27

STANDING COMMITTEE ON FINANCE

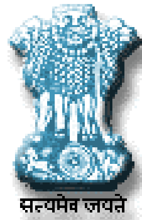
(THIRTEENTH LOK SABHA)

TWENTY SEVENTH REPORT

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS & EXPENDITURE)

DEMANDS FOR GRANTS
(2002-2003)

Presented to Lok Sabha on 23 April, 2002
Laid in Rajya Sabha on 24 April, 2002



LOK SABHA SECRETARIAT
NEW DELHI

April, 2002/Chaitra, 1924(Saka)

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INTRODUCTION

I, the Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this Twenty Seventh Report on Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs & Expenditure).

2. The Demands for Grants of the Ministry of Finance were laid on the Table of the House on 20 March, 2002. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under its jurisdiction and make Reports on the same to both the Houses of Parliament.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs & Expenditure) at their sitting held on 01 April, 2002 in connection with examination of the Demands for Grants.

4. The Committee considered and adopted the Report at their sitting held on 17 April, 2002.

5. The Committee wish to express their thanks to the Officers of the Ministry of Finance (Departments of Economic Affairs & Expenditure) for co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

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

NEW DELHI;
19 April, 2002
29 Chaitra, 1924(SAKA)

(N. JANARDHANA REDDY)
Chairman,
STANDING COMMITTEE ON FINANCE

REPORT

Demand No. 26
Deptt. of Economic Affairs

1. Management Expenses of public sector General Insurance Companies

Expenses of Management of the General Insurance Companies are governed by Section 40 – C of the Insurance Act, 1938 which stipulates that no insurer shall, in respect of any class of general insurance business transacted by him in India, spend in any calendar year as expenses of management including commission or remuneration for procuring business an amount in excess of the prescribed limit and in prescribing any such limits, regard shall be had to the size and age of the insurer. The provisions of this section read with Rule 17 – E of the Insurance Rules, 1939 lay down the statutory limits on expenses of management in India for general insurance companies. These permissible limits of management expenses range, on an average, between 19% to 20% of gross direct premium of the companies in India.

2. With regard to information relating to expenses of management in India, expenses of management allowed as per Rule 17 – E of the Insurance Rules, 1939, and the percentage of contravention by the four public sector general insurance companies during the past five years is given below :-

(Rupees in Crores)

			National	New India	Oriental	United India
2000-01	I	GDPI (Gross Direct Premium in India	2117.88	3041.17	2199.67	2441.09
	II	Expenses of Management in India	483.61	633.64	496.89	515.7
	III	Expenses of Management as % of GDPI (II as % of I)	22.8	20.8	20.6	21.1
	IV	Expenses of Management allowed as per rule 17E of Insurance Rules, 1939	413.44	592.59	430.59	474.29

	V	Expenses of Management allowed as % of GDPI (IV as % of I)	19.5	19.5	19.6	19.4
	VI	% of excess expenses incurred (III-V)	3.3	1.3	3.0	1.7
1999-2000	I	GDPI (Gross Direct Premium in India)	1993.32	2979.53	2124.17	2348.57
	II	Expenses of Management in India	498.43	607.25	528.81	510.57
	III	Expenses of Management as % of GDPI (II as % of I)	25.0	20.4	24.9	21.7
	IV	Expenses of Management allowed as per rule 17E of Insurance Rules, 1939	388.82	580.44	414.27	455.92
	V	Expenses of Management allowed as % of GDPI (IV as % of I)	19.5	19.5	19.5	19.4
	VI	% of excess expenses incurred (III-V)	5.5	0.9	5.4	2.3
1998-99	I	GDPI (Gross Direct Premium in India)	1821.32	2729.48	1930.8	2221.28
	II	Expenses of Management in India	453.35	515.04	421.02	466.08
	III	Expenses of Management as % of GDPI (II as % of I)	24.9	18.9	21.8	21.0
	IV	Expenses of Management allowed as per rule 17E of Insurance Rules, 1939	354.36	531.06	375.77	429.71
	V	Expenses of Management allowed as % of GDPI (IV as % of I)	19.5	19.5	19.5	19.3
	VI	% of excess expenses incurred (III-V)	5.4	(-) 0.6	2.3	1.7
1997-98	I	GDPI (Gross Direct Premium in India)	1604.82	2433.73	1677.95	1930.64
	II	Expenses of Management in India	341.78	464.88	359.4	435.37
	III	Expenses of Management as % of GDPI (II as % of I)	21.3	19.1	21.4	22.6
	IV	Expenses of Management allowed as per rule 17E of Insurance Rules, 1939	310.53	471.17	324.78	371.87

	V	Expenses of Management allowed as % of GDPI (IV as % of I)	19.3	19.4	19.4	19.3
	VI	% of excess expenses incurred (III-V)	2.0	(-) 0.3	2.0	3.3
1996-97	I	GDPI (Gross Direct Premium in India)	1440.48	2174.36	1493.63	1777.42
	II	Expenses of Management in India	385.97	492.76	356.09	417.61
	III	Expenses of Management as % of GDPI (II as % of I)	26.8	22.7	23.8	23.5
	IV	Expenses of Management allowed as per rule 17E of Insurance Rules, 1939	278.05	420.35	288.19	341.26
	V	Expenses of Management allowed as % of GDPI (IV as % of I)	19.3	19.3	19.3	19.2
	VI	% of excess expenses incurred (III-V)	7.5	3.4	4.5	4.3

3. With regard to the reasons for such high management expenses and the steps taken to bring down the same to conform with the ceiling the Ministry of Finance stated as under :-

> "The contravention of section 40 – C has been explained by the companies as due to increasing salaries to officers and staff of the companies."

4. The Committee find that the Management expenses of the public sector general insurance companies have been in excess of the statutorily prescribed ceiling since 1997-98 except in respect of New India Assurance Company Ltd. during 1997-98 and 1998-99. The Committee believe that such high cost of management might render their business uncompetitive vis-à-vis the business of their counterparts in the private sector. They therefore recommend that the value of business per employee of these companies should be increased and also the computerisation/automation of the operations of these companies should be done on priority basis to ensure that the management expenses are within the prescribed limits.

Demand No. 26
Deptt. of Economic Affairs

2. Payment of Commission to Insurance Agents

5. Section 40A of the Insurance Act, 1938 prescribes the ceiling on the payment of commission to agents of the insurance company.

6. In the case of Life Insurance, for immediate annuity or deferred annuity, in consideration of a single premium, the commission is 2% of the premium. If the policy grants a deferred annuity in consideration of more than one premium, the commission payable is seven and a half per cent of the first year's premium and two percent of each renewal premium payable on the policy. In all other cases, it is 35% of the first years' premium and thereafter 5% for each renewal premium payable on the policy. In the case of new insurer, rules permit, for the first ten years of business, the payment of a maximum of 40% of the first year's premium as commission to an agent.

7. In the case of General Insurance business there is a ceiling prescribed by the Act, of an amount not exceeding 15% of the premium payable on the policy where the policy relates to Fire or Marine and Miscellaneous insurance. The IRDA in special circumstances can authorise payment of commission or remuneration exceeding the limits specified if such agent carries out his own official duties on behalf of the insurer which otherwise would have to be performed by the insurer. However, in order to ensure proper conduct in the market place IRDA has recently prescribed the following commission structure for General Insurance players in respect of tariff business effective from 01.04.2002.

Paid up Capital of the Insurers	Commission (%) to be offered by General Insurers as % of premium (applicable only to Tariff Business)
Upto Rs. 10 crores	5%
From Rs. 10 crores to 25 crores	2.5%

More than Rs. 25 crores	0%. In all cases where agency commission is not paid, a discount of 5% of the premium can be allowed and indicated as such in the policy documents.

