

**5**

**MINISTRY OF FINANCE  
PUBLIC SECTOR BANKS—BAD DEBTS**

**ESTIMATES COMMITTEE  
2000-2001**

**THIRTEENTH LOK SABHA**

# FIFTH REPORT

ESTIMATES COMMITTEE  
(2000-2001)

(THIRTEENTH LOK SABHA)

MINISTRY OF FINANCE  
(DEPARTMENT OF ECONOMIC  
AFFAIRS—BANKING DIVISION)

*[Action taken by Government on the recommendations contained in the Third Report of Estimates Committee (Twelfth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs—Banking Division)—Public Sector Banks—Bad Debts.]*



सत्यमेव जयते

*Presented to Lok Sabha on 24 April, 2001*

LOK SABHA SECRETARIAT  
NEW DELHI

*April, 2001/Vaisakha, 1923(S)*

## CONTENTS

	PAGE
COMPOSITION OF THE ESTIMATES COMMITTEE (2000-2001).....	(iii)
INTRODUCTION .....	(v)
CHAPTER I Report.....	1
CHAPTER II Recommendations/Observations which have been accepted by Government .....	22
CHAPTER III Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies .....	100
CHAPTER IV Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee .....	108
CHAPTER V Recommendations/Observations in respect of which final replies of Government are still awaited .....	114
APPENDIX I Minutes of sitting of the Estimates Committee (2000-2001) .....	115
APPENDIX II Analysis of the action taken by Government on the recommendations contained in the Third Report of the Estimates Committee (Twelfth Lok Sabha)	117

**COMPOSITION OF THE ESTIMATES COMMITTEE  
(2000-2001)**

Prof. Ummareddy Venkateswarlu — *Chairman*

**MEMBERS**

2. Shri S. Bangarappa
3. Shri Lal Muni Chaubey
4. Shri Ajay Singh Chautala
5. Shri A.B.A. Ghani Khan Choudhury
6. Shrimati Sheela Gautam
7. Shri Anant Gangaram Geete
8. Shri Shankar Prasad Jaiswal
9. Shri Vinod Khanna
10. Shri N.N. Krishnadas
11. Dr. C. Krishnan
12. Dr. Ramkrishna Kusmaria
13. Shri P.R. Kyndiah
14. Shri Samik Lahiri
15. Shri Sanat Kumar Mandal
16. Shri Manjay Lal
17. Shri Shyam Bihari Mishra
18. Shri Nagmani
- \*19. Shri Jitendra Prasada
20. Prof. Rasa Singh Rawat
21. Shri G. Ganga Reddy
22. Shri Abdul Rasheed Shaheen
23. Shri Chandra Bhushan Singh
24. Kunwar Akhilesh Singh
25. Shri Maheshwar Singh
26. Shri Rampal Singh
27. Shri Kodikunnil Suresh
28. Shri Lal Bihari Tiwari
29. Shri Shankersinh Vaghela
30. Shri A.K.S. Vijayan

**SECRETARIAT**

1. Shri John Joseph — *Joint Secretary*
2. Shri K.L. Narang — *Director*
3. Shri Cyril John — *Under Secretary*
4. Shri N.C. Gupta — *Assistant Director*

---

\*Ceased to be the Member of the Committee consequent upon his death on 16.01.2001

## INTRODUCTION

I, the Chairman of the Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Fifth Report on action taken by Government on the recommendations contained in the Third Report of Estimates Committee (Twelfth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs—Banking Division)—Public Sector Banks—Bad Debts.

2. The Third Report (Twelfth Lok Sabha) was presented to Lok Sabha on 15th December, 1998. The Government furnished their replies indicating action taken on the recommendations contained in that Report on 17th August, 2000. The Draft Report was considered and adopted by the Estimates Committee (2000-2001) at their sitting held on 9th April, 2001.

3. The Report has been divided into the following Chapters:—

- I. Report;
- II. Recommendations/Observations which have been accepted by Government;
- III. Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies;
- IV. Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee; and
- V. Recommendations/Observations in respect of which final replies of Government are still awaited.

4. An analysis of action taken by Government on the recommendations contained in the Third Report of Estimates Committee (12th Lok Sabha) is given in Appendix II. It would be observed therefrom that out of 44 observations/recommendations replies to which have been furnished by the Government, 37 recommendations *i.e.* 84.2% have been accepted by Government and the Committee do not desire to pursue 4 recommendations *i.e.* 9.0%, in view of Government's reply. Replies of Government in respect of 3 recommendations *i.e.* 6.8% have not been accepted by the Committee.

NEW DELHI;  
April 19, 2001

Chaitra 29, 1923 (S)

UMMAREDDY VENKATESWARLU,  
*Chairman,*  
*Committee on Estimates.*

## **CHAPTER I**

### **REPORT**

1.1 This Report of the Committee deals with the action taken by Government on the recommendations contained in their Third Report (Twelfth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs—Banking Division)—Public Sector Banks—Bad Debts.

1.2 The Committee's Third Report (Twelfth Lok Sabha) was presented to Lok Sabha on 15th December, 1998. It contained 54 observations/recommendations. Action Taken Notes on 44 observations/recommendations have been received from the Ministry of Finance.

1.3 Action taken replies in respect of 10 recommendations which were observatory in nature have not been furnished.

1.4 Replies to the observations and recommendations contained in the Report have broadly been categorised as under:—

(i) Recommendations/Observations which have been accepted by Government:

Sl. Nos. 6, 7, 11, 12, 13, 14, 16, 22, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54

(Total 37, Chapter-II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:

Sl. Nos. 9, 10, 17, 21

(Total 4, Chapter-III)

(iii) Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee:

Sl. Nos. 15, 24, 38

(Total 3, Chapter-IV)

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited:

(Total NIL, Chapter-V)

1.5 The Committee will now deal with the action taken by Government on some of the recommendations.

## High Level of NPAs

### Observation/Recommendation (Sl. Nos. 9, 10 Para Nos. 2.26 & 2.27)

1.6 Expressing their concern over the fact that none of the Public Sector Banks had been able to contain NPAs as per international standards the Committee had observed as under:—

“The Committee note from information furnished by the Ministry of Finance that in percentage terms, NPAs came down significantly from 23.18 percent as on March 1992 (when prudential norms were introduced) to 17.84 per cent (provisional) as on 31 March 1997 i.e. a reduction of 5.34% in a period of four years. Another notable feature is that banks have been able to avert further growth in NPAs in absolute terms *vis-a-vis* growth in lending. In absolute term these NPAs have accumulated from Rs. 39,253 crore as on March 1993 to an amount of Rs. 43,577 crore as on March 1997. At present, 17 banks have non-performing assets in the range of 10 percent to 20 percent and 8 banks hold NPAs above the level of 20 percent. It is shocking to find that one bank has NPAs at the level of 36.20 per cent and another one has as high as 39.12 percent. Only two banks have NPAs in the range of 5 to 10% which according to Chairman, IBA, is tolerable level under the prevalent economic and industrial development scenario. However, the Committee is extremely unhappy to observe that none of the Public Sector Banks have been able to contain NPAs as per international standards where the tolerable levels of NPAs are around 3 to 4 per cent.

The Committee note that several factors mostly on the part of banks and also on the part of borrowers contribute to bad loans. Factors external to the banks and the borrowers such as changes in Government policies to some extent also could cause default in loans. Failure to render honest, dedicated and diligent service in the discharge of responsibility to the borrowers, poor motivation and inadequacy of professional skills for assessment of business risks, corporate failures both in the public and private sectors, scandalous siphoning off of funds by corporate racketeers and no fear of legal action initiated for recovery of problem loans from recalcitrant borrowers under the present slow and complex legal system are the major factors causing hike in NPAs.”

1.7 The Ministry in their action taken reply have *inter-alia* stated as follows:—

- (i) “Internationally the banks generally adjust the NPAs against provisions for loan losses annually. This has however not been feasible in India due to delay in the recovery through litigation and in line with this practice banks in India are now required to disclose in their Annual Accounts the percentage of net NPAs to net advances.

Since March 1996, a method of recognising net NPAs was introduced for banks in India which can be compared with NPAs of other banks internationally.

The net NPAs are to be reckoned by deducting from Gross NPAs (i) balance in interest suspense accounts, (ii) claims received from DICGC/ECGC but kept pending adjustment (iii) any part payment received but not adjusted and (iv) the total provision held. The gross advances net of the above amounts at (i) to (iv) gives net advances. The percentage of net NPAs to net advances is a closer measure of NPAs since the provisions take care of loan losses and the amount in interest suspense represents uncollected interest.

The percentage of net NPAs of Public Sector Banks worked out on the above basis for the last three years ended 31st March are as under:—

Year	0 to 5%	5 to 8%	8 to 10%	10% above
1996-97	2	9	6	10
1997-98	3	10	4	10
1998-99	4	8	6	9

Andhra Bank (2.92%) and Corporation Bank (2.93%) have least % of net NPAs to net advances as on 31.03.1998.

- (ii) The Committee on Banking Sector Reforms (Narasimham Committee-II) believes that the objective should be to reduce the average level of net NPAs for all banks to below 5% by the year 2000 and to 3% by 2002. For those banks with an international presence the minimum objective should be to reduce gross NPAs to 5% and 3% by the years 2000 and 2002 respectively and net NPAs to 3% and 0% by these dates. These targets cannot be achieved in the absence of measures to tackle the problem of backlog of NPAs on a one time basis and the implementation of strict prudential norms and management efficiency to prevent the recurrence of this problem. (Chapter III, Para 3.26).

The following steps have been initiated to tackle the problem of high level NPAs of PSBs with a view to bringing them below 5% of net advances.

Debt Recovery Tribunals (DRTs) set up at Calcutta, Delhi, Bangalore, Ahmedabad, Chennai, Guwahati, Jaipur, Patna and Jabalpur and an Appellate Tribunal in Mumbai to assist speedy recoveries of banks dues. Government have proposed to set up more DRTs at other centres.

- (iii) Government of India had appointed a Committee headed by Shri Pannir Selvam, Chairman, IBA, and Chairman & Managing



Director, Union Bank of India to look into the problems of NPAs of the Public Sector Banks and to suggest measures to bring down the NPAs in the banks to acceptable levels.

- (iv) The Committee on Banking Sector Reforms (Narasimham Committee-II) also has made certain other recommendations in regard to NPAs banks.

The recommendations of both the Committees are under examination of Government of India/RBI.

- Based on the Committee on Banking Sector Reforms recommendations, on the imperative need for undertaking reforms in the legislative framework affecting banks a Committee under the Chairmanship of Shri T.R. Andhyarujina, former Additional Solicitor General, has been appointed by the Government to recommend necessary amendments.
- A Working Group constituted by the RBI in March 1998 to review the entire functioning of the Debt Recovery Tribunals and suggest measures, including suitable amendments to the Act, to make them an effective machinery for recovery of debts due to banks and financial institutions, has recommended certain amendments to the Act and the rules framed thereunder, for the effective functioning of the DRTs.

These recommendations have been examined for implementation. An ordinance was promulgated on 17.1.2000 to amend the recovery of debts due to Banks and Financial Institutions Act, 1993. The ordinance provides, *inter-alia*, for set-off and counter claims, measures for prevention of alienation of property, appointment of receivers and commissioners by the Tribunals, appointment of more than one recovery officer, and empowering the Tribunals to distribute the sale proceeds among secured creditors in accordance with the provisions of the Companies Act, 1956.

- *Asset Reconstruction Fund*: A Group was set up to look into this subject and report submitted by the Group is under examination. The Estimates Committee recognises the fact that external factors such as Government Policy, inadequacy of professional skills for assessment of business risks and corporate failure and also complex legal system are the factors causing hike in NPAs of PSBs.

To enable the bank to have skilled personnel for specialised functions the banks fulfilling certain conditions have been given autonomy in the matter of recruitment. These banks can:—

- (a) decide their own policy in respect of creation, abolition, upgradation/modification of posts for their administrative offices upto TEGS-VI (Dy. General Manager).
- (b) (i) assess the requirement and make direct recruitment of specialist officers as per their requirements; and

(ii) recruit upto 30 per cent vacancies of probationary officers earmarked for direct recruitment by way of campus recruitment from recognised management and other professional institutions.

All the banks have the autonomy for:—

- (1) Delegation of powers to Board for personnel placement in the overseas branches of public sector banks.
- (2) Promotion to Senior and Top Executives Grades.
- (3) Delegation of powers with regard to deputation of officers/lateral induction of officers on contract basis/lateral mobility of officers within the banks.
- (4) Requirements of rural/semi-urban posting for bank officers.

Regarding legal system for recovery of NPAs and reduction of NPAs of PSBs, the Pannir Selvam Committee on NPAs of Public Sector Banks has made the following recommendations:—

- Changes in legislation for facilitating smooth mergers/acquisition and appropriate legislation for recovery of banks' dues.
- Setting up Asset Reconstruction Fund (ARF)
- Strengthening of credit appraisal, credit monitoring, credit risk rating and monitoring of standard assets to arrest fresh NPAs.
- Review of doubtful and loss assets
- Improvement in functioning of BIFR by constituting more Benches and adequate infrastructure.
- Extensions of statutory powers under Section 29 of SFCs Act available to SFCs to the banks.
- Establishing separate Bench of Civil Courts for dealing with recovery cases of banks/Financial Institutions at all levels; and
- Compulsory arbitration through former Senior Supreme Court/High Court Judge, ex-ED/Chairman & Managing Director of banks/FIs, in disputes between banks or banks and FIs.

The recommendations made by both the Committee on the same issues are being examined for taking a comprehensive view. A Working Group was set up in RBI to suggest measures for strengthening the effectiveness of DRTs who has since submitted report.

- A Working Group constituted by the RBI in March 1998 to review the entire functioning of the Debt Recovery Tribunals and suggest measures, including suitable amendments to the Act, to make them an effective machinery for recovery of debts due to banks and financial institutions, has recommended certain amendments to the Act and the rules framed thereunder, for the effective functioning of the DRTs. These recommendations have been examined for

implementation. An ordinance was promulgated on 17.1.2000 to amend the Recovery of Debts due to Banks and Financial Institutions Act, 1993. The ordinance has since been converted into the Act. The Act provides, *inter-alia*, for set-off and counter claims, measures for prevention of alienation of property, appointment of receivers and commissioners by the Tribunals, appointment of more than one recovery officer, and empowering the Tribunals to distribute the sale proceeds among secured creditors in accordance with the provisions of the companies Act. 1956."

### **Recommendation**

1.8 The Committee had expressed their unhappiness over the very high level of NPAs ranging from 10-20% in case of 17 banks, above 20% in case of 8 banks and as high as 36.20% and 39.12% in case of two banks as against the international standards where the tolerable level of NPAs were around 3-4%.

The Committee regret to note that despite constitution/appointment of a number of Committees/Working Groups and recommendations made by them nothing concrete has been done to implement their recommendations. All their recommendations are still being examined by Govt./RBI. The Committee are alarmed at the very high level of NPAs in all the PSBs in general and two banks in particular.

The Committee highly deprecate the undue delay that has taken place in implementing the recommendation made by the Groups/Committees for lowering NPAs. They desire that action with due promptitude within a time bound programme be taken on their recommendation with a view to containing and reducing the huge amount and percentage of NPAs in the Public Sector Banks.

The Committee find that recommendations made by the Working Group constituted by RBI for effective functioning of DRTs have since been examined and Recovery of Debts due to Banks and Financial Institutions Act, 1993 amended which *inter-alia* provided for set off, and counter claims, measures for prevention of alienation of property, appointment of receivers and commissioners by the Tribunals, appointment of more than one recovery officer etc.

The Committee hope that working of DRTs with the amendment of above Act would become more effective and help in speedy recovery of outstanding dues from the borrowers.

The Committee desire that functioning of DRTs be monitored periodically and they may be vested with effective powers so that borrowers/defaulters are compelled to make payment of bank loans.

**Appointment of Senior and Top Executives in Banks Observation/ Recommendation (Sl. No. 15, Para No. 2.32)**

1.9 With regard to the appointment of Senior and top executives in banks, the Committee had observed as under:

“Apart from revamping the present procedure and system for awarding deterrent punishment for such serious irregularities and wrongdoings, the laid down system for selection and appointment of senior executives including top executives of the banks should be reviewed so that officers of integrity, proven sense of duty and responsibility are appointed to these positions.”

1.10 The Ministry in their action taken reply have stated as follows:

“Appointment of Chairman and Managing Directors of nationalised banks is done by the Government in pursuance of powers conferred by Clause (a) of sub-section 3 of Section 9 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 read with sub-clause (1) of clause 3, clause 5, clause 6, clause 7 and sub-clause (1) of clause 8 of Nationalised Banks (Management and Miscellaneous Provisions) Scheme 1970/1980, in consultation with the Reserve Bank of India.

Normally, appointment of Chairman and Managing Director (CMD) is made from amongst the Executive Directors (ED) of nationalised banks and Senior Executives of Reserve Bank and State Bank of India. At times Government appoint executives from Indian Administrative Service also.

Government have constituted an Appointment Board which will make recommendations to Government for appointment of Chief Executive Officers and Executive Directors of nationalised banks and the Chief Executive Officers of financial institutions. The selection by the board will be based on professional experience and expertise in the relevant field. Government call for recommendations of Reserve Bank for appointment of the Chairman and Managing Director. Reserve Bank examines their suitability from all angles, including their past performance, vigilance/disciplinary cases in the past/contemplated, if any etc. and conveys recommendations to Government. After obtaining the views of the Reserve Bank, Government of India finalises the names after getting clearance from the concerned agencies like Chief Vigilance Commission, Central Bureau of Investigation and Enforcement Directorate, and issues necessary notification.

**Proposals regarding the change in the system so that officers of integrity, proven sense of duty and responsibility are appointed.**

At present, vigilance clearance is sought in respect of executives who are being considered for appointment as Executive Directors and Chairman and Managing Directors in nationalised banks after selection is made by the Appointments Board. Vigilance clearance is

obtained from CVO of the bank and Central Vigilance Commission (CVC) in respect of General Managers who are being considered for appointment as Executive Directors in the nationalised banks.

In respect of Executive Directors who are being considered for appointment as CMDs and CMDs who are being considered for shifting, vigilance clearance is obtained from CVC. In respect of scam tainted banks CBI and RBI are specifically consulted on the subject.

Government had in July 1996 forwarded to RBI a Note containing certain modifications proposed to be followed in the existing procedure and had sought our views thereon.

Government desire that, instead of seeking vigilance clearance after selection is made by the Appointments Board, a system of obtaining vigilance clearance from CVC/CBI/RBI in advance for all executives in the consideration zone and thereafter obtaining periodical reports on quarterly basis about change in the position if any, may be instituted. Views of the Reserve Bank have been communicated to Government.

**If the views of the Reserve Bank are agreed to by the Government the new system would be as under:**

1. A list of EDs/CMDs of public sector banks/financial institutions who are likely to be in the consideration zone for elevation/shifting during the next one year (till June) may be prepared.
2. CVC, CBI and RBI may be requested to give vigilance clearance in respect of these executives in the consideration zone.
3. CVC, CBI and RBI may also be requested to send quarterly reports to the Banking Division indicating the changes, if any in the position furnished by them.

Banking Division would act upon these clearances already given and reports received instead of seeking fresh clearance while submitting proposals to ACC. This would be possible since the vigilance clearance is valid for 6 months. If however, any thing adverse comes to the notice of Reserve Bank in the meantime, the same may be brought to the notice of the Government.

4. Details of past disciplinary/vigilance/criminal cases and holding of promoter quota shares/employees quota shares and action taken for the same should be placed before the Appointments Board and their view as to suitability of the executives for appointment in the light of these cases should also be incorporated in the minutes of the Appointments Board. This would facilitate in taking a view in the Banking Division on giving vigilance clearance in respect of persons having certain cases of the nature referred to above in their career.

5. Anonymous/pseudonymous complaints, if any, received after selection by the Appointments Board are to be considered at the level of Secretary(B) and a decision is to be taken whether the complaints are serious enough to be taken note of. In case it is decided to take cognizance of the complaint, vigilance clearance should be given only after the complaint is investigated by the concerned agency.
6. In the case of complaints received from CBI/RBI, they should be looked into even if they are received after the selection by the Appointments Board and vigilance clearance should be given only after a final view is taken in the matter.
7. In respect of GMs who are being considered for appointment as Executive Directors, reference should be made to the CVC, CBI and RBI after empanelment is made by the Appointments Board. After obtaining from these agencies, quarterly reports should be obtained from these agencies, till the final appointment is notified.

The procedure in respect of follow up of Complaints received after selection should be the same as set out in para (4) & (5) above."

#### Recommendation

1.11 The Committee note that Government had in July, 1996 sought the views of RBI on a note containing modifications proposed to be followed in the existing procedure of selection and appointment of top executives of Banks. The RBI had also communicated its views to Government. The Committee are constrained to note that even after a gap of about 5 years, Government have not come out with the new system of selection and appointment of CMDs/other top functionaries of banks.

The Committee need not emphasise time and again that top functionaries of banks are to a great extent responsible for the good/bad performance of the banks. It is therefore imperative that only efficient and honest officers with impeccable record of working are appointed at the helm of affairs.

The Committee therefore desire that an early decision may be taken by Government for changing the system of selection and appointment of officers of integrity, proven sense of duty and responsibility for senior/executive positions in Public Sector Banks.

RBI should closely monitor at regular interval the performance of loan accounts sanctioned at the level of CMD/ED of the Banks.

In case of serious defaults pointed out by RBI in AFIS as in the case of Indian Bank revealing gradual deterioration of the banks financial position year after year where it incurred accumulated losses to the tune of Rs. 1706 crore, the Committee feel that existing framework of punitive measures are inadequate. The Committee recommend that the punitive provision measures be further examined and tightened to be made more rigorous and purposeful. In such cases Government may also consider reviewing the final decisions of the Board of Directors by a panel of Secretaries at the Government of India level which may also include a representative from the

RBI of the level of Deputy Governor so that stringent and time bound action is taken against such defaulting CMD/ED.

### Increase in Capital Adequacy Ratio

Observation/recommendation (Sl. No. 17, Para No. 2.34)

1.12 Emphasising the need for increase in the capital adequacy ratio to reduce high percentage of non-performing assets the Committee had noted as under:

“The Committee have been informed by IBA that there are no well defined safe limits as far as non-performing assets of the banks are concerned. But as per international standards the tolerable levels of NPAs are around 3 to 4 percent. The Basle Committee on Banking Regulations and Supervisory Practices functioning in the Bank for International Settlements (BIS) has prescribed certain capital adequacy standards for banks which are being implemented in a large number of countries. The BIS standard seeks to measure capital adequacy a ratio of capital to risks weighted assets and the ratio prescribed thereunder is 8 percent. The Committee on the Financial System (Narasimham Committee) *inter alia* suggested that banks should, under a phase programme, move towards meeting the BIS norms on capital adequacy of 8 percent, which should be achieved by March, 1996. The Minister of Finance in his Budget Speech on 1st June, 1998 has stated that in strengthening the underlying health of Banks, RBI is raising the minimum required Capital Adequacy Ratio for banks from the present 8 percent to 9 percent by March 31, 2000 and to 10 percent by as early as possible thereafter. The Committee, however, feel that the increase in the Capital Adequacy Ratio for public sector banks as proposed in the budget for 1998-99 in pursuance of recently submitted Narasimham Committee Report may not be considered adequate in the light of a very high percentage of non-performing assets which is around 18 percent at present *vis-a-vis*, the international standard of tolerable levels of NPAs around 3 to 4 percent for which ratio prescribed as per BIS norms is 8 percent.

1.13 The Ministry in their action taken reply have stated as follows:

“The CRAR of 9% was prescribed for banks based on the recommendations of Narasimham Committee-II. The enhancement of CRAR is aimed at moderately higher level of 9% to be achieved by March 31, 2000 and 10% as early as possible thereafter. Although the BIS norms is 8% actually the banks with international level have much higher CRAR.

The estimates for growth of risk weighted assets and capital and profits of PSBs were taken into account while prescribing the enhanced CRAR. As on 31st March, 1998 as many as 19 PSBs are having CRAR above 10% and seven banks have CRAR between 8 and 10% when the requirement was 9%. As the enhanced requirement is for the year ended 31st March,

2000, it is expected that PSBs may not find it difficult to achieve CRAR of 9% by 31.3.2000.

The level of Gross NPAs of Public sector Banks as a percentage to Gross advances has been on decline. The percentage of gross NPAs of PSBs which was 23.18 percent for 1992-93 has come down to 16.02 percent for 1997-98. It is the endeavour of RBI that the NPAs are brought down substantially. RBI has already initiated a number of measures in this regard:

- (a) A group appointed to look into creation of Asset Reconstruction Companies, as recommended by the Committee on Financial System (CFS) in 1991 has submitted its report which is under examination.
- (b) Creation of more DRTs is proposed by Government and streamlining the set up and procedures as recommended by Deshpande Group on DRTs.
- (c) A group was appointed for laying down model guidelines for compromise/negotiated settlements.
- (d) A group has been appointed under the Chairmanship of Shri T.R. Andhyarujina former Additional Solicitor General of India to recommend amendments to legislative frame work affecting banks in particular recovery of bank dues."

### Recommendation

1.14 The Minister of Finance in his budget speech on 1st June, 1998 had stated that to strengthen the underlying health of the bank, RBI was raising the minimum required Capital Adequacy Ratio (CRAR) of the Banks from 8% to 9% by March 31, 2000 and to 10% thereafter.

The Committee had felt that increase in Capital adequacy Ratio as proposed in the budget for 1998-99 might not be adequate in the light of a very high percentage of NPA which was around 18% at that time *vis-a-vis* the international standard of tolerable level of 3-4% for which ratio prescribed as per BIS norms was 8 percent.

The Action Taken Notes were furnished to the Committee in August, 2000. The Committee deplore that instead of giving the exact percentage of CRAR, achieved by all the banks as on 31.3.2000, the Ministry have merely stated "As the enhanced requirement for the year ended 31st March, 2000, it is expected that the PSBs may not find it difficult to achieve CRAR of 9% by 31.3.2000." The Committee desire that they may be furnished the actual CRAR percentage achieved by all the banks as on 31.3.2000. The Committee would also like to know the steps taken by PSBs to achieve CRAR of 10 percent after 31.3.2000 as promised by Finance Minister in his Budget Speech.



