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RBI needs to revisit policy restricting big corporates from promoting banks: R Gandhi

BY PTI | JUN 29, 2020, 07.52 PM IST

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MUMBAI: Former RBI deputy governor [R Gandhi](#) on Monday said the central bank needs to relook at rules restricting large corporates from promoting banks and allow single entity to hold up to 26 per cent by having the necessary safeguards.

He said the needs and aspirations of the Indian economy make it necessary to look at sources of large capital from entering the banking fray, so that large projects can be supported and also pitched for a renewed thrust to be given to the wholesale banks model.

Gandhi, who used to take care of the critical banking regulation and supervision functions at the Reserve Bank, said in the last four years since the central bank made licensing for universal 'on-tap', no serious application has been received for floating banks.

The comments come in the backdrop of the RBI forming an internal working group to look into private bank ownership and control earlier this month, which will look at promoters' holding, requirement of dilution, control and voting rights of private banks.

"In my view, obviously, such a serious stake as 26 pc for a promoter or a strategic investor will certainly be good for the long term interest of the bank and banking industry," Gandhi said, speaking at a seminar organised by EPS, a payment system company.

He was quick to add that a bank holds public deposits which have to be repaid on maturity or when demanded, and hence, certain "ringfencing" has to be done to protect interest.

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Citing the relaxations given to [Kotak Mahindra Bank](#), where the promoter group has been allowed to hold 26 per cent stake in the long term but will have its voting rights capped at 15 per cent, Gandhi said the RBI can look at similar moves.

He also suggested other aspects like enhancing the powers for independent directors, limiting the promoters' board seats and their ability to influence decision making.

"The primary problem, we had seen before nationalisation as well, is that there is conflict of interest, diversion of funds, easy influencing of the credit decisions of the bank based on interest of groups rather than depositors," Gandhi highlighted.

Gandhi said at present, the RBI caps the promoter holding at 15 per cent, allows other individuals to go up to 10 per cent and in the case of distressed banks, can allow higher stake buys.

To a question on issues like the one at [PMC Co-operative Bank](#) and [Yes Bank](#), Gandhi said corporate governance needs to be given greater importance and added that it may not always be concentration of ownership which can cause troubles.

He said professionals can also leverage their standing in the market and can help set up a bank, but was quick to add that the experience with this has been mixed with a few cases being successful and others not so.

To a query on consolidation, Gandhi also said that India is too large a country both geographically and also when looked at from a diversity perspective, and hence, we require all sizes of banks which serve each one's needs.

Amid the crisis like the COVID-19 and beyond, fully digital banks should also receive greater thrust, he said.

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