RBI initiates Prompt Corrective Action on two state-run banks

The Reserve Bank of India, in December 2017, cracked the whip on two state-run banks initiating Prompt Corrective Action (PCA) on Bank of India (BoI) and United Bank of India (UBI). With this, it has put at least 10 lenders under the scanner, imposing restrictions on lenders including issuing of fresh loans and dividend distribution. According to BoI, RBI's action came after its on-site inspection under the risk-based supervision model carried out for the year ended March 2017. This is in view of high net NPA, insufficient CET1 Capital and negative ROA (return on asset) for two consequent years. This action will contribute to the overall improvement in risk management, asset quality, profitability, efficiency etc of the bank.

RBI issues warning on Bitcoins, other virtual currencies

The RBI, on 5 December 2017, called on those trading in Bitcoins and other virtual currencies regarding the risks involved in the same. In an official release, it cautioned users, holders and traders of Virtual Currencies (VCs) including Bitcoins regarding the potential economic, financial, operational, legal, customer protection and security related risks associated in dealing with such VCs. The RBI also clarified that it has not given any licence or authorisation to any entity or company to operate schemes or deal with Bitcoin or any other VC.

RBI keeps key rates unchanged, raises inflation forecast

The monetary policy committee of the Reserve Bank of India on 6 December 2017 decided to keep the repo rate unchanged at 6%, for the second consecutive meeting, while maintaining its neutral stance. While observing that moderation in inflation (excluding food and fuel) observed in Q1 of 2017-18 had, 'by and large', 'reversed', the six-member committee said inflation may continue to accelerate in the near term. The RBI revised its inflation projection to the range of 4.3-4.7% for the last two quarters of the current 2017-18 financial year. The central bank had projected an inflation range of 4.2-4.6% in the last policy meeting held in October 217.

Corporation Bank under RBI 'corrective action' lens on bad loans

State-run Corporation Bank said on 13 December 2017 that the Reserve Bank of India had initiated 'prompt corrective action' for the lender over high bad loans and the need to raise capital. The bank did not provide further details on the central bank move, but said it would not have any material impact. The bank had a net non-performing assets ratio of 10.24 percent as of end-September. The central bank has this year put several other state-run lenders under its corrective action plan, mainly due to their high bad loans.

Term in Focus: Prompt Corrective Action (PCA)

What is Prompt Corrective Action?

- RBI issued a policy action guideline (first in May 2014 and revised effective from April 1, 2017) in the form of Prompt Corrective Action (PCA) Framework if a commercial bank's financial condition worsens below a mark.
- The PCA framework specifies the trigger points or the level in which the RBI will intervene with corrective action. The trigger points are expressed in terms of parameters for the banks.

Parameters that invite Corrective Action

- The parameters that invite corrective action from the central bank are: Capital to Risk Weighted Asset Ratio (CRAR); Net Non-Performing Assets (NPA); Return on Assets (RoA); Leverage ratio.
- When these parameters reach the set trigger points for a bank (like CRAR of 9%, 6%, 3%), the RBI will initiate certain structured and discretionary actions for the bank.
- As per the revised framework by the RBI, in April 2017, capital, asset quality and profitability continue to be the key areas for monitoring. Along with this, leverage of banks also will be monitored.
- Some of the structured and discretionary actions that could be taken by the Reserve Bank are: recapitalization, restrictions on borrowing from inter-bank market to steps to merge/amalgamate/liquidate the bank or impose moratorium on the bank if its CRAR does not improve beyond etc.). The corrective actions are tough with worsening of the financials.

What will a bank do if PCA is triggered?

- Banks are not allowed to re new or access costly deposits or take steps to increase their fee-based income.
- Banks will also have to launch a special drive to reduce the stock of NPAs and contain generation of fresh NPAs.
- They will also not be allowed to enter into new lines of business. RBI will also impose restrictions on the bank on borrowings from interbank market.

Which banks are now under PCA?

- PSBs placed under PCA so far include Indian Overseas Bank, Bank of India, Dena Bank, Corporation Bank, Central Bank of India, IDBI Bank, UCO Bank, United Bank of India, Bank of Maharashtra, Corporation Bank and Oriental Bank of Commerce.
- The PCA framework is applicable only to commercial banks and not extended to co-operative banks, non-banking financial companies (NBFCs) and FMIs.