## **Amendment of Provisions of Banking Regulation Act, 1949**

### **Observation/recommendation (Sl. No. 24, Para No. 3.57)**

1.15 On the amendment of certain provisions of Banking Regulation Act, 1949 and filing of suit against the borrowing unit and sharing the information with banks, the Committee had observed as under:

“The Committee further note that the Government does not consider it appropriate to delete provisions regarding secrecy laws in the Banking Regulation Act, 1949 as according to them the relationship of a bank and its customer is one of utmost trust and is a well established concept prevailing all over the world. The Committee feel that banks should file suits against the borrowing units within two years of their default and compile list of such cases region-wise and share such information with other banks in order to caution them while taking credit decisions for new or additional credit limits by the defaulting borrowers and also proprietors/partners/directors named in the list.

1.16 The Ministry in their action taken reply have stated as follows:

1. The duty of a banker to maintain secrecy of his customer's transactions arises from the relationship of a banker and customer. The duty has acquired a legal character which is enforceable in Courts of Law. In terms of Section 28 of Banking Regulation Act, 1949 information obtained by Reserve Bank of India under the Act can be published only in a consolidated form as it thinks fit. However, in view of the fast changing Banking scenario an amendment to the provisions of above Act, for inserting an enabling provision to allow Reserve Bank of India to publish information, it considers in the public interest to do so, in any form it deems fit is under consideration.
2. Under the current provisions of Banking Laws, disclosure of names of borrowers of banks and FIs is not permissible. However, there is no prohibition on disclosure of the names of defaulters against whom suits have been filed.
3. RBI has put in place a scheme to collect details about borrowers of banks and FIs with outstanding aggregating Rs. 1 crore and above which are classified as 'Doubtful' or 'Loss' or where suits are filed, as on 31st March and 30th September each year and disseminate this information on floppy diskettes to the banks and FIs for their confidential use. Based on the information obtained from banks and FIs, RBI publishes the list of borrowers (with outstandings aggregating Rs. 1 crore and above) against whom suits have been filed as on 31st March every year. The last such list was published as on 31st March, 1999. This list is accessible

on internet also. The above information is collected by RBI under chapter III A of RBI Act, 1934.

4. Pursuant to the instructions of the Central Vigilance Commission RBI has framed a scheme in February 1999 for collection of information on wilful defaults of Rs. 25 lakh and above and dissemination to the reporting banks and FIs, under which the banks and FIs viz. IDBI, IFCI and ICICI will be required to submit to RBI the details of the wilful defaulters.
5. While disseminating information on a half yearly basis banks are advised to make use of the information while considering, on merits, the request for new or additional credit limits by the defaulting borrowing units and also proprietors / partners / directors, etc. named in the list, either in their own names or in the names of other units with which they are associated.
6. With a view to restricting the lending on the part of borrowers to overcome credit discipline imposed by banks by opening current accounts with banks other than lending banks, banks have been advised to insist upon a declaration at the time of opening a current account that he is not enjoying any credit facility. If he is enjoying the credit facility, then a declaration giving particulars of credit facilities enjoyed with other banks to suitably inform the concerned banks may be obtained from the customer.
7. The need for prescribing a time frame for starting legal recovery procedure promptly in respect of loss assets which are carried in the books of banks for long periods, was examined and the banks have been advised by RBI in June 1999 that loss assets outstanding for more than two years and where legal action has not been initiated, may be reviewed, and a note be placed before the Management Committee / Board, every half year with reference to the position as on September 30 and March 31, of each year, by giving specific reason as to why suits have not been filed, at different levels as specified below.

Types of assets	To be reviewed by
1	2
(a) Borrowal accounts with outstanding balance of Rs. 5.00 lakh and above	Managing Committee Board
(b) Borrowal accounts with balance outstanding between Rs. 1.00 lakh and Rs. 5.00 lakh	Chairman and Managing Director

	1	2
(c)	Borrowal accounts with outstanding balance less than Rs. 1.00 lakh	Appropriate levels to be decided by the bank

Further, the decision to file a suit in respect of a borrowal account is to be in accordance with their loan policy and keeping in view the availability/enforceability of charges, adequacy of realisable value of the securities to cover the dues, period of limitation, the time taken and cost involved in litigation etc.

8. Absence of arrangements for sharing of information on borrowers amongst the credit institutions is one of the reasons for incidence of fresh NPAs. A Working Group was set up in the Reserve Bank of India to explore the possibilities of setting up a Credit Information Bureau. The Group has recommended the establishment of the Bureau inheriting the best international practices with regard to collection of information processing of data and sharing of both negative and positive information relating to credit, trade and finance among the various financial institutions. The negative information may include non-performing advances, suit filed accounts references to BIFR, DRTs, suspected frauds, compromise settlements entered into by banks, FIs etc. The recommendations of the Group are under consideration of RBI/Government of India.”

#### **Recommendation**

1.17 The Committee note that an amendment to the provisions regarding Secrecy Laws in the Banking Regulation Act, 1949 for inserting an enabling provision to allow RBI to publish information it considers in the public interest to do so in any form it deemed fit was under consideration. The Committee desire that amendments in the provision of secrecy Law be made with due promptitude as the defaulters particularly those who do so wilfully do not deserve any sympathy. On the contrary publishing of their names would help in the speedy recovery of outstanding dues.

The Committee also desire that credit information Bureau as recommended by working group set up by RBI be set up expeditiously so that credit institutions could share information on borrowers and avoid the possibility of occurrence of fresh NPAs.

#### **Diversion of Funds by Borrowers**

##### **Observation/Recommendation (Sl. No. 38, Para No. 3.71)**

1.18 Expressing their concerns over diversion of bank finance by the borrowers, the Committee had observed as under:—

“The Committee note that the RBI’s recent scrutiny of certain large borrowal accounts conducted in a few banks has revealed diversion of bank finances for investment in finance companies, associate

companies/subsidiaries, inter-corporate deposits, etc. In this connection, RBI has advised the banks that if a borrower is found to have diverted finances granted for working capital purposes for other activities, banks must recall the amounts so diverted. In order to gauge the magnitude of diversion of funds by borrowers as also whether the diversion of bank finance was for activities not permissible under the extant norms of investment/credit policy of the banks, the Committee would like to be informed of the number of instances of diversion of funds by borrowers to other than the purposes (including break-up of non-permissible activities) for which the loans were sanctioned, the amount involved and the recall of the amount so directed bank-wise for the last year only.”

1.19 The Ministry in their action taken reply have stated as follows:—

“RBI is reported to have come across a few cases of diversion of funds from the borrowal accounts in some of the public sector banks.

RBI has advised banks to take suitable action including recall of advances in some cases.”

#### **Recommendation**

1.20 Diversion of funds is another cause for turning of accounts into NPAs. The very fact that the diversion of funds were detected only through RBI's scrutiny of borrowal accounts show that either banks were not properly monitoring the end use of loans given by them to the borrowers or officers of the bank were hand in glove with borrowers thereby encouraging the borrowers to misuse the public funds with impunity which have resulted in increase in the NPAs.

The reply given by the Ministry that RBI has advised banks to take suitable action including recall of advance is inadequate as the Committee had desired to be apprised of number of instances of diversion of funds by the borrowers to other purposes for which the loans were sanctioned, the amount involved and the recall of the amount so directed (bank-wise) for the last one year. The Committee desire that this information may be collected and furnished to the Committee without any further delay.

#### **Recovery Power of Banks**

**Observation/Recommendation (Sl. Nos. 46-48, Para Nos. 4.36-4.38)**

1.21 Stressing the need for strengthening the recovery power of the banks akin to those available for the Revenue Department, Cooperative Banks and Developmental Financial Institution, the Committee had recommended as under:—

“High level of non-performing assets (NPAs) in the banking sector at present is the most worrisome aspect of the financial sector. NPAs in Public Sector Banks (PSBs) at about 18 percent of credit portfolio are much in excess of international standards where the tolerable levels of NPAs are around 3 to 4 percent. The Committee are

satisfied to note that Banks are aware of the paramount need for containing NPAs. But despite taking various suitable corrective measures and putting in place credit monitoring systems by PSBs to bring the ratio down to a manageable level, they have been able to achieve relatively limited success.

The Committee feel that recovery of dues by the banks is one of the major concerns in view of the need for recycling the funds for socio-economic development and the very survival of the banking sector. For intensive recovery efforts the main hurdle has been the time consuming legal process because of which the borrowers do not feel compelled to come forward for setting their dues. With the introduction of prudential norms and concept of NPAs from the year 1992-93 and also requirement for provisioning, credit procedures will become a critical input in credit decisions. The time, cost and efforts in recovery of loans will determine whether banks are willing to grant loans to borrowers where they are sure that they can recover their dues quickly and not get bogged down in endless wrangling. That may spell disaster especially for small and medium borrowers. It is therefore imperative in the larger interest of the borrowers that there should be legislative changes to ensure quick recovery of NPAs and to enable the banks to perform their assigned role of lending for socio-economic development of the people.

The Committee note from the submissions made by the Banks during their study tours as also from the Ministry of Finance in their notes furnished to the Committee that the major handicap in quick recovery of dues of the banks is the slow and dilatory process of recovering dues. It takes a very long time before it is possible to obtain a decree and even after a decree is obtained, there are problems in execution of the decree for realisation of assets/decretal dues. The Committee are informed that as on March, 1993, there were a total 10.25 lakh accounts of Public Sector Banks involving an amount of Rs. 4071.60 crore in respect of which suits have been filed by banks. Further, decrees have been obtained in respect of 5.21 lakh accounts. IBA in this connection has suggested that there was a need to refine the legal system and strengthen the recovery powers of banks akin to those available for the Revenue Department, Cooperative Banks and Developmental Financial Institutions.

The Committee feel that there is need for Government support both at the Centre and at the State level for extending help of the Revenue Departments in effective recovery in different cases and rendering required assistance in executing decrees obtained from the courts. The Committee desire that the matter may be taken up at the highest level in the Ministry of Finance with other Departments of the Government of India and their PSUs where huge funds of banks are blocked up and also impress upon the State Governments for providing requisite assistance for execution of decrees granted by the Courts in favour of the banks for recovery of their dues as also the need for bringing about amendments in the Recovery Acts to effect improvement in the recovery of banks' dues, the strengthen

recovery powers to the banks as available to Revenue Departments, Cooperative Banks and Developmental Financial Institutions as suggested by IBA and introduction of a system whereby borrowers should be compelled for timely payment of bank dues thus obviating time consuming and costly civil court proceedings in the larger interest of borrowers.”

1.22 The Ministry in their action taken reply have stated as follows:—

“The Tiwari Committee appointed by RBI to examine legal and other difficulties faced by banks and financial institutions in rehabilitation of sick industrial undertakings and to suggest remedial measures, also went into the question of recovery of dues of the banks and financial institutions. The Committee had examined three alternative modes of recovery of bank’s dues as under:—

- (a) Recovery of dues as arrears on land revenue;
- (b) To confer powers on banks and Financial institutions similar to those IFCI/SFCs;
- (c) Setting up of Special Tribunals.

After going into the pros and cons of various alternatives suggested, the Tiwari Committee recommended that the Government of India should set up Special Tribunals which would adjudicate finally within a time bound schedule, all matters relating to the recovery of dues of banks and financial institutions.

The Hegde Committee appointed by RBI in 1992 also endorsed the recommendations of the Tiwari Committee for enactment of a legislation for setting up of Special Tribunals. Accordingly, the “Recovery of Debts due to Banks and Financial Institutions Act”, was enacted on 27th August 1993 to provide for the establishment of Tribunals for expeditious adjudications and recovery of debts due to banks and financial institutions. It may be stated that under Section 25 of the Act, *ibid*, the Recovery Officer has been conferred with the powers attachment and sale of movable or immovable property of the defendant. An Ordinance was also issued on 17th January, 2000 providing more teeth.

Subsequently a Working Group constituted by the RBI in March 1998 to review the entire functioning of the Debt Recovery Tribunals and suggest measures, including suitable amendments to the Act, to make them an effective machinery for recovery of debts due to banks and financial institutions has recommended certain amendments to the Act and the rules framed thereunder, for the effective functioning of the DRTs. These recommendations are being examined for implementation in consultation with the Committee chaired by Shri T. R. Andhayarujina.

The issue regarding empowering banks to take action on the lines of Section 29 of the SFCs Act, 1951 was examined in the context of the suggestion made by the Estimates Committee on Bad Debts. In terms of Section 29 of the Act *ibid*, SFCs have right to take over the

management or possession or both of industrial concerns who have defaulted in payment of their dues and transfer them by sale or lease, etc. Our Legal Department have opined that while the question is not about the legal permissibility of giving such powers to the banks, the real question is the practical utility and enforceability of such rights by the banks. As it happens in many cases, there is resistance by the borrower and it is very difficult to implement the provisions unless the machinery for enforcement of rights is also provided, such as assistance of police, etc. to secure possession of property. In view of the foregoing, Legal Department have expressed a view that while there is no legal objection to confer on banks powers similar to the powers conferred by Section 29 of the SFCs Act, the practical utility and enforceability thereof has also to be taken into account. For ascertaining the effectiveness of the above provisions in the recovery of dues of SFCs, we had requested I.D.B.I. to furnish us with the information regarding experience of SFCs in the recovery of their dues using the powers of Section 29, 30 and 31 of the Act. The information received indicates that though the provisions *per se* provide very extensive powers to the SFCs for recovery of their dues without intervention of Courts, there are various practical difficulties in enforcing these powers.

The Committee on Banking Sector Reforms (Narasimham Committee II) and the Committee to review NPAS of public sector banks under the Chairmanship of Shri Pannir Selvam, Chairman IBA and Chairman & Managing Director, Union Bank of India have suggested that there was imperative need for undertaking reforms in the legislative framework affecting banks. A Committee under the Chairmanship of Shri T. R. Andhyarujina, former Solicitor General has been appointed by Government of India to recommend necessary amendments to the statutes affecting banking industry.”

### Recommendation

1.23 The Committee had noted that major constraint in quick recovery of the dues of the bank was slow and dilatory process of recovery. They had, therefore, *inter alia* desired for bringing about amendments in the recovery act to effect improvement in the recovery of bank dues and to strengthen recovery powers of the banks as available to Revenue Department, Cooperative Banks and Development Financial Institutions and introduction of system whereby borrowers could be compelled for timely payment of bank dues thus obviating time consuming and costly civil court proceedings.

The contention of the Ministry that it was very difficult to implement the provisions regarding empowering banks to take action on the lines of Section 29 of the SFCs Act, 1951 unless the machinery for enforcement of right was provided cannot be construed an excuse for not implementing stringent measures for recovery of dues from the defaulters.

The Committee recommend that this issue be considered *de-novo* after the submission of T. R. Andhyarujina Committee report which should submit its report in a time bound programme.

### Debt Recovery Tribunals

**Observations/recommendations (Sl. Nos. 51, 53, Para Nos. 4.41, 4.43)**

1.24 On the jurisdiction of Debt Recovery Tribunals (DRTs), problems being faced by them and need for opening of more DRTs, the Committee had observed as under:—

“The Act provides for establishment of Tribunals, So far, nine Debt Recovery Tribunals (DRTs) have been established having their jurisdiction over certain States. These are located at Calcutta, Delhi, Jaipur, Bangalore, Ahmedabad, Chennai, Patna, Jabalpur and Guwahati. There is one Appellate Tribunal at Mumbai having jurisdiction all over India and over all Tribunals. In their general comments on DRTs, IBA has pointed out that infrastructure at most DRTs is poor. Some of the Tribunals have large geographical coverage. IBA has also suggested that DRTs may be expeditiously opened in unrepresented States like Maharashtra and Uttar Pradesh. Government should also set up DRTs at more places for example at Chandigarh to cover States of Haryana, Punjab and Himachal Pradesh and Appellate Tribunals at Delhi, Calcutta and Chennai.

Provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993, do not apply where the amount of debts due to any bank or financial institution or to a consortium of banks or financial institutions is less than ten lakh rupees or such other amount being not less than one lakh rupees as the Central Government by notification may specify. In order to achieve the objectives of expeditious disposal of cases of substantial amount and to ensure that DRTs do not get loaded with large number of cases, at present cut off limit of rupees ten lakh and above has been specified. The Committee desire that this cut off limit should be reduced to Rs. 5 lakh as soon as pendency of cases before the Tribunals falls considerably.”

1.25 In their Action Taken Reply, Ministry have stated as under:—

“In the opinion of the Working Group, not only there should be the Debt Recovery Tribunal in every State, but there should be more than one Tribunals in the same State if the work load of the Tribunals so justify. The Presiding Officers of DRTs should not have more than 30 cases on the board on any given date and there should not be more than 800 cases pending before it at any given point of time. If the number of cases go beyond 800, the Government should consider appointing more Presiding Officers and even more tribunals to deal with such cases. It is observed from the Report of the Working Group that the establishment of four more Appellate



Tribunals in major centres (*i.e.* Delhi, Chennai, Calcutta and Guwahati) in the country is under Government's consideration. The Working Group has recommended accordingly.

Having regard to the infrastructural constraints and large number of court cases transferred to the DRTs under Section 31 of the Act there is acute pressure on DRTs. Therefore, the Working Group had recommended that once the recommendation to appoint more DRTs is accepted by the Government and the number of pending cases comes down, Government may consider lowering the present limit of Rs. 10 lakh in terms of Section 1(4) of the Recovery of Debts due to Banks and Financial Institutions Act, 1993, so that more cases of recovery of bank dues are covered by the DRTs."

### Recommendation

1.26 Debt Recovery Tribunals (DRTs) were set up specifically under an act of Parliament with a view to helping banks/financial institutions to recover their dues expeditiously. The Committee however find that the very purpose of creation of DRTs is being defeated as they are ill equipped in terms of infrastructure and staff strength.

The Committee find that working group constituted by RBI in March, 1998 made certain recommendations on the basis of which an amendment was made in the Recovery of Debts due to Banks and Financial Institutions Act, 1993. The Act *inter alia* provides for set off and counter claims measures for prevention of alienation of property, appointment of receivers and commissioners by the tribunals, appointment of more than one recovery officer etc.

As the existing number of DRTs is small, suffer from lack of infrastructure and manpower constraints, and some of the Tribunals have large geographical coverage, the Committee desire that more Tribunals should be opened and existing Tribunals strengthened in terms of manpower and infrastructure so that DRTs could function effectively and dispose of the cases pending before them expeditiously. Creation of more number of DRTs is immediate necessity and they should dispose of their cases within a maximum period of one year.

The Government should also simultaneously take decision on lowering the present limit of Rs. 10 lakh to Rs. 5 lakh in terms of Section 1(a) of the Recovery of Debts due to Banks and Financial Institution Act, 1993 so that more cases of recovery of bank dues are covered by DRTs.

### **Implementation of recommendations**

**1.27** The Committee would like to emphasise that they attach the greatest importance to the implementation of the recommendations accepted by the Government. They would, therefore, urge that the Government should keep a close watch so as to ensure expeditious implementation of the recommendations accepted by them. In case where it is not possible to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation.

## **CHAPTER II**

### **RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT**

#### **Recommendation Sl. No. 6 (Para No. 1.23)**

The Committee note that there is considerable misclassification by banks of their non-performing assets and consequent under provisioning of loan losses in disregard of RBI guidelines relating to income recognition, asset classification and provisioning. The Committee expect the RBI to ensure better adherence by the banks to the prudential norms to achieve the desired objectives of their introduction.

#### **Action Taken**

The adherence to the prudential norms by banks is looked into during the course of Annual Financial Inspection of the banks by Department of Banking Supervision of RBI. Non-compliance with norms on income recognition, asset classification and provisioning are pointed out and the banks are required to take corrective action thereon. DBS instructions also required banks to list all advances of Rs. 25 lakh and above classified as NPAs where there is disagreement between RBI Inspectors and the External Auditors which has to be sorted out by discussion with the Inspecting team. RBI had also issued a circular in December 1996 advising banks that with a view to adopting uniform approach in this regard and providing clarification wherever necessary, the Chief General Manager, Department of Banking Operations and Development, Mumbai would be acting as Nodal Officer to clarify doubts on interpretation of the prudential norms for income recognition, asset classification, provisioning and capital adequacy. The statutory auditors of the bank if they so desired could also have dialogue with RBI Inspectors who have carried out the bank's inspection for the previous year and also with the Nodal Officer on matters relating to IRAC norms so that there is uniformity in accounting standards adopted by banks. Consequent to these measures, the divergence in assessment of NPAs between the banks and RBI Inspectors has been narrowing down over the last 5 years.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-  
80A dated 17.8.2000)

**Recommendation Sl. No. 7 (Para No. 1.24)**

In case of large divergence in classification of assets by bank auditors and RBI Inspectors, the Committee desire that a serious note should be taken and these auditors should be debarred from auditing for their sheer blantancy of misclassification.

**Action Taken**

Reserve Bank has issued detailed guidelines to banks on income recognition, asset classification and provisioning etc. to ensure that loan accounts of the borrowers are properly classified and adequately provided for. The statutory auditors during audit of banks have to certify whether the classification of borrowal accounts (loan accounts) has been done in accordance with the guidelines issued by Reserve Bank from time to time. During the course of Annual Financial Inspection (AFI) of banks by Reserve Bank inspecting officers, the banks' compliance to the above guidelines/norms is examined in detail and incorrect classification of loan accounts is pointed out in the Inspection Report. Consequently, the need for additional provisioning is also pointed out to the banks' management.

Individual accounts having divergences in provisioning requirement between the Reserve Bank Inspecting Officers and banks are listed and furnished to banks indicating the reasons for RBI's assessment. The items in respect of investments and other assets having the divergence in classification/evaluation are also listed and given to the bank's management. Similarly, any understatement of other liabilities is also listed out and furnished to the banks. The banks have been advised to furnish the list of such divergences in classification of accounts and the need for additional provisioning to their Central Statutory Auditors. The auditors will take into account the shortfall in provisioning as identified by Reserve Bank while finalising the accounts for subsequent year. This aspect is also verified by Reserve Bank Inspecting Officers during the course of subsequent inspection. Auditors of Indian Bank, who audited the account of the bank of the year 1994-95, were debarred for not properly classifying the account during subsequent years. However, the suggestion made by the Estimate Committee will be kept in view while dealing with such cases.

### Recommendation Sl. No. 11 (Para No. 2.28)

It is distressing for the committee to find that Indian Bank's operations for the financial year 1995-96 resulted in a loss of Rs. 1336.40 crore. Together with the carry forward loss of Rs. 376.39 crore of earlier years, the bank's losses accumulated to Rs. 1713 crore as on 31.3.1996 wiping out the entire capital and net worth. RBI's Annual Financial Inspections (AFIs) into the last several years have been revealing the gradual deterioration of the Indian Bank's financial position. According to RBI this was largely due to the imprudent lending policies pursued by the bank management. Findings of RBI's successive inspections revealed that the bank's credit and fund management functions were areas of serious concern. The Committee are further informed that RBI had to scrutinise some accounts more than once as the bank continued to increase its exposure to some borrower groups despite the disquieting features observed by RBI and brought to bank's notice. In 1996, a scrutiny into the exercise of delegated lending powers by the then CMD and other top executives was carried out and the matter is under RBI's consideration. RBI has also conducted some scrutinies regarding administrative lapses/irregularities. CBI has registered some cases in this connection.

The net loss of the bank for the year ended 31 March 1997 is Rs. 389.09 crore as reported in the Annual Report 1996-97. The bank's losses have thus accumulated to Rs. 2101.87 crore.

The Committee are deeply perturbed at this state of affairs in the Indian Bank which has continued for the past few years. They are disappointed that the bank did not pay any heed to the repeated revelations of RBI relating to the imprudent policies being pursued by the management for corrective measures.

#### Action Taken

RBI have already issued instructions *vide* Circulars DBOD. No. BP. BC. 61 and 151/21.01.023/96 dated 26th May 1996 and 26th November 1996. The Estimate Committee's observations in the context of the working of Indian Bank especially with reference to exercise of delegated powers and conduct of advances by various functionaries are of general nature. It is felt that above referred 2 circulars are quite exhaustive and there is no need to issue any fresh circular in this regard particularly having regard to the present status of the banking Industry. Copies of the above referred circulars have been enclosed with the reply to paragraph No. 3.73.

### **Recommendation Sl. No. 12 (Para No. 2.29)**

It is really surprising to find that the procedure adopted by RBI of only "bringing to the notice" of the management of the Indian Bank their findings contained in AFIs revealing gradual deterioration of the bank's financial position year after year and holding discussions with the bank management subsequently for the follow-up of corrective measures have proved totally ineffective. The bank management under the then CMD defiantly continued to pursue imprudent lending policies and exposure to some borrower group despite RBI's disquieting revelations. In the light of the experience gained in the dubious role of the ex-Chief Executives, not only of the Indian Bank, but also the Bank of Maharashtra and Vijaya Bank for losses to their banks, the Committee considers it imperative that some safeguards are put in place for swift and timely action for stopping imprudent policies being pursued by the management and other administrative lapses/irregularities to prevent any further damage and loss to the banks. The Committee, therefore, desire that a detailed review of the regulatory and supervisory functions of RBI preferably by a Committee of Experts well versed in banking matters to enhance its effectiveness and the laxity and complicity of RBI officials, if any, for not initiating action for effective timely measures, may be made.

#### **Action Taken**

Narasimham Committee on Financial System (1991) observed that there will be a great advantage in having a single integrated system of supervision so as to avoid segmentation of the market for supervisory purposes and the associated problem of inadequate co-ordination between different supervisory authorities covering the financial system. Keeping this in view, and to overhaul supervisory system on prudential basis, an autonomous Board for Financial Supervision (BFS) was constituted under the aegis of the RBI on 16th November, 1994 by the Central Board of the Reserve Bank of India under RBI (BFS) Regulations, 1994 for exercising dedicated and integrated supervision over all credit institutions, i.e., Banks, Development Financial Institutions and Non-Banking Finance Companies.

