SAVE RBI

SAVE THE NATION

VOICE

BULLETIN OF
RESERVE BANK EMPLOYEES ASSOCIATION, KOLKATA

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HISTORIC LONG MARCH BY FARMERS OF MAHARASTRA

> **"The rights of all the poor – be they of any caste, colour, religion or region – are the same. Your wellbeing is in overcoming all these differences and remaining united, and strive to take the reigns of power into your hands. With these efforts, you will lose nothing; with these efforts, one day your chains will get cut and you will have economic independence".**
>
> ***–Bhagat Singh***

'EMPOWER RBI'

RBI Governor, Dr. Urjit Patel came out recently with a detailed analysis of the current state of banking regulation and supervision in India and the regulatory handicaps RBI is suffering from. Usually taciturn and reticent Dr. Patel's somewhat longish statement in Gujarat National Law University, Gandhinagar, on 14th March 2018 has aroused curiosity and multifaceted discussions in many knowledgeable circles, which is indeed welcome.

He has started his dissertation by saying, alluding to recent PNB scam, "Success has many fathers; failures none. Hence, there has been the usual blame game, passing the buck, and a tonne of honking, mostly short term and knee-jerk reactions. These appear to have prevented the participants in this cacophony from deep reflection and soul searching that can help solve fundamental issues that are the root cause of such frauds and related irregularities in the banking sector (which) .... are in fact far too regular".

Thereafter what he has explained in details, quoting extensively from many authoritative comments, including IMF and World Bank, Basel Core principles etc., can be tersely summed up as **"empower RBI" and "Banking regulatory powers should be ownership neutral"**.

He has dealt with how banker-promoter nexus creates huge stressed assets that is the primary source of all frauds, whereas RBI regulatory powers over Public Sector Banks, in particular, are constrained by extant laws which does not give RBI a freedom to act decisively, particularly when the Government is the owner of public sector banks. He has strongly held that banking regulation should be "ownership neutral" and all regulatory restraints hitherto prevalent must be got rid of.

We fully agree with these contentions of Dr. Patel and urge on the Government to take note of and act on his consternation, for who do not know that favours extended by political dispensations through banks' money, particularly through public sector banks, is a big source of fraudulent investments by banks to a favoured few, which have - mostly - turned bad and irrecoverable. Dr. Patel has rightly commented, **"....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"**.

However, the private sector banks are not lily-white, not at all, rather far from it. Their malfeasance, their trickeries, their subversion of rules and regulations are well known, so much so, that when there was a move to grant banking licences to private players, a strong opinion inside the RBI also, not excluding former Governors and Deputy Governors, were definitely negative. Even a former Governor of RBI said in public that "private banks are **not** mostly amenable to rules and disciplines. Their hands are very big and they can just ignore RBI's directives with impunity". The disastrous melt down of 2008 in the banking sector of USA which gradually engulfed the whole financial world almost, originated in the private banks and insurance companies, with a lax and permissive regulatory system in tow. The misdoings of private banks in India too are legion.

RBI has termed the PNB scam as "operational failure". RBI have also stated that **thrice** in 2016-17 they have asked banks to link their Swift operations regarding LOUs (Letter of Undertakings) with CBS System for detection of irregularities, if any. But it has not been done. It is a serious lapse on banks' part as the potentiality of mischief through Swift operation on stand-alone basis is enormous, as has been clearly evident by now. But having warned bankers not once but thrice, should not have RBI asked for formal compliance from them? Or, RBI was convinced that banks would definitely comply as they are responsible enough?

Newspapers report - the authenticity we cannot vouchsafe - that the concerned branch of PNB was not inspected by RBI for long nine years! If so, RBI need to explain. Did they simply believe in audit reports of the Bank?

