



Domestic Systemically Important Banks (D-SIBs)

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Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) retained the **State Bank of India, HDFC Bank and ICICI Bank** as [Domestic Systemically Important Banks \(D-SIBs\)](#).

- The Reserve Bank designated **SBI and ICICI Bank** as D-SIBs in **2015 and 2016**, and **HDFC Bank** joined them in **2017**.

What are the Key Points About D-SIBs?

- **About:** D-SIBs are banks that are considered '**Too Big to Fail**' (TBTF) within the domestic economy due to their **size, complexity, and interconnections** with the financial system.
 - These banks are classified based on the **potential economic disruption** if they fail.
- **Importance:** D-SIBs are subjected to **additional regulatory measures** like [capital buffers](#), **stress tests**, and **recovery and resolution planning** to enhance their resilience and ability to withstand financial shocks.
- **Bucketing Structure:** D-SIBs are classified into different **buckets** based on their **systemic importance scores**.
 - **Bucket 1** represents the **lowest risk**, while **Bucket 4** represents the **higher risk**.
 - The **RBI** has placed **SBI** in **bucket 4**, **HDFC Bank** in **bucket 3** and **ICICI Bank** in **bucket 1**.
- **Capital Requirements:** Based on the bucket in which a D-SIB is placed, an **additional common equity requirement** has to be applied to it.
 - **SBI** has an additional **0.80%** [common equity tier 1 \(CET1\)](#) requirement, **HDFC Bank** has **0.40%**, and **ICICI Bank** has **0.20%**.
- **Selection Process:** The RBI follows a **two-step process** for identifying D-SIBs.
 - **Sample Selection:** Not all banks are assessed. **Only those** with significant systemic importance based on **size** (banks with assets over **2% of GDP**) are considered.
 - **Systemic Importance Assessment:** Based on a range of **indicators like lack of substitutability, interconnectedness** etc a **composite score** is calculated for each bank, and those **exceeding a certain threshold** are classified as D-SIBs.
- **Framework for D-SIBs:** RBI issued a **framework in July 2014** to ensure D-SIBs are well-capitalised to **absorb losses and prevent systemic disruptions** if they fail.
- **Global Systemically Important Banks (G-SIBs):** [G-SIBs](#) are **large international banks** whose failure would have a global impact.
 - [Financial Stability Board \(FSB\)](#), in consultation with [Basel Committee on Banking Supervision \(BCBS\)](#) and national authorities identifies **G-SIBs**.
 - As of **2023**, there are **29 G-SIBs** including **JP Morgan Chase, Bank of America, Citigroup, HSBC, Agricultural Bank of China, Bank of China, Barclays and BNP Paribas**.

Note:

- **Common Equity Tier 1 (CET1)** covers **liquid bank holdings** such as **cash and stock**. CET1 is a capital measure that was introduced in **2014** as a **precautionary way** to protect the economy

from a financial crisis.

- The **FSB** is an **international body** that **monitors** and makes recommendations about the **global financial system**.
 - FSB was established in **2009** under the aegis of **G20**.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q.Consider the following statements: (2018)

1. Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues.
2. CAR is decided by each individual bank.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (a)

Q.'Basel III Accord' or simply 'Basel III', often seen in the news, seeks to (2015)

- (a) develop national strategies for the conservation and sustainable use of biological diversity
- (b) improve banking sector's ability to deal with financial and economic stress and improve risk management
- (c) reduce the greenhouse gas emissions but places a heavier burden on developed countries
- (d) transfer technology from developed countries to poor countries to enable them to replace the use of chlorofluorocarbons in refrigeration with harmless chemicals

Ans: (b)