

'No bank regulator can catch all frauds'

Line of control:RBI does not have the power to supersede public sector bank boards, says Dr. Patel.Vivek Bendre

Amid criticism from several quarters, including the government, for failing to prevent banking frauds in the light of the recent Punjab National Bank scam, Reserve Bank of India Governor Urjit Patel said on Wednesday that no banking regulator can catch or prevent all banking frauds. "There has been a tendency in the pronouncements post revelation of the fraud that RBI supervision team should have caught it," Dr. Patel said in a speech at the Gujarat National Law University, Gandhinagar.

He said it was simply not feasible for a banking regulator to be in every nook and corner of banking activity to rule out frauds by "being there."

He said the RBI too was deeply pained by the banking frauds and termed these incidents 'loot'. "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. 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," Dr. Patel said.

Mr. Patel said that banking regulatory powers in India were not ownership neutral. He pointed out that the RBI did not have the power to supersede public sector bank boards as they were not registered under the Companies Act like private sector banks. He said the RBI can neither remove any directors of public sector banks nor liquidate a government-owned bank.

"The BR Act exemptions for PSBs mean that the one agency – the regulatory – that can respond relatively quickly against banking frauds or irregularities cannot take effective action. Hence, for example, MDs at PSBs find it comfortable to tell media that business will be as usual for them under RBI's Prompt Corrective Action framework, as even if they do not meet the stipulated restrictions of the framework, the ultimate authority over their tenure is with the government and not with the RBI," Dr. Patel said.

'Credit culture'

He said RBI had undertaken cleaning up the credit culture of the country, and referred to the recent stringent circular on NPA as the churning rod in the '*Amrit Manthan*' or the '*Samudra Manthan*' of the modern day Indian economy. He called for making banking regulatory powers neutral to bank ownership and creating a level-playing field between public and private sector banks. Dr. Patel said it was an open issue on whether centralised government control alone can be effective enough at implementing governance of the banking franchise comprising more than two thirds of the sector's deposits and assets.

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