Banking Regulation

What is the issue?

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- The recent banking scams have led to considerable outrage, as it involves issues of propriety and governance.
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- It is essential to make the necessary corrections and ensure credibility to the system.
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Why is the current situation different?

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- For long, the public sector banks had been a point of concern.
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- The mounting NPAs and governance issues came to light.
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- It led to many calling for privatisation of the PSBs.
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- But the irony at present is that the concern has now shifted to private banks.
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- The banking scams have brought to focus the lack of transparency in the functioning of banks.
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- It has also highlighted the opaqueness of audit and inspection practices.
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What are the concerns and remedies?

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- **Government** - The shortfalls involve the government, central bank, banks and other stakeholders.
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- There is now a blame game on each other.
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- It is essential to revisit systems, laws and practices and update them.
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- The allocation of responsibility for identifying and ensuring remedial action needs to be delineated.
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- **Banks** - Who is to uphold the moral responsibility in a private bank is undefined.
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- In most cases, it is the CEO, or executive Board members or the non-executive Board members.
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- The issue of conflict of interest with respect to these positions should be addressed.
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- Disclosure of financial dealings of the relatives of them, if any, in the Annual Report or the bank’s web site could be an option.
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- **Banks' performance** - The central bank or the government have no say in the salary package of a private company.
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- On the other hand, there are no penalties for the government officials' non-performance and their tenures are safe.
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- So, the regulators should fix or approve pay packages of the regulated to hold them responsible.
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- **CEO tenure -** In PSBs, CEOs have short terms as they get their positions closer to retirement.
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- Whereas, in private banks they begin at an early age and their tenure is always open to debate.
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- Such extended periods lead to creation of power centres.
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- It affects the grooming of second rung leaders.
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- The CEO tenure should be given due attention as it has given rise to controversies in recent times.
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- **Regulation** - The responsibility of the Boards should be clear on issues of

governance.
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- Any deviance from regulation or conflict of interest should be discussed at this level.
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- The presence of a nominee director of the regulator on the Board is essential.
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- S/he is the ‘ear of the public’ and ensures that all compliances are in order.
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- When audit reports are carried out, the lacunae or important findings should be made public, as it influences their decision.
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- This is one way of ensuring that banks become complaint.
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- **Review** - Any deficiencies in compliance should be reviewed within a specified period of time.
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- It should be highlighted to the public so that it puts pressure on the bank to perform.
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- The overall banking regulatory framework needs strengthening.
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- It should be reviewed every 2 years based on the banks’ response and be revisited periodically.
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Source: BusinessLine

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