

# Demonetisation, black money and banks: Why a larger CVC role is worrying

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'Bringing the CVC into private banks will ensure the cure could end up becoming a lot worse than the disease.'

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With officials of private sector banks alleged to have helped those with **black money** launder funds during the demonetisation drive—several of them were transferred by their managements and some were even arrested—it is not surprising the government wants to take action against them. One way of doing this, if a Hindustan Times (HT) news report is anything to go by, is to extend the purview of the Central Vigilance Commission (CVC) to private banks—right now, under the Prevention of Corruption Act, the CVC can only probe PSUs or government organisations/ministries. The move, HT says, complements a Supreme Court judgment in the Global Trust Bank case last year which extended the

scope of the anti-corruption law by bringing in private bank employees under its ambit—prior to this, private sector bank officials could not be prosecuted under the anti-corruption law.

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This is problematic since, once the CVC's ambit is expanded and chief vigilance officers (CVO) are appointed to private banks, it is just a matter of time before they start looking at the process of giving loans, their restructuring or even selling them off at discounts. Once this happens, the same problems that prevent PSU banks from taking prompt action on NPAs will start afflicting private banks as well—in their meeting with the finance minister some days ago, PSU banks once again asked who would protect them from CVC inquiries if they, for instance, took deep haircuts on loans given in the past; as a result, the progress in resolving NPAs has been very slow. Over a period of time, it is also possible the CVO process will start affecting hiring and promotions within private banks since all manner of complaints of favouritism/harassment will probably be made to the CVO—as of now, though, the plan is not to bring the appointment process under the CVC's purview. Certainly, there is a need to punish corrupt private sector bank officials who are involved in laundering black money or giving loans to dodgy firms—right now, they can only be punished if there is a complaint filed against them, but private banks rarely do that to avoid bad publicity. But it is up to the central bank to figure out ways to bring corrupt private-sector bankers to justice without affecting the loans process. Bringing the CVC into private banks will ensure the cure could end up becoming a lot worse than the disease.