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STANDING COMMITTEE ON FINANCE
(2009-10)

FIFTEENTH LOK SABHA

MINISTRY OF FINANCE
(Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)

[Action taken by the Government on the recommendations contained in First Report on Demands for Grants (2009-10) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)]

SIXTEENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

APRIL, 2010/ Chaitra, 1932 (Saka)

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STANDING COMMITTEE ON FINANCE
(2009-2010)

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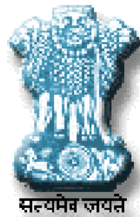
(Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)

(Action taken by the Government on the recommendations contained in First Report on Demands for Grants (2009-10) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)

Presented to Lok Sabha on 19 April, 2010
Laid in Rajya Sabha on 19 April, 2010



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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2009-2010

Dr. Murli Manohar Joshi - Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram (Lalganj)
3. Shri Sudip Bandyopadhyay
4. Shri C.M. Chang
5. Shri Harishchandra Chavan
6. Shri Bhakta Charan Das
7. Shri Gurudas Dasgupta
8. Shri Khagen Das
9. Shri Nishikant Dubey
10. Smt. Jayaprada
11. Shri Bhartruhari Mahtab
12. Shri Mangani Lal Mandal
13. Shri Rayapati Sambasiva Rao
14. Shri Magunta Sreenivasulu Reddy
15. Shri Y.S. Jagan Mohan Reddy
16. Shri N. Dharam Singh
17. Shri Sarvey Sathyanarayana
18. Shri Manicka Tagore
19. Dr. M. Thambidurai
20. Shri Anjankumar M. Yadav
21. Shri G.M. Siddeshwara*

RAJYA SABHA

22. Shri Raashid Alvi
23. Dr. K.V.P. Ramachandra Rao
24. Shri Vijay Jawaharlal Darda
25. Shri S.S. Ahluwalia
26. Shri Moinul Hassan
27. Shri Mahendra Mohan
28. Shri S. Anbalagan
29. Dr. Mahendra Prasad
30. Shri Y.P. Trivedi
31. Shri Rajeev Chandrasekhar

SECRETARIAT

1.	Shri A.K. Singh	-	Joint Secretary
2.	Shri T.G. Chandrasekhar	-	Additional Director
3.	Shri Ramkumar Suryanarayanan	-	Deputy Secretary

*** Nominated to this Committee w.e.f. 09.03.2010 vice Shri Gopinath Munde, MP**

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INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Sixteenth Report on action taken by Government on the recommendations contained in the First Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2009-10) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment).

2. The First Report (15th Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 2 December, 2009. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 24 February, 2010.

3. The Committee considered and adopted this report at their sitting held on 15 April, 2010.

4. An analysis of action taken by Government on the recommendations contained in First Report of the Committee is given in the Appendix.

5. For facility of reference, observations/recommendations of the Committee have been printed in thick type in the body of the Report.

New Delhi;
15 April, 2010
25 Chaitra, 1932 (Saka)

DR. MURLI MANOHAR JOSHI,
Chairman,
Standing Committee on Finance.

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CHAPTER I

REPORT

This report of the Standing Committee on Finance (Fifteenth Lok Sabha) deals with action taken by the Government on the recommendations/observations contained in their First Report on the Demands for Grants (2009-10) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Lok Sabha and laid in Rajya Sabha on 2 December, 2009.

2. The Report contained 19 recommendations. Action taken notes have been received from the Government in respect of all the recommendations contained in the report. These have been categorised as follows:

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

Recommendation Nos. 1,2,3, 4, 7, 8,10,16,17 and 18

(Total 10)

(Chapter II)

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

Recommendation No. 9 and19

(Total 2)

(Chapter III)

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

Recommendation Nos. 5,6,11,12,13,14, and15

(Total 7)

(Chapter IV)

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

(Total Nil)

(Chapter V)

3. The Committee desire that the replies to the comments contained in Chapter I be furnished to them expeditiously.

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

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Recommendation Nos. 5 & 6

Policy stance of the Government on the Fiscal Responsibility and Budget Management Act

5. The Committee were concerned to note that the progress in bringing down the deficit levels in accordance with the stipulations of the Fiscal Responsibility and Budget Management Act, 2004 (FRBM Act) had not been very satisfactory. While deviations from the targets stipulated under the FRBM Act were inevitable during exigencies, there was an imperative need to minimise the deviations, so as to maintain the sanctity of the FRBM Act. The Committee believed that by allowing major deviations, the sanctity and efficacy of the FRBM Act was being seriously jeopardized.

6. Entrusting the task of reviewing and formulating the road map for fiscal adjustment to the Thirteenth Finance Commission was, in the opinion of the Committee, not in consonance with the stipulations of the FRBM Act and amounted to skirting the issue. Apparently, there was lack of clarity on the policy stance of the Government on the FRBM Act, 2004. This was also evident from the fact that while the Ministry had, at first informed that any amendments required to be carried out in the FRBM Act would be considered upon receipt of the report of the Thirteenth Finance Commission, it was subsequently asserted that there would not be any need for amending the Act in view of the commitment to go back to the path of fiscal consolidation at the earliest. The Committee were dismayed at the vacillation of the Ministry on this issue. The Committee expected the Government to spell out their policy stance on FRBM Act and statements laid thereunder with greater clarity and in unambiguous terms.

7. The Government, in their action taken reply, have stated as below:

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"The Government is committed towards maintaining the sanctity and efficacy of the FRBM Act. The spirit of the FRBM Act, 2003 envisages not only 'institutional dedication to fiscal discipline' but also 'a qualitative improvement in the types of expenditure'. In 2007-08, the Government was able to reduce the fiscal deficit to a level below the mandated level of 3 per cent of GDP. Primarily the fiscal consolidation during the period 2004-08 was revenue driven, and therefore it has created a stress when the revenue buoyancy has fallen on account of moderation in economic growth during 2008-09. The Government could not remain within the fiscal space defined under the Act during 2008-09. This was primarily on account of fiscal measures taken by the Government for boosting the public expenditure and providing growth stimulus in order to insulate the Indian economy from the adverse impact of global slowdown.

The moderation in growth of the economy and the impact of the fiscal measures taken in the form of reduction in tax and duty rates has been reflected in lower gross tax revenue receipts at Rs.6,09,705 crore as per the provisional accounts of 2008-09 against B.E. 2008-09 of Rs.6,87,715 crore. Additional budgetary resources provided as part of stimulus package including increase in plan outlay from Rs.2,43,386 crore in B.E. 2008-09 to Rs.2,82,957 crore in R.E.2008-09 and various committed liabilities of Government including rising subsidy requirements, implementation of Sixth Central Pay Commission recommendations and Debt Waiver and Debt Relief Scheme for Farmers contributed to increase in the fiscal deficit to 6.2 per cent of GDP in 2008-09 (provisional accounts) as compared to 2.5 per cent of GDP in B.E.2008-09.

Under Section 7 of the Act, in the event of deviation from the obligations cast on the Government under the Act, the Finance Minister should make a Statement in both the Houses of Parliament explaining the circumstances that have led to such a deviation; explaining whether such deviation is substantial and relates to actual or potential budgetary outcomes; and detailing the remedial measures the Government proposes to take. Three Statements, namely, Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement, were presented in both the Houses of Parliament explaining grounds for deviation from the obligations cast on the Central Government under the Act in compliance with the statutory requirements.

The Government has enumerated the fiscal roadmap in the Medium Term Fiscal Policy Statement wherein the fiscal deficit has been targeted at 5.5 per cent and 4 per cent of GDP in 2010-11 and 2011-12 respectively. At the same time, revenue deficit has been targeted to reduce from 4.8 per cent of GDP in 2009-10 to 3 per cent and 1.5 per cent of GDP in 2010-11 and 2011-12 respectively. The fiscal correction envisaged as above is primarily revenue driven. The gross tax revenue to GDP ratio is targeted to improve from 10.9 per cent in 2009-10 to 11.9 per cent and 12.4 per cent respectively in 2010-11 and 2011-12.

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The Government is not skirting the issue of compliance stipulated under the FRBM Act. The policy stance of the Government on the issue was clearly enumerated in the Budget speech of 2009-10 of Hon'ble Finance Minister:
"To bring the fiscal deficit under control, we have to initiate institutional reform measures during the current year itself. This is essential for maintaining a stable balance of payments, moderate interest rates and steady flow of external capital for corporate investment. These measures have to encompass all aspects of the budget such as subsidies, taxes, expenditure and disinvestment".
Further, the Government has spelt out the fiscal roadmap in the Medium Term Fiscal Policy Statement wherein the fiscal deficit has been targeted to be reduced from 6.8 per cent of GDP in 2009-10 to 5.5 per cent and 4 per cent of GDP in 2010-11 and 2011-12 respectively. At the same time, revenue deficit has been targeted to reduce from 4.8 per cent of GDP in 2009-10 to 3 per cent and 1.5 per cent of GDP in 2010-11 and 2011-12 respectively. The fiscal correction envisaged as above is primarily revenue driven. The gross tax revenue to GDP ratio is targeted to improve from 10.9 per cent in 2009-10 to 11.9 per cent and 12.4 per cent respectively in 2010-11 and 2011-12.
There is no vacillation of the Ministry on the issue with respect to amendment in the FRBM Act. It was informed to the Committee that consequent on the recommendations of the 13th Finance Commission, if any amendment is required in the FRBM Act, the Government will consider the same. Subsequently, it was also stated that, at present, when the Government has clearly spelt out the policy of reverting back to the path of fiscal consolidation at the earliest, there would not be any need for amending the Act, especially when the Government is making a Statement in the Parliament explaining the intervening deviations from FRBM targets. Therefore, there is no contradiction or lack of clarity in Government's view on this issue."

8. The Thirteenth Finance Commission, while recommending on reforms to FRBM legislation, have stated that the Central Government should revise the existing medium term fiscal policy statement with a more detailed Medium Term Fiscal Policy Plan (MTFP) which contains three- year- forward estimates of revenues and expenditures together with a narrative explanation of how these estimates have been generated.

9. In the Explanatory Memorandum as to the Action taken on the recommendations of the Thirteenth Finance Commission, it is stated as below:

"The Commission has assessed the finances of the Union and States and specified a combined debt target of 68 per cent of Gross Domestic Product (GDP) to be met by 2014-15. It has worked out a roadmap for

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Fiscal Deficit (FD) and Revenue Deficit (RD) for the award period. For Centre, it has recommended RD to by eliminated and FD to be brought down to 3 per cent of GDP by 2013-14… The Commission has also recommended that the borrowing limits of the States should be fixed by the Centre in line with these targets.
The Government has accepted these recommendations in principle. Detailed proposals for amendment of the FRBM Act, as may be necessary, will be taken up separately."

10. The Committee note that even after reducing the level of fiscal deficit below the mandated level of 3 per cent in 2007-08 and achieving fiscal consolidation during the period 2004-08, the Government made major deviations from the path of fiscal consolidation envisaged under the FRBM Act, in the year 2009 primarily because it could not sustain the buoyancy in revenue due to slowdown in economy. As accepted by the Government the previous success on this front was revenue driven without any improvement on the expenditure side. It is further seen that the fiscal roadmap wherein the fiscal deficit is targeted to be reduced from 6.8 per cent of GDP in 2009-10 to 4 per cent of GDP in 2011-12, as outlined by the Government is again based on higher revenue projections. Therefore the Committee are of the view that serious initiative need to be taken to economise on expenditure and improve its efficiency. The Committee would like to know the concrete steps taken by the Government in this regard.

11. The Committee do not accept the reply of the Government that there is no ambiguity in the policy regarding amendment of the FRBM Act; in view of the major deviations from the path of fiscal consolidation undertaken by the Government last year, which clearly violates the mandate of the FRBM Act. The Government had earlier informed that amendment of the Act would be considered upon any such recommendation by the Thirteenth Finance

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Commission. However, meanwhile, they continued with the deviations without indicating clearly as to how the Government would revert back to the path of fiscal consolidation. The Committee are of the view that there has to be an element of flexibility in the Act so as to enable the Government to deal with exigencies without violating the spirit of the Act. In view of the Thirteenth Finance Commission recommendation, the Committee would like to know, the steps being taken by the Government to bring about reforms in the Act so as not to allow major changes in fiscal correction steps and seriously jeopardizing the sanctity of the Act.

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Recommendation Nos. 11, 12 and 13

Banking Services in under-banked areas

12. The Committee desired to know the measures being taken by Government/RBI to increase the number of banking centres in areas having negligible presence. They were surprised to find that out of 103 unbanked blocks in the country, only about 13 blocks were expected to have bank branches by December, 2009. Though the Finance Minister had assured increasing the banking facility in underbanked areas within next three years, the Ministry had surprisingly not fixed any particular timeframe or target to cover the unbanked areas including the 103 blocks identified. The Committee expected that the benefits of banking should be extended to remote and backward areas within a stipulated time-period.