RBI asks banks to share info with information utilities

The Reserve Bank, on 19 December 2017, asked banks and other financial institutions to share information about assets of creditors with information utilities registered under the

insolvency law. The directive from the apex bank clears the air over sharing of information about creditors as required under the insolvency law as many banks reportedly had reservations in parting with such details. Information utilities store financial information to help establish defaults and verify claims expeditiously in order to complete transactions under the Insolvency and Bankruptcy Code (IBC) in a time-bound manner.

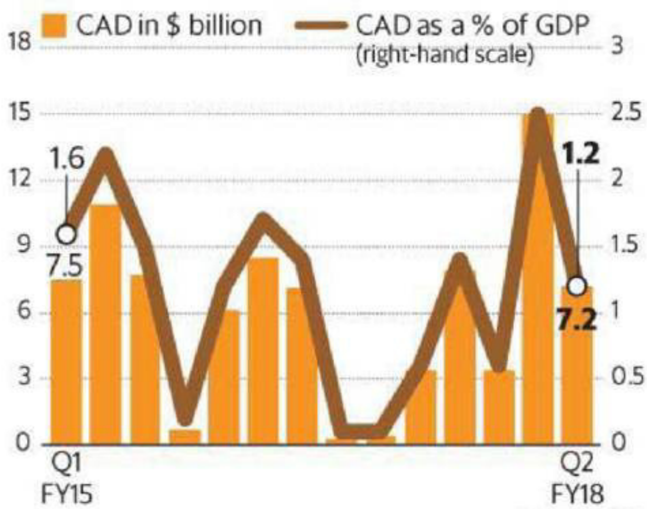
India's current account deficit widens to 1.2% of GDP in July-September 2017: RBI

According to data published by the RBI on 13 December 2017, India's July-September current account deficit more than doubled from a year earlier after imports accelerated while crude prices surged. The July-September current account deficit (CAD) widened to 1.2% of gross domestic product, or $7.2 billion. That was wider than the 0.6 percent or $3.4 billion in the same period in 2016-17. Meanwhile, the trade deficit widened to $32.8 billion in the previous quarter from $25.6 billion a year ago.

Despite a wider current account deficit, India's balance of payments posted a surplus of $9.5 billion in July-September compared with $8.5 billion a year ago, helped by a stronger capital account. The capital account surplus, which includes foreign direct investment and portfolio inflows, was at $6.9 billion in the September quarter compared with $4.3 billion a year ago.

Q2 CAD WIDENS TO 1.2% OF GDP

India's July-September current account deficit (CAD) more than doubled from a year earlier after imports accelerated while crude prices surged, data published by the Reserve Bank of India (RBI) showed on Wednesday. CAD in the quarter widened to 1.2% of gross domestic product (GDP), or $7.2 billion. That was wider than the 0.6% or $3.4 billion in the same period a year ago. Meanwhile, the trade deficit widened to $32.8 billion in the previous quarter from $25.6 billion a year ago.



Source: RBI

RBI reduces merchant discount rates for debit cards

The Reserve Bank of India (RBI) on 6 December 2017 reduced the Merchant Discount Rate (MDR) for debit card transactions and prescribed separate cap for small and large merchants based on their annual turnover. The move is aimed to encourage merchants to accept online mode of payments. The fee for merchants with turnover up to Rs 20 lakh in the last financial year, is capped at 0.4% for transactions via PoS terminals or online while if transaction is via QR code-based card acceptance infrastructure, the fee is capped at 0.3%.

MDR is the fee that a merchant has to pay to a bank for every transaction which is split between the bank which has issued the card, the lender whose point-of-sale terminal is being used and payment gateways like MasterCard or Visa. The MDR compensates the bank issuing the card, the bank which puts up the swiping machine (Point-of-Sale or PoS terminal) and network providers such as Mastercard or Visa for their services.

Complaints against private banks grow at faster pace than PSBs

As per data released by the RBI in December 2017, though public sector banks (PSBs) accounted for 62% of the total complaints received by the Office of the Banking Ombudsman (OBO) with 27% of the complaints being made against SBI (State Bank of India) and its associates, complaints against private banks have grown at a faster clip. In all, 35,080 complaints were made against private banks, registering a 30.2% year-on-year (y-o-y) during the timeframe. In contrast, complaints against nationalised banks and SBI and its associates grew by about 28% y-o-y and 21.5% y-o-y respectively. The increase in complaints against private banks is higher than the overall average as well.

