

**SEVENTY-FIRST REPORT**  
**ESTIMATES COMMITTEE**  
**(1988-89)**

**(EIGHTH LOK SABHA)**

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

**3**

**Action Taken by Government on the recommendations contained in the Sixty-Fourth Report of Estimates Committee (8th Lok Sabha) on the Ministry of Finance Department of Economic Affairs (Banking Division) Customer Services and Security System in Nationalised Banks.]**



*Presented to Lok Sabha on 21th April, 1989.*

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

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**CORRIGENDA**

Corrigenda to Seventy-first Report of  
Estimates Committee (1988-89) on Customer  
Services & Security System in Nationalised  
Banks.

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(1988-89)**

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**STUDY GROUP ON ACTION TAKEN REPORTS  
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(1988-89)**

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7. **Shri Narayan Choubey**
8. **Dr. Manoj Pandey**
9. **Shri Ram Singh Yadav.**

## INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee to submit the Report on their behalf present this Seventy-first Report on action taken by Government on the recommendations contained in the Sixty-fourth Report of Estimates Committee (8th Lok Sabha) on the Ministry of Finance—Department of Economic Affairs—Customer Services and Security System in Nationalised Banks.

2. The 64th Report was presented to Lok Sabha on 25th April 1988. Government furnished their replies indicating action taken on the recommendations contained in that Report by 20th December, 1988. The replies were examined by the Committee at their sitting held on 11th April, 89 and the draft Report was adopted by the Committee on the same date.

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

- (i) Report.
- (ii) Recommendations/Observations which have been accepted by the Government.
- (iii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies.
- (iv) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee.
- (v) Recommendations/Observations in respect of which final replies of Government are still awaited.

4. An analysis of action taken by Government on the recommendations contained in 64th Report of Estimates Committee is given in Appendix. It would be observed therefrom that out of 58 recommendations made in the Report 41 recommendations i.e. 71 per cent have been accepted by the Government and the Committee do not desire to pursue 7 recommendations i.e. 13 per cent in view of Government's replies. Replies of Government in respect of 9 recommendations i.e. 16 per cent have not been accepted by the Committee. Final reply in respect of 1 recommendation i.e. 1 per cent is still awaited.

NEW DELHI,  
April 10, 1989  
Chaitra 20, 1911 (S).

ASUTOSH LAW  
Chairman,  
Estimates Committee

## CHAPTER I

### REPORT

1.1 This Report of the Estimates Committee deals with Action taken by Government on the recommendations contained in their Sixty-Fourth Report (8th Lok Sabha) on Customer Services and Security System in Nationalised Banks, which was presented to Lok Sabha on 25th April, 1988.

1.2 Action Taken Notes have been received in respect of all the 58 recommendations contained in the Report.

1.3 Action Taken Notes on the recommendations of the Committee have been categorised as follows :—

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

Sl. Nos. 1, 5-8, 10-14, 16-23, 25-27, 30-32, 36, 39-49, 51-52, 54  
56-57.

(Total 41, Chapter II)

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

Sl. Nos. 2, 15, 28, 29, 33, 37-38.

(Total 7, Chapter III)

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

Sl. Nos. 3, 4, 9, 24, 34, 35, 50, 53, 58.

(Total 9, Chapter IV)

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

Sl. No. 55

(Total 1, Chapter V)

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



*Vacancies in Boards of Directors*

*(Recommendation, Sl. No. 1, Para 1.19)*

1.5 The Committee had pointed out that during the last 5 years vacancies in public sector banks had frequently existed in the offices of the Chairman-cum-Managing Director for periods ranging from 2 months to one year and 3 months and those of Executive Directors for periods ranging from more than 2 months to 4 years and 10 months. It was further pointed out that as on 5th December, 1987 while only 14 nationalised banks had workman directors, none of the nationalised banks had non-official/non-workman Directors on its Board. The Committee had recommended that the Ministry and other agencies involved in appointment of Directors on the Boards of Nationalised Banks should do a bit of advance planning, cut red-tape and ensure that the posts of whole time Directors on these banks were filled on due time and vacancies did not, in any case, remain unfilled beyond one month and that the posts of both Chairman-cum-Managing Director and Executive Director in the same bank were at no point of time allowed to remain vacant simultaneously. The Committee further recommended that urgent steps should be initiated to appoint workman Directors in the remaining 6 nationalised banks and to appoint Directors representing the interest of workmen employees in all these banks.

