

FORTY-SEVENTH REPORT

ESTIMATES COMMITTEE (1986-87)

(EIGHTH LOK SABHA)

**MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)
RESERVE BANK OF INDIA—
OPENING OF NEW BRANCHES
OF BANKS IN RURAL AREAS**



Presented to Lok Sabha on 28-4-1987

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1987/Chaitra, 1909 (Saka)

Price : Rs. 2.00

3951
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Corrigenda to the 47th Report of Estimates Committee (1986-87), Eighth Lok Sabha.

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4	1.8	6	achieves	achieve
8	1.17	1	viablity	viability
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(1986-87)

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INTRODUCTION

I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Forty-Seventh Report on the Ministry of Finance-RBI-Opening of New Branches of Banks in Rural Areas.

2. The Estimates Committee (1986-87) took the evidence of the representatives of the Ministry of Finance (Department of Economic Affairs) on 6th January, 1987. The Committee wish to express their thanks to the Secretary, Ministry of Finance (Department of Economic Affairs) and other Officers of the Ministry for placing before them the material and information which they desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Report was considered and adopted by the Estimates Committee (1986-87) on 21st April, 1987.

4. For facility of reference, the recommendations/observations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

NEW DELHI;
April, 22 1987
Chaitra, 2 1909 (Saka)

CHANDRA TRIPATHI,
Chairman,
Estimates Committee.

A. BRANCH LICENSING POLICY

1.1 Statutory powers to licence the opening of branches was first conferred on the Reserve Bank of India by the Banking Companies (Restriction of Branches Act), 1946, which came into force on 22 November, 1946. With the repeal of this Act, the substantive provisions were incorporated in Section 23 of the Banking Regulation Act, 1949, which *Inter alia* stipulated that :—

“Without obtaining the prior permission of the Reserve Bank—

- (a) no banking company shall open a new place of business in India or change otherwise than within the same city, town or village, the location of an existing place of business situated in India.”

1.2 In pursuance of this provision, the Reserve Bank had been granting permission for opening of new branches of banks in urban and rural areas. However the Reserve Bank did not have any comprehensive Branch Licensing Policy upto 1979.

1.3. It was only after the nationalisation of banks in 1969, that a comprehensive branch licensing policy was framed by the Reserve Bank in consultation with the Government of India. The first branch licensing policy covered a period of three years from 1 January, 1979 to 31 December, 1981. The second licensing policy, which was also for a period of three years, covered the period from 1 April, 1982 to 31 March, 1985. The current licensing policy, however, covers a period of five years from 1 April, 1985 to 31 March, 1990 and has been made co-terminus with Seventh Five Year Plan.

1.4 Asked whether the present period of five years was not considered rather long for the branch licensing policy, continuing to be effective and need oriented, the Department of Economic Affairs in a note has stated that :—

“The massive geographical expansion, coupled with large scale growth in the volume of business and clientele has strained the banking system operational efficiency, supervision and control customer service and profitability. Hence, there is an imperative

need to concentrate on the consolidation of their position by improving their house-keeping, reserve base, loan function, supervision and control systems, training and proper deployment of staff customer service recovery of overdues and profitability. Hence the present period is not considered rather long. The expansion programme will be implemented in two phases, i.e. the first phase ending in March, 1988 and second phase in March 1990."

1.5 Asked whether any difficulty was felt when the policy did not co-terminate with the Plan previously and what additional benefits would accrue now that it had been made coterminus with the Plan, the Secretary of the Ministry explained during evidence :—

"This is just a period. It is better to align it with Plan. Earlier policy was a three-year policy, that is from 1982-85. This is a five-year policy and the advantage is if you have a five year policy, the uncertainty is somewhat less. At the end of five years, at least there is a definite policy now for all banks. For five years, they can continue on this basis.

The advantage in having a five year policy is we have just coincided with the Seventh Five Year Plan."

1.6 The Committee enquired whether the branch licensing policy was kept under constant review and if necessary amended in the light of experience gained during the period for which it was intended. The Ministry have stated in a note that :

"The present branch licensing policy is for the Seventh Five Year Plan period i.e. April, 1985 to March, 1990. This policy was finalised after reviewing the results of earlier policy which was for 1982-85 period. The present policy, which would expire only at the end of the Seventh Five Year Plan, would be reviewed before new policy for subsequent period is enunciated. However, the implementation of the branch expansion in terms of the current branch licensing policy would be monitored on a regular basis at periodical intervals by Reserve Bank of India."

1.7 Asked during evidence whether there was any specific periodicity for the review of the progress of implementation of the branch licensing

policy and when was the last review made, the Secretary, Banking stated :

"The last review was when the last policy terminated. Now, what is being done after the policy was announced in 1985 is the plans were asked for from the Lead Banks. They submit to the district level coordinating committees; the district level committees to the State Governments. Most of the States, with the exception of three or four, have submitted their recommendations to the Reserve Bank of India. The monitoring will be done, after the licences have been issued. The pace has now picked up. A large number of licences have been issued now and pending applications will be cleared by the end of January, 1987. After that, they would monitor the implementation of the licences because that also takes time and that implementation of the licences is monitored, I think, at a quarterly interval as to whether the licences given are implemented? Sometimes the banks apply for change in location because the particular licence which has been given, they cannot implement for some reason or the other.

Once the policy has been set up, it will not be reviewed for five years. But the implementation of that policy is being continuously monitored by the Reserve Bank of India."

1.8 During evidence, the Committee pointed out that there had been changes in branch licensing policy from time to time and wanted to know what was the stress laid when the policy was formulated for the first time and the stress laid in subsequent revisions of the policy. The Committee also wanted to know why there had been changes and why there was not a continuous policy. The Secretary, Banking explained :

"The main objective of the policy is to expand branch network, particularly in rural and semi-urban areas. At the time of nationalisation, we had very few—I think about 5200—branches in rural and semi-urban areas. The number might have been somewhere close to that. The quantitative target was that there should be a branch available for 17,000 persons every Block in the country. That was the basic objective.