BANKING ON OMBUDSMAN Source: RBI

Bank Group	Number of complaints received during			
	2015-16	Change (%)	2016-17	Change (%)
Nationalised banks	35,447 (35%)	22.69	45,364 (35%)	27.98
SBI and Associates	29,585 (29%)	11.52	35,950 (27%)	21.51
Private sector banks	26,931 (26%)	36.2	35,080 (26.5%)	30.26
Foreign banks	3,413 (4%)	0.21	3,284 (2.5%)	-3.78

HDFC Bank topped the complaints list among private sector banks. Problems relating to ATM/debit cards and credit cards topped the complaints list for the bank. In all, 9,884 complaints were registered against the bank during 2016-17, which translated to 2.07 per branch. This was followed by ICICI Bank against whom 9,541 complaints were made that worked out to 1.97 per branch. These two banks alone accounted for 59.3% of the total complaints recorded against private banks.

RBI allows overseas bank branches to refinance ECBs

In a major boost to Indian banks having overseas branches, the RBI on 6 December 2017 allowed them to refinance External

Commercial Borrowings (ECBs) of corporates, Navratna and Maharatna PSUs by raising fresh ECBs. "In order to provide a level playing field, it has been decided, in consultation with the government, to permit the overseas branches/subsidiaries of Indian banks to refinance ECBs of AAA rated corporates as well as Navratna and Maharatna PSUs, by raising fresh ECBs," said the RBI in the fifth bi-monthly monetary policy statement. Currently Indian corporates are permitted to refinance their existing ECBs at a lower all-in-cost. However, the overseas branches/subsidiaries of Indian banks are not permitted to extend such refinance

- ECBs are mainly foreign currency loans raised by Indian companies from non-resident lenders using instruments like commercial bank loans, buyers' credit, suppliers' credit and floating rate notes and fixed rate bonds etc.
- The DEA (Department of Economic Affairs), Ministry of Finance, government of India along with RBI, monitor and regulate ECB guidelines and policies.

RBI ups FPI investment limits for G-Secs, SDLs

The RBI on 12 December 2017 announced the hike in foreign portfolio investors' (FPIs) investment limits in central government securities (G-Secs) by Rs 6,400 crore beginning January 1, 2018 taking the total limit to Rs 2.56 lakh crore. Of this, the general-category FPIs will get an additional limit of Rs 1,600 crore while long term FPIs will get an additional limit of Rs 4,800 crore. At the same time, the central bank has also hiked the FPI investment limits in state development loans (SDLs) by Rs 5,800 crore taking the total limit to Rs 45,100 crore. Of this, a limit of Rs 1,500 crore has been reserved for general category FPIs while long term FPIs will get an additional limit of Rs 4,300 crore.

NPAs may rise to 10.8% in March 2018

RBI's Financial Stability Report: Reserve Bank of India's (RBI) Financial Stability Report (FSR), released on 21 December 2017, said that gross non-performing assets (GNPAs) might rise from 10.2 per cent of gross advances in September 2017 to 10.8 per cent in March 2018 and further to 11.1 per cent by September 2018.

Highlights of RBI's FSR on NPAs

- Credit growth of scheduled commercial banks (SCBs) showed an improvement between March and September 2017, while public sector banks (PSBs) continued to lag behind their private sector peers.
- According to the report, the gross non-performing advances (GNPA) ratio and the stressed advances ratio of the banking sector increased between March 2017 and September 2017.
- The overall capital to risk-weighted assets ratio (CRAR) of the banking system improved from 13.6 per cent to 13.9 per cent between March 2017 and September 2017.

RBI asks banks not to wait for its approval to resolve stressed loans

In its report on trends and progress in the banking industry, released on 21 December 2017, the RBI advised banks to start insolvency proceedings against defaulting lenders without waiting for the regulator's instructions. It said that banks can take advantage of the IBC (Insolvency and Bankruptcy Code) to clean up their balance sheets and improve performance on a sustained basis to remain competitive.

RBI was empowered through an ordinance in May 2017 to direct banks to initiate insolvency proceedings against borrowers for resolution of stressed assets. The regulator shortlisted 12 companies with a total debt of over Rs 2 lakh crore in June for bankruptcy proceedings. In August 2017, it issued a second list of 28 defaulters for debt resolution before December 13, failing which the cases would also have to be sent to the National Company Law Tribunal (NCLT) by December 31, 2017.