

REFORMS IN BANKING SECTOR

MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)

PUBLIC ACCOUNTS COMMITTEE
(2023-24)

HUNDRED AND FORTY NINTH REPORT

SEVENTEENTH LOK SABHA



LOK SABHA SECRETARIAT
NEW DELHI

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PUBLIC ACCOUNTS COMMITTEE
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Presented to Hon'ble Speaker, Lok Sabha on 29.04.2024

Presented to Lok Sabha on:

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LOK SABHA SECRETARIAT
NEW DELHI

April 2024/ Vaishakh 1946 (Saka)

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 Accounts Committee (2023-24) held on 20
 February, 2024

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE

(2023-24)

Shri Adhir Ranjan Chowdhury - Chairperson

MEMBERS

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Thalikkottai Rajuthevar Baalu
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Pratap Chandra Sarangi
7. Shri Vishnu Dayal Ram
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Dr. Satya Pal Singh
11. Shri Brijendra Singh
12. Shri Rajiv Ranjan Singh alias Lalan Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabhaneni
15. Shri Ram Kripal Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Dr. K Laxman
18. Shri Derek O'Brien
19. Shri Tiruchi Siva
20. Dr. M. Thambidurai
21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

SECRETARIAT

1. Dr Sanjeev Sharma - Joint Secretary
2. Smt. Bharti Sanjeev Tuteja - Director
3. Shri Partha Goswami - Director
4. Shri Atul Bhave - Deputy Secretary
5. Smt. Rinku Awasthi - Committee Officer

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24), having been authorised by the Committee, do present this Hundred and Forty-ninth Report (Seventeenth Lok Sabha) on “**Reforms in Banking Sector**” relating to the Ministry of Finance (Department of Financial Services).

2. This preliminary Report is based on the detailed examination and oral evidence of the representatives of the Ministry of Finance (Department of Financial Services), State Bank of India, Punjab National Bank, Bank of Baroda, UCO Bank, Bank of Maharashtra, Bank of India, Central Bank of India, Union Bank of India, Canara Bank, Indian Overseas Bank, Indian Bank and Punjab & Sind Bank taken on 20 February, 2024.

3. The Committee (2023-2024) considered and adopted the Draft Preliminary Report on the aforementioned subject pending examination of other witnesses and authorized the Chairperson to finalise the same and present it to the Hon'ble Speaker.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part- II of the Report.

5. The Committee would like to express their thanks to the representatives of the Ministry of Finance and Public Sector Banks for tendering evidence before them and furnishing the requisite information in connection with the examination of the subject.

6. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat.

NEW DELHI
27 April, 2024
07 Vaishakh, 1945 (Saka)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

PART-I
REPORT
REFORMS IN BANKING SECTOR

I. Introductory

1. The Public Accounts Committee (2023-24) took up the subject 'Reforms in Banking Sector' for detailed examination and took oral evidence of various stakeholders who also furnished background notes on the subject.

As per the Background note submitted by the Department of Financial Services, the Government, over the last few years, have taken various reform measures to address the issues related to credit discipline, responsible lending and improved governance, adoption of technology, and proper regulation of cooperative banks. These include, *inter alia*, the following:

- (i) Credit discipline was instilled through –
 - (a) the enactment of the Insolvency and bankruptcy Code(IBC);
 - (b) set up of the Central Repository of Information on Large Credits (CRILC) to monitor corporate loans across banks coupled with transparent recognition of stressed loans as NPAs; and
 - (c) systematic checking of high-value accounts for wilful default and fraud.

- (ii) Recognition and resolution of stress - To protect financial institutions in case of default or payment delay by large borrowers, RBI/Government has taken multiple steps which include, *inter alia*, the following—
 - (a) A comprehensive principle-based framework has been put in place for early recognition and time-bound resolution of stress in the borrower accounts, manifesting in payment default. Delayed resolution is disincentivised under the

framework as lenders are required to make additional provisioning in case of resolution plans are not implemented within specified timeline.

- (b) Concrete steps have been taken in resolution of specific, large-value stressed accounts under the provisions of the Insolvency and Bankruptcy Code.
 - (c) Minimum provisioning requirements have been prescribed for both standard advances and non-performing advances which are expected to mitigate the impact of default by large borrowers, on the financial health of the lenders.
 - (d) Institution of comprehensive, automated Early Warning Systems (EWS) in banks, use of third-party data and workflow for time-bound remedial actions, to proactively detect stress, reducing slippage into NPAs.
 - (e) Regulatory framework for Asset Reconstruction Companies (ARCs) has been amended to strengthen transparency in the ARC sector and to improve the corporate governance standards in ARCs; and
 - (f) Market based mechanisms have been strengthened to enable the financial institutions to better manage the credit risk on their balance sheets through a comprehensive framework for transfer of stressed assets to eligible transferees.
- (iii) Technology has massively expanded digital transactions through the Jan-Dhan – Aadhaar – Mobile (JAM) linkage, interoperable Bank Mitras, UPI and DBTs.
- (iv) A Reform Agenda of PSBs through a unique Enhanced Access & Service Excellence (EASE) Reforms has been initiated. It has enabled objective and benchmarked progress on all key areas in PSBs — viz., governance, prudential lending, risk management, technology- and data-driven banking, and outcome-centric HR. An independent agency has been engaged by Indian Banks' Association to measure bank-wise performance on a comprehensive set of parameters against respective benchmarks on reform priorities.
- (v) Governance in PSBs has been strengthened through—
- (a) arm's length selection of top management through Financial Services Institutions Bureau (FSIB);
 - (b) introduction of non-executive chairmen in nationalised banks;

- (c) widening talent pool and instituting performance-based extensions for MD;
 - (d) instituting appraisal by Boards of top management and Non-Official Directors (NODs);
 - (e) effectively using NODs by giving them mandate akin to that of independent directors; and
 - (f) filling up top positions through market recruitment.
- (vi) With the amalgamation of banks, the efficacy of the banking sector has been enhanced by leveraging economies of scale and synergies. Amalgamation has enabled the amalgamated banks—
- (a) to raise funds from the markets at a cheaper cost;
 - (b) greater financial capacity to support growth; and
 - (c) to increase thrust on adoption of technology for efficient banking and cost optimisation.
- (vii) Maintaining general confidence level of bankers in taking prudent risks- To support decision-making and to prevent harassment for genuine commercial decisions by bankers, the Prevention of Corruption Act, 1988 has been amended to prohibit conduct of inquiry/investigation of offences relatable to decision taken by public servant in discharge of functions, without previous approval of the authority competent to remove him.

