GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3388
ANSWERED ON:01.08.2014
BANKS APPROACH TO MITIGATE RISK
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Will the Minister of FINANCE be pleased to state:

(a) whether the Indian banks / banking system are unprepared to mitigate risk;

(b) if so, the details thereof and reasons therefor; and

(c) the corrective measures taken / being taken by the Government in this regard?

Answer

Minister of State in the Ministry of Finance (SMT. NIRMALA SITHARAMAN)

(a) to (c) In order to mitigate risk as regulator of the Banking Sector, Reserve Bank of India (RBI) issues guidelines on management of various risks in the Banking Sector. The RBI supervisory oversight also ensures compliance with these guidelines. RBI has in the past issued guidelines on (i) Exposure Norms (ii) Asset Liability Management (iii)Forex Risk Management and Derivatives (iv) Credit Risk Management To monitor and manage these risks, the Banks have Board level Committees such as the Risk Management Committee, Asset Liability Management Committee and Audit Committee which also examines Non Performing Assets and Frauds.

For management of default risk, RBI has recently issued guidelines on Early Recognition of Financial Distress, Loan Steps for Resolution and Fair Recovery. In addition. RBI has also created a Central Repository of Information of Large Credits (CRILC). Management of NPAs and Restructuring also covered by RBI Master Circulars on Income Recognition and Asset Classification.

RBI has moved to Risk Based Supervision (RBS) framework during 2013-14 and 28 Banks covering 60% of Assets of Indian Banking System have already been covered. By adopting RBS, RBI has shifted the focus from a compliance based and transaction testing approach to Risk Based Supervision.