

# PSBs need to free themselves from govt influence: Rajan

*Post office could be given a 'payments bank' licence where it will open accounts but deploy money only in government bonds, says RBI governor*

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**Mumbai:** Reserve Bank of India governor Raghuram Rajan has made a strong pitch for nationalized banks distancing themselves from the government through a holding company as recommended by the PJ Nayak committee. The governor has also suggested that the post office could be given a 'payments bank' licence where it will open accounts but deploy money only in government bonds.

The government pointed out that public sector banks are under threat as new technology will soon deprive them of cheap deposits which has been their mainstay. Also, on the lending side, PSU banks will find it said their safest corporate customers raising money directly from the markets leaving the banks with only infrastructure and retail lending. He was speaking at the annual day lecture of the Competition Commission of India at New Delhi on Tuesday. Rajan said RBI was working on new regulations that would provide flexibility to banks on priority sector lending. The flexibility would enable banks with surplus priority sector loans in any one segment to 'sell' that to another bank which was short on its targets. However, he said that public sector banks need to distance themselves from government influence to become more competitive.

## RBI mulls customer protection norms

**Mumbai:** Reserve Bank of India will soon come out with comprehensive customer protection regulations that will put the onus on banks to prove that there was no shortcoming, deficiency of service or mis-selling. Announcing this at a Banking Codes & Standards Board of India (BCSBI) even in Mumbai, Deepali Pant Joshi, Executive Director, RBI said "From the principle of 'Caveat Emptor', Let the Buyer beware, we have to move to the principle 'Caveat Venditor', Latin for 'Let the Seller Beware'. It is a counter to 'Caveat Emptor' and suggests that seller can also be deceived in a market transaction".

She said that a shift to

Caveat Emptor meant that banks need to take care to ensure that the product is fair to the consumer, the terms are transparent and it is suitable. "For the product to be suitable it should match with his income stream and his ability to repay the obligation that he is entering into. There also must exist a robust grievance redressal process. There should be a duty to inform about changes in the product, because if you sell the product without informing the customer about the changes you are mis-selling," she said. The new regulations are expected to also draw from the Nachiket Mor on financial inclusion. TNN

"In the past, PSBs had the best talent. But today, past hiring freezes have decimated their middle-management ranks, and private banks have also poached talented personnel from PSBs. PSBs need to be able to recruit laterally, but to do so they need to be able to promise employees responsibility as well as the freedom of action. Unfortunately, employee actions in public sector banks are constrained by government rules and second-guessed by vigilance authorities, even while pay is limited. It will be hard for

public sector banks to compete for talent," said Rajan.

Making a case for implementation of the Nayak Committee recommendations, Rajan said, "A number of eminently practicable suggestions have been made to reform PSBs, such as creating a holding company to hold government PSB shares, increasing the length of PSB CEO tenures, breaking up the position of chairman and CEO, bringing more independent professionals on bank boards and empowering boards with the task of selecting the CEO."

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