Upto 1979, as I understand it, Reserve Bank did not have a comprehensive policy. It had this objective, viz. that in rural and semi-urban areas the branch network would be expanded, and more licences would be given for setting up branches. But there was no district-wise target. After 1981 when the first comprehensive policy was adopted in that they had a district-wise target. In every district we should give a licensee so that in every district there

is a branch available for 17,000 persons. If you take the country or the States as a whole you will find that 17,000 persons per branch objective would be realised even though branches were concentrated not in a district but in a few districts. That was in the 6th Plan. When we reviewed this policy again it was noticed that although in a majority of districts we were able to achieve this target of 17,000 persons per branch, there were blocks where this target was not achieved, although there was a branch available in the district. But the distance was very long. Therefore in the latest policy we tried to move further and tried to have a block-wise branch expansion policy. For that, each district map has now been submitted to the RBI. They are looking at geographical distribution of branches and are trying to ensure that one branch is available to every person within 10 kms. We have a target for this but the RBI is trying to disperse these branches in a manner so that everybody has a branch available in rural areas within 10 kms. This is the next target. So, the basic objective remains the same; it is only the operational part which has been changing in the light of experience. We have been trying to bring branches closer to the people as far as possible."

1.9 Asked what was the basis of the policy prior to nationalisation, the Secretary has stated :

"The branch licensing policy power was with the Reserve Bank. The banks had to ask for a branch. The RBI could decide whether you would have a branch licence or not. The RBI could not ask you to go to a particular area where it was not profitable. So, until nationalisation, it was not possible. Today the Government is expanding branches not with consideration whether it is commercially viable or not in the next two years but simply because of the primary objective that the banking system must spread throughout the country."

1.10 The Committee note that even though banks were nationalised in 1969, a comprehensive branch licensing policy was only thought of in 1979 and the first branch licensing policy came into existence for a period of three years w.e.f. 1 January, 1979 to 31 December, 1981 i.e. after a lapse of almost 10 years. The Committee do not see any plausible reason why the matters were allowed to drift for almost a decade even after nationalisation of banks in 1969 before Government could think of evolving a branch licensing policy for regulating the opening of bank branches in the country. The Committee are

sure that had the Branch licensing policy been evolved immediately after nationalisation of banks, the objective behind such nationalisation could have been better achieved by opening of more branches of the Banks in areas which had no branch of a bank within a reasonable distance even after twenty-two years of independence. The next branch licensing policy evolved was again for a period of 3 years and came into existence on 1 April, 1982 and remained in operation till 31 March, 1985. The current branch licensing policy is, however, for a period of 5 years from 1 April, 1985 to 31 March, 1990 i.e. coterminus with the Seventh Five Year Plan. The Committee do not see any particular advantage in having a branch licensing policy for a longer period of five years unless it is to be kept under constant review so as to ensure that it could be modified, if need be, in between in consonance with the ever changing economic situation in the country. The Committee have no doubt that adequate mechanism will be evolved for continuous review and monitoring of the branch licensing policy and a critical review of five year policy will be made before laying down the Branch licensing policy for period to follow and laying down its duration.

B. GROWTH OF BANK BRANCHES

1.11 It has been stated that "the Branch Licensing Policy of RBI is used as an instrument for bringing about co-ordinated and planned growth of bank offices so as to provide appropriate and adequate institutional credit structure to subserve the national objectives.

1.12 Asked whether the Branch Licensing policy had been able to bring about co-ordinated and planned growth of bank branches throughout the country, the Department of Economic Affairs has informed in a note that the Branch Licensing Policy followed so far had been instrumental in making available fairly intensive banking coverage in rural and semi-urban areas of the country. The objective of the last plan that there should be one bank office for a population of 17,000 in rural and semi-urban areas of each district in the country had been achieved except in 30 districts. The available information, however indicate that bank officer were not evenly spread out in the districts and Several Blocks have an average population per bank office over 17,000.

1.13 It was precisely to rectify the spatial gaps which still remained in many districts that the branch expansion programme under the current policy covering the period of 1985-90, would have the development block as a unit of the district and the aim would be to achieve a cover of 17,000 population (1981 census) per bank office and semi-urban areas of each block. The spatial district of bank branches would also be given due consideration while identifying centres. it would be kept in view that a rural banked centre covers an area of about 200 sq. kilometres and that a rural branch is normally available within 10 kms.

1.14 The Department of Economic Affairs has informed that in regard to the hilly areas, the norms have been further relaxed as under :—

- (a) The population norm per branch for a block may be lowered from 17,000 to 12,000/10,000, depending upon the terrain, spread of villages and population.
- (b) In so far as infrastructure facilities are concerned, pucca building and regular public transport should be available; the bank which is allotted the centre may construct the building for housing its

branch or finance construction of such building for housing its branch or finance construction of such building by private individuals:

- (c) The areas where security risks are great, the branch may be located only at the Block headquarters where police protection is available, with transport facilities to cover all the villages in the block; and
- (d) In areas where full time operation of a branch on all days of the week may not be necessary on account of limited clientele and business, satellite branches operating on fixed days of the week could be opened. Mobile branches covering fixed routes and having predetermined outlets on the route could also be considered.

1.15 Asked during evidence whether for five branches opened in rural areas, the banks could open only one branch in the urban area, the Secretary, Banking has replied :—

“The policy is that we want more branches in operation where there are gaps. If a particular area does not have a branch, we will give an overwhelming priority to that area.”

1.16. The Committee then enquired whether while giving licences to various banks in rural areas, the Department had fixed any target for the credit deposit ratio and if so to what extent it had been achieved and how for it had been implemented by the banks. The representative of the Reserve Bank explained :—

“There used to be some Linkage about opening up of branches between rural areas and semi-urban and urban areas long time back. But soon after the National Credit Council was set up, it was decided that bank branches should be spread in the relatively unbanked areas and rural areas. If a bank was to open a branch in an unbanked area or in a relatively backward area from the point of view of having banking facilities over there, then it could get an urban area branch also. It used to be 1:1, 1:2. There were number of things that were done at that stage. That was long time back. Supposing now, if there is no linkage between opening branches in rural areas and urban projections, as far as possible, rural and semi-urban branches are concerned, our policy

is to see that the big branches are widespread and regional disparities are reduced and for that purpose during the period 1979-82 we had a block of population of 21,000. During the period 1982-85 we took the average population of 17,000 for a district. And therefore, at present there is no linkage between metropolitan and urban branches. Metropolitan and urban branches may have branches and they need not be particularly of the specific requirements. It all depends on the application made by the bank.

During 1982-85 a group was set up of all the banks to survey relatively what is needed in the newly developing areas in the metropolitan areas where the bank operates, what might be required to be done in some areas. On the basis of the applications received from all the bank they were looked at from a consolidated point of view of the banks as a whole.

