Parliamentary panel asks RBI to review capital needs for banks

BY PTI | UPDATED: JAN 04, 2019, 06.11 AM IST

In a hard-hitting report, a parliamentary panel has asked the Reserve Bank to ease capital adequacy norms for banks, review supervisory framework PCA, and urged the government to set up a committee to look into issues concerning accountability of the central bank as a regulator.

The standing committee on finance also asked the RBI to evaluate the efficacy of its own guidelines on dealing with frauds.

Besides, the committee headed by veteran Congress leader and former Union Minister M Veerappa Moily also suggested increasing the retirement of age of chiefs of public sector banks to 70 years and effect proper manpower planning and HR development strategies in PSBs.

The report of the committee was tabled in Parliament on Thursday.

Questioning the RBI's decision to keep capital adequacy norms higher than prescribed under global framework of Basel III, the lawmakers said the central bank has restricted lending capacity of banks and increased the burden on the government for recapitalisation of PSBs.

The committee said it has been informed that while Basel framework requires application of capital standards to internationally active banks of the 21 PSBs, nine PSBs are not internationally active as also most of the older private banks are also not internationally active.

In respect of the nine PSBs, (Central Bank of India, Andhra Bank, OBC, Corporation Bank, Vijaya Bank, Bank of Maharashtra, United Bank of India, Dena Bank and Punjab and Sind Bank) which had aggregate risk weighted assets of approximately Rs.9.93 lakh crore as of March 2018, this translates into additional capital requirement of approximately Rs 35,000 crore.

"Such stringent norms stipulated by RBI for our banks...is unrealistic and unwarranted," said the report.

The parliamentary panel said the stipulated additional capital requirement for these nine banks (who are already under RBI's PCA framework with lending restrictions), if waived, will release huge funds to the extent of approximately Rs 5.34 lakh crore, representing 51 per cent growth in the loan book of these banks.

This will lead to generation of additional interest income of about Rs 50,000 crore annually, "which will obviate the need" for additional capital infusion into these banks through our fiscally constrained national budget.

The committee further notes that the RBI has been tightening the screws on the operations of 11 PSBs including their lending and hiring activities under the Prompt Corrective Action (PCA) framework.

The RBI's revised PCA framework, implemented in 2017, monitors and classifies banks into three risk parameters based on their capital adequacy, net non-performing assets (NPAs), return on assets and leverage.

"The committee would therefore expect the RBI to provide a coherent and positive road map for each of these 11 banks to come out of the stringent PCA framework within a stipulated timeframe, so that they can resume their normal banking operations," the report said.

The panel "apprehensive" that the PCA framework may end up bringing more and more PSBs under its ambit.

"The Committee would therefore urge both the RBI and the government to constantly monitor the situation for each of these banks and relax/review the PCA framework..." it said.

With regards to spurt in frauds in banking system, the panel asked the RBI to look into and review the role and effectiveness of various types of audit conducted in banks and its inability so far to mitigate incidence of frauds in banks.

"The RBI should also evaluate the efficacy of their own guidelines of May 7, 2015 providing a framework for dealing with loan frauds," it added.

On the issue of RBI seeking more powers, the panel said has recommend that the government should constitute a high-powered committee to evaluate the role, powers and authority of RBI in "its entirety", while also appraising the economic impact of the various NPA resolution guidelines/schemes formulated by RBI from time to time.

"The proposed Committee should look into those provisions of the RBI Act, Banking (Regulation) Act and other relevant statutes with a view to ensuring the accountability of RBI as the regulator of the banking sector including the matter of having RBI nominees on the Boards of banks," the panel said.

The panel also suggested that a three-month overlap may be provided at CEO level to facilitate smooth transition in PSBs.

Further, with a view to utilising the expertise of senior bankers, the retirement age of CEOs of PSBs can be raised to 70 years as in the case of their private sector counterparts.

The committee also desired that RBI as regulator should consider separate treatment of NPAs due to wilful defaulters and those where defaults are because of extraneous reasons such as cancellation of coal blocks and policy interventions by the judiciary and general policy changes in various sectors such as coal, power, steel, telecom, roads.

For this purpose, the concerned RBI guidelines/circulars should be reviewed, said the panel's report.