This new arrangement is expected to strengthen in due course, surveillance of entire financial system and provide sharper focus to supervisory policy and skills. With the establishment of BFS, the regulatory and supervisory functions of RBI are segregated. The executive arms of the BFS are the Department of Banking Supervision and the Department of Non-Banking Supervision of the RBI as also a Financial Institution Division attached to the Department of Banking Supervision.

Under the guidance and directions of BFS, RBI has initiated many policy initiatives for strengthening supervision of banks.

The Board has approved a new strategy for supervision of banks, the key elements of which are as under:

- \* Setting up of an off-site surveillance function in RBI;
- \* Restructuring the system of bank inspections in terms of focus, process reporting and follow-up;
- \* Strengthening the statutory audit of banks and enlarging the role of auditors in the supervisory process including using them as agents; and
- \* Strengthening the internal defenses within the supervised institutions such as corporate governance, internal control and audit functions, management information and risk control systems, as an extension of the task of supervision.

With the approval of the BFS, RBI has put in place a new 'on-going' supervisory strategy comprising periodical on-site inspections, a prudential supervisory reporting system consisting of supervisory returns to be submitted by the banks as a supplement to the on-site inspections, strengthening the internal control systems in the institutions and increased usage of external auditors as a supervisory resource. The supervision over the commercial banking sector was subsequently extended to the All India Financial Institutions (April 1995) and the Non-Banking Financial Companies (July 1995).

The system of on-site inspection based on the internationally accepted 'CAMEL' model has been put in place with addition of 'S' for Systems & Control from the 1997-98 inspection cycle (for foreign banks functioning in India, the adopted model is CACS *i.e.*, Capital adequacy, Asset quality, Compliance, and Systems). A supervisory rating model based on CAMELS concept has been put in operation from the year 1998-99 (Inspection cycle) for Indian commercial banks. (The corresponding model for rating foreign banks operating in India is based on another model, *i.e.*, CACS). The periodicity of inspection has been put on an annual cycle in respect of all the banks. Special investigations/monitoring visits are also taken up based on Market Intelligence, etc. reports.

For strengthening of internal control systems in banks, RBI has initiated a number of measures:

- \* For strengthening corporate governance, banks have been asked to lay down with the approval of their Boards, detailed policy documents on various aspects such as Loan Policy, Investment Policy, Recovery Policy etc.
- \* A working Group was set up to review the Internal control/Audit and Inspection system in banks under the Chairmanship of Shri Rashid Jilani and the Group's recommendations have been considered by the BFS and Advisory Council for BFS. Indian banks have been advised to compulsorily implement 25 of the recommendations, while the implementation of 50 other recommendations has been left to the discretion of banks. RBI is

monitoring the implementation of important recommendations on an on-going basis. Foreign banks have been advised to consider implementation of the Group's recommendations keeping in their existing systems and procedures.

- \* Indian banks have been advised in April 1994 to set-up Audit Committee of the Board of Directors for over-seeing the total Inspection and Audit functions in their banks.
- \* Banks have also been asked to designate a Senior Official as 'Compliance Officer' to act as the nodal point for ensuring compliance with instructions/guidelines of RBI/Government and Banks' Boards.

An off-site monitoring system consisting of a set of 7 returns to be submitted by banks at various intervals has been operationalised as an additional tool for supervision of commercial banks to supplement the on-site inspections. This helps to throw up timely signals for initiating corrective actions. A second tranche of returns is also planned to be introduced shortly that will provide data on their Asset Liability Management, Risk profile and Open forex position.

Banks whose performance is not up to the mark are particularly monitored through a quarterly monitoring system. A system of designating a Senior Official of Regional Offices of RBI to individually monitor the performance of weak banks has been introduced. The Nominee Directors on the Boards of banks also act as supervisory resource and furnish reports on bi-monthly basis on important areas of functioning of banks.

The role of external auditors in banks has been enhanced and apart from statutory audits of annual accounts, they are required to verify and certify certain other aspects such as recognition of income and asset classification in accordance with RBI's instructions, compliance with CRR/SLR requirements on certain odd dates, etc., and the parameters disclosed in the 'Notes on Accounts' to the balance-sheets, i.e., Capital Adequacy Ratio-Tier I and Tier II, Return on Assets, Interest Income as a percentage of Working Funds, Operating Profit as a percentage to Working Funds etc.

Besides the above measures, special scrutinies/inspections as well as 'Commissioned audits' in banks are conducted/advised by the RBI whenever warranted. Further, guidelines have been issued by RBI to banks from time to time to prevent fraudulent transactions.

With a view to attaining international standards, the RBI has identified the gaps in our regulatory/supervisory framework with reference to the "Core Principles for Effective Banking Supervision" enunciated by the Basle Committee on Banking Supervision. Action has been initiated to cover these gaps, which are mainly in the areas of Risk Management,



## Inter-Agency Co-operation, Consolidated Supervision and Cross-border Supervision.

All these supervisory initiatives have resulted in improvement in the performance of the banks in terms of their capital adequacy ratios, reduction in the no-performing assets, housekeeping etc. The capital adequacy of public sector banks has improved with 26 out of 27 banks complying with the minimum stipulated level of 8% as at end March 1998. During 1997-98 the percentage of gross and net NPA to gross and net advances of the public sector banks declined from 17.8% to 16.0% and 9.2% to 8.2% respectively. There has also been substantial progress in reconciliation of inter-branch accounts following constant monitoring and vigorous follow-up.

[Deptt. of Economic Affairs—Banking Division O.M. No. F.19/24/94-80A dated 17.8.2000]

### Recommendation Sl. No. 13 (Para No. 2.30)

The Committee also desires that the cases against ex-CMD of Indian Bank and other top executives should be pursued vigorously for meting out severe punishment to the guilty. The Committee would like to be apprised of the action taken on their recommendations in this regard.

### Action Taken

The Indian Bank had referred 13 accounts to CBI and CBI had registered cases in respect of 14 accounts on *suo moto*. Government had also taken a decision that RBI would refer to the Advisory Board on Bank Frauds (ABBF) the accounts referred to in the Writ Petition No. 38 of 1997 in the Honourable Supreme Court and four written submissions of the Learned Amicus Curiae, where investigations by CBI were not already in progress, and would seek ABBF's advice as to whether the conduct of these accounts was such which would *prima facie* warrant criminal action. So far, RBI had referred 13 accounts to the ABBF for their advice.

Incidentally, it may be stated that the erstwhile ABBF has been re-designated as Central Advisory Board on Bank Frauds (CABBF) w.e.f. March 1, 1999 and forms part of the organisational infrastructure of the CBI with RBI providing required investigative and secretarial services. Further, in terms of Office Memorandum F.No. 98/Misc/1 dated March 15, 1999, cases relating to Indian Bank stand transferred to the CABBF. Special Investigation Cell in R.B.Is., which provides the secretarial services to CABBF, is taking up these cases vigorously as desired by the Estimates Committee in para 2.30 of their 3rd report.

[Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000]

### Recommendation (Sl.No. 14, Para No. 2.31)

On perusal of the information furnished by the Ministry of Finance relating to big loans sanctioned by the top functionaries of the level of CMD/MD/ED of the Public Sector Banks including the Indian Bank which turned into "bad debts" during their service period as also which turned "bad debts" after retirement of those functionaries, the Committee are distressed to find that the dubious role of the Chief Executives of the banks whether it is of Bank of Maharashtra or Vijaya Bank or Indian Bank in granting advances in utter disregard of laid down system and procedure has been the major contributing factor for turning these huge advances into bad loans. In the opinion of the Committee such things could be possible only with a motive of corruption and complicity in siphoning off of bank funds.

### Action Taken

Reserve Bank of India conducts financial inspection of banks under Section 35 of the Banking Regulation Act, 1949 covering the major areas of bank's functioning i.e. credit, management, capital adequacy, implementation of prudential norms relating to Income Recognition, Asset Classification and Provisioning, Internal Control, profitability, investment, corporate governance, etc. While examining the credit portfolio during the course of inspection of banks or during the special scrutiny, large advances sanctioned by the top functionaries of the level of CMD/MD/ED of the public sector banks are looked into and adverse features observed are pointed out in the Inspection Report, which is furnished to the bank for taking remedial action.

Further, the cases where misuse of position has been observed or where advances have been sanctioned by the top functionaries of the banks in utter disregard to the laid down procedures and norms and exceeding their delegated powers are referred to the Ministry of Finance for taking necessary action by CBI. Alternatively, it is suggested by the RBI to concerned bank to refer such cases to CBI for conducting investigation.

[Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000]

### Recommendation (Sl. No. 16, Para No. 2.33)

It has been observed that the loan amounts never reach the poor borrowers in full. The illiterate and gullible borrowers have to grease the palm of middlemen/block development officers and other Government intermediaries in forwarding/sponsoring loan applications. They have even to bribe the bank officials for sanctioning and disbursement of loan. That is why some of the borrowers willfully refuse to pay the full loan amount as they are only paid less than half of the loan amount.

The Chairman, IBA has also opined that loan recovery becomes difficult if the entire loan sanctioned does not reach the borrower. The Committee

desire that procedures and systems laid down for selection of beneficiaries and sponsoring of loan applications may be given a fresh look so that the involvement of various intermediaries is brought down considerably. Banks should also initiate effective measures to check malpractices on the part of bank officials in sanction and disbursement of loans to the borrowers. The Committee would like to be apprised of the concrete and effective measures taken in this matter also.

### Action Taken

Banks have been providing credit to borrowers under the priority sector as well as under various Government sponsored schemes. The existence of multiple schemes for the upliftment of families below the poverty line and also for providing self-employment projects for educated unemployed youth both in urban and rural areas of the country and the involvement of a number of Government agencies in the identification/selection of beneficiaries in the past might have resulted in the borrower not getting the full loan amount sanctioned under a scheme. Specific complaints of leakage and malpractice, where received, are looked into by banks/RBI/Government and corrective actions are initiated. The Hashim Committee examined the issue of rationalisation of self-employment programmes and recommended merger of various schemes. Accordingly, the following schemes have been formulated and are now in implementation in the country:—

- (i) Swarnjayanti Gram Swarojgar Yojana (SGSY)—For the rural poor. The SGSY has taken in its fold five schemes including the erstwhile IRDP, DWCRA, SITRA, TRYSEM, GKY and MWS. The DRDA is the implementing agency.
- (ii) Swarna Jayanti Shahari Rojgar Yojana (SJSRY)—For the urban poor. The local bodies are the implementing agencies for the scheme.
- (iii) Prime Minister's Rojgar Yojana (PMRY)—It is a scheme for providing self-employment opportunities to educated unemployed youth in both urban and rural areas. District Industries Centres are the implementing agencies.
- (iv) Scheme of Liberation and Rehabilitation of Scavengers (SLRS)—This is a specific scheme for liberation and rehabilitation of scavengers and their dependants from their existing and obnoxious occupation of manually removing night soil and filth and providing them with alternate and dignified occupation. As per the scheme, only those scavengers identified by the Government authorities would be assisted with bank loan etc.
- (v) Differential Rate of Interest (DRI) Scheme—Based on the eligibility criteria laid down by Government of India under the scheme, banks themselves are to identify eligible borrowers. There are no intermediaries/middlemen.

DRDA/DIC's coordinate with the bank branches in the identification of beneficiaries/allotment of projects/activities, sanction and disbursement of loan amount by banks etc. Monitoring of activities of borrowers and recovery of loan instalments are also to be done jointly by banks and agencies.

In order to check the malpractices, further steps mentioned below have been initiated by GOI/RBI.

- (i) District Coordinators of banks have been advised to look into the complaints received in this regard and initiate appropriate action against erring officials. Where the complaints relate to banking services, cases can be referred to the Banking Ombudsman also.
- (ii) Surprise visits by officials from Regional Offices of banks on the days of sanction/disbursal of loans under these schemes at the branch level are also undertaken.
- (iii) Formation of groups is encouraged, so that the borrowers get the benefit of bulk procurement/marketing. Group loaning may also reduce the chances of malpractice, as number of persons are involved in the process.
- (iv) Specific complaints received by RBI are taken up with the concerned banks for corrective action.

[Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/  
24/94-80A dated 17.8.2000]

#### **Recommendation Sl. No. 22 (Para 3.55)**

The Committee note that during the MoU discussions of CMDs of the nationalized banks, which are held annually, the performance of the banks in various areas including reduction of NPAs is reviewed by RBI and the banks with higher level of NPAs are advised to bring NPAs to a lower level. The commitments made by the banks to bring the level of NPAs to certain agreed levels are the targets towards which these banks strive to achieve. The Committee however find that the data pertaining to commitments made by the nationalized banks in respect of targets for reduction of NPAs *vis-a-vis* actual NPAs for the past two years indicate a year dismal picture. Only four out of nineteen nationalized banks during each year of 1994-95 and 1995-96 have been able to contain the actual NPAs within the budgeted targets. All other nationalised banks showed that the actual gross non performing assets are much higher than those of the targets set by them for the two years. The Committee also find that the actual gross NPAs in some of the banks are much higher by Rs. 100 to Rs. 600 crore than the targeted levels. The Committee feel that the matter needs to be closely monitored for achievement of agreed levels of NPAs target.

### Action Taken

The NPA reduction targets set by the banks under MoU had not been achieved by most of the nationalized banks, during the year 1994-95 and 1995-96. Banks explained the reasons for not being in a position to achieve the set targets. These include external factors such as sluggish industrial growth, legal pronouncements against aqua-culture and environmental degradation, impact of natural calamities, strict interpretation of Income Recognition, Asset Classification and Provisioning norms by RBI etc.

However, the nationalised banks were advised in the MoU meetings to focus attention on reduction of NPAs on priority basis.

[Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000]

### Recommendation Sl. No. 25 (Para No. 3.58)

The Committee note that at present RBI publishes yearly list of defaulting borrowers in whose cases suits have been filed and the amounts are Rs. one crore and above. List of these defaulters are circulated to caution the other banks in extending credit facilities to such defaulters. In other categories, in small loans, and in medium loans, even though those persons are defaulters of one bank they are taking loan from some other banks. The Committee feel that in case of wilful default recovery suits should be filed without any delay and names of wilful defaulter whether suits filed or not should also be published for guidance of the other banks who should be instructed to exercise utmost caution in extending credit facilities to such borrowers. The Committee also desire that their recommendation may be brought before the Board of Directors of each Public Sector Bank for making it a part of credit policy.

In case of weaker section loans, list of names of wilful defaulters should be compiled for guidance of sponsoring authorities and the banks for making them ineligible from further loan facilities.

### Action Taken

RBI has introduced a Scheme of Collection and Dissemination of Information on Wilful Defaults of Rs. 25 lakh and above. The banks and notified all India financial institutions viz. IDBI, IFCI and ICICI are required to submit to RBI the details of the cases of wilful defaults of Rs. 25 lakhs and above on quarterly basis on floppy diskettes in the proforma prescribed within one month from end of the quarter to which it relates. The scheme is pursuant to the instructions of the Central Vigilance Commission. The information so collected will be consolidated and disseminated to the banks and FIs by RBI. The scheme covers all non-performing borrowal accounts with outstandings of Rs. 25 lakh and above (funded facilities and such non-funded facilities which are converted into funded facilities) where cases of wilful defaults are detected. Wilful default broadly covers cases of (a) Deliberate non-payment of the dues despite

adequate cash flow and good network, (b) Siphoning off of funds to the detriment of the defaulting unit, (c) Assets financed have either not been purchased or have been sold and proceeds have been misutilised, (d) Misrepresentation/falsification of records, (e) Disposal/removal of securities without bank's knowledge, (f) Fraudulent transactions by the borrower.

Banks/FIs to identify the cases of wilful default keeping in view the track record of the borrowers and not on the basis of isolated transactions/incidents. They are required to form a Committee consisting of three GMs/DGMs or equivalent to GMs/DGMs for identifying the cases of wilful default. The default to be categorised as wilful has to be intentional, deliberate and calculated. They are also required to report cases of wilful defaults at overseas branches if such disclosure is permitted under the laws of the host country. In case of consortium/multiple lending, they have to report wilful defaults to other participating/financing banks also. For grant of fresh limit/renewal/enhancement to wilful defaulters, only the Board of Directors is empowered to consider each case on merits. This scheme is in addition to the Scheme of Disclosure of Information on Defaulting Borrowers of banks and FIs introduced in April 1994.

Decisions for filing of suits against wilful defaulters have to be taken by the concerned banks.

Publication of the list of wilful defaulters in cases where suits have been filed against them by banks/FIs is under consideration of RBI.

However, it will not be possible to publish the list of wilful defaulters in cases where suits have not been filed by banks/FIs, as such disclosure is prohibited under the stringent secrecy provisions.

(Deptt. of Economic Affairs-Banking Division O.M. No. F. 192494-80A dated 17.8.2000)

#### **Recommendation Sl. No. 26 (Para No. 3.59)**

The Committee note from the views expressed by the Ministry on extending loans and advances to units of an industrial group in the event of the defaulting borrower being a member of such group stating *inter alia* that in order to discipline such defaulting industrial house and at the same time not to disturb the ongoing industrial activities, RBI in consultation with Government of India has evolved the concept of Group Approach which envisages restrictive-cum-selective flow of additional credit for expansion/diversification/modernisation/new projects to groups or borrowers committing wilful defaults and/or not cooperating with the bank in settling their dues. According to the Ministry, under this concept the legitimate need-based working capital requirements of existing units of recalcitrant groups are not to be disturbed on account of wilful defaults of one or more companies of the group. According to IBA, risk management practice procedures that are being put in place by banks would greatly discourage any credit flows to accounts which have shown disappointing

performance either on its own or through any of its associates. The argument advanced by the Government that the default by one member of the group does not necessarily imply denying further credit facilities to other members of the group appears sound but is not pertinent. The Committee, however, feel that at the same time the bank should adopt a more cautious approach in its dealing with such group and discourage credit flow to other units of the group for unjustly putting banks to suffer loss for their wilful default.

#### **Action Taken**

The concept of "Group Approach" envisages restrictive/selective flow of additional credit for expansion/diversification/modernisation/new projects only for the groups or borrowers committing wilful defaults and not cooperating with the bank in settling their dues. However, there is no restriction on providing need based working capital finance to existing units of recalcitrant groups. Banks may take decision as per their lending policies and perception about the borrower. Hence RBI agree with the Estimate Committee's views that the banks should adopt a more cautious approach in its dealing with such group and discourage credit flow to other units of the group.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 192494-80A dated 17.8.2000)

#### **Recommendation Sl. No. 27 (Para No. 3.60)**

It may also happen that such a group may have availed of loan facilities from more than one bank. The other banks from whom the group (borrower) has availed of loan facilities may not be aware of the deterioration of the credentials of the borrower by virtue of the default. Such a borrower will be source of potential risk for the other banks. As such to overcome such situation. The Committee desire that an appropriate mechanism may be evolved whereby there should be adequate disclosure of information among banks regarding defaulting borrowers. This would enable the banks to take adequate precautions while extending credit facilities to such borrowers or otherwise dealing with them.

#### **Action Taken**

Reserve Bank of India regularly brings out the Defaulters List for the benefit of banks.

(Deptt of Economic Affairs-Banking Division O.M No. F. 192494/80A dated 17.8.2000)

#### **Recommendation Sl. No. 28 (Para No. 3.61)**

The Committee note that during the course of inspection by RBI, the performance of the top management *i.e.* CMD and other functionaries of the bank is looked into and adverse features, if any, commented upon in the Inspection Reports. Copies of these reports are sent to the

Government. In case of small issues, RBI advises the Government that he should be issued a letter of displeasure. The Committee, however, feel that adverse comments made by RBI in their Annual Financial Inspection Reports against the CMD and other functionaries of public sector banks cannot be considered as small issues for which letter of displeasure is issued. The Committee desires the Government to take serious action on these adverse observations so as to achieve the laid down objectives of such inspections and also to set an example for other functionaries in the banks in order to deter them from indulging in any type of irregularities.

The Committee also like to be appraised of follow-up action taken by Government/RBI on the adverse comments contained in the Annual Financial Inspection Reports against the CMD and other top officials of the public sector banks during the last three years.

#### **Action Taken**

The relevant information of the last 3 years is furnished in Annexure.  
(Deptt. of Economic Affairs—Banking Division O.M No. F192494-80A  
dated 17.8.2000)



**ANNEXURE**

*Statement showing the adverse features reported against  
CMD and other top functionaries of public sector banks*

Sl. No.	Name of the bank and ref. date of AFI	Adverse features reported against CMD and other top functionaries	Follow-up action taken
1	2	3	4
1.	Indian Bank 31.3.1996	A number of credit proposals which came under the Board powers were allowed by ex-CMD without proper appraisal and in total disregard to persistent irregularities which were got confirmed by the Board/MC subsequently. The ex-CMD sanctioned a number of credit facilities during the last nine months before his retirement in contravention of RBI instructions.	The actions of the ex-CMD are being investigated by different agencies like CBI, etc.
-do-		Perusal of some of the notes placed to the CMD for purchase/ subscription of securities revealed that post facto confirmation of the Board was obtained in almost all the	The notes that are now being put up contain all details and put up with critical analysis. No instance of such frequent exercise of powers beyond delegated authority was noticed subsequently.

1

2

3

4

cases which were above the delegated powers of the CMD. In certain cases, notes were put up to GM/ED/CMD after CMD's oral instructions / decisions to invest specified sum in a particular security.

Indian Bank Exercise of All functionaries have  
31.3.1996 contd. discretionary powers by various ensure that powers  
functionaries delegated are not  
including CMD in exceeded. Such tendency  
excess of the has been stopped and no  
delegated powers such incidence was  
which was noticed subsequently.  
commented upon in  
the previous AFI  
continued unabated  
without any  
justification.

-do-

Oral sanction either The preventive measures  
direct or over the have been taken by the  
phone continued bank and such lendings  
unabated. The have been totally  
stopped.

system of recording  
such oral sanctions  
with adequate  
justification and  
confirming the same  
was generally not  
followed. The  
prescribed procedure  
of submission of  
credit proposal, its  
processing at head  
office and sanction

1	2	3	4
		<p>by competent authority was given a go-by in several cases, there were instances on grounds of urgency, pressure by borrowers for release of TODs/ Ad-hoc credit facilities.</p>	
<p>2. Canara 31.3.1996</p>	<p>Bank</p>	<p>There were instances where CMD had permitted additional credit facilities despite Board's direction to the contrary but the same had been ratified by MC in the routine manner. There were several instances of GMs/ DGMs at Circle Offices permitting deviations from sanction terms or authorising ad-hoc limits in accounts under MC power and some accounts had turned NPAs.</p>	<p>The bank has issued instructions to the branches to exercise sanctioning powers within delegated powers and maintain proper records of exercise of such powers:</p>
<p>-do-</p>		<p>Transgression of delegated powers in borrowal accounts under the powers of MCs continued to be prevalent. Ratification sought inordinate delay. Ratification constituted</p>	<p>The bank has clarified that transgressions were done because the CMD had demitted office and new CMD could not exercise his powers. Exercise of delegated powers is now being monitored.</p> <p>30.12%</p>

1	2	3	4
		of credit proposals dealt with by the MC.	
3. Syndicate 31.3.1996	Bank	In the case of Sanyal Paper Ltd. (Meerut Main) credit facilities exceeding Rs. 5 lakh collateral security of shares sanctioned by GM in August 95, though the same should have been sanctioned by Board/ MC.	The bank has clarified that the limits were sanctioned for working capital purpose against primary security of assets. Promoters' shares were stipulated as collateral security. MC's ratification was obtained subsequently.
Syndicate 31.3.1997	Bank	Sanctions by CMD were reported belatedly (in some cases after four months) which prompted MC to direct in July 1997 to report such sanctions in the succeeding month itself.	Reporting was not done in the succeeding month in certain cases because no MC meeting was held in that month or deferred due to paucity of time. Such delays would be avoided in future. RBI has accepted the compliance.
4. Bank of 31.3.1997	India	On number of occasions executives at Head Office allowed release of funds in anticipation of sanctions by Board/ Management Committee on pretext of 'urgency' pending regular sanction of credit proposals. All these proposals were routinely ratified on	The bank stated that at times, in view of exigencies, the executives at Head Office allowed release of funds in anticipation of sanction by the Board/ Management Committee. The reasons for urgency are generally explained in the proposal/Memo. The cases of urgency are agro seasonal industry, good orders in hand need

1	2	3	4
		<p>subsequent date. to execute the same in The nature of time, documents to be urgency was not retired for imports properly explained immediately on arrival of in the proposals put goods, etc. RBI has up to the Board/ accepted the bank's Management clarification. Committee.</p>	

Bank of India A case of This is being examined  
31.3.1998 transgression of the by RBI.

delegated authority  
by the CMD during  
the year 1996 was  
detected/highlighted  
in one of the special  
letter dated 27 May  
1997 submitted by  
the Internal  
Inspection & Audit  
Department. It was  
observed therefrom,  
that the transgression  
had resulted in a net  
revenue leakage of  
over Rs. 1.37 crore  
as the CMD had  
granted waiver of  
charges and  
commission in a few  
borrowal accounts  
not conforming to  
the standards/limits  
prescribed under the  
scheme of delegation  
of powers. Although  
it was highlighted as  
a transgression of  
delegated powers,  
this position was not  
reported to the  
competent authority  
viz. the Board of  
Directors for  
appropriate action.

