

RBI's Conflict of Interest

What is the issue?

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- Reserve Bank of India's (RBI's) has asked the government for removing its nominees from the Public Sector Bank's boards.

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- While this is part of the good governance reforms, the union government has refused to concede the same, which is unfortunate.

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What does the RBI need?

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- RBI has been repeatedly asking the finance ministry to allow the central bank to distance itself from the boards to avoid a clear conflict of interest.

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- This is a long standing articulated by multiple 'RBI Governors' as it feels that its presence in the boards is hindering its regulatory role.

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- Way back in the 1990s, the Narasimham committee on banking sector reforms had recommended that the RBI should give up its seats on the board.

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- Further, in 2014, P J Nayak committee, on governance of bank boards, argued in favour of withdrawal of RBI nominees from PSB boards.

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- Notably, the Nayak committee favoured a phased shift from the current, by slowly increasing the capacity of bank boards to take decisions.

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What is the government's stand?

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- Government recently rejected RBI's demand in this regard.
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- As PSBs have over the past few years, accumulated massive non-performing assets (NPAs), the government seems to be towing with caution.
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- It seems to believe that without the presence of an RBI nominee, PSB boards may make more mistakes at this critical juncture.
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- While banks have been criticised sternly for having taken imprudent decisions, the RBI too, has been criticised for failing to supervise the PSBs.
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- But the RBI feels that it has been handicapped by regulations as it is essentially part of both the decision-making process as well as supervision.
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- Notably, profits of PSBs have nosedived lately because of the RBI's insistence on more transparent recognition and provisioning of NPAs.
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What is the way ahead?

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- The government seems to be confused on the RBI's unambiguous stand that it can involved in the bank's board and act as a regulator.
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- Going by government's current stand, regulators in other domains should also have their nominees on the boards of PSU companies they supervise.
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- As this is absurd and the government must reconsider this, and bring about the legislative change that is required.
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Source: Business Standard

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