Rizvi College of Arts, Science and Commerce

SUBJECT: Central Banking

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MODULE – III:

Supervisory Role of RBI

Chapter 07

REGULATION AND SUPERVISION

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Introduction:

Supervision involves examining the financial condition of individual banks and evaluating their compliance with laws and regulations. Bank regulation involves setting rules and guidelines for the banking system.

Bank regulation refers to the written rules that define acceptable behavior and conduct for financial institutions. The Board of Governors, along with other bank regulatory agencies, carries out this responsibility. Bank supervision refers to the enforcement of these rules.

Regulation is necessary to reduce or eliminate that risk. system. Regulation protects the Fed and against losses that will occur when it lends to banks that later fail. the payment system in which banks transfer funds among themselves.

Banking Regulation Act, 1949:

The Banking Regulation Act, 1949 is a legislation in India that regulates all banking firms in India. Passed as the Banking Companies Act 1949, it came into force from 16 March 1949 and changed to Banking Regulation Act 1949 from 1 March 1966. It is applicable in Jammu and Kashmir from 1956.

The act has regulated the opening of branches and also changing the location of existing branches. To prevent random opening of new branches and ensure balanced development of banks through the system of licensing. Assigning power to RBI to appoint, reappoint and remove the chairman, director and officers of the banks.

Banking Regulation and Supervision:

Bank regulation refers to the written rules that define acceptable behavior and conduct for financial institutions. The Board of Governors, along with other bank regulatory agencies, carries out this responsibility. Bank supervision refers to the enforcement of these rules.

The act of monitoring the financial performance and operations of banks in order to ensure that they are operating safely and soundly and following rules and regulations. Bank supervision is conducted by governmental regulators and occurs in order to prevent bank failures.

Bank regulation is a form of government regulation which subjects banks to certain requirements, restrictions and guidelines, designed to create market transparency between banking institutions and the individuals and corporations with whom they conduct business, among other things.

Functions of the Department of Supervisory:

Supervisor's basic role is to plan the daily work schedule of the workers by guiding them the nature of their work and also dividing the work amongst the workers according to their interests, aptitudes, skills and interests.

- **Functions of the Department of Banking Supervision (DBS):**

The Department of Supervision carries out the mandate of supervising all scheduled commercial banks (excluding Regional Rural Banks), Local Area Banks, Payments Banks, Small Finance Banks, Credit Information Companies, Primary Urban Cooperative Banks, Non-Banking Financial Companies, Asset Reconstruction Companies.

- **Functions of the Department of Non-Banking Supervision:**

The Department of Non-Banking Supervision (DNBS) is entrusted with the responsibility of regulation and supervision of Non-Banking Financial Companies (NBFCs) under the regulatory - provisions contained under Chapter III B and C and Chapter V of the Reserve Bank of India Act, 1934.

The process of supervision by the department can be elaborate as follows:

- Process of on-site supervision
- Off-site monitoring
- Shift to risk-based supervision
- Emphasis on corporate governance

Regulations Review Authority (RRA):

The Regulations Review Authority (RRA), set up by RBI in 1999 to review several of its rules, regulations and reporting systems, would formally cease to operate on march 31, 2001.

The main objective for establishing this authority is to eliminate unnecessary regulations, simplify the relevant ones and strengthen the essential ones.

The essential features of RRA are:

- It is an independent department created by the RBI.
- It's main job is to eliminate outdated circulars, complicates procedures and regulations which are not compatible with technological advancements.
- The views of the public are also obtained regarding modifications, eliminations, duplications etc.
- Individuals, employees of the RBI and institutions can communicate to the Authority on a voluntary basis.
- The procedure to communicate is very simple.
- The authority follows its own procedure to process the applications.
- While considering the applications for elimination or modification of rules, the review authority considers a variety of factors.
- Time limit is prescribed for every stage of processing and final reply to applicant.

Unified Regulator v/s Multiple Regulators:

An independent and efficient regulator is essential to develop the financial system. At the same time the regulator should be accountable to its actions and absolutely transparent. To regulate effectively, often the question veers around the possibility of multiple regulators or the preference for a single regulator.

Merits:

1. The resources of the supervisor authority will be used in an optimum manner.
2. The banks will incur less cost as they have to deal with regulator.
3. The regulator will be able to get economies of scale as it deal with all institutions and hence a large scale operations.
4. Duplication will be avoided and the single regulator become accountable for its regulation.
5. A single regulator can easily respond to changes and introduce innovations.
6. It is easy to interact with international organizations as there is a single authority which saves time, effort and resources.

Demerits:

1. A single regulator has to deal with many issues.
2. The banks will have too many institutions to manage and regulate.
3. Multiple functions are performed by banks.
4. Variety of rules and regulations has to be formulated implemented and modified if required.

THANK YOU…!