

## Revamping RBI's Regulatory Power

### Why in news?

\n\n

\n

- The RBI Governor has highlighted some fundamental limitations existing in relation with RBI's regulatory power.

\n

- This comes as a response to government blaming the RBI for the recent PNB scam.

\n

\n\n

### What was government's response to the scam?

\n\n

\n

- The government, soon after state-owned Punjab National Bank's fraud case, accused the RBI for its supervisory failures.

\n

- It also blamed the bankers and auditors for their shortfalls.

\n

\n\n

### What are the RBI's concerns?

\n\n

\n

- RBI governor made mention of RBI's warnings about possible risks, but said that the PNB's internal systems failed to take note of it.

\n

- In response to the government's accusation, the RBI governor Urjit Patel pointed out the limitations to RBI's power.

\n

- He highlighted the issues such as -

\n

\n\n

\n

- i. the absence of powers to remove the directors on the management of PSU banks who are appointed by the government  
\n
- ii. the lack of power to force a merger or trigger liquidation of a state-owned bank  
\n
- iii. the limited legal authority for RBI to hold these bank boards accountable  
\n

\n\n

\n

- The government, the owner of public sector banks, still control a dominant share of the country's banking business.  
\n
- RBI Governor pointed out that the banking regulatory powers were not 'ownership neutral' in India.  
\n
- This is possibly why the RBI could not fully exercise its powers to crack down on corporate governance issues at state-owned banks.  
\n
- A system of dual regulation, by the finance ministry in addition to RBI, has resulted in ineffective banking regulation.  
\n
- Patel urged the government to strengthen the Banking Regulation Act, 1949 to give RBI enough power to regulate PSU banks.  
\n

\n\n

### **What is the way forward?**

\n\n

\n

- The RBI's stance is valid, given the discomfort with knee-jerk reactions and the blame games since the fraud came to light.  
\n
- The greater challenge is governance reform in banks.  
\n
- The government should swiftly settle the issue of separation of ownership and regulatory control.  
\n
- It can consider making the regulatory powers of RBI fully "ownership neutral".  
\n
- Besides, privatisation does appear to be an easy option to address some of

the concerns.

\n

- But it is important to see whether such an option should be exercised during a crisis.

\n

\n\n

\n\n

**Source: Indian Express, The Hindu**

\n\n

\n\n

\n

