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RBI's regulatory powers over PSBs are weaker than those over private sector banks: Urjit Patel

BY ET BUREAU | UPDATED: MAR 15, 2018, 12.15 PM IST

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Reserve Bank of India governor [Urjit Patel](#) rejected accusations that the regulator's laxity was to blame for the Rs 13,000-crore fraud at state-owned Punjab National Bank, suggesting instead that laws need to be changed to ensure punitive action can be taken in time and effectively putting the onus on the government.

"There has been a tendency in the pronouncements post revelation of the fraud that RBI's supervision team should have caught it," Patel said in an address at a law university in Gandhinagar, Gujarat, on Wednesday.

"While that can always be said ex post with any fraud, it is simply infeasible for a banking regulator to be in every nook and corner of banking activity to rule out frauds by 'being there'." Patel invoked mythology in the context of ongoing fight against corruption. "If we need to face the brickbats and be the Neelakantha consuming this poison, we will do so as our duty. We will persist with our endeavours and get better with each trial and tribulation along the way," the governor said.

said promoters and banks should seek to be on the side of the "Devas (the gods) rather than Asuras(the demons) in this Amrit Manthan."

The central bank had sounded warnings several times to ensure that wrongdoing of the kind that occurred at [PNB](#) didn't take place, he said, blaming the lender for not following instructions and implying that the fraud wouldn't have taken place if it had.

"The RBI had issued precise instructions via three circulars in 2016 to enable banks to eliminate the hazard," Patel said. "It turns out ex

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post the bank had simply not done so.”

Patel’s comments follow those of finance minister Arun Jaitley that appeared to question the regulator’s role in the wake of the PNB fraud.



“Regulators ultimately decide the rules of the game and have to have a third eye which is perpetually to be open and looking at the sector,” Jaitley had said at ET’s Global Business Summit last month. “But unfortunately, in the Indian system, we politicians are accountable, the regulators are not.”

Patel explained why he had decided to make public his views on the PNB fraud. “I have chosen to speak today to convey that we at the Reserve Bank of India also feel the anger, hurt and pain at the banking sector frauds and irregularities,” said. “In plain simple English, these practices amount to a looting of our country’s future by some in the business community, in cahoots with some lenders... We are

doing all we can to break this unholy nexus.”

LEGAL REFORMS

He also said that the current legislation served as a protection for errant bankers, citing the Financial Sector Assessment Programme of the World Bank and the International Monetary Fund. RBI has limited legal authority to hold state-owned bank boards accountable for strategic direction, risk profiles, assessment of management and compensation.

“The RBI’s legal powers to supervise and regulate PSBs (public sector banks) are also constrained. It cannot remove PSB directors or management, who are appointed by the government of India, nor can it force a merger or trigger the liquidation of a PSB,” Patel said. “The RBI will undertake actions against the bank that it is empowered to but this set is limited under its Banking Regulation or BR Act powers over PSBs.”

Legal reforms are needed to empower RBI to fully exercise the same responsibilities over state-owned banks as those that apply to private banks and to ensure a level playing field in supervisory enforcement.

Patel said internal processes at PNB failed, allowing operational hazards to remain in place in spite of clear instructions to shut them down.

He underscored the need for mechanisms to deter frauds and other irregularities to be put in place and to ensure that these have bite so that wrongdoing can be minimised.

The biggest fraud to rock the Indian banking industry was allegedly perpetrated by jewellers [Nirav Modi](#), Mehul Choksi, their companies and PNB officials. It’s being probed by government agencies including the Central Bureau of Investigation and the Enforcement Directorate.

Patel said “success has many fathers; failures none,” referring to the criticism against the RBI that followed the fraud being uncovered. “These appear to have prevented the participants in this cacophony from deep reflection and soul searching that can help solve fundamental issues that are the root cause of such frauds and related irregularities in the banking sector,” he said.

Patel also referred to banks’ rising bad loans, saying this needs to be fixed urgently. “Its magnitude is larger than Rs 8.5 lakh crore of

stressed assets on bank balance sheets and its significance stems from several practices in promoter-bank credit relationship that need immediate attention,” he said.

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