We must say that RBI started systematic dilution of its inspection system from 2009 onwards, rather even before that. They shifted to the so-called "Risk based supervision" as suggested by Basel framework. On-site inspection by RBI, which meant RBI inspectors used to go to banks' head offices and many important branches where banking business was worthwhile, which definitely kept the bank managements alert and on their toes. But gradually the on-site supervision was replaced by "off-site surveillance" and RBI was satisfied with machine generated reports coming from banks, which were routinely scrutinized. If reports were manipulated, RBI had no means to verify; there was enough scope to take RBI for a ride. However, this methodology definitely served one purpose for RBI - the emaciation of the work force. While banking sector expanded fast and by leaps and bounds, their operational complexities multiplied, RBI inspection and supervision gradually dwindled, became man-less, consequent less and less human intervention with attendant risks. AIRBEA have been protesting against this for long, drew higher-ups' attention repeatedly to the dangers of too much reliance on Banks' reports and their auditors' findings. But it was a cry in the wilderness. RBI was simply obsessed with how to curtail work-hands, shrink departments and outsource the work - in this area to Chartered Accountant firms. Slippages occurred. A few years back suddenly it was discovered by some news portal that some bank branches were not following KYC norms, through which frauds were taking place. RBI could not detect as RBI on-site inspection was done away with. But for the active news-portal this might have gone undetected for long causing enormous loss to concerned banks and the people.

For a number of intervening years, RBI's sole emphasis in various areas of its functions has been to reduce the number of work force. RBI boasts of being the "leanest and trimmest" central bank. But pray, at what cost? Who now suffers the "pains" for peccadilloes and failures in the banking system?

Of course, Dr. Patel, immediately after his taking-over of the charge of RBI, faced the humongous challenge of demonetization - perhaps the largest such challenge in the world of central banking. The operational part of the same is now coming to an end hopefully - though the blisters and bruises continue to hurt and haunt the nation.

Will Dr. Patel now look to this vital aspect of supervision : PNB is a wake-up call. The Department of Supervision needs a revamp with requisite manpower, talent and skill. The new base level staff - Assistants / Senior Assistants etc., computer savvy and dedicated, can provide excellent support, with some training; they may be put to use. The Government must desist from influencing and pressurizing the Banks on investments etc., remove regulatory constraints without just indulging in blame game. The entire work force of RBI is ready to fully cooperate, for we cannot allow the prestige and lofty image of RBI to suffer. In this context, some people who are mainly interested in decapacitating country's central bank, have started saying once again to sliver bank supervision and inspection from RBI. They are naïve, absolutely. Look, what Dr. Ashok Mitra, the eminent economist, said at the time of Harshad Mehta scam in early nineties of the last century, when also a similar demand was raised. This is a part of his written statement to Sri R. N. Mirdha Committee of the Parliament to probe into the scam.

"....A nation's central bank is a delicate organ; it is also an indispensable one. It has to monitor and regulate the country's monetary system; it has to preside over bank rate policy; it must remain the lender of the last resort. These are integrated operations which cannot be dispersed or forsaken. Outstanding advances by the commercial banks now exceed the size of the Union Government's annual budget. In the absence of a central regulatory system, the distribution of these loans - and the conditions and terms set for them - would be rendered chaotic. Besides, as far as RBI's Department of Banking Operations and Development is concerned, it has done and is doing, most commendable work."

Prof. Bhabatosh Dutta, another eminent economist, said very categorically. .... *"Nothing will be gained and much will be lost if the field of operation (of RBI) is further curtailed by the establishment of what can easily become a second central bank."*

Even though stated two decades back, these premonitions are equally valid, equally relevant today, if not more.

WITHOUT COMMENTS

[Dr. Y. V. Reddy, former Governor of RBI, speaks on RBI regulations and its handicaps vis-à-vis the Government owning PSBs. (Quoted from his book "Advice and Dissent: My Life in Public Service")]

- "Our efforts to improve the financial system had mixed results. With public sector banks we tried, but we failed. With private sector banks, we tried, and we succeeded. Similarly, with rural cooperatives, we failed, and with urban cooperatives, we succeeded.

