

“We cannot be seen as a paper Tiger” Raghuram to RBI staff

K Ram Kumar



RBI Governor writes to employees, asks them to enforce compliance on errant banks

Mumbai, Jan 01:

RBI Governor Raghuram Rajan has asked his colleagues to enforce compliance with more rigour in an attempt to clean up the banking system.

In a communication to RBI's 16,800-odd employees, the Governor, known for his plain speaking, wrote, "Are we allowing regulated entities to get away year after year with poor practices even though these are noted during inspections? Should we become more intolerant of sloppy practices at regulated entities so that these do not result in massive scams years later? Should we haul up accountants who do not flag issues they should detect?"

The Governor's observations come in the backdrop of bad loans jumping in the banking system and instances of banks violating laid out procedures for things like know-your-customer (KYC) and anti-money laundering. According to analysts, monetary penalties imposed by the RBI are too low for the regulated entities to feel the pinch.

"We cannot be seen as a paper tiger. We are changing our attitude towards compliance, but this is work in progress," Rajan said adding that as the premier and most respected regulator in the country, it should take the lead in ferreting out wrong-doing and punishing the wrong-doer.

He observed that though the central bank has motivated staff with the highest integrity at every level, yet there is a sense that they do not enforce compliance.

Rajan felt that there is a need for a continuing conversation about tightening both detection as well as penalties for non-compliance throughout the hierarchy.

The Governor noted that going forward the central bank needs to create regulatory capacity to monitor new entities like internet marketplaces that are also getting into lending.

"While we should be wary of regulatory overreach, we must also recognise that if we do not expand our responsibilities, others will fill them. That is not always a bad thing, but if new regulators lead to a balkanisation of regulation and many regulatory gaps, the system will be worse off.

"So, let us be prepared to step up where necessary instead of assuming others will take responsibility," the Governor said.

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