Financial Sector Scams - RBI's Supervisory Role

What is the issue?

- Major financial sector scams (PNB, IL&FS, PMC bank) came to light in the recent period.
- Apart from poor governance and fraudulent practices, a common thread in all these has been supervisory failure.

What is the challenge to financial regulation?

- The country's leading financial sector regulator, the RBI, is seen to be responding only after the event of a fraud.
- Like in IL&FS, in the PMC case too, there appears to be shortfalls on the part of the management and the board of the bank.
- This was evident as the bank's loan exposure to a single firm, HDIL, alone constituted 73% of its assets.
- Moreover, several dummy accounts were created to conceal this.
- But these escaped the regulator's monitoring as the issue of dual control by the RBI and state governments remains a concern.
- It has been cited as a hurdle by the RBI for its inability to effectively supervise cooperative banks.
- This poses limitations in superseding the board of directors or removing directors of these banks, unlike in commercial banks.

What are the larger concerns?

- India remains an economy where the large banks continue to focus on bigger cities and towns.
- Given this, the role of co-operative banks in ensuring credit delivery to the unorganised sector and last mile access remains a point of concern.
- This is especially true in terms of poor credit delivery to the small businesses.
- A recent RBI report shows that fund flows to the commercial sector had declined by close to 88% in the first 6 months of the 2019-20 fiscal.
- This would have surely hurt small businessmen, traders and the farm sector.

What is the way forward?

- A remarkable feature since 1991 liberalisation has been the resilience of

India’s financial sector.

- This may also have to do with the dominance of government-owned institutions or lenders and a strong central bank.
- If this record is to be continued, the RBI will have to play a better supervisory role.
- The RBI has already started building an internal cadre for supervision of banks and other entities aimed at enhancing its oversight capabilities.
- This will have to be complemented by legislative changes which could lead to greater regulatory control and powers for the RBI over cooperative banks.
- Besides the banks and lenders with national or regional presence, India needs efficient other players - cooperative banks, small finance and payment banks.

Source: Indian Express

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