1.6 In their reply the Ministry has stated that it has been the endeavour of the Government to ensure timely decisions regarding appointment of whole time directors. It has also been stated that out of 20 nationalised banks the workman-directors are in position in 13 banks and the position is lying vacant in 7 banks. Regarding appointment of non-workman employees director, the Ministry has stated that efforts are being made to expedite the judicial consideration of issues involved about the manner of their selection.

1.7 While the Committee are glad to note Government's acceptance of their recommendation that top management posts in Nationalised Banks should not remain vacant for long periods and the posts of Chairman-cum-Managing Director and Executive Director should not be allowed to remain vacant simultaneously, the Ministry has not indicated the present position of these posts in the 20 Nationalised Banks, State Bank of India and its Associate after the presentation of the Report. The Committee, therefore, desire that the Government should apprise them of the vacancy position of both of these posts of whole-time Directors in the aforesaid 28 Banks from 1-1-1988 onwards.

1.8 The Committee further recommended that the Ministry should make vigorous efforts to fill the vacant posts of Workman Directors and non-workmen Directors in all the Nationalised Banks, State Bank of India and its Associates and inform the Committee in due course of latest position in this regard also.

*Restructuring of Branches**(Recommendation Sl. No. 3, Para 1.29)*

1.9 The Committee had observed that there were a number of over-banked pockets in a metropolitan/urban areas and public sector banks should identify such areas therein and relocate, restructure and prune such branches as suggested by the National Institute of Bank Management to improve efficiency as well as customer service in such branches.

1.10 The Ministry has stated that the question of closing of unviable urban/metropolitan branches or shifting them from over-banked areas to under-banked/un-banked pockets was considered by RBI and the banks were advised to make a quick review of such branches in over-banked areas and draw a suitable programme to shift the non-viable branches to other under-banked/unbanked localities. The response received from the banks indicates that they are not in favour of closing any of the urban/metropolitan loss-making branches at this juncture. However the banks have examined the working of such branches and are initiating time-bound action plans to make such branches viable. It has also been stated that in view of the inconvenience that would be caused to the existing customers of such branches in the event of their closure and other dislocations that would be caused to the business thereby, RBI is of the view that any attempt to close/shift the existing branches to reduce the branch concentration should be considered only as a last resort and on a very selective basis.

1.11 While the Committee appreciate the Bank's contention that closing down of unviable urban/metropolitan branches in over-banked areas or shifting them to underbanked-un-banked areas would cause inconvenience to the customers of such branches and other dislocations to the business, they are of the opinion that such unviable branches in over-banked areas are only a drain on banks' precious resources in view of their declining profitability during the last 10-15 years. Moreover, the existence of such banks is only at the cost of convenience and facilities that could be provided to general public in unbanked/under-banked areas. The Committee, therefore, recommend that not withstanding inconvenience that may be caused to the customers of such branches at least those branches which have no reasonable prospects of substantial improvement or attaining viability in the reasonable future should be closed. They are in favour of judicious and rational review of the problem. It is desirable to conduct the review to identify metropolitan/urban areas with over-banked pockets so as to relocate, restructure and prune non-viable branches with a view to augmenting the overall banking services in the country. The Committee would like to be apprised of the results of such an exercise.

*Staffing & Productivity in Banks*

*(Recommendation, Sl. No. 4, Para 1.37)*

1.12 The Committee were informed that the productivity norm per employee was fixed at Rs. 16.84 lakhs business per employee. This was not considered adequate and scientific by the Committee. The Committee recommended that time and motion study for all major functions in a bank should be undertaken and scientific norms for staffing and productivity should be evolved.