1	2	3	4
5.	State Bank of Mysore 31.3.1996	There were as many as 62 cases of release of credit facilities including ad-hoc/temporary limits by CGM/MD in anticipation of Executive Committee's (EC) sanction during the year.	The bank has clarified that the release of credit facilities by CGM/MD in anticipation of EC's sanction had been resorted to in emergent cases to valued customers. The sanctions and release of facilities in exercise of EC's power by MD in anticipation of confirmation is in order as the Subsidiary Banks Act provides for exercise of powers of EC by MD.
6.	State Bank of Hyderabad 31.3.1996	MD accorded sanctions in excess of his powers in anticipation of EC's approval in 26 cases involving an aggregate exposure of Rs. 55.25 crore and Rs. 157.54 crore in funded limits and non-funded limits, respectively.	The bank clarified that whenever any such (in anticipation) approval is given by MD a few days before the EC meeting, the memorandum for confirmation/ratification is put up promptly.
-do-	The present incumbent MD accorded sanctions on 8 occasions till 31.3.96 for ad-hoc FLCs, one time FLCs and Foreign Bills Discounting, etc. in anticipation of EC's approval involving an aggregate exposure of Rs. 6612 lakh (Vishnupriya Industries Ltd., ITC	The confirmation of EC in all these cases justifies the stand taken by MD in very urgent situation, arising from commercial considerations, which are delineated in the proposals/memorandum to EC. Exercise of such powers has come down drastically in 1996-97. RBI has not found the bank's clarification as satisfactory and has advised the bank that	

1	2	3	4
---	---	---	---

Agro Tech Ltd., urgent cases can be Videocon VCR, brought before EC Essar Power, urgently without rigidly Videocon adhering to procedures and other practices. The Applicances, and other practices. The Pennar Peterson bank has been advised to Securities Ltd., seek instructions from etc.). In all these EC in the matter. cases urgency was the reason adduced and EC had in a routine manner ratified all these sanctions. In a number of cases, MD approved proposals in anticipation of EC's approval just a few days before or immediately after EC meeting.

State Bank of The bank had The bank has explained Hyderabad received a that when such 31.3.1996 Contd. complaint in May complaints are 1996 through SBI/ investigated, unless some GOI alleging corroboration on nepotism against evidence is found in the the then CGM and investigation there is no certain other top system in the bank to executives of the place such complaint bank in giving loans before the EC/Board. to certain parties The borrowal accounts in (mostly falling respect of which the within the audit team has made an discretion of EC's observation that the then approval). After CGM had exceeded his looking into the discretionary powers and matter the bank has sanctioned the limits not found substance falling within the powers in it and advised of EC is not true. The the Government complaint was given by

1	2	3	4
		<p>accordingly. The disgruntled elements with issue had not been the intention to malign brought to the the top management notice of EC/ officials. The complaints Board. were investigated by the bank and found to be baseless and untrue. In view of the frivolous nature of complaint, the CVC took a view to close these complaints.</p>	
<p>State Bank of Hyderabad 31.3.1996 Contd.</p>		<p>Similarly, the bank had received a source information from the CVC in January 1996 alleging that the then CGM had sanctioned several loans and subsequently got them ratified by his higher authorities for which he received consideration from the parties. Though the bank could not find any substance in allegation and advised the CVC accordingly (on the basis of which the CVC closed the case subsequently), the issues were not brought to the notice of EC/ Board. In this case also, there were many borrowal</p>	<p>The bank's contention that in none of the cases discretionary power was acceded was not correct. Shri M.M. Vaish, CGM exercised the powers of MD from 1.8.1995 to 28.11.1995. Though SBI had advised the bank on 31.7.1995 that CGM would continue to exercise the powers of CGM and matters in excess of his powers would be put up to EC until further arrangements were made. However, on 18.8.95 SBI delegated powers of MD on CGM. Thus, the sanctions made by CGM to Duke Arnices Electronics Pvt. Ltd. on 12.8.95, Rashtra Ispat Nigam Ltd. on 12.8.95 were done exceeding his powers and these were approved by EC without proper authorisation to CGM</p>



1	2	3	4
		<p>units, which fell for such sanctions. In within the view of the urgency sanctioning power expressed by these of EC, but the MD companies and also not had exercised the to lose the good business powers of EC in of top most companies, anticipation of its SBI had approved approval.</p>	<p>delegation of powers for period 1.8.95 to 17.8.95 on 8.11.1996. RBI has treated the compliance as satisfactory.</p>

<p>State Bank of The Hyderabad 31.3.1997 Contd.</p>	<p>of The top The bank explained that functionaries as per the extant generally exercised instructions, interest delegated powers rates were fixed based on judiciously. However, the credit rating arrived they were at as per guidelines transgressing their contained in their H.O. authority in circular ADV/92-93/12 reducing interest dated 19 May 1992. rates on credit facilities from normal rates However, in exceptional cases like PSUs/A++/ otherwise applicable A+ borrowers, the bank to the borrowers had been reducing the concerned as per rate of interest to be the original credit competitive with the rating. As the market and to retain/ Prime Lending Rate attract good business. As (PLR) of the bank per the present direction was pegged to SBI's the discretion to reduce PLR such automatic the rate of interest is reduction in interest vested with an authority rates at times who is one step higher affected the bank's than the sanctioning PLR. Specific/ authority. However, in general resolution respect of advances of the Board or sanctioned by MD the</p>
---	--

1

2

3

4

Executive Committee MD the discretion to delegating such reduce the rate of powers to top interest is vested with management was MD only. However, care not available in is taken that under no support of exercise circumstances it is less of such powers. than PLR fixed by the bank. The observations of RBI Inspectors have been noted and the need for obtaining specific delegation from the Board for reducing interest rate is being examined. RBI has accepted the banks's compliance as satisfactory.

State Bank of  
Hyderabad  
31.3.1997 Contd.

A complaint against Shri M.M. Vaish, the Vigilance Department at H.O. has CGM and DGM conducted investigation (Credit) containing into the complaint. After allegation about a thorough examination loans for Rs. 7 crore granted to one the investigation vis-a-vis Shri Shivshankar allegations made, it was Agarwal, his found that the allegations relatives and friends were not true. The without ensuring complaint was, therefore, proper security at closed with the approval Osmangunj branch of the MD. As per the was looked in by extant instructions, there Vigilance Department is no practice prevailing ment and closed by in the bank to report the concluding that closure of cases of there was no truth complaints individually to in the allegations. the Board. However, the

1	2	3	4
---	---	---	---

The complaint was position with regard to closed with the the complaints received/ approval of MD investigated / disposed / and not reported to closed are reported to Board as a matter the ACB/Board at of serious concern. quarterly intervals for review and noting. RBI has found the compliance as satisfactory.

7. State Bank of Travancore  
31.3.1996
- The MD on 19 July, The bank explained that 1995 sanctioned an the ad-hoc limit was ad-hoc LC limit of sanctioned on 19 July, Rs. 125 lakh to 1995 and it was proposed Pertech Computers to report the sanction to Ltd., (N.D., EC along with the Karolbagh) which regular renewal proposal was enjoying at the next EC meeting. substantial credit However, the proposal limits sanctioned by could not be submitted in the EC. Though the next meeting for there were 3 more want of certain EC meetings after particulars from the that date the matter branch/company and as was reported to the such the sanction was EC for confirmation reported separately on only on 30 30 September, 1995. RBI September, 1995. has accepted bank's The delay in compliance. reporting the action for confirmation went unquestioned.

-do-

In the case of Essar The bank explained that Steels Ltd., the the current account with bank, which was Mumbai main branch not a member of was opened before the the consortium, first LC was established.

---

1	2	3	4
---	---	---	---

---

sanctioned substantial non-fund based limits outside the consortium in violation of RBI guidelines. The borrower was not even maintaining a current account with the bank at that point of time. Though RBI instructions in this regard are that LCs can be opened on behalf of customers, the bank had surprisingly managed to obtain an opinion from its Legal Department that the party had become a customer of the bank by virtue of it having established LCs on the behalf of the company's account of the company, which was closed in August 1994, was reactivated without proper mandate of the borrower when the bills under the FLC devolving on the bank in August 1995. As the consortium financing the working capital sub- Though the account was closed subsequently, the company continued to maintain a fixed deposit with the bank till 11 October, 1996. When LCs started devolving, the same had to be debited to current account, which thus got reactivated. The bank had recovered in March, 1998 Rs. 18.05 crore from the company and its liability stood reduced to Rs. 2.48 crore (mainly penal interest) as on October, 1998 for which the company has made a request for waiver. The bank further stated that the limits were extended with the knowledge of the consortium as they were invited to attend the meetings of the consortium. The intention of the bank at the time of sanction of the limits was to join the working capital consortium. However, as a result of subsequent developments and limitations placed by the exposure ceiling of the bank, it was not inclined to join the consortium later.

As the consortium financing the working capital

---

1	2	3	4
		<p>requirements was unlikely to allow any diversion of funds, the bank was saddled with bad debts to the tune of Rs. 10.63 crore as on 31 March, 1996.</p>	
<p>State Bank Travancore 31.3.1997 Contd.</p>	<p>of</p>	<p>It was observed that many of the investment decisions were taken at MD's level and subsequently ratified by Subsidiary Banks EC. Similarly, some of the credit proposals were sanctioned/some relaxation in terms of sanctions/ad-hoc sanctions were permitted by MD/Credit Department in anticipation of ECs approval. Since the EC was meeting regularly such practice of according sanctions routinely in anticipation of EC's approval was not found justified.</p>	<p>The bank clarified that the powers of the EC had been exercised only where it was considered absolutely necessary in accordance with the Banks (General) Regulation. The bank was advised that it should exercise such powers in case of urgency and it should be ratified in the next EC meeting.</p>
<p>8.</p>	<p>Andhra 31.3.1996</p>	<p>Bank In a high value fraud (Rs. 20.47 lakh) at Boromunda in full and the Branch connivance disciplinary proceedings of senior officials of against the allegedly the banks' credit involved officers are in department with the process. The case has borrower had been been referred to C.V.C. suspected. The credit proposals in this case</p>	<p>The amount involved in this case was recovered and the</p>

1	2	3	4
		<p>were processed and sanctioned hurriedly allegedly extending undue favour to the borrower and the limits were sanctioned by GM (Credit) beyond his discretionary powers without reporting to higher authorities.</p>	

The Inspection Reports in respect of State Bank of Indore, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank and Allahabad Bank for the year ended March 1998 are under finalisation. The Inspection Reports in respect of UCO Bank and Canara Bank for the year ended 31 March 1998 is under process in RBI.

**Recommendation Sl. No. 29 (Para No. 3.62)**

On perusal of the statement furnished by the Ministry of Finance, on adverse comments against the management of banks contained in the Annual Financial Inspection (AFI) Reports of RBI for the years 1991-92, 1992-93 and 1993-94, *the Committee find that top functionaries/Executive Committee of the Central Board/Board of Directors/CMDs of certain banks sanctioned credit facilities to parties without obtaining essential information/taking into account the necessity, status of earlier advances, repayment capacity and other relevant factors for sanction of loans.* Further, certain sanctions/confirmations were far in excess of their lending powers in violation of the Board's instructions/lending discipline/RBI guidelines, etc. In certain cases credit facilities were sanctioned/confirmed/enhanced by the CMDs orally/telephonically in excess of their discretionary powers without assessing the need based requirement or taking into account the borrower's financial position/past performance. In one case, a loan was sanctioned by CMD of a bank to a company for development of real estate without ascertaining whether the borrower company would be in a position to execute the project work. The company had a low capital base and did not submit the proposed plan duly approved by the Competent Authority.

All the above cases of gross abuse of official position by the top functionaries of banks might have resulted in losses of crores of rupees to the banks.

**Action Taken**

In respect of the cases where gross abuse of official position by the top functionaries of public sector banks is observed, a serious view is taken and necessary action, as per the laid-down procedure, such as conducting of special scrutiny and referring the case of GOI, Ministry of Finance for conducting investigation by CBI, etc. is taken. Details of cases relating to CMDs of the public sector banks where RBI/concerned bank has given/is in the process of giving clearance for further investigation is given in Annexure.

(Deptt. of Economic Affairs-Banking Division O.M. No. F19/24/94-80A Dated 17.8.2000)

**ANNEXURE**

Details of Cases relating to Chairmen and Managing Directors (CMDs) where the Reserve Bank of India/concerned bank has given/in the process of giving clearance for further investigation by CBI  
(Details of FIRs if any filed by CBI are not known)

S. No	Name of bank & CMD/Ex-CMD	Subject	Case details
1	2	3	4
1.	Syndicate Bank Shri P.S.V. Mallya, Ex-CMD	Government had forwarded their DO letter No. 2/13/Vig/SC dated November 9, 1992 a self contained note received from CBI seeking the concurrence of the Government for taking up an open investigation into the allegations levelled against Shri P.S.V. Mallya, ex-CMD Syndicate Bank.	Government was advised vide our letter DBOD. SIC. No. 120/C. 747(110)-92 dated December 10, 1992 that RBI has no objection to the Government giving concurrence to CBI for taking up open investigation into the allegations against Shri Mallya.
2.	Allahabad Bank Shri R.L. Wadhwa, Ex-CMD	Liberal extension of credit facilities to all the companies of Sajjankumar Agarwal Group of Accounts and thereby avoidable increase in Group exposure of the bank.	The bank was advised by the RBI to submit information regarding action initiated by the bank in regard to staff accountabilities for the irregularities in Sajjan kumar Agarwal Group of Accounts based on the investigation of all the credit decisions by the CVO of the bank. The CVO's report was placed before the bank's Board on 23.11.1998. On perusal of the report, the Board decided to refer the matter to CBI for a thorough investigation of



---

1	2	3	4
---	---	---	---

---

the sanction of credit facilities to S.K. Agarwal Group of Accounts from the point of ascertaining involvement of top level executives of the bank. The bank has accordingly referred the matter to CBI in March 1999.

3. Indian Bank—  
Shri M.  
Gopalakrishnan,  
former Chairman  
and Managing  
Director
- Writ Petition No. 38 of 197 with the Supreme Court of India—Irregularities in the account of M/s. King Chemicals Ltd.
- This case was referred to the Advisory Board on Bank Frauds seeking its advice whether this is a fit case for referring to CBI for a thorough probe from the point of view of ascertaining the involvement of various functionaries of the bank and in particular the then CMD (Shri M. Gopalakrishnan). On the basis of the advice of Advisory Board, RBI had examined the Report and accepted the findings of the Board that this is a fit case for referring to the CBI.

Government was accordingly advised in our letter DO. DBS. SIC. No. 2318.03.24898-99 dated July 14, 1998 addressed to Shri M. Damodaran, Joint Secretary.

---

1	2	3	4
4.	<b>Indian Bank— Shri M. Gopalakrishnan, former Chairman and Managing Director</b>	<b>Writ Petition No. 38 of 197 with the Supreme Court of India—Irregularities in the MAC Group of accounts.</b>	<b>This case was referred to the Advisory Board on Bank Frauds seeking its advice whether this is a fit case for referring to CBI for a thorough probe from the point of view of ascertaining the involvement of various functionaries of the bank and in particular the then Chairman and Managing Director (Shri M. Gopalakrishnan). On the basis of the advice of Advisory Board, RBI had examined the Report and accepted the findings of the Board that this is a fit case for referring to the CBI.</b>
5.	-do-	<b>Irregularities in the Borrowal Account of M/s. KOR Chemicals Pvt. Ltd. relating to sanction of fund-based facilities.</b>	<b>Government was accordingly advised in our letter DO. DBS. SIC. No. 8/18.03.249/98- 99 dated July 8, 1998 addressed to Shri M. Damodaran, Joint Secretary.</b>  <b>Government was advised vide our letter DO. DBS. SIC. No. 92/ 18.03.255/98-99 dated August 17, 1998 that this was a fit case for referring to CBI for investigation, with a view to ascertaining the involvement of various functionaries and in particular the role of Shri M. Gopalakrishnan, the then Executive Director and subsequently</b>

1	2	3	4
			Chairman and Managing Director.
6.	Indian Bank— Shri M. Gopalakrishnan, Chairman Managing Director and others	Irregularities in the Borrowal Account of M/s. and Raamakrishna Steels Industries Ltd.	CBI/Government was advised <i>vide</i> our letter DBS. SIC. No. 416/ 18.03.26298-99 dated January 16, 1999 that this was a fit case to be referred to the CBI for investigation of the role of the then Executive Director and subsequently Chairman and Managing Director (Shri M. Gopala- krishnan) and other officers of the Indian Bank.
7.	-do-	Irregularities in the Borrowal Account of M/s. Diviya Chemicals Pvt. Ltd.—Sanction of credit facilities to the company by way of excesses, ad- hoc and regular enhancement by authorities at the branch and Zonal Office level and subsequently getting them ratified or confirmed by the Chairman and Managing Director or by the Manage- ment Committee.	CBI/Government was advised <i>vide</i> our letter of M/s. Diviya DBS. SIC. No. 514/ 18.03.26598-99 dated March 1, 1999 that this is a fit case to be referred to the CBI for investigation of the role of the then Chairman and Managing Director (Shri M. Gopala- krishnan) and other officers of the Indian Bank.

1

2

3

4

8. Indian Bank— On the basis of a The Central advisory Board advised CBI on August 11, 1999 that the abuse of official Board is of the opinion position by Shri M. that this is a fit case for Gopalakrishnan, ex- investigation by the Chairman & Central Bureau of Managing Director, Investigation of the role CBI *vide* their of the then Chairman & letter No. DPBSB Managing Director (Shri 1999E/01574/C/27/ M. Gopalakrishnan) and 95/BSFC/BLR other officers of the dated June 4, 1999 Indian Bank. In this from G.M.P. connection, CBI had Reddy, DIG of subsequently advised in Police, CBI, BSFC, its reference dated Bangalore October 8, 1999 that forwarded three despite such irregularities self-contained notes as pointed predominantly in the matter of by CABBF, it would not granting of credit be desirable to register facilities/accepting an R.C. under the of compromise provisions of the proposals to/of Criminal Procedure Code certain companies/ to investigate the case as firms/individuals in the instigation would L. Adaikalarj ultimately be hit by a Group of accounts Supreme Court decision *viz.* M/s Jenneyz reported in 1996 (5) SCC Residency Pvt. page 591, which ruled Ltd., M/s City that where allegations Drinks Pvt. Ltd. constitute both civil and and M/s Jenneyz criminal wrong and civil Agro Foods Pvt. suits for recoveries of Ltd. CBI sought the dues have been Boards advice compromised on whether further receiving payments from action is required in the companies concerned the matter by them. and even if offence of cheating is *prima-facie* constituted, compromise

1	2	3	4
			<p>constituted, compromise decree passed in such suits would amount to compounding of offence of cheating. In these cases, the compromise has come into effect even before the civil suits were filed.</p> <p>CBI also advised that the registration of a P.E. would also not serve the desired purpose as the then CMD Shri M. Gopalakrishnan has retired from service and as such no action can be taken against him.</p>
9.	<p>Indian Bank— Shri M. Gopala- krishnan, ex-CMD</p>	<p>Irregularities in the sanction of credit facilities to M/s Saket India Ltd.</p>	<p>The Central advisory Board advised CBI on September 22, 1999 that it is of the view that this is a fit case for investigation by the Central Bureau of Investigation of the role of the then Chairman &amp; Managing Director (Shri M. Gopalakrishnan) and other officers of the Indian Bank. Government was also advised of the same vide our letter DBS. SIC No. 153 / 18.03.269 / 99-2000 dated July 16, 1999.</p>

**Recommendation Sl. No. 30 (Para No. 3.63)**

The Committee are unhappy to note that despite the fact that AFI reports of RBI pointed out their adverse comments against the top management of the banks, no serious action was taken except an advice made by Deputy Governor/Executive Director of RBI to the banks to ensure that such lapses/deficiencies should not recur. Of late, specific timeframe has also been prescribed to individual banks for rectification of deficiencies brought out in AFI reports.

### Action Taken

The Department of Banking Supervision, Reserve Bank of India conducts Annual Financial Inspection of all public sector banks under Section 35 of the Banking Regulation Act, 1949 through its Regional Offices and the Inspection Reports are finalised and issued to the concerned banks directly by the Regional Offices.

Irregularities in regard to compliance with prudential norms prescribed by RBI or violation of RBI instructions and lapses in following the prescribed procedures of banks as noticed during the course of inspection of banks are brought out in the Inspection Report.

After the inspection report is issued to the bank by the Regional Office, the findings of the report are discussed with the CMD of the bank along with senior executives by Top Management of RBI and a Monitorable Action Plan (MAP) is finalised for rectification of the deficiencies pointed out in the report, within a stipulated time frame. This is followed up till final rectification of irregularities is reported by the bank. The compliance to the inspection reports furnished by the banks is verified during the next round of inspections of banks. Thus, the Reserve Bank of India ensure that the irregularities noticed are rectified by the banks.

In regard to fixing staff accountability for advances turning into NPA, it is ascertained during discussion with Top Executives of the banks whether the banks have formulated and implemented policy to examine staff accountability in such cases.

In cases where malafide is suspected, special scrutinies are carried out by RBI. The use of discretionary powers in sanction of loans by Top Executives is also looked into during the course of Inspection and in cases where serious lapses are noticed, they are taken up with the bank and the matter is reported to GOI, wherever felt necessary, for referring the cases to the CBI.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 192494-80A dated 17.8.2000)

### Recommendation, Sl. No. 31 (Para No. 3.64)

The Committee, however, feel that such adverse comments against top management of the banks made in RBI AFI without any follow-up purposeful action would send wrong signals to the other functionaries of the banks for abusing their official position in total disregard to laid down norms for sanction of credit facilities to the detriment of the banks. Further, any credit management without accountability will lack substance. The Committee, therefore, recommend that there should be a system in which all such cases of adverse comments against the top management of the banks contained in the AFI reports regarding sanction of loans/recovery of debts where heavy losses occur to the banks should be investigated with a view to fixing responsibility against the erring top

functionaries and also to find out any nexus between the top functionaries and the companies in the matter of sanction of credit facilities/recovery of loans for causing wrongful loss to the banks for launching prosecutions.

#### **Action Taken**

The adverse remarks against the CMD and Top functionaries of the banks made in the Inspection Reports are examined and referred to the Central Advisory Board on Bank frauds (CABBF) for further action.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation, Sl. No. 32 (Para No. 3.65)**

Now the Ministry of Finance (Department of Economic Affairs - Banking Division) also reviews the important features of the Annual Financial Inspection Reports of RBI. The Committee expects the Ministry of Finance not to allow the Chief Executives to regard the banks as their personal fiefdom so long as they are at the helm of affairs and indulge in any violation of norms laid down for sanction of credit facilities/recovery of debts. The Committee feels that if the top functionary violates the rules, he should be punished with the same severity as the other officers of the bank. The Committee, therefore, desire the Ministry of Finance to initiate action against the Chief of banks for violation of lending norms/discipline/RBI guidelines, etc. and for causing pecuniary loss to the banks as is done in the case of other officials in the lower rung of the hierarchy.

#### **Action Taken**

The replies given in respect of the previous paragraphs *i.e.* Paragraphs 2.31, 3.62 and 3.63 may please be referred to.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94/80A dated 17.8.2000)

#### **Recommendation, Sl. No. 33 (Para No. 3.66)**

The Committee note that delegation of lending powers of different levels of hierarchy, differs from banks to bank depending; *inter-alia*, upon organisational structure, scale of operation, resource base, level of expertise of the delegates, etc. The lending powers at different levels right from the Branch level officials to functionaries at top level are fixed by individual banks taking into account the above factors. Under the extant guidelines loans/advances sanctioned transgressing delegated powers are required to be ratified thereafter by the competent authority. According to the Ministry of Finance, number of accounts turning into NPAs on account of transgression of delegated powers is reported to be negligible. What is worrisome to the Committee is the very fact that apart from requests for ratification of transgression, cases of transgression of powers by the officials come to the notice of bank management/RBI through internal audit/inspection, concurrent/statutory audit, RBI inspection, etc. clearly

indicates that transgression of powers by bank officials are not being regularly ratified as per extant guidelines but are being suppressed which only come to light subsequently through audit/inspection. The Committee feel that cases of transgression of powers are not fully reported for ratification as per extant guidelines and that is why the number of accounts turning into NPAs on account of transgression of powers coming to the notice of bank management/RBI appears to be negligible. The Committee expect that in the light of the judgement of the Supreme Court, the Bank Officers would function within the parameters of their sanctioning powers for lending so that the chance of an account turning into NPA on this ground is reduced to the minimum.

#### **Action Taken**

In terms of calendar of reviews prescribed by RBI for both public and private sector banks, credit proposals sanctioned by the Chairman and Managing Director/ED have to be placed before the Management Committee on monthly basis. The RBI has on several occasions drawn the attention of the bank managements to the importance of ensuring that various functionaries exercise the discretionary powers vested in them with due diligence. Banks were also advised to observe certain safeguards where oral or telephonic sanction beyond discretionary powers was resorted to due to unavoidable exigencies.

Besides, sanctions of credit limits within the discretionary powers of various functionaries were required to be promptly reported to the controlling authorities. Banks were also advised in March 1991 to introduce a system (in case the practice was not there) whereby all the fund and non fund based facilities sanctioned by the Chairman within his delegated powers are promptly reported to the Managing Committee/Board at the immediately following meeting for perusal/information.

In the light of the judgement of Supreme Court banks were again advised in May, 1996 that it was imperative on their part to take a serious view on the issue of acting beyond one's delegated authority to convey to functionaries at all levels of the importance of working with the framework of rules and regulations.

It was clarified to banks in November 1996 that it was not the intention that the instructions on the subject matter be construed as prohibiting legitimate use of discretionary powers of banks officers. Banks, with the approval of their Boards, were advised to take the following steps.

- (a) there should be no objection to exercise of discretionary powers in a judicious manner with a view to meeting, without undue delay, the genuine credit requirements of the borrowers.
- (b) the officials of the bank at various levels should however desist from the unhealthy practice of grant of advances beyond sanctioned



limits/discretionary powers vested in them in a repetitive and routine manner.