8. The Govt. informed that a market agreement had been agreed to by the general insurers on the payment of the commission. The terms of the agreement are :-

a. Commission will be payable on all business except business emanating from Government/PSUs where the practice of Special Discount will continue.
b. All tariff business will be allowed agency commission of 5%.
c. Commission payable on non-tariff business to be decided by insurers subject to an upper limit of 15%.
d. Commission payable on Personal Insurance Cover to be decided by the insurers subject to upper limit of 15%.
e. Commission on Special Contingency, Public and Product Liability, Aviation, Offshore/Onshore Drilling rigs will be 5%.
f. No commission shall be payable on direct business and special discount of 5% be allowed.

9. In response to a query as to whether there are any cases of insurance companies paying commission to their agents in excess of the stipulated ceiling in the form of administrative and publicity expenses the Ministry furnished as follows :-

> "IRDA has informed that they have received some complaints on the breach of this Market Agreement. They have asked the General Insurance Council to look into these complaints. It is expected that the next meeting of the Council will take up this question. The Authority has informed that they propose to take action such as on-site inspection to put down the bad market practices."

10. The Committee are of the opinion that the practice of payment of commission to the agents in the insurance industry beyond the limit prescribed by the regulator in the name of publicity and administrative expenses breeds unhealthy competition among the players and hence detrimental to the orderly growth of the insurance industry. The Committee, therefore recommend that the

Govt. should fix a ceiling on the money paid to the agents in the name of publicity and administrative expenses in addition to the prescribed commission to prevent the unscrupulous insurance players from circumventing the norm/ceiling prescribed in this regard. The Committee also recommend that no insurance company should be allowed to pay such high amounts in the name of publicity and administrative expenses which raise the operating expenses of the company harming its profitability and thereby rendering it unviable.

Demand No. 27
Deptt. of Economic Affairs
Major Head : 2047
Minor Head : 00.105
Detailed Head : 03.00.21

3. India Security Press – Supplies and material

11. The main functions of India Security Press is to print postal stamps, postal and non-postal stationary, judicial and non-judicial stamps, RBI/SBI Cheques, Bonds, Saving Certificates, Postal orders, Passports, Promissory Notes and such other Security documents as may be required by the Central and State Governments, Public Sector Undertakings and local bodies. It has also started printing MICR Cheques etc.

(Non-plan)

Year	Budget Estimates	Revised Estimates	Actuals
2000-2001	75,00,00,000	70,00,00,000	34,52,10,000
2001-2002	75,00,00,000	75,00,00,000	74,94,16,729
2002-2003	80,00,00,000		

12. In written reply to a query as to why less than 50% only of the allocated amounts even compared to reduced revised estimates could be spent during 2000-01 the Ministry of Finance stated as below :-

"the following amounts could not be utilised during the year :

1) HAUV Films : Rs. 15 crores
2) BUCKRAM : Rs. 10 crores
3) PASSPORT PAPER : Rs. 8 crores

After processing of the proposals of procurement of the aforesaid items, the Supply Orders were placed with the firms concerned during the financial year 2000-01. However, the delivery period for these items commenced from March 2001 onwards and hence the amount could not be utilised during the said financial year 2000-01."

13. The Committee are unable to arrive at any conclusion as to the specific reasons for underutilisation of allocated resources even at revised estimates because the reply furnished by the Ministry is not clear as to (i) when the supply orders were placed with the firms, (ii) the time limit given for supply of the items and (iii) the reasons for not supplying the said items by these firms well before the closure of the financial year ensuring the utilisation of allocated resources for the purpose.

Hence, the Committee recommend that the replies to the Committee should be elaborate incorporating relevant details enabling them to arrive at informed conclusions.

Demand No. 27
Deptt. of Economic Affairs

4. Competent Authority for certifying fake currency notes

14. With regard to a query as to whether there is any competent authority to certify genuineness of currency notes whose certification is admissible in the Court of Law, Ministry of Finance (Deptt. of Economic Affairs) informed as follows :-

> " 1. Section 292 of Code of Criminal Procedure (Cr.P.C.) deals with the subject. Section 292(1) reads as follows :
>
> > Any document purporting to be a report under the hand of any such Gazetted Officer of the Mint or of the India Security Press (including the office of the Controller of Stamps and stationery) as the Central Government may, by notification, specify in this behalf, upon any matter or thing duly submitted to him for examination and report in the course of any proceeding under this Code, may be used as evidence in any inquiry, trial or other proceeding under this code, although such officer is not called as a witness.
>
> 2. This section of the Cr.P.C. authorizes the officers of the India Security Press (ISP) to tender expert opinion as to the genuineness of bank notes. However, the provision has been rendered infructuous due to the fact that after 1962, the ISP has not been printing bank notes. In 1962, the Currency Note Press (CNP) was set up at Nashik after bifurcating the ISP. Upon this bifurcation, the technical equipment and experts were transferred to the CNP. Later, the Bank Note Press (BNP) was set up in Dewas (Madhya Pradesh) in 1973. Apart from these two Presses, the Bhartiya Reserve Bank Note Mudran Ltd. (BRBNML), a wholly owned subsidiary of the RBI, has established a bank note press each at Salboni in West Bengal and Mysore in Karnataka.
>
> 3. It would, thus, be seen that the present duties of ISP do not include the printing of bank notes. As such, officers of this unit are not in a position to certify genuineness of bank notes. On the other hand, the four bank note presses mentioned above do not figure in the Section 292 of Cr.P.C.

Thus, at present there is no agency whose experts could be authorised by the Government under this section to undertake examination of counterfeit notes.

4. In the absence of any designated/notified authority as admissible under Cr. P.C., the suspected counterfeit notes are sent by the investigating agencies to CNP, Nashik and BNP, Dewas for expert opinion. They have been discharging this function to the best of their capability. However, their services are constrained by the following factors:

a. As already pointed out, these Presses are not the prescribed/notified authorities under section 292 of the Cr.P.C. and therefore their opinion suffers from legal infirmity.
b. While the CNP has a rudimentary Note Examination Cell, BNP does not have any sanctioned posts for the Cell."

15. In reply to a query as to whether the Govt. have received any request from any law enforcement agency (ies) suggesting establishment of such an authority the Ministry of Finance replies as under :-

"It has been brought to the notice of the Government by various agencies like RBI and police authorities that inadequate system/measures for examination of fake bank notes result in inordinate delays in the investigation of the cases pertaining to fake bank notes detected at RBI offices, various commercial bank branches and seized by police & other enforcement agencies."

In order to rectify the situation, the Ministry of Finance has taken the following action :-

" A proposal has been sent to the Ministry of Home affairs to amend Section 292 of the Cr. P.C so as to empower the Government to notify experts from the following organisations to tender expert opinion with regard to bank notes :

i. Note Printing Presses
ii. Security Printing Presses
iii. Forensic Science Laboratories
iv. Government Examiners of Questioned Documents
v. State Examiners of Questioned Documents

A proposal has been mooted for strengthening the existing Note Examination Cell in the CNP, Nashik and creation of a similar Cell in the BNP, Dewas.

Pending completion of action on the above proposals, possibility of transferring the Note Examination Cell of the CNP, Nashik along with experts to the ISP, Nashik is being explored as an interim measure."

16. The Committee deplore that despite the fact that India Security Press (ISP), Nashik, ceased to be a legally competent authority for certifying the genuineness or otherwise of the currency notes due to its stoppage of printing currency notes way back in 1962 ministry could not take appropriate measures to set-up/establish/notify any other agency/ currency printing press/Bank Note Presses as the legal authority for the purpose for about 4 decades due to which inordinate delays occurred in solving the cases involving fake currency notes by police and enforcement agencies. The Committee therefore would like to be apprised as to why the Ministry could not realise the need to have the competent authority for the purpose for about four decades.