  We explored specific strategies for improvements in each of the components. Public sector banks dominated our thinking, but **the RBI's maneuverability was limited by legal provisions that empowered the government.** .....

- The overall performance of the financial system depended on the functioning of the public sector banks which accounted for more than two-thirds of banking business. The standards of governance depended on the manner in which the government exercises its powers under the legislative provisions by which several banks were nationalized. The RBI's oversight of public sector banks was focused on prudential regulation.

  Public sector banks had some strength as well as some weaknesses. They had a large network of branches. They had a large workforce, which at the time of recruitment was skilled. Their familiarity with the society and local businesses was unparalleled. Their functioning in a modern competitive environment was constrained by several factors. The officers and staff were lacking in incentives to perform. They were subject to parliamentary oversight, to the jurisdiction of the CBI and Central Vigilance Commission, which should ideally concentrate on those issues which arise in performing sovereign functions and not commercial activities. Also, accountability to Parliament and influence of individual parliamentarians and bureaucrats are often indistinguishable.

- **The nominations to the boards of the banks were governed, to a significant extent, by political affiliations. The official nominee of the government on the board represented both the sovereign and the shareholder and thus exercised disproportionate power.** ....

  We wanted the directors nominated by the government to the public sector banks to satisfy the 'fit and proper' criteria on par with those prescribed by the RBI for private sector banks. The government was not averse at a formal level to the RBI recommending or commenting on the 'fit and proper' aspects of the proposed nominee directors from the government. **In practice, it did not welcome our intense due diligence**. A proposal to create a roster of competent professionals who could be nominated on banks boards was made but was never responded to. **After a while even the formality of a reference to the RBI, when the government nominated non-officials to banks boards, was done away with.**

- The chief executives of banks were appointed by the government, as per the legal requirement. However, a committee headed by the Governor recommended the names. The committee had representation of the government and an expert nominated by it. My contention was that a regulator could accept or reject a choice but could not recommend to an owner who ought to be appointed. The government's nominee is involved both in the process of recommending and approving. We pleaded for total exclusion of the RBI's role in recommending chief executives by exempting the bank from participation in the process of selection. At the same time, we sought the government's voluntary acceptance of the RBI's role in giving clearance to CEOs selected by the government. This was in consonance with procedure in respect of private sector banks. **Our proposal was not accepted by the government.** ....

- The government expressed policy preference to bring about consolidation in the public sector banks. Our view in the RBI was that consolidation should not be an end in itself. It should be driven by appropriate assessment of synergies by the enterprises concerned. **Experience showed that many cases of consolidation of banks had failed globally.** My view was that increasing size through consolidation would not solve the basic problems of the public sector, namely, standards of governance. We suggested that the government, as owner, should assess overall benefit to it as a result of the proposals for consolidation of individual cases or consolidation should be part of an overall well-worked-out strategy. Despite our advice, divestment, and consolidation were considered by the government in parallel, without much progress. ....
- Suggestions were made that we should consider the issue of new banking licences as a means of strengthening the banking system. Our stand was that the emphasis should be on improving the large number of private sector banks already existing and also consolidating them as vibrant units. Additionally, we insisted that issuing of new bank licences could be considered after amendments that we had proposed to existing Banking Regulation Act were approved. **They were meant to strengthen the RBI's capacity to enforce appropriate fit and ownership criteria and governance.** ....

(emphasis ours)

THANK GOD, THE RESERVE BANK EXISTS..... :

Now, when there is so much discussion around on RBI, from the Finance Minister of the country to the media, the experts and commentators, the trade unions, the economists, we recall what former Governor of RBI, Dr. D. Subba Rao said, inter alia, in his parting speech from RBI, in Nani Palkhiwala Memorial Lecture on August 29, 2013:

"A final thought on this issue of autonomy and accountability. There has been a lot of media coverage on policy differences between the government and the Reserve Bank. Gerard Schroeder, the former German Chancellor, once said, "I am often frustrated by the Bundesbank. But thank God, it exists." I do hope Finance Minister Chidambaram will one day say, "I am often frustrated by the Reserve Bank, so frustrated that I want to go for a walk, even if I have to walk alone. But thank God, the Reserve Bank exists."

