Government of India

Ministry of Finance

Department of Economic Affairs

Financial Stability and Cyber Security Division

PRESS RELEASE

India: Financial Sector Assessment Program, 2024

The Financial Sector Assessment Program (FSAP), a joint program of the International Monetary Fund (IMF) and the World Bank (WB), undertakes a comprehensive and in-depth analysis of a country's financial sector. Since September 2010 the exercise has become mandatory for jurisdictions with systemically important financial sectors. Currently, it is mandatory for 32 jurisdictions including India, every five years, and for another 15 jurisdictions every ten years. Last FSAP for India was conducted in 2017 and the Financial System Stability Assessment (FSSA) report was published by IMF on 21st December, 2017.

2. IMF released the latest India-FSSA report on their websites on February 28, 2025, based on the assessment carried out during 2024, while WB's Financial Sector Assessment (FSA) report is due for publication.

3. India welcomes assessment of the Indian financial system undertaken by the joint IMF-World Bank team conforming to the highest international standards.

4. 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. Financial Sector in India has shown recovery from various distress episodes of 2010s and withstood the pandemic well. In terms of evolution of financial sector landscape, Non-Banking Financial Intermediaries (NBFI) sector has become diverse but more interconnected. Banks and Non-Banking Financial Companies (NBFCs) have sufficient aggregate capital to support moderate lending even in severe macrofinancial scenarios.

5. On regulation and supervision of NBFCs, IMF acknowledged India's systematic approach for prudential requirements of NBFCs with scale based regulatory framework. IMF appreciated India's approach on introduction of bank-like Liquidity Coverage Ratio (LCR) for

large NBFCs. For supervision of banks, IMF suggested strengthening credit risk management through IFSR 9 adoption and upgrading supervision over individual loans, collateral valuation, connected borrower groups, large exposure limits, and related-party transactions.

6. IMF acknowledges that the regulatory framework in securities markets has been enhanced in line with international practice to manage and prevent emerging risks. Notable improvements include establishing the Corporate Debt Market Development Fund (CDMDF), introducing swing pricing and liquidity requirements for bond mutual funds. The regulatory scope has also been expanded over emerging areas such as sustainability and investor protection measures for fast-growing equity derivatives products.

7. IMF has stated that public digital infrastructures have significantly improved retail financial inclusion and recommended that financially underserved sectors' access to credit can be enhanced by strengthening legal, tax, and informational infrastructures for asset-based and digital lending.

8. The FSSA report acknowledges that India's insurance sector is strong and growing, with a significant 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 toward risk-based solvency / supervision frameworks and stronger group supervision. It acknowledged transition plans towards risk-based approach in the insurance sector. This reflects India's commitment to global best practices and a resilient insurance sector.

9. IMF recommends that financial stability should be the primary objective of the macroprudential authorities.

10. In terms of emerging risks, cybersecurity, climate change and system-wide contagion need attention. 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.

11. IMF also analysed cyber security framework in banking sector, Financial Market Infrastructure (FMI), Critical Information Systems, and other relevant players in securities

market. IMF found that Indian authorities have advanced cybersecurity risk oversight, especially for banks. However, IMF stated that extensive cybersecurity crisis simulations and stress tests for banks could be expanded for cross-sectoral and market-wide events to further strengthen cybersecurity resilience.

12. The recommendations in case of India FSAP are mainly focussed on bringing about further improvements in the structure and functioning of the financial system and many of the detailed recommendations are in conformity with the concerned authorities'/regulators' own developmental plans. India remains committed to adoption of internationally accepted standards and best practices in a phased manner, attuned to domestic needs and economic conditions, wherever necessary.

The FSSA released by IMF can be accessed at:
(https://www.imf.org/en/Publications/CR/Issues/2025/02/28/India-Financial-Sector-Assessment-Program-Financial-System-Stability-Assessment-562815)

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