II. Performance of banking sector

2. The Department of Financial Services, Ministry of Finance, in their Background Note have further submitted that as a result of Government's overarching policy response to recognition of stress, resolution of stressed accounts, recapitalisation and reforms in banks, the financial health and robustness of public sector banks has since improved significantly. They further informed the Committee as follows-

- (i) Asset quality has improved significantly with—

- Gross NPA ratio declining to 3.74% (₹3.52 lakh crore) in Dec-23 from 4.97% (₹2.79 lakh crore) in Mar-15 and from a peak of 14.58% (₹8.96 lakh crore) Mar-18.
 - Net NPAs declining to ₹0.78 lakh crore (0.85%) in Dec-23 from ₹2.15 lakh crore (3.92%) in Mar-15 and from a peak of ₹4.54 lakh crore (7.97%) in Mar-18.
- (ii) Resilience has increased with provision coverage ratio increasing from 46.04% in Mar-15 to a healthy 92.7% in Dec-23.
- (iii) Capital adequacy has improved significantly with capital adequacy ratio improving by 290 bps to reach 14.35% in Dec-23 from 11.45% in Mar-15.
- (iv) During FY 2022-23, PSBs have recorded highest ever aggregate net profit of ₹1.05 lakh crore against ₹0.67 lakh crore in FY 2021-22. Further, PSBs have recorded aggregate net profit of ₹0.98 lakh crore in the first nine months of FY 2023-24.
- (v) PSBs declared dividend of ₹20,964 crore to shareholders (Gov share- ₹13,804 crore) in FY 2022-23 against total dividend of ₹13,170 crore to shareholders (Gov share- ₹8,718 crore) in FY 2021-22.
- (vi) Enabled by implementation of comprehensive reforms, the financial health of PSBs has improved significantly, enhancing their ability to raise capital (in the form of both equity and bonds) from the market. PSBs have mobilised capital of ₹4.20 lakh crore from the market from FY 2014-15 to FY 2023-24 (up to 31.12.2023).

III. Reforms as initiated by the Reserve Bank of India

3. The Committee, during the course of examination of the subject, were informed that Asset Quality Review initiated by RBI in 2015 revealed high incidence of NPAs in banks. Following the AQR results banks initiated transparent recognition, reclassifying standard restructured advances as NPA and providing for expected losses on such advances. Government implemented a comprehensive 4R's Strategy of recognising NPAs transparently, Resolution and Recovery, Recapitalising PSBs, and Reforms in the financial

ecosystem. For the speedy recovery process the government brought (IBC) i.e. the Insolvency and Bankruptcy Code. Before the IBC came into force in 2016, companies under bankruptcy proceedings would take inordinately long time to be liquidated. The IBC provided for a market-linked and time-bound resolution of stressed assets. The IBC made it easier for banks to recover their defaulted loans. As part of the strategy, the government infused an unprecedented Rs 3,10,997 crore to recapitalise PSBs during the last five financial years -- from 2016-17 to 2020-21. The recapitalisation programme provided much-needed support to the PSBs and prevented the possibility of any default on their part. The banking reforms undertaken by the Reserve Bank of India in the recent past can be summed up as under-

- (i) Establishment of National Asset Reconstruction Company Limited, NARCL, together with IBC, has helped in creating institutional structures to address the recurring stress on banks' balance sheets. To ensure timely and better realisation in One-Time Settlements (OTSs), online end to-end OTS platforms have been set up.
- (ii) Fugitive Economic Offenders Act, 2018 has been enacted to enable confiscation of fugitive economic offenders' property. Heads of PSBs have been empowered to request for issuance of look-out circulars. For mitigating risk on account of misrepresentation and fraud, use of third-party data sources for comprehensive due diligence across data sources has been instituted. For effective monitoring and ensure proper due diligence in project financing, Board approved Loan Policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance sheet and ring-fencing of cash flows, and appraised of non-fund and tail risk. For faster processing of loan proposals, Loan Management Systems have been put in place for personal and MSME loans.
- (iii) National Financial Reporting Authority has been established as an independent regulator for enforcing auditing standards and ensuring audit quality. For effective and strengthen governance at the Board level, the position of Chairman and Managing Director (CMD) has been bifurcated into separate positions of a Nonexecutive Chairman and a MD & CEO. A professional Banks Board Bureau

(BBB) has been created for arm's length selection of non-executive Chairmen and whole-time directors. Amalgamation of banks that created stronger and larger banks with higher economies of scale, low costs and eventually increased profitability.

- (iv) **Strengthening Regulatory Framework:** The RBI has taken steps to strengthen the regulatory framework for banks, including revised prudential norms for capital, liquidity, and risk management. This is aimed at ensuring that banks have adequate buffers to withstand shocks and maintain financial stability.
- (v) **Improving Governance and Risk Management Practices:** The RBI has emphasized the need for banks to improve their governance and risk management practices. This includes strengthening internal controls, enhancing data governance, and adopting robust cyber security measures. **Promoting Financial Inclusion:** The RBI remains committed to promoting financial inclusion and expanding access to banking services for all segments of society. Initiatives such as Jan Dhan Yojana and Pradhan Mantri Jan Dhan Yojana have been instrumental in achieving this goal. **Enhancing Digital Banking Infrastructure:** The RBI has recognized the importance of digital banking and has taken steps to enhance the digital infrastructure of the banking sector. This includes promoting the adoption of digital payments, developing innovative banking solutions, and strengthening cyber security measures.
- (vi) **Consolidation and Rationalization of Public Sector Banks:** The RBI has supported the consolidation and rationalization of public sector banks (PSBs) to create stronger and more resilient institutions. This is expected to improve the efficiency and profitability of PSBs. **Encouraging Private Sector Participation:** The RBI has taken steps to encourage private sector participation in the banking sector. This includes easing licensing norms and promoting foreign direct investment (FDI) in the sector.
- (vii) **Expanding the Scope of Banking Activities:** The RBI has expanded the scope of banking activities by allowing banks to engage in non-banking financial activities (NBFA) such as mutual funds and insurance. This is aimed at creating a more diversified and competitive financial sector.
- (viii) **Enhancing Customer Protection:** The RBI has taken several measures to enhance customer protection in the banking sector. This includes strengthening grievance

redressal mechanisms, promoting financial literacy, and improving transparency in banking practices.

- (ix) **Promoting Sustainable Banking Practices:** The RBI has encouraged banks to adopt sustainable banking practices and incorporate environmental, social, and governance (ESG) considerations into their lending decisions. This is aimed at promoting sustainable and inclusive economic growth.
- (x) **Strengthening Supervisory Framework:** The RBI has strengthened its supervisory framework for banks by adopting risk-based supervision and enhancing off-site monitoring. This is aimed at identifying and addressing potential risks early on.

IV. Enhanced Access And Service Excellence (EASE) Reforms

4. The Punjab National Bank, vide their Background Note, have elaborated that the EASE Reforms Agenda was launched in 2018 by the Government and PSBs with the help of the Boston Consulting Group. EASE 1.0 resulted in significant improvements in resolving NPAs transparently. EASE 2.0 introduced new reform Action Points across six themes to promote responsible banking, customer responsiveness, credit off-take, financial inclusion and digitalization, governance, and HR. EASE 3.0 aimed to enhance banking experiences for customers by leveraging technology, with initiatives such as Dial-a-loan and PSBloansin59 minutes.com, partnerships with FinTechs and E-commerce companies, and tech-enabled agriculture lending. EASE 4.0 committed PSBs to customer centric digital transformation through tech-enabled, simplified, and collaborative banking. EASE 5.0 will maintain its emphasis on improving digital customer experience and promoting integrated and inclusive banking using data-driven approaches in all areas.

5. Further elaborating on the matter, the Bank informed that EASE 6.0 (FY 24) is focused on:

- Delivering excellence in customer service with digital enablement: Hassle-free branch banking experience, Seamless call-center experience, intuitive

mobile/internet banking, complaint redressal, customer acquisition, retention and relationship deepening and Inclusive near-home service delivery.

- Digital and analytics-driven business improvement: Comprehensive digital banking for MSMEs, Banking solutions for Agri value chain, Digital marketing for enhanced customer engagement, Digitally-enabled sourcing and servicing of CASA deposit base and Partnership banking.
- Tech and data enabled capability building: Strengthening specialized analytics function, Increased adoption of cloud technologies, Digital and analytics driven risk management, collections and recovery, strengthening cyber security and preventing cyber frauds.
- Developing people and enhancing HR operations: Analyze drivers for employee Productivity, promote gender diversity, Strengthening specialization, succession planning and leadership Development, Data-driven manpower planning, role clarity, and target setting.

V. Reforms as implemented by the Bank of Baroda

5. According to the Background note submitted by the Bank of Baroda, the banking reforms have been primarily in the areas of technology, control of asset quality, capital norms, inclusiveness, regulation of other financial entities etc. Specifically the following reforms have been witnessed in the system which are noteworthy.

- (i) First has been the increasing use of technology in finance. Technology in finance has been an important enabler that has empowered to create a more inclusive and efficient financial ecosystem. Banks have been innovating and enhancing the quality and reach of their services using technological solutions for some time now. However, this got accelerated during the COVID period when mobility became a challenge and technology came to the rescue for fulfilling all our banking needs. The demands placed by the circumstances compelled banks and financial institutions to rethink their business processes and review their strategies. Video KYC, JAM trinity, Account Aggregator framework and other digital initiatives have enabled a decisive entry of the country into a digital finance era.
- (ii) Second was the continued focus on inclusiveness. The Reserve Bank has accelerated its efforts towards building an inclusive financial system where access to financial services is not limited to a basic bank account, but everyone has access to formal channels of credit and they are able to use their banking account to make digital payments. India's payment systems are among the best in the world with real time fast retail payment system, UPI, enabling transactions of about Rs. 12 lakh crore per month in value and almost 26 crore transactions in daily volume. Financial inclusion needs to be redefined by developing bespoke products and services that are best suited to different strata of the society depending upon their income level. This shall include innovative solutions that make it easier for people to not only access basic but also to use a variety of financial services. Towards this end and to enable easy, adequate, and customized credit, the Reserve Bank has made provisions for differentiated banking license. These are niche banks which can help plug the gap in meeting specialised needs for banking products and services across a wider and diverse spectrum. In this endeavour RBI has adopted a three-pronged