1.13 The Ministry has stated in its reply that this recommendation had been examined by Government in consultation with Reserve Bank of India. Government as well as RBI is stated to be of the view that a broad and simple implementable criterion of total business, i.e. deposits+advances is considered to be adequate for calculating productivity per employee.

1.14 The Committee do not regard the productivity norm fixed at Rs.16.84 lakhs per Bank employee as adequate and scientific. The Committee also note that the above figure was arrived at on the basis of data for the year, 1986. The Committee, therefore, reiterate that a time and motion study for all major functions of 28 public sector commercial banks should be undertaken early, after taking into account the data for the years 1987 and 1988 and on the basis of the study, fresh norms for staffing and productivity of banks should be evolved.

*Drawal of suitable incentive scheme*

*(Recommendation, Sl. No. 9, Para 1.42)*

1.15 The Committee had recommended that as most of the functions performed in a bank were group functions, suitable incentive schemes should be provided to reward staff whose productivity during a specific period was above the average norms laid down.

1.16 In reply thereto the Government have stated that 'productivity' measured by business per employee is a broad and simple criterion and that it is difficult in practice to work out 'productivity' of an individual. Moreover most of the functions being group functions, it may not be feasible in practice to institute any award for individual employees.

1.17 The Committee are unable to accept the above reply of the Government and are of the view that incentives to individuals play a dominating role in motivating employees to better their performance and it is highly desirable to provide such incentives to individuals to improve the working of banks. The Committee, therefore, desire that this ques-

tion be examined in detail and ways and means devised to provide incentives to individuals with a view to motivate them for better customer service.

*Reckoning Customer Service in Promotion Policy*

(*Recommendation, Sl. No. 13, Para 1.65*)

1.18 While noting that the customer service/public relations was included as one of the parametres for judging the performance of executives, the Committee had recommended that the parametre of customer service for evaluating performance should be fixed for clerical staff also as it is they who were directly exposed to the customers and provided the customer image of the banking services.

1.19 The Ministry has stated in reply that Service Conditions of Clerical Staff are governed by bank level as well as industry level settlement/agreements. However, the recommendation made by the Committee is being considered in consultation with the Indian Banks' Association.

1.20 The Committee hope that the consultation with Indian Banks' Association would be finalised expeditiously and the parametre of Customer Service of for evaluating performance of Clerical Staff of Banks will be fixed as is being done in the case of executives, with a view to fully motivate the former to strive for maximum satisfaction of the Customers.

*Deceased Depositors' Accounts*

(*Recommendation, Sl. No. 24—Para 2.44*)

1.21 The Chairman Indian Banks' Association had admitted during evidence that large amounts of deposits made by account holders who had made no nominations were being held up in banks as dormant accounts which ultimately went to Government and were lost to the legal heirs of depositors. The Committee had recommended that as a service to the family of the deceased, the Banks must intimate the existence of such accounts to their legal heirs at the earliest opportunity with a view to move them to initiate legal measures to get the account of the deceased settled. The Committee recommended that norms of confidentiality should be relaxed and Banking Acts, Regulations amended, if necessary, in this regard.

1.22 Among other things, the Ministry has stated in its reply that the Committee's suggestion had been examined in consultation with the legal Department of RBI. The advice was that "a banker cannot disclose about its customers' accounts except where disclosure is by the compulsion of law or where there is a duty to the public to

disclose or where interest of the banks requires disclosure or where the disclosure is made by the express or implied consent of the customer". The Ministry further held the view that duty of secrecy continued even after the customer's death. However, keeping in view the need to resolve the problem, RBI has been advised by the Ministry to examine again the feasibility of (a) taking from each customer an undertaking that information about the number, name of the account, address of the account holder, branch where it is held etc. may be published in a local newspaper if the account remains inoperative for one year after maturity remains without instruction for one year and (b) giving to banks the authority to publish the above information on dormant account before transferring them to RBI.

1.23 The Committee regard it as a grave injustice to the legal heirs of deceased account holders who happen to have made no nominations, that large amounts of their deposits are held up in banks as dormant accounts which ultimately go to the Government and are lost to the legal heirs of deceased depositors because under the outdated confidentiality norms the banks do not inform their family members or legal heirs of the existence of such accounts.

