

FINANCE MINISTER INTRODUCES BANKING REGULATION (AMENDMENT) BILL IN LOK SABHA

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NEW DELHI: Finance minister Nirmala Sitharaman on Monday introduced Banking Regulation (Amendment) Bill, 2020 in the Lok Sabha. The law seeks to protect the interest of the depositors by bringing co-operative banks under the regulatory framework of Reserve Bank of India (RBI).

With the amendments, RBI will be able undertake a scheme of amalgamation of a bank without placing it under moratorium. Earlier, if a bank was placed under moratorium, it not only limited withdrawals by depositors, but also disrupted a bank's lending operations.

"Further amendments were proposed to be made in section 45 of the Act to enable the Reserve Bank of India to make a scheme to protect the interests of the public, the banking system, depositors or to secure the banking company's proper management, without first making an order of moratorium so as to avoid disruptions in the financial system," according to the statement of objects and reasons mentioned in the bill introduced in the Lok Sabha.

According to the bill, the central bank's banking regulations will be applicable to cooperative banks as well, which is expected to enhance the oversight of the co-operative banking sector which has seen many scandals in the past. Cooperative banks have been under the dual control of cooperative societies as well as RBI.

However, the changes will not affect the existing powers of the state registrars of co-operative societies under state laws. Nor will the changes apply to primary farm credit societies or cooperative societies, the main business of which is long-term finance for agricultural development.

With the amendment, cooperative banks will be allowed to raise money via public issue and private placement, of equity or preference shares as well as unsecured debentures, with the central's bank's nod. Currently, access to capital for cooperative banks is limited.

In June, the union cabinet on approved the ordinance to bring 1,482 urban and 58 multi-state cooperative banks under the supervision of the RBI to strengthen oversight of the lenders, boost depositors' confidence and prevent a Punjab and Maharashtra Cooperative (PMC) Bank-like fraud.

The government's move follows the collapse of PMC Bank, which had allegedly created fictitious accounts to hide over 4,355 crore of loans extended to the now bankrupt Housing Development and Infrastructure Ltd (HDIL). The fraud, which was discovered by RBI in September, 2019 trapped millions of depositors.

In March, finance minister Nirmala Sitharaman tabled in the Lok Sabha the amendments to the Banking Regulation Act, 1949. However, due to the outbreak of the covid-19, the Parliament could not approve the changes. Thereafter, on June 26, an ordinance was promulgated.

"As the economic situation arising from the covid-19 pandemic had increased the stress in both

co-operative banks and banking companies, there was an immediate need for legislation in this regard. As Parliament was not in session, the Banking Regulation (Amendment) Ordinance, 2020 was promulgated by the President of India," the bill said. The Banking Regulation (Amendment) Bill, 2020 seeks to replace the Banking Regulation (Amendment) Ordinance, 2020.

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