Opinion | Corporate Banks: Adventure too Risky to Explore

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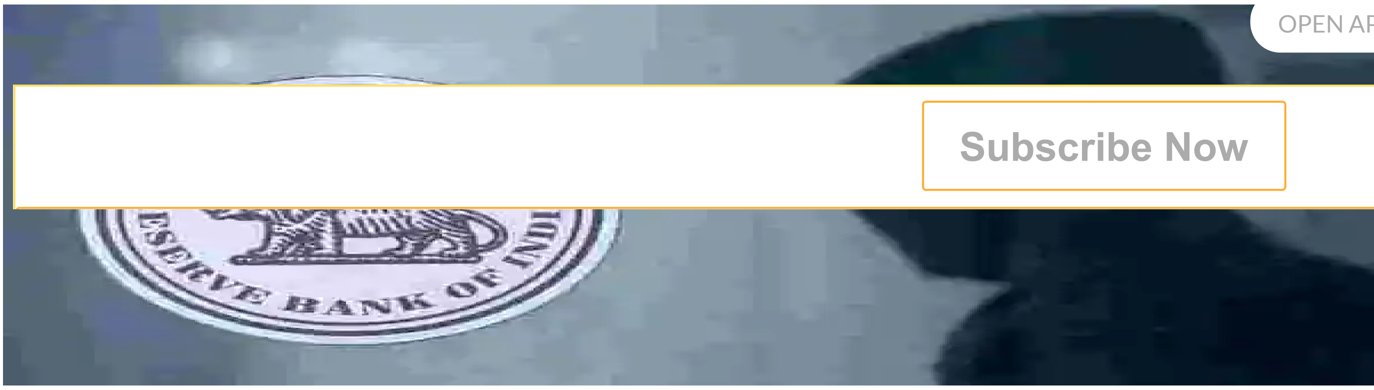

The RBI has proposed that only well-managed NBFCs with over 10 years of experience and ₹50,000 crore of assets will be allowed to convert to a bank. (Photo: Reuters)

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Jagadish Shettigar,Pooja Misra

RBI is supposed to play the role of a regulator to protect interests of depositors and savers while ensuring adequate liquidity support for investors. It is for the government to provide a healthy business environment to different sectors

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NEW DELHI: The Reserve Bank of Ind... ...al working group's recommendation of allowing business houses to set up banks has been strongly opposed two former central bankers and an economist. Though the three are reputed to be habitual critics of the present regime, their opinion on this issue should not be brushed aside.

Banking institutions are supposed to ensure safety, with maximum possible returns for depositors while providing easy liquidity support at economical cost to investors. It is a well known practice among industrialists to avail of easy fund support from wherever possible - be it diverting from one’s own business to another or promoting one venture at the cost of stakeholders in another. In this context how can a business unit be expected not to use or misuse the fund controlled by a bank promoted by none other than itself?

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Having an in-house bank will give easy access to funds with no questions asked. What is the guarantee that such loans will not be written off as in the case of Yes Bank or Gitanjali Jewellers? On the flip side, will competitors have same access to funds as the promoter of the bank? Can it be said with conviction that the ensuing banks will ensure that it would be indiscriminately a level playing field for all borrowers?

In recent past, the Reserve Bank of India (RBI) has rejected banking licence applications of business houses. The relevant question is: What major changes have taken place within a couple of years, that too at a time when there is no liquidity crunch? Rather, non-food credit growth has been decelerating and of late, banks have started approaching prospective borrowers through phone calls and SMS with liberal loan offers.

Though there have been success stories such as Kotak Mahindra Bank, it is also worth recollecting the modus operandi of businessmen ransacking public money with cases such as Nirav Modi and Yes Bank. To add to this worrisome picture of the financial landscape, the banking industry's rising NPAs must be kept in mind.

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On the other hand, one must concede the fact that shadow lenders belonging to industrial houses and conglomerates have performed well and have not been found guilty of any wrongdoings. However, are we sure that RBI will be able to rigorously supervise a bank's lending to its group companies? Once again, past track record of Yes Bank, Lakshmi Vilas Bank, and wilful defaulters comes surging to the forefront. The arduous weight of a failed bank/wilful NPAs ultimately rests on the shoulders of the taxpayer's money.

1949, the central bank should be well advised to strengthen the existing financial framework so that the lax seen in case of IL&FS or any such case of fraudulent siphoning off depositor's money does not recur.

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If one were to closely examine the recommendations of the RBI's internal working group, the criterion for entry into banking business should have been in terms of certain amount of equity, asset or number of years of experience in related areas. What is the logic behind three years in case of payments banks while ten years in case of NBFCs?

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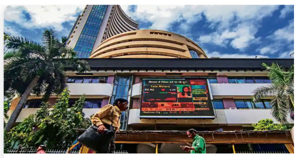
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For the record, the working group appears to be cautious by suggesting raising promoters' equity from 15% now to 26% in 15 years. Here is the catch. If the group was seriously concerned about taking care of all stakeholders, it would not have

However, if the central bank still thinks that the proposal is worth experimenting with, why cannot it suggest to the government divesting equity holding in public sector banks in favour of corporate promoters.

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The central bank is supposed to play the role of a regulator to protect interests of depositors and savers while ensuring adequate liquidity support is available for investors. It is for the government to provide a healthy business environment to different sectors.

Let the RBI continue to be the banking regulator and watch dog of the economy by keeping a safe arm's length and healthy distance from interested parties.

Dr Jagadish Shettigar is professor, Economics, Birla Institute of Management Technology, Greater Noida. Dr Pooja Misra is associate professor, Economics, Birla Institute of Management Technology.