RBI includes HDFC Bank in the ‘too big to fail’ list

The Reserve Bank of India has added HDFC Bank — the second largest private sector lender of the country — in the list of Domestic Systemically Important Banks (D-SIBs). State Bank of India and ICICI Bank continue to be in that category.

Following the global financial crisis of 2008, it was observed that problems faced by certain large and highly interconnected financial institutions hampered the orderly functioning of the financial system, which in turn, negatively impacted the real economy. It was decided to identify such institutions and prescribe them higher capital requirements.

The RBI has adopted a system by which banks are plotted into four buckets based on a lender’s systemic importance scores in ascending order. The banking regulator prescribes higher capital requirements — in terms of additional Common Equity Tier 1 (CET 1) capital — for such entities.

“The additional Common Equity Tier 1 (CET1) requirement for D-SIBs has already been phased-in from April 1, 2016 and will become fully effective from April 1, 2019… D-SIB surcharge for HDFC Bank will be applicable from April 1, 2018,” the RBI said.

RBI had started listing D-SIBs from August 2015. SBI and ICICI Bank were identified as D-SIB both in 2015 and 2016.

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