GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 1625
TO BE ANSWERED ON 10.03.2025

EXCESSIVE FINANCIALIZATION OF THE ECONOMY

†1625. Shri Azad Kirti Jha:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has assessed the risks associated with the increasing financialization of the economy, as highlighted in the Economic Survey 2024-25;
(b) if so, the details of the sharp rise in consumer credit as a share of total loans and its potential impact on financial stability;
(c) whether the Government has taken note of the declining share of banks in total credit and the growing dependence on non-bank financing;
(d) the steps being taken by the Government to enhance transparency and safeguard retail investors in corporate bond markets, particularly given the dominance of private placements; and
(e) whether the Government is considering any regulatory interventions to mitigate systemic risks arising from AI-driven financial services?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) to (c): The financial sector regulators continuously monitor the systemic health of the sector. This includes aspects such as monitoring excessive risk-taking through channels of investment and borrowing, which are characteristic of increasing financialization in an economy. Further, the trends in financing of various segments of the economy through the banking and non-banking financial avenues, such as non-banking financial companies (NBFCs), equity markets, bond markets etc, are also closely monitored. As may be warranted, the regulators take measures to temper excessive activities in certain segments and protect investors.

Consumer credit has been a key driver of loan growth, post COVID-19. It increased at a compound annual growth of 20.6 per cent (banks and upper- and middle-layer NBFCs) between March 2021 and December 2023. The Reserve Bank of India (RBI) took a number of regulatory measures during third quarter of 2023-24 to curb excessive growth in this segment. These include, increasing the risk weights on consumer credit exposures for both commercial banks and NBFCs, excluding housing, education, and vehicle loans.

Additionally, risk weights on credit card receivables was increased for scheduled commercial banks and NBFCs. These measures have slowed consumer credit pace both at an aggregate level as well as across product and lender types.

(d): The Securities and Exchange Board of India (SEBI) has undertaken several measures to enhance transparency and safeguard retail investors in corporate bond markets. Key initiatives include standardization of the record date for identifying eligible holders; introduction of Liquidity Window facility for investors in debt securities through stock exchange mechanism; UPI interface for participation; reduction in face value of debt securities; issuing the framework for registration of Online Bond Platform providers and mandating publishing investor charter and disclosure of investor complaints by Merchant Bankers on their websites.

(e) The RBI has, on 26 December 2024, constituted a committee to develop a Framework for Responsible and Ethical Enablement of AI (FREE-AI). One of the terms of reference (ToR) of the committee is "*To identify potential risks associated with AI, if any and recommend an evaluation, mitigation and monitoring framework and consequent compliance requirements for financial institutions, including banks, NBFCs, FinTechs, PSOs, etc.*".

In the securities market, the SEBI has advised market infrastructure institutions and registered intermediaries who use AI tools, either designed by them or procured from third party technology service providers, to take full responsibility for their use of such tools, irrespective of the scale of adoption and ensure privacy, security and integrity of investors' data.