GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4419
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FUNCTIONING OF BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has conducted any survey regarding the functioning of banks in the rural, semi-urban and urban areas;

(b) if so, the details thereof and if not, the reasons therefor;

(c) whether the RBI has allowed the banks to set up their primary clearing houses in the areas of their operation to improve their functioning;

(d) if so, the details thereof; and

(e) the steps taken / being taken by the Government to improve the functioning of banks?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): Reserve Bank of India (RBI) issues guidelines to banks from time to time to improve their functioning with the objective of safeguarding the depositor`s interest and ensuring financial stability of the country. Further, in accordance with the provisions of Section 10(B) of the Banking Companies (Acquisition & Transfer of Undertakings) Acts, 1970 and 1980, an annual report on the working and activities of nationalized banks is required to be placed before both the Houses of Parliament by the Central Government. Similarly, in terms of Section 40(4) of the State Bank of India Act, 1955 and Section 43(3) of the State Bank of India (Subsidiary Banks) Act, 1959, an annual report on the working of the State Bank of India and its subsidiary banks is laid on the Table of both the Houses of Parliament.

In terms of Section 23 of the Banking Regulation Act, 1949, banks are required to obtain prior approval of RBI for opening a new place of business. Such approvals are granted to banks depending on the thrust of the extant Branch Authorisation Policy and directions issued in this regard. With effect from December 1, 2009, RBI granted general permission to domestic Scheduled Commercial Banks (other than Regional Rural banks) to open branches (i) in Tier 3 to Tier 6 centres (with population upto 49,999) and (ii) in rural, semi urban and urban centres of the North Eastern States and Sikkim , subject to reporting. Scheduled Commercial banks require prior permission for opening branches in Tier 1 and Tier 2 centres only.

Apart from the `brick and mortar` model of physical branches, banks have been permitted, to adopt the Business Facilitator/Business Correspondent model for delivery of banking services to the unbanked and underbanked areas of the country. Under this model, banks have been permitted to use the services of various entities like Non-Governmental Organisations/Self Help Groups, Micro Finance Institutions and other Civil Society Organisations, companies registered under Section 25 of the Cornpantep Act, 1956, retired Government/ bank employees, retired teachers, ex-servicemen, individual owners of kirana / medical / Fair Price Shops / individual PCO operators, agents of small savings schemes of Government/ Insurance companies, individuals who own petrol pumps, authorized functionaries of self help groups which are linked to banks and any other individuals including those operating common service centres, as intermediaries in providing financial and banking services through the use of Business Facilitator and Business Correspondent model. This enables banks to deliver banking services to the far lying areas of the country.

(c) & (d): RBI has accorded approval for setting up Clearing Houses in various centres across the country. As per the extant policy, Clearing House could be opened in centres having a minimum of 5 or more banks. In case of District Headquarters, initial membership of 3 banks is sufficient for opening a Clearing House. However, additional considerations like local requirements, cheque volume, viability, infrastructure etc. are taken into consideration while according approval for opening of Clearing House. At present, there are 1148 Clearing Houses operating in the country.

(e): To improve the health of the banking sector in India in general, and that of Public Sector Banks (PSBs) in particular, and also to bring it at par with international standards, RBI has, inter-alia, prescribed measures for strengthening of risk based prudential supervision and capital adequacy standards on the lines of the Basel Committee norms, Further, to facilitate quick and efficient decision-making and to provide sufficient managerial autonomy to the Boards of public sector banks to be able to compete internationally, Government announced an Autonomy Package in February, 2005 for these banks. The Government has also put in place a mechanism to monitor the overall performance of PSBs on the basis of the `Statement of Intent on Annual Goals (SOI)` submitted by them on various performance parameters such as growth in deposits and advances, advances to priority sector, Non-Performing Asset (NPA) Ratios, Capital Adequacy Ratio, Net Interest Margin, Return on Assets, net profit, etc.