Further, pending the amendment of the relevant section of Cr.P.C which is a time consuming process, the Committee recommend that the possibility of transferring the Note Examination Cell of the CNP, Nashik along-with experts to Indian Security Press, Nashik should be expedited and the progress in this regard should be intimated to the Committee.

Demand No. 28
Deptt. of Economic Affairs
Major Head : 2047
Minor Head : 800

5. Shortfall in lending to agriculture - Contribution to RIDF

17. Rural Infrastructure Development Fund (RIDF) was established in 1995-96 with the major objective of providing funds to State Governments and state owned corporations to enable them to complete various types of rural infrastructure projects. The corpus of RIDF is contributed by the scheduled commercial banks to the extent of shortfall in their priority sector pending targets.

18. The data on the amount of money allocated and deposited by public and private sector banks since inception of RIDF is as follows :-

RIDF Tranche	**Public Sector Banks**		**Private Sector Bank**	
	Total Allocation	Total Funds Drawn so far	Total Allocation	Total Funds Drawn so far
I	1876.46	1488.82	123.54	97.74
II	2500.00	2175.00	-	-
III	2214.00	1793.54	286.00	230.80
IV	1789.09	943.44	571.65	301.56
V	2608.40	1214.66	891.60	407.35
VI	2277.10	705.23	2222.90	637.85
VII	2490.79	134.63	2509.22	128.39
Total	**15755.84**	**8455.32**	**6604.91**	**1903.69**

19. In response to a query as to whether any bank has defaulted in making their contribution to RIDF the Ministry of Finance (Department of Economic Affairs) stated inter-alia as follows :-

> "…. No bank has defaulted in depositing the funds under RIDF I & II as and when demanded by NABARD."
>
> "……. However, under RIDF III, V, VI and VII tranches, the following banks have defaulted in contributing their share of deposits to the extent of the amount indicated thereagainst.
>
> Centurion Bank - Rs. 83.34 crore
> Nedungadi Bank - Rs. 2.61 crore
> Benares State Bank - Rs. 1.17 crore
>
> In these cases NABARD has kept RBI informed and RBI has in turn taken up the matter with these banks."

20. The Committee take a serious note of the fact that the aformentioned private sector banks having shortfall in lending to agriculture have defaulted in depositing their share in RIDF. Further, the said new private sector bank which defaulted huge amount do not comply with the RBI's stipulation of having 25% of the total branch network in rural and semi-urban areas despite its existence for the last seven years. The Committee, therefore recommend that these banks should be asked to contribute their share to RIDF without further delay. In case of their non-compliance RBI may consider imposition of penalties either monetary or otherwise.

Demand No. 28
Deptt. of Economic Affairs
Major Head : 2047
Minor Head : 800

6. Interest Rates on RIDF loans

21. On the rate of interest applicable to loans extended to State Governments out of RIDF the Ministry of Finance stated inter-alia as follows :-

> "The rate of interest varies from tranche to tranche. It is fixed by RBI / Government of India. The interest rates for deposits made by the bank and loans availed by the state Government is the rates fixed at the time of announcement of the corpus irrespective of date of drawal /disbursal. The rate of interest under RIDF-I to VII is as follows :

Tranche	Rate of Interest (in % per annum)	
	Interest payable on Deposits from Commercial Bank	**Interest charged on loans to State Government**
I	12.5	13
II-V	11.5	12
VI	11	11.5
VII	*	10.5

> * In order to introduce an element of penalty in case of banks having larger shortfall in agricultural lending, RBI in consultation with Government finalised a system of inversely proportional interest rate payment on RIDF deposits which provides for lower interest rates to banks having larger shortfalls in agricultural lending. The rate of interest under RIDF-VII is as follows :-

Shortfall in lending to agriculture in terms of percentage to net bank credit (target-achievement)	Rate of interest on deposits to be made for RIDF-VII
Less than 2% points	10
2% - 4.99% points	9
5% - 8.99%	8
Above 9%	7

22. With regard to their views on the suggestion of the State

Governments that the rate of interest on RIDF loans should be linked to market rates prevailing on the date of disbursement the Ministry of Finance (Deptt. of Economic Affairs) in a written note stated inter-alia as follows :-

> "The rate of interest on loans from RIDF – VIII announced by the Finance Minister in his Budget Speech for 2002-03 has been brought down to 8.5% from 10.5% and it has been announced that henceforth, it will be fixed at the Bank Rate plus 2 per cent. Thus, the interest rate on RIDF loans has been linked to the Bank rate which in turn is determined by market conditions.

23. Though the Committee appreciate the lowering of interest rate from 10.5% to 8.5% on loans sanctioned/disbursed out of RIDF VIII however, they are of the opinion that the rate of interest applicable in this regard should be the rate prevailing at the time of disbursement of loan rather than the rate fixed at the time of announcement of the corpus of particular RIDF tranche i.e. 2 percent above the Bank Rate prevailing at the time of disbursement of loan mainly due to the time lag that exists between the announcement of the corpus and the actual disbursement out of that RIDF tranche during which interest rates could vary. Hence, it is pragmatic to link the interest rates on RIDF loans to State Governments to the Bank rate prevailing at the time of disbursement.

Demand No. 28
Deptt. of Economic Affairs
Major Head : 2552
Minor Head : 800

7. Appointment of Directors on the Boards of Financial Institutions

24. On the issue of appointment of promoter(s) of Videocon International Ltd. which was banned by SEBI from accessing the capital market for three years for price manipulation as a nominee of the Govt. on the Board of Directors of IDBI, the Ministry of Finance (Deptt. of Economic Affairs) furnished as follows :-

> "As per information received from SEBI, vide their Directions dated April 19, 2001 passed under Section 11 B of SEBI Act, 1992, Videocon International Ltd. was debarred from raising money from the public in the capital market for a period of three years. Under the said directions it was also ordered that prosecution should be launched against Videocon International Ltd., through its directors/officers namely, Shri V.N. Dhoot, Shri S.K. Shelgikar and Shri S.M. Hegde under the provisions of SEBI Act, 1992. Accordingly, SEBI launched criminal prosecution against Videocon International Ltd., and the aforesaid individuals by filing a complaint against them in the court of the Additional Chief Metropolitan Magistrate, 8th Court, Esplanade, Mumbai, on September 12, 2001. The said case is pending before the said court."

25. In a written reply to a query as to whether the Govt. think that appointing persons heading such companies which are indicted by the capital market regulator for indulging in malpractices do not go against the spirit of Corporate Governance, Ministry of Finance (Deptt. of Economic Affairs) stated as under :-

> " Shri R.N Dhoot was nominated on the Board of Directors of IDBI for a period of 3 years from 30.3.2001 under Section 6 (i)(d) of the IDBI Act, 1964. There was no information received in the Banking Division, Department of Economic Affairs about SEBI's directives in this regard. However, it has been learnt that SEBI had passed an order on 19.4.2001 debarring Videocon from accessing capital market for a period of 3 years."

26. Additional Secretary, Financial sector, while deposing before the Committee on 1 April, 2002 on the issue, informed the Committee as under :-

> " …., we have Mr. R.N. Dhoot on the Board of IDBI. But he has indicated that he is not a part of any Videocon International company as such. He is not a part of Videocon International. He is on the Board of IDBI. This is the information that we have got.
>
> ….. The only submission I can make is that Mr. R.N. Dhoot who is on the Board of the IDBI, is not on the Board of Videocon International. That is the information that we have. The other information that we have is that Shri R.N. Dhoot was appointed on 30th March, 2001 and this was before the SEBI order of 19th April, 2001."