strategy which involves setting up of financial intermediaries for extending digital credit or facilitating digital loans, nurturing technological infrastructure to ensure safe and seamless credit disbursement and adopting a customer-first regulatory approach. As a first step in tackling supply side issues in the financial inclusion, new financial intermediaries have been introduced for provision of credit and to ensure financial services are available to the customer at 'when and where basis', thus translating into a truly 'anywhere anytime banking'. This includes initiatives such as P2P lending Platforms, Digital Only NBFCs, Digital Banking Units etc. It is expected that such units would enable customers to have cost effective, convenient and enhanced digital experience of such products and services in an efficient, paperless, secured, and connected environment with most services being available in self-service mode at any time. With the objective of creating market infrastructure for inclusive credit, India has made significant strides in creating enabling digital infrastructure in financial services space. UPI, GSTN, TReDS, JAM Trinity and Account Aggregators (AA) to cite a few. This strong ensemble of digital infrastructure has stabilised and as it matures, would pave way for expansion of credit in a seamless and timely manner which could be made digitally available in an almost paperless environment. AA's capability to aggregate financial data spread across different financial service providers and to leverage this data to build analytics and insights to help consumers in their financial planning would allow financial service providers to offer customized products to their customers. The AA framework also has an important element of 'electronic consent architecture' which is an improvement upon the open banking regimes of many developed countries. As UPI transformed the way people pay, the Account Aggregator has potential to transform credit by making it more seamless and accessible for everyone using digital infrastructure. The next trinity consisting of UPI, e-KYC and AA is expected to enable the next revolution in banking in the provision of customised and inclusive credit services. Last, the focus has been on a customer-first regulatory approach. This change in the banking business model with supportive technological transformations has expanded the realm of what's possible. To encourage the use of UPI for medical and educational services, limit for

payments to these institutions has been increased from Rs 1 lakh to Rs 5 lakh per transaction. It has also been proposed to introduce additional use cases through programmability and offline functionality for CBDCs, to also enable transactions with poor and limited internet connectivity. Recently, Virtual Rupay cards and UPI connectivity has been launched in Sri Lanka, and Mauritius as well.

- (iii) Third, in recent years, several regulatory and supervisory initiatives have strengthened the banking sector. An Insolvency and Bankruptcy code (IBC) and the establishment of a National Asset Reconstruction company (NARCL) have created the institutional environment for addressing stress in banks' balance sheets on an enduring basis. Off-site surveillance systems have been made sharper and more comprehensive by harnessing SupTech – a web-based end-to-end workflow application called DAKSH and an automatic data reporting platform called the Centralised Information and Management System (CIMS). Big data techniques are being leveraged to supplement supervisory initiatives while Cyber Range — a virtual controlled environment and tool — helps in cyber security drills. Mergers have brought in efficiency gains while a regulatory sandbox propels innovation. Extension of depositor protection cover, upfront payment of deposit insurance and the integration of various ombudsman schemes under one umbrella has made the dispute redressal mechanism simpler and more responsive, all boosting public confidence in the banking system. RBI is also working on building a cloud facility for the financial sector in India. Further, RBI has proposed to adopt framework for 'authentication of digital payment transaction'. Internationally, RBI and BoE have signed a MoU relating to cooperation and exchange of information in relation to CCIL. This will enable the BoE to allow CCIL as third country CCP, which is a prerequisite for UK banks to clear transactions through CCIL.
- (iv) Fourth, the focus has been on financial stability. Banks are required to comply with the prudential regulations issued by the Reserve Bank and are required to maintain sufficient capital buffers to absorb losses. The other crucial element of financial stability is robust governance. Robust governance is the cornerstone of stability and

prosperity of any organisation, safeguarding the integrity and ensuring that all decisions are taken in the best interest of stakeholders.

- (v) Fifth has been the development of new partnerships between FinTech companies and banks. Banks are seen leveraging technological partnerships with FinTechs in various ways to provide better products and better serve their customers. In this partnership, FinTechs can contribute their technology expertise, while banks bring their domain expertise. This collaboration allows banks to enhance their digital capabilities and meet the expectations of tech-savvy customers. The RBI has taken several measures to strengthen the same in banks. The Reserve Bank's guidelines now require banks to have a diverse and independent board of directors, with a mix of executive and non-executive directors with certain minimum qualifications and experience. The oversight from Board of Directors must be supported by robust risk management, audit and compliance functions. A FinTech repository, by the Reserve Bank Innovation Hub, is expected to get operationalized by April 2024.

VI. Reforms as implemented by the State Bank of India

6. As per the Background note submitted by the State Bank of India, the main agenda for banking reforms under current scenario include the following:

- Deepening Base III and IFRS adoption.
- Digitization, financial inclusion and AI.
- Environment, Social and Governance and Climate finance.
- Customer redressal system.
- HR Initiatives.
- Banks to continue to adopt advance methods under Basel III on risk management, capital management disrupted due to COVID-19.
- Banks to adopt IFRS reporting standards and expected loss-based provision for better accounting of risk.

- IFRS S2 is effective for annual reporting periods beginning on or after 1st January 2024 on climate risk.

Further, it was noted that Digitization, financial inclusion and AI are being increasingly adopted by the banking system in the following manner-

- Banks to continue digitalisation of products and processes for better user experience and faster turnaround time.
- Greater platformization of lending process for wider market reach and reducing turnaround time.
- Co-lending with NBFC.
- Use of AI/ML for hyper customisation, risk management.
- Thrust towards green / paperless banking using digitalisation.

The Committee also noted that the growing threat of climate change has resulted in incorporation of ESG criterion in lending decision (Environment, Social and Governance and Climate finance)

- Banks to institute risk management practices to incorporate and assess climate induced financial risk
- Transparent reporting of emissions by banks.
- Mobilize green deposits as per RBI guidelines.
- Secure international funds under Paris Agreement for financing climate mitigation.
- Focus on ethical AI and data privacy.
- Third party risk in digital initiatives.

SBI submitted in their background about the recent reforms in Customer redressal system & HR Initiatives. They are as follows-

- Customer redressal system to be reformed as per evolving trends in digitization.
- Use of technology such generative AI to enhance customer redressal.
- Expanding the reach of women centric banking / financial services.
- Manpower training in new digital skills to enhance productivity.

