

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA

STARRED QUESTION NO. *156

TO BE ANSWERED ON THE 27TH JULY 2018/ SHRAVANA 5, 1940 (SAKA)
Regulation of PSBs

***156: SHRI K. ASHOK KUMAR
SHRI ADHALRAO PATIL SHIVAJIRAO:**

Will the Minister of FINANCE be pleased to state:

- a) whether the Reserve Bank of India (RBI) was unable to detect the Punjab National Bank (PNB) scam and if so, the details thereof;
- b) whether RBI lacks enough power in regulating state run lenders/Public Sector Banks (PSBs), if so, the details thereof and the reaction of the Government thereto;
- c) whether the Government had earlier said/viewed that RBI has adequate powers to regulate PSBs and if so, the facts in this regard;
- d) whether the Government is willing to discuss issues regarding RBI's power in regulating PSBs and if so, the details thereof along with the steps taken by the Government in this regard including empowering RBI to guard the PSBs; and
- e) whether the Government plans to bring in binding regulation with respect to ethical banking and education for bankers and if so, the details thereof?

ANSWER
FINANCE MINISTER
(SHRI PIYUSH GOYAL)

(a) to (e): A statement is laid on the Table of the House.

Statement as referred to in reply to paragraphs (a) to (e) of Lok Sabha starred question no. *156 for answer on 27th July 2018/Shravana 5, 1940 (Saka) by Shri K. Ashok Kumar and Shri Adhalrao Patil Shivajiraoregarding Regulation of PSBs

(a) to (e): The Reserve Bank of India (RBI) has informed that it received the first formal report from PNB about the fraud in PNB's Brady House Branch on 29.1.2018. RBI has

further informed that its supervisory processes do not constitute an audit of banks, and that RBI could initiate probe if audit reports provided any signal or any supervisory concerns. Further, the Risk-Based Supervision model adopted by RBI since 2013 for on-site examination does not involve inspection of bank branches, unless RBI picks up any warning signals from a supervised bank's audit reports, which were absent in all audit reports. Also, off-site surveillance of banks by RBI is essentially a quantitative analytical process, based on periodic returns filed by banks, and is not designed to capture aspects related to regulatory compliance.

The Reserve Bank of India (RBI) regulates and supervises public sector and private sector banks. Under the provisions of the Banking Regulation Act, 1949, it can, *inter alia*,

- inspect the bank and its books and accounts (section 35(1));
- examine on oath any director or other officer of the bank (section 35(3));
- cause a scrutiny to be made of the affairs of the bank (section 35(1A));
- give directions to secure the proper management of the bank (section 35A);
- call for any information of account details (section 27(2));
- determine the policy in relation to advances by the bank (section 21);
- direct special audit of the bank (section 30(1B)); and
- direct the bank to initiate insolvency resolution process in respect of a default, under the provisions of Insolvency and Bankruptcy Code, 2016 (section 35AA).

Further, in respect of nationalised banks and the State Bank of India (SBI), under the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 ("Bank Nationalisation Acts") and the State Bank of India Act, 1955 ("SBI Act") respectively *inter alia*,

(i) RBI's nominee Director is a member—

- (1) the nationalised bank's Management Committee of the Board, which exercises the powers of the bank's Board with regard to credit proposals above specified threshold (section 9(3)(c), and paragraph 13 of the Nationalised Banks (Management and Miscellaneous Provisions) Schemes of 1970 and 1980 made by the Government under the Bank Nationalisation Acts), and
- (2) the Executive Committee of the Central Board of SBI, which may deal with any matter within the competence of the Central Board subject to the SBI General Regulations, 1955 and Central Board's directions (sections 19(f) and 30 of SBI Act, and regulation 46 of the SBI General Regulations, 1955);

(ii) RBI approves the appointment and fixes the remuneration of the bank's auditors (section 10 of Bank Nationalisation Acts and section 41 of SBI Act); and

(iii) RBI can appoint additional Directors on the nationalised bank's Board and State Bank of India's Central Board (section 9A of the Bank Nationalisation Acts and section 19B of SBI Act).

In addition, whole-time Directors of nationalised banks and State Bank of India are appointed in consultation with RBI.

RBI has powers under other laws as well, which include, *inter alia*, the power under section 12 of the Foreign Exchange Management Act, 1999 to inspect for compliance with the Act and rules etc. made there under.

RBI also maintains the Central Repository of Information on Large Credits (CRILC) on aggregate fund-based and non-fund-based exposures of Rs. 5 crore and above of all banks. Further, RBI maintains the Central Fraud Registry and banks report all frauds involving amount above Rs. 1 lakh to RBI. In addition, RBI's master directions on frauds lay out guidelines on categorisation, reporting and review of frauds, along with norms for consequent provisioning.

The powers of RBI are wide-ranging and comprehensive to deal with various situations that may emerge in all banks, including public sector banks. The improvement in regulatory functioning being an ongoing process, Government engages with RBI and discusses issues as they evolve.

The Public Sector Bank (PSB) Reforms Agenda, approved by respective bank Boards, seeks to promote, *inter alia*, clean and responsible banking and measures for continuing education for bankers, aimed at enhancing bank responsiveness to customers in an ethical manner. The Reforms Agenda focuses on enhanced access and service excellence in banking services through measures such as digital banking, near-home banking, customer comfort, ease of grievance redressal, senior-citizen and differently-able friendly banking services, proactive delivery of credit through automated processes. It also envisages role-based e-learning programme for officers, and a fellowship and training programme for senior executives.
