

In the light of frequently occurring crises in banks, RBI needs to upgrade its oversight capacity to prevent them in future. Analyse.

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Proper functioning of the country's financial system is the indicator for healthy economy. Given the current episodes of slowdown, banks have been facing traditional problems. This has ultimately led to the responsibility of RBI as regulator, increasing its ambit of power over other financial institutions under Companies Act, banking regulation Act.

MYRIAD OF CRIES & RBI OVERSIGHT

With digital accounting standards, myriad of crises came to the limelight, highlighting the regulatory backwardness.

- 1) Burgeoning Non-Performing Assets (NPA) $\Rightarrow$ risk averse lending, lack of credible information on lenders
- 2) Credit Rating Agencies & Bank nexus $\Rightarrow$ pecuniary interests through board of bank control, false ratings
- 3) PNB crisis $\Rightarrow$ internal SWIFT system deceit, absence of CORE banking to track MOUs of lenders.
- 4) IL & FS crisis $\Rightarrow$ multiple short term leverage due to absence of risk monitoring.
- 5) PMC cooperative banks $\Rightarrow$ nexus with DHIL directors, bad debt reporting and subsequent NPA.

$\rightarrow$ RBI oversight has remained limited to checking the audit books of banks.

$\rightarrow$ It doesn't have credible mechanism to oversee the risk profile and relies directly on credit rating agencies.

$\rightarrow$ Lack of regulation in selection of Board of directors of Banks often ended up with nepotism related activities

$\rightarrow$ With regards to cooperative sector banks, RBI's control is unclear given state government also has role to play.

$\rightarrow$ Financial sector lending companies have remained outside RBI's eyesight except for audits.

→ Complex role of deciding monetary controls and inflation, ②
targeting, RBI's has not been effective in passing down its dictates
to banks. eg:- MCLR linked rates, Basel III norms, IndAS standards.

STEPPING UP REGULATION

The traditional criss's have been solved through IBA Code, PCA, Mission Indradhanush, SWIFT+CORE banking measures. Continuous evaluation and monitoring can be implemented as follows.

- 1) Constituting a separate board in RBI to have Banking regulation activities of lending, PCA, debt reports.
- 2) Pressure of RBI board number for optimal level regulation in NBFC's.
- 3) Revamp the selection procedure of MD and CEO profile for corporate governance.
- 4) Restructure SPARC → a risk surveillance system to have more of offsite surveillance, risk based supervision.
- 5) Imparting transparency in Banking audits, cooperative banks. Extending credit rating to rural banks.

Dynamic loopholes of banking system can be solved through strict regulation. RBI can thus accommodate them in 'UTKARSH 2022' vision document to rescale performance accordingly.