1.24 Even if implemented, the Ministry's advice to Reserve Bank of India to consider the feasibility of (i) taking an undertaking from the Customers that particulars of their accounts may be published in local newspapers if the accounts remain in-operative for more than one year or remain without instructions for one year after maturity, and (ii) giving banks the authority to publish particulars of dormant accounts before transferring them to Reserve Bank of India, will not help much the legal heirs of such deceased account holders as the former may be illiterate or have no access to newspapers wherein the information is published by the Bank. In the Committee's view, the only sure and certain way to resolve this problem is that the banks should directly approach the family Members/legal heirs of such depositors for initiating necessary action.

1.25 In view of the above, the Committee reiterate that it should be made a mandatory and legal duty of the banks to intimate the family members/legal heirs of the deceased account holders at the earliest opportunity of the existence of such accounts with a view to move the legal heirs to initiate legal measures to get the accounts of the deceased settled, and confidentiality norms of the Banks in this regard should be suitably relaxed and relevant Banking Acts and regulations amended, if necessary.

*Customer Service in Credit Deployment*  
(Recommendation, Sl. No. 34, para 2.92)

1.26 Notwithstanding the detailed procedures evolved for scrutiny, sanction or rejection of loan applications the Committee had

received several complaints on delays and irregularities in bank's functioning in processing of loan applications, not only in regard to loans in industries in normal credit areas but also in regard to loans in priority sector. The Committee realised that the complaints could be in some cases due to individual grievances which could not be adequately met with by the banks with due regard to prescribed norms. However, the Committee believed that there were several cases wherein delays in processing of applications, release of loan after sanction, and rejection of applications were not necessarily based on genuine grounds and that a lot of technicality was allowed to play for even ordinary mistakes or slips in applications, much to the inconvenience and embarrassment of the customers. The Committee recommended therefore that in respect of each bank, a sample survey of the processing of loan applications might be conducted critically and at the same time, the public should be allowed to meet the inspecting officers to air their problems, so that an objective review of the performance of the banks could be done.

1.27 As regards the suggestion of the Committee to conduct a sample survey for each bank, the Ministry has stated in reply that Government considered it worthwhile to utilise the existing set up for the purpose. The lead District Officer was being asked by the Ministry to look into during his monthly branch visits, the processing of loan applications of priority sector beneficiaries in general and those of Government sponsored programmes in particular during October-December, 1988 quarter, after the village allocation under the Service Area Approach was completed. During these visits they would be asked to look into the extent and cause for delays in sanctions/disbursals and submit separate notes thereon. A consolidated report in respect of the rural branches visited by the LDO's would also be submitted. Necessary follow-up action on the basis of the findings of these visits would also be taken.

1.28 With regard to the question of providing an opportunity to the applicants to air their problems, the Ministry has stated that Reserve Bank of India has already issued adequate instructions to banks for expeditious disposal of loan applications, a time bound programme has been laid down for the purpose and adequate mechanism existed in different banks to monitor these aspects. In view thereof, it was not considered necessary by the Ministry that aggrieved customers should have interface/discussion with any authority to air their grievances. Even otherwise, the fora of meeting the public on a specified day of the week/month already existed, where such grievance could be aired.

**1.29 While the Committee have no objection against the Lead District Officer being entrusted with the task of conducting a critical**

sample survey in public sector commercial banks, regarding the processing of applications for loans especially in priority sector, as recommended by the Committee, they do not agree with Government's stand that aggrieved applicants for loans especially in priority sector have adequate mechanism in banks to know the actual fate of their applications for loans, delays in processing them or the reasons for rejection of their loan applications. Had the said mechanism been adequate, several instances would not have come to the notice of the Committee wherein delays in processing loan applications were not necessarily based on genuine grounds and a lot of technicality had caused inconvenience and harassment to the applicants. As for the existing facility for monthly interface of customers with the bank executives, the Committee are only too aware of the facility having fallen into virtual disuse over the year with fewer and fewer customers turