Better surveillance must to tackle ponzi menace: RBI

Subbarao says setting up a new regulator may not help much

Press Trust of India
New Delhi, June 9

The Reserve Bank of India has called for better surveillance and enforcement of laws to tackle the ponzi menace.

Active involvement of State Governments is very important to keep a tab on such activities and take action against the culprits. Setting up of a new regulator may not solve the issue, according toD. Subbarao, RBI Governor.

D. Subbarao

While favouring a review of the present legal framework to remove any loopholes, Subbarao said that an amendment of the regulations would not be sufficient to tackle this menace and an effective implementation of laws is more important.

His comments come against the backdrop of numerous cases coming to light about investors being duped of thousands of crores of rupees by ponzi schemes across the country, including in West Bengal, Orissa, Tamil Nadu, Delhi, Bihar, Assam and Uttar Pradesh.

"The problem is not with regulated schemes, the problem is with unlawful schemes," Subbarao said.

Ponzi schemes generally involve collections of small amounts of money from individual investors on a periodic basis with a promise of huge returns, which are at times are linked to bringing in new investors. However, their operators run away after a huge amount is collected through such public deposits, leaving investors in the lurch.

The issue is currently being debated by a Parliamentary Committee and an inter-ministerial group, among other forums, and the proposals being considered by them include setting up of an independent regulator for all public money collection schemes and stronger powers to the existing regulators.

Such funds are being collected through various routes, including through chit funds that are regulated by State Governments, Collective Investment Schemes regulated by SEBI, as also by NBFCs that come under RBI.

However, there are many schemes that are generally run by un-regulated entities that do not come under the jurisdiction of any regulator or authority.

Subbarao said that there is lack of clarity on what is a legal deposit and what is illegal.

Asked whether a single regulator would help, Subbarao said

"I don't know if one regulator will help. Chit funds, for examples, are regulated by the State Governments and I think that is correct because chit-funds operate all over the country and I don't think a national level regulator will have the reach and penetration to get there," he said.

On having an independent surveillance agency the RBI chief said: "You can't have a surveillance agency just for this (ponzi schemes). That won't work. You have the police enforcement all over the country and they must do it. The law needs to be enforced more effectively."

Is India under-banked?

FINANCIAL SCAN

S. Balakrishnan

The brouhaha on licensing new banks is in full flow. The RBI has announced guidelines for applicants. In a few weeks we will know the response.

Objectively speaking, there's no room for more banks. And our experience with the new generation private sector banks in the aftermath of liberalisation is nothing to rave about. Just three of them survive.

Some were bought out and one went bust forcing a merger with one of the much derided government banks. A high profile survivor got into such horrendous asset-liability mismatches (after much boasting of its 'risk management' skills) and the very government banks it made fun of earlier.

That Government favours more banks is not surprising. It's easy to show action in the financial sector. No hard work, sweat as in the real economy. So the mantras are new banks, pension and insurance 'reforms'. One wishes there is a magic wand to instantaneously grant our policymakers all that they want on these fronts. At least we will then be spared the excuse that growth suffers because we couldn't implement 'financial reforms'.

As a matter of fact, even the viability of a properly-run new bank is suspect. The RBI-mandated cash reserve earns no interest and the yields on investment in government bonds (24 per cent of deposits) do not cover the cost of deposits of 40 per cent. The strange justification for more banks is that they will reach out to unbanked areas and make it more inclusive, while expanding credit to micro and small businesses. Talk to any private sector or foreign banker and their first complaint is that the lending compulsions to the priority sector are a millstone around their necks, but for which their profitability would be much better.

Neither do they have any enthusiasm for small businesses relationships. Their focus, and rightly so, is on the low-hanging fruits of investment banking and the creamy layers of high net worth individuals and private banking.

The biggest issue is promoter integrity. The number of Indian business houses with gle hand. One shudders to think of banks in the hands of those involved in violations of the financial laws of the country. *The Economist* of London has already carried an article on the 'cost' of getting an Indian banking licence. Such is the global reputation of India's decision-makers.

In any case, as is well known, bank promoters have a free 'put' option. If a bank succeeds, glory to them; if it fails, the RBI is there to pick up the pieces. So mis-governance is cost and punishment free. Who wouldn't jump at the opportunity?

Three private banks are already in the news apparently for flouting 'know-your-customer' norms.

Kind of, the more the merrier.