RBI tightens norms on bank performance

The Reserve Bank of India (RBI) tighten norms by a revised prompt corrective action (PCA) framework for banks. It proposed certain thresholds and the breach of threshold could invite resolutions such as a merger with another bank or even shutting down of the bank.

Revised norms have set out three thresholds

The thresholds are based on capital, net non-performing assets, profitability and leverage ratio.

1. Breach of the first threshold
   - It will invite restriction on dividend distribution or require parents of foreign banks to bring in more capital.
   - This will get triggered if capital adequacy ratio (including capital conservation buffer) falls below 10.25% or Common Equity Tier-I (CET1) capital ratio falls below 6.75%.
   - Breach of either Capital Adequacy Ratio (CAR) or CET1 would trigger corrective action
   - The trigger for net NPA is 6% and 4% for leverage ratio.
   - Two consecutive years of negative Return On Assets (RoA) will also be classified in threshold one.

2. Breach of the second threshold
   - occur when the capital adequacy ratio falls below 7.75% or CET1 goes below 5.125%.
   - The net NPA threshold is breach of 12% and leverage ratio below 3.5%.
   - Three consecutive years of negative ROA will also trigger threshold two.
   - Breach of threshold two will result in restrictions on expansion of branches and higher provisions.

3. Breach of the third threshold
   - CET1 falls below 3.625% and net NPA goes above 12%.
• Negative ROA for four consecutive years will also be considered as a breach of the third threshold vis-a-vis the profitability parameter.
• Restrictions, in addition to that of threshold one and two, will be put on management compensation and directors’ fees if the the third level is breached.

**Implementation**

The provisions of the revised PCA framework will be effective from April 1, 2017 based on the financials of the banks for the year ended March 31, 2017. The framework would be reviewed after three years, the RBI said.

Corrective action imposed on banks includes special audit, restructuring operations and activation of recovery plan. Promoters of banks can be asked to bring in new management, or even can supersede the bank’s board, as a part of corrective action.

**Additional information of Terms Used**

1. **Capital Adequacy Ratio**: A measure of a bank’s capital, is the ratio of a bank’s capital to its risk. Also known as capital-to-risk weighted assets ratio (CRAR), it is used to protect depositors and promote the stability and efficiency of financial systems around the world. The Basel III norms stipulated a capital to risk weighted assets of 8%. As per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.

2. **Common Equity Tier-I**: Measurement of a bank’s core equity capital compared with its total risk-weighted asset. It was introduced in 2014 as a precautionary measure to protect the economy from a financial crisis. It is expected that all banks should meet the minimum required CET1 ratio of 4.50% by 2019 Basel III norm.

**Source**: *The Hindu*

**Syllabus**: Indian Economy

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**Aadhaar Seeding Application launched**

**Aim**

Outcome of the policy of the Government for use of information technology for efficient service delivery and widening the reach of EPF benefits.

**Aadhaar Seeding Application**
The EPFO has developed this Aadhaar seeding application with support of the Common Service Centers (CSC) and CDAC. The CSCs are ICT enabled front end service delivery points at the village level for delivery of Government and private services. With the implementation of Aadhaar Seeding Application, now Provident Fund member or pensioner can walk in any of the field offices of EPFO or CSC outlets with UAN & Aadhaar and seed the Aadhaar with the UAN.

**Common Service Centres**

- An information and communication technology (ICT) access point created under the National e-Governance Project of the Indian government.
- The project plan includes the creation of a network of over 100,000 CSCs throughout the country.
- The CSC project was begun in 2006.
- Project funding and implementation is through a public-private partnership

*Source: PIB*

**GS II : Development and management of Social Sector/Services relating to Human Resources**

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**Anti-romeo squad Operation Durga**

**Aim of the Squad**

Launched for curbing crime against women in Haryana in line with Anti Romeo Squad in Uttar Pradesh.

**Key Facts**

- launched ‘Operation Durga’ in Haryana.
- For allegedly indulging in crimes against women.
- The teams comprise woman personnel, including nine Sub-inspectors of Police, 14 Assistant Sub-inspectors, six Head Constables and 13 constables, besides other police officers from each district.

**Working of Squad**

The teams visited public places such as schools, colleges, bus stands and railway stations and nabbed persons indulging in crimes against women, including eve teasing.
Background for the initiative

Women police stations in all districts to ensure safety of women and provide them with a safe place for lodging complaints. But it had been observed that women hesitated in reporting incidents involving such anti-social elements. The campaign Operation Durga was undertaken after identifying places where such anti-social elements were indulging in eve teasing, vulgar comments, stalking and other similar activities.

Source: Indian Express

GS I: Role of women and women’s organization, population and associated issues, poverty and developmental issues, urbanization, their problems and their remedies