Statement 9: Regulatory/Supervisory Regimes for Banks, FIs and NBFCs

Sr. No.	Regulatory/ Supervisory Regimes	Banks	FIs	NBFCs
1.	**Licensing**	Any company wishing to commence banking business in India is required to obtain a licence from the Reserve Bank.	There is no licencing requirement for a DFI/RFI set up as a statutory body. However, those DFIs which are set up under the Companies Act are treated as non-banking finance companies (NBFCs) and as such are required to obtain a Certificate of Registration from theRBI.	NBFCs are required to obtain a Certificate of Registration under the provision of the RBI Act which is akin to licensing of scheduled commercial banks.No NBFC can carry on or commence business without obtaining such a Certificate of Registration.
2.	**Asset Classification and Provisioning**	Prudential norms relating to income recognition, asset classification and provisioning were prescribed from the year beginning April 1, 1992. Asset classification norms are based on objective criteria of record of recovery of interest and/or instalment of principal. Assets have been classified into four categories, *viz.*, Standard, Sub-standard, Doubtful and Loss Assets.	These norms are in force from the accounting year beginning April 1, 1993 in respect of six DFIs *viz.*, IDBI, ICICI, IFCI, IIBI (IRBI), TFCI and Exim Bank and from April 1995 in respect of 3 refinancing institutions, *viz.*, SIDBI, NABARD and NHB.	Prudential norms relating to income recognition, accounting standard, asset classification, provision for bad and doubtful debt, capital adequacy and credit/ investment concentration for NBFCs, have been prescribed.
3.	**Capital Adequacy**	Capital adequacy norms to banks were prescribed in 1992. All banks are required to maintain 8 per cent risk-weighted capital adequacy ratio as on 31.3.96. The norm will be 9 per cent from March 31, 2000.	All term-lending and refinancing institutions are required to maintain 8 per cent risk-weighted capital adequacy ratio. The norm will be 9 per cent from March 31, 2000.	While the asset classification and provisioning norms are almost similar to those applicable to scheduled commercial banks, NBFCs are required to maintain risk-weighted capital adequacy ratio of 10 per cent with effect from March 31, 1998 and 12 per cent with effect from March 31, 1999.

4.	**Exposure Norms**	As per norms, exposure of a bank to a single borrower should not exceed 25 per cent of its net owned funds. The norm is 50 per cent for Group Borrowers (an additional 10 per cent for infrastructure projects).	Exposure norms relating to a single borrower or a group of borrowers for major term-lending institutions are in force since June 1997. These norms for DFIs are same as prescribed for banks.	Exposure norms have been prescribed, stipulating ceiling on credit/investment for (i) single party, (ii) single group of parties, (iii) composite limit for loans and investment taken together with single as well as a group of parties (iv) investment in land and buildings, and (v) unquoted shares of other than their own subsidiaries and companies in the same group.

Statement 9: Regulatory/Supervisory Regimes for Banks, FIs and NBFCs (contd.)

Sr. No.	Regulatory/ Supervisory Regimes	Banks	FIs	NBFCs
5.	**CRR/SLR**	All scheduled commercial banks are required to maintain 11 per cent CRR and 25 per cent SLR of their net demand and time liabilities (NDTL).	Not prescribed.	There is no prescription for CRR/SLR requirement for NBFCs. However, these companies are required to maintain liquid asset at 12.5 per cent of public deposits to be held in the Government securities/ Government guaranteed bonds of Central and State Governments.
6.	**Priority Sector Targets**	a) <u>Indian commercial banks (both Public and private sector)</u> Total priority sector advances:- 40% of net bank credit Total agricultural advances:- 18% of net bank credit Advances to weaker sections:- 10% of net bank credit b) <u>Foreign banks operating in India</u> Total priority sector advances:- 32% of net bank credit Advances to small scale industries:- 10% of net bank credit Export credit:- 12% of net bank credit	No priority sector targets have been prescribed.	No priority sector targets have been prescribed for NBFCs.

7.	**Asset-Liability Management (ALM) System**	Draft guidelines for putting in place ALM System in banks were issued in September 1998. Final guidelines on ALM System are in the process of being issued.	Asset-Liability Management guidelines for DFIs are under consideration.	Guidelines for asset liability management system have not been prescribed for NBFCs. The companies being in the private sector are, however, expected to ensure that the asset-liability mismatch is avoided to the extent possible.

Statement 9: Regulatory/Supervisory Regimes for Banks, FIs and NBFCs (concld.)

Sr No.	**Regulatory Supervisory Regimes**	**Banks**	**FIs**	**NBFCs**
8.	**On-site Supervision**	The new approach to on-site inspection of banks has been adopted from the cycle of inspections commencing July 1997. It focuses on the mandated aspects of solvency, liquidity, financial and operational health, based on a modified version of the CAMEL model viz., CAMELS, which evaluates banks'capital adequacy, asset quality, management, earnings, liquidity and systems and control.	DFIs and RFIs were brought within the supervisory jurisdiction of the Board for Financial Supervision (BFS) in April 1995.	A strong comprehensive supervisory mechanism has been instituted over NBFCs. The system of on-site examination put in place during 1997 is structured on the basis of CAMELS (capital, asset quality, management, earnings, liquidity, and systems and procedure) approach and the same is akin to the supervisory model adopted by the Bank for the banking system. It is the intention that the on-site inspection should be more need based and by exception, than a routine activity.
9.	**Off-site Supervision**	As part of the new Supervisory strategy piloted by the Board for Financial Supervision (BFS), the Department of Banking Supervision of the Reserve Bank set up an off-site surveillance system in 1995 with the primary objective of monitoring the financial condition of banks in between on-site examinations, identifying banks which show financial deterioration and which could be in trouble in the near future and acting as a trigger for on-site examination of banks.	Off-site Surveillance system is yet to be put in place.	The companies are also monitored through Off-site Surveillance involving scrutiny of Statutory Returns, Balance Sheet, Profit & Loss Account, Auditors' Reports, etc.

10. CAMELS Rating	Two Supervisory Rating Models based on CAMELS and CACS (Capital adequacy, Asset quality, Compliance and Systems) for rating of Indian commercial banks and foreign banks operating in India, respectively, have been worked out. These ratings enable the RBI to identify the banks whose condition warrants special supervisory attention.	CAMEL rating system is yet to be put in place.	CAMEL rating is yet to be put in place.

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