Com. Santi Ranjan Bal :
Bank Employees' Beloved Leader Departs

An ever-smiling, affable, most caring personality was our Com. Shanti Ranjan Bal, popularly called as Bal da, our leader, our teacher, our beloved common friend and yes we are proud to remember him as the founder Secretary of Bank Employees Federation of India (BEFI).

An icon of Bank employees' movement, an excellent organizer, a good orator, writer and a sharp thinker, he led Bank employees' movement in correct perspective against onslaughts of various sorts from various quarters. Com. S. R. Bal was very dear and close to Reserve Bank employees. He was also our guide and mentor. His demise is a tremendous loss to Bank employees' movement when it is facing a formidable challenge. We pay our profound tribute to his memory.

HARD TALK BY SBI CHAIRMAN : AIRBEA GREETS

(Given hereunder the text of AIRBEA Circular No. 6/2018 Dated the 27th February 2018, extending greetings to the Chairman, SBI, Mr. Rajnish Kumar for his refreshing, hard hitting, cogent statement of facts and reality in favour of Public Sector Banks, followed by the text of the interview given by Mr. Kumar.)

Following recent unfortunate scam in Punjab National Bank, vested interests who have been against Public Sector Banks, have raised their ugly heads once again. On the one hand RBI has been targetted with the subtle, and not so subtle hint that banking supervision, one of the core functions of RBI, should be ceded from RBI; simultaneously there is a clamour from Industry Organisations and so-called experts that Public Sector Banks should be privatized. This demand has been there even from top echelons of the Government, their policy makers, big press, etc. surreptitiously so long, has now reached its crescendo, as if private sector is all lily white while Public Sector Banks and Public Sectors are villains of piece. In this context the enclosed text of interview of the Chairman of the country's biggest bank, the State Bank of India, Sri Rajnish Kumar in the Economic Times (ET) of 27th February 2018 is a refreshing, hard hitting, cogent statement of facts and reality in favour of Public Sector Banks. We thank Sri Kumar for his forceful illustrations, his bold and straight talks despite knowing that many in the Government are votaries of bank privatization and a number of his peers in the banking industry are also in the same wave length including his immediate predecessor in SBI.

Thank you Sri Rajnish Kumar ji. May your tribe increase; May the weaklings and weak-kneed ones take courage from you.

The Interview given by SBI Chairman Rajnish Kumar

Privatisation is not the panacea for PSU banks' issues :

Confidence in the banking system has taken a hit after the Nirav Modi episode. How does one fix it?

I don't think that people have withdrawn money from PNB. Customers have faith due to ownership of the government. If it was a private sector lender, by now there would have been a run on the bank. But yes, there has been a loss of trust in bank boards. Governance of those should be set right.

There is a clamour for privatisation of PSU banks. Can that be the panacea?

No, it is not the panacea. When people talk about privatisation, the theory they must keep in mind is that it is government ownership that is saving the day. Even if it was a private sector bank, still the government would have to step in to save the bank and everywhere in the world it has happened. People who speak about privatisation are missing the point. I am not advocating private or public sector which model is better. All I am saying is that whatever the structure, there will be issues.

So there's scope to improve under the state-ownership itself?

The debate has to be balanced. There is a huge socio-economic agenda which only public sector banks cater to. Does anyone speak about who will run branches in the troubled and remote parts of the country where you have to walk for 12 hours to reach the branch? If private sector is all about good corporate governance, then tell me which public sector company is in NCLT today? They are all private sector companies. We talk about privatisation because we now have one bank as a good example. There are many public sector companies which have top-class corporate governance.

