-Second Report of the Standing Committee on Finance on ‘Demands for Grants (2026-27)’ of the Ministry of Finance (Department of Financial Services).

iii) Forty-Fifth Report on Action taken by the Government on the Observations/Recommendations contained in Thirty-Third Report of the Standing Committee on Finance on ‘Demands for Grants (2026-27)’ of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Public Enterprises and Investment & Public Asset Management).

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.

<u>PART II</u>

4. XX XX XX XX XX XX

XX XX XX XX XX XX.

(The witnesses then withdrew)

Record of the Verbatim Proceedings has been kept.

The Committee then adjourned.

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APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRTY-SECOND REPORT OF THE STANDING COMMITTEE ON DEMANDS FOR GRANTS (2026-27) OF THE MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

		Total	% of total
(i)	Total number of Recommendations	12	
(ii)	Observations/Recommendations which have been accepted by the Government (*vide* Recommendations at SI. Nos. 2,3,5,6,7,8,9,10 and 11)	9	75%
(iii)	Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies	NIL	--
(iv)	Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee (*vide* Recommendation at SI. No.1, 4 and 12)	03	25%
(v)	Observations/Recommendations in respect of which final reply of the Government are still awaited	NIL	--

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