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View: Let's not allow PNB crisis to get wasted

BY MC GOVARDHANA RANGAN, ET BUREAU | MAR 16, 2018, 06.15 AM IST

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[Reserve Bank of India](#) Governor Ujit Patel's unusually blunt message on the [Punjab National Bank](#) fraud has set off a debate whether it is a slap on the government's face, or the Governor is passing the buck. It is probably neither. It is just frustration. The frustration of not being able to fix the system despite years of efforts.

For a Finance Minister like [Arun Jaitley](#) who has been more accommodative to the demands of central bank than his predecessor and less interfering in its functioning, to take a jibe at the regulator was equally surprising. No wonder these two men at the head of Indian financial system are fuming for being blamed at for the `13,000-crore scandal that brewed long before them and continued in an institution that they don't monitor on a daily basis. The heart of the scandal is that a few staffers at the [PNB](#) connived with Nirav Modi and Mehul Choksi to dupe the bank that has blown a hole destabilising the entire banking system. This was possible because the bank's systems and processes were substandard and monitoring was absent.

Frauds happen even at institutions which have the best of the processes and practices. Nick Leeson collapsed Barings and Bruno Iksil embarrassed JP Morgan's chief executive Jamie Dimon with \$6-billion hidden losses.

Frauds can happen anywhere. Since the PNB scandal has happened when state-run banks are already under the glare for [bad loans](#) and the subsequent mountain of losses, the question of ownership and regulation have come to the fore.

The cornerstone of banks' nationalisation was to facilitate credit for the poor. But crony capitalists hijacked the banking system, leaving the poor high and dry. These banks, or any PSU for that matter, are used by the political class as well as bureaucracy as milch cows.

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State-run banks' managements turned ineffective, thanks to bureaucratic meddling. Private peers are gaining market share. State ownership of banks and their regulator reporting to the government will lead to less desirable outcomes. The bureaucrat who keeps moving between steel to forest to finance ministries every few years can never be the right choice to supervise banks.

The regulator and the government recognised the rot has to halt. Reforms were suggested to ensure they don't face the same fate as BSNL, or Air India. The bureaucracy stymied politicians' initiative yet again. When the [Banks Board Bureau](#) (BBB) was set up to reform the banks, the bureaucracy rendered it ineffective in a power struggle. The institution that was to reform banks is lying as dysfunctional as the banks themselves. We don't need another committee, please. Just act.

BBB members were frustrated. HN Sinor quit as a member. Others are clueless as to what they are doing.

Coming back to the war of words after the PNB crisis. This is not about a fight between the Governor and the Finance Minister. Dr Patel is known for plain speak, at least to those who know him. As a junior official at RBI when he didn't agree with a speech made by the then deputy governor Y V Reddy, he did not hesitate to speak up. Rather, he wrote a research paper countering the speech and submitted it to Dr Reddy.

It is time to grab the opportunity to make legal amendments and push other reforms through the BBB. What BBB needs is a leader, not an administrator. It may be time to try out someone like KV Kamath who worked magic with ICICI. He not only managed ICICI's transition into a bank, but also groomed many successful bankers. Jaitley may do well to remember what President Barack Obama's chief of staff Rahm Emanuel said at the peak of the credit crisis: "You never let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before."

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