So what is ailing corporate governance?

The main issue is that steps should be taken to improve governance at PSU banks and for that matter, the private sector corporates in this country. They all default and sit in the front rows of the industry associations - that is the reality today. So when somebody is preaching, preach… for sure, but look at the reality. Why are these defaulters sitting in the front row and bankers sitting in the back row?

The PSU banking system is sick right now - something should be done to remedy it. Should there be a complete overhaul?

Overhaul is definitely needed but it is long-drawn process. It's not that today you decide that we are overhauling it and the results will be seen tomorrow. We need to focus on the quality of the board and the quality of top management.

Are commentators being unfair to PSU banks?

I don't want to get into the fair-unfair debate, where media is the investigator, media is the judge, and media reaches all the conclusions... this will lead us nowhere. The debate should be on what things should be done to avoid a repeat of such episodes. **Ninety-nine percent of the banking employees are no way involved. No one praises hardworking bank employees... Just because in some branch somewhere an unfortunate incident happened, the media narrative becomes negative. I agree that something like this should not have happened, but observation of experts or shouting on television channels that all bankers are corrupt... what are we doing? We are demoralising our people.**

What are the lessons for your bank?

The attention to non-credit risks has to be more because it could explode suddenly... And operational risk is where you just try to build scenarios that this may go wrong or that may go wrong and based on that, you would put risk mitigation measures.

Does reputation risk get triggered for Indian banks if the payment by PNB does not happen on time?

All of us, regulators, private banks or PSU banks who constitute the financial system must take such action which does not result into lack of faith in the banking system. That should be the priority... I am very confident that PNB will not do anything that will erode the faith in the Indian banking system.

On the economy front, micros are improving. What about the macro?

Last quarter was better. Lot of things are happening in the road sector where this new Hybrid Annuity Model is working out fine. There will be monetisation of assets. There is considerable interest in renewable energy where we have said we will not finance if you bid aggressively but there are reasonable bids where we are convinced of the viability. All these resolutions, whenever they happen, will lead to investments because it is not all about just paying the existing creditors but there are also investment plans which the bidders have given. The consumer story in any case is intact and we have not seen much slowdown.

ET Bureau |
Updated: Feb 27, 2018

(emphasis added)

Chandigarh : UFRBOE dharna on 6th March, 2018

Banks would pass into foreign hands if policy not changed : Ex-RBI governor Reddy

Former Reserve Bank Governor Y. V. Reddy today said there is no "crisis" in the Indian banking system, but cautioned that Indian banks will eventually pass into foreign hands if there is no review of current policies.

The shareholding of foreign entities in the large private banks in India is over 70 per cent while in the public sector banks, government and LIC hold bulk ownership and foreigners own majority of the rest of the stake, Reddy said.

"We do not have 100 per cent government-owned banks. We have public sector banks with mixed ownership....Our banking system is predominantly owned by government, followed by foreigners and rest by Indians. I repeat, least by Indians," he said.

"Share of public sector banking is and will come down and under the current policy, that space will be occupied irrevocably by foreigner-owned banks unless there is a policy change," Reddy said, delivering a lecture at the Administrative Staff College of India here.

The current policy of ownership and governance in banking needs to be reviewed urgently to correct the outdated and distorted policies and this should be done before the banking system passes on to foreign owners, he said.

He also opined that there is a need to reduce the Statutory Liquidity Ratio (SLR) and the Cash Reserve Ratio to international levels for global competitiveness in the system.

"In brief, there is no crisis in banking, but banks are over-burdened with policy-induced obligations. The first step for improving our banking system is a commitment to reduce SLR and CRR to global levels as soon as possible. We cannot have globally competitive economy with over-burdened banking system," he said.

PTI | Feb 1, 2018

China to merge regulators and expand central bank's role

Chinese Government merge two of the country's financial regulators into a new organization, while expanding the central bank's regulatory remit, the country's official news agency, Xinhua, announced on March 13.