I think, if I may give some credit deposit ratio for the rural areas it will be better. This has been one of the areas of concern and to one of the things is, after all we wanted take the banking facilities to rural areas, with a view to see that the credit requirements are met and if credit-deposit ratios are for 60 per cent for rural areas and some urban areas, some brake-through has been achieved by the banks. According to the data that is available, the C-D ratio of Regional rural banks and even public sector banks was 61 per cent at the end of December, 1985. But in the case of private sector banks it was low, about 55 per cent.

State-wise the ratio is Madhya Pradesh 162% Orissa 104%, Andhra Pradesh 97%, Tamil Nadu 97% and Karnataka 90 per cent. But there are some disparities between State and State but for public sector banks as a whole it was 61 per cent. In the case of some urban areas the same ratio of 60% is required to be achieved. But it is 52.8% in the case of the public sector banks and there has to be improvement and this is continuously being monitored at the State level and also by us."

1.17 Regarding the question of viability for opening of new branches, the Secretary has explained :—

"For the purpose of branch expansion policy which is per block we are trying to achieve the target of 17,000 persons to be covered. For meeting the target the viability consideration is not one of the considerations. Only since there is no activity no branch

need be set up, we do not have that approach. But in choosing the location of the bank initially, where a branch should be set up in a block that is a matter for the block level committee and that would depend whether the business is there in the centre of population whether that would be a viable centre or not. The study made by the Reserve Bank for instance shows that in the rural branches it takes about three to five years, before the bank is able to recover its expenses. The expenditure to set up a branch is 1.5 lakhs or so. Then the deposit mobilisation takes some time. But in three to five years they are able to more or less break even in rural areas. This is not true of all the branches. But it is the general case."

1 18 The representative of the Reserve Bank further added :—

"The consolidated figure we are not able to give. We did make a study of what is actually the position in the States, about the loss making branches. We have mentioned that the financial liability of the new branches to be opened is also a criterion too but in the matter of rural and semi-urban branches the gestation period will be longer and actually I think this matter has been taken up with each individual bank that the Government is having discussions squarely on the above position of making them attractive in the metropolitan, urban, rural and rural or semi-urban areas. But those who are incurring losses continuously for three years are being impressed upon, and they have been told that they must improve. For the matter of that, in the case of all the public sector banks we have decided that the provision should be allowed to account for viability. We have said it. But in the case of semi-urban and rural or urban branches, we have liberalised."

1.19 Asked whether it would not be proper to ensure viability of branches, the Secretary has explained :—

"So far as making the branch viable is concerned, initially we are not concerned about the viability. For the hilly areas the population target as well as spatial target has been further relaxed. I think for the rest of the country the target is about 17,000. For the hilly areas the idea is lessen the target even further, if the population to be covered is 10,000 or 11,000 because of the distances in the hilly areas. I think in the mountainous areas it is a longer distance."

1.20. Asked whether relaxation would be made about viability for opening branches in the hilly areas so that the backward people could get the benefit, the Secretary, Banking has stated :—

“So far as the special geographical target is concerned the branch licensing policy wants to establish a branch within certain km. and relax the number of population for hilly areas. The viability consideration does not enter at this point. Viability consideration enters if there is a choice to be made between two alternative places. In respect of alternate sites the Reserve Bank would apply its mind about more people and where greater business is likely to come. Sir, they have also a system of mobile banking.”

1.21 Explaining the position further, the representative of the Reserve Bank has stated :—

“What we have done is that where the business opportunities are limited we consider to having limited operation branches which operate two-three days in a week. Also wherever a regular branch cannot be operated on a viable basis we consider having a mobile branch.”

1.22 The Committee pointed out that because of urbanisation, the entire economic activity and the generation of incomes was more in the urban areas and the cities and in view of this it was essential to have more number of branches in these areas for deposit mobilisation. Asked why every bank wanted to open branches only in urban areas, the representative of the Reserve Bank has stated :—

“It is because they want to mobilise deposit while trying to expand the activities of the banks in the rural areas. I do not think we should restrict opening branches, in the urban areas.”

1.23 The Committee then referred to urban areas like Bombay which were surrounded by rural areas and asked whether rules could be relaxed to allow opening of branches in those areas. The representative of the Reserve Bank has stated :—

As far as metropolitan urban branches are concerned, they are catering to the needs of the rural areas. There is no area demarcation as such. They can finance the rural areas.”

1.24 Asked specifically if the rules would be relaxed to permit opening of branches in rural areas adjoining the cities, the representative of the Reserve Bank has stated :—

“In the peripheral area, the urban cooperative banks have taken into account the business there. As far as other urban banks are concerned, they can open the branches. The only thing is that the urban cooperative banks are expected to do agricultural business and therefore they are allowed to go to semi-urban and urban areas. The specific ease that you have raised is about the opening of branches in districts like Konkon and those areas. Ordinarily, the urban cooperative banks is a local institution which they are supposed to cater to the requirements of the local areas and secondly, they are not allowed to open branches beyond the districts. But in one or two cases where, as you have said all the people have come and they are doing the business. But generally urban cooperative bank in one district is going and opening in far off districts is not allowed.”

1.25 Asked whether the Reserve Bank would review this policy particularly in the case of the areas adjoining the urban areas, the representative of the Reserve Bank has stated :—

“Sir, you have to consider that an urban cooperative bank is a local institution at the urban centre.”

1.26 When reminded that specific question was whether rules could be relaxed so that branches could be opened in rural areas adjoining Bombay, the representative of Reserve Bank has stated :—

“There is no objection to that Bombay branches can cater to the requirements of the people around Bombay.”

1.27 The representative of the Reserve Bank has further explained :—

“I think we are talking of urban cooperative bank branches and not of other branches. As far as Bombay is concerned there are more than 100 cooperative banks. Now if we can create more urban cooperative banks there then there will be a very large number of urban cooperative banks and, as such, there is reluctance to give licence to opening of more cooperative banks.”

1.28 The Secretary, Banking intervened to assure :—

“Sir, on behalf of the Ministry of Finance may I say that we would like the Reserve Bank to examine this particular issue and review this particular policy to see whether there is a case for having a cooperative bank. We would like them to have a fresh look at it.”