VII. Reforms as implemented by Canara Bank

7. The Committee were informed through the Background Note that Canara Bank is using an early warning system is a set of guided processes that helps in identifying risks at an early stage. An AI-powered EWS integrates data from a multitude of sources, from both public domains through external sources as well as from within the bank. With the help of this data and algorithmic intelligence, different indicators are projected that can help the bank to detect early warning signs of possible financial distress. To strengthen the integrated credit monitoring process, Canara Bank has procured an IT based & AI powered automated EWS solution that extracts, consolidates and analyses data input from external (market data aggregators) internal (CBS, etc.) and manual data entry from branches. A dedicated URL (white listed) for all Canara Bank users is enabled for accessing EWS solution (<https://dccanewsweb2/SASLogon/login>). Bank EWS alerts generated in the package are being utilized as monitoring tool for identifying inherent weakness in the account/s. This well-designed EWS package in the bank is not just effective for credit risk monitoring but also serving the related purposes of fraud control and regulatory compliance. EWS section of TM Vertical is monitoring the loan accounts (FB+NFB) with an exposure of Rs.3 Crores and above at bank level irrespective of banking arrangement (whether sole banking, multiple banking or consortium). The following 42 RBI Scenarios, 84 DFS Scenarios & 1 Bank induced scenarios are being utilized for detecting EWS in loan portfolio.

VIII. Reforms as implemented by the Indian Overseas Bank

8. As per the Background Note provided by the Indian Overseas Bank, they have fully implemented Basel III guidelines and the reforms initiated by them include the following-

(i) Quality of lending

The Bank has designated Risk Management Department to assess the negative market metrics pertaining to any specific industry and accordingly place those segments under stressed sector wherein Bank approach toward those segments will be with more diligence and additional compliance parameters. In respect of credit

appraisal, the Bank has subscribed to various due diligence tool including drawing credit information reports in order to ensure that the prospective clients are complying with eligibility threshold of the Bank in terms of credit history/ default trends. In respect of large value advances, Bank has already put in place “rigorous due diligence and appraisal measures” policy to ensure the quality of advances at the appraisal stage itself. Further, the Bank is already in process of integrating various market participants API with that of Bank’s LOS in order to ensure that the all the key financial inputs are validated at source without any manual intervention, thereby appraisal being made without compromising on the data integrity.

(ii) Non-Performing Assets (NPAs)

Indian Overseas Bank has initiated various steps to arrest slippages even when the account starts appearing in SMA0. The Bank has a robust lending policy to ensure quality lending. Regular review of sanctioned loans is being held by ROs and CO. Page 12 of 14 Continuous Surveillance System is prevalent for all working capital limits of Rs 1 Cr and above, depending on the nature of loans causing concern and on the geographical areas where weaknesses are observed, the Bank strengthens its review processes to avoid NPAs. For example, while Rs 50 lakhs and above SMA loans are being reviewed by the GMs Committee on a monthly basis, the Education Loans causing concern in the Southern Regions are being reviewed by the EDs every month. Thus, the Bank adopts flexible and need based strategies to reduce NPAs. NPA Automation menu provides the probable slippages of the month well ahead in time for prompt follow-up and recovery. Bank has in place a robust EWS (Early Warning Signal) system with 143 triggers fully implemented and the triggers are examined by the Bank on a monthly basis. SMA0, SMA1 and SMA2 Reports are generated and updated on a daily basis. System alerts are in place for Limit expired and Drawing Power expired. System also alerts the Branches on insurance renewal required of the prime and collateral securities Bank is utilizing the services of Artificial Intelligence based detective agencies who are specialized in tracing the absconding borrowers and also assets using technology.

- (iii) Indian Overseas Bank have implemented the EASE reforms in the following manner-
1. LOS introduced for Mudra Loans, KCC Loans upto 1.60 lakhs and Personal Loans.
 2. Tool to capture customer experience and feedback digitally on various channels such as Mobile App, Internet Banking, SMS, Email, Social Media, ATM, Call Centers & Branches developed.
 3. Analytical model deployed for Personal Loan, Vehicle Loan, Housing Loan, MSME loans, MF investment and New Credit cards.
 4. Analytical model predicting the risk of customer attrition developed
 5. Number of financial transactions through bank's own MB/IB channels increase with addition of new features in Internet/Mobile Banking Application.
 6. Tool to share lead generated from the digital channels with the contact center developed.
 7. AA-dashboard to track and monitor the requests raised/ received through AA ecosystem developed.
 8. Bank has enabled E-Pathshala for all the staff members, with it Total average learning hours per employee increased.
 9. Personalization of learning management systems, across the 3 recommended dimensions (scale, role and performance) enabled.
 10. Online marketing budget dedicated to advertisement (with links) allotted and cost per click and click through rate tracked.
 11. Online Death Claim Settlement Portal with online access developed.
 12. Cross-functional team set-upped with process document/ SOP that outlines the design, working principles and reporting structure.
 13. Enhanced focus on Contact Centre performance i.e. reduction in avg. waiting time, avg. handling time, call abandonment rate.
 14. Increase in Digital Transactions.
 15. Increase in Retail disbursements through digitally initiated customer requests.
 16. Improved coverage of early warning signals system.
 17. Deepening Financial Inclusion: Continued improvement in service & coverage.

18. Governance and HR: Increased focused on personnel development and objective evaluation.

IX. Reforms as implemented by the Union Bank of India

9. Union Bank of India, have in their background note, stated that stress testing at micro cluster level has been started for effective credit monitoring and to have a check on the future portfolio build. Cross-functional teams were established to drive end-to-end product implementation with Minimum Value Product (MVP) based releases and to reduce the Turn-Around-Time (TAT). Bank had gone live on the Account Aggregator Framework. Employee grievance portal and periodic employee feedback for holistic employee development was introduced. Customer-friendly banking enabled by modern capabilities, Unified customer view at outbound call center with sentiments and speech analytics has been introduced. 100% of the branches were provided with tablet for customer self-service and for staff's assistance to customers. Further measures have been adopted including Integration of all customer complaint/feedback channels into a consolidated complaint management portal/system with universal complaint ID, Strengthening of cyber security model cyber fraud mitigation and Grievance redressal and governance, Promotion of gender diversity in the bank, Adoption of staff friendly initiatives in the bank, Strengthening specialization, succession planning and leadership development in the bank, Improvement in the productivity of the workforce in the bank and Strengthening of specialized analytics function for robust data governance and model management.