13. Surprisingly, the Ministry of Finance did not have ready information on the extent to which the Banking Correspondent/Banking Facilitator (BC/BF) model, initiated in 2006, in providing financial and banking services had served in enabling outreach to underbanked areas. As per the submission of the Ministry, issues such as viability of the BC/BFs vis-à-vis bank branches and viability of technology service providers remained to be addressed for the success of the model as a means of financial inclusion. The Committee therefore wished to be apprised of the details of the operationalisation of this model and its success in enabling outreach in areas with low banking accessibility.

14. While most of the public sector banks had adhered to the target of adding 250 accounts in rural and semi-urban branches as announced in the interim budget 2009, in pursuance of the recommendation of the Committee on financial inclusion, the information furnished to the Committee with regard to opening of new rural accounts by private sector banks was sketchy and inadequate, thereby indicating absence of monitoring by the Ministry. The Committee noted with strong disapproval the Government's lack of seriousness and softness with regard to the mandate to be fulfilled by private banks. The Committee desired the Government to obtain and furnish the relevant information without further delay.

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15. In their action taken notes, the Government have stated as below:

"As on March, 2009, there are 31699 rural branches, 19082 semi-urban branches, 16616 urban branches and 15013 metropolitan branches of scheduled commercial banks in the country. The average population per branch is 14000. There are 375 underbanked districts and 99 unbanked blocks in the country. A list of underbanked districts has been forwarded to banks by RBI to enable them to identify centers for opening branches in such districts. Out of 99 unbanked blocks, 86 are in North East (NE) region. The matter has been taken up with the concerned banks to open branches in these blocks of the NE Region by 31.3.2010. The Ministry of Finance is monitoring progress fortnightly an encouraging banks through the SLBC mechanism to provide bank branches or/and branchless banking facilities in these unbanked blocks.

RBI has liberalized the extant Banks Authorisation Policy. Through its circular dated December 1, 2009, RBI has permitted all Scheduled Commercial Banks (excluding Regional Rural Banks) to open branches in Tier 3 to Tier 6 centres (with population upto 49,999 as per Census 2001) without having the need to take permission from RBI in each case, subject to reporting. Further banks have been permitted to open branches in rural, semi urban & urban centers in the North Eastern States & Sikkim, without prior permission from the RBI. Further, RBI has also relaxed its Branch Authorisation Policy under which Scheduled Commercial Banks (SCBs) including Public Sector Banks are permitted to install offsite ATMs at centers/places identified by them without having the need to take permission form the RBI. This is expected to result in an expansion of the banking network in the unbanked blocks.

Further, on the basis of recommendations of the High Level Committee constituted by RBI under the chairpersonship of Smt. Usha Thorat, Deputy Governor, RBI has advised the Lead Banks for each district to provide banking services in every village having population over 2000 by March 2011. The Ministry advised the Regional Rural Banks to open 2000 more branches in the next two years i.e. upto March 31, 2011.

Several public Sector Banks have also initiated pilot projects through the Business Correspondent Model utilizing the smart card technology, mobile banking etc. to increase their outreach in interior areas.

Banking Correspondent/Banking Facilitator (BC/BF) model is an important initiative of the Reserve Bank of India to ensure a closer relationship between poor people and the organized financial system. In 2006, Reserve Bank of India permitted banks to use the services of non-government organizations, micro-finance institutions, retired bank employees, ex-servicemen, retired government employees, Section 25 companies, and other civil society organizations as Business Correspondents in providing financial and banking services.

Even as the BC model has taken off, it needs to be fine tuned and monitored appropriately to improve its efficacy, including by better

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training BCs. Recently, RBI has further enlarged the scope of the BC model by permitting banks to appoint individual kirana/medical/fair price shop owners, individual Public Call Office (PCO) operators, agents of Small Savings schemes and self-help groups linked to banks as BCs. With a view to ensuring the viability of the BC model, banks have also been permitted to collect reasonable service charges from the customer in a transparent manner. Going forward, Reserve Bank of India has stated that it will endeavour to give complete flexibility to banks to appoint BCs with only a negative list of entities that would not be eligible.

The Reserve Bank of India (RBI) has recently liberalized branch authorization norms for opening branches in unbanked rural areas. It is understood that performance in opening branches in rural and unbanked areas is an important criteria adopted by RBI for granting permission for opening new branches in other areas.

The details of data collected by Indian Banks Association (IBA) for Private Sector Banks as regards opening of rural household accounts as on 31st December, 2009 is as under:

S. No.	**Name of the Bank**	**No. of Rural/Semi Urban Branches**	**No. of Rural Household accounts opened as on 31.12.2009**
1.	Karnataka Bank	184	11078
2.	Tamilnadu Mercantile	132	23642
3.	HDFC Bank	414	240767
4.	Axis Bank	243	100724
5.	Karur Vysya Bank	34788	
6.	South Indian Bank		63105
7.	Kotak Mahindra Bank	56	466

IBA has reported that the Private Sector Banks have lesser number of branches in the rural areas and are not actively involved in handling Government sponsored schemes, disbursement of National Rural Employment Guarantee Act (NREGA) payments, etc."

Ministry of Finance, Department of Financial Services OM No. 6/6/2009-AC dated 4th February, 2010.

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16. The Committee take serious note of the fact that in the Country still 99 blocks are unbanked and 375 districts are under-banked. While the replies suggest several measures taken for expansion of banking services in unbanked/under-banked areas, no mention has been made about stipulation of any particular time frame to cover these blocks, as recommended by the Committee except that banks have been asked to open branches in 86 unbanked blocks in north-east region by 31 March, 2010. The Committee therefore reiterate that Government should formulate action plan to provide banking facilities in all the unbanked and underbanked areas within a stipulated period and also desire to be apprised of the progress made in respect of opening branches in the north east region till 31 March, 2010.

17. It is evident that the Government has not acted upon/taken any measure to address issues such as viability of Banking Correspondents/Facilitators (BC/BF) model vis-à-vis bank branches and viability of technology service providers. The replies furnished by the Ministry simply indicate the measures taken by RBI to expand and improve BC/BF model without any mention of any measures to evaluate the performance of this model in enabling outreach in areas with low banking accessibility. The Committee therefore recommend the Government to conduct a study on success of this model and apprise them the details of such study at the earliest.

18. The Committee note with strong disapproval that the replies furnished are also evasive with regard to information on addition of 250 accounts in rural and semi-urban areas by the private sector banks as desired by the Committee. The Government has rather chosen to simply state the existing number of rural household accounts with private sector banks as on 31

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December, 2009. The Committee do not approve of such casual approach and desire that the relevant information with regard to compliance of private sector banks to the targeted addition of 250 rural household accounts be furnished without further delay.

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Recommendation Nos. 14, 15

Credit Card Services of Banks

19. The Committee found that banking services were far from satisfactory in credit card related matters. Despite a good percentage of complaints relating to credit cards, surprisingly, RBI study on this matter had not revealed any regulatory lapses at all. The Committee were unhappy to note that the RBI had not been treating credit cards related grievances and complaints of general public with due seriousness. The Committee, therefore, recommended that the existing guidelines regulating card services should be made more stringent and customer-friendly.

20. Another disquieting aspect concerned rate of interest on credit card payments. Banks had been given complete freedom to charge any rate of interest regardless of their Benchmark Prime Lending Rate, thereby enabling them to charge exorbitant/usurious interest. The Committee recommended that the interest rate charged on credit card outstandings as well as the financial charges levied should not remain open-ended, left to the discretion of the bank. The RBI should review this matter and re-formulate their guidelines/ norms governing credit card services with a view to providing the much-needed relief to the general public. RBI may also consider using photo-identity credit cards to prevent frauds.

21. The Government, in their action taken reply, have stated as below:

"Reserve Bank of India had undertaken a study on the credit card operations of banks, based on the complaints received by the Bank as also by the Offices of the Banking Ombudsmen. Based on the findings of the study, a detailed circular was issued to banks on July 23, 2008 covering various aspects relating to credit card operations of banks. The instructions contained in the above circular dated July 23, 2008 have suitably been incorporated in the Master Circular on Credit Card Operations of bans dated July 1, 2009.
Some of the important aspects covered in the instructions issued to banks on their credit card operations, as brought out in the Master Circular dated July 1, 2009 are furnished below.

Issue of cards

Banks/NBFCs should ensure prudence while issuing credit cards and independently assess the credit risk while issuing cards to

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persons, especially to students and others with no independent financial means….

While issuing cards, the terms and conditions for issue and usage of a credit card should be mentioned in clear and simple language (preferably in English, Hindi and the local language) comprehensible to a card user. The Most Important Terms and Conditions (MITCs) termed as standard set of conditions, as given in the Annex, should be highlighted and advertised/ sent separately to the prospective customer.

Interest rates and other charges

Credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their BPLR and regardless of the size in terms of the Master Circular on Interest rates on advances. Card issuers should quote Annualized Percentage Rates (APR) on card products (separately for retail purchase and for cash advance, if different). ..The banks /NBFCs should not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and without getting his / her consent. However, this would not be applicable to charges like service taxes, etc...There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year…

Right to privacy

Unsolicited cards should not be issued. In case, an unsolicited card is issued and activated without the written consent of the recipient and the latter is billed for the same, the card issuing bank shall not only reverse the charges forthwith, but also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed.

Fair Practices in debt collection

In the matter of recovery of dues, banks should ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders…In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank/NBFC and that they observe strict customer confidentiality…Banks /NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

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Redressal of Grievances

a. Generally, a time limit of 60 (sixty) days may be given to the customers for preferring their complaints / grievances.

b. The card issuing bank /NBFC should constitute Grievance Redressal machinery within the bank/NBFC and give wide publicity about it through electronic and print media.

c. Banks/NBFCs should ensure that their call centre staff are trained adequately to competently handle all customer complaints.

d. Banks/NBFCs should also have a mechanism to escalate automatically unresolved complaints from a call center to higher authorities and the details of such mechanism should be put in public domain through their website.

Fraud Control

(i) Banks/NBFCs should set up internal control systems to combat frauds and actively participate in fraud prevention committees/ task forces which formulate laws to prevent frauds and take proactive fraud control and enforcement measures.

(ii) With a view to reducing the instances of misuse of lost/stolen cards, it is recommended to banks/NBFCs that they may consider issuing (i) cards with photographs of the cardholder (ii) cards with PIN and (iii) signature laminated cards or any other advanced methods that may evolve from time to time.

(iii) Banks are advised to block a lost card immediately on being informed by the customer and formalities, if any, including lodging of FIR can follow within a reasonable period.

(iv) Banks may consider introducing, at the option of the customers, an insurance cover to take care of the liabilities arising out of lost cards. In other words, only those cardholders who are ready to bear the cost of the premium should be provided an appropriate insurance cover in respect of lost cards."

Ministry of Finance, Department of Financial Services OM No. 40/4/2009-BO II dated 21st December, 2009.

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22. It is seen that no action has been taken on the Committee's recommendation to make existing guidelines on credit card services more stringent and customer friendly. Instead, only the details of the Master Circular of RBI dated July 1, 2009 have been furnished. Such approach clearly indicates indifferent attitude towards the problems of customers in these matters. Besides, the effectiveness of such circulars in bringing down the credit card related complaints is doubtful given the past record. The Committee would therefore recommend the Government/ RBI to take concrete measures to provide for more stringent guidelines/ instructions to be followed by card issuing banks. They would also like to be apprised of the details of credit card related complaints after the above-mentioned guidelines have been made effective. The Committee also desire the RBI to undertake large scale awareness campaign by issuing advertisements etc. to educate the customers about credit card services of the Banks.

23. Further the Committee also do not agree with the view as brought out in the reply that credit card dues being in the nature of non- priority sector personal loans, interest rates on such loans be left to the discretion of banks. In their view, maximum interest rates to be charged may be specified so as not to allow exploitation of customers by banks.

24. Though the RBI has advised banks vide its Master Circular issued in July, 2009 to consider issuing cards with photographs of the cardholder/PIN/signature laminated cards or any other advanced methods to prevent fraud, it is imperative to see that these are implemented. The Committee would like to know the details of such banks which are complying with above requirements.

