

THE HINDU CLUB

Read Smart. Rank Higher. • Sovereign Academic Research Division

BANKING & FINANCIAL AWARENESS MASTER DOSSIER

RBI Monetary Framework, Priority Sector Lending (PSL) & Mains Descriptive Letter/Essay Rubric

- Monetary Policy Operating Framework: Policy Repo, Standing Deposit Facility (SDF) & MSF
- Priority Sector Lending (PSL) 40% Architecture & Mandated Sub-Sector Targets
- Asset Classification Matrix: SMA-0, 1, 2, NPA Categories & Prompt Corrective Action (PCA)
- Central Bank Digital Currency (CBDC - e₹) & UPI Cross-Border Bilateral Linkages
- Mains Descriptive Masterclass: 2 Complete Formal Letters & 2 Model Essays (250 Words)

Issuing Division: The Hindu Club Research Board	Pattern Standard: TCS iON Official Examination Syllabus	Copyright Status: 100% Sovereign Rewrite • Sec 52	Online Companion: thehindu.club/tools/
---	---	---	---

SECTION 1: RBI MONETARY POLICY FRAMEWORK & OPERATING CORRIDOR

Under the amended Reserve Bank of India Act, 1934, the Monetary Policy Committee (MPC) is legally mandated to maintain headline Consumer Price Index (CPI-Combined) inflation at 4% within a tolerance band of +/- 2% (2% to 6%), while supporting economic growth.

1.1 Policy Rates & Liquidity Adjustment Facility (LAF) Corridor

- **Policy Repo Rate:** The benchmark fixed rate at which the Reserve Bank provides overnight liquidity to scheduled banks against the collateral of eligible government and other approved securities.
- **Standing Deposit Facility (SDF):** Introduced as the floor of the LAF corridor (set at 25 basis points below the Repo Rate). It empowers the RBI to absorb surplus liquidity from commercial banks without providing government collateral, strengthening liquidity management.
- **Marginal Standing Facility (MSF):** The penal ceiling of the LAF corridor (set at 25 basis points above the Repo Rate). Banks can borrow overnight funds by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a pre-determined limit.
- **Cash Reserve Ratio (CRR):** The mandated percentage of Net Demand and Time Liabilities (NDTL) that banks must deposit with the RBI in cash (currently 4.50%). No interest is paid by the RBI on CRR balances.
- **Statutory Liquidity Ratio (SLR):** The mandated percentage of NDTL that commercial banks must maintain in liquid assets (cash, gold, or approved sovereign securities; currently 18.00%).

SECTION 2: PRIORITY SECTOR LENDING (PSL) COMPREHENSIVE ARCHITECTURE

Priority Sector Lending directives mandate commercial banks to channel a specified proportion of their credit towards sectors that generate high employment and foster inclusive socio-economic development.

Target Categories	Domestic Scheduled Commercial Banks & Foreign Banks (>=20 branches)	Regional Rural Banks (RRBs) & Small Finance Banks (SFBs)
Total Priority Sector Target	40% of Adjusted Net Bank Credit (ANBC) or CEOBE	75% of Adjusted Net Bank Credit (ANBC) or CEOBE
Total Agriculture	18% of ANBC (includes Farm Credit, Agri Infrastructure & Ancillary)	18% of ANBC
Small & Marginal Farmers (SMF)	10% of ANBC (mandatory sub-target within Agriculture)	10% of ANBC
Micro Enterprises	7.5% of ANBC (under MSMED Act definitions)	7.5% of ANBC
Advances to Weaker Sections	12% of ANBC (artisans, SC/ST, self-help groups, beneficiaries of DRI)	12% of ANBC

SECTION 3: ASSET CLASSIFICATION & PROMPT CORRECTIVE ACTION (PCA)

