

## RBI enjoys equal regulatory power over both private and public banks: Govt

**RBI tells government no 'systematic irregularity' in banking system; PNB fraud due to failure of bank's three layers of defence**

Somesh Jha | New Delhi April 05, 2018 Last Updated at 00:46 IST



The Union government has informed the Parliament that the regulations framed by the Reserve Bank of India (RBI) apply equally to both public and private sector banks, in the light of the ongoing debate that the regulator doesn't enjoy full regulatory supervision over state-run banks as against private banks.

“Fraud is an act of commission and the regulatory measures instituted by RBI apply equally to public and private sector banks. As such perpetration of frauds is not linked to ownership structure,” Minister of State for Finance Shiv Pratap Shukla said, in a written reply in Rajya Sabha on Tuesday. Finance Minister Arun Jaitley told the Upper House that the government is not presently considering any proposal for privatising public sector banks.

The government's comments come at a time when RBI governor Urjit Patel had decried lack of regulatory powers to take action against erring public sector banks. In a public speech last month, he pitched for making bank regulation ownership-neutral, saying the regulator had “very limited authority” over state-run banks since it did not

*Finance Minister Arun Jaitley*

have the power to replace the boards of these banks or force a merger, nor could it revoke the licence of a bank for any activity undertaken. This

was not the case when it comes to private sector banks, he had argued.

Finance Ministry officials said, on the conditions of anonymity, that Banking Regulation Act 1949, under which RBI is the regulator and supervisor of the banking system, doesn't differentiate between public and private sector banks.

The RBI has also reverted to the government's missive, in the wake of Rs 13-billion scam at Punjab National Bank reported earlier this year, seeking its response on lapses in the banking system.

"RBI has apprised that there are no 'systematic irregularities' in the banking sector in India, though banks may currently be faced with some transient operational issues in their functioning," Shukla said in Rajya Sabha.

The regulator told the government that its detailed set of guidelines issued to banks to institutionalise robust and effective internal controls would help in minimising the incidence of frauds.

Days after PNB reported the fraud related to Rs 13 billion worth fake letters of undertaking issued to group of companies led by Mehul Choksi and Nirav Modi, the finance ministry, in a missive to RBI, raised questions on whether it exercised its regulatory power under various provisions of the Banking Regulation Act to detect the scam.

The government feels that RBI has enough regulatory powers to give directions to banks, audit its books, decide policy on loans, direct changes in management and approve appointment and removal of auditors in banks, as per various provisions of the Banking Regulation Act.

"The government has always consulted the RBI in appointing the top management of every bank. It has never raised an objection as such," said a senior finance ministry official.

The RBI has now informed the government that the fraud at PNB took place due to the failure of all the three lines of defence, despite an elaborate audit infrastructure operational at the Delhi-based bank.

"In case of PNB, there has been a failure of all lines of defence resulting in the perpetration of such large value fraud, despite an elaborate audit infrastructure being operational in the bank," the government said, citing the RBI's assessment.

The RBI said that enterprise-wide risk of banks is managed under three lines of defence framework that provides adequate checks and balances. The first line of defence comes from controls at line functions at the business unit level; the second consists of overseeing risk management that monitors and facilitates implementation of effective risk-management practices by the management.