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CHAPTER II

Recommendations/Observations that have been accepted by the Government

Recommendation (Para No. 1)

The Committee regretted to note that the various components of the Indian Development Economic Assistance Scheme (IDEAS) launched in 2006 had still not been made operational due to lack of approvals. Only a part of the scheme, i.e. concessional line of credit to foreign countries through EXIM Bank had reportedly been made operational and allocated a separate budget head, but the details thereof had not been furnished to the Committee. The allocations made for the other components of the Scheme, i.e. assistance for project preparation, project training etc. (Rs.35.50 cr in 2007-08, Rs. 5 cr in 2008-09 and 0.01 cr in 2009-10) had been surrendered in toto. The Committee were unable to comprehend the reasons for not getting the required approvals (even after the lapse of more than three years) for implementing the different components of the scheme, for which an amount of Rs.214.17 cr was provided as budget estimates during the year 2006-07. The Committee desired to know the reasons for not obtaining the necessary approvals. Further, the Committee also had serious doubts over the efficacy or desirability of the scheme and therefore, recommended the Government to review the scheme and furnish the report to the Committee within a period of one month.

Reply by the Government

Indian Development and Economic Assistance Scheme (IDEAS), initially titled “India Development Initiative” (IDI) flows from the announcement made by the Finance Minister in the Union Budget for FY 2003-04. Paragraphs 117 and 126(c) of the Budget Speech are reproduced as under:

> “117 An initiative to promote India as both a production centre and investment destination, called “India Development Initiative” shall be established in the Ministry of Finance, with an allocation of Rs.200 crores for 2003-04. This initiative will also leverage and promote our strategic economic interests abroad.”

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"126(c) I am also happy to announce that the Government proposes to generally discontinue the practice of extending loans or credit lines to fellow developing countries. Instead, in future, I propose to utilize the "India Development Initiative", which I have already announced, for providing grants or project assistance to developing countries in Africa, South Asia and other parts of the developing world."

The intent of the Initiative was to position India as an Emerging economic power, Investment destination of FDI, Investor country, Donor for developing countries and Provider for debt relief to HIPCs and envisaged various components including, inter alia, Providing Assistance for project preparation, Extension of Lines of Credit (LoC's) to developing countries and writing off past debts of HIPC/other LDCs.

The Scheme has a Cash component comprising of regional projects, studies, interest subsidy, grants, technical assistance and outreach services. These are proposed to be funded through budgetary provision made on annual basis. The annual outlays range from Rs.29.08 crores in the year 2004-05 to Rs.278 crores during 2009-10. Additionally the Scheme envisages a Non-Cash component of debt write offs, concessional credit lines supported by sovereign guarantees and other non-guaranteed credit lines. The proposed scheme envisaged a total expenditure of Rs. 1287.08 crores over the period 2004-05 to 2009-10.

In implementation of the Budget Announcement, the scheme was operationalised in FY 2003-04 in respect of only such components for which financial commitments are within the powers of the FM, on a stand-alone basis. This included-Writing off the debt of HIPC countries, mobilizing credit lines for partner countries and subsidizing the interest component.

The scheme in its entirety was placed before the CNE (Committee on Non Plan Expenditure) in its meeting held on May 19, 2005. The CNE recommended the proposal for consideration of the Cabinet/CCEA.

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The Draft CCEA Note for operationalising the scheme was circulated to Ministry of External Affairs, Department of Commerce and DOP&T for their comments. While Department of Commerce and DOP&T gave their concurrence, MEA had some reservations on the implementation modalities because of which, the approval of Cabinet could not be obtained for operationalising the scheme in its entirety. As such, the scheme continued to be implemented only in respect of the specific components of mobilizing credit lines for developing countries and subsidizing the interest component, on a stand-alone basis.

During the period 2004-05 to December 10, 2009, a total of 118 LoC's have been sanctioned to 54 developing countries involving a total amount of US $ 4521.29 mn. Of these, 89 LOCs have been operationalised with agreements signed with 48 developing countries involving a total amount of US$ 3670.29 mn. 29 LOCs with 6 countries involving a Credit Amount of US $ 842.21 Million are yet to be operationalised.

India Development and Economic Assistance Scheme is initially proposed to be operated for a period of five years beginning the Financial Year 2005-06. Further extension with or without modifications are to be considered at the end of 5 years when the scheme will be reviewed. If there is no extension, there will be a winding up period of 2 years thereafter.

During the India-Africa Forum Summit held at New Delhi on April 8-9, 2008; the Prime Minister made a commitment that over the next 5 years, we will more than double the amount of LOCs, which we are presently extending and offer additional lines of credit amounting to US$ 5.4 billion, both bilaterally and to the regional economic communities of Africa.

MEA had separately moved a Cabinet Note in March'08 seeking the approval of the Cabinet, inter alia, for extending lines of credit to Africa valued at US$ 5.4 billion over 5 years beginning the year 2009-10 for projects to be agreed bilaterally and with the regional economic communities. The Cabinet has approved the proposals for implementation. Cabinet has also specifically approved the proposal for

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extending additional LOCs to the tune of US$ 2900 million to Africa besides normal LoC's to the tune of US $ 2500 Million during 2009-10 to 2013-14;

On 14.10.2009, in a meeting taken by Finance Secretary to discuss various issues relating to the implementation of the IDEAS Scheme, it was observed that steps will need to be taken for extension of the IDEAS beyond March 2010 in view of the above commitments. It was also decided that an independent agency will be engaged with the assistance of Exim Bank to carry out an evaluation of the performance of the IDEAS scheme over the period 2004-09 and achievement of its stated objectives. Based on this review, the contours of the revised scheme will be prepared.

In general, the scheme of granting concessional lines of credit to developing countries for various development projects appear to have served the following broad objectives:

- It has become an essential component of our diplomatic strategy in Africa and elsewhere creating requisite political goodwill for India in the beneficiary countries.
- The LOCs help project the country's growing economic strength as well as our willingness to contribute to infrastructure development and capacity building in the recipient developing countries.
- LOCs provide an opportunity to showcase India's expertise in project planning/design and implementation as well as high tech services in diverse areas for socio-economic development.
- LOCs promote export of projects, goods and services from India to those developing countries.

Recommendation (Para No. 2)

There had been considerable decline in expenditure under the Head "subsidy for payment to public sector General Insurance Companies for community based Universal Health Insurance Scheme (UHIS)" during the last three years. Principal reason for reducing allocations under this head was stated to be increased coverage under Rashtriya Swasthya Bima Yojana launched by the Ministry of Labour and

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Employment for BPL families in unorganized sector in October, 2007. It was surprising that the UHIS had been revamped with effect from 1 September, 2008, extending the coverage and reducing premium payable by the beneficiaries without any effort to remove the existing lacunae like lack of service providers, intermediaries and distribution channels in rural and remote areas, lack of awareness etc. The Committee desired that the Government should adopt a coordinated approach with regard to the operation of the two schemes, namely Universal Health Insurance Scheme (UHIS) and Rashtriya Swasthya Bima Yojana, so that the beneficiaries of each of these schemes were clearly identified and their objectives did not conflict with each other. Further the Ministry should address forthwith the shortcomings of the Universal Health Insurance Scheme and review/re-orient the same for desired results. The Committee were dismayed to note that the public sector general insurance companies were paying little attention to rural sector. In the opinion of the Committee, it is the rural sector that needs insurance more. The public sector general insurance companies should thus reduce their overheads so as to spend that money on the rural sector. Therefore, the public sector general insurance companies should be impressed upon to open more branches in the rural areas, charge lower premium and undertake large-scale awareness campaign effectively to reach more people there.

Reply of the Government

It may be reiterated that under Universal Health Insurance Scheme (UHIS), the beneficiary has to pay the premium, which is net of subsidy from Government of India whereas in Rashtriya Swasthya Bima Yojana (RSBY) the entire premium is borne by the Central/ State Government. Further, it has been decided that once RSBY covers all the districts of the country, UHIS may be withdrawn. However, in the meantime, public sector general insurance companies are making all out efforts to increase coverage under UHIS. This is evident from the performance of the companies during the current financial year during which the coverage in terms of number of persons has increased to 17,85,679 up to October, 2009 as against 4,38,318 in the corresponding period last year. For the same period, the coverage

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in terms of premium has also increased to Rs.2236 lacs as against Rs.625 lacs in the corresponding period last year.

As regards expansion in rural areas, in an endeavour to comply with the regulations issued by IRDA on the aspects of Rural & Social Sector, the Public Sector Insurance Companies are making special mobilisation efforts. The achievements of public sector general insurance companies with respect to Rural and Social Sector Business as per Insurance Regulatory And Development Authority (Obligations Of Insurers To Rural Social Sectors) Regulations, 2002 are as under:

Company	Obligation - Rural (Percentage of Gross Premium Income)	Achievement-Rural		Obligation - Social (No. of Lives)	Achievement - Social	
National	7%	7.05%	Yes	10% increase over previous year's target	24,56,156	Yes
New India	7%	7.16%	Yes		3,23,89,489	Yes
Oriental	7%	7.35%	Yes		6,66,65,613	Yes
United India	7%	12.48%	Yes		50,59,019	Yes

Micro Insurance Products have also been developed for this purpose. Some specific policies devised are as follows:-

- Ganna Kamgar Vima Yojana
- Gopal Raksha Package Policy
- Plantation Insurance
- Special Insurance Schemes for high yielding Cattle
- Insurance of Drip Irrigation - Multi Peril Drip Irrigation Utility Policy
- Emu Insurance
- Jeevankranthi Scheme
- Janta Personal Accident Insurance
- Janta Personal Accident Policy for Kisan Credit Card Holders
- Insurance of fishermen in Orissa
- Jeevanraksha Nidhi
- Group JPA for Account Holders of Bhubaneswar Central Co-op. Bank, Boudh

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- Jalgaon Zilla Sarkari Nokaranchi Sahakari Patpedhi, Jalgaon
- Raigad Zilla Madhyamik & Uchcha Madhyamik Vidyasevak Sahakari Patsanstha
- M/s. Ganesh Suvarna Sahakari Bank
- Jan Arogya policy for rag pickers
- Jan Arogya policy for Self-employed Women's Association (SEWA)
- Universal Health Insurance Schemes for BPL families

Thus, the Insurance Companies remain consistently focused on Rural, Social, Micro & other mass Insurance Schemes. For this purpose, the Insurance Companies have been utilising various channels such as Bancasurance, Agents, Development Officers, Corporate Agents, Micro Insurance Agents (Self Help Groups, NGOs and Micro Financial institutions), Panchayati Raj Institutions and network of Micro Offices. Additionally, publicity campaigns are undertaken in various parts of the country through mass contact programmes, Radio & TV advertisements, Cattle Health Camps, distribution of Leaflets and Pamphlets in vernacular language in the local festivals and fairs etc. in order to increase the awareness about rural insurance products.

Ministry of Finance, Department of Financial Services OM No.12013/8/2009-Ins.IV dated 31st December, 2009

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Recommendation (Para No. 3)

The Committee noticed that National Skill Development Corporation had been formed as a private sector organization with equity assistance from the Central Government. While the contribution of the private sector to the Corporation was said to be to the tune of Rs. 4.05 cr as on date, with view to ensuring that the Government's contribution is less than that of the private sector, an amount of Rs. 3 cr had been allocated as Government of India equity contribution to the Corporation. The Committee were anguished with the stance of the Ministry of Finance confining their role only to equity financing of the Corporation and not being concerned with the programmes and activities envisaged to be taken up by the Corporation. The Committee expected a greater degree of involvement from the Ministry and believed that before taking such an initiative, the Government should have undertaken a proper assessment of the existing level of skill development under the Apprenticeship Act and then the different new skills that need to be developed, along with the incentives required for this purpose. The Committee, therefore, emphasized on adopting a holistic approach in formulating and implementing the policy framework for skill development in the Country by ensuring proper coordination and consultation between the Ministry of Finance, the nodal Ministry for skill development and the Planning Commission.

Reply of the Government

The intention of Ministry of Finance has not been to detach itself from the programme. The contribution in equity had been indicated in the reply to explain the shortfall in equity contribution of the Government vis-a-vis the budgeted amount.

The Finance Ministry is in fact fully involved in skill development initiative taken by the Government of India. The Finance Minister is part of the National Council of Skill Development and the Finance Secretary is the member of the National Skill Development Coordination Board. The Additional Secretary (EA), DEA is one of the Directors in the Board of National Skill Development Corporation (NSDC) and all major decisions and initiatives taken by NSDC are done in close consultation with the Ministry of Finance.

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As regards the remodelling of apprentice training programme, a sub-committee constituted under the Chairmanship of Sh. Manish Sabarwal, has sent its recommendations to make the programme more effective. Further, a task force has also been constituted under the chairmanship of Dr. Narendra Jadav, Member, Planning Commission to examine the recommendations made by the sub-committee on remodelling of apprenticeship training set up. Secretary, Planning Commission, Finance Secretary and Director General of Employment and Training are the members of this Committee.

