

## **Subbarao to meet bank chiefs to discuss risk-based supervision**

Reserve Bank of India governor Duvvuri Subbarao will meet select bank chief executives on Thursday to discuss risk-based supervision in banks, with recent sting operations on some private banks providing the backdrop.

The governor will be joined by former deputy governor Usha Thorat in Mumbai for a half-day workshop that will explore methods by which banking supervision could be strengthened, said two people familiar with the agenda.

Although the meet will discuss the risk in the system and how to avert it, the decision to hold the event was not triggered by last week's developments, but it was already in the works, said those who did not want to be identified.

The sting operations on Axis Bank, ICICI Bank and HDFC Bank that revealed bankers encouraging customers to work out ways that could be construed to be helping them evade taxes, or dupe the system to convert ill-gotten wealth into legally-accounted money.

Bankers were taped advising ways to avoid tax, ranging from declaring oneself as a farmer and opening multiple accounts with small amounts that could escape the taxman's radar. Other tips include use of other customers' accounts for a fee, and a shell company to account for overseas travel and other expenses.

Nearly 40 middle-level bankers from these three banks face an uncertain future as the lenders are investigating whether any wrong doing was committed by their staff. While HDFC Bank and ICICI Bank have suspended these staff concerned, Axis Bank has stripped their staff of roles and made them report to their administrative offices. The sting operations, though, may not lead to any high monetary penalty on banks, they could lead to stricter norms in future that could curb banks' ability to ramp up profitability. "These developments, if they were to be true, could potentially lead to slower growth in private banks' deposits and businesses as the RBI may then direct banks to focus on improving risk management rather than expanding," Goldman Sachs said in a report.

Indeed, after some banks were found with lax standards in enabling investments in initial public offerings, their expansion slowed. In fiscal 2006, ICICI Bank's branch expansion rate more than halved to 9% while that of HDFC Bank fell to 15% from 50%.

*(Economic Times)*