



Regulatory Action Against Kotak Mahindra Bank by RBI

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Why in News?

The [Reserve Bank of India \(RBI\)](#) has barred **Kotak Mahindra Bank (KMB)** from onboarding new customers on its online and mobile banking channels and issuing fresh credit cards.

- However, the bank is allowed to provide these services to its existing customers.

What Led to the Restrictions by the Reserve Bank of India?

- RBI observed "**serious deficiencies and non-compliances**" in KMB's:
 - IT inventory and user access management.
 - Data leak and leak prevention strategy.
 - Business continuity and disaster recovery rigor and drill.
- These deficiencies were identified during RBI's examination of the bank's systems for 2022 and 2023.
- The regulator found that **KMB failed to address these concerns comprehensively** and promptly, despite recommendations and corrective action plans.
- The bank was also deemed non-compliant with **RBI's subsequent recommendations or 'Corrective Action Plans' (CAPs)**.
 - CAPs are part of an intervention scheme of the RBI to ensure robustness of regulated entities.
- **Impact of RBI's Restriction:**
 - The regulatory action may set back KMB's credit growth and profitability, as credit cards are a higher-yielding target growth segment for the bank.
 - It could take a year for KMB to fully address RBI's key concerns, as implementing changes and the external audit will take time.
 - The ban would hinder the growth trajectory of KMB's retail products, adversely impacting margins and profitability.

What is the Role of the RBI in Banking Regulation?

- **Banking Regulation Act of 1949:**
 - The RBI is the governing body for regulating and supervising the banks. [Banking Regulation Act of 1949](#) is an act that provides a framework for regulating the banks of India.
 - This Act gives RBI the power to **control the behavior of banks**. This Act was passed as the **Banking Companies Act of 1949**.
 - This Act monitors the **day-to-day operations of the bank**. Under this Act, the RBI can **license banks, put regulation over shareholding and voting rights of shareholders**, look over the appointment of the boards and management, and lay down the instructions for audits. **RBI also plays a role in mergers and liquidation**.
 - **No banking company can operate in India without a license from the RBI**, which can inspect the company's books before granting the license and can also cancel the license if the company ceases its banking operations in India.
- [Prompt Corrective Action \(PCA\) Framework:](#)

- The PCA Framework by the RBI is a supervisory strategy directed at banks that **exhibit weak financial metrics**.
- The RBI's PCA Framework involves monitoring key performance indicators of banks, such as the [Capital to Risk-weighted Assets Ratio \(CRAR\)](#), [Net Non-Performing Assets \(NNPA\) ratio](#), and the **Leverage Ratio** (level of debt incurred by a business entity against several other accounts in its balance sheet, income statement).
 - If a bank breaches certain risk thresholds set for these indicators, the **RBI may invoke PCA, which can lead to restrictions on dividend distribution, branch expansion, and management compensation, among other things**.
- The objective of the **PCA Framework is to encourage banks to take corrective steps** preemptively to mitigate the risks posed by low capital levels, poor asset quality, or unprofitable operations.
- It also aims to impose market discipline by making the financial conditions of banks transparent.

Comparative Analysis with Past Actions by the RBI

- In December 2020, HDFC Bank was barred from launching new digital products and sourcing new credit card customers due to **recurring outages in its internet and mobile banking platforms**.
- In October 2023, the **Bank of Baroda** was directed to suspend fresh onboarding of customers onto its 'Bob World' mobile application over "certain material supervisory concerns."

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which of the following statements is/are correct regarding the Monetary Policy Committee (MPC)? (2017)

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 2 and 3 only

Ans: A

Q. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? (2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only

(d) 1, 2 and 3

Ans: B

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