Ministry of Finance OM No. 10/14/2009-INF dated 31.12.2009

Recommendation (Para No. 4)

The Committee were surprised to note that only a negligible number of skill courses in the Country were at present registered with ISO, a fact also agreed to by the Chief Economic Advisor to Government. This Committee, therefore, recommended the Government to review its policies and take time-bound measures to identify and develop a number of indigenous skills in order to cater to a large number of educated but unskilled persons who were waiting for employment across the country. The Committee desired that they be apprised of the measures taken in this regard within six months.

Reply of the Government

The Government has already set-up a three tier institutional structure consisting of Prime Minister's National Council, National Skill Development Coordination Board headed by Deputy Chairman Planning Commission and National Skill Development Corporation. Prime Minister's National council has delineated core principles for ensuring smooth implementation of "Coordinated Action on Skill Development". The NSDC is expected to bring in private sector participation in skill development. Since private sector is going to absorb the skilled manpower, their involvement in issues related to curriculum, accreditation and evaluation has been envisaged through formation of Sector Skills Councils (SSCs).

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DGE&T is in process of setting of 1500 Industrial Training Institutes (ITIs) and 5000 Skill Development Centres (SDCs) in PPP mode to provide skill development opportunities at the door steps of youth. It is also working for re-modelling of apprenticeship scheme in the country. As regards inclusion of new Trades in Apprenticeship scheme, Modular Employable Skills (MES) designed by the Ministry of Labour are planned to be adopted. These are demand driven and have the architecture that is open and self healing.

The progress of the initiatives taken as above will be intimated to the Standing Committee.

Ministry of Finance OM No. 10/14/2009-INF dated 31.12.2009

Recommendation (Para No 7)

The Committee found that the Government had undertaken expansive expenditure programmes without devising ways to evaluate their impact. Though the Ministry had proposed to initiate institutional reform measures, the Committee emphasised the urgent need to concretise these measures, without which the fiscal consolidation envisaged in the Budget will prove elusive. The Committee earnestly hoped that the Government's fiscal policy stance will not go awry. In this context, the Committee emphasised that the growth rate necessary and aimed for to achieve fiscal correction/consolidation should be balanced with policies for equity and justice.

Reply of the Government

The focus of the Government now is also on institutional reform measures in order to make fiscal consolidation process sustainable. These measures have to encompass all aspects of the budget such as subsidies, taxes, expenditure and disinvestment.

Special emphasis would be on reform of governance for effective delivery of public services. The focus has shifted from financial outlays to outcomes for ensuring that the budgetary provisions are not merely spent within the financial year but have resulted in intended outcomes. As part of process reform, all new expenditure proposals will have to report on how the proposal under consideration will enhance the goals of equity or

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inclusion, innovation and public accountability. Following initiatives are being taken by the Government to achieve the above mentioned objective:

- Establishing mechanisms for performance monitoring and performance evaluation in government on a regular basis;
- Strengthening public accountability of flagship programmes by the creation of an Independent Evaluation Office at an arm's distance from the government which will concurrently evaluate the impact of these programmes and place it in public domain;
- Putting up a public data policy to place all information covering non-strategic areas in the public domain which will help citizens to challenge the data and engage directly in governance reform.

In the short and immediate term, the Government is taking efforts to reduce the Non Plan expenditure through economy measures and austerity instructions. Review of plan and non-plan expenditure is being done wherein Secretary to the Government, Department of Expenditure reviews the pace of expenditure across Ministries/Departments with the Financial Advisors of respective Ministries/Departments.

Recommendation (Para No. 8)

The Committee were concerned to note that the cumulative undrawn committed external assistance had been increasing during the last few years. It had grown from Rs. 69,254.36 crore in 2003-04 to Rs. 80,287.93 crore during the year 2007-08. The commitment charges paid on undrawn assistance during the year 2007-08 was Rs. 124.54 crore. The main reason for non-utilization of external assistance was stated to be delays in completion of projects, both at the central level and the state level. The Committee were surprised to note that the Government was applauding itself for reducing the amount of commitment charges from Rs. 165.11 crore in 2004-05 to Rs. 124.54 crore in 2007-08. As also admitted by the representative of the Ministry of Finance while tendering evidence, steps taken by the Government of India such as weightage of five percent on utilisation of external assistance by States in the modified Gadgil formula, Tripartite Review Meetings, Readiness filter etc. were obviously proving to be instruments only on paper and

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remained inadequate in accelerating the completion of projects. It also clearly reflected on the planning and subsequent scrutiny at the level of the Ministry, which had been found to be deficient and rather weak. As the commitment charges continued to be in excess of Rs. 100 crore, the Committee expected the system of scrutiny to be made more stringent with more effective monitoring and coordination between Centre and States. They also recommended the Government to form an action plan to reduce commitment charges to negligible levels as early as possible, as this only leads to further borrowing, which ultimately increases the debt liability and widen the deficits.

Reply of the Government

The Department of Economic Affairs follows an elaborate system of monitoring and scrutiny to assist the State Governments and the Project authorities to implement the multilateral loan assisted projects in a smooth and timely manner. This is reviewed from time to time and several modifications have been made with effect from the current financial year 2009-10. The current system is as follows:

1.1 For the Projects executed with IBRD loan and/ or IDA credit

a) Bi- annual Portfolio Review Meetings: Each project is reviewed in a tripartite meeting of DEA, the World Bank and the project/ state authorities. The last review was held in August-September 2009. With effect from the current year, the frequency of this review has been increased from annual to bi-annual. Next review is scheduled to be held in February 2010.

b) State Portfolio Review: In between the centralized portfolio reviews, state level intensive portfolio reviews are also held, where all projects being implemented in that particular state is reviewed.

c) Problem projects special review: Apart from the general review, the problem projects, i.e. the projects where implementation and/ or disbursement are not satisfactory, are reviewed periodically. With effect from the current year 2009-10, these reviews are held at least once in a quarter. In the current financial year, the last review of problem projects was undertaken in November 2009.

d) Monitoring through correspondence: During implementation of a project, the WB supervision missions generally reviews the project once in six months and submits aide memoir of the mission apart from special briefing of DEA on the outcome of the mission. The pending actions and issues pointed out in the aide memoirs are monitored through correspondences apart from the reviews referred above.

e) Field visits: Field visits are also undertaken by officers of DEA of different levels for monitoring of the projects.

1.2 For the Projects executed with ADB loan

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a) <u>Tri-Annual Portfolio Review Meetings</u>: Each project is reviewed in a tripartite meeting of DEA, the ADB and the project/ state authorities. The last review was held in November 2009.

b) <u>State Portfolio Review</u>: In between the centralized portfolio reviews, state level intensive portfolio reviews are held, where all projects being implemented in that particular state is reviewed by the ADB and DEA. Last review meeting has been held in Uttrakhand on 17-18 Dec 2009.

c) <u>Field visits</u>: Field visits are also undertaken by officers of DEA of different levels for monitoring of the projects.

d) <u>Monitoring through correspondence</u>: During implementation of a project, the ADB supervision missions generally reviews the project once in six months and submits aide memoir of the mission apart from special briefing of DEA on the outcome of the mission. The pending actions and issues pointed out in the aide memoirs are monitored through correspondences apart from the reviews referred above.

1.3 <u>Project readiness checklist</u>- Another monitoring mechanism, during the preparation phase, for both the World Bank and the ADB assisted projects is the application of a project readiness checklist filter to ensure achievement of critical milestones before every important stage of loan processing. This helps in ensuring that the projects are implemented in timely manner after getting approved.

Total amount of commitment charge can be brought to zero only under two circumstances: (i) If the funding agency brings down the rate of commitment charge to zero, or (ii) the disbursement for the entire fund earmarked for a project is taken within 60 days of signing the agreement. 60 days time limit is uniform for all borrowing countries. Currently, the funds committed by the World Bank and ADB for projects are generally released over a period of 3-5 years depending upon the implementation cycle of the projects.

The monitoring system has been made more intense with effect from the current financial year 2009-10. The effect would be known at the end of the year 2009-10 and thereafter. In compliance of the specific direction/ observation contained in the recommendations of the Standing Committee, the system of monitoring, explained above would be made more stringent, with additional emphasis on timely execution to ensure that the committed fund is utilized as per schedule and no or negligible extra commitment charge is paid due to delay in completion.

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Recommendation (Para No. 10)

The Committee noted that there was a proposal to declare frozen demat accounts "unclaimed" so as to enable forfeiture of unclaimed securities by amending the Depositories Act 1996. The Committee however, desired the Ministry of Finance to ensure that the interest of the genuine account holders / investors was protected through suitable safeguards in the proposed amendment Act. Further the Government should also make proper investigation of the frozen demat accounts arising out of non furnishing of PAN with a view to unearthing fraudulent intent, if any, in these transactions. Information should also be compiled on the details of nominees and legal claimants in respect of the frozen demat accounts. The Government should also take steps to protect the interest of the account holders in respect of depositories which had closed business.

Reply of the Government

Efforts have been made to inform the beneficial owners to provide PAN and activate the frozen accounts. As per data furnished by the two depositories, the total number of frozen accounts has drastically come down from a little over 43.5 lakh accounts on 01/01/2007 to about 5.8 lakhs as on 15.12.2009. Correspondingly, the assets in the frozen accounts have come down in value from about Rs. 638318 crore to Rs. 8986 crore for the same period. The details regarding the status of frozen demat accounts received from depositories as on December 15, 2009 are:

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Depository	of a/cs as on given date	No. of a/cs which are PAN compliant	No. of a/cs. which were not PAN compliant (frozen) as on 31-12-2006	No. of a/cs that have been unfrozen since 01-01-2007	No. of frozen a/cs as on given date	Out of Col. No. 3, No. of a/cs with nil holding	Out of Col. No. 3, no. of a/cs with holdings	Value of holdings for Col. No. 5 (Rs. in Crore) as on given date
	1	A	B	2	3	4	5 = 3 - 4	6
CDSL	62,76,510	61,88,568	6,06,945	5,19,003	87,942	3,662	84,280	1,193.98
NSDL	1,02,99,354	98,08,950	37,44,849	32,54,445	4,90,404	17,277	4,73,127	7,786.35

Proposed Amendments to Depositories Act -1996 to deal with property in the frozen demat accounts

The proposed amendments to the Indian Depositories Act aims at declaring the frozen accounts with the Depositories as unclaimed so as to consider their forfeiture and credit the proceeds thereon to the Consolidated Fund of India. This is proposed as a part of a set of amendment proposals to securities laws to bring in more efficient utilization of resources and reduction in regulatory cost. The proposal for Amendments to the Securities Laws {the Securities and Exchange Board of India Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996} that include this proposal is presently under finalization in DEA. With respect to such securities which remain unclaimed for a specified period, in brief, it is being proposed as follows:

a. To transfer such securities within fifteen days to the account of the Commissioner to be appointed for this purpose by the Government.
b. The Commissioner, in turn, would carry out due diligence including issuing notices before forming a reasonable belief about the unclaimed nature of the securities and thereafter, declare such securities as unclaimed securities and forfeit these to the Central Government, free from all encumbrances.

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c. After the date of sale (decided by the Central Government or nominated entity) the proceeds from the sale would be transferred to the Consolidated Fund of India (CFI).
d. The Commissioner be vested with all the powers of the civil court for certain matters including summoning and enforcing attendance of any person, requiring discovery and production of documents, receiving evidence on affidavits, requisitioning any public record or copy from any court of office, issuing commissions for examination of witnesses or documents etc.
e. Disputes including claims arising after transfer of sale proceeds of unclaimed securities by the Commissioner to the CFI to be heard by the Securities Appellate Tribunal and appeal thereafter to lie to the Supreme Court.

Steps taken for PAN compliance and safeguarding interest of genuine account holders

a. PAN has been made mandatory for opening of dematerialized accounts with effect from 31st March 2006.
b. Various efforts have been taken to make investors aware of the need for PAN compliance like advertisements, issue of circulars / pamphlets etc.
c. The Depository Participants are required to obtain a photocopy of the PAN card of applicant(s) and verify the same with the original PAN card.
d. Further, PAN card details of demat account holder(s) are cross checked with the details appearing on the website of the Income Tax Department (ITD for the same PAN).
e. In respect of accounts that are opened till March 31, 2006, account holders were advised to get verification of PAN done as is the case with new account (as per Para 3.1.2 above), at the earliest but not later than October 1, 2006 (later extended till December 31, 2006) in respect of all account holder(s) otherwise the accounts were to be frozen for debits.
f. With effect from January 1, 2007, all PAN non-compliant accounts have been frozen. It was directed that PAN non-compliant accounts which do not have any security balances should be closed latest by November 15, 2008.

