Revamping RBI's Regulatory Power

Why in news?

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- The RBI Governor has highlighted some fundamental limitations existing in relation with RBI's regulatory power.
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- This comes as a response to government blaming the RBI for the recent PNB scam.
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What was government's response to the scam?

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- The government, soon after state-owned Punjab National Bank's fraud case, accused the RBI for its supervisory failures.
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- It also blamed the bankers and auditors for their shortfalls.
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What are the RBI's concerns?

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- 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.
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- In response to the government's accusation, the RBI governor Urjit Patel pointed out the limitations to RBI’s power.
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- He highlighted the issues such as -
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i. the absence of powers to remove the directors on the management of PSU banks who are appointed by the government
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ii. the lack of power to force a merger or trigger liquidation of a state-owned bank
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iii. the limited legal authority for RBI to hold these bank boards accountable
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- The government, the owner of public sector banks, still control a dominant share of the country's banking business.
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- RBI Governor pointed out that the banking regulatory powers were not 'ownership neutral' in India.
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- This is possibly why the RBI could not fully exercise its powers to crack down on corporate governance issues at state-owned banks.
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- A system of dual regulation, by the finance ministry in addition to RBI, has resulted in ineffective banking regulation.
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- Patel urged the government to strengthen the Banking Regulation Act, 1949 to give RBI enough power to regulate PSU banks.
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What is the way forward?

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

the concerns.
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- But it is important to see whether such an option should be exercised during a crisis.
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Source: Indian Express, The Hindu

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