RBI's Stance on Bank Capital Norms

What is the issue?

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- Reserve Bank of India (RBI) has opposed government calls to relax the rules for risk weights and capital requirement for Indian banks.
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Click here to know more on government's proposal on capital requirements.

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What is RBI's rationale?

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- At present, the capital adequacy norms for Indian banks are higher than those recommended under Basel.
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- Government now calls for aligning the capital adequacy norms of Indian banks with those of Basel III to allow Indian banks to lend more.
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- But RBI says that applying Basel-specified risk weights would understate the “true riskiness” of loans on the books of these banks.
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- Relaxing the current risk-adjusted capital norms (Basel-III-plus norms) could hit the economy at a time when defaults are high and provisions low.
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- Indian banking system has a high proportion of nonperforming assets (NPAs) that are not provided for in relation to capital levels.
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- Introducing regulatory relaxations before bringing in structural reforms and with inadequate understanding of defaults could be detrimental to economy's interests.
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- So the case for a recalibration of risk-weights or minimum capital requirements would need to be carefully assessed.

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What are RBI's proposals?

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- **Capital norms** - RBI proposes to take a fresh look and intends to issue revised prudential regulations, including guidelines on -
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i. exposure and investment norms
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ii. risk management framework
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iii. select elements of Basel III capital framework
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- **Board** - RBI called for legislative changes to do away with the need to nominate the central bank’s officials as nominee directors on the boards of public sector banks.
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- Former RBI governor Urjit Patel had suggested withdrawal of these nominee directors from the boards to avoid any conflict of interest.
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- **PCA** - RBI also upheld the prompt corrective action (PCA) framework for weak banks, another point of contention with the government.
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- RBI said that weak banks under the PCA framework have shown improvement in deposits.
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- They have also shown lower growth in gross NPAs, relative to non-PCA public sector banks.
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- **Besides**, the RBI is also looking at reviewing the guidelines for compensation for private sector banks.
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- This follows a demand by banks for an objective assessment of remunerations for whole-time directors.
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Source: Livemint, Economic Times

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