News

In at least three of the major financial sector scams in the last couple of months in India, featuring Punjab National Bank, IL&FS, Punjab and Maharashtra Cooperative Bank, apart from poor governance and fraudulent practices, a common thread has been a supervisory failure.

Supervision

- The country’s leading financial sector regulator, RBI, has been responding only after the event.
- As in IL&FS, in the PMC case too, there appears to be culpability on the part of the management and the board of the bank.
- Bank’s loan exposure to a single firm, HDIL, alone constituted 73% of its assets and several dummy accounts were created to camouflage this.
- The issue of dual control by the RBI and state governments has been cited as a hurdle by the regulator for its inability to effectively supervise cooperative banks.
- Limitations in superseding the board of directors or removing directors of these banks, unlike in commercial banks.

Cooperative banks & Credit delivery:

- The role of co-operative banks in ensuring credit delivery to the unorganised sector and last-mile access, to small businesses, is huge, as the large banks continue to focus on bigger cities and towns.
- A recent RBI report shows that fund flows to the commercial sector have declined by 88% in the first six months of this current fiscal. That would have hurt small businessmen, traders, and the farm sector.

Regulation – RBI

- The central bank has already started building an internal cadre for the supervision of banks and other entities aimed at enhancing its oversight capabilities.
- This should be complemented by legislative changes which could lead to greater regulatory control and powers for the RBI.
- An insolvency regime for financial firms is the need of the hour.
- India needs not just a few large banks and lenders with a national or regional presence but also other players such as cooperative banks, small finance, and payment banks.
- There is a need for greater accountability on the part of India’s financial regulators.
- Carving out a separate authority for supervision may only lead to regulators working in silos.