27. In a note submitted to the Committee subsequent to the evidence of representatives of Ministry of Finance (Department of Economic Affairs & Expenditure) held on 1 April, 2002 the Ministry of Finance stated inter-alia as under :-

> "The proposal for the appointment of Shri Raj Kumar Nand Lal Dhoot was considered along-with the nomination of Shri Shekhar Dutta and Shri K. Narsimha Murthy, as non-official Director on the Board of Directors of IDBI. The approval of ACC for the nomination of Shri Dhoot was received on 29.3.2001 and the notification for appointment was issued on 30.3.2001. Shri Dhoot was nominated for a period of three years from 30.3.2001 to 29.3.2004. An affidavit was obtained from Shri Dhoot, declaring therein that he has not been prosecuted, convicted or penalised in his capacity as a Director / Partner or stakeholder in any company, or a body incorporated/unincorporated for any offence or irregularity for violation of any provision of Income Tax Act, Central Excise Act, Customs Act and the Foreign Exchange Management Act. This affidavit is of the date 4.1.2001.
>
> SEBI vide their directions dated 19th April, 2001, passed under section 11 (b) of the SEBI Act, 1992, Videocon International Ltd. was debarred from raising money from the public in the capital market for a period of three years. It was also ordered that prosecutions should be launched against Videocon International through its Directors/ officers, namely, Shri V.N. Dhoot (not Shri R.N. Dhoot), Shri S.K. Shelgikar and Shri S.M. Hegde under the provisions of SEBI Act, 1992. Accordingly, SEBI launched criminal prosecution against Videocon International Ltd. in the court

of Additional Chief Metropolitan Magistrate, Mumbai on the 12th September, 2001. The case is pending before the Court."

28. The Committee are of the view that the appointment of promoters of the companies which are indicted by the capital market regulator for indulging in market manipulation on the Board of Directors of Govt. controlled financial institution(s) goes against the letter and spirit of Corporate Governance. Hence, the Committee recommend that the persons connected with such companies either as promoters or as directors should not be appointed as Director on the Boards of Govt. owned controlled financial institutions. To ensure that only those persons who are not indicted/fined by the regulatory agencies of the business(es) in which the said person(s) is/are interested/involved is/are appointed on the Board of govt. owned/controlled financial institutions, the Committee want the Govt. to obtain prior information from all the concerned regulatory agencies about the pendency or otherwise of the investigations, if any, against the company(ies) in which the person(s) concerned is/are a promoter and/or director for indulging in market malpractises. In case the investigation if any, is under progress the Govt. should wait for the outcome of the investigation by the regulator.

It could also be seen that in this specific case affidavit was obtained from the person stating that he has not been prosecuted, convicted or penalised in his capacity as director/partner or stakeholder in any company or a body incorporated/unincorporated for any offence or irregularity for violation of any provision of Income Tax Act, Central Excise Act, Customs Act and the Foreign Exchange Management Act only leaving aside the most important act governing the capital market i.e. SEBI Act, 1992. The Committee, therefore recommend that henceforth the affidavit should be obtained in respect of the violations, if any, of the provisions contained in the SEBI Act, 1992.

Demand No. 28
Deptt. of Economic Affairs
Major Head : 5465
Minor Head : 190

8. Delay in equity dilution by new private sector banks

29. In the licenses issued to new private sector banks, RBI stipulated that these banks to bring down their promoters equity to 40% of paid up capital should make public issue and get their shares listed on stock exchanges immediately after completion of one year of their commencing the business.

30. In a written reply furnished to the Committee during the examination of Demand for Grants (1998-99) to a query as to whether all the new private sector banks have raised 60% of their equity from the public as stipulated by RBI, Ministry of Finance (Department of Economic Affairs) stated inter-alia as under :-

> "The new banks set up in the private sector have not been able to offer 60% of their equity to the public. Of the nine new banks set up in the private sector five banks have made public issue…….
>
> The remaining four banks are yet to make the public issue. The matter has been followed up with all the banks and they have assured to enter the capital market during 1998-99.
>
> In view of the depressed condition of the capital market, the promoters of new banks were permitted to bring down their holding to 40% of equity in phases."

31. Further, in written reply to a query as to whether any extension has been given to these banks to raise the required percent of capital from the public, Ministry of Finance inter-alia stated as under :-

> "some of the banks were unable to make public issue after one year of operations. These banks were granted extension of time in view of the continued depressed condition of the capital market. All of them have CRAR in excess of the stipulated 8% and did not need capital funds to meet the capital adequacy ratio. Subsequently these banks could not enter the capital market in view of the SEBI regulations requiring three year track record of consistent profitability for free pricing of their shares. It was not considered advisable to force the banks to go in for

public issue at par in order to fulfil the licensing conditions for the following reasons :

1. These banks are making profit from the first year of operation. A track record of three years of consistent profitability will enable them to charge a premium on the public issue as per SEBI guidelines.
2. In the depressed condition of the capital market if the banks make public issue without track record of profitability, the issue may not be fully subscribed. This may adversely affect the investors' sentiment towards bank shares.
3. A public issue at a premium will enable the banks to strengthen their capital base.

In a meeting in April, 1998 with the Chief Executives of four banks which are yet to make public issue, the banks were advised that no further extension would be considered for making the public issue and they will have to make public issue during the financial year 1998-99."

32. The Committee in their Third Report on Demands for Grants (1998-99) of Ministry of Finance (Department of Economic Affairs & Expenditure) on the issue of equity dilution by new private sector commercial banks recommended that these banks which as per the RBI stipulation are required to raise capital from the public, but could not do so and got extensions, should not be given any further extension and they be made to tap the market for capital this year as this will go a long way in improving the subdued sentiments prevailing in the markets.

33. In their action taken to the above mentioned recommendation the Govt. stated inter-alia that as a step towards making capital markets more accessible to Banks exemptions have been given to private and public sector banks from entry norms and track record requirements for free pricing, subject to RBI approval.

34. Again, in response to a query whether all the new private sector banks have complied with the stipulation i.e. raising 60% of the capital from the public during the examination of Demands for Grants (2001- 02) of Ministry of Finance, the Ministry stated inter-alia as under :-

"……………. four banks viz., **ICICI Bank Ltd., IDBI Bank Ltd., IndusInd Bank Ltd., and UTI Bank Ltd.,** are yet to raise the public holding of shares to the stipulated 60%."

35. As these banks could not adhere to the RBI's stipulation of bringing down the promoters stake to 40% of the paid-up capital despite having profitable track record and getting repeated extensions the Committee in their 13th report on Demands for Grants (2001-02) of Ministry of Finance (Department of Economic Affairs & Expenditure) recommended inter-alia as follows :-

> "……….no more extensions should be given and these banks be asked to bring down their promoters equity to 40% of paid up capital as prescribed without any further delay……"

36. In their action taken reply to the aforementioned recommendation of the Committee the Ministry of Finance (Department of Economic Affairs) stated as below :-

> "Reserve Bank of India is being advised to instruct the newly set up private sector banks to bring down their promoters' equity to the required level of 40 per cent of the paid-up capital during the current financial year i.e. by 31st March, 2002 and that no more extension should be given by Reserve Bank of India to these banks."

37. However, as of date, the promoters' equity is more than 40% in four banks viz. UTI Bank Ltd., IDBI Bank Ltd., ICICI Bank Ltd. and IndusInd Bank Ltd. Although, these banks should have brought down the promoters equity to 40% by 1995-96, due to the following reasons furnished by the Government they had to be given extension for achieving the same :-

> "1. The banks had already accessed the capital market once and it would be too early for a second issue.
>
> 2. The market conditions were unfavourable and the banks would find it difficult to obtain a decent premium.
>
> 3. The banks had satisfactory CRAR and there was no immediate requirement on this score."