1.29 The Committee need hardly stress that the Branch Licensing Policy for opening of new branches of Banks should not only be used as an effective tool for bringing about coordinated and planned growth of bank branches but also for providing intensive banking coverage in rural and semi-urban areas of the country so as to provide appropriate and adequate institutional credit structure to subserve the national objectives. The first priority that has to be accorded, therefore, for opening branches of Banks in the country should aim at fulfilling the spatial gaps and evenly spreading out the bank branches so that the banking facilities could reach the remotest corners of the country especially where the existence of such institutions has been hitherto unknown. The Committee note that with this end in view, the branch expansion programme under the current Branch Licensing Policy would have the development block as a unit instead of the district and the aim would be to achieve the coverage of 17,000 population per bank Branch in rural and semi-urban areas of each block. In the case of hilly areas, these norms have been lowered from 17,000 to 12,000/10,000 depending upon the terrain, spread of villages and population. The Committee consider that even this population norm is rather on the high side as the hilly areas in the country are sparsely inhabited and there are long distances involved to reach from one hemlet to the other. The Committee would like the Government to consider further relaxation so far as the opening of bank branches in hilly and remote areas is concerned. In this connection, the question of opening ‘limited operation branches’ or ‘mobile branches’ in such areas could be mooted and implemented expeditiously.

1.30. The Committee also consider that for opening bank branches, some sort of linkage between metropolitan areas and rural areas has to be developed as in the opinion of the Committee the urban areas are already over banked. The Committee would like the Government to examine whether the ratio of opening bank branches in the urban, semi-urban and rural (including hilly and remote) areas could be 1:3:5.

1.31 The Committee would also like the Ministry to examine the merit of having a cooperative bank in the urban areas where a very large number of people have migrated from rural areas.

C. IDENTIFICATION OF CENTRES

1.32. The Committee have been informed that list of centres identified and finalised by the State Governments for opening bank branches have not been received by the Reserve Bank of India from all the States and those which have been received are under processing/scrutiny. The following State Governments/Union Territories have not sent the lists of centres identified by the Lead Banks and finalised by them :—

States/Union Territories

1. Bihar
2. West Bengal (List in respect of 12 districts out of 16 districts have since been received)
3. Jammu & Kashmir
4. Assam (List in respect of 13 districts out of 18 districts have been received)
5. Nagaland
6. Mizoram
7. Arunachal Pradesh
8. Pondicherry

1.33 Asked at what level the matter had been taken to have the centres identified by them and what had been their response, the Department has informed that the matter had been taken up with Director of Institutional Finance of the concerned State Governments/Union Territories by the Central office as well as Regional offices of the Department of Banking Operations and Development.

1.34. Asked what were the difficulties in identifying the centres by the State Governments, the Secretary Banking has stated during evidence :—

“In the Regional Consultative Committee, when these meetings are held, some of was raised regarding the Northern Region, which we had it in Himachal Pradesh. It was pointed out that they had some problems in sending the block maps because, this time, the Reserve Bank had also asked that you send us the

complete maps and other things. So sometime, these kinds of difficulties are mentioned and the RBI reminds the States. There are 3-4 States, which have not yet sent their lists and we are writing at the Ministry level to send us the lists."

1.35 He has further stated :

"So far as the local bodies are concerned, there is a district level Consultative Committee. Now, it is expected that, that particular body will be aware of where the gaps are."

1.36 He has also added :

"Now the RBI is expected to clear all the applications received, by the end of January. You would not have that particular problem, so far as the Reserve Bank is concerned. The problem would arise from the 3-4 States, from where the lists have not so far been received. We are writing at the Ministry level to the concerned people to expedite sending the lists. If the list is not sent, then opening of the branches in that particular State will be delayed."

1.37 Asked whether the opening of branches was subject to the condition that States must identify the Centres first, the Secretary, Banking has explained :

"The first responsibility is for the Lead Bank. Then, it goes to the District Level Committee. The District Level Committee sends it to the State Government. This process takes about 6-7 months. This has been completed in most of the States, so far as the Seventh Five Year Plan is concerned, except only 3-4 States."

1.38 Asked whether the Reserve Bank could select a centre, in case a State Government did not approve or identify a particular centre for opening a branch, the Secretary, Banking has stated :

"It is not done for semi-urban or rural areas, where the idea is to fill up gaps. There, the Reserve Bank will not go and identify the places and say that you set up a branch here as per the present policy. That is the place where we want to expand the bank branches because there are gaps to be filled up."

1.39 Even in regard to Urban areas, he added, that Reserve Bank would not go and identify the places. He has further added :

“Normally, in areas where targets have been met different banks may come up. One bank which is operating only in the South, may say : please give us some more north Indian bank branches. Similarly about banks operating mostly in the North. That is a part of Reserve Bank’s function. But where there are unbanked districts, more branches will be opened in response to requests received.”

1.40 The Committee desired to know if some promoters applied to Reserve Bank for opening of branches in semi-urban areas and these areas had not been identified by the State Governments concerned whether the Reserve Bank had the right to permit opening of branches. In reply, the Secretary, Banking stated :

“In respect of commercial banks, no group of people can come together and say that they want to establish it. In the case of urban cooperative banks, they would apply to Reserve Bank, and the latter would directly take a view through the Registrar, who would be involved.”

1.41 He also added that State Governments were intermediaries in so far as the Registrar of Cooperative Societies was concerned.

1.42 The Committee are unhappy to find that 6 States and 2 Union Territories have not responded about the identification of centres for opening bank branches even though the matter has been taken up with them at a sufficiently high level. The Committee would like the Ministry to take up this matter with the State Governments and Union Territories again at the highest level so that the centres could be identified without further loss of time. The Committee also suggest that there should be no let up in issuing licences by the Reserve Bank of India for opening bank branches, especially in the unbanked areas, and in taking follow up action ensuring that bank branches opened in the States and Union Territories where these centres have already been identified.

D. REGIONAL IMBALANCES IN OPENING BRANCHES

1.43 It has been stated that regional imbalances in opening of branches may occur on account of imbalances in the level of infrastructural development. With the emphasis under the current branch licensing policy to achieve 17,000 population (1981 census) per bank office in rural and semi-urban areas of each block in the country, as also to eliminate large spatial gaps in the availability of banking facilities, it is expected that glaring inter-regional as also intra-regional disparities would be removed.