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g. Statistics of such PAN non-compliant accounts are being provided to SEBI on a fortnightly basis with effect from Jan 2007 as on 15th of the month and end of month.

h. The depositories have advised the DPs to verify whether the account opening documents submitted by the investor in respect of such accounts viz: proof of identity and proof of residence are available, the copies of these documents have been verified with the originals and KYC norms prescribed by SEBI have been followed.

i. 'In-person' verification by staff of the DP of the applicants has been made mandatory. The depositories have directed the DPs to verify the identity of the applicant(s) [Beneficial Owner(s)] while opening depository accounts of non-body corporates. Only the staff of the DP should carry out 'in-person' verification. The DP should not outsource or assign the activity of 'in-person' verification to an outside agency.

j. The depositories have further stipulated that at the time of opening depository accounts, the staff of the DP should establish the identity of the applicant(s) (including guardian in case of minor account) by verifying the photograph(s) affixed in the account opening form as well as proof of identity document(s) with the person concerned.

k. For dematerialized accounts opened between April 2006 and February 2008, where in-person verification was not carried out by DP staff, the depositories have advised the DPs to carry out the same and furnish a certificate to the depositories by the compliance officer of the DP. DPs were advised to complete the above exercise by December 31, 2008. Both the depositories have complied with this.

l. 100% verification of the account opening documents by the Concurrent Auditor has been made mandatory.

m. The depositories have taken measures to identify instances where five (reduced from twenty) or more demat accounts have the same name or address or bank name and bank account number or PAN etc. using the De-dupe software that can detect accounts with common parameters defined.

n. Based on the alerts generated, the DPs are advised by depositories to reconfirm compliance of KYC norms.

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o. To avoid the misuse of accounts operated through Power of Attorney, SEBI has mandated compulsory subscription to SMS alerts in these accounts. In compliance NSDL and CDSL issued circular/communiqué wherein the DPs were advised that sending SMS Alert is mandatory for all (individual) accounts operated through Power of Attorney (POA). It was further clarified to DPs that SMS Alert facility will not be mandatory for the accounts held by non-individuals, NRIs and foreign nationals. In a discussion with Depositories SEBI has advised them to design an alternate procedure to handle cases where there is failure in delivery of the SMS.

Regulation 32 of SEBI (Depositories and Participants) Regulations 1996 for ensuring adequate protection mechanism:

a. As a part of strengthening the regulatory framework for Depositories and Participants, Regulation 32 was amended to align it better with market practice.
b. Regulation 32 before amendment read as follows: *"The depository shall satisfy the Board that it has a mechanism in place to ensure that the interest of the persons buying and selling securities held in the depository are adequately protected and shall register the transfer of a security in the name of the transferee only after the depository is satisfied that payment for such transfer has been made.'*
c. Compliance with latter part of regulation was impracticable due to the fact that in a typical buy/sell transaction on the exchange, pay-in of securities is done prior to pay-out. Hence for effecting the pay-in the securities would have to be debited from their respective seller BO account without the money for the same being received. Therefore the Board amended Regulation 32 in August 2008 which now reads as follows: *"The depository shall satisfy the Board that it has a mechanism in place to ensure that the interest of the persons buying and selling securities held in the depository are adequately protected"*

Investigations regarding Frozen Demat Accounts

Income Tax Department is conducting investigations regarding frozen Demat Accounts which had balances of value in excess of approximately Rs 10 lakhs as on December 2008. These accounts are 6385 in number with total approximate value of shares of Rs 6,709,21 crores as in December 2008 and an approximate value of Rs

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16,230 crores when the Deamt Accounts were frozen. After completing the investigation in these cases, necessary action will be taken to bring to tax the un-disclosed income/investments detected.

Steps taken with respect to Omnibus Accounts

As regards depository accounts with Participants having closed business (i.e. Accounts in Omnibus System), depositories had issued various public notices and letters through registered post informing the account holders that their accounts have been transferred to Omnibus system maintained with NSDL as their Participants have closed operations. These investors have been advised the procedure to get their holdings transferred to their new depository account held with another Participant (after complying with the PAN requirement in case of non-PAN compliant frozen depository accounts).

It has been observed that despite these efforts on the part of Depositories, clients do not come forward to claim their securities lying in Omnibus system. Some of the probable reasons for this are stated to include:

i) Change of address not communicated by the client to the Participant and therefore any communication regarding transfer of account to Omnibus system did not reach the client.
ii) Very insignificant value of shares and hence, clients not willing to take any efforts to open new account and get the securities transferred.
iii) As Depositories itself manages the accounts in Omnibus system, the account holders feel that their holdings are safe.
iv) Investors holding securities as long term investments and not willing to sell them in the near future.
v) Not requiring to pay Participant service fees.
vi) Deceased clients.

The amendment proposal include the unclaimed accounts in the omnibus category also for consideration for forfeiture, adopting due procedure.

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Recommendation (Para No. 16)

The Committee noticed that the Central Economic Intelligence Bureau (CEIB) had been apprised by the Central Board of Direct Taxes (CBDT) about a number of cases involving misuse of Bank draft facility. The Committee were dismayed that the RBI had however, failed to detect such cases during their inspection. This cannot but be suggestive of laxity in the monitoring/regulatory system of RBI. The Committee found that a Group had been formed to examine this issue. The Committee desired to be apprised about their findings and the action taken by the Government to implement them.

Reply of the Government

A Group comprising of representatives from CEIB, CBDT, FIU, ED and RBI was set up in October, 2008 to examine a similar issue of Street Financing. The report of the Group is being finalised for submission to the Government of India. The recommendations of the Group were sent to RBI who have interalia suggested that as this is a matter of serious interest to the banking and mercantile community, the views of organisations like Indian Banks' Association (IBA), Federation of Indian Chambers of Commerce and Industry (FICCI) etc should be called for. Accordingly, comments of FICCI and Indian Banks' Association were also sought on the subject. So far IBA has given their interim observations wherein they have stated that they are seeking the views of their member banks on the above issue and thereafter they will revert to us in the matter as early as possible. FICCI has not responded so far.

Ministry of Finance, Department of Financial Services OM No. 40/4/2009-BO.II dated 21st December, 2009.

Recommendation (Para No. 17)

The Committee noted with serious concern that as many as 201 awards of the insurance Ombudsman were still due for compliance. Serious shortcomings had been highlighted by the Insurance Ombudsman in the operational reports such as lack of proper mentioning of internal grievance redressal mechanism in policy

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documents, grievance redressal cell of insurance companies not working properly, non adherence to the timeframe of 15 days by insurance companies for settlement of claims, absence of terms and conditions in the policy bond/cover note etc. The Committee were dismayed that even after getting relief from Insurance Ombudsman, policy holders continued to suffer due to laxity on the part of insurers to settle awards fast. Meetings/annual reviews also seemed to have made little impact in ensuring faster implementation of awards. The Committee therefore, recommend ed that the Insurance Regulatory and Development Authority (IRDA) should take up the issue of grievance-redressal in the insurance sector immediately and consider imposition of penalty on the insurers in cases of non-compliance beyond reasonable period.

Reply of the Government

The status, as on date, of the 201 cases which were pending as on 31.03.2009 has been ascertained from the nodal agency, Governing Body of Insurance Council (GBIC) and it is noted that out of 201, 114 cases have been complied with as on date and 87 are outstanding. Further, IRDA is initiating appropriate action to deal with delay in compliance of awards by insurers. IRDA has also set up grievance cells for life and non-life insurance respectively. The cells facilitate resolution by taking up the grievances with insurance companies and monitoring their disposal. In order to review and further strengthen the system of grievance disposal, IRDA has set up the Kamesam Committee to make recommendations in this regard. The major recommendations of the Committee included stipulating that insurers adopt Board approved grievance redress policies (making it an essential part of Corporate Governance), specific-time frames for acknowledgement, resolution, escalation, disposal, etc. to be laid down by insurers and proper disclosure of these, uniform classification/ categorization of grievance types across insurers, designation of grievance officers and having a grievance software for which certain minimum requirements were also suggested. The Committee also recommended that insurers must adopt a voluntary code of standards/ commitment, not only for grievances but also for customer service, in

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general. The Committee recommended that the board of the insurer should be kept informed, periodically, of the details of grievances received and disposed of.

Ministry of Finance, Department of Financial Services OM No.12013/8/2009-Ins.IV dated 31st December, 2009

Recommendation (Para No. 18)

The Committee regretted to note that the Insurance Regulatory and Development Authority (IRDA) continued to retain its surplus funds, instead of depositing it into the Public Account of India, despite the Committee's recommendation to this effect earlier. This was also contrary to the advice of the Ministry of Law, which suggested that the surplus funds be kept in the Public Account of India. Similarly, even in the case of Securities and Exchange Board of India (SEBI), it was seen that penalty proceeds were credited to the Consolidated Fund of India, while all other funds were being transferred to SEBI General Fund. The Committee noted that following the advice of the Director General of Audit Central Revenue (DGACR) to keep the SEBI fund also in the Public Account, the Government was presently considering the issue. The Committee expected the Ministry to take an early decision to thrash out this lingering issue once and for all, so as to maintain uniformity in approach for all regulators including IRDA and SEBI. The Committee desired to be apprised of the decision in the matter.

Reply of the Government

The Budget Division of Department of Economic Affairs (DEA), Ministry of Finance has framed the guidelines (Annexure 1) to operationalize the SEBI & IRDA funds in the Public Account of India and conveyed to the Chief Controller of Accounts (CCA) of the Ministry of Finance. The CCA has requested to draw up the detailed accounting procedure and to take up with the Controller General of Accounts (CGA), Ministry of Finance for obtaining the concurrence of the Comptroller & General of India (C& AG), including opening of related heads of accounts in the Public Account of India.

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Ministry of Finance, Department of Financial Services OM No. 12013/8/2009-Ins.IV dated 31st December, 2009

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CHAPTER III

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

Recommendation (Para No. 9)

The Committee were concerned to note that since November, 2008, while the headline inflation, measured in terms of the Wholesale Price Index (WPI) had gone down drastically till September, 2009 (from 8.48% to 0.50%) the Consumer Price Index (CPI) for both industrial workers and rural labour had increased considerably (10.45% to 11.64% and 11.35% to 12.97% respectively) during the same period. This had given rise to a paradoxical situation, wherein the rate of inflation was shown to be declining, while the actual prices in the market were shooting. The principal factor for such a mis-leading variation in indices was the absence of a realistic/representative price index. As also pointed out by the Ministry of Finance, way back in 2001, the National Statistical Commission had recommended compilation of a realistic/representative price index in the form of CPI (Urban) and CPI (Rural). Clearing the confusion created by the trends being witnessed in the movement of the price indices being an urgent necessity, the Committee desired that the process of acting on the recommendation of the National Statistical Commission for building a realistic price index is expedited. This would also enable the Government to formulate their response in a manner that will not distort their fiscal and monetary policies. The Committee desired to be apprised of the progress made in this regard.

Reply of the Government

Government of India in the Ministry of Statistics and Programme Implementation has initiated action on the recommendation of the National Statistical Commission for compilation of new series of Consumer Price Index for urban areas (CPI-Urban) and Consumer Price Index for rural areas (CPI-Rural). CPI (Urban) would be compiled for each State/Union Territory (UT) as well as at all India level. Weighting diagrams (consumption pattern) of the CPI (Urban) have been derived from the results of the National Sample Survey 61st round of Consumer Expenditure Survey (2004-05). All cities/towns having population (2001 Population Census) more than 9 lakh and all

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State/UT capitals not covered therein were selected purposively. In all 310 towns have been selected either on purposive or random basis from which 1114 quotations (price schedules) are canvassed every month. Regular price and rent data are being collected by the National Sample Survey Organization (NSSO), Field Operations Division (FOD). After selection of base year and also compilation of base year prices, new series of CPI (Urban) would be compiled. It is expected that trial indices of CPI (Urban) would be available in 2010.

As far as CPI (Rural) is concerned, it would also be compiled and for all States/UTs and for all India. Weighting diagrams of the CPI (Rural) have also been derived from the results of the NSS 61st round of Consumer Expenditure Survey (2004-05). With a view to have a workload within manageable limits and considering the fact that the CPI (Rural) would provide the price changes for the entire rural population of the country, a total of 1183 villages have been selected at all India level. The broad criterion of selection of villages is to have representation of all the districts within State/UT and therefore two villages from each district adjusted on the basis of rural population of the State/UT have been selected randomly from different tehsils.

As field investigators of NSSO (FOD) were not available for price collection in the rural areas, this work has been entrusted to the Department of Posts. After training by NSSO (FOD), price data collection work has started from October 2009. It is expected that trial indices of CPI (Rural) would be available in the beginning of 2011.