11. During the oral evidence, the representatives of the Department of Financial Services detailing about the reforms in banking sector and initiatives taken by the Ministry of Finance (Department of Financial Services) stated as under-

“Over the last few years, the Government has initiated various banking reforms addressing the issues of credit discipline, focusing on responsible

lending and improving the governance in addition to adoption of the technology, amalgamation of banks, recapitalization of public sector banks, and restructuring of banks under stress. This has resulted in improving the overall financial health of the banking sector in the country which is visible from the fact that currently no scheduled commercial bank is under prompt corrective action of the RBI. It is highlighted that at one point, eleven Public Sector Banks were placed under PCA and they have come out of all the restrictions imposed by RBI. To further instill credit discipline and to protect financial institutions in case of default or delay in payment by large corporates, the Government of India and RBI has taken multiple steps instituting IBC and CRILC, systematic checking of high-value accounts for wilful default and fraud, early recognition and time-bound resolution of stress in those accounts and comprehensive automated early warning systems. Financial inclusion has been propelled, by offering affordable and accessible banking services to ensure that unbanked and underbanked individuals can participate in the formal financial system through Jan-Dhan accounts, aadhaar and Mobile trinity which has been made interoperable and we have Bank Mitras who are interoperable and the UPI. Reforms as part of the unique enhanced access & service excellence (EASE) Reforms Agenda pursued since 2018-19 and this has enabled Public Sector Banks in improving their financial health significantly and equipped them better to deliver in their role. Over the years, this EASE agenda has catalyzed reforms in diverse areas including digital and analytics initiatives in banking, growth in retail and MSME lending, credit underwriting, NPA management, customer service, financial inclusion, and HR policies of the banks. Governance reforms effected in PSBs for strengthening and enabling greater autonomy to the Boards of banks while making them accountable and in line with global best practices. We are recruiting the top management through Financial Services Institutions Bureau (FSIB) (earlier known as Banks Board Bureau). Then, we have bifurcated the post of

Chairman & Managing Director (CMD) into that of a non- executive chairman and an MD & CEO in nationalized banks, and we have also instituted performance-based extensions for MDs, and appraisal of top management and NODs by Boards. With the amalgamation of banks, the efficacy of the banking sector has been enhanced by leveraging economies of scale and synergies. Dena bank and Vijaya bank were amalgamated with Bank of Baroda w.e.f 2019. The largest ever amalgamation exercise in Indian Public Sector Banking Sector culminated in 2020 wherein 10 Public Sector banks were amalgamated into four anchor banks with effect from 1st April, 2020. To ensure that the affairs of the co-operative banks are conducted in a manner that protects the interests of the depositors, by increasing professionalism, enabling access to capital, improving governance and ensuring sound banking through RBI, the Banking Regulation Act was also amended to cover the cooperative banks. As a result of implementation of reforms in the financial system and particularly in Public Sector Banks by the Government, all Public Sector Banks are now profitable and have stronger balance sheets. India's banking sector is sufficiently capitalized, resilient and well-regulated and has withstood the global downturns as well. Sir, the asset quality has improved significantly with gross NPA ratio declining to 3.74 per cent in December, 2023 from a peak of 14.58 per cent in March, 2018. Resilience has increased with provision coverage ratio increasing from 46 per cent in March, 2015 to a healthy 92 per cent in December, 2023. Capital adequacy has improved significantly with the ratio improving by 290 basis points to reach 14.3 per cent in December, 2023 from 11.45 per cent in March, 2015. Improved financial health of banks is reflected in PSBs having recorded highest ever net profit of rupees one lakh crore in last financial against Rs. 0.67 lakh crore in FY 2022. Further, PSBs have recorded aggregate net profit of Rs. 0.98 lakh crore in the first nine months of the current financial year. PSBs have declared dividend of around Rs.

21,000 crore to the shareholders out of which the Government of India has got Rs. 13,804 crore in the last financial year. Considering the improvement in profitability, PSBs are expected to declare higher profit in the current financial year. ”

12. The representatives of the Department of Financial Services further deposed during evidence as follows-

“Sir, there are challenges of Public Sector Banks with regard to the deposit, CASA. Basically, they are losing this CASA shares. It is not only for Public Sector Banks but for Private Sector Banks, this is coming down. This may become a challenge in the years to come because the advances and loans are growing at a faster pace than the rate at which the savings are growing. The reason which we generally discuss is that many people are now transferring their savings from banking sector to mutual fund and to the markets etc. So, that is one challenge Sir. Another challenge with the Public Sector Banks is huge NPAs which have been written off although in their balance sheets, those have been technically written off but the borrowers’ liability to repay those loans to the Public Sector Banks remains. They are not in their books but they are still in their agreements to recover. That is again a very big challenge with public sector banks. Then there is the competition with the private sector banks. It is a question of efficiency and who is more efficient in their outreach to the customers. Our banks have been doing very well in terms of the IT infrastructure. All of them have been able to upgrade to a large extent but the moment it is required to go the bank branches, there the efficiency is slightly is lacking as compared to the private banks. There we are emphasizing them to improve in their customer services when they have one-to-one interaction. Similarly, their customer care service, 24X7, that also needs to be improved. This does not apply to bigger banks like SBI, etc., they will have a very efficient customer care service but for smaller banks, that is still a

challenge. So, these are some of the issues. At the same time, RBI is also putting many issues like expected credit loss. Currently, one asset becomes NPA then only you to make provision but now RBI is contemplating that even if the asset has not become NPA, you will have to make some provision for it which may further affect the banks capacity to lend more. Cyber security is another challenge.”

