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RBI to tighten banks' LCR norms

Releases draft guidelines, proposes additional 5% 'run-off' factor on retail deposits

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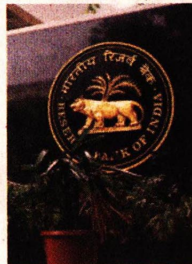
In view of the rising number of mobile and internet banking users, the Reserve Bank of India (RBI) has proposed to tighten norms related to the liquidity coverage ratio (LCR) by increasing the run-off factor for retail deposits. "Banking has undergone rapid transformation in recent years. While increased usage of technology has facilitated the ability to make instantaneous bank transfers and withdrawals, it has also led to a concomitant increase in risks, requiring proactive management," the RBI said in the draft guidelines released on Thursday.

The regulator has proposed to impose an additional run-off factor of 5 per cent on both stable and less stable retail deposits that are enabled with internet and mobile banking facilities.

Run-offs are when individuals or businesses withdraw their deposits, which are not anticipated by banks. Stable retail deposits enabled with IMB will have a 10 per cent run-off factor, and less stable deposits will have a 15 per cent run-off factor. The run-off factor is much higher, for example, from deposits from non-financial corporates.



SECURING DEPOSITS

- Additional run-off factor for retail deposits enabled with internet and mobile banking facilities
- Stable retail deposits enabled with IMB to have 10% run-off factor
- Less stable deposits enabled with IMB to have 15% run-off factor
- Run-offs are when individuals or businesses withdraw deposits which are not anticipated by banks

"Unsecured wholesale funding provided by non-financial small business customers shall be treated in accordance with the treatment of retail deposits," the norms said.

Current norms mandate banks to maintain a 100 per cent liquidity coverage ratio. This means the stock of high-quality liquid assets (HQLA) should be at least equal to total net cash outflows. The LCR promotes the short-term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient HQLAs to survive an acute stress scenario lasting for 30 days.

The draft norms said Level 1 HQLA in the form of government securities should be valued at an amount not greater than their current market value, adjusted for applicable haircuts in line with the margin requirements under the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

At a time when credit growth has been consistently higher than deposit growth, these norms could put further pressure on lenders regarding resource mobilisation, bankers said. The RBI has been nudging banks to moderate their credit-deposit ratio in view of lagging growth of liabilities.

It is proposed that the new norms would come into effect from April 1, 2025. Comments on the draft circular are invited from banks and other stakeholders by August 31.

"Overall, this will pose requirements for higher liquid assets (G-secs) for the banks to shore up their LCRs, which will be adversely impacted by the guidelines. The proposed changes are positive for strengthening the liquidity position of the banks and banks are likely to build up the G-sec in run-up to the implementation of these guidelines, which will aid in achieving regulatory directives of moderating credit-to-deposit ratio of banks," said Anil Gupta, senior vice president and co-group head (financial sector ratings), ICRA.