38. The details on the issue in respect of the four banks as furnished by

the Ministry are as under :-

1. UTI Bank Ltd :
   Current Level of capital : Rs. 178.25 crs.
   Percentage of promoters holding : 44.88%

The core promoters' of the bank viz., UTI had an equity of about 50.65% in the bank and it was expected that the merger with Global Trust Bank Ltd. would substantially reduce the promoters' holding. As the proposal for merger failed to go through, the bank considered proposals to increase capital mainly by attracting investments from abroad. Accordingly, their proposal of preferential allotment of shares to tow foreign entities was approved by RBI and the same was cleared under the Automatic Route as per the extant guidelines. The bank made preferential allotment of shares constituting 26.11% of the post allotment capital to two companies as under :

i) CDC Financial Services (Mauritius) Ltd. (CDCFS) – 16.02% and
ii) South Asian Regional Fund (SARF), Mauritius – 9.99%

2. IDBI Bank Ltd :
   Current Level of capital : Rs. 140 crores
   Percentage of promoters holding : 71.43%

IDBI Bank had initially proposed that it would issue six crore equity shares, increasing the paid up capital of IDBI Bank Ltd. to Rs. 200 crores by which the current stake of IDBI at 57% would stand reduced to 40% by September 30, 2001. The bank later informed that the above proposals were dropped in their AGM held on August 11, 2001 and the principal promoter of the bank, IDBI have sought more time to evaluate options to comply with the dilution of promoters' stake to 40% by September, 2002. The bank had informed that it was considering a proposal of allotment of equity shares to an existing bank to enable it to bring down the promoter's holding to 40% as stipulated in the licensing conditions. Since the proposal did not materialise IDBI and IDBI Bank have been advised on January 7, 2002 to initiate the specific steps to complete dilution of promoter's holding to the stipulated level of 40% by 31st March 2002. IDBI had approached Government of India requesting time to complete the dilution process by September 2002. Government response is awaited. The Chairmen of IDBI and IDBI Bank Ltd. met senior officials of RBI or 19.3.2002 and assured that a proposal for dilution of promoters equity would be finalised soon. A formal proposal is awaited.

3. ICICI Bank Ltd. :

Current Level of capital : Rs. 220.36 crs
Percentage of promoters holding : 55.59%

As a part of efforts to bring down the promoters' capital, the promoter had divested a portion of their holding in secondary market to 4.99% bringing down the ICICI's holding in the bank. This was not considered appropriate dilution. The bank has subsequently approached RBI on 25.10.2001 for reverse merger of their promoters ICICI Ltd. with ICICI Bank Ltd. In case the merger is completed the issue of dilution of stake would no longer be valid.

4. IndusInd Bank Ltd.
Current level of capital : Rs. 159.02 crs.
Percentage of promoters holding : 56.25%

The bank has made a proposal to reduce the capital of one of the co-promoters of the bank viz. IndusInd Enterprises & Finance Ltd. (IEFL) and to distribute its investment in the bank to its 39000 shareholders towards broad basing the shareholding pattern. The proposal of the bank has not been found acceptable. In view of this, the bank has been advised on January 28, 2002 to take immediate action to complete the dilution by March 2002. In a meeting with senior officials of RBI on 8.3.2002, the bank has assured that they would endeavour to complete the dilution by 31.3.2002.

It may be observed that out of the four private sector banks, which are yet to complete the dilution of promoters equity, UTI Bank Ltd. may complete the process by 31.3.2002 and the need for dilution may not arise in case the proposal of ICICI's merger with ICICI Bank is approved. IDBI Bank and IndusInd Bank have been advised to comply with the license condition and complete dilution by 31.3.2002. While IDBI Bank Ltd. has reportedly identified some investors the actual dilution may not be complete before September 2002. IndusInd Bank Ltd. is working out the modalities for dilution for promoters equity by 31.3.2002.

39. The Committee take a serious note of the contention of the Government / Reserve Bank of India that some of the new private sector banks could not bring down their promoters stake to the stipulated level of 40% of the paid up capital due to their having comfortable Capital Adequacy Ratio and profitable operations since commencement of the business as they believe that the RBI's stipulation in this regard is not contingent upon the

banks having these factors. The Committee therefore recommend that these banks which have been getting repeated extensions despite having profitable track record and receiving exemptions from entry norms for free pricing of the public issue should not be given anymore extensions and they be made to bring down their promoters stake to the stipulated level without further delay otherwise the very purpose of such a stipulation might be lost.

The Committee also want RBI that while formulating such policies they should invariably interact with the other regulatory agencies concerned with the issue to ensure that the policies they frame are pragmatic and are not flexible enough which leave scope for any exemptions or extensions to fulfil the prescribed norms.

Demand No. 28
Deptt. of Economic Affairs
Major Head : 5465
Minor Head : 190

9. Investments in SLR Securities

40. It is seen that though the RBI with a view to releasing more resources to the banks for lending to commercial sector has gradually reduced the Statutory Liquidity Ratio (SLR) from a high of 38.5 percent of outstanding domestic Net Demand and Time Liabilities (NDTL) in April, 1997 to 25 per cent of NDTL with effect from 22 October, 1997. However, investments in SLR securities continues to be preferred alternative to lending to commerce and industry for the public sector commercial banks as borne out by the following data :-

(Rs.in crores)

Bank Group	**As on 27th March, 1998**				
	NDTL as on 27.2.98	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	177608	44402	25	62969	35.5
Nationalised Banks	325500	81375	25	119031	36.6
Public sector banks (excluding RRBs)	503108	125777	25	182000	36.2
Private Scheduled commercial banks	61301	15325	25	18802	30.7
Old	43567	10892	25	13723	31.5
New	17734	4434	25	5080	28.6
Foreign Banks	51397	12849	25	14375	28.0
All scheduled commercial banks	615807	153952	25	215177	34.9

(Rs.in crores)

Bank Group	**As on 26th March, 1999**				
	NDTL as on 26.2.99	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	222033	55508	25	78262	35.2
Nationalised banks	384045	96011	25	131079	34.1
Public Sector Banks (excluding RRBs)	603244	150811	25	209341	34.7
Private scheduled commercial banks	79569	19892	25	23348	29.3
Old	52835	13209	25	16561	31.3
New	26734	6683	25	6787	25.4
Foreign Banks	61888	15472	25	16899	27.3
All scheduled commercial banks	744701	186175	25	249588	33.5

(Rs.in crore)

Bank Group	**As on 24th March, 2000**				
	NDTL as on 24.2.00	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	260178	65044	25	97603	37.5
Nationalised Banks	449147	112287	25	154039	34.3
Public sector banks (excluding RRBs)	708484	177121	25	251642	35.5
Private scheduled commercial banks	103909	25977	25	32722	31.5
Old	62246	15561	25	19952	32.1
New	41663	10416	25	12770	30.6
Foreign Banks	65707	16427	25	18571	28.3
All scheduled commercial banks	878101	219525	25	302935	34.5

(Rs.in crores)

Bank group	**As on 23rd March, 2001**				
	NDTL as on 22.2.01	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	321105	80276	25	128194	39.9
Nationalised Banks	513154	128289	25	173636	33.8
Public sector banks (excluding RRBs)	826445	206611	25	301829	36.5
Private scheduled commercial banks	130530	32632	25	38498	29.5
Old	70503	17626	25	21010	29.8
New	60027	15007	25	17488	29.1
Foreign Banks	81596	20399	25	22343	27.4
All scheduled commercial banks	1035072	258768	25	362670	35.0

(Rs.in crores)

Bank Group	**As on 22nd February, 2002**				
	NDTL as on 25.1.02	SLR required to be maintained	Percent of NDTL	SLR (investment) actually maintained	Percent of NDTL
		Amount		Amount	
SBI Group	368008	92002	25	149095	40.5
Nationalised Banks	579087	144772	25	196335	33.9
Public sector banks (excluding RRBs)	940591	235148	25	345430	36.7
Private scheduled commercial banks	150704	37676	25	58594	38.9
Old	74842	18711	25	26068	34.8
New	75862	18966	25	32526	42.9
Foreign Banks	80818	20205	25	24505	30.3
All scheduled commercial banks	1169850	292463	25	428529	36.6

NDTL data calculated based on second preceding fortnight for SLR purposes

41. The Committee are concerned to note that the public sector banks are not only investing amounts in excess of stipulated percentage in SLR securities but also such excess investments have been witnessing continuous increase since 1999. Further, the extent of excess investments in Gilt edged securities by the commercial banks in public sector is higher than those of their counterparts in the private sector indicating higher degree of risk aversion among the public sector banks.