Recommendation (Para No. 19)

The Committee were concerned to note that there had been huge savings/unspent funds by various Ministries/Departments during the last five years on both revenue and capital accounts. Ministries/Departments such as Department of Food and Public Distribution, Ministry of Defence, Ministry of Environment, Department of Economic Affairs, Department of Health, Ministry of Home Affairs, Ministry of Information and Broadcasting and Department of Urban Development had reported savings in both accounts consecutively during the last five years. More disturbing was the fact that Departments such as Heavy Industry, Space, Urban Development,

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Department of Revenue- Indirect Taxes, Ministry of Power, Ministry of Road Transport and Highways etc. had registered huge savings in the capital account during the same period, indicating either improper projections of budgetary requirements or gross underutilization of funds. Under utilization of funds under the capital account also pointed to the fact that development oriented activities/investments had been seriously curtailed. The reasons furnished for repeated occurrence of huge savings also appeared to be perfunctory and routine. The Committee also disproved of the Government's failure to maintain centralized records preventing it from ascertaining whether the savings had been effected through cost reduction/ economy measures or due to faulty projections. In their view, given the huge occurrence of savings/unspent funds, it was imperative on the part of the Government to analyse the causes, so as not to continue disbursing grants in a routine manner each year, even when these were not being utilised. The Committee, therefore, recommended that expenditure data should be maintained and monitored in a centralized manner to enable analysis of the reasons for savings. In this connection, the Committee also desired to know the debt liability implications of the amount remaining unspent and measures taken by the Government to reduce the same.

Reply of the Government

An analysis on the savings occurring in the Grants/Appropriation of Ministries/Departments during the financial years 2005-06, 2006-07, and 2007-08 has been carried out by the Ministry of Finance. Statements showing such analysis are enclosed. It is seen from the analysis made that the unspent balances are much less than what has been reported in the Appropriation Accounts as explained in the following paragraph:

In the Demands for Grants, there are two Sections viz. 'Revenue Section' and 'Capital Section'. Provisions under each of these Sections have further subdivisions as 'Voted' and 'Charged'. The savings in Revenues Section is not automatically available to the Ministries/Department for spending in the Capital Section and vice versa. Similarly, the savings in the 'Voted' provision is not automatically available for spending as 'Charged' and vice versa, even

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in the same section of the Grant without the prior approval of the Parliament. Therefore, the savings in one Section of the Grant is made available for spending in the other Section of the same Grant by seeking Parliamentary approval through supplementary demands for grants after surrendering the amount of savings in the relevant section. Thus, the savings surrendered during the year in one Section is re-deployed elsewhere as per Governments priorities. However, Appropriation Accounts show these savings as "unspent provisions", which are not, in true sense, unspent provision because they have been re-deployed elsewhere on being surrendered within the relevant financial year. If such surrenders are taken into account, the unspent amounts would be much less than what has been reported in the Appropriation Accounts, as shown in column 6 of the Statement attached.

2. Similar analysis was carried out in respect of the savings occurring in the financial years 2002-03, 2003-04 and 2004-05 also in pursuance of the recommendation contained in 17th Report of Public Accounts Committee(14th Lok Sabha) on persistent savings in the Appropriation Accounts (copy of ATN enclosed).

3. In order to enhance overall expenditure efficiency and minimize uneven expenditure by various Ministries/Departments during the course of the year in relation to their respective budget provisions and also to ensure that such expenditure management systems are put in place so as to match the need of fast growing economy, the Ministry of Finance have issued instructions/guidelines from time to time. The core and consolidated instructions/guidelines are contained in the 'Scheme for Integrated Financial Advisers' that clarifies inter-alia the role, responsibilities of Financial Advisers assisted by their Chief Controllers/Controllers of Accounts in respect of Budget formulation, Expenditure and Cash Management Project formulation appraisal and monitoring and Account reporting systems, issued vide Department of Expenditure O.M.No.F.5 (6)/L&C/2006 dated 1.6.2006 (copy enclosed).

4. Ministry of Finance is closely monitoring the unspent balances. Hon'ble Finance Minister has instructed all the Financial Advisers of the various Departments that the unspent balances should be factored in while making further releases, in a meeting held in October 2009. While finalizing Revised Estimates for all the departments, we have also ensured that unspent balances are factored in, while

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deciding the ceilings. It is true that the unspent balances/savings increases the estimated fiscal deficit and therefore the public debt. However, some of the unspent balances/savings are inevitable due to on-going projects/schemes, delay in submission of utilization certificates. However, efforts are being made to minimise the surrender of savings".

Ministry of Finance, Department of Economics Affairs, O.M. No. 7(1)–B (D)/2009 dated 11.1.2010

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Statement showing savings occurred in Grants/Appropriations of Civil Ministries and the actual unspent provisions after taking into account the amount surrendered by the Ministries during the year 2005-06.

(Rs. in crore)

Sl. No.	Name of the Grant/Appropriations	Total Grant or appropriation	Expenditure	Savings as reported in App. A/cs	Amount surrendered during the year	Unspent provision (Col 4-5)
	1	2	3	4	5	6
1.	Department of Food and Public Distribution	27149.34	23651.22	3498.12	3337.15	160.97
2.	Ministry of Defence	7415.40	5825.92	1589.48	1531.13	58.35
3.	Ministry of Environment and Forests	1406.68	1254.52	152.16	128.28	23.88
4.	Department of Economic Affairs	5408.58	3929.79	1479.79	144113	38.66
5.	Department of Health and Family Welfare	4278.89	3843.65	435.24	216.00	219.24
6.	Ministry of Home Affairs	946.41	739.23	207.18	196.31	10.87
7.	Ministry of Information and Broadcasting	1702.50	1543.54	158.96	148.08	10.88
8.	Department of Heavy Industry	2750.35	1552.72	1197.63	1197.11	0.52
9.	Ministry of Power	5432.90	4011.84	1421.06	1416.97	4.09
10.	Indirect Taxes	1649.41	1368.74	280.67	225.51	55.16
11.	Department of Road Transport and Highways	19226.05	17212.98	2013.07	1681.25	331.82
12.	Department of Space	3148.42	2667.60	480.82	472.90	7.92
13.	Department of Urban Development	3858.76	3128.48	730.28	722.23	8.05

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Statement showing savings occurred in Grants/Appropriations of Civil Ministries and the actual unspent provisions after taking into account the amount surrendered by the Ministries during the year 2006-07.

(Rs. in crore)

Sl. No.	**Name of the Grant/Appropriations**	**Total Grant or appropriation**	**Expenditure**	**Savings as reported in App. A/cs**	**Amount surrendered during the year**	**Unspent provision (Col 4-5)**
	1	**2**	**3**	**4**	**5**	**6**
1.	Department of Food and Public Distribution	246910.67	24657.92	339.65	169.25	170.40
2.	Ministry of Defence	7568.80	6218.76	1350.04	1113.04	237.00
3.	Ministry of Environment and Forests	1523.99	1371.31	152.68	132.70	19.98
4.	Department of Economic Affairs	9991.85	9811.12	180.73	138.59	42.14
5.	Department of Health and Family Welfare	14380.16	11960.86	2419.30	2111.30	308.00
6,	Ministry of Home Affairs	810.24	774.36	35.88	20.41	15.47
7.	Ministry of Information and Broadcasting	1716.11	1462.45	253.66	248.04	5.62
8.	Department of Heavy Industry	3707.65	3453.97	253.68	253.68	0.00
9.	Ministry of Power	6989.19	5692.08	1294.11	1289.78	4.33
10.	Indirect Taxes	1714.82	1507.42	207.40	146.37	61.03
11.	Department of Road Transport and Highways	23611.08	22811.03	800.05	674.73	125.32
12.	Department of Space	3610.52	2988.67	621.85	613.23	8.62
13.	Department of Urban Development	2312.12	2026.83	285.29	210.75	74.54

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Statement showing savings occurred in Grants/Appropriations of Civil Ministries and the actual unspent provisions after taking into account the amount surrendered by the Ministries during the year 2007-08.

(Rs. in crore)

Sl. No.	Name of the Grant/Appropriations	Total Grant or appropriation	Expenditure	Savings as reported in App. A/cs	Amount surrendered during the year	Unspent provision (Col 4-5)
	1	**2**	**3**	**4**	**5**	**6**
1.	Department of Food and Public Distribution	32910.39	32354.03	556.36	519.37	36.99
2.	Ministry of Defence	7877.02	7130.52	746.50	495.56	250.94
3.	Ministry of Environment and Forests	1639.28	1583.24	56.04	7.10	48.94
4.	Department of Economic Affairs	10671.46	10525.86	145.60	56.27	89.33
5.	Department of Health and Family Welfare	17328.01	15345.36	1982.65	1664.65	318.00
6,	Ministry of Home Affairs	865.82	821.13	44.69	46.79	-2.10
7.	Ministry of Information and Broadcasting	1686.87	1586.05	100.82	97.19	3.63
8.	Department of Heavy Industry	1655.29	998.96	656.33	655.28	1.05
9.	Ministry of Power	5896.47	4544.98	1351.49	1349.98	1.51
10.	Indirect Taxes	1890.71	1698.57	192.14	119.15	72.99
11.	Department of Road Transport and Highways	24848.27	24336.34	511.93	132.85	379.08
12.	Department of Space	3858.80	3278.00	580.80	568.71	12.09
13.	Department of Urban Development	3517.64	3349.16	168.53	85.12	83.41

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CHAPTER IV

Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee

Recommendation (Para No. 5)

The Committee were concerned to note that fiscal deficit and revenue deficit as a percentage of GDP had been projected at 6.8% and 4.8% respectively as per budget estimates 2009-10. While the progress in bringing down the deficit levels in accordance with the stipulations of the Fiscal Responsibility and Budget Management Act, 2004 (FRBM Act) had not been very satisfactory, the fiscal deficit had, on the contrary, risen sharply in 2008-09 when it reached 6.2% of GDP. The rise in fiscal deficit had been attributed to factors such as increased global commodity prices, conscious shift in expenditure for health, education and social sector and the fiscal stimulus to overcome the effects of global financial crisis. While such kind of deviations were inevitable during exigencies, there was an imperative need to minimise the deviations, so as to maintain the sanctity of the FRBM Act. The Committee believed that by allowing major deviations, the sanctity and efficacy of the FRBM Act was being seriously jeopardized.

Reply of the Government

The Government is committed towards maintaining the sanctity and efficacy of the FRBM Act. The spirit of the FRBM Act, 2003 envisages not only 'institutional dedication to fiscal discipline' but also 'a qualitative improvement in the types of expenditure'. In 2007-08, the Government was able to reduce the fiscal deficit to a level below the mandated level of 3 per cent of GDP. Primarily the fiscal consolidation during the period 2004-08 was revenue driven, and therefore it has created a stress when the revenue buoyancy has fallen on account of moderation in economic growth during 2008-09. The Government could not remain within the fiscal space defined under the Act during 2008-09. This was primarily on account of fiscal measures taken by the Government for boosting the public expenditure and providing growth stimulus in order to insulate the Indian economy from the adverse impact of global slowdown.

The moderation in growth of the economy and the impact of the fiscal measures taken in the form of reduction in tax and duty rates has been reflected in lower gross

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tax revenue receipts at Rs.6,09,705 crore as per the provisional accounts of 2008-09 against B.E. 2008-09 of Rs.6,87,715 crore. Additional budgetary resources provided as part of stimulus package including increase in plan outlay from Rs.2,43,386 crore in B.E. 2008-09 to Rs.2,82,957 crore in R.E.2008-09 and various committed liabilities of Government including rising subsidy requirements, implementation of Sixth Central Pay Commission recommendations and Debt Waiver and Debt Relief Scheme for Farmers contributed to increase in the fiscal deficit to 6.2 per cent of GDP in 2008-09 (provisional accounts) as compared to 2.5 per cent of GDP in B.E.2008-09.

Under Section 7 of the Act, in the event of deviation from the obligations cast on the Government under the Act, the Finance Minister should make a Statement in both the Houses of Parliament explaining the circumstances that have led to such a deviation; explaining whether such deviation is substantial and relates to actual or potential budgetary outcomes; and detailing the remedial measures the Government proposes to take. Three Statements, namely, Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement, were presented in both the Houses of Parliament explaining grounds for deviation from the obligations cast on the Central Government under the Act in compliance with the statutory requirements.

The Government has enumerated the fiscal roadmap in the Medium Term Fiscal Policy Statement wherein the fiscal deficit has been targeted at 5.5 per cent and 4 per cent of GDP in 2010-11 and 2011-12 respectively. At the same time, revenue deficit has been targeted to reduce from 4.8 per cent of GDP in 2009-10 to 3 per cent and 1.5 per cent of GDP in 2010-11 and 2011-12 respectively. The fiscal correction envisaged as above is primarily revenue driven. The gross tax revenue to GDP ratio is targeted to improve from 10.9 per cent in 2009-10 to 11.9 per cent and 12.4 per cent respectively in 2010-11 and 2011-12.

Recommendation (Para No. 6)

Although the Act warranted the Government to spell out the remedial measures to get back to the path of fiscal sustainability, the Government had only outlined the fiscal roadmap for the next two years by mentioning the rolling targets for the fiscal and revenue deficit, without specifying the measures/action plan to achieve the same.

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Entrusting the task of reviewing and formulating the road map for fiscal adjustment to the Thirteenth Finance Commission was, in the opinion of the Committee, not in consonance with the stipulations of the FRBM Act and amounted to skirting the issue. Apparently, there was lack of clarity on the policy stance of the Government on the FRBM Act, 2004. This was also evident from the fact that while the Ministry had, at first informed that any amendments required to be carried out in the FRBM Act would be considered upon receipt of the report of the Thirteenth Finance Commission, it was subsequently asserted that there would not be any need for amending the Act in view of the commitment to go back to the path of fiscal consolidation at the earliest. The Committee were dismayed at the vacillation of the Ministry on this issue. The Committee expected the Government to spell out their policy stance on FRBM Act and statements laid thereunder with greater clarity and in unambiguous terms. The Committee would also await the report of the Finance Commission in this regard.

Reply of the Government

The Government is not skirting the issue of compliance stipulated under the FRBM Act. The policy stance of the Government on the issue was clearly enumerated in the Budget speech of 2009-10 of Hon'ble Finance Minister

"To bring the fiscal deficit under control, we have to initiate institutional reform measures during the current year itself. This is essential for maintaining a stable balance of payments, moderate interest rates and steady flow of external capital for corporate investment. These measures have to encompass all aspects of the budget such as subsidies, taxes, expenditure and disinvestment.

Further, the Government has spelt out the fiscal roadmap in the Medium Term Fiscal Policy Statement wherein the fiscal deficit has been targeted to be reduced from 6.8 per cent of GDP in 2009-10 to 5.5 per cent and 4 per cent of GDP in 2010-11 and 2011-12 respectively. At the same time, revenue deficit has been targeted to reduce from 4.8 per cent of GDP in 2009-10 to 3 per cent and 1.5 per cent of GDP in 2010-11 and 2011-12 respectively. The fiscal correction envisaged as above is primarily revenue driven. The gross tax revenue to GDP ratio is targeted to improve from 10.9

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per cent in 2009-10 to 11.9 per cent and 12.4 per cent respectively in 2010-11 and 2011-12.

There is no vacillation of the Ministry on the issue with respect to amendment in the FRBM Act. It was informed to the Committee that consequent on the recommendations of the 13th Finance Commission, if any amendment is required in the FRBM Act, the Government will consider the same. Subsequently, it was also stated that, at present, when the Government has clearly spelt out the policy of reverting back to the path of fiscal consolidation at the earliest, there would not be any need for amending the Act, especially when the Government is making a Statement in the Parliament explaining the intervening deviations from FRBM targets. Therefore, there is no contradiction or lack of clarity in Government's view on this issue.

Recommendation (Para No. 11)

As revealed in RBI's quarterly statistics on State-wise distribution of banked centers, the present pattern of spread of banking in the country was very uneven, with 28,232 banking centers having only one office and 61 centres having more than 100 offices. The Committee desired to know the measures being taken by Government/RBI to increase the number of banking centres in areas having negligible presence. Although the Government and RBI were stated to have proposed a number of measures for increasing bank branches in unbanked areas, the Committee were surprised to find that out of 103 unbanked blocks in the country, only about 13 blocks were expected to have bank branches by December, 2009. Though the Finance Minister had assured increasing the banking facility in underbanked areas within next three years, the Ministry had surprisingly not fixed any particular timeframe or target to cover the unbanked areas including the 103 blocks identified. The Committee expected the Government to ensure that the benefits of banking reach remote and backward areas within a stipulated time-period. As public sector banks legitimately seek to improve their profitability, the socio-economic objectives of banking should not be lost sight of either. In this context, the Committee emphasised that the Government should facilitate expansion of Grameen Banks/Regional Rural Banks (RRBs), as they still remained the most

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effective system available for ensuring rural credit with their distinct advantages, particularly in the wake of failure of cooperative banking.

Reply of the Government

As on March, 2009, there are 31699 rural branches, 19082 semi-urban branches, 16616 urban branches and 15013 metropolitan branches of scheduled commercial banks in the country. The average population per branch is 14000. There are 375 underbanked districts and 99 unbanked blocks in the country. A list of underbanked districts has been forwarded to banks by RBI to enable them to identify centers for opening branches in such districts. Out of 99 unbanked blocks, 86 are in North East (NE) region. The matter has been taken up with the concerned banks to open branches in these blocks of the NE Region by 31.3.2010. The Ministry of Finance is monitoring progress fortnightly and encouraging banks through the SLBC mechanism to provide bank branches or/and branchless banking facilities in these unbanked blocks.

RBI has liberalized the extant Banks Authorisation Policy. Through its circular dated December 1, 2009, RBI has permitted all Scheduled Commercial Banks (excluding Regional Rural Banks) to open branches in Tier 3 to Tier 6 centres (with population upto 49,999 as per Census 2001) without having the need to take permission from RBI in each case, subject to reporting. Further banks have been permitted to open branches in rural, semi urban & urban centres in the North Eastern States & Sikkim, without prior permission from the RBI. Further, RBI has also relaxed its Branch Authorisation Policy under which Scheduled Commercial Banks (SCBs) including Public Sector Banks are permitted to install offsite ATMs at centers/places identified by them without having the need to take permission from the RBI. This is expected to result in an expansion of the banking network in the unbanked blocks.

Further, on the basis of recommendations of the High Level Committee constituted by RBI under the chairpersonship of Smt. Usha Thorat, Deputy Governor, RBI has advised the Lead Banks for each district to provide banking

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services in every village having population over 2000 by March 2011. The Ministry advised the Regional Rural Banks to open 2000 more branches in the next two years i.e upto March 31, 2011.

Several Public Sector Banks have also initiated pilot projects through the Business Correspondent Model utilizing the smart card technology, mobile banking, etc. to increase their outreach in interior areas.

Ministry of Finance, Department of Financial Services OM No. 6/6/2009-AC dated 8th January, 2010.

Recommendation (Para No. 12)

Surprisingly, the Ministry of Finance did not have ready information on the extent to which the Banking Correspondent/Banking Facilitator (BC/BF) model, initiated in 2006, and under which banks were permitted to engage the services of non-governmental organizations, micro-finance institutions etc. in providing financial and banking services had served in enabling outreach to underbanked areas. As per the submission of the Ministry, issues such as viability of the BC/BFs vis-à-vis bank branches and viability of technology service providers remained to be addressed for the success of the model as a means of financial inclusion. The Committee expected that the hindrances to the success of this model of financial inclusion were addressed in a time bound manner. The Committee also wished to be apprised of the details of the operationalisation of this model and its success in enabling outreach in areas with low banking accessibility.

Reply of the Government

Banking Correspondent/Banking Facilitator (BC/BF) model is an important initiative of the Reserve Bank of India to ensure a closer relationship between poor people and the organized financial system. In 2006, Reserve Bank of India permitted banks to use the services of non-governmental organizations, micro-finance institutions, retired bank employees, ex-servicemen, retired government employees, Section 25

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companies, and other civil society organisations as Business Correspondents in providing financial and banking services.

Even as the BC model has taken off, it needs to be fine tuned and monitored appropriately to improve its efficacy, including by better training BCs. Recently, RBI has further enlarged the scope of the BC model by permitting banks to appoint individual kirana/medical/fair price shop owners, individual Public Call Office (PCO) operators, agents of Small Savings schemes and insurance companies, individuals who own petrol pumps, retired teachers and self-help groups linked to banks as BCs. With a view to ensuring the viability of the BC model, banks have also been permitted to collect reasonable service charges from the customer in a transparent manner. Going forward, Reserve Bank of India has stated that it will endeavour to give complete flexibility to banks to appoint BCs with only a negative list of entities that would not be eligible.

Ministry of Finance, Department of Financial Services OM No. 6/6/2009-AC dated 8th January, 2010.

Recommendation (Para No. 13)

While most of the public sector banks had adhered to the target of adding 250 accounts in rural and semi-urban branches as announced in the interim budget 2009, in pursuance of the recommendation of the Committee on financial inclusion, the information furnished to the Committee with regard to opening of new rural accounts by private sector banks was sketchy and inadequate, thereby indicating absence of monitoring by the Ministry. Apparently, neither the Ministry of Finance nor the Indian Banks' Association had ready data on the extent to which the private sector banks had abided by the budget announcement on increasing rural household accounts. The Committee noted with strong disapproval the Government's lack of seriousness and softness with regard to the mandate to be fulfilled by private banks. The Committee desired the Government to obtain and

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furnish the relevant information without further delay. The Committee were also of the opinion that there was a need to devise a system of disincentives to banks which were not willing to open rural branches. They, therefore, recommended that the Government/ RBI must formulate new stringent norms to induce private sector banks to open more branches in rural areas.

Reply of the Government

The Reserve Bank of India (RBI) has recently liberalized branch authorization norms for opening branches in unbanked rural areas. It is understood that performance in opening branches in rural and unbanked areas is an important criteria adopted by RBI for granting permission for opening new branches in other areas.

The details of data collected by Indian Banks Association (IBA) for Private Sector Banks as regards opening of rural household accounts as on 31st December, 2009 is as under:-

S.No.	Name of the Bank	No.of Rural/Semi Urban Branches	No. of Rural Household accounts opened as on 31.12.2009
1.	Karnatakla Bank	184	11078
2.	Tamilnadu Mercantile	132	23642
3.	HDFC Bank	414	240767
4.	Axis Bank	243	100724
5.	Karur Vysya Bank	34788	
6.	South Indian Bank		63105
7.	Kotak Mahindra Bank	56	466

IBA has reported that the Private Sector Banks have lesser number of branches in the rural areas and are not actively involved in handling Government sponsored schemes, disbursement of National Rural Employment Guarantee Act (NREGA) payments, etc.

Ministry of Finance, Department of Financial Services OM No.6/6/2009-AC dated 4th February, 2010.

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Recommendation (Para No. 14)

In the year 2008-09, credit card related complaints received by RBI constituted 25.32% of the total complaints received during the year. For the preceding year, 2007-08, credit card related complaints pertaining to private sector and foreign banks received at the offices of the Banking Ombudsmen, totaled to 22.10% and 50.37% respectively of the total complaints. This pointed to the fact that banking services were far from satisfactory in credit card related matters. Despite a good percentage of complaints relating to credit cards, surprisingly, RBI study on this matter did not reveal any regulatory lapses at all. The Committee were unhappy to note that the RBI had not been treating credit cards related grievances and complaints of general public with due seriousness. The Committee were of the view that the credit card/debit card services were being marketed and operated in a rather aggressive and exploitative manner, without any regard for customer satisfaction. The Committee, therefore, recommended that the existing guidelines regulating card services should be made more stringent and customer-friendly. Further, the major terms and conditions imposed by the credit card issuing banks should be legible and in bold print for the benefit of the customers and made available in local languages as well.

Reply of the Government

Reserve Bank of India had undertaken a study on the credit card operations of banks, based on the complaints received by the Bank as also by the Offices of the Banking Ombudsmen. Based on the findings of the study, a detailed circular was issued to banks on July 23, 2008 covering various aspects relating to credit card operations of banks. The instructions contained in the above circular dated July 23, 2008 have suitably been incorporated in the Master Circular on Credit Card Operations of banks dated July 1, 2009.

Some of the important aspects covered in the instructions issued to banks on their credit card operations, as brought out in the Master Circular dated July 1, 2009 are furnished below.

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(A) Issue of cards

a. Banks / NBFCs should ensure prudence while issuing credit cards and independently assess the credit risk while issuing cards to persons, especially to students and others with no independent financial means. Add-on cards i.e. those that are subsidiary to the principal card, may be issued with the clear understanding that the liability will be that of the principal cardholder.

b. As holding several credit cards enhances the total credit available to any consumer, banks / NBFCs should assess the credit limit for a credit card customer having regard to the limits enjoyed by the cardholder from other banks on the basis of self declaration / credit information

d. While issuing cards, the terms and conditions for issue and usage of a credit card should be mentioned in clear and simple language (preferably in English, Hindi and the local language) comprehensible to a card user. The Most Important Terms and Conditions (MITCs) termed as standard set of conditions, should be highlighted and advertised / sent separately to the prospective customer / customers at all the stages i.e. during marketing, at the time of application, at the acceptance stage (welcome kit) and in important subsequent communications.

