

IMF asks Indian banks to adopt global norms for credit risk mgmt

UN financial agency report released by RBI calls for enhanced supervision of individual loans

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Indian banks need to strengthen credit risk management by adopting International Financial Reporting Standards (IFRS 9) and enhancing supervision of individual loans, collateral valuation, and connected borrower groups, the International Monetary Fund (IMF) said in its Financial System Stability Assessment (FSSA) report. The Reserve Bank of India (RBI) released the report's findings on Monday.

The Financial Sector Assessment Program (FSAP) is a joint initiative of the IMF and World Bank. It conducts a comprehensive and in-depth analysis of a country's financial sector. The last FSAP for India was conducted in 2017, and the FSSA report was published by the IMF on December 21, 2017. According to the RBI, the recommendations in the India FSAP mainly focus on further improving the structure and functioning of the financial system, and many of the detailed recommendations align with the concerned authorities and regulators' own developmental plans.

"India remains committed to the adoption of internationally accepted standards and best practices in a phased manner, attuned to domestic needs and economic conditions wherever necessary," the RBI said.

TAKEAWAYS FROM IMF's FSSA REPORT

- Banks must accept International Financial Reporting Standards
- Non-Banking Financial Intermediaries sector has become diverse but more interconnected
- Financially underserved sectors' access to credit can be enhanced by strengthening legal, tax, and informational infrastructures
- Banks, NBFCs have enough capital to support some lending even in severe macro financial scenarios

"IMF's FSSA report highlights that India's financial system has become more resilient and diverse since the last FSAP in 2017, driven by rapid economic growth," the RBI said, adding that the financial sector in India has recovered from various distress episodes of the 2010s and withstood the pandemic well. "In terms of the evolution of the financial sector landscape, the non-banking financial intermediary sector has become more diverse but also more interconnected. Banks and non-banking financial companies have sufficient aggregate capital to support moderate lending even in severe macro-financial scenarios," it further added.

The IMF said that India's public dig-

ital infrastructure has vastly improved retail financial inclusion in the country. According to the RBI's Financial Inclusion Index, the extent of financial inclusion stood at 64.2 in March 2024, up from 60.1 in March 2023 and 43.4 in 2017. The index is based on three sub-indices: access, quality, and usage.

Under the Pradhan Mantri Jan-Dhan Yojana, over 548.4 million bank accounts have been opened, with a total balance of at least ₹2.45 trillion in these accounts.

The IMF recommended that financially underserved sectors' access to credit be enhanced by strengthening legal, tax, and informational infrastruc-

ture for asset-based and digital lending. The RBI also noted that the FSSA has recognised India's insurance sector as strong and growing, with a sizeable presence in both life and general insurance.

"The sector has remained stable, supported by better regulations and digital innovations. The report notes

India's progress in improving oversight, risk management, and governance and suggests further steps towards risk-based solvency/supervision frameworks and stronger group supervision," the RBI said, adding that the transition plans towards a risk-based approach in the insurance sector reflect India's commitment to global best practices and a resilient insurance sector.

The RBI said that according to the IMF, cybersecurity, climate change, and system-wide contagion require attention as emerging risks.

"Financial stability risks from climate change appear manageable but warrant careful monitoring. The assessment suggested enhanced data coverage with better granularity for mapping climate-related financial risks," the RBI said.

The RBI said the IMF found that Indian authorities have advanced cybersecurity risk oversight, especially for banks.