13. Explaining the initiatives taken by the Canara Bank in respect of the banking reforms, the representatives of Canara Bank submitted during evidence as follows-

“The actual reforms in the banking sector for the last ten years are aggregated in three areas namely recapitalisation, asset management, and digital transformation. Due to recapitalisation because of the Government support and thereafter, amalgamation of Syndicate Bank with the Canara Bank in 2020, our functioning has started improving continuously. Gradually, it has developed a lot of internal working of all those things. As on date, our current CRAR is over 16 per cent. This is one of the best among Public Sector Banks. So, in the last three years, we are able to raise Rs. 25,000 crore from the public. This shows that the confidence building measures that we have taken are helping us, and so, we are now capable of independently maintaining adequate capital for growth. We are maintaining well above the stipulated minimum Capital Adequacy Ratio. The second one is asset management. We are maintaining the asset management. Just four years back, our credit growth was well below three per cent. Now, the annual credit growth is more than 14 per cent. So, we could achieve this because of the compartmentalisation or the verticalization. A special focus has been given especially on the MSMEs where the clusters are there. We introduced several cluster-based products. About 60 per cent of our branches are located in rural and semi-urban areas, which are also helping us in doing that. Regarding priority sector lending, as against 40 per cent, we have already achieved 56 per

cent. That is a continuous process. We have also achieved underwriting standards quite high in this by introducing the rule-based business in technology and all those things. That has helped us in controlling further slippages. Our stressed assets, including SMA-0, 1 and 2 are now less than 4 per cent. This shows that in the next few years, there would not be any immediate threat. Because of the credit growth and maintenance of well balance sheet, the gross NPA percentage has come down to 4.39 per cent which was around 12 per cent four years back. As a net NPA also, it was near to 5 per cent but now, it is only 1.32 per cent. Our PC Ratio is about 89.16 per cent, and we are comfortable on that. Last year, it was the first time that we had earned the profit of five digits, that is, Rs. 10,600 crore. In the current Financial Year, just in three quarters, we surpassed that amount of Rs. 10,600 crore and achieved a net profit of Rs. 10,700 crore. That is also helping in maintaining the health CRAR. When it comes to stressed asset management, we are also encouraging the DRT, SARFAESI, OTS, and the IBC. The IBC has definitely helped us a lot. In the last six years, we could recover almost Rs. 16,400 crore through IBC.”

14. Elucidating upon banking reforms during evidence, the representatives of Bank of India submitted as follows-

“We have taken so many initiatives and steps, including formulation of certain schemes and things like Nari Shakti Scheme, upgraded savings accounts and Star MSME welcome offer. We have started Star Energy Saver Scheme for renewable energy, BOI Star Export Credit Scheme for the exporters and Star Channel Finance Scheme for the MSME units. As regards the organisational structure, we have done lot of organisational structuring with respect to credit underwriting. So, the branches are sanctioning only up to Rs. 10 lakh now and beyond that, it is going to the

underwriting centres like SMECCs, UCs, RBCs, and SKVKs. Apart from that, we have ten large corporate branches and 18 emerging corporate branches through which the entire credit underwriting takes place. This is with respect to credit underwriting; otherwise the branches are the source of marketing for credit proposals. As regards collection, we have zonal collection centres in each of our 69 zonal offices, which help us improve the collection efficiency and reduce the SMA number which is there on the books and also reduce the fresh slippages. Apart from that, we have 25 asset recovery branches at present, which help in improving the recoveries through various sources like DRTs, NCLT etc. This is how we are trying to improve the overall credit quality in the Bank and also improve the return on assets. On HR side, regarding capacity building, we have already undertaken HR transformation initiative. Job Family concept has already taken place right from top till the bottom to the branch level officers. There is a MOOCS model, which is helping our officers – clerical and even the sub-staff – on capacity building. Then, we have done lot of collaborations with other institutes - foreign institutes and local institutes – for capacity building and skill building of our staff. Lot of fintech onboardings have happened in the Bank. We have done collaborations with the NBFCs for co-lending and pool-purchase. Then, I have already told you about the BOI Mobile Omni Neo App. Regarding data analytics, we have already onboarded one vendor for data analytics, AI and ML. That has already started. The Lead Management System through the CRM project has already been launched in the entire Bank and branches are using it. Digitizing processing of MUDRA loans has also started along with the MSME loans. These are all initiatives on the technology side which the Bank has already taken. On the ESG side, we have done net zero and also introduced Green Deposit Framework in the Bank. Apart from that, we have already sanctioned 5,468 MW of renewable energy capacity building till 31st December, 2023, which will help us in the ESG

framework. We have launched a customised product under the Roof Top Solar Scheme also from the Bank of India side. As regards gender diversity, under the ESG, 29 per cent of our total workforce is female workforce. “

Opportunities in banking reforms

15. As per the written information submitted to the Committee:

Data analytics is an upcoming field where financial institutions are able to gain insights into customer behaviour, market trends, and emerging risks, enabling them to make more informed credit decisions. Data-driven finance is not just about collecting and analysing information; it's about using that information to drive innovation, create value for customers, and build sustainable, resilient financial models to the benefit of the system. To enable responsible use of data, RBI has introduced the Account Aggregator framework which enable customers to control their data and provide permission for it to be shared with third-party service providers, for provision of various financial products and services seamlessly. It is expected that AA framework would accelerate the development of alternative lending models such as cash flow-based lending and marketplace lending or what we popularly known as peer-to-peer lending. This would enable small businesses, including street vendors that may not have traditional collateral, to secure a loan. As technology continues to advance, we expect more innovative models to emerge that leverage data, automation, and artificial intelligence to transform the lending landscape.

16. Future of banking would witness a major shift in customers' choices and preferences with enhanced expectations from the banking industry. Each of the developments would present unique opportunities and challenges to the existing and newer players. It has to be borne in mind that sometimes the disruptions can be so sudden that it is impossible to anticipate them. This would include adoption of development of suitable business models with strong governance frameworks, better information management, and changes in the mode of working, building of enhanced

resilience capabilities and a more responsible societal and environmental role for banks.

