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Must end dual control over public sector banks to strengthen the structure, says YV Reddy

BY [ATMADIP RAY](#), ET BUREAU | AUG 23, 2018, 10:55 PM IST

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KOLKATA: India must put an end to the dual control over [public sector banks](#), which have been under severe stress due to high level of sticky loans, former Reserve Bank of India Governor Yaga Venugopal Reddy said.

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He said that improving governance in public sector banks is more important than consolidation.

Governance and prudential regulation are the two aspects to the regulation and supervision of banks. The governance relates to the fit and proper criteria of the board of directors, the senior management and their role in the functioning of the banks.

The [RBI](#) regulates both governance and [prudential norms](#) of private banks. For public banks, the government exercises the powers relating to governance while leaving prudential regulation to RBI.

Present RBI Governor [Urjit patel](#) has recently exasperated the government by stating that RBI did not have enough powers to regulate public sector banks.

"The government is fully responsible for perpetuating the problem of dual control for over 25 years. There must be reasons for this state of affairs. They are called political economy considerations," Reddy said Thursday in Kolkata.

The Narasimhan Committee on banking had identified this as a problem and recommended to put an end to it. Successive governments

led by different political parties have not implemented this.

"For every question, the answer is blaming someone else. Everybody blames everybody else. At the end of the day, we are ignorant about the real problem as well as the real solution," Reddy said while delivering a lecture as part of Bandhan Bank's anniversary celebration.

Bandhan, which started its banking journey three years back, currently has 937 bank branches and 3001 doorstep service centres or banking outlets and 475 ATMs.

Reddy blamed the current stress on delayed recognition of the problems in banking both by the government and RBI and their delayed response to the problem.

"Coherence, consistency and clarity are still lacking in addressing the immediate stress and ensuring an optimistic future."

He called for putting an end to the "populist negativism" and making all-out efforts "to restore confidence in the banking system," in reference to the recent arrest of bank heads in connection to [NPAs](#).

"It is true that there were many questionable decisions taken by some banks in the past. The publicity to misdeeds in the banking industry, especially by large corporations and severe actions initiated by investigative agencies has received applause by the public at large. However, the damage that it is doing to the trust in the system and to the moral of the participants in the system has been totally underestimated", he said.

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