RBI faces Parliamentary Scrutiny

What is the issue?

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- RBI Governor Urjit Patel met the Parliamentary Standing Committee on Finance recently, and was questioned on multiple financial issues.
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- At a time when most Public Sector Banks (PSBs) are posting losses, the RBI governor has asked for powers to exercise regulatory oversight over the banks.
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What transpired in the 'Standing Committee' investigation?

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- The committee raised a lot of queries on wide-ranging issues — from the impact of demonetisation, and status of the Non-performing Assets (NPAs).
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- Notably, of the 21 PSBs, only two have posted profits in 2017-18, with the combined losses of the others touching Rs873 billion.
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- Regulatory lapses of public sector banks (PSBs) in the context of the Rs. 11,000 crore "Nirav Modi scandal" also featured prominently.
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- However, Mr. Patel refuted the notion that the RBI had failed in its regulatory role and shifted the blame on bad decision making by the bank boards.
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- In this context, he demanded greater powers for RBI to better regulation of the banking sector as whole.
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- He also vouched that RBI shouldn't have nominees on bank boards in order to avoid conflict of interest between banking supervision and bank operations.
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Are the RBI governor’s suggestions significant?

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- The Narasimham committee on banking sector reforms in the 1990s had recommended the RBI should relinquish its seats on the boards of banks.
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- But presently, RBI continues to nominate one or more directors to each PSB board from among either serving or retired executives.
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- The P J Nayak Committee in 2014 had argued that the withdrawal of RBI nominees from PSB boards should be done in a phased manner.
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- The RBI governor also seems to have reiterated this demand, which seems to be a valid one that merits serious consideration.
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- The government has resisted the process so far as it feels that the presence of RBI nominees improves the working of PSB boards.
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- However, it is time the government sheds its reluctance and facilitates the process to allow the RBI to ring in the changes.
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- More powers to regulate banks is also a positive as it will make RBI’s regulatory role ownership-neutral and bring public and private banks on par.
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Source: Business Standard

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