

RBI accelerates banking reforms moves to fortify cyber security

Staff Writer | April 05, 2016

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Mumbai: With the banking sector saddled with stressed assets worth Rs 8 lakh crore, Reserve Bank of India governor Raghu Ram Rajan on Tuesday announced a series of steps to accelerate banking reforms.

Following are the steps announced in the monetary policy:

Large Exposures: Taking into account the views and suggestions received from stakeholders on the discussion paper on 'Large Exposures Framework and Enhancing Credit Supply through Market Mechanism', a fresh discussion paper will be issued by April 30, 2016 on large borrowers meeting a part of their funding requirements from markets. A draft circular on the Large Exposures Framework will be issued for public comments in June 2016 (to be implemented by January 1, 2019).

Revision of regulatory framework: The Basel Committee on Banking Supervision (BCBS) has issued final standards on the standardised approach for measuring counterparty credit risk (SA-CCR), a revised framework for the capital treatment of bank exposures to central counterparties (CCPs) and final rules on revised Pillar 3 disclosure requirements. These standards will be implemented by January 1, 2017 by BCBS member jurisdictions. The Reserve Bank proposes to issue draft guidelines on these standards by May 31, 2016. The Reserve Bank will also undertake revision of the guidelines on the securitisation framework in the light of the BCBS revisions to the securitisation framework which is to be implemented by January 2018. It is proposed to issue draft guidelines on the revised securitisation framework by June 2016.

Rationalisation of Branch Authorisation Policy: Currently, banks provide services through a variety of business outlets – branches; extension counters; satellite offices; mobile branches; ultra small branches and the like. The current policy approach is to facilitate adequate outreach of banking outlets in unbanked areas while at the same time providing autonomy to banks to decide their business strategy. Given that regulations are written in terms of branches, with a view to

facilitating financial inclusion and providing flexibility on the choice of delivery channel, it is proposed to redefine branches and permissible methods of outreach keeping in mind the various attributes of the banks and the types of services that are sought to be provided.

Differentiated Licensing of Banks: In addition to recently licensed differentiated banks such as payments banks and small finance banks, the Reserve Bank will explore the possibilities of licensing other differentiated banks such as custodian banks and banks concentrating on whole-sale and long-term financing. A paper in this regard will be put out for comments by September 2016.

Margin Requirements for Over the Counter (OTC) Derivatives: In March 2015, the BCBS and the International Organisation of Securities Commissions (IOSCO) finalised a framework on margin requirements for non-centrally cleared derivatives. A consultative paper outlining the Reserve Bank's approach to implementation of these requirements will be issued by end-April 2016 with a target of finalising the framework by end-July 2016.

Countercyclical Capital Buffers (CCCB): A review and empirical testing of CCCB indicators was carried out by the Reserve Bank to assess whether activation of the CCCB is warranted and it has been decided that it is not necessary to activate CCCB at this point in time.

Supervisory Enforcement Framework: Changes in the domestic and international financial sector environment necessitate formalisation of an improved supervisory framework for taking enforcement action against scheduled commercial banks for non-compliance of instructions and guidelines issued by the Reserve Bank. The framework, which is intended to meet the principles of natural justice and global standards of transparency, predictability, standardisation, consistency, severity and timeliness of action, will be formalised by June 2016.

Cyber Risks - Supervisory Assessment of Preparedness of Banks: The Reserve Bank has commenced detailed examination of IT used by banks on a pilot basis during the current year. IT examination reports are being issued separately so as to strengthen the information security preparedness of banks as well as to assess the effectiveness of IT adoption by banks. Moving forward, it is planned to cover major banks in 2016-17 and all banks from 2017-18. The Reserve Bank has

constituted an Expert Panel (Chairperson: Meena Hemachandra) on IT Examination and Cyber Security to provide broad guidance on its approach.

Technology Support to Urban Cooperative Banks (UCBs): As a part of the Memorandum of Understanding with the State Governments/Central Government on UCBs, the Reserve Bank had agreed to provide technology support to UCBs with the objective of financial inclusion and ensuring implementation of standardised core banking solutions (CBS). It has been decided to prescribe standards and benchmarks for CBS in UCBs and provide financial assistance and technical support

through the Institute for Development and Research in Banking Technology (IDRBT). The initial set-up cost in this regard will be borne by the Reserve Bank while the recurring cost will be borne by the UCBs. A circular in this regard is being issued separately.