17. Increased use of Social Media and Information Mediums in the banking ecosystem. Social media is an alternative platform for reaching millions of customers. Indians, on average, spend about 2.4 hours daily on social media. Further, the number of social media users has been growing steadily. The analysis of social media use has the potential to help banks in reviewing their strategies in terms of customer segmentation, customer acquisition and furthering financial inclusion plans. Social media can also be used in customer grievance redress management.

18. The Committee have been informed that with advancement in digital banking, cyber security will remain an important challenge for all stakeholders. The increasing use of IT systems by banks, remote working arrangements, accelerated adoption of digital banking services by customers, along with increasing dependence on third parties for various services would warrant enhanced resilience capabilities to ensure business continuity. This would include building strong defences against cyber-attacks and malicious attempts at disrupting, disabling or destroying a computing infrastructure or stealing confidential information and data. Banks would need to undertake constant upskilling of personnel. Continuous knowledge acquisition and staying ahead of the curve would become even more crucial.

19. The Committee learnt that an emerging area of focus is making finance available for transitioning to a low carbon economy. The Committee were informed about the global challenge that climate change poses to our planet and its impact which is reverberating across the world. The Indian Government has already committed to reduce the total projected carbon emissions from now till 2030 by one billion tonnes, reduce carbon intensity of the economy by more than 45 per cent by 2030, and achieve 'Net Zero' emissions by the year 2070. As a central bank, we also have a responsibility to promote sustainable economic growth which includes transition to a low-carbon economy. Banks will have to play an essential role in financing the transition to a low-carbon economy by channelizing finance to

sustainable and green projects as well as by developing new financial products that incentivise green initiatives.

PART –II
OBSERVATIONS/RECOMMENDATIONS

The banking system in India has evolved over several decades which is now well established and has been serving the credit and banking needs of the economy. However, to ensure that banking sector in the country remain resilient and maintain a delicate balance between growth and risk mitigation, regular monitoring of capital-related matters as well as culture of compliance, credit discipline, transparency, responsible lending and improved governance calls for sustained efforts. In the above backdrop, the Committee selected the subject “Reforms in Banking Sector” *suo-moto*. In this sequel, the Committee took evidence of representatives of Ministry of Finance (Department of Financial Services) and some PSBs to examine and ascertain measures being undertaken by them to fine-tune their systems to align with the framework outlined by the regulatory authorities insofar as fostering economic growth and protecting the interests of stakeholders is concerned.

However, owing to paucity of time, detailed examination of the various intricate aspects of the subject could not be undertaken by the Committee. Moreover, the Committee are disappointed that despite several reminders, responses to queries of the Committee were not received. Pending views of other witnesses including non-official witnesses; experts; and the regulatory authorities on the subject and the detailed analysis of replies of the Ministry of Finance, Department of Financial Services, which are still awaited, this Report of the Committee may be considered as a preliminary report.

2. In the interregnum, while noting that the financial landscape is poised with continued evolution, the Committee desire that the Ministry of Finance (Department of Financial Services)/ PSBs undertake sustained efforts with focus on innovation, adaptive strategies, vigilant governance and enhanced risk management practices to ensure sustainable progress and resilience in the sector.

3. The Committee note that the increased reliance on technology exposes banks to heightened cyber security risk and, therefore, urge the Ministry/ PSBs to adopt robust cyber security strategy to curb not only operational and business risks but also potential digital transformation failures.

4. The Committee note that United Nations (2006) defined financial inclusion as the "provision of access to credit for bankable people and firms, to insurance for all insurable people and firms and savings and payments services for everyone." The Committee while opining that banking services should be readily available to all the

bankable people in India, desire the PSBs to make concerted efforts to promote financial inclusion by ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. The Committee desire to be apprised of the impact of consolidation of PSBs on facilitating geographical diversification, penetrating new markets and extending customer base.

5. The Committee note from the submission of the Ministry that despite significant increase in the number of bank accounts opened under the Jan Dhan Yojana, a substantial proportion of these accounts remain dormant or have low utilization. The Committee desire that Banks should approach Pradhan Mantri Jan Dhan Yojana (PMJDY) account holders and make them aware of the benefits of an active bank account including income generation by way of interest on savings and available insurance benefits and also organize camps for spreading awareness about digital technology for availing banking services.

MSMEs AND FARMERS

6. The Committee while noting that credit gaps persist in sectors such as MSMEs, agriculture and among women entrepreneurs, desire that concerted efforts may be made for reaching out to these sectors and devising innovative financial products and services that cater to their unique needs. Further, the Committee desire that faster and simpler mechanism may be devised to address stress in the vulnerable MSME and agricultural sectors to facilitate their development.

FRAUD MANAGEMENT

7. The Committee note that the risks to the consumer have also substantially increased with increasing instances of data breaches, fraudulent apps and deep fakes and urge upon both the banks and the regulatory authorities to make efforts to ensure safe and friendly tech-banking to the customers. The Committee, here, would in no uncertain words emphasize that the Ministry should look into the possibilities of suggesting changes in the relevant laws which relate to cyber crimes, fraudulent transactions, and phishing operations harming the customers and depriving them of their life-long savings. The Committee further desire that the compliance of e-KYC and no frill accounts must be regularly undertaken by the authorities.

CLIMATE CHANGE

8. The Committee note that the RBI in 'The Statement on Developmental and Regulatory Policies', has recognised that climate change can translate into financial risks for regulated entities. It has further held that this could have broader financial stability implications and that climate-related financial risks may emanate either directly from climate change events or as an outcome of efforts to mitigate climate change. The Committee desire that Banks may urgently integrate climate-related risks into various risk processes and promote sustainable practices within the banking industry thereby reducing its environmental impact.

The Committee would formulate their detailed recommendations on this subject after conclusion of the examination/evidences on the subject. In the interim, the Ministry of Finance (Department of Financial Services) should furnish Action Taken Replies to the Committee.

NEW DELHI
27 April, 2024
07 Vaishakh, 1945 (Saka)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee