New Regulatory Structure for Financial Institutions

The Central Board of the Reserve Bank of India (RBI) has decided to create a specialised **supervisory and regulatory cadre within the RBI** in order to strengthen the supervision and regulation of commercial banks, urban cooperative banks and non-banking financial companies.

Why it is Done?

The RBI's decision to create a specialised supervisory and regulatory cadre is pertinent in light of increasing complexity of the regulated entities such as banks and non-banking financial companies (NBFCs). Cases of recent large frauds at banks and defaults by NBFCs, which roiled the financial markets over the past year, require specialized supervision to ensure that the financial sector remains in good health.

Background

- Mutual funds investments in NBFC debt instruments and promoters pledging of shares and funding of promoters have raised concerns in the wake of the liquidity shortage being faced by some NBFCs and housing finance companies.
- It is believed that RBI was lax in the supervisory functions, especially in timely detection of frauds and poor governance in the banking sector.