(B) Interest rates and other charges

Credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their BPLR and regardless of the size in terms of the Master Circular on Interest rates on advances.

Banks have also been advised that they should prescribe a ceiling rate of interest, including processing and other charges, in respect of small value personal loans and loans similar in nature. The above instructions are applicable to credit card dues also. In case, banks / NBFCs charge interest rates which vary based on the payment / default history of the cardholder, there should be transparency in levying of such differential interest rates. In other words, the fact that higher interest rates are being charged to the cardholder on account of his payment / default history should be made known to the cardholder. For this purpose, the banks should publicize through their website and other means, the interest rates charged to various categories of customers. Banks / NBFCs should upfront indicate to the credit card holder, the methodology of calculation of finance charges with illustrative examples, particularly in situations where a part of the amount outstanding is only paid by the customer.

Further, The banks / NBFCs have to adhere to the following guidelines relating to interest rates and other charges on credit cards :

a. Card issuers should ensure that there is no delay in dispatching bills and the customer has sufficient number of days (at least one fortnight) for making payment before the interest starts getting charged. In order to obviate frequent complaints of

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delayed billing, the credit card issuing bank / NBFC may consider providing bills and statements of accounts online, with suitable security built therefor. Banks / NBFCs could also consider putting in place a mechanism to ensure that the customer's acknowledgement is obtained for receipt of the monthly statement.

b. Card issuers should quote Annualized Percentage Rates (APR) on card products (separately for retail purchase and for cash advance, if different). The method of calculation of APR should be given with a couple of examples for better comprehension. The APR charged and the annual fee should be shown with equal prominence. The late payment charges, including the method of calculation of such charges and the number of days, should be prominently indicated. The manner in which the outstanding unpaid amount will be included for calculation of interest should also be specifically shown with prominence in all monthly statements. Even where the minimum amount indicated to keep the card valid has been paid, it should be indicated in bold letters that the interest will be charged on the amount due after the due date of payment.

c. The banks / NBFCs should not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and without getting his / her consent. However, this would not be applicable to charges like service taxes, etc. which may subsequently be levied by the Government or any other statutory authority.

d. Changes in charges (other than interest) may be made only with prospective effect giving notice of at least one month. If a credit card holder desires to surrender his credit card on account of any change in credit card charges to his disadvantage, he may be permitted to do so without the bank levying any extra charge for such closure. Any request for a closure of a credit card has to be honoured immediately by the credit card issuer, subject to full settlement of dues by the cardholder.

e. There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year.

(C) Use of DSAs / DMAs and other agents

a. When banks / NBFCs outsource the various credit card operations, they have to be extremely careful that the appointment of such service providers does not compromise with the quality of the customer service and the banks' / NBFCs' ability to manage credit, liquidity and operational risks.

b. In terms of the BCSBI's Code of Bank's Commitment to Customers, banks which have subscribed to the Code are required to prescribe a Code of Conduct for their Direct Sales Agents (DSAs) whose services are engaged by banks for marketing their products / services. Banks should ensure that the DSAs engaged by them for marketing their credit card products scrupulously adhere to the banks' / NBFCs' own Code of Conduct for Credit Card operations which should be displayed on the individual bank's / NBFC's website and be available easily to any credit card holder.

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c. The bank / NBFC should have a system of random checks and mystery shopping to ensure that their agents have been properly briefed and trained in order to handle with care and caution their responsibilities, particularly in the aspects included in these guidelines like soliciting customers, hours for calling, privacy of customer information, conveying the correct terms and conditions of the product on offer, etc.

(D) Right to privacy

a. Unsolicited cards should not be issued. In case, an unsolicited card is issued and activated without the written consent of the recipient and the latter is billed for the same, the card issuing bank shall not only reverse the charges forthwith, but also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed.

b. In addition, the person in whose name the card is issued can also approach the Banking Ombudsman who would determine the amount of compensation payable by the bank to the recipient of the unsolicited card as per the provisions of the Banking Ombudsman Scheme 2006.

c. The card issuing bank / NBFC should not unilaterally upgrade credit cards and enhance credit limits. Prior consent of the borrower should invariably be taken whenever there are any change/s in terms and conditions.

d. Banks / NBFCs / their agents should not resort to invasion of privacy viz., persistently bothering the card holders at odd hours, violation of "do not call" code etc.

(E) Fair Practices in debt collection

(a) In the matter of recovery of dues, banks should ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders as also BCSBI's Code of Bank's Commitment to Customers (those banks which have subscribed to the BCSBI Code). In case banks have their own code for collection of dues, they should, at the minimum, incorporate all the terms of BCSBI's Code referred above.

(b) In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank / NBFC and that they observe strict customer confidentiality. All letters issued by recovery agents must contain the name and address of a responsible senior officer of the card issuing bank whom the customer can contact at his location.

(c) Banks / NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

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(d) The banks should also ensure to comply with the guidelines dated April 24,2008 in respect of engagement of recovery agents issued by RBI. These guidelines inter-alia cover aspects relating to i) engagement of Recovery Agents including verification of antecedents of their employees by agents, (ii) incentives to recovery agents - banks to ensure that contracts with the recovery agents do not induce adoption of uncivilized, unlawful and questionable behaviour or recovery process, (iii) methods followed by recovery agents, (iv) training to recovery agents , (v) taking possession of property mortgaged / hypothecated to banks, (vi) use of forum of Lok Adalats, (vii) complaints against the bank / recovery agents and (viii) periodical review of the recovery agents' mechanism.

(F) Redressal of Grievances

a. Generally, a time limit of 60 (sixty) days may be given to the customers for preferring their complaints / grievances.

b. The card issuing bank / NBFC should constitute Grievance Redressal machinery within the bank / NBFC and give wide publicity about it through electronic and print media. The name and contact number of designated grievance redressal officer of the bank / NBFC should be mentioned on the credit card bills. The designated officer should ensure that genuine grievances of credit card subscribers are redressed promptly without involving delay.

c. Banks / NBFCs should ensure that their call centre staff are trained adequately to competently handle all customer complaints.

d. Banks / NBFCs should also have a mechanism to escalate automatically unresolved complaints from a call center to higher authorities and the details of such mechanism should be put in public domain through their website.

e. The grievance redressal procedure of the bank / NBFC and the time frame fixed for responding to the complaints should be placed on the bank's website. The name, designation, address and contact number of important executives as well as the Grievance Redressal Officer of the bank / NBFC may be displayed on the website. There should be a system of acknowledging customers' complaints for follow up, such as complaint number / docket number, even if the complaints are received on phone.

f. If a complainant does not get satisfactory response from the bank / NBFC which is a subsidiary of a bank within a maximum period of thirty (30) days from the date of his lodging the complaint, he will have the option to approach the Office of the concerned Banking Ombudsman for redressal of his grievance/s. The bank / NBFC which is a subsidiary of a bank shall be liable to compensate the complainant for the loss of his time, expenses, financial loss as well as for the harassment and mental anguish suffered by him for the fault of the bank and where the grievance has not been redressed in time.

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(G) Internal control and monitoring systems

With a view to ensuring that the quality of customer service is ensured on an on-going basis in Banks / NBFCs, the Standing Committee on Customer Service in each bank / NBFC should review on a monthly basis the credit card operations including reports of defaulters to the CIBIL, credit card related complaints and take measures to improve the services and ensure the orderly growth in the credit card operations. Banks should put up detailed quarterly analysis of credit card related complaints to their Top Management. Card issuing banks should have in place a suitable monitoring mechanism to randomly check the genuineness of merchant transactions.

(H) Fraud Control

(i) Banks/ NBFCs should set up internal control systems to combat frauds and actively participate in fraud prevention committees / task forces which formulate laws to prevent frauds and take proactive fraud control and enforcement measures.

(ii) With a view to reducing the instances of misuse of lost/stolen cards, it is recommended to Banks / NBFCs that they may consider issuing (i) cards with photographs of the cardholder (ii) cards with PIN and (iii) signature laminated cards or any other advanced methods that may evolve from time to time.

(iii) Banks are advised to block a lost card immediately on being informed by the customer and formalities, if any, including lodging of FIR can follow within a reasonable period.

(iv) Banks may consider introducing, at the option of the customers, an insurance cover to take care of the liabilities arising out of lost cards. In other words, only those cardholders who are ready to bear the cost of the premium should be provided an appropriate insurance cover in respect of lost cards.

Ministry of Finance, Department of Financial Services OM No.40/4/2009-BO.II dated 21st December, 2009.

Recommendation (Para No. 15)

Another disquieting aspect concerned rate of interest on credit card payments. Banks had been given complete freedom to charge any rate of interest regardless of their Benchmark Prime Lending Rate, thereby enabling them to charge exhorbitant/usurious interest. The Committee recommended that the interest rate charged on credit card outstanding as well as the financial charges levied should not remain open-ended, left to the discretion of the bank. The RBI should review the

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matter and re-formulate their guidelines/norms governing credit card services with a view to providing the much needed relief to the general public. RBI may also consider using photo-identity credit cards to prevent frauds.

Reply of the Government

RBI has Observed that Credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their BPLR and regardless of the size in terms of the Master Circular on Interest rates on advances. Further, In order to make credit card operation transparent and fair various guidelines issued by RBI have already been enumerated in reply to Point No.14.

Ministry of Finance, Department of Financial Services OM No. 40/4/2009-BO.II dated 21st December, 2009.

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CHAPTER V

Recommendations/observations in respect of which final replies of the Government are still awaited

-NIL-

New Delhi;
15 April, 2010
25 Chaitra, 1932 (Saka)

Dr. Murli Manohar Joshi,
Chairman,
Standing Committee on Finance.

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Minutes of the Seventeenth sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 15th April, 2010 from 1530 hrs. to 1700 hrs.

PRESENT

Dr. Murli Manohar Joshi - Chairman

MEMBERS

LOK SABHA

2. Shri Harischandra Chavan
3. Shri Khagen Das
4. Shri Nishikant Dubey
5. Shri Bhartruhari Mahtab
6. Shri Rayapati Sambasiva Rao
7. Dr. M. Thambidurai

RAJYA SABHA

8. Shri S.S. Ahluwalia
9. Shri Mahendra Mohan
10. Dr. Mahendra Prasad
11. Shri Rajeev Chandrasekhar

SECRETARIAT

1. Shri A.K. Singh - Joint Secretary
2. Shri T.G. Chandrasekhar - Additional Director
3. Shri R.K. Suryanarayanan - Deputy Secretary
4. Smt. B. Visala - Deputy Secretary

2. The Committee took up the following draft Reports for consideration and adoption:-

(i) Draft Report on Securities and Exchange Board of India (Amendment) Bill, 2009;

(ii) Draft Report on Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment);

(iii) Draft Report on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue);

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(iv) Draft Report on Demands for Grants (2010-11) of the Ministry of Planning;

(v) Draft Report on Demands for Grants (2010-11) of the Ministry of Statistics and Programme Implementation;

(vi) Draft Reports on Demands for Grants (2010-11) of the Ministry of Corporate Affairs;

(vii) Draft Report on action taken by the Government on the recommendations contained in the First Report (15th Lok Sabha) on Demands for Grants (2009-10) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment);

(viii) Draft Report on action taken by the Government on the recommendations contained in the Second Report (15th Lok Sabha) on Demands for Grants (2009-10) of the Ministry of Finance (Department of Revenue);

(ix) Draft Report on action taken by the Government on the recommendations contained in the Third Report (15th Lok Sabha) on Demands for Grants (2009-10) of the Ministry of Planning;

(x) Draft Report on action taken by the Government on the recommendations contained in the Fourth Report (15th Lok Sabha) on Demands for Grants (2009-10) of the Ministry of Statistics and Programme Implementation; and

(xi) Draft Report on action taken by the Government on the recommendations contained in the Fifth Report (15th Lok Sabha) on Demands for Grants (2009-10) of the Ministry of Corporate Affairs.

3. The Committee adopted the draft reports at (i), (ii) and (iii) above with few modifications/amendments as indicated in Annexures I, II and III. The Committee adopted the remaining draft reports without any change. The Committee authorized the Chairman to present all the reports to Parliament in the current session.

The Committee adjourned at 1700 hours.

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APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2009-10) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

	Total	% of total
(i) Total number of Recommendations	19	
(ii) Recommendations/observations which have been accepted by the Government (*Vide* Recommendation Nos. 1, 2, 3, 4,7,8, 10,16,17and18)	10	52.63%
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (*Vide* Recommendation Nos. 9 and 19)	2	10.53%
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendation Nos. 5, 6, 11,12,13,14 and 15)	7	36.84%
(v) (Recommendation/observation in respect of which final replies of the Government were still awaited (Nil)		00.00%