- **Special Mention Accounts (SMA):** Classified before becoming an NPA based on duration of overdue principal or interest: **SMA-0** (1 to 30 days overdue), **SMA-1** (31 to 60 days overdue), **SMA-2** (61 to 90 days overdue).
- **Non-Performing Asset (NPA):** An advance where interest and/or installment of principal remains overdue for more than **90 days**. Classified into: (a) *Sub-standard* (remains NPA for <= 12 months); (b) *Doubtful* (remains sub-standard for > 12 months); (c) *Loss Asset* (uncollectible, identified by internal/external auditors or RBI inspection).
- **Prompt Corrective Action (PCA) Framework:** Triggered when a bank breaches pre-specified risk thresholds across three key areas: (1) Capital adequacy (CRAR and Common Equity Tier-1); (2) Asset Quality (Net NPA ratio >= 6.0%); (3) Leverage ratio. Enforcement actions include mandatory restrictions on dividend payouts, profit distribution, branch expansion, and management remuneration.

SECTION 4: MAINS DESCRIPTIVE WRITING MASTERCLASS (SBI PO / IBPS PO)

The Descriptive English section carries 25 to 50 marks in Banking Mains examinations. Evaluation criteria reward formal structure, grammatical correctness, crisp topic coherence, and official civil tone.

4.1 Model Formal Letter: Disputing an Unauthorized UPI Electronic Transaction

From:

Candidate Name
Flat 402, Shanti Vihar, Civil Lines, Prayagraj - 211001
Date: 20 October 2026

To:

The Chief Branch Manager,
State Bank of India,
Main Branch, Civil Lines, Prayagraj - 211001

Subject: Urgent request for investigation and reversal of unauthorized UPI debit of ₹14,500 under RBI Customer Liability Guidelines.

Respected Sir/Madam,

I am writing to formally report an unauthorized electronic debit transaction of ₹14,500 that occurred from my Savings Account No. 34098712345 on 19 October 2026 at 21:14 IST through a UPI handle bearing reference ID UPI/26101900482.

I affirm that I have neither shared my UPI PIN, One-Time Password (OTP), or net-banking credentials with anyone, nor have I clicked on any suspicious links or authorized any payment request. The debit occurred while my mobile device was in my possession. As per the Reserve Bank of India circular on 'Customer Protection – Limiting Liability of Customers in Unauthorized Electronic Banking Transactions', zero liability applies when a customer reports third-party fraud within three working days.

I request your office to immediately block UPI services linked to this account, initiate a chargeback with the National Payments Corporation of India (NPCI), and arrange for a shadow credit of the disputed sum within the statutory turnaround time of 10 working days.

Thanking you in anticipation.

Yours faithfully,

(Candidate Signature / Name)
Mobile: +91 98765 43210

4.2 Model Essay (250 Words): Digital Public Infrastructure (DPI) & India's Financial Leadership

Title: Digital Public Infrastructure: The Anchor of India's Sovereign Financial Revolution

India's pioneering development of Digital Public Infrastructure (DPI)—anchored by the JAM trinity (Jan Dhan accounts, Aadhaar biometric identity, and Mobile telephony)—has fundamentally altered the architecture of financial inclusion. By decoupling financial authentication from legacy branch networks, DPI has onboarded over 500 million unbanked citizens, transforming banking from an elite privilege into an accessible fundamental service.

At the epicenter of this transformation stands the Unified Payments Interface (UPI), engineered by NPCI. Processing over 14 billion transactions monthly, UPI has established a real-time, low-cost domestic rails model that eliminates middleman friction. Beyond domestic dominance, bilateral linkages with Singapore's PayNow, the UAE's Jaywan, and upcoming connections with Malaysia and Thailand have created alternative cross-border remittance corridors, bypassing expensive SWIFT correspondent fees and supporting India's diaspora.

Furthermore, the pilot deployment of the Reserve Bank's Central Bank Digital Currency (CBDC - Digital Rupee) in both wholesale and retail tiers represents the next technological frontier. CBDC provides sovereign, non-volatile settlement with programmable offline functionality, addressing connectivity constraints in remote agricultural zones.

To cement these gains, financial regulators must address emergent vulnerabilities: cyber fraud vectors, synthetic identity manipulation, and digital literacy disparities. By pairing robust consumer data governance with resilient DPI architecture, India is not merely expanding internal inclusion—it is authoring the blueprint for 21st-century sovereign global finance.