1.44 Asked about the details of the glaring inter-regional and intra-regional disparities in the opening of bank branches which had come to the notice of the Reserve Bank of India, the Department of Economic Affairs in a note has informed that Region-wise disparities as on 31 March, 1986 noticed by RBI were as follows :

Name of the State/ Union Territory	Average population per bank office for the State as a whole (in thousands)	Average population per bank office in rural and semi- urban areas of the State (in thousands)
1	2	3
<i>A. Northern Region</i>		
1. Haryana	12	16
2. Jammu & Kashmir	8	9
3. Punjab	8	10
4. Rajasthan	13	14
5. Delhi	6	9
<i>B. North Eastern Region</i>		
1. Assam	21	22
2. Meghalaya	10	14
3. Manipur	21	27
4. Tripura	15	18

1	2	3
<i>C. Eastern Region</i>		
1. Bihar	17	18
2. Orissa	15	17
3. West Bengal	16	22
<i>D. Central Region</i>		
1. Madhya Pradesh	14	15
2. Uttar Pradesh	15	17
<i>E. Western Region</i>		
1. Gujarat	11	13
2. Maharashtra	13	17
<i>F. Sothern Region</i>		
1. Andhra Pradesh	13	15
2. Karnataka	9	11
3. Kerala	9	10
4. Tamil Nadu	12	16
5. Pondicherry	10	13

1.45 As regards intra-regional disparities, the position of deficit-blocks viz. Average Population per bank office of more that 17,000 in various States were as follows :—

State	Total No. of Blocks	No. of Deficit Blocks	No. of addl. offices required
1	2	3	4
Andhra Pradesh	330	88	161
Assam	136	56	150
Bihar	587	279	430
Gujarat	114	45	90
Haryana	95	28	78
Himachal Pradesh	69	3	5

1	2	3	
Jammu & Kashmir	119	26	32
Karnataka	175	15	33
Kerala	151	15	30
Madhya Pradesh	459	182	353
Maharashtra	297	162	446
Manipur	26	17	35
Meghalaya	30	9	11
Nagaland	21	6	9
Orissa	314	128	193
Punjab	119	37	52
Rajasthan	236	63	131
Sikkim	—	—	—
Tamil Nadu	372	175	357
Tripura	21	12	23
Uttar Pradesh	891	360	803
West Bengal	341	206	580
Andaman & Nicobar Island	1	—	—
Arunachal Pradesh	44	16	17
Chandigarh	1	—	—
Dadra & Nagar Haveli	1	—	—
Lakshadweep	1	—	—
Mizoram	20	8	8
Goa, Daman & Diu	12	—	—
Pondicherry	1	—	—
TOTAL :	5059	1936	4033

1.46. The Committee are constrained to note that out of the total number of blocks which stands at 5059 in the country, the number of deficit blocks so far as branches of Banks are concerned is as high as 1,936 and the number of additional bank offices required there is 4,033. The Committee are also unhappy to find that there are very glaring regionwise disparities in the opening of bank branches in the rural areas. Keeping the present pace of development in view, the Committee cannot imagine how all the deficit blocks could be covered and the bank offices opened there in the foreseeable future. The Committee, therefore, strongly feel that concerted efforts are called for in this direction. It should also be impressed upon the State Governments to provide the necessary infrastructural facilities in the deficit areas on a priority basis so that there is no obstacle in the way of opening bank offices there.

E. ISSUE OF LICENCES

1.47 Position of applications received, allotments made, offices opened and licences pending with Public Sector Banks in respect of rural and semi-urban areas during the years 1981-85, as furnished by the Department of Banking is as follows :—

Year	Licences pending	Applications received	Allotments made	Offices opened	Licences pending
1981	1660 as on 1.1.1981	2370	1181	1678	1163 as on 31.12.1981
1982	1163 as on 1.1.1982	2714	1722	956	1929 as on 31.12.1982
1983	1929 as on 1.1.1983	2037	416	1257	1088 as on 31.12.1983
1984	1088 as on 1.1.1984	2121	1678	966	1800 as on 31.12.1984
1985	1800 as on 1.1.1985	606	411	1619	592 as on 31.12.1985

1.48 It will be seen that as on 31.12.1985 592 licences were pending with various Public Sector Banks for opening of branches in the rural and semi-urban areas.

1.49 Asked during evidence that how much time did it take for opening a branch after the licence had been issued by the Reserve Bank, the Secretary, Banking has stated :

“The licence is for a period of six months. In certain areas, it takes much longer for certain reasons. Then the licence is extended for some more time”.

1.50 Asked further whether assistance of the State Government was required in regard to opening of branches, he stated that to some extent,

the help of the district authorities was needed for locating a place in remote areas where rental buildings were not available.

1.51 Asked whether the Reserve Bank had a proper monitoring mechanism to ensure that the branches were opened in time after the licences had been issued, the representative of the Reserve bank has stated :

"We ask the State Government to provide information about identified centre. Wherever the lists are received, identified centres are allotted to banks and the Director, Institutional Finance is informed about the allotment made. A task force is set up at these centres to monitor the progress with regard to implementation i.e. setting up of the branches. Every effort is made to see that branches are set up at these places for which licences are issued. It is true that there are a number of licences which have remained unutilised for quite sometime. It is because of the non-availability of infrastructural facilities, inaccessibility of the area and so on. Also, there has been some difficulty in identifying the centres at initial stages in some cases. These problems are being taken care of and we see to it that we regularly get information about the implementation progress. The steering Group includes the Director, Institutional Finance as a member. Regular discussions are also held about the pending licences to see that they are utilised and branches are set up."

1.52 Asked specifically whether any time-limit had been prescribed for opening a branch after identification of a Centre by the State Government and issuance of licence by the Reserve Bank, the representative of the Reserve Bank has replied :—

"This time-limit of six months is used only for exerting pressure to open the branches speedily. But we are going into interior cases, where there are problems with regard to buildings, infrastructural facilities etc. There are pending licences in some of the eastern areas because of such problems. We are exerting pressure and we are taking steps to see that the branches are set up."

1.53 The Committee then asked whether there were any cases where licences were given and branches opened without the knowledge of the State Government concerned, the Secretary, Banking had stated :—

"I think that there is nothing to prevent a Bank from applying for a licence directly to set up a branch in some district in a parti-

cular area. That is one separate activity. This activity is done through the district/block level. It is done to meet that particular target, in the sense that in those areas where there are less branches, Lead Banks obtained approval at district level and the State Government's advice is sought even to fill up the gaps. But in areas where there are already sufficient number of banks, if some other banks want to set up their branches in that particular district/block, then they should go somewhere else. It can apply for a licence. Often, the R.B.I. says that district is already over branched and there is no question of setting up more branches there. The recommendation says that you should have enough branches per 17,000 population and also in every 10 kms. there should be a branch. In certain district, it could have been fulfilled but in quite a lot of districts, it was not possible or it takes some-time. You take for instance the metropolitan area. The bank can directly apply to the RBI and it can say that I want a licence to operate a branch in this particular area and the R.B.I. can take a view and give a licence to operate a bank in that particular area. And it can also see, whether that particular area is over-branched or not so that, if it is over-branched, then it can say we cannot give a licence because it is already over-branched."

1.54 The Committee are surprised to find that as on 31 December, 1985, in utter disregard of the limit of 6 months prescribed for the opening of a bank branch after the issuance of a licence by the Reserve Bank of India, as many as 592 licences were pending with various Banks for opening branches in rural and semi-urban areas. The Committee do not feel convinced by the reasons advanced by the Department of Economic Affairs during evidence for the non-utilisation of the pending licences, which have been stated to be the non-availability of infrastructural facilities, inaccessibility of the area, etc. The Committee feel that all these factors should have been taken care of at the time of identification of a centre for opening a bank branch and the issuance of a licence for the purpose. The Committee would like to emphasise that there is an urgent need for evolving an effective monitoring system for watching closely the progress in regard to utilisation of licences. It would be better that before granting a licence the views of the local administration regarding feasibility of opening the branch of a bank are also obtained so that a clear picture is available at the time of granting the licence.

1.55 The Committee are also of the view that Branches, once opened in rural areas, should not be closed owing to economic viability.

1.56 The Committee would also like the Government to consider the feasibility of providing 'locker facilities' at least in one rural Branch under a block.

F. OPERATIONAL EFFICIENCY

1.57 It has been stated that the massive geographical expansion coupled with opening of branches in remote rural areas on a large scale has subjected the banking system to severe strains in terms of physical and financial resources and operational efficiency.

It has further been stated that banks have been facing difficulties in recruitment training and placement of staff/officers. There is paucity of experienced staff with the requisite skills and expertise in many offices. Due to these deficiencies and the increasing remoteness of the field branches from the controlling offices, banks have been finding it increasingly difficult to effectively superwise and control functioning of their branches. As a result, operational efficiency, house-keeping, customer service, etc. in the banks suffered. There has also been an adverse effect on the profitability of banks due to preponderance of priority sector advances at concessional rates at rural branches. With the narrowing profit base, the banks are finding it difficult to make requisite provision for bad and doubtful, debt, let alone augment their reserves substantially. Clarifying it further during evidence, the Secretary Banking has explained :—

“What is meant here is the manpower resources and other infra-structural resources. During 1969-86, because of expansion at a fast rate, some strain was bound to be caused, that is, in terms of recruitment of people, training them, sending them out in rural areas and motivating them. It does create a certain strain. Instead of increasing branches sixfold or eightfold, if we increase them threefold, it would have been better. Similarly on financial resources there is a strain. The business per branch has come down.”

1.58 The Committee pointed out that sometimes geographical dispersal might actually contribute more deposits. For instance, in far flung areas if there was no bank branch, probably in those areas for those who wanted to deposit, there might be disincentive and from that point of view, this would cut both ways. Agreeing with the Committee, the Secretary, Banking has stated :—

“That is absolutely understandable. In the initial stages, bank branches do not give the profit. It is a strain from the management.”

1.59 He, however, agreed that banking was necessary not only from management point of view but for introducing healthy financial trends also. He has further stated :—

“You are quite right that we must have these branches even if it is causing a strain. I fully accept that. It is only a statement of fact that the pace of change has a strain but this does not mean that it should not be undertaken. We have to do it. We are doing it.”

1.60 Asked about the difficulty being experienced in recruiting people for the banking service, the Secretary Banking has replied :—

“The recruitment takes place through the Banking Service Recruitment Board. The cycle is about 1½ years to get the recruitment. There is a training and then there is the placement of the staff. The total quantum of these things has been under strain because of the very fast rate at which we have gone and rightly so”.

1.61 Asked what efforts had been made to overcome this problem, the Committee have been informed that “it has been overcome practically. Now, we have completed first phase, in the next phase we will disperse it and we will reach the target.”

1.62 The Committee then pointed out that there was need for proper training of the banking staff so that they could serve the people in the villages in a better way. Agreeing with the Committee, the witness has stated :—

“I think we accept the general point that training is necessary for the branch level functionary. It is the most important factor for getting the things done about the system. I am hesitant to accept the further point that they are not doing any further work and that the branch managers have been without work. Of course, the training of the branch manager is essential. I think we made some progress but certainly we can do more.”

1.63 A representative of the Department further added :—

“This point is very well taken because the Government, the Reserve Bank of India, has also some months ago taken a view that some of the branch managers are not really acquainted with the knowledge and instructions and so on.”

1.64 Agreeing with the Committee that the attitude of the Banking staff also required a change, the representative of the Department stated :—

“The attitude as well as knowledge. In the district level they are thinking of arranging meetings, camps, so that the branch managers are properly instructed. Also, the regional managers should be asked to visit once in three months so that they can personally advise branch managers on the subject and where there have been delays, in disbursement they should give on the spot instructions which would further improve quality of the work.”

1.65 The Committee do not understand as to why no heed was paid to the most important ingredient of the whole banking activity i.e. manpower with requisite skill and expertise, while embarking upon a rapid branch expansion programme. Had the Government taken care of this aspect side by side with the branch expansion programme, the banks would not have found themselves in the predicament in which they found themselves today. The Committee would strongly urge that instead of waiting for about one and a half years to get the staff recruited by the Banking Service Recruitment Board, Government should launch a crash programme for the purpose and get the required staff recruited on an emergency basis. It goes without saying that once the necessary staff has been recruited they should be exposed to ins and outs of the whole banking activity by modern techniques and methods of training so as to equip them and motivate them according to the needs. The Committee further consider that refresher courses for the existing officers and staff is also imperative with a view to improve upon their skills and expertise.

G. INCENTIVES FOR WORKING IN RURAL/HIGHLY AREAS

1.66 The Committee have been informed that some special area allowance is given to officers posted at some places and at such rates as may be decided by the Board from time to time having regard to the guidelines issued by the Government in April, 1986.

1.67 According to the Bank Officers Service Regulations, if an officer is serving in a place mentioned in Column 1 of the table below, a Hill and fuel allowance at the rate mentioned in Column 2 thereof is paid to him :

Places	Rates
Offices at altitudes of and over 1500 metres above main sea level.	10% of pay subject to a maximum of Rs. 100/- P.M.
Offices at altitudes of and over 1,000 metres but below 1,500 metres above sea level.	8% of pay subject to a maximum of Rs. 75/- P.M.

1.68 Asked whether there were any guidelines requiring public sector banks to make it compulsory for their employees to work for a minimum specified period during their service in rural/hilly/remote areas, so that banks were encouraged to open more branches in such areas, the Department of Banking has informed in a note as follows :—

“As per Government guidelines dated 26th June, 1986 for the purpose of promotion to Scale II and to Scale III minimum number of years' service in rural branches have been prescribed as under ;—

- (1) From Junior Management Grade Scale I to Middle Management Grade Scale II SNL 7 years of satisfactory service in JMG Scale I :

Provided that the officer has put in a minimum of 2 years service in rural branch. As regards specialist officer, he should take the requisite rural branch experience as and when he switches over to the main stream of banking.

- (2) From middle management grade scale II to middle management grade III.

5 years of satisfactory service in middle management grade Scale II :

Provided that the officer has put in a minimum service of 3 years as an officer in a 'rural' and/or 'semi urban' branch. This is inclusive of the two years rural branch experience prescribed for promotion from JMA scale I to MMG Scale II. As regards the specialist officer, he should take the requisite rural/semi-urban branch experience as and when he switches over to the main stream of banking.

However, the provisions will become operative in respect of promotion to be made with effect from 1.6.1988.

1.69 Asked to give his experience of the working of the scheme of incentives and whether it was attracting sufficient number of people for service in the hilly areas and whether there were still constraints in terms of results produced, the Secretary, Banking has stated "We are getting people."

1.70 Asked about incentives for working in rural areas, he replied that for promotion from Grade I to Grade II a minimum service of 2 years in rural areas had been stipulated.

1.71 Asked further whether there had been cases where officers might have refused promotions because promotions would involve working in the rural areas, the Secretary, Banking has replied :—

"We have not come across such cases. People no doubt want to get transferred from rural to urban ones. But the present incentives are helpful to man posts in rural areas."

1.72 Asked whether there was any disinclination on the part of staff to work in rural areas, the Secretary, Banking has explained :—

"The network of banking sector in rural areas is so much more than in urban areas. There is no way by which serving there can be avoided."

1.73 Asked further if any norms had been fixed that for getting promotion one had to work in hilly areas for one year and in rural areas for three years, the Secretary, Banking has stated :—

“Not in hilly areas, but in the case of rural areas we have said they should work for two years to get promotion.”

1.74 To the query of the Committee that some people posted in rural areas travel miles and miles to come to the offices from their residences in urban areas, the Secretary, Department of Banking stated :—

“This has come to our notice. We are trying, to tell the branch managers that they must stay close by. In some areas, there are difficulties in getting accommodation.”

1.75 Asked whether sufficient incentives should not be made available to them for staying nearby to the banks the Secretary, Banking has agreed that “We are keen that bank branch managers stay in the banks, premises.”

1.76 The Committee find that for promotion from Grade I to Grade II, a minimum of two years service in rural areas has been stipulated. Likewise, an officer has to put in a minimum of three years service in rural areas to qualify for promotion from Grade II to Grade III. The Committee do not consider these incentives to be adequate for attracting staff to work in the rural areas. Since the majority of branches of the banks are in the rural areas, the Committee would like the Ministry to examine whether the existing incentives could be made more attractive so that there is no difficulty in motivating the staff for working in the rural areas. In Committee's opinion, the term ‘rural areas’ needs to be defined explicitly so as to exclude rural areas bordering urban areas for the purposes of taking service in the rural areas for promotion. The Committee feel that such a stipulation is also necessary for hill areas where no such stipulation has been made so far.

1.77 The Committee are concerned to note that most of the staff posted in the branches of banks in rural areas have been found to be travelling long distances from their residences in urban areas to come to their places of duty. This, in the Committee's view, seriously affects their efficiency. The Committee, therefore, recommend that it should be ensured that the staff, especially the Branch Managers, should stay close to their places of posting.

If necessary, the banking regulations may be amended to provide for the compulsory stay of staff near their places of duty in the rural areas. For this purpose the Bank should construct/hire suitable residential accommodation close to each rural branch for the Branch Manager.

NEW DELHI;

April, 22 1987

Chaitra, 2 1909 (Saka)

CHANDRA TRIPATHI,
*Chairman,
Estimates Committee.*

APPENDIX

Statement of Recommendations/Observation

S.No.	Para No.	Recommendation/Observation
1	1.10.	<p>The Committee note that even though banks were nationalised in 1969, a comprehensive branch licensing policy was only thought of in 1979 and the first branch licensing policy came into existence for a period of three years w.e.f. 1 January, 1979 to 31 December, 1981 i.e. after a lapse of almost 10 years. The Committee do not see any plausible reason why the matters were allowed to drift for almost a decade even after nationalisation of banks in 1969 before Government could think of evolving a branch licensing policy for regulating the opening of bank branches in the country. The Committee are sure that had the Branch licensing policy been evolved immediately after nationalisation of banks, the objective behind such nationalisation could have been better achieved by opening of more branches of the Banks in areas which had no branch of a bank within a reasonable distance even after twenty-two years of independence. The next branch licensing policy evolved was again for a period of 3 years and came into existence on 1 April, 1982 and remained in operation till 31 March, 1985. The current branch licensing policy is, however, for a period of 5 years from 1 April, 1985 to 31 March, 1990 i.e. coterminus with the Seventh Five Year Plan. The Committee do not see any particular advantage in having a branch licensing policy for a longer period of five years unless it is to be kept under constant review so as to ensure that it could be modified, if need be, in between in consonance with the ever changing economic situation in the country. The Committee have no doubt that adequate mechanism will be evolved for</p>

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continuous review and monitoring of the branch licensing policy and a critical review of five years policy will be made before laying down the Branch licensing policy for period to follow and laying down its duration.

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1.29.