- (c) the Board can also prescribe suitably mechanism, especially by recourse to modern means of telecommunications to ensure that all such exercise of powers are reported to be designated or next higher authority promptly for ratification.
- (d) the Board may consider building in flexibility in its delegated authority to bank officials to meet exceptional and emergent requirements of the borrowers.
- (e) the Boards of the banks if they consider that the existing discretionary powers granted to officials at various levels are not sufficient to meet the increased volumes of business and the needs of the borrowers, may suitably enhance the discretionary powers at various levels.
- (f) instances of gross misuse of sanctioning powers by any official should however, be viewed seriously and appropriate action should be taken.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94/  
80A dated 17.8.2000)

**Recommendation, Sl. No. 34 (Para No. 3.67)**

One of the reasons cited by Deputy Governor, RBI for advances going bad is that "it may be due to wrong skill of the person who is appraising.... in future the banks will be careful in their training system". The Committee have been informed that almost all banks have their own training establishments where members of their staff are trained in proper appraisal, supervision and follow up of advances. Besides, banks also depute their officers to the Banker's Training College, College of Agricultural Banking of the Reserve Bank of India and the National Institute of Bank Management where they are, *inter-alia*, imparted training in the above aspects. However, in regard to factors for which banks are responsible for advances turning non-performing, the Ministry have cited deficiencies in credit appraisal, Non-observance of norms for sanction of loans and laxity in post-disbursement supervision. The Committee feel that training system for bank officers need revamping. The Committee recommend as follows:

- (i) The syllabus in the institutes/colleges imparting training in the various programmes relating to different schemes/sectors for appraisal, supervision and follow up of advances may be reviewed by a Committee of Senior Bankers to improve the quality of specialised training in risk management, project appraisal skill and resource management as also qualifying and trainers' standards upgraded to skillfully groom the bank officers for improved professional capabilities to enable them to face various types of

business risks in the present age of competition and changing economic scenario.

- (ii) There is also need for upgrading the professional skills among the senior management in banks. To upgrade their project appraisal skill and to equip them with adequate awareness of technological developments in various sectors of the economy, there should be a regular outflow of senior bank officers from all Public Sector Banks as also officers of the level of Directors in the Banking Division of the Ministry for specialised training in training institutes abroad to equip them with latest procedures and the system of banking prevalent in those countries. Salient features of the systems prevalent in other countries in the world may be incorporated in the training system in India and updated from time to time and tuned to the issues confronting the Banking Sector in India to meet the emerging challenges on the basis of the experience and knowledge of these officers.
- (iii) Some training institutions may be identified for development as Centres of Excellence within the Banking Sector for sharing training facilities and providing state-of-the-art training.

#### Action Taken

I. A working group was appointed by the Reserve Bank of India in September 1982 (Kasbekar Committee) which reviewed the training arrangements in banks and at the apex level. The training strategy recommended by the group were accepted by the Reserve Bank and the banks have been advised as under:—

- (a) The banks should periodically review the training strategy adopted, augment infrastructure wherever required and introduce such additional programmes as may be considered necessary by individual banks. Further, they could also follow the following:
  - i. It would be desirable for the training institutions, both at the bank and industry level, to make use of the faculty of each other, as far as possible on a reciprocal basis, for specialised programmes.
  - ii. Bank management should demonstrate that a trainer's post is a prestigious position and that this will be given only to candidates of proven merit.
  - iii. The trainers should go back to the operational side after a period of about 4 to 5 years.
  - iv. Co-operation, on voluntary basis, among the training centres/colleges run by bank and industry level institutions would go a long way in obviating duplication of courses.

V. Banks should give more attention to the method of selection of trainees and their post-training placement.

(b) In the light of the deliberations at the workshop held in Bankers Training College, Mumbai in October 1990 certain guidelines covering different aspects of training in banking industry were advised by the RBI to all banks in December 1991, with a request to review in detail their prevailing training arrangement and take appropriate measures for suitably strengthening the training structure so as to make training system a more effective instrument of development of their human resources. These guidelines have been furnished in the Annexure-II.

(c) A Standing Co-ordination Committee under the Chairmanship of Deputy Governor of the Reserve Bank of India co-ordinates, monitors and guides the training arrangements in banks on an ongoing basis.

II. In the light of the recommendations of the Committee on Banking Sector Reforms that banks should review the changing training needs (para 4.32 of the Report), banks have been advised in October 31, 1998 by RBI (Monetary and Credit Policy Measures) that they should give more focus on credit management, treasury management, derivative products, Asset Liability Management (ALM) system, risk management, payment and settlement systems and information technology.

IBA have also initiated action by taking up the matter with the banks and they have indicated that the banks give utmost priority to training of senior executives, specially in the area of credit management and they have policies to depute executives to the programmes conducted by external agencies within the country and abroad.

As far as the training needs of the senior executives of the Banking Division of the Ministry of Finance for specialised training in foreign training institutions, Government may identify the areas of training in consultation with the RBI.

## **Guidelines for Management of Training at Banks' Training Institutions**

### **I. Assessment of Training Needs, Strategies for Meeting these Needs and Preparation of Calendar of Programmes.**

- (i) All banks should formulate training policy indicating the periodicity of training for different categories of staff and types of training to be imparted. The four broad types of training that would be required are as under:
  - (a) Induction and Refresher Courses.
  - (b) Functional Programmes such as Credit International Banking Foreign Exchange, Human Resource Management and Development etc.
  - (c) Crash Programmes for contingency demands, like service Area Approach, Housing Finance etc.
  - (d) Futuristic Orientation Programmes for emerging possibilities, like financial innovations, investment banking, securitisation, leasing, hire purchase, factoring, computerisation etc.
- (ii) While preparing the Calendar of Programme, the banks should ensure that the capacity is fully utilised and nomination for each programme are effectively ensured through careful advance planning prompt substitute arrangements for drop outs, etc.
- (iii) The training colleges of various banks should attempt to coordinate their efforts specially in the following areas:
  - (a) Exchange of training material including video based programmes.
  - (b) Trainers' meet for sharing information about innovative programmes and
  - (c) Exchange of faculty.
- (iv) Periodic Conference of trainers from apex colleges of banks in different areas may be convened at the industry level.
- (v) A committee comprising the Principals of some 4 to 5 training colleges could be formed to explore the feasibility of collaboration in various areas such as review and dissemination of programme material, feasibility of introducing distance learning system, etc.

## II. Selection, Development and Utilisation of Faculty

### (i) Principal/Vice-Principal

- (a) The Principal of the Apex College should be in a sufficiently senior scale (Preferably Scale-VI) so as to enjoy adequate functional freedom;
- (b) He should basically be a person with a strong commitment to training and HRD and aptitude to lead, guide and administer a function which is distinct from other known forms, like operational banking;
- (c) He should be more of a captain of a team and less of a manager;
- (d) He should possess quality of providing a pro-active work environment conducive for experimentation, innovations and creative endeavours;
- (e) He should have ability to influence policy planners and operational level management through enhanced credibility of training system;
- (f) Willingness of the incumbent must be ascertained before posting and he should be appointed for a minimum period of three years;

### (ii) Faculty:

- (a) In view of the importance and the Practicality of the role for dissemination of knowledge and ideas, the role of a faculty member should be considered on par with other officers in the organisation;
- (b) He should preferably be in senior or middle management scale except in some technical areas, like computers;
- (c) He should have good academic record, successful achievement in the operational assignments, perceptive ability, ability in interpersonal relationship, ability to influence thinking and above all, a strong urge for self-development;

### (iii) Selection procedure for Faculty

There should be a streamlined selection procedure including psychological tests, group discussion and interview. Principal should be associated with the selection panel. If need be, help in the selection process may be sought for from outside experts/institutions.

### (iv) Development of Faculty

The faculty should be developed in a phased manner starting from deputation to a formal faculty development programme, deputation to a programme in his functional areas including

management and area of his specialisation, guidance in the development of instructional material, such as, audio-visual aids, distance learning material computer-based training, etc. The faculty of apex colleges must be given opportunity to participate in the national and international conferences in their areas of specialisation. Apart from the lecture session, they should be provided sufficient time for updating their knowledge, conducting research and developing case studies etc. There should be exchange of faculty members in the apex colleges of the banks in certain key areas.

**(v) Incentives:**

- (a) The faculty members may be sponsored or encouraged to be members of the professional bodies like ISTD, etc.;
- (b) They should be encouraged to develop specialisation in a couple of areas;
- (c) Annual conferences for the faculty members may be organised in some specialised areas at BTC, CAB and/or NIBM.;

**(vi) Assessment of the performance of Faculty Members:**

It should be based on the number and types of programmes co-ordinated, number of teaching assignments, training material developed, ability to motivate participants for learning, efforts for conducting research/studies, etc.

A suitable format should be designed encompassing the above areas for assessment of the performance of the faculty members.

**III. Training Methodology and Techniques and Evaluation of Training Programme**

- (i) Task forces should be constituted at different places, like Mumbai, Delhi, Calcutta, Hyderabad, Bangalore and Chennai comprising representatives of various banks and training institutions to develop software packages in certain selected areas. There should be collaborative efforts among various banks and training institutions in this venture as also for preparation of video film in certain selected areas to ensure cost effectiveness.
- (ii) Separate programme evaluation forms should be designed for different types of programmes instead of having a single standardised evaluation form as at present.

**IV. Administration and Management Training System, Role of Advisory Bodies, Infrastructure and Capacity Utilisation**

**(i) Administration and Management of Training System:**

- (a) The principle of unity of command should be followed in the administration of training establishments. The Apex Training College should be under the administrative control of the corporate office and the zonal training centre/college should be

under the control of Zonal/Regional Office. The apex college should have distinct higher order roles than the zonal centre/college and their relationship should only be consultative and supportive and not administrative;

- (b) The rank of the apex college principal should not be lower than that of a DGM. He should be vested with all financial and administrative powers within the budgetary limits as may be approved by the corporate office;
- (c) The channel-faculty ratio should be, as far as possible, 1:4
- (d) A manual of instructions/guidelines on training should be prepared for reference of training establishments/controlling offices and branches;
- (e) Management Information System on training should be designed and introduced;
- (f) The training policy and organisational structure and systems and procedures should be reviewed once in every three years;

**(ii) Role of Training Advisory Bodies**

There should be two corporate level bodies namely (a) policy advisory committee and (b) academic council and one committee at the zonal level. The composition of these bodies should be as under:

- (a) Policy Advisory Committee should comprise Chairman and Managing Director, Executive Director, General Manager (Personnel) in-charge of HRD at Head Office and Principal of Apex Training College;
- (b) Academic Council should comprise functional heads at the corporate level (personnel, inspection, credit, planning and development and accounts) and Principal of Apex Training College;
- (c) Zonal Committee should comprise Zonal Manager, Regional Manager, Managers of exceptionally large/very large branches and in-charge of zonal training college/centres. These bodies should be assigned definite roles to assess training needs, formulate and review zonal training plan besides providing feedback to the corporate office regarding qualitative and quantitative progress made in training the staff;

**(iii) Infrastructure and Capacity Utilisation:**

- (a) Annual capacity of a training channel should be determined as follows:

The optional capacity will be number of training days, available times, number of trainees per channel as per class room capacity. It is estimated that 240 training days would be available per

annum excluding Sundays and holidays. Assuming a class room capacity of 25, the capacity per channel would work out to 6000 mandays (i.e.  $240 \times 25 = 6000$ ) per channel;

- (b) Negative variance of more than 10% utilisation of this capacity should be thoroughly probed and corrective action taken;
- (c) For achieving near-full capacity utilisation of the following measures are suggested;
  - \* Nominations for the programme should be made atleast one month in advance.
  - \* The Zonal/Regional Offices and Branch Managers, should be involved in identifying the employees nominated for different programmes.
  - \* If, for any reason a nominated employees cannot be released, a suitable eligible institute should be nominated by the Zonal/Regional Office.
  - \* Training College/Centres should aim at offering more and more operation-oriented programmes.
- (d) The training establishments should play a major role in developing values conducive for training in the bank and adopt result oriented measures to project their image.
- (e) For facilitating the participation of women employees, residential and/or locational programmes should be organised for them.

(Deptt. of Economic Affairs-Banking Division O. M. No. F. 19/24/94/80A dated 17.8.2000)

#### **Recommendation Sl. No. 35 (Para No. 3.68)**

The Committee note that performance of various recovery plans is being looked into by the RBI during inspection of banks carried out at regular intervals. As per RBI guidelines banks have been asked to formulate a loan recovery policy with the approval of the Board of Directors. They have also constituted a Recovery Cell at their Head Office under the charge of a General Manager. Further branch-wise targets are required to be fixed by banks for recovery of NPAs and their performance is to be monitored at Head Office level on monthly basis. The Committee hope that these measures put in place to improve recovery will work and prove to be effective. Further those measure will facilitate banks to increase the tempo of recovery, enable them to reach their recovery targets. The Committee desire that the RBI closely monitor the utility of these measures by banks in improving recovery of the existing problem loans.



### **Action Taken**

The replies given in para. 4.34 may please be referred to.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94/  
80A dated 17.8.2000)

### **Recommendation, Sl. No. 36 (Para No. 3.69)**

The Committee feel that the IBA suggestion that banks should strengthen the recovery mechanism not only from the point of view of establishing special recovery branches but also by training people and creating systems for close supervision of the loan accounts to detect immediately any signs of deficiencies, deserves consideration.

### **Action Taken**

The replies given in para. 4.34 may please be referred to.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94/  
80A dated 17.8.2000)

### **Recommendation Sl. No. 37 (Para No. 3.70)**

#### *Setting up of Asset Reconstruction Companies*

The Committee note that recommendation made by the Narasimham Committee in its Report on the Financial System for setting up of a separate Asset Reconstruction Fund to take over the bad and doubtful debts from banks and financial Institutions and subsequently follow up on recovery of dues owned to them from the primary borrowers was examined by the Government of India and not found acceptable.

The Committee also note the IBA view that the huge size of NPAs, accumulated over a long period of time, cannot be drastically reduced within a short time without any major institutional measures. This can be achieved by creation of Asset Reconstruction Fund as recommended by Narasimham Committee. However, Hon. Minister of Finance has announced in his Budget speech 1998-99 the decision to establish Asset Reconstruction Companies. According to the decision a few banks having particularly high (level of) NPAs will be encouraged to establish Asset Reconstruction Companies, which will take over the NPAs of the banks at their realizable value and swap them with special bonds to be held by the banks. The Asset Reconstruction Companies will concentrate on recovery of dues to realize the maximum value for the assets transferred to them.

### Action Taken

A Special Task Force was set up by Government of India to look into the matter and report since submitted by the Group was given to an advisory group set up by the RBI under the chairmanship of Shri M.S. Verma. The Advisory Group has since submitted its report to the RBI. The recommendations of the Group will be examined and follow up action taken in due course.

(Deptt. of Economic Affairs—Banking Division O.M. No. F19/24-80A  
dated 17.8.2000)

### Recommendation<sub>1</sub> (Sl. No. 39, Para No. 3.72)

The Committee note that under the extant guidelines banks are required to examine staff accountability whenever there is a deterioration in the asset quality. In this connection, the Ministry of Finance have furnished statements giving details of (i) officials found responsible for advances turning into bad debts and (ii) cases of laxity in post disbursement supervision of advances resulting in bad debts in respect of certain banks and punitive action taken against these officials during the year 1992-93, 1993-94 and 1994-95. On perusal of these statements, it is observed that in some cases disciplinary/departmental proceedings are still pending. The Committee desire that pending proceedings should be expeditiously finalised.

### Action Taken

There exists a system in the banks to review at a periodical interval, the progress of pending disciplinary cases because the banks are required to dispose off the cases invariably as per the time ceiling prescribed by the Government of India *vide* their letter No. 37/62/88 dated 7 November 1988. That apart, DBOD have advised banks to carry out review relating to vigilance/disciplinary cases as indicated in Government of India's letter in October 1990. Simultaneous departmental proceedings wherever necessary are also required to be instituted to have a speedy decision on the vigilance cases. In view of undue delay in the disposal of pending cases with Police/CBI and mounting arrears, banks have been advised that their Vigilance Department preferably at Head Office should hold meetings with the investigating authorities at periodical interval which should be minuted and action be taken within a time frame agreed to at the meetings.

All cases involving *prima facie*, irregularities/lapses on the part of Senior Officers (Scale IV and above) and/or where the amount involved in the transaction is larger, say exceeding Rs. 5 lakh, are required to be put up to the Board/Management Committee. Similarly status reports on action taken on time. Besides the banks have been advised to examine staff accountability while initiating proposals for compromise/negotiated

settlement and fix staff accountability in a time bound manner. It is felt that there are adequate measures to ensure that pending disciplinary departmental enquiries against banks officials are finalised expeditiously.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation (Sl. Nos. 40, 41, Para Nos. 3.73, 3.74)**

Further, on perusal of the statements it is also felt that year-wise disciplinary proceedings initiated bank-wise *vis-a-vis* quantum of loans advances turning into NPAs are minimal just an eye-wash. The Committee expect the Ministry of Finance to impress upon the banks to take a serious view of the lapses in sanction of loans/advances and laxity in post-disbursement supervision for fixing staff accountability.

The Committee also note that banks have been advised to frame a policy on staff accountability with the approval of their Boards. The Committee would like to be apprised of the present position on finalisation of policy on staff accountability and the time frame fixed for its finalisation bank-wise. One of the important measures which could be considered for stopping wilful defaults is, according to IBA, swift and effective penal action on the erring bank officials connected with irregularities. The Committee desire that this aspect should form a part of policy on staff accountability.

#### **Action Taken**

RBI, DBOD has instructed banks on the following points in this regard.

(a) exercise of discretionary powers in a judicious manner with a view to meeting without undue delay the genuine credit requirements of the borrowers.

(b) desisting from unhealthy practice of grant of advances beyond sanctioned limits/discretionary powers.

(c) reporting of exercise of powers to the designated or higher authority promptly for ratification by recourse to modern means of telecommunications.

(d) flexible approach in delegated authority in exceptional and emergent requirements of the borrower.

(e) regular review of the delegated powers at various levels.

(f) the banks have also been advised to review seriously and take an appropriate action in instances of gross misuse of sanctioning powers by any official (copies of two circulars in question issued by RBI, DBOD Nos. BP.BC. 61 and 151/21.01.023-96 dated 21st May 1996 and 26th November 1996 enclosed).

Credit proposals sanctioned at one level including those sanctioned by Executives like ED, MD, are subject to ratification by the higher authority

which serves as a counter check on the sanctioning authority. The banks have been advised to put up to their Boards status reports of top 25 large problem accounts when the staff accountability aspect is looked into. Further, before taking a decision on NP Account for resorting to legal action or where compromise/negotiated settlement is initiated the banks have been advised to ensure that the staff accountability aspect is examined and the exercise completed expeditiously within a time-frame. A copy of the Circular issued by RBI DBOD No. BP.BC. 81/21.01.040-95 dated 28th July 1995 is enclosed. Thus, instructions have already been issued to banks and compliance of these instructions by the banks is looked into during the course of Annual Financial Inspection of the banks concerned.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

तार: "बैंकचालान" मुंबई  
Telegrams: 'BANKCHALAN' Mumbai

भारतीय रिज़र्व बैंक  
केन्द्रीय कार्यालय

टेलीफोन सं०  
Telephone Nos.: 2189131-39

टेलेक्स सं०  
Telex No. 011-86135

बैंकिंग परिचालन और विकास विभाग  
केन्द्र-1, विश्व व्यापार केन्द्र,  
कफ परेड, कोलाबा, मुंबई-400 005.

पोस्ट बॉक्स सं०  
Post Box No.: 6089

फैक्स सं०  
Fax No.: 0091-22-2183785

## RESERVE BANK OF INDIA

कृपया उत्तर में लिखें

CENTRAL OFFICE

"बैंक हिन्दी में पत्राचार का स्वागत करता है"

Please quote in reply DEPARTMENT OF BANKING OPERATIONS &  
DEVELOPMENT

संदर्भ: बीबीओडी सं०

CENTRE-1, WORLD TRADE CENTRE,

May 21, 1996

Ref.: DBOD No. .... CUFFE PARADE, COLABA, MUMBAI-400 005 Vaishakha 31,1918 (Saka)

DBOD. No. BP. BC. 61/21.01.023/96

The Chairman and Managing Director/  
Chief Executive Officer  
All Commercial Banks (Excluding RRBs)

Dear Sir,

*Sanction of advances in excess of discretionary powers*

The Reserve Bank has on several occasions drawn the attention of bank managements to the importance of ensuring that various functionaries exercise the discretionary powers vested in them with due diligence. In this connection your attention is drawn to our circulars DBOD. No. Fol. BC. 29/C. 249-83 dated 8 April, 1985 and Fol. BC. 08/C. 249-91 dated 15 March, 1991 wherein we have, *inter alia*, advised banks to issue strict instructions to the officials at various levels to desist from the unhealthy practice of grant of advances beyond sanctioned limits/discretionary powers vested in them. Banks were also advised to follow certain procedures where oral or telephonic sanction or sanction beyond discretionary powers in exceptional cases become absolutely necessary.

2. Despite pointing out in various Annual Financial Inspection Reports and also during discussions between the RBI and the top Management of banks, we are constrained to point out that the discipline envisaged in exercise of managements and its functionaries. The Reserve Bank and the Government of India are distressed that instances of gross misuse of sanctioning powers abound at branch and Regional/Zonal levels and even

the Top Managements of banks have been found to violate the discipline in this regard.

3. Quite pertinently, the Hon'ble Supreme Court has recently passed severe strictures in a case in this connection. The Hon'ble Court has observed that in the case of "a bank, or for that matter, any organisation every officer/employee is supposed to act within the limits of his authority." Further, the Hon'ble Court observed that each officer of the bank "cannot be allowed to carve out his own little empire wherein he dispenses favours and largesse" and that a bank cannot function properly and effectively "if it's officers and employees do not observe the prescribed norms and discipline.... Acting beyond one's authority is by itself a breach of discipline and breach of Regulation."

4. You will, therefore, appreciate that it is imperative on your part to take serious view on this issue and to convey to functionaries at all levels the importance of working within the framework of rules and regulations and that any deviation from the discretionary powers vested in them and the procedures laid down in this regard, will attract adverse attention and, if need be, punitive action. Non-compliance in this regard should be viewed seriously and banks/their Boards should take appropriate disciplinary action against the erring officials. Managements must, therefore, endeavour to ensure that field functionaries work within a disciplined management culture. The Audit Committee of the Board should also periodically be provided with the information on violations by various functionaries in the exercise of discretionary powers.

5. You are requested to place this letter before the Board of Directors for their information.

6. Please acknowledge receipt.

Yours faithfully,

Sd/-

(V. Rangarajan)

Chief General Manager.

## ANNEXURE

तार: "बैंकचालान" मुंबई  
Telegrams: 'BANKCHALAN' Mumbai

टेलिक्स सं.  
Telex No. 011-86135

फैक्स सं.: 0091-22-21833785  
Fax No.: 0091-22-2188770

## भारतीय रिज़र्व बैंक

### केन्द्रीय कार्यालय

बैंकिंग परिचालन और विकास विभाग  
केन्द्र-1, विश्व व्यापार केन्द्र,  
कफ परेड, कोलाबा, मुंबई-400 005.

टेलीफोन सं.  
Telephone Nos.: 2189131-39

पोस्ट बॉक्स सं.  
Post Box No.: 6089

## RESERVE BANK OF INDIA

कृपया उत्तर में लिखें

Please quote in reply

### CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS &

DEVELOPMENT

"बैंक हिन्दी में पत्राचार का स्वागत करता है"

संदर्भ: डीबीओडी सं.

CENTRE-1, WORLD TRADE CENTRE,

November 26, 1996

Ref.: DBOD No. .... CUFFE PARADE, COLABA, MUMBAI-400 005

Agrayana 5, 1918 (Saka)

DBOD.No. BP.BC.151/21.01.023/96.

The Chairman & Managing Director/

Chief Executive Officer

All Commercial Banks

(Excluding RRBs)

Dear Sir,

*Sanction of advances in excess of discretionary powers*

Please refer to our circular DBOD No. BP.BC.61/21.01.023/96 dated 21 May 1996 on the captioned subject. It has been reported that instructions contained therein are being construed as prohibiting the legitimate use of discretionary powers by the bank officials. This is not the intention. We would therefore, like to clarify the position as under:—

(a) There should be no objection to exercise of discretionary powers in a judicious manner with a view to meeting, without undue delay, the genuine credit requirements of the borrowers.

(b) The officials of the bank at various levels should however desist from the unhealthy practice of grant of advances beyond sanctioned limits/ discretionary powers vested in them in a repetitive and routine manner.

(c) The Board can also prescribe suitable mechanism, especially by recourse to modern means of telecommunications to ensure that all such exercise of powers are reported to.

(d) The Board may consider building in flexibility in its delegated authority to bank officials to meet exceptional and emergent requirements of the borrowers.

(e) The Boards of the banks if they consider that the existing discretionary powers granted to officials at various levels are not sufficient to meet the increased volumes of business and the needs of the borrowers, may suitably enhance the discretionary powers at various levels.

(f) Instances of gross misuse of sanctioning powers by any official should, however, be viewed seriously and appropriate action should be taken.

2. You are advised to place this letter before the Board of Directors and take suitable action with its approval.

3. The action taken in the matter may be advised to us.

4. Please acknowledge receipt.

Yours faithfully

sd/-

(Shyamala Gopinath)

Addl. Chief General Manager.

Endt. DBOD. No. B.P.1421/21.01.023/96 of date.

Copy forwarded for information to:

(As per list attached).

Sd/-

(C.R. Muralidharan)

Deputy General Manager.



तार: "बैंकचालान" मुंबई  
Telegrams: 'BANKCHALAN' Mumbai

टेलिक्स सं०  
Telex No. 011-86135

फैक्स सं०:  
Fax No.: 0091-22-2183785

## भारतीय रिज़र्व बैंक

### केन्द्रीय कार्यालय

बैंकिंग परिचालन और विकास विभाग  
केन्द्र-1, विश्व व्यापार केन्द्र,  
कफ परेड, कोलाबा, मुंबई-400 005.

टेलीफोन सं०  
Telephone Nos.: 2189131-39

पोस्ट बॉक्स सं०  
Post Box No.:6089

## RESERVE BANK OF INDIA

कृपया उत्तर में लिखें

Please quote in reply

CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS &  
DEVELOPMENT

"बैंक हिन्दी में पत्राचार का स्वागत करता है"

संदर्भ: डीबीओडी सं०

CENTRE-1, WORLD TRADE CENTRE,

July, 28, 1995

Ref.: DBOD No. ....CUFFE PARADE, COLABA, MUMBAI-400 005 Sarvana 6, 1917 (Saka)

DBOD.No. BP.BC.151/21.01.023/96.  
BP.BC.81/21.01.040/95.