The Committee are of the view that the propensity of the public sector banks to invest huge amount of excess money in Gilts is due to the fear of incurring NPAs. However, they are of the opinion that risk bearing is inherent to the banking business and with the right kind of policies and attitude of the bankers such risk may be minimised if not eliminated/avoided altogether. Further the Committee believe that there is an enormous untapped entrepreneurial talent in the country wanting bank finance for their ventures. Hence, the Committee recommend that RBI should ensure that the public sector banks which occupy predominant place in financial intermediation should take pro-active approach in lending to commerce and industry shedding their risk awareness and minimising risk with right kind of policies and attitude.

Demand No. 28
Deptt. of Economic Affairs

10. Public issues by MNCs

42. On the issue of MNCs which are allowed to operate in India on the condition of their offering part of equity to the public after a specified period the Ministry informed as under :-

> " The sector specific guidelines for FDI lay down that FDI would be allowed in the following sectors subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in five years, if these companies are listed in other parts of the world :
>
> i) Telecom sector covering ISPs not providing gateways (both for satellite and submarine cable); infrastructure providers providing Dark Fibre (IP category I); e-mail and voice mail.
> ii) E-commerce.
>
> In addition, in the petroleum sector (other than refining), for actual trading and marketing, minimum 26% Indian equity is required over five years.
>
> Guidelines for consideration of FDI proposals by the FIPB include a clause stating that in special cases where the foreign investor is unable initially to identify an Indian joint venture partner, the Board may consider and recommend proposals permitting 100% foreign equity on a temporary basis on the condition that the foreign investor would divest to the Indian parties (either individual joint venture partners or general public or both) at least 26% of its equity within a period of 3-5 years.
>
> According to Deptt. of Industrial Policy and Promotion, 21 companies have been permitted by the Foreign Investment Promotion Board (FIPB) to bring in Foreign Direct Investment (FDI) with the stipulation that they will make public offering."

43. In reply to a query as to whether all the MNCs which are required to offer a part of their equity to the public have complied with the stipulation the Ministry of Finance (Deptt. of Economic Affairs) stated as below :-

> " According to SEBI, no MNC has come out with an initial public offer during the last 5 years to comply with the relevant Government Guidelines. A statement indicating the names of companies that have been granted FDI approval stipulating the divestment condition and the status of implementation is at Annexure."

44. It could be seen from the reply that the companies in respect of which the stipulated time for offering a part of their equity to the public is about to be over have not come out with a public issue instead they approached the Govt. for removal of the condition by citing inter-alia the continuous losses suffered by them.

To give a fillip to the sagging capital markets the Committee recommend that the Govt. should not concede to their request for removal of such a clause or extension of time for complying with the stipulation on any grounds thereby ensuring that these companies tap the markets within the prescribed period.

The Committee are distressed to note that several MNC's have started delisting from Stock Exchanges. This practice will erode the investors' confidence. The Committee note that on the one hand they are postponing their IPO's on various grounds and on the other they have started delisting from the bourses. They, therefore, recommend that the Govt. should look into this and come out with a clear policy guidelines in this regard.

Demand No. 33
Department of Expenditure
Major Head :2052
Minor Head : 00.090
Detailed Head : 10.00.28

Secretariat - Professional Services

45. This Head is meant for payment to private professionals engaged which include legal expenses, expenditure on software development, consultancy and other allied activities. The budgetary allocations, revised estimates and actuals incurred under the Head since 1996-97 are as under :-

(Non-Plan)

Year	Budget Estimates	Revised Estimates	Actuals
1996-97	50,000	1,40,000	93,000
1997-98	1,40,000	11,00,000	3,36,000
1998-99	16,50,000	15,90,000	6,45,000
1999-2000	17,20,000	16,58,000	1,93,000
2000-2001	17,00,000	14,95,000	4,14,000
2001-2002	13,75,000	13,20,000	
2002-2003	14,75,000		

46. In response to a query as to why the actuals fell far short of even compared to revised estimates since 1996-97, the Ministry of Finance (Department of Expenditure) stated as follows :-

> "On the recommendation of the DG, NIC it was decided in October 1995 to implement sophisticated local area network based softwares in both Principal Accounts Offices and the Office of the CGA. These software were intended to replace the existing desktop stand alone software which were developed and used since 1980s.
>
> Initially a joint team of CGA and NIC officials was constituted for software development. Subsequently, however, given the highly sophisticated nature of the software it was decided to take the help of outside professional agency for software development. As would be appreciated development of the software required wide range of consultation not only with a large number of end-users but also with IT experts so as to ensure full coverage of all user

> requirements as also implementation of the state of art technology. There was thus a delay in finalising the system design. The pilot software had also to be tested extensively prior to implementation. The office of the CGA began implementation of the package from January, 2000 onwards and this phase was completed by the beginning of 2001. Given the complexity of the task and the wide repercussions contingent on any shortcomings, the office of the CGA wanted to be doubly careful in the software development stage. This led to the funds not being utilised as per budget provisions in the previous years.

47. In written reply to a query as to whether the Ministry acquired/developed/installed the software packages – CONTACT and GAINS for automation of accounting work in principal accounts offices / Pay and Accounts Officers/ Controller General of Accounts Offices, the Ministry of Finance (Deptt. of Expenditure) stated as under –

> "Software packages CONTACT and GAINS have been got developed by the Office of the Controller General of Accounts. These are based on ORACLE/WINDOWS NT. CONTACT enables consolidation of monthly and annual accounts at the Principal Accounts Office in each Ministry/Department. CONTACT is operational in all the Civil Ministries in Delhi."

48. The Committee note that the development/installation of the CONTACT and GAINS software packages in the Principal Accounts offices/Pay Accounts Offices/ Controller General of Accounts offices was completed during the last financial year. However, the Committee express their disappointment at the delay of about six years since the idea was mooted by the then Director General, NIC. With the result the budgetary allocations remained unutilised since 1996- to 2001 and surrendered year after year. Hence, the Committee recommend that in future the department should ensure that such long delays do not occur in developing and installing advanced software packages as part of computerisation of the accounts operations of the concerned departments so that

budgetary allocations are not rendered haywire.

NEW DELHI;	N. JANARDHANA REDDY,
18 April, 2002	Chairman,
28 Chaitra, 1924 (SAKA)	STANDING COMMITTEE ON FINANCE

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING COMMITTEE ON FINANCE IN THE TWENTY SEVENTH REPORT (2002-2003)

Sl. No.	Para No.	Recommendations/Conclusions
1	2	3
1.	4	The Committee find that the Management expenses of the public sector general insurance companies have been in excess of the statutorily prescribed ceiling since 1997-98 except in respect of New India Assurance Company Ltd. during 1997-98 and 1998-99. The Committee believe that such high cost of management might render their business uncompetitive vis-à-vis the business of their counterparts in the private sector. They therefore recommend that the value of business per employee of these companies should be increased and also the computerisation/automation of the operations of these companies should be done on priority basis to ensure that the management expenses are within the prescribed limits.
2.	10	The Committee are of the opinion that the practice of payment of commission to the agents in the insurance industry beyond the limit prescribed by the regulator in the name of publicity and administrative expenses breeds unhealthy competition among the players and hence detrimental to the orderly growth of the insurance industry. The Committee, therefore recommend that the Govt. should fix a ceiling on the money paid to the agents in the name of publicity and administrative expenses in addition to the prescribed commission to prevent the unscrupulous insurance players from circumventing the norm/ceiling prescribed in this regard. The Committee also recommend that no insurance company should be allowed to pay such high amounts in the name of publicity and administrative expenses which raise the operating expenses of the company harming its profitability and thereby rendering it unviable.

3.	13	The Committee are unable to arrive at any conclusion as to the specific reasons for underutilisation of allocated resources even at revised estimates because the reply furnished by the Ministry is not clear as to (i) when the supply orders were placed with the firms, (ii) the time limit given for supply of the items and (iii) the reasons for not supplying the said items by these firms well before the closure of the financial year ensuring the utilisation of allocated resources for the purpose. Hence, the Committee recommend that the replies to the Committee should be elaborate incorporating relevant details enabling them to arrive at informed conclusions.
4.	16	The Committee deplore that despite the fact that India Security Press (ISP), Nashik, ceased to be a legally competent authority for certifying the genuineness or otherwise of the currency notes due to its stoppage of printing currency notes way back in 1962 ministry could not take appropriate measures to set-up/establish/notify any other agency/ currency printing press/Bank Note Presses as the legal authority for the purpose for about 4 decades due to which inordinate delays occurred in solving the cases involving fake currency notes by police and enforcement agencies. The Committee therefore would like to be apprised as to why the Ministry could not realise the need to have the competent authority for the purpose for about four decades. Further, pending the amendment of the relevant section of Cr.P.C which is a time consuming process, the Committee recommend that the possibility of transferring the Note Examination Cell of the CNP, Nashik along-with experts to Indian Security Press, Nashik should be expedited and the progress in this regard should be intimated to the Committee.

5.	20	The Committee take a serious note of the fact that the aformentioned private sector banks having shortfall in lending to agriculture have defaulted in depositing their share in RIDF. Further, the said new private sector bank which defaulted huge amount do not comply with the RBI's stipulation of having 25% of the total branch network in rural and semi-urban areas despite its existence for the last seven years. The Committee, therefore recommend that these banks should be asked to contribute their share to RIDF without further delay. In case of their non-compliance RBI may consider imposition of penalties either monetary or otherwise.
6.	23	Though the Committee appreciate the lowering of interest rate from 10.5% to 8.5% on loans sanctioned/disbursed out of RIDF VIII however, they are of the opinion that the rate of interest applicable in this regard should be the rate prevailing at the time of disbursement of loan rather than the rate fixed at the time of announcement of the corpus of particular RIDF tranche i.e. 2 percent above the Bank Rate prevailing at the time of disbursement of loan mainly due to the time lag that exists between the announcement of the corpus and the actual disbursement out of that RIDF tranche during which interest rates could vary. Hence, it is pragmatic to link the interest rates on RIDF loans to State Governments to the Bank rate prevailing at the time of disbursement.

7.	28	The Committee are of the view that the appointment of promoters of the companies which are indicted by the capital market regulator for indulging in market manipulation on the Board of Directors of Govt. controlled financial institution(s) goes against the letter and spirit of Corporate Governance. Hence, the Committee recommend that the persons connected with such companies either as promoters or as directors should not be appointed as Director on the Boards of Govt. owned controlled financial institutions. To ensure that only those persons who are not indicted/fined by the regulatory agencies of the business(es) in which the said person(s) is/are interested/involved is/are appointed on the Board of govt. owned/controlled financial institutions, the Committee want the Govt. to obtain prior information from all the concerned regulatory agencies about the pendency or otherwise of the investigations, if any, against the company(ies) in which the person(s) concerned is/are a promoter and/or director for indulging in market malpractises. In case the investigation if any, is under progress the Govt. should wait for the outcome of the investigation by the regulator. It could also be seen that in this specific case affidavit was obtained from the person stating that he has not been prosecuted, convicted or penalised in his capacity as director/partner or stakeholder in any company or a body incorporated/unincorporated for any offence or irregularity for violation of any provision of Income Tax Act, Central Excise Act, Customs Act and the Foreign Exchange Management Act only leaving aside the most important act governing the capital market i.e. SEBI Act, 1992. The Committee, therefore recommend that henceforth the affidavit should be obtained in respect of the violations, if any, of the provisions contained in the SEBI Act, 1992

8.	39	The Committee take a serious note of the contention of the Government / Reserve Bank of India that some of the new private sector banks could not bring down their promoters stake to the stipulated level of 40% of the paid up capital due to their having comfortable Capital Adequacy Ratio and profitable operations since commencement of the business as they believe that the RBI's stipulation in this regard is not contingent upon the banks having these factors. The Committee therefore recommend that these banks which have been getting repeated extensions despite having profitable track record and receiving exemptions from entry norms for free pricing of the public issue should not be given anymore extensions and they be made to bring down their promoters stake to the stipulated level without further delay otherwise the very purpose of such a stipulation might be lost. The Committee also want RBI that while formulating such policies they should invariably interact with the other regulatory agencies concerned with the issue to ensure that the policies they frame are pragmatic and are not flexible enough which leave scope for any exemptions or extensions to fulfil the prescribed norms.

9.	41	The Committee are concerned to note that the public sector banks are not only investing amounts in excess of stipulated percentage in SLR securities but also such excess investments have been witnessing continuous increase since 1999. Further, the extent of excess investments in Gilt edged securities by the commercial banks in public sector is higher than those of their counterparts in the private sector indicating higher degree of risk aversion among the public sector banks. The Committee are of the view that the propensity of the public sector banks to invest huge amount of excess money in Gilts is due to the fear of incurring NPAs. However, they are of the opinion that risk bearing is inherent to the banking business and with the right kind of policies and attitude of the bankers such risk may be minimised if not eliminated/avoided altogether. Further the Committee believe that there is an enormous untapped entrepreneurial talent in the country wanting bank finance for their ventures. Hence, the Committee recommend that RBI should ensure that the public sector banks which occupy predominant place in financial intermediation should take pro-active approach in lending to commerce and industry shedding their risk awareness and minimising risk with right kind of policies and attitude.

10.	44	It could be seen from the reply that the companies in respect of which the stipulated time for offering a part of their equity to the public is about to be over have not come out with a public issue instead they approached the Govt. for removal of the condition by citing inter-alia the continuous losses suffered by them. To give a fillip to the sagging capital markets the Committee recommend that the Govt. should not concede to their request for removal of such a clause or extension of time for complying with the stipulation on any grounds thereby ensuring that these companies tap the markets within the prescribed period. The Committee are distressed to note that several MNC's have started delisting from Stock Exchanges. This practice will erode the investors' confidence. The Committee note that on the one hand they are postponing their IPO's on various grounds and on the other they have started delisting from the bourses. They, therefore, recommend that the Govt. should look into this and come out with a clear policy guidelines in this regard.
11.	49	The Committee note that the development/installation of the CONTACT and GAINS software packages in the Principal Accounts offices/Pay Accounts Offices/ Controller General of Accounts offices was completed during the last financial year. However, the Committee express their disappointment at the delay of about six years since the idea was mooted by the then Director General, NIC. With the result the budgetary allocations remained unutilised since 1996- to 2001 and surrendered year after year. Hence, the Committee recommend that in future the department should ensure that such long delays do not occur in developing and installing advanced software packages as part of computerisation of the accounts operations of the concerned departments so that budgetary allocations are not rendered haywire.

MINUTES OF THE FIFTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Monday, 01 April, 2002 from 1120 hours to 1410 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Dr. Sanjay Paswan
3. Shri Ramsinh Rathwa
4. Shri Rattan Lal Kataria
5. Shri Kirit Somaiya
6. Shri Kharabela Swain
7. Shri Raj Narain Passi
8. Shri Pravin Rashtrapal
9. Shri Sudarsana E.M. Natchiappan
10. Shri Rupchand Pal
11. Shri Varkala Radhakrishnan
12. Shri Chada Suresh Reddy
13. Shri Raashid Alvi
14. Shri Trilochan Kanungo
15. Shri Abdul Rashid Shaheen
16. Capt. Jai Narain Prasad Nishad
17. Shri M.V.V.S. Murthy

RAJYA SABHA

18. Dr. Manmohan Singh
19. Shri Suresh A. Keshwani
20. Shri S.S. Ahluwalia
21. Shri Dina Nath Mishra
22. Shri Parmeshwar Kumar Agarwalla
23. Dr. Biplab Dasgupta
24. Shri Prem Chand Gupta
25. Shri Sanjay Nirupam

SECRETARIAT

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Dr. (Smt.) P.K. Sandhu	-	Joint Secretary
3.	Shri R.K. Jain	-	Deputy Secretary
4.	Shri S.B. Arora	-	Under Secretary

WITNESSES

1. MINISTRY OF FINACE

I. (Department of Economic Affairs)

1. Shri C.M. Vasudev, Secretary, Economic Affairs
2. Dr. Rakesh Mohan, Adviser to FM & CEA
3. Dr. Adarsh Kishore, Additional Secretary (FB, ADB & EF)
4. Shri S.K. Purkayastha, Additional Secretary (FS)
5. Shri D. Swarup, Additional Secretary (Budget)
6. Dr. S.N. Kaul, Consultant

7. Shri Naveen Kumar, Joint Secretary (EEC, CC&A)
8. Dr. Jaimini Bhagwati, Joint Secretary (CM & ECB)
9. Shri Ashok Lavasa, Joint Secretary (ADB & I)
10. Shri S. Behura, Joint Secretary (Japan, PSE & UN) & CVO
11. Shri P.J. Vincent, Financial Adviser (Finance)
12. Shri U.K. Sinha, Joint Secretary (IF) Banking
13. Shri Ajit M. Sharan, Joint Secretary (B & I)

II. Department of Expenditure

1. Shri C.S. Rao, Secretary – Expenditure
2. Shri B.P. Mishra, Additional Secretary (E)
3. Smt. Usha Mathur, Joint Secretary (Per)
4. Dr. R. Banerjee, Joint Secretary (PF-I)

2. RESERVE BANK OF INDIA (RBI)

1. Shri G.P. Muniappan, Dy. Governor, RBI
2. Shri Vepa Kamesam, Dy. Governor, RBI
3. Shri. P.B. Mathur, Executive Director, RBI
4. Shri K.L. Khetrpaul, ED, RBI, Mumbai

3. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

1. Shri Y.C. Nanda, Chairman, NABARD
2. Shri Hamid Dawood, Executive Director

4. INSURANCE DIVISION

1. Shri A. Ramamurthy, Current-in-charge, LIC, Mumbai
2. Shri V. Jagannathan, Chairman, GIPSA and CMD, United, Chennai
3. Shri R.C. Sharma, Member, IRDA, Delhi
4. Shri V.P. Deshmukh, General Manager (Crop Insurance) GIC, Mumbai

2. At the outset, the Committee expressed their profound grief and sorrow at the untimely death of Shri G.M.C Balayogi, Hon'ble Speaker on 3rd March, 2002 and the sad demise of Shri Dayanand Sahay, a sitting member of Rajya Sabha and Member of Standing Committee on Finance on 19 March, 2002. The Committee then passed the condolence resolutions to convey their heart felt sympathies to the members of the bereaved families of Shri G.M.C. Balayogi and Shri Dayanand Sahay.

3. Thereafter, the Chairman welcomed the representatives of the Ministry of Finance (Departments of Economic Affairs & Expenditure), Reserve Bank of India and NABARD to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

4. The Committee then took oral evidence of representatives of the

Ministry of Finance (Departments of Economic Affairs & Expenditure) on Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs & Expenditure) and other related matters.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

(The Committee then adjourned to meet again on 2 April, 2002 at 1100 hours)

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, 17 April, 2002 from 1500 hours to 1640 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Shri Ramsinh Rathwa
3. Shri Rattan Lal Kataria
4. Shri Kirit Somaiya
5. Shri Kharabela Swain
6. Shri Sudarsana E.M. Natchiappan
7. Shri Rupchand Pal
8. Shri Varkala Radhakrishnan
9. Dr. Daggubati Ramanaidu
10. Shri T.M.Selvaganapathi
11. Shri Trilochan Kanungo
12. Shri Abdul Rashid Shaheen
13. Shri Jyotiraditya Madhavrao Scindia

RAJYA SABHA

14. Dr. Manmohan Singh
15. Shri S.S. Ahulwalia
16. Shri Palden Tsering Gyamtso
17. Shri Prithviraj D. Chavan
18. Shri Murli Deora

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu - Joint Secretary
2. Shri R.K. Jain - Deputy Secretary
3. Shri S.B. Arora - Under Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and informed them regarding the desire of the seven member delegation of the Financial and Economic Committee of the National People's Congress (NPC) of China to call on the Members of the Standing Committee on Finance during their proposed visit to India in mid May, 2002. The Committee then decided to meet the Chinese National People's Congress delegation on 14 May, 2002 afternoon.

3. Thereafter, the Chairman introduced the newly nominated

Members S/Shri Prithviraj D. Chavan, MP, Jyotiraditya Madhavrao Scindia, MP and Murli Deora,MP to the Committee and welcomed them to the sitting of the Committee.

4. XX XX XX XX

5. The Committee then took up for consideration the draft report on the Demands for Grants (2002-2003) of the Ministry of Finance (Departments of Economic Affairs & Expenditure) and adopted the same with the amendments shown in the annexure II.

6. XX XX XX XX

7. The Committee authorised the Chairman to finalise the Reports in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification and present the same to both the Houses of Parliament.

[*The Committee then adjourned to resume their sitting at 1500 hours on 18 April, 2002 to consider and adopt the draft reports on Demands for Grants (2002-2003) of (I) Ministry of Disinvestment and (II) Ministry of Statistics and Programme Implementation*]

Annexure II

[Modifications/Amendments made by Standing Committee on Finance in their draft Report on Demands for Grants of (2002-2003) of Ministry of Finance (Departments of Economic Affairs & Expenditure) at their sitting held on 17 April, 2002]

Page 7, Para 10, Line 10

After	"in this regard."
Add	"The Committee also recommend that no insurance company should be allowed to pay such high amounts in the name of publicity and administrative expenses which raise the operating expenses of the company harming its profitability and thereby rendering it unviable."

Page 37, Para 44,

Add the following sub-para After second sub-para	"The Committee are distressed to note that several MNC's have started delisting from Stock Exchanges. This practice will erode the investors' confidence. The Committee note that on the one hand they are postponing their IPO's on various grounds and on the other they have started delisting from the bourses. They, therefore, recommend that the Govt. should look into this and come out with a clear policy guidelines in this regard."