The China Banking Regulatory Commission and China Insurance Regulatory Commission will be merged into a new banking and insurance regulatory commission. **Certain functions of this new regulator, including drafting key regulations and prudential supervision, will be shifted to the People's Bank of China.**

The announcement also seems to indicate that the newly formed Financial Stability and Development Committee will play a key role in overseeing all the regulators, including the PBoC. PBoC was to be given a larger supervisory role.

The latest move was aimed at solving existing problems such as unclear responsibilities, cross-regulation and absence of supervision. "Under the new arrangement, the PBoC will not only monitor and supervise financial institutions and financial holding companies, but also co-ordinate regulatory bodies, financial market infrastructure and data collection in the financial industry."

The new system may help regulators to spot malpractice and act more quickly in times of crisis. Single regulatory entities to oversee banking and insurance industry could also address the regulatory gaps that "previously gave rise to arbitrage and shadow banking activities".

Source : *Centralbanking.com*

PSBs crucial for India, PNB fraud a painful crisis : Bimal Jalan

Public sector banks (PSBs) are important for the country, but there should be better governance and monitoring, said former Reserve Bank of India (RBI) governor Bimal Jalan, adding that the recent Punjab National Bank (PNB) multi-crore fraud was a painful crisis.

"The character of public sector banks is extremely important... in public interest," Jalan said in an interview to BTVI, adding : "The only thing that we need to move on is regarding the governance structure of the public sector banking system. Much more autonomy should be given to the boards and (they should be made) accountable for the performance."

The PSBs are extremely important from the country's point of view, he said, as they are the ones which have expanded to rural and semi-urban areas and into the agriculture sector, where the largest section of Indians are employed.

"By and large this particular PNB crisis (Rs 13,540 crore fraud) is a very painful crisis from the systemic point of view," he said, adding : "I hope now we will see some improvement in the structure and management of the banking system and accountability of the boards of different public sector banks for performance and monitoring outcomes."

The banks should be accountable and the government should monitor their performance, he said.

The former RBI governor noted that the governance system is crucial for PSBs to function and they must stick to international standards in terms of cash reserve ratio and non-performing assets, among others.

With the recent reforms, such as the bankruptcy code, and prospective reforms in management and governance, the situation in the non-performing asset-ridden PSBs is likely to return to normal in two years time, he added.

Business Standard March 15, 2018

Com. Md. Amin : The Ambassador from the lower depths retires forever

Epitome of Indian working class, who rose from a Jute Mill worker to their leadership through many sufferings and struggles, became the most beloved and revered leader, Com. Md. Amin, breathed his last at Kolkata on 12th February 2018. He started working in a Jute Mill near Kolkata at a young age of only 14 years, earned 7 rupees 13 anna for per 1100 yards. After day long work, he went to a night school to learn English. Subsequently, he joined the Bengal Chatkal Mazdoor Union, serving it sincerely, winning hearts of fellow workers and gradually became the General Secretary of the powerful union. In his early life as a working class leader, in vortex of struggle for Independence and horrible riots (1946-1951) he often had to change his locations between West and East Bengal. Wherever, he went, the movements followed him; he was arrested in Dinajpur for organizing a huge rally and again in Badarganj (now in Bangladesh) for leading movements.

He had founded and led many trade unions for workers belonging to variegated occupations all over the country. He was MLA for several terms and became Minister of the Left Front Government with a number of portfolios including that of Labour. In between he was a member of Rajya Sabha too. He had been General Secretary of CITU from 2007 to 2010, and a Member of the Polit Bureau of the party of working class, CPI (M).

We proudly recall that on the occasion of 90th Anniversary of our Association which has been a landmark event for trade union movement of Reserve Bank employees, we had the honour of having Com. Md. Amin in our midst who inaugurated our huge gathering on 16th February 2013. His life was a lesson to all right thinking workers and activists. VOICE deeply pays its homage in his memory.