Major Change expected by RBI

A new rule from the Reserve Bank of India would likely change the way the whole financial system functions going forward. The central bank has asked credit rating agencies to stop identifying it as the regulator for bank deposit ratings. The development could create a regulatory dilemma for rating agencies because of disclosure requirements introduced by the Securities and Exchange Board of India (SEBI) earlier this year. A deposit rating is an independent assessment of the credit risk associated with a bank's deposit obligations. According to the RBI report, rating agencies consider factors such as capital adequacy, asset quality, management strength, earnings, liquidity and sensitivity to interest-rate and foreign-exchange movements while arriving at deposit ratings. For most retail depositors, these ratings may not be a major factor in choosing a bank. However, they can be relevant for institutions, public-sector organisations and companies that have internal rules requiring them to place surplus funds with banks meeting a particular rating threshold.

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