The Committee need hardly stress that the Branch Licensing Policy for opening of new branches of Banks should not only be used as an effective tool for bringing about coordinated and planned growth of bank branches but also for providing intensive banking coverage in rural and semi-urban areas of the country so as to provide appropriate and adequate institutional credit structure to sub-serve the national abjectives. The first priority that has to be accorded, therefore, for opening branches of Banks in the country should aim at fulfilling the spatial gaps and evenly spreading out the bank branches so that the banking facilities could reach the remotest corners of the country especially where the existence of such institutions has been hitherto unknown. The Committee note that with this end in view, the branch expansion programme under the current Branch Licensing Policy would have the development block as a unit instead of the district and the aim would be to achieve the coverage of 17,000 population per bank Branch in rural and semi-urban areas of each block. In the case of hilly areas, these norms have been lowered from 17,000 to 12,000/10,000 depending upon the terrain, spread of villages and population. The Committee consider that even this population norm is rather on the high side as the hilly areas in the country are sparsely inhabited and there are long distances involved to reach from one hemlet to the other. The Committee would like the Government to consider further relaxation so far as the opening of bank branches in hilly and remote areas is concerned. In this connection, the question of opening 'limited operation branches' or 'mobile branches' in

1	2	3
		such areas could be mooted and implemented expeditiously.
3	1.30.	The Committee also consider that for opening bank branches, some sort of linkage between metropolitan areas and rural areas has to be developed as in the opinion of the Committee the urban areas are already over banked. The Committee would like the Government to examine whether the ratio of opening bank branches in the urban, semi-urban and rural (including hilly and remote) areas could be 1:3:5.
4	1.31.	The Committee would also like the Ministry to examine the merit of having a cooperative bank in the urban areas where a very large number of people have migrated from rural areas.
5	1.42.	The Committee are unhappy to find that 6 States and 2 Union territories have not responded about the identification of centres for opening bank branches even though the matter has been taken up with them at a sufficiently high level. The Committee would like the Ministry to take up this matter with the State Governments and Union Territories again at the highest level so that the centres could be identified without further loss of time. The Committee also suggest that there should be no let up in issuing licences by the Reserve Bank of India for opening bank branches, especially in the unbanked areas, and in taking follow up action ensuring that bank branches opened in the States and Union Territories where these centres have already been identified.
6	1.46.	The Committee are constrained to note that out of the total number of blocks which stands at 5059 in the country, the number of deficit blocks so far as branches of Banks are concerned is as high as 1,936 and the number of additional bank offices required there is 4,033. The Committee are also unhappy to find that there are very glaring regionwise disparities in the opening of bank branches in the rural areas. Keeping the present pace of development in view, the Committee

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cannot imagine how all the deficit blocks could be covered and the bank offices opened there in the foreseeable future. The Committee, therefore, strongly feel that concerted efforts are called for in this direction. It should also be impressed upon the State Governments to provide the necessary infrastructural facilities in the deficit areas on a priority basis so that there is no obstacle in the way of opening bank offices there.

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1.54. The Committee are surprised to find that as on 31 December, 1985, in utter disregard of the limit of 6 months prescribed for the opening of a bank branch after the issuance of a licence by the Reserve Bank of India, as many as 592 licences were pending with various Banks for opening branches in rural and semi-urban areas. The Committee do not feel convinced by the reasons advanced by the Department of Banking during evidence for the non-utilisation of the pending licences, which have been stated to be the non-availability of infrastructural facilities, inaccessibility of the area, etc. The Committee feel that all these factors should have been taken care of at the time of identification of a centre for opening a bank branch and the issuance of a licence for the purpose. The Committee would like to emphasise that there is an urgent need for evolving an effective monitoring system for watching closely the progress in regard to utilisation of licences. It would be better that before granting a licence the views of the local administration regarding feasibility of opening the branch of a bank are also obtained so that a clear picture is available at the time of granting the licence.

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1.55. The Committee are also of the view that Branches once opened in rural areas, should not be closed owing to economic viability.

1	2	3
9	1.56.	The Committee would also like the Govt. to consider the feasibility of providing 'locker' facilities at least in one rural Branch under a Block.
10	1.65.	The Committee do not understand as to why no heed was paid to the most important ingredient of the whole banking activity i.e. manpower with requisite skill and expertise, while embarking upon a rapid branch expansion programme. Had the Government taken care of this aspect side by side with the branch expansion programme, the banks would not have found themselves in the predicament in which they find themselves today. The Committee would strongly urge that instead of waiting for about one and a half years to get the staff recruited by the Banking Service Recruitment Board, Government should launch a crash programme for the purpose and get the required staff recruited on an emergency basis. It goes without saying that once the necessary staff has been recruited, they should be exposed to ins and outs of the whole banking activity by modern techniques and methods of training so as to equip them and motivate them according to the needs. The Committee further consider that refresher courses for the existing officers and staff is also imperative with a view to improve upon their skills and expertise.
11	1.76.	The Committee find that for promotion from Grade I to Grade II, a minimum of two years service in rural areas has been stipulated. Likewise, an officer has to put in a minimum of three years service in rural areas to qualify for promotion from Grade II to Grade III. The Committee do not consider these incentives to be adequate for attracting staff to work in the rural areas. Since the majority of branches of the banks are in the rural areas, the Committee would like the Ministry to examine whether the existing incentives

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could be made more attractive so that there is no difficulty in motivating the staff for working in the rural areas. In Committee's opinion, the term 'rural areas' needs to be defined explicitly so as to exclude rural areas bordering urban areas for the purposes of of taking service in the rural areas for promotion. The Committee feel that such as stipulation is also necessary for hill areas where no such stipulation has been made so far.

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1.77.

The Committee are concerned to note that most of the staff posted in the branches of banks in rural areas have been found to be travelling long distances from their residences in urban areas to come to their places of duty. This, in the Committee's view, seriously affects their efficiency. The Committee, therefore, recommend that it should be ensured that the staff, especially the Branch Managers, should stay close to their places of posting. If necessary, the banking regulations may be amended to provide for the compulsory stay of staff near their places of duty in the rural areas. For this purpose the Bank should construct/hire suitable residential accommodation close to each rural branch for the Branch Manager.

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E. C. No. 1159

© 1987 BY LOK SABHA SECRETARIAT

PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND
CONDUCT OF BUSINESS IN LOK SABHA (SIXTH EDITION) AND
PRINTED BY M/S. SUNLIGHT PRINTERS, DELHI