### The Chairmen of all Commercial Banks

Dear Sir,

### *Compromise or negotiated settlements of Non Performing Assets (NPAs)*

As you are aware, following the introduction of income recognition, asset classification and capital adequacy norms, banks are becoming increasingly sensitive to credit risks and there is a growing awareness of the need to keep NPAs at a low level. The banks try to eliminate or reduce the NPAs through persuasion, by way of compromises or negotiated settlements with the borrowers or resorting to legal action.

2. Serious concern has been expressed in different quarters over the increase in quantum of NPAs written off by public sector banks. In this context we have to advise as under:

The Reserve Bank of India had advised banks to have documents of investment policy, loan policy, loan recovery policy etc. prepared and duly vetted by their Boards of Directors. Thus, each bank is now required to have a loan recovery policy which sets down the manner of recovery of dues, targetted level of reduction, (period-wise), norms for permitted

sacrifice/waiver, factors to be taken into account before considering waivers, decision levels, reporting to higher authorities and monitoring of write-off/waiver cases. We had advised the banks *vide* our circular DBOD. No. BC.48/21.01.040-92 dated October 28, 1992 that they should scrupulously adhere to the instructions mentioned therein in this regard.

3. We have further to advise that banks should observe the following guidelines:—

- (a) The compromise should be a negotiated settlement under which the bank should ensure to recover its dues to the maximum extent possible at minimum expense.
- (b) Proper distinction needs to be made between wilful defaulters and the borrowers defaulting in repayments due to circumstances beyond their control.
- (c) Where Security is available for assessing the realisable value, proper weightage has to be given to the location, condition and marketable title and possession thereof.
- (d) What is important in settlement cases is that the bank could promptly recycle the funds with advantage instead of resorting to expensive recovery proceedings spread over a long period.
- (e) All compromise proposals approved by any functionary should be promptly reported to the next higher authority for post factor scrutiny.
- (f) Where staff accountability has not been examined, it should be ensured that the same is completed expeditiously within a time-frame.
- (g) The proposals for write-off/compromise falling within the authority of ED/CMD/Management Committee/Board of the bank should be first processed by a Committee of senior executives of the bank (i.e. Chief Manager/General Managers).
- (h) Recovery officers be appointed at branches having sizeable NPAs and their recovery progress monitored on monthly basis.
- (i) Special Recovery Cells be set up at all regional/Zonal levels.
- (j) Adequate attention should be paid to upgrade Sub Standard advances.

4. We urge that bank's top management should ensure that there should not be any significant deviation from the general principles of compromise/write off and the write off decisions should be judicious and in the best interest of the bank.

5. A half yearly statement as at the end of September and March of each year should be forwarded to us as in the enclosed proforma within

30 days of the half year to which the statement relates. The first statement for the year ended 31 March 1995 should reach us within a period of 30 days from the date of this circular.

Yours faithfully,

Sd/-

(S.P. Talwar)

Deputy Governor

Encl: 1.

Endt. DBOD. No. BP. 342/21.01.040/95 of date.

Copy forwarded for information to (As per list attached).

(R.J. Fernandes)

Dy. General Manager.

Encl: 1.

**STATEMENT GIVING DETAILS OF COMPROMISE  
OR NEGOTIATED SETTLEMENTS INVOLVING WRITE  
OFFS/SACRIFICE OF AMOUNT EXCEEDING RS. 25 LAKHS  
ENTERED INTO DURING THE HALF YEAR ENDED  
31ST MARCH/30TH SEPTEMBER**

(Amount in Rs. lakhs)

- (a) Name of the borrower
- (b) Amount outstanding in the:
  - (i) bank's books
  - (ii) Interest and other dues, if any, not debited to the borrower's account
- (c) Nature of security held and value thereof
- (d) Compromise or negotiated settlement amount
- (e) Period of repayment of compromise amount
- (f) Amount of sacrifice and waiver involved
- (g) Authority approving the compromise/negotiated settlement
- (h) Nature of classification *i.e.*, doubtful, loss, suit filed/decreed, etc.
- (i) Reasons for entering into compromise or negotiated settlement.

**Recommendation (Sl. No. 42, Para No. 3.75)**

All Public Sector Banks have their Vigilance Departments at Head Office/Controlling Office level to look into any sort of malpractices/irregularities against bank officials in sanction/disbursement of loans. As there has been considerable deterioration in the quality of assets of the banks and ineffective departmental action either due to administrative sleaze and laxity or pervasive attitude of pessimism on the part of Chief Vigilance Officer (CVO) or possible collusion among personnel of the Vigilance Department, unscrupulous bank officers and private parties to siphon off bank funds, the Committee desire the Ministry of Finance to undertake a detailed review whether the performance of the Vigilance Departments of the banks was of requisite standard and as also of the need for their revamping.

**Action Taken**

Public Sector Banks have also been advised to put up to their Boards a review of working of the Vigilance Department with reference to quality of vigilance including preventive vigilance and action taken on staff accountability.

[Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000]

**Recommendation [Sl. No. 43, Para No. 3.76(i)]**

The Committee also make the following recommendations to recover/reduce/contain NPAs in the Public Sector Banks:

With a view to reducing the Non-performing Assets (NPAs) and at the same avoiding lengthy and time consuming legal action, banks have been advised to recover their dues by entering into settlement/compromise proposals with borrowers on mutually acceptable terms. The Committee feel that banks should be very careful in considering settlement/compromise proposals. Instead, RBI/banks should examine the necessity of constituting Settlement Advisory Committee consisting of renowned bankers under the Chairmanship of retired High Court Judge to consider proposals of compromise/write offs as per laid down norms for speedy recovery of assets in cases of large default with a view to bringing down their non-performing assets.

**Action Taken**

During the meeting of the Chief Executives of public sector banks taken by Finance Minister on 19th December, 1996 several important issues were discussed. There was a detailed discussion on the issue of Non-performing Assets and recovery of bad debts. It was suggested that the Boards of the banks among other things should also consider setting up advisory bodies comprising of eminent professionals from outside including retired persons from the judiciary for advising their Boards in matters relating to finalising of one time settlement. Accordingly so far the following public sector banks have constituted Settlement Advisory Committee for considering compromise proposals as per the information available with us:—

- (1) Indian Bank
- (2) Punjab & Sind Bank
- (3) Vijaya Bank
- (4) UCO Bank
- (5) Central Bank of India
- (6) Dena Bank
- (7) Indian Overseas Bank

Pursuant to FM's assurance in the Budget for 1999-2000, RBI has since issued guidelines for setting up Settlement Advisory Committee of officers at HO and RO/ZO of public sector banks for liquidating more than 3 years old NPAs of Agricultural Sectors, SSI Sector and personal loans.

[Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000]

**Recommendation [Sl. No. 43, Para No. 3.76(ii)]**

Public Sector Banks should also share information on loan sanction and loan write off/compromise proposals in cases of borrowal accounts of

Rs. 10 lakh and above to caution the other banks from lending to such defaulting borrowers.

### Action Taken

At present the following information is shared among the banks in respect of defaulters to the banking system:—

- (1) Information in respect of borrowers of banks and FIs with aggregate outstanding of Rs. 1 crore and above which are classified as “doubtful” or “loss” and accounts where suits are filed, as on 31st March and 30th September each year and disseminate this information (on floppy diskettes) to the banks and FIs for their use while considering, on merits, the request for new or additional credit limits by defaulting borrowing units and also by the directors/proprietors/partners named in the list either in their own name or in the name of other units with which they are associated.
- (2) RBI also publishes a list of borrowers (with aggregate outstanding of Rs. 1 crore and above) against whom suits have been filed by banks and FIs for recovery of their funds, as on 31st March every year.
- (3) Pursuant to the instructions of the Central Vigilance Commission, RBI has framed a scheme in February 1999, for collection of information on wilful defaults of Rs. 25 lakh and above and dissemination to the reporting banks and FIs, under which the banks and FIs viz. IDBI, IFCI and ICICI will be required to submit to RBI the details of the wilful defaulters with effect from 1st April 1999 on a quarterly basis.

The banks are required to submit to RBI (Deptt. of Banking Supervision) half yearly statements containing details of compromise/negotiated settlements involving write offs/sacrifice of amount exceeding Rs. 25 lakh. However, this information is not intended for circulation among the banks; but for information of RBI only. As a part of Risk Management Exercise, a Working Group has been set up in RBI, consisting of representatives from Department of Banking Supervision, Department of Non-Banking Supervision, Legal Deptt., IBA, SBI, BoB, IDBI and ICICI to prepare framework for setting up of a Credit Information Bureau. The Group Report is awaited.

[Deptt. of Economic Affairs—Banking Division O.M. No. F.19/24/94-80A dated 17.8.2000]

### Recommendation [Sl. No. 43, Para No. 3.76(iii)]

Suits should be filed immediately where promoters have guaranteed the advance and there is a default.

### Action Taken

We have advised banks to lay down Credit Policy and Recovery Policy with the approval of their Board. The decision to file a suit in respect of a borrowal account is generally taken by banks in accordance with their loan policy and keeping in view the availability/enforceability of charges, adequacy of realisable value of securities to cover the dues, period of limitation, the time and cost involved in litigation etc. With a view to impressing upon the banks the requirement of prompt legal action through filing suits to recover bank dues, RBI advised banks *vide* circular DBOD No. BP.BC.25/21.03.038-99 dated 30th March, 1999 of realising the need for timely and appropriate legal action for realisation of assets and recovery of dues from the borrowers to bring down the level of NPAs. In cases where loss assets are more than two years old on the books of the bank without legal action being initiated, banks should submit a review note to the Managing Committee/Board giving specific reasons as to why suits have not been filed with respect to position as on September 30 and March 31 of each year.

[Deptt. of Economic Affairs—Banking Division O.M. No. F.19/24/94-80A  
dated 17.8.2000]

### Recommendation Sl. No. 43[Para No. 3.76(iv)]

Bank should introduce a system of obtaining an audit certificate from borrowers to ensure proper end-use of funds lent.

### Action Taken

RBI instructions/guidelines issued to banks with the objective of ensuring lending discipline in appraisal, sanction, monitoring and utilisation of bank finance now cease to be mandatory. Under these instructions in the case of all large borrowers enjoying aggregate working capital limits of Rs. 1 crore and above from the banking system, a system of obtaining statements under quarterly information system/monthly cash budget system exists which enables banks to fix and monitor the operative limits. Besides stock audit is undertaken by the banks internally or in the case of very large borrowers having multi divisional/locational credit facilities internally by external auditors. The banks have to ensure that drawals from cash credit/overdraft account are strictly for the purpose for which the credit facilities have been sanctioned by them and there should be no diversion of working capital funds for acquisition of fixed assets investment in associate companies, subsidiaries and acquisition of shares, debentures, units of mutual funds etc. Besides banks have been advised to evolve and implement a system to effect scrutiny for each drawal of Rs. 50 lakh and above for large borrowal accounts say with working capital credit limits of Rs. 10 crore and above from the entire banking system and ensure before allowing such drawal that the amount is drawn for the purposes for which

credit has been sanctioned. Banks have also a system of review/renewal of all borrowal accounts enjoying fund based working capital credit limit of Rs. 10 lakh and above at least once a year when they call for audited balance sheet of the borrowers. Banks also call for an auditors certificate for utilisation of banks' funds stipulated margin in the case of project loans before releasing next instalment of sanctioned loan. There are, therefore, sufficient built-in-safeguards and the question is that of ensuring them than introducing any further safeguards.

The insistence of auditors certificate to ensure proper enduse of funds lent separately may therefore not be necessary.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

**Recommendation Sl. No. 43 [Para Nos. 3.76 (vi-ix)]**

(vi) It may not be difficult for the bank to place the right people for the awareness at operational level for credit risk assessment and can render honest and diligent service in the discharge of their responsibilities.

(vii) Non-performing by lenders is due to not making timely sanction/disbursement of loans sometimes convert potentially profitable enterprises to loss making ones. Many industries suffer decline because of delays in disbursement of loans by banks. This may contribute to NPAs. This aspect also needs to be closely monitored.

(viii) A doubtful asset normally takes a minimum of two years to surface. It would, therefore, be prudent on the part of the management not to post bank officers for credit portfolio work during the three years preceding their retirement so as to enable them to retire honorably and gracefully.

(ix) A review of the performance of the officer belonging to credit portfolio management should be made regularly and necessarily at least one year before his retirement to assess whether he had not acted prudently while sanctioning of advances, whether he had not observed the normal procedure followed in the bank in sanctioning the applications and whether any serious irregularities in the conduct of credit portfolio or in other accounts had been observed.

**Action Taken**

Banks have been advised to ensure that various functionaries exercise the discretionary powers vested in them with due diligence with a view to meeting without undue delay, the genuine credit requirements of the borrowers. The discretionary powers are subject to a periodical review to meet the increased volumes of business and the needs of the borrowers and the system has also a built in flexibility to meet exceptional and emergent requirements of the borrowers. As far as training needs of the bank officers, banks have been advised to take into account specific training needs of the officials and ensure job rotation. The banks have a system of maintaining Loan Register and monitoring disposal of loan



applications and disbursement. During the Annual Financial Review, RBI inspectors also scrutinise the credit portfolio and comment among other things, on timeliness of credit decision. The number of officials involved in any bank's credit portfolio is large. Considering the fact that there is a large number of one officer branches also, divesting them of sanctioning power for a long period of 3 years will not be practicable. The Ghosh Committee on Frauds has already gone into this aspect. Taking into consideration all the relevant factors RBI has advised all commercial banks in June 1998 to prescribe suitable mechanism to ensure that sanctions made by Branch Managers, the Regional Heads of Controlling Offices, Senior Executives and Top Executives at Head Office level including Chairman & Managing Director and ED during the period of three months prior to retirement should be put up promptly to the next higher authority. (Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation Sl. No. 44 (Para No. 4.34)**

The Committee note that Public Sector Banks reduce their NPAs and recover their dues through upgradation of accounts from sub-standard to standard category, comprise/write off of loans as per laid down guidelines and cash recoveries. It is indeed heartening to note that with the introduction of prudential norms, the Government/RBI has become extremely anxious to effect all round improvement in the working of the credit portfolio of the banks.

To improve their performance in recovery of bad debts, PSBs as advised by RBI, have formulated their Investment Policies and Loan Recovery Policies duly approved by their Board of Directors. A General Manager at the Head Office has been assigned the exclusive portfolio of recovery. Branch wise targets are fixed for recovery of dues and monitoring is done at Head Office level on a regular basis. The Board of Directors are to be informed about the progress of recovery at quarterly intervals. The progress of recovery and reduction in NPAs is also reviewed by RBI periodically. The Committee expect that with various measures in place coupled with a fair amount of dedication and involvement of the bank officers assigned with the responsibility of credit portfolio at the grass roots level in recovery in a big way, seeking assistance of the Government agencies when necessary, counselling of borrowers and also organising recovery campaigns in all branches to step up realisation of dues of the bank, the efforts will fructify.

#### **Action Taken**

##### **(a) Credit risk management**

The observations of the Committee have been noted. The effectiveness of the various measures to recover NPAs is required to be closely monitored by the Boards of the banks. It is also looked into at the time of

Annual Financial Inspection by RBI and is reckoned for the rating of the bank. Besides the above, in line with international practice of risk based approach to supervision, guidelines on Credit Risk Management have been issued to banks in October 1999 which cover the broad outline for management of credit liquidity, interest rate, forex and operational risks. These guidelines, are expected to serve as a benchmark to the banks which lack well established risk management systems. Accordingly, the banks should constitute a high-level Credit Policy Committee (CPC) to deal with issues pertaining to credit sanction, disbursement and follow-up procedures and to manage and control credit risk on a whole bank basis. Concurrently, banks should also set up an independent Credit Risk Management Department to enforce and monitor compliance of the risk parameters and prudential limits set by the Board/CPC. The activities of Asset-Liability Management Committee (ALCO) and CPC for management of credit and market risks need to be integrated.

With proper implementation of Credit Risk Management system, the banks will be in a position of creating system to detect immediately any signs of deficiencies etc. in advance, which would help them to avoid advance being turning into problem advance.

**(b) With a view to reducing NPAs, banks have been setting up Special Recovery branches and transfer the NPAs from other branches to the Special branch in order to concentrate exclusively on recoveries.**

**(c) Reduction of NPAs**

RBI in May 1999 has issued specific guidelines to Public Sector Banks for constitution of Settlement Advisory Committees for compromise settlement of NPAs of small sector by PSBs in order to reduce pendencies and enable banks to vigorously pursue other relatively large cases. The guidelines apply to borrowers in the small business including trading and personal segment and Agricultural Sector and all NPAs which are chronic and at least 3 years old as on March 31, 1999 and the scheme will be operative only up to September 30, 2000. The guidelines cover *inter alia* constitution of SACs, Functioning of SACs etc.

**(d) Follow up of instructions issued by RBI**

In the course of AFI, particular emphasis is placed on the contents of loan policy adopted by the bank and it's adherence in practice. Credit risk management system and other steps taken to tone up credit appraisal including training of staff is looked into at the time of inspection for such action as may be necessary.

During the discussion with banks either as a follow up of the Annual Financial Inspection Report or at other forums, banks are being continuously exhorted to take steps to reduce NPAs through involvement of staff at various levels by fixing requisite branch-wise and office-wise targets. Banks also conduct recovery camps in association with

Government Authorities to recover loans particularly in respect of small borrowers and other Government sponsored Schemes.

As the NPAs severely affect their profitability due to non accrual of interest income thereon and the requirement of making provisions from out of the profits banks have now become sensitive to reduction of NPAs and to prevent incidence of total NPAs. The Boards of the banks are also monitoring closely the performance in recovery of NPAs. Once the required legal reforms to expedite recovery of dues of the financial institutions are in place, significant reduction of NPAs is expected to take place.

(Deptt. of Economic Affairs—Banking Division O.M. No. F19/24/94-80A  
dated 17.8.2000)

**Recommendation (Sl. NO. 45 Para No. 4.35)**

On perusal of the details furnished by the Ministry for the years 1994-95 and 1995-96, the Committee find that banks have been able to achieve total reduction in NPAs on account of upgradation, compromise/write off and recovery of Rs. 7892 crore and Rs. 7751 crore respectively.

**Action Taken**

A statement showing the position of NPAs during the past 3 years viz., 1995-96, 1996-97 and 1997-98 and recovery of NPAs by upgradation and compromise/negotiated settlement is annexed (Annexure).

(Deptt. of Economic Affairs—Banking Division O.M. No. F19/24/94-80A  
dated 17.8.2000)

## Public Sector Banks—Upgradation of NPAs — 31-3-1996

Annexure - Para (4.35)  
(Rs. crore)

Name of the Banks	NPA at the beginning of the year	Upgradation	% to total Reduction/rec. in NPA	Com promise/writeoff	% to total Reduction/rec. in NPA	Recovery	% to total Reduction/rec. in NPA	Total of Reduction/rec. in NPA	Reduction/rec. as % to NPAs	Additions during the year	NPAs at the end of the Year
(1)	(2)	(3)	(4)	(4)	(5)	(5)	(3+4+5)	(3+4+5)			
State Bank of India	10926.15	7.00	0.42	532.00	31.59	1145.00	67.99	1684.00	15.41	1311.38	10553.5
State Bank of Bikaner & Jaipur	400.25	1.35	1.70	39.35	49.30	39.02	49.01	79.62	19.89	17.32	337.95
State Bank of Hyderabad	554.23	0.00	0.00	30.33	22.06	107.16	77.94	137.49	24.81	343.00	759.74
State Bank of Indore	199.01	9.00	24.61	10.02	27.40	17.55	47.99	36.57	18.54	56.40	218.84
State Bank of Mysore	284.48	8.51	15.93	11.67	21.84	33.25	62.23	53.43	18.78	97.88	328.93
State Bank of Patiala	330.98	0.00	0.00	12.57	57.53	9.28	42.47	21.85	6.60	90.58	399.71
State Bank of Saurashtra	197.70	4.95	12.39	8.55	21.40	26.46	66.22	39.96	20.21	108.24	265.98
State Bank of Travancore	377.88	13.71	12.28	43.24	38.74	54.66	48.97	111.61	29.54	163.95	430.22
<b>Total of SBI Group</b>	<b>13270.68</b>	<b>44.52</b>	<b>2.06</b>	<b>687.63</b>	<b>31.77</b>	<b>1432.38</b>	<b>66.18</b>	<b>2164.53</b>	<b>16.44</b>	<b>2188.75</b>	<b>13294.90</b>
Allahabad Bank	1235.11	98.00	42.79	29.00	12.66	102.00	44.54	229.00	18.54	248.89	1255.00
Andhra Bank	377.65	36.00	43.66	10.00	12.13	36.45	44.21	82.45	21.83	37.00	332.20
Bank of Baroda	2689.68	36.63	6.20	175.51	29.70	378.71	64.10	590.85	21.97	741.26	2840.09
Bank of India	2961.00	173.00	19.09	297.00	32.78	436.00	48.12	906.00	31.78	379.00	2434.00
Bank of Maharashtra	734.59	10.61	6.93	59.41	38.79	83.15	54.29	153.17	20.85	112.84	694.26
Canara Bank	1523.00	128.00	22.75	163.39	29.04	271.29	48.21	562.68	25.64	1687.00	2647.32
Central Bank of India	2154.78	48.00	8.87	138.00	25.51	355.00	65.62	541.00	21.83	806.22	2420.00
Corporation Bank	260.01	4.96	12.88	6.57	17.06	26.98	70.06	38.51	14.81	30.33	251.83
Dena Bank	557.00	40.00	21.16	72.00	38.10	77.00	40.74	189.00	33.93	173.00	541.00
Indian Bank	2102.41	46.00	12.20	104.00	27.59	227.00	60.21	377.00	17.94	1414.59	3140.00
Indian Overseas Bank	2001.41	15.00	3.79	84.00	21.21	297.00	75.00	396.00	20.48	414.59	2020.00
Oriental Bank of Commerce	221.94	15.60	18.25	0.80	0.94	69.10	80.82	85.50	38.53	134.86	271.30
Punjab & Sind Bank	619.32	1.18	1.95	3.13	5.18	56.13	92.87	60.44	8.92	398.65	957.53
Punjab National Bank	2033.00	65.00	14.44	85.00	18.89	300.00	66.67	450.00	22.13	935.00	2518.00
Syndicate Bank	1452.97	35.00	13.83	8.03	3.17	209.98	82.99	253.01	17.41	111.79	1311.75
UCO Bank	1745.60	15.00	6.85	90.00	41.10	114.00	52.05	219.00	14.19	312.92	1839.52
Union Bank of India	695.95	33.68	15.08	28.42	12.72	161.29	72.20	223.39	32.10	473.30	945.86
United Bank of India	1309.68	9.00	6.92	19.00	14.62	102.00	78.46	130.00	9.93	221.32	1401.00
Vijaya Bank	439.40	13.00	12.97	60.10	59.98	27.10	27.05	100.20	22.80	206.18	545.38
<b>Total for Natl. Banks</b>	<b>25114.50</b>	<b>823.66</b>	<b>14.74</b>	<b>1433.36</b>	<b>25.65</b>	<b>3330.18</b>	<b>59.60</b>	<b>5587.20</b>	<b>21.67</b>	<b>8838.74</b>	<b>28366.04</b>
<b>Total for PSBs</b>	<b>38385.18</b>	<b>868.18</b>	<b>11.20</b>	<b>2120.99</b>	<b>27.36</b>	<b>4762.56</b>	<b>61.44</b>	<b>7751.73</b>	<b>19.90</b>	<b>11027.49</b>	<b>41660.94</b>

## Public Sector Banks—Upgradation of NPAs

31-03-1997

Annexure - Para (4.35)  
(Rs. in crore)

Name of the Bank	NPAs at the beginning of the year	Upgradation	% to total Reduction/rec. in NPA	Com promise/writeoff	% to total Reduction/rec. in NPA	Recovery	% to total Reduction/rec. in NPA	Total of Reduction/rec. in NPA	Reduction/rec. as % to NPAs	Additions during the year	NPAs at the end of the Year
(1)	(2)	(3)	(4)	(4)	(6)	(5)	(8)	(3+4+5)	(10)	(11)	(12)
1	2	3	4	5	6	7	8	9	10	11	12
State Bank of India	10553.53	501.00	29.89	246.00	14.68	929.00	55.43	1676.00	15.29	2084.01	10961.54
State Bank of Bikaner & Jaipur	337.95	8.75	9.70	26.45	29.33	54.98	60.97	90.18	19.82	207.22	454.99
State Bank of Hyderabad	759.74	65.34	16.56	170.71	43.27	158.44	40.16	394.49	46.44	484.17	849.42
State Bank of Indore	218.84	5.67	8.95	26.02	41.09	31.64	49.96	63.33	23.74	111.25	266.76
State Bank of Mysore	328.93	19.34	21.50	22.80	25.34	47.82	53.16	89.96	19.26	228.09	467.06
State Bank of Patiala	399.71	28.05	32.08	19.62	22.44	39.76	45.48	87.43	19.22	142.52	454.80
State Bank of Saurashtra	265.98	12.50	24.71	7.04	13.92	31.05	61.38	50.59	15.50	111.01	326.40
State Bank of Travancore	430.22	8.07	7.78	41.61	40.12	54.03	52.10	103.71	17.67	260.34	586.85
Associates	2741.37	147.72	16.79	314.25	35.72	417.72	47.48	879.69	25.83	1544.60	3406.28
Total of SBI Group	13294.90	648.72	25.38	560.25	21.92	1346.72	52.69	2555.69	17.79	3628.61	14367.82
Allahabad Bank	1255.00	72.00	39.13	43.00	23.37	69.00	37.50	184.00	14.12	231.89	1302.89
Andhra Bank	332.20	32.15	42.14	33.46	43.86	10.68	14.00	76.29	20.86	109.77	365.68
Bank of Baroda	2840.09	66.03	10.53	207.51	33.09	353.55	56.38	627.09	20.12	903.00	3116.00
Bank of India	2434.00	193.00	24.28	258.00	32.45	344.00	43.27	795.00	34.95	636.00	2275.00
Bank of Maharashtra	694.26	7.39	5.77	48.73	38.04	71.99	56.19	128.11	17.09	183.28	749.43
Canara Bank	2647.32	212.00	33.53	51.18	8.10	369.00	58.37	632.18	19.02	1308.58	3323.72
Central Bank of India	2420.00	56.00	12.93	157.00	36.26	220.00	50.81	433.00	17.18	533.00	2520.00
Corporation Bank	251.83	1.50	4.81	7.89	25.29	21.81	69.90	31.20	9.85	96.15	316.78
Dena Bank	541.00	71.50	32.94	59.08	27.22	86.49	39.84	217.07	32.20	350.28	674.21
Indian Bank	3140.00	79.00	16.39	41.00	8.51	362.00	75.10	482.00	14.59	645.00	3303.00
Indian Overseas Bank	2020.00	41.00	4.89	416.00	49.64	381.00	45.47	838.00	63.63	135.00	1317.00
Oriental Bank of Commerce	271.30	60.21	37.68	16.29	10.19	83.30	52.13	159.80	43.48	256.06	367.56
Punjab & Sind Bank	957.53	35.70	26.34	22.91	16.90	76.92	56.75	135.53	12.44	267.70	1089.70

(Rs. in crore)

1	2	3	4	5	6	7	8	9	10	11	12
Punjab National Bank	2518.00	197.48	29.93	158.82	24.07	303.51	46.00	659.81	27.20	567.95	2426.14
Syndicate Bank	1311.75	5.93	2.31	58.79	22.93	191.68	74.76	256.40	19.85	236.43	1291.78
UCO Bank	1839.52	16.00	4.52	214.35	60.58	123.48	34.90	353.83	18.89	386.93	1872.62
Union Bank of India	945.86	66.00	20.13	30.01	9.15	231.85	70.72	327.86	33.19	369.80	987.80
United Bank of India	1401.00	37.00	22.16	54.00	32.34	76.00	45.51	167.00	11.95	164.00	1398.00
Vijaya Bank	545.38	41.00	27.88	26.02	17.70	80.02	54.42	147.04	28.72	113.62	511.96
<b>Total for Natl. Banks</b>	<b>28366.04</b>	<b>1290.89</b>	<b>19.41</b>	<b>1904.04</b>	<b>28.63</b>	<b>3456.28</b>	<b>51.96</b>	<b>6651.21</b>	<b>22.77</b>	<b>7494.44</b>	<b>29209.27</b>
Total of PSBs	41660.94	1939.61	21.07	2464.29	26.77	4803.00	52.17	9206.90	21.13	11123.05	43577.09

## Public Sector Banks—Upgradation of NPAs

— 31-03-1998

Annexure - Para (4.35)  
(Rs. in crore)

Name of the Bank	NPA at the beginning of the year	Upgradation	% to total Reduction/rec. in NPA	Com-promise/writeoff	% to total Reduction/rec. in NPA	Recovery	% to total Reduction/rec. in NPA	Total of Reduc ion/rec. in NPA	Reduc ion/rec. as % to NPAs	Addi tions dur- ing the year	NPAs at the end of the Year
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
State Bank of India	10961.54	716.00	28.23	667.00	26.30	1153.00	45.47	2536.00	22.12	3039.82	11465.36
State Bank of Bikaner & Jaipur	454.99	17.51	12.53	59.66	42.70	62.55	44.77	139.72	30.17	147.77	463.04
State Bank of Hyderabad	849.42	75.65	21.73	117.52	33.75	155.00	44.52	348.17	36.09	463.42	964.67
State Bank of Indore	266.76	7.32	9.89	24.52	33.12	42.20	57.00	74.04	24.69	107.11	299.83
State Bank of Mysore	467.06	45.49	40.88	26.15	23.50	39.63	35.62	111.27	20.65	183.04	538.83
State Bank of Patiala	454.80	29.85	22.02	91.78	67.72	13.90	10.26	135.53	26.33	195.48	514.75
State Bank of Saurashtra	326.40	15.45	22.33	18.69	27.01	35.06	50.66	69.20	18.97	107.58	3645.78
State Bank of Travancore Associates	586.85	46.90	32.06	39.13	26.74	60.28	41.20	146.31	16.06	470.46	911.00
<b>Total of SBI Group</b>	<b>14367.82</b>	<b>954.17</b>	<b>26.80</b>	<b>1044.45</b>	<b>29.34</b>	<b>1561.62</b>	<b>43.86</b>	<b>3560.24</b>	<b>22.94</b>	<b>4714.68</b>	<b>15522.03</b>
Allahabad Bank	1302.89	64.09	26.45	115.78	47.77	62.48	25.78	242.35	16.61	398.39	1458.93
Andhra Bank	365.68	4.46	3.91	81.44	71.38	28.20	24.72	114.10	33.43	89.72	341.30
Bank of Baroda	3116.00	77.00	8.44	419.00	45.94	416.00	45.61	911.00	29.14	925.28	3129.28
Bank of India	2275.00	231.00	24.87	310.00	33.37	388.00	41.77	929.00	34.81	1323.00	2669.00
Bank of Maharashtra	749.43	15.42	7.26	128.37	60.41	68.70	32.33	212.49	29.97	172.15	709.09
Canara Bank	3323.72	226.00	27.97	156.00	19.31	426.00	52.72	808.00	22.56	1065.09	3580.81
Central Bank of India Corporation Bank	2520.00	76.00	19.74	147.00	38.18	162.00	42.08	385.00	15.95	279.53	2414.53
Dena Bank	316.78	5.59	8.49	21.56	32.75	38.69	58.76	65.84	19.26	90.92	341.86
Indian Bank	674.21	160.00	51.28	67.00	21.47	85.00	27.24	312.00	40.27	412.58	774.79
Indian Overseas Bank	3303.00	165.00	47.49	23.37	6.73	159.04	45.78	347.41	10.13	472.80	3428.39
Oriental Bank of Commerce	1317.00	38.00	8.15	268.00	57.51	160.00	34.33	466.00	37.13	404.00	1255.00
	367.56	0.00	0.00	61.08	48.48	64.90	51.52	125.98	31.71	155.65	397.23

Punjab & Sind Bank	1089.70	34.58	17.66	97.28	49.69	63.90	32.64	195.76	18.84	144.96	1038.90
Punjab National Bank	2426.14	67.00	9.87	386.00	56.85	226.00	33.28	679.00	27.75	699.86	2447.00
Syndicate Bank	1291.78	9.98	3.65	102.24	37.36	161.44	58.99	273.66	23.09	167.17	1185.29
UCO Bank	1872.62	13.92	3.75	176.33	47.54	180.66	48.71	370.91	20.83	278.59	1780.30
Union Bank of India	987.80	26.41	12.55	16.47	7.83	167.49	79.62	210.37	17.61	417.30	1194.73
United Bank of India	1398.00	10.00	10.31	12.00	12.37	75.00	77.32	97.00	6.69	150.00	1451.00
Vijaya Bank	511.96	10.23	10.35	28.17	28.50	60.45	61.15	98.85	18.55	119.84	532.95
<b>Total for Natl. Banks</b>	<b>29209.27</b>	<b>1234.68</b>	<b>18.04</b>	<b>2617.09</b>	<b>38.23</b>	<b>2993.95</b>	<b>43.73</b>	<b>6845.72</b>	<b>22.72</b>	<b>7766.83</b>	<b>30130.38</b>
<b>Total for PSBs</b>	<b>43577.09</b>	<b>2188.85</b>	<b>21.03</b>	<b>3661.54</b>	<b>35.19</b>	<b>4555.57</b>	<b>43.78</b>	<b>10405.96</b>	<b>22.79</b>	<b>12481.51</b>	<b>45652.64</b>



**Recommendation Sl. Nos. 46—48 (Para Nos. 4.36—4.38)**

High level of Non-Performing Assets (NPAs) in the banking sector at present is the most worrisome aspect of the financial sector. NPAs in Public Sector Banks (PSBs) at about 18 per cent of credit portfolio are much in excess of international standards where the tolerable levels of NPAs are around 3 to 4 per cent. The Committee are satisfied to note that banks are aware of the paramount need for containing NPAs. But despite taking various suitable corrective measures and putting in place credit monitoring systems by PSBs to bring the ratio down to a manageable level, they have been able to achieve relatively limited success.

The Committee feel that recovery of dues by the banks is one of the major concerns in view of the need for recycling the funds for socio-economic development and the very survival of the banking sector. For intensive recovery efforts the main hurdle has been the time consuming legal process because of which the borrowers do not feel compelled to come forward for settling their dues. With the introduction of prudential norms and concept of NPAs from the year 1992-93 and also requirement for provisioning, credit procedures will become a critical input in credit decisions. The time, cost and efforts in recovery of loans will determine whether banks are willing to grant loans to borrowers where they are sure that they can recover their dues quickly and not get bogged down in endless wrangling. That may spell disaster especially for small and medium borrowers. It is therefore imperative in the larger interest of the borrowers that there should be legislative changes to ensure quick recovery of NPAs and enable the banks to perform their assigned role of lending for socio-economic development of the people.

The Committee note from the submissions made by the banks during their study tours as also from the Ministry of Finance in their notes furnished to the Committee that the major handicap in quick recovery of dues of the banks is the slow and dilatory process of recovering dues. It takes a very long time before it is possible to obtain a decree and even after a decree is obtained, there are problems in execution of the decree for realisation of assets/decretal dues. The Committee are informed that as on March, 1993, there were a total of 10.25 lakh accounts of Public Sector Banks involving an amount of Rs. 4071.60 crore in respect of which suits have been filed by banks. Further, decrees have been obtained in respect of 5.21 lakh accounts. IBA in this connection has suggested that there was a need to refine the legal system and strengthen the recovery powers of banks akin to those available for the Revenue Department, Cooperative Banks and Developmental Financial Institutions.

The Committee feel that there is need for Government support both at the Centre and at the State level for extending help of the Revenue Departments in effective recovery in different cases and rendering required assistance in executing decrees obtained from the courts. The Committee

desire that the matter may be taken up at the highest level in the Ministry of Finance with other Departments of the Government of India and their PSUs where huge funds of banks are blocked up and also impress upon the State Governments for providing requisite assistance for execution of decrees granted by the Courts in favour of the banks for recovery of their dues as also the need for bringing about amendments in the Recovery Acts to effect improvement in the recovery of banks' dues, and strengthen recovery powers to the banks as available to Revenue Departments, Cooperative Banks and Developmental Financial Institutions as suggested by IBA and introduction of a system whereby borrowers should be compelled for timely payment of bank dues thus obviating time consuming and costly civil court proceedings in the larger interest of borrowers.

#### Action Taken

[Paragraph 4.36, 4.37 and 4.38]

The Tiwari Committee appointed by RBI to examine legal and other difficulties faced by banks and financial institutions in rehabilitation of sick industrial undertakings and to suggest remedial measures, also went into the question of recovery of dues of the banks and financial institutions. The committee had examined three alternative modes of recovery of bank's dues as under:

- (a) Recovery of dues as arrears of land revenue;
- (b) To confer powers on banks and Financial Institutions similar to those IFCI/SFCs;
- (c) Setting up of Special Tribunals.

After going into the pros and cons of various alternative suggested, the Tiwari Committee recommended that the Government of India should set up Special Tribunals which would adjudicate finally within a time bound schedule, all matters relating to the recovery of dues of banks and financial institutions.

The Hegde Committee appointed by RBI in 1992 also endorsed the recommendations of the Tiwari Committee for enactment of a legislation for setting up of Special Tribunals. Accordingly, the "Recovery of Debts due to Banks and Financial Institutions Act", was enacted on 27th August 1993 to provide for the establishment of Tribunals for expeditious adjudications and recovery of debts due to banks and financial institutions. It may be stated that under Section 25 of the Act, *ibid*, the Recovery Officer has been conferred with the powers of attachment and sale of movable or immovable property of the defendant. An Ordinance was also issued on 17th Jan. 2000 providing more teeth.

Subsequently, a Working Group constituted by the RBI in March 1998 to review the entire functioning of the Debt Recovery Tribunals and suggest measures, including suitable amendments to the Act to make them an effective machinery for recovery of debts due to banks and financial

institutions, has recommended certain amendments to the Act and the rules framed thereunder, for the effective functioning of the DRTs. These recommendations are being examined for implementation in consultation with the Committee chaired by Shri T.R. Andhayarujina.

The issue regarding empowering banks to take action on the lines of Section 29 of the SFCs Act, 1951 was examined in the context of the suggestion made by the Estimates Committee on Bad Debts. In terms of Section 29 of the Act *ibid*, SFCs have right to take over the management or possession or both of industrial concerns who have defaulted in payment of their dues and transfer them by sale or lease, etc. Our Legal Department have opined that while the question is not about the legal permissibility of giving such powers to the banks, the real question is the practical utility and enforceability of such rights by the banks. As it happens in many cases, there is resistance by the borrower and it is very difficult to implement the provisions unless the machinery for enforcement of rights is also provided, such as assistance of police, etc. to secure possession of property. In view of the foregoing, Legal Department have expressed a view that while there is no legal objection to confer on banks powers similar to the powers conferred by Section 29 of the SFCs Act, the practical utility and enforceability thereof has also to be taken into account. For ascertaining the effectiveness of the above provisions in the recovery of dues of SFCs, we had requested I.D.B.I. to furnish us with the information regarding experience of SFCs in the recovery of their dues using the powers of Section 29, 30 and 31 of the Act. The information received indicates that though the provisions *per se* provide very extensive powers to the SFCs for recovery of their dues without intervention of Courts, there are various practical difficulties in enforcing these powers.

The Committee of Banking Sector, Reforms (Narasimham Committee II) and the Committee to review NPAs of public sector banks under the Chairmanship of Shri Pannir Selvam, Chairman IBA and Chairman & Managing Director, Union Bank of India have suggested that there was imperative need for undertaking reforms in the legislative framework affecting banks. A Committee under the Chairmanship of Shri T.R. Andhayarujina, former Solicitor General has been appointed by Government of India to recommend necessary amendments to the statutes affecting banking industry.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation Sl. No. 49 (Para No. 4.39)**

At present no policy guidelines have been laid down either by RBI or by the banks themselves for filing of suits for recovery of their non-performing assets. Under the prudential norms, assets have been classified into four categories depending upon the periodicity of their non-performance *i.e.* standard, sub-standard, doubtful and loss assets. It is

really surprising that no timeframe has been prescribed for filing recovery suits in respect of doubtful/loss assets. According to the Finance Secretary, banks should file recovery suits the moment they lose hope of recovery. The Committee feel that in the absence of strict monitoring many unscrupulous borrowing units may simply vanish and there will neither be a promoter nor any property left against which the bank can make recovery. The reality is that in the absence of specific guidelines the functionaries of banks file recovery suits when it is virtually impossible to recover their money. As such banks need to act fast for timely action of filing recovery suits. The Committee, therefore, desire that banks should lay down specific guidelines duly approved by their Board of Directors for filing recovery suits and be made a part of their Loan Recovery Policy. The Committee would like to be apprised of the follow up action taken by Government in this regard.

#### **Action Taken**

We have advised banks to lay down Credit Policy and Recovery Policy with the approval of their Board. The decision to file a suit in respect of a borrowal account is generally taken by banks in accordance with their loan policy and keeping in view the availability/enforceability of charges, adequacy of realisable value of securities to cover the dues, period of limitation, the time and cost involved in litigation etc. With a view to impressing upon the banks the requirement of prompt legal action through filing suits to recover banks dues, RBI advised banks for timely and appropriate legal action for realisation of assets and recovery of dues from the borrowers to bring down the level of NPAs. In cases where loss assets are more than two years old on the books of the bank without legal action being initiated, banks should submit a review note to the Managing Committee/Board giving specific reasons as to why suits have not been filed with respect to position as on September 30 and March 31 of each year.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation Sl. No. 50 (Para No. 4.40)**

The Committee note that to fill up a major lacuna in the existing legal framework, the Recovery of Debts due to Banks and Financial Institutions Act, 1993 has been enacted to provide for expeditious adjudication and recovery of debts due to the Banks and Financial Institutions. One of the salient features of the Act is that the "Tribunal and the Appellate Tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 but shall be guided by the principle of natural justice and subject to other provision of the Act." The Committee further note that the Delhi High Court had held that the Recovery of Debts due to Banks and Financial Institutions Act, 1993 was unconstitutional. However, the Supreme Court has stayed the Delhi High Court order and admitted Special

Level Petition (SLP) filed on behalf of the Government. The matter came up for hearing in July, 1997. The Division Bench of the Supreme Court decided to refer the matter to a three Judge Bench. The Union of India had also filed a Transfer Petition (TP) before the Hon. Supreme Court requesting the transfer of all the cases pending before various High Courts and to hear all these cases alongwith the SLP filed by the Union of India.

#### **Action Taken**

The SLP is still pending before the Hon'ble Supreme Court. During the hearing of the SLP, the Hon'ble Supreme Court passed the following orders:

The learned Solicitor General, Shri. Santosh Hegde submits that after the notifications were issued on 19.1.1998, there have been discussions between the learned Attorney General and the Government with regard to the proposed amendments to the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and the relevant rules. It is submitted that various suggestions, including the suggestions that the Debts Recovery Tribunals be manned by a District Judge, specially designated for the purpose by the concerned High Court etc: would be considered by the Govt. While considering the amendments to the Act, Learned Solicitor General submits that necessary steps would be taken expeditiously by the Govt. and he prays for eight weeks time to seek instructions and give response of the Govt. with regard to the proposed amendment of the Act and the rules.

3.11.98: Learned Solicitor General submits that the Government is considering making certain amendments to the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and the matter is engaging the attention of the concerned Ministry. It is submitted that within eight weeks the position shall be clear as to what amendments are going to be made to the Act. Learned Solicitor General prays for these matters to lie over for eight weeks.

Pursuant to the orders dated 3-11-1998 passed by the Hon'ble Supreme Court, an Ordinance has been promulgated on 17-1-2000 known as the Recovery of Debts due to Banks and Financial Institutions (amendment) Ordinance, 2000. The Bill to replace the Ordinance has since become an Act.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation Sl. No. 51 (Para No. 4.41)**

The Act provides for establishment of Tribunals. So far, nine Debt Recovery Tribunal (DRTs) have been established having their jurisdiction over certain States. These are located at Calcutta, Delhi, Jaipur, Bangalore, Ahmedabad, Chennai, Patna, Jabalpur and Guwahati. There is one Appellate Tribunal at Mumbai having jurisdiction all over India and

over all Tribunals. In Their general comments on DRTs, IBA has pointed out that the infrastructure at most DRTs is poor. Some of the Tribunals have large geographical coverage. IBA has also suggested that DRTs may be expeditiously opened in unrepresented States like Maharashtra and Uttar Pradesh. Government should also set up DRTs at more places for example at Chandigarh to cover States of Haryana, Punjab and Himachal Pradesh and Appellate Tribunals at Delhi, Calcutta and Chennai.

#### **Action Taken**

In the opinion of the Working Group, not only there should be the Debt Recovery Tribunal in every State, but there should be more than one Tribunals in the same State if the work load of the Tribunals so justify. The Presiding Officers of DRTs should not have more than 30 cases on the board on any given date and there should not be more than 800 cases pending before it at any given point of time. If the number of cases go beyond 800, the Government should consider appointing more Presiding Officers and even more tribunals to deal with such cases. It is observed from the Report of the Working Group that the establishment of four more appellate tribunals in major centres (*i.e.* Delhi, Chennai, Calcutta and Guwahati) in the country is under Government's consideration. The Working Group has recommended accordingly.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation Sl. No. 52 (Para No. 4.42)**

Meanwhile the Tribunals have started functioning and disposing of the cases filed by the Banks/financial institutions. In regard to the experience of the Government in the disposal of cases by the Tribunals and whether there was any need for amendment to be made in the Act for expediting disposal of cases, the Ministry have informed that the disposal of cases by the Tribunals is not the desired extent because of the judgement of the Delhi High Court on the validity of the Act. Keeping in view the judgement of the Delhi High Court, the Government have felt the need to carry out some amendments in the Act. But the same has been kept pending till the disposal of SLP by the Supreme Court on the advice of the Ministry of Law on the matter.

#### **Action Taken**

Working Group have finalized its final report on 31.8.1998 and have suggested various amendments to Recovery of Debts due to Banks and Financial Institutions Act, 1993 for the effective functioning of DRTs and the same have been examined by the Government for consideration. Reply given in respect of Point No. 4.26 may also be referred to.

(Deptt. of Economic Affairs—Banking Division O.M. No. F. 19/24/94-80A dated 17.8.2000)

**Recommendation Sl. No. 53 (Para No. 4.43)**

Provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993, do not apply where the amount of debts due to any bank or financial institution or to a consortium of banks or financial institutions is less than ten lakh rupees or such other amount being not less than one lakh rupees as the Central Government by notification may specify. In order to achieve the objectives of expeditious disposal of cases of substantial amount and to ensure that DRTs do not get loaded with large number of cases, at present cut off limit of rupees ten lakh and above has been specified. The Committee desire that this cut off limit should be reduced to Rs. 5 lakh as soon a pendency of cases before the Tribunals falls considerably.

**Action Taken**

Having regard to the infrastructural constraints and large number of court cases transferred to the DRTs under Section 31 of the Act there is acute pressure on the DRTs. Therefore, the Working Group had recommended that once the recommendation to appoint more DRTs is accepted by the Government and the number of pending cases comes down, Government may consider lowering the present limit of Rs. 10 lakh in terms of Section 1(4) of the Recovery of Debts due to Banks and Financial Institutions Act, 1993, so that more cases of recovery of bank dues are covered by the DRTs.

(Deptt. of Economic Affairs—Banking Division O.M. No. F 19/24/94-80A dated 17.8.2000)

**Recommendation Sl. No. 54 (Para No. 4.44)**

The Committee note that keeping in view the judgement of the Delhi High Court on the validity of the Act, the Government propose to carry out some amendments in the Act after the disposal of the Special Leave Petition by the Supreme Court. In this connection, IBA has pointed out that in many cases stay orders are being obtained against orders passed by DRTs causing delays and legal bttles at the execution stage. The Committee desire that before initiating amendments in the Act, the Ministry of Finance in the light of recommendations of Working Group constituted by RBI should hold deep consultations with IBA and Financial Institutions on measures considered essential for making DRTs more effective for speedy recovery of bank dues and also the need for more Tribunals.

**Action Taken**

Comprehensive amendments in DRT Act have been carried out on the basis of the suggestions made by Working Group set up by RBI, Supreme Court during various hearings of SLP, Rajya Sabha Committee on Subordinate Legislation, Expert Committee set up by RBI for recommending legal framework concerning Banking System, Presiding

Officers of DRTs/DRATs & CMDs of banks and other organizations and individuals. The Cabinet in its meeting held on 7-12-99 approved the proposal to carry out amendments in DRT Act. An ordinance promulgated on 17-1-2000 has since become an Act.

(Deptt. of Economic Affairs—Banking Division O.M. No. F 192494-80A dated 17.8.2000)



## CHAPTER III

### RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

#### Recommendation Sl.No. 9 (Para No. 2.26)

The Committee note from information furnished by the Ministry of Finance that in percentage terms, NPAs came down significantly from 23.18 per cent as on March 1992 (when prudential norms were introduced) to 17.84 per cent (provisional) as on 31 March, 1997 *i.e.* a reduction of 5.34% in a period of four years. Another notable feature is that banks have been able to avert further growth in NPAs in absolute terms *vis-a-vis* growth in lending. In absolute term these NPAs have accumulated from Rs. 39,253 crore as on March 1993 to an amount of Rs. 43,577 crore as on March 1997. At present, 17 banks have non-performing assets in the range of 10 per cent to 20 per cent and 8 banks hold NPAs above the level of 20 per cent. It is shocking to find that one bank has NPAs at the level of 36.20 per cent and another one has as high as 39.12 per cent. Only two banks have NPAs in the range of 5 to 10 per cent which according to Chairman, IBA, is tolerable level under the prevalent economic and industrial development Scenario. However, the Committee is extremely unhappy to observe that none of the Public Sector Banks has been able to contain NPAs as per international standards where the tolerable levels of NPAs are around 3 to 4 per cent.

#### Action Taken

(I) Internationally the banks generally adjust the NPAs against provisions for loan losses annually. This has however not been feasible in India due to delay in recovery through litigation and in line with this practice banks in India are now required to disclose in their annual accounts the percentage of net NPAs to net advances.

Since March 1996, a method of recognising net NPAs was introduced for banks in India which can be compared with NPAs of other banks internationally.

The net NPAs are to be reckoned by deducting from Gross NPAs (i) balance in interest suspense account, (ii) claims received from DICGC/ECGC but kept pending adjustment, (iii) any part payment received but not adjusted and (iv) the total provision held. The gross advances net of the above amounts at (i) to (iv) gives net advances. The percentage of net NPAs to net advances is a closer measure of NPAs since the provisions take care of loan losses and the amount in interest suspense represents uncollected interest.

The percentage of net NPAs of Public Sector Banks worked out on the above basis for the last three years ended 31st March are as under:

Year	0 to 5%	5 to 8%	8 to 10%	10% above
1996-97	2	9	6	10
1997-98	3	10	4	10
1998-99	4	8	6	9

Andhra Bank (2.92%) and Corporation Bank (2.93%) have least % of net NPAs to net advances as on 31.03.1998.

(II) The Committee on Banking Sector Reforms (Narasimham Committee-II) believes that the objective should be to reduce the average level of net NPAs for all banks to below 5% by the year 2000 and to 3% by 2002. For those banks with an international presence the minimum objective should be to reduce gross NPAs to 5% and 3% by the year 2000 and 2002 respectively and net NPAs to 3% and 0% by these dates. These targets cannot be achieved in the absence of measures to tackle the problem of backlog of NPAs on a one time basis and the implementation of strict prudential norms and management efficiency to prevent the recurrence of this problem. (Chapter III, Para 3.26)

The following steps have been initiated to tackle the problem of high level NPAs of PSBs with a view to bringing them below 5% of net advances.

Debt Recovery Tribunals (DRTs) set up at Calcutta, Delhi, Bangalore, Ahmedabad, Chennai, Guwahati, Jaipur, Patna and Jabalpur and an Appellate Tribunal in Mumbai to assist speedy recoveries of banks dues. Government have proposed to set up more DRTs at other centres.

(III) Government of India had appointed a Committee headed by Shri Pannir Selvam, Chairman IBA and Chairman & Managing Director, Union Bank of India to look into the problems of NPAs of the Public Sector Banks and to suggest measures to bring down the NPAs in the banks to acceptable levels.

(IV) The Committee on Banking Sector Reforms (Narasimham Committee-II) also has made certain other recommendations in regard to NPAs of banks.

The recommendations of both the Committees are under examination of Government of India/RBI.

- Based on the Committee on Banking Sector Reforms recommendations, on the imperative need for undertaking reforms in the legislative framework affecting banks a Committee under the Chairmanship of Shri T.R. Andhyarujina, former Additional Solicitor General, has been appointed by the Govt. to recommend necessary amendments.
- A Working Group constituted by the RBI in March 1998 to review the entire functioning of the Debt Recovery Tribunals and suggest measures, including suitable amendments to the Act, to make them an effective machinery for recovery of debts due to banks and financial institutions, has recommended certain amendments to the Act and the rules framed thereunder, for the effective functioning of the DRTs.

These recommendations have been examined for implementation. An ordinance was promulgated on 17.1.2000 to amend the recovery of debts due to Banks and Financial Institutions Act, 1993. The ordinance provides, *inter-alia*, for set-off and counter claims, measures for prevention of alienation of property, appointment of receivers and commissioners by the Tribunals, appointment of more than one recovery officer, and empowering the Tribunals to distribute the sale proceeds among secured creditors in accordance with the provisions of the Companies Act, 1956.

- Asset Reconstruction Fund: A Group was set up to look into this subject and report submitted by the Group is under examination.

(Deptt. of Economic Affairs—Banking Division O.M. No. F 192494-80A dated 17.8.2000)

#### **Recommendation (Sl.No. 10 Para No. 2.27)**

The Committee note that several factors mostly on the part of banks and also on the part of borrowers contribute to bad loans. Factors external to the banks and the borrowers such as changes in Government policies to some extent also could cause default in loans. Failure to render honest, dedicated and diligent service in the discharge of responsibility to the borrowers, poor motivation and inadequacy of professional skills for assessment of business risks, corporate failures both in the public and private sectors, scandalous siphoning off of funds by corporate racketeers and no fear of legal action initiated for recovery of problem loans from recalcitrant borrowers under the present slow and complex legal system are the major factors causing hike in NPAs.

#### **Action Taken**

The Estimates Committee recognises the fact that external factors such as Government Policy, inadequacy of professional skills for assessment of business risks and corporate failure and also complex legal system are the factors causing hike in NPAs of PSBs.

To enable the banks to have skilled personnel for specialised functions, the banks fulfilling certain conditions have been given autonomy in the matter of recruitment. These banks can:

- (a) decide their own policy in respect of creation, abolition, upgradation/ modification of posts for their administrative offices upto TEGS-VI (Dy. General Manager).
- (b) (i) assess the requirement and make direct recruitment of specialist officers as per their requirements and
  - (ii) recruit upto 30 per cent vacancies of probationary officers earmarked for direct recruitment, by way of campus recruitment from recognised management and other professional institutions.

All the banks have the autonomy for:

1. delegation of powers to Board for personnel placement in the overseas branches of public sector banks.
2. promotion to Senior and Top Executives Grades.
3. delegation of powers with regard to deputation of officers/lateral induction of officers on contract basis/lateral mobility of officers within the banks.
4. requirements of Rural/Semi-urban posting for bank officers.

Regarding legal system for recovery of NPAs and reduction of NPAs of PSBs, the Pannir Selvam Committee on NPAs of Public Sector Banks has made the following recommendations:

- Changes in legislation for facilitating smooth mergers/acquisition and appropriate legislation for recovery of banks' dues,
- Setting up of Asset Reconstruction Fund (ARF),
- Strengthening of credit appraisal, credit monitoring, credit risk rating, and monitoring of standard assets to arrest fresh NPAs,
- Review of doubtful and loss assets,
- Improvement in functioning of BIFR by constituting more Benches and adequate infrastructure,
- Extension of statutory powers under Section 29 of SFCs Act available to SFCs to the banks,
- Establishing separate Bench of Civil Courts for dealing with recovery cases of banks/Financial Institutions at all levels, and
- Compulsory arbitration through former Senior Supreme Court/High Court Judge, ex-ED/Chairman & Managing Director of banks/FIs, in disputes between banks or banks and FIs.

The recommendations made by both the Committees on the same issues are being examined for taking a comprehensive view. A Working Group

was set up in RBI to suggest measures for strengthening the effectiveness of DRTs who have since submitted report.

- A Working Group constituted by the RBI in March 1998 to review the entire functioning of the Debt Recovery Tribunals and suggest measures, including suitable amendment to the Act, to make them an effective machinery for recovery of debts due to banks and financial institutions, has recommended certain amendments to the Act and the rules framed thereunder, for the effective functioning of the DRTs. These recommendations have been examined for implementation. An ordinance was promulgated on 17.1.2000 to amend the Recovery of Debts due to Banks and Financial Institutions Act, 1993. The ordinance has since been converted into the Act. The Act provides, *inter-alia*, for set-off and counter claims, measures for prevention of alienation of property, appointment of receivers and commissioners by the Tribunals; appointment of more than one recovery officer and empowering the Tribunals to distribute the sale proceeds among secured creditors in accordance with the provisions of the companies Act, 1956.
- Asset Reconstruction Fund: A Group was set up to look into this subject and report submitted by the Group is under examination.

[Deptt. of Economic Affairs—Banking Division O.M. No. F 19/2494-80A dated 17.8.2000]

#### Recommendation (Sl. No. 17 Para 2.34)

The Committee have been informed by IBA that there are no well defined safe limits as far as non-performing assets of the banks are concerned. But as per international standards the tolerable levels of NPAs are around 3 to 4 percent. The Basle Committee on Banking Regulations and Supervisory Practices functioning in the Bank for International Settlements (BIS) has prescribed certain capital adequacy standards for banks which are being implemented in a large number of countries. The BIS standard seeks to measure capital adequacy a ratio of capital to risks weighted assets and the ratio prescribed thereunder is 8 percent. The Committee on the Financial System (Narasimham Committee) *inter alia* suggested that banks should, under a phased programme, move towards meeting the BIS norms on capital adequacy of 8 percent; which should be achieved by March, 1996. The Minister of Finance in his Budget Speech on 1st June, 1998 has stated that in strengthen the underlying health of banks, RBI is raising the minimum required Capital Adequacy Ratio for banks from the present 8 percent to 9 percent by March 31, 2000 and to 10 percent by as early as possible thereafter. The Committee, however, feel that the increase in the Capital Adequacy Ratio for public sector banks as proposed in the budget for 1998-99 in pursuance of recently submitted Narasimham Committee Report may not be considered adequate in the light of a very high percentage of non-performing assets which is around 18 percent at present, *vis-a-vis*, the international standard of tolerable levels of NPAs around 3 to 4 percent for which ratio prescribed as per BIS norms is 8 percent.

### Action Taken

The CRAR of 9% was prescribed for banks based on the recommendations of Narasimham Committee—II. The enhancement of CRAR is aimed at moderately higher level of 9% to be achieved by March 31, 2000 and 10% as early as possible thereafter. Although the BIS norms is 8% actually the banks with international level have much higher CRAR.

The estimates for growth of risk weighted assets and capital and profits of PSBs were taken into account while prescribing the enhanced CRAR. As on 31st March, 1998 as many as 19 PSBs are having CRAR above 10% and seven banks have CRAR between 8 and 10% when the requirement was 8%. As the enhanced requirement is for the year ended 31st March, 2000, it is expected that the PSBs may not find it difficult to achieve CRAR of 9% by 31.03.2000.

The level of Gross NPAs of Public Sector Banks as a percentage to Gross advances has been on decline. The percentage of gross NPAs of PSBs which was 23.18 percent for 1992-93 has come down to 16.02 percent for 1997-98. It is the endeavour of RBI that the NPAs are brought down substantially. RBI has taken/initiated following measures in this regard:

- (a) A group appointed to look into creation of Asset Reconstruction Companies, as recommended by the Committee on Financial System (CFS) in 1991 has submitted its report which is under examination.
- (b) Creation of more DRTs is proposed by Government and streamlining the set up and procedures as recommended by Deshpande Group on DRTs.
- (c) A group was appointed for laying down model guidelines for compromise/negotiated settlements.
- (d) A group has been appointed under the Chairmanship of Shri T.R. Andhyarujina former Additional Solicitor General of India to recommend amendments to legislative frame work affecting banks in particular recovery of bank dues.

[Deptt. of Economic Affairs—Banking Division O.M.—No. F1924—80A dated 17.8.2000]

### Recommendation (Sl. No. 21 Para 3.54)

According to the Ministry of Finance, with the prudential norms on income recognition, asset classification and provisioning for bad debts from April 1992, the public sector banks have become sensitive to non-performing assets. The deed loans that came about are loans which has accumulated over the period before 1992-93. The incidence of NPAs on the fresh credit facilities sanctioned since introduction of prudential norms in 1992-93 ranges from 3 and 4 percent in the case of public sector banks. The Committee would have been much happier had this been the correct position. But facts are otherwise. Apart from considerable growth in

deposits, the investible resources of the banks had substantially increased (by more than Rs. 61000 crore) through successive cuts in CRR which had been brought down from 15 percent to 10 percent. The banks, though being flush with funds and can take on considerable lending activities, are reluctant to perform their legitimate function of lending to corporate sector. One wonders what would be the NPA ratio if the banks expand their credit to corporate sector instead of investing to zero-risk low yield Government securities. According to media reports, nearly 60 percent of the banks' funds are being invested in Government securities and in the debt market. What is further surprising is that with vast network of branches even in remote and inaccessible areas of the country and where need for bank credit is most acute, the Public sector banks like foreign banks for meeting their targets for priority sector have taken recourse to the option of deployment of their priority sector funds with SIDBI and NABARD to avoid non-performing assets that may accrue in case of defaults.

#### Action Taken

1. Domestic banks which do not achieve the priority sector target are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF), maintained with NABARD, depending on each bank's shortfall. The Fund is utilised by NABARD for giving loans to State Governments for completion of projects relating to rural infrastructure.

2. Foreign banks operating in India which do not achieve the priority sector lending target (32% of net bank credit) and the sub-targets in respect of SSI (10%) and Exports (12%), are required to deposit amounts equivalent to the entire shortfall with SIDBI for a period of one year presently at an interest rate of 8 percent per annum.

3. The Committee on Banking Sector Reforms (Second Narasimham Committee) had recommended debt securitisation under priority sector lending or other similar arrangements which would enable banks unable to achieve the target to purchase part of the loan portfolio from banks having exposure to the priority sector in excess of the target. Till such sophisticated arrangements are put in place, the stipulations as in paragraphs 1 and 2 above enable banks working in areas where credit absorption is less or where scope for direct lending to priority sector is limited, to support priority sector credit through development financial institutions (such as NABARD and SIDBI) which provide financial assistance to borrowers under the priority sector. NABARD through RIDF supports State Government efforts in rural infrastructure development which will improve future credit absorption capacity.

Those banks which are able to lend more to priority sector borrowers also get the advantage of refinance from these institutions, whose resources improve as a result of deposits/investments made by banks not achieving the priority sector target.

(Deptt. of Economic Affairs-Banking Division O.M.No. F1924/94—80A  
dated 17.8.2000)



## **CHAPTER IV**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT'S REPLIES HAVE NOT BEEN ACCEPTED BY THE COMMITTEE**

#### **Recommendation Sl. No. 15 (Para No. 2.32)**

Apart from revamping the present procedure and system for awarding deterrent punishment for such serious irregularities and wrongdoings, the laid down system for selection and appointment of senior executives including top executives of the banks should be reviewed so that officers of integrity, proven sense of duty and responsibility are appointed to these positions.

#### **Action Taken**

Appointment of Chairmen and Managing Directors of nationalised banks is done by the Government in pursuance of powers conferred by Clause (a) of sub-section 3 of Section 9 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 read with sub-clause (1) of clause 3, clause 5, clause 6, clause 7 and sub-clause (1) of clause 8 of Nationalised Banks (Management and Miscellaneous provisions) Scheme 1970/1980, in consultation with the Reserve Bank of India.

Normally, appointment of Chairman and Managing Director (CMD) is made from amongst the Executive Directors (EDs) of nationalised banks and senior executives of Reserve Bank and State Bank of India. At times Government appoints executives from Indian Administrative Service also.

Government have constituted an Appointments Board which will make recommendations to Government for appointment of Chief Executive Officers and Executive Directors of nationalised banks and the Chief Executive Officers of financial institutions. The selection by the Board will be based on professional experience and expertise in the relevant field. Government call for recommendations of Reserve Bank for appointment of the Chairman and Managing Director. Reserve Bank examines their suitability from all angles, including their past performance, vigilance disciplinary cases in the past/contemplated, if any etc. and conveys recommendations to Government. After obtaining the views of the Reserve Bank, Government of India finalises the names after getting clearance from the concerned agencies like Chief Vigilance Commission, Central Bureau of Investigation and Enforcement Directorate, and issues necessary notification.

**Proposals regarding the change in the system so that officers of integrity, proven sense of duty and responsibility are appointed**

At present, vigilance clearance is sought in respect of executives who are being considered for appointment as Executive Directors and Chairmen and Managing Directors in nationalised banks after selection is made by the Appointments Board. Vigilance clearance is obtained from CVO of the bank and Central Vigilance Commission (CVC) in respect of General Managers who are being considered for appointment as Executive Directors in the nationalised banks. In respect of Executive Directors who are being considered for appointment as CMDs and CMDs who are being considered for shifting, vigilance clearance is obtained from CVC. In respect of some tainted banks, CBI and RBI are specifically consulted on the subject.

Government had in July 1996 forwarded to RBI a Note containing certain modifications proposed to be followed in the existing procedure and had sought our views thereon.

Government desire that, instead of seeking vigilance clearance after selection is made by the Appointments Board, a system of obtaining vigilance clearance from CVC/CBI/RBI in advance for all executives in the consideration zone and thereafter obtaining periodical reports on quarterly basis about change in the position, if any, may be instituted. Views of the Reserve Bank have been communicated to Government.

If the views of the Reserve Bank are agreed to by the Government the new system would be as under:

1. A list of EDs/CMDs of public sector banks/financial institutions who are likely to be in the consideration zone for elevation/shifting during the next one year (till June) may be prepared.
2. CVC, CBI and RBI may be requested to give vigilance clearance in respect of these executives in the consideration zone.
3. CVC, CBI and RBI may also be requested to send quarterly reports to the Banking Division indicating the changes, if any in the position furnished by them.

Banking Division would act upon these clearances already given and reports received instead of seeking fresh clearance while submitting proposals to ACC. This would be possible since the vigilance clearance is valid for 6 months. If however, anything adverse comes to the notice of Reserve Bank in the meantime, the same may be brought to the notice of the Government.

4. Details of past disciplinary/vigilance/criminal cases and holding of promoter quota shares/employees quota shares and action taken for the same should be placed before the Appointments Board and their view as to suitability of the executives for appointment in the light of these cases should also be incorporated in the minutes of the Appointments Board. This would facilitate in taking a view in the Banking Division on giving vigilance clearance in respect of persons having certain cases of the nature referred to above in their career.

5. Anonymous/pseudonymous complaints, if any, received after selection by the Appointments Board are to be considered at the level of Secretary(B) and a decision is to be taken whether the complaints are serious enough to be taken note of. In case it is decided to take cognizance of the complaint, vigilance clearance should be given only after the complaint is investigated by the concerned agency.

6. In the cases of complaints received from CBI/RBI, they should be looked into even if they are received after the selection by the Appointments Board and vigilance clearance should be given only after a final view is taken in the matter.

7. In respect of GMs who are being considered for appointment as Executive Directors, reference should be made to the CVC, CBI and RBI after empanelment is made by the Appointments Board. After obtaining from these agencies, quarterly reports should be obtained from these agencies, till the final appointment is notified.

The procedure in respect of follow up of Complaints received after selection should be the same as set out in para. (4) & (5) above.

(Deptt. of Economic Affairs Banking Division O.M. No.F. 19/24/94-80A dated 17.8.2000)

#### **Recommendation Sl. No. 24 (Para No. 3.57)**

The Committee further note that the Government does not consider it appropriate to delete provisions regarding secrecy laws in the Banking Regulation Act, 1949, as according to them the relationship of a bank and its customer is one of utmost trust and is a well established concept prevailing all over the world. The Committee feel that banks should file suits against the borrowing units within two years of their default and compile list of such cases region-wise and share such information with other banks in order to caution them while taking credit decisions for new or additional credit limits by the defaulting borrowers and also proprietors/partners/directors named in the list.

#### **Action Taken**

1. The duty of a banker to maintain secrecy of his customer's transactions arises from the relationship of a banker and customer. The duty has acquired a legal character which is enforceable in Courts of Law. In terms of Section 28 of Banking Regulation Act, 1949 information

obtained by Reserve Bank of India under the Act can be published only in a consolidated form as it thinks fit. However, in view of the fast changing Banking scenario an amendment to the provisions of above Act, for inserting an enabling provision to allow Reserve Bank of India to publish information; it considers in the public interest to do so, in any form it deems fit is under consideration.✓

2. Under the current provisions of Banking Laws, disclosure of names of borrowers of banks and Fls is not permissible. However, there is no prohibition on disclosure of the names of defaulters against whom suits have been filed.✓

3. RBI has put in place a scheme to collect details about borrowers of banks and Fls with outstanding aggregating Rs. 1 crore and above which are classified as 'Doubtful' or 'Loss' of where suits are filed, as on 31st March and 30th September each year and disseminate this information on floppy diskettes to the banks and Fls for their confidential use. Based on the information obtained from banks and Fls, RBI publishes the list of borrowers (with outstanding aggregating Rs.1 crore and above) against whom suits have been filed as on 31<sup>st</sup> March every year. The last such list was published as on 31<sup>st</sup> March 1999. This list is accessible on internet also. The above information is collected by RBI under chapter IIIA of RBI Act, 1934.

4. Pursuant to the instructions of the Central Vigilance Commission RBI have framed a scheme in February 1999 for collection of information on wilful defaults of Rs.25 lakh and above and dissemination to the reporting banks and Fls, under which the banks and Fls viz. IDBI, IFCI and ICICI will be required to submit to RBI the details of the wilful defaulters.

5. While disseminating information on a half yearly basis banks are advised to make use of the information while considering, on merits, the request for new or additional credit limits by the defaulting borrowing .6units and also proprietors/partners/directors, etc. named in the list, either in their own names or in the names of other units with which they are associated.

6. With a view to restricting the lending on the part of borrowers to overcome credit discipline imposed by banks by opening current accounts with banks other than lending banks, banks have been advised to insist upon a declaration at the time of opening a current account that he is not enjoying any credit facility. If he is enjoying the credit facility, then a declaration giving particulars of credit facilities enjoyed with other banks to suitably inform the concerned banks may be obtained from the customer.

7. The need for prescribing a time frame for starting legal recovery procedure promptly in respect of loss assets which are carried in the books of banks for long periods, was examined and the banks have been advised by RBI in June 1999 that loss assets outstanding for more than two years and where legal action has not been initiated, may be reviewed, and a note be placed before the Management Committee/Board, every half year with

reference to the position as on September 30 and March 31 of each year by giving specific reason as to why suits have not been filed, at different levels as specified below:

Types of assets	To be reviewed by
(a) Borrowal accounts with outstanding balance of Rs. 5.00 lakh and above	Management Committee Board
(b) Borrowal accounts with balance outstanding between Rs. 1.00 lakh and Rs. 5.00 lakh	Chairman and Managing Director
(c) Borrowal accounts with outstanding balance less than Rs.1.00 lakh	Appropriate levels to be decided by the bank

Further, the decision to file a suit in respect of a borrowal account is to be in accordance with their loan policy and keeping in view the availability/enforceability of charges, adequacy of realisable value of the securities to cover the dues, period of limitation, the time taken and cost involved in litigation etc.

8. Absence of arrangements for sharing of information on borrowers amongst the credit institutions is one of the reasons for incidence of fresh NPAs. A Working Group was set up in the Reserve Bank of India to explore the possibilities of setting up a Credit Information Bureau. The Group has recommended the establishment of the Bureau inheriting the best international practices with regard to collection of information processing of data and sharing of both negative and positive information relating to credit, trade and finance among the various financial institutions. The negative information may include non-performing advances, suit filed accounts, references to BIFR, DRTs, suspected frauds, compromise settlements entered into by banks, Fls etc. The recommendations of the Group are under consideration of RBI/ Government of India.

(Deptt. of Economic Affairs-Banking Division O.M.No.F19/24-80A dated 17.8.2000)

#### Recommendation (Sl. No. 38 Para No. 3.71)

The Committee note that the RBI's recent scrutiny of certain large borrowal accounts conducted in a few banks has revealed diversion of bank finances for investment in finance companies, associate companies/subsidiaries, inter-corporate deposits, etc. In this connection, RBI has advised the Banks that if a borrower is found to have diverted finances granted for working capital purposes for other activities, banks must recall the amounts so diverted. In order to gauge the magnitude of diversion of funds by borrowers as also whether the diversion of bank finance was for activities not permissible under the extant norms of investment/credit policy of the banks, the Committee would like to be informed of the number of instances of diversion of funds by borrowers to other than the purposes (including break-up of non-

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF  
WHICH FINAL REPLIES ARE STILL AWAITED

—NIL—

NEW DELHI;  
April 19, 2001  
Chaitra 29, 1923(S)

UMMAREDDY VENKATESWARLU,  
*Chairman,  
Estimates Committee.*

—NIL—

## APPENDIX I

### MINUTES OF SITTING OF THE ESTIMATES COMMITTEE (2000-2001)

#### Tenth Sitting

The Committee sat on Monday, the 9th April, 2001 from 1500 to 1615 hours.

#### PRESENT

Prof. Ummareddy Venkateswarlu—*Chairman*

#### MEMBERS

2. Shri Lal Muni Chaubey
3. Shrimati Sheela Gautam
4. Shri Shankar Prasad Jaiswal
5. Shri P.R. Kyndiah
6. Shri Samik Lahiri
7. Shri Manjay Lal
8. Shri Shyam Bihari Mishra
9. Prof. Rasa Singh Rawat
10. Shri Abdul Rashid Shaheen
11. Shri Maheshwar Singh
12. Shri Rampal Singh
13. Shri Lal Bihari Tiwari

#### SECRETARIAT

- |                     |    |                           |
|---------------------|----|---------------------------|
| 1. Shri K.L. Narang | —  | <i>Director</i>           |
| 2. Shri Cyril John  | —  | <i>Under Secretary</i>    |
| 3. Shri N.C. Gupta  | —  | <i>Assistant Director</i> |
| 2. **               | ** | **                        |

3. The Committee then considered Draft Action Taken Report on 'Public Sector Banks—Bad Debts' and adopted the same with modifications as given in the Annexure.

4. The Committee authorised the Chairman to finalise the Report in the light of modifications as also to make verbal and consequential changes, if any, arising out of factual verification by the Ministry and present the same to Lok Sabha.

*The Committee then adjourned.*

**Modifications made by the Estimates Committee in their Draft Action  
Taken Report on 'Public Sector Banks—Bad Debts'**

<b>Para No.</b>	<b>Line</b>	<b>Modifications</b>
1.8	Sixth	<i>For 'are constrained' Substitute 'regret'</i>
	Tenth	<i>Add The Committee are alarmed at the very high level of NPAs in all the PSBs in general and two banks in particular.</i>
	Fourteenth	<i>After promptitude Insert within a time bound programme</i>
1.11 (Sub-Para)	Eighth	<i>After emphasise Insert time and again</i>
Last (Sub-Para)		<i>For RBI.....Banks. Read RBI should closely monitor at regular intervals the performance of loan accounts sanctioned at the level of CMD/EDs of the Banks. In the case of serious defaults pointed out by RBI in AFIs as in the case of Indian Bank revealing gradual deterioration of the banks financial position year after year where it incurred accumulated losses to the tune of Rs. 1706 crores, the Committee feel that existing frame-work of punitive measures are inadequate. The Committee recommend that the punitive provision measures be further examined and tightened to be more rigorous and purposeful. In such cases, Government may also consider reviewing the final decisions of the Board of Directors by a panel of Secretaries of the Government of India which may also include a representative from RBI of the level of Deputy Governor so that stringent and time bound action is taken against such defaulting CMD/EDs.</i>
1.23	Last Line	<i>Add which should submit its report in a time bound programme.</i>
1.26	Eighteenth	<i>For the Committee find..... recommen- dation. Insert Creation of more number of DRT is immediate necessity and they should dispose of their cases within a maximum period of one year.</i>



**APPENDIX II**  
(Vide Introduction to Report)

**ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE  
RECOMMENDATIONS CONTAINED IN THE THIRD REPORT OF  
THE ESTIMATES COMMITTEE  
(TWELFTH LOK SABHA)**

I.	Total number of recommendations/observations	44
II.	Recommendations/Observations which have been accepted by Government (Sl. Nos. 6, 7, 11, 13, 14, 15, 16, 22, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, and 54) Percentage	37 84.2%
III.	Recommendation/Observation which the Committee do not desire to pursue in view of Government's reply (Sl. No. 9, 10, 17, and 21) Percentage	4 9.0%
IV.	Recommendation/Observation in respect of which Government's reply has not been accepted by the Committee (Sl. No. 15, 24, 38) Percentage	3 6.8%
V.	Recommendation/Observation in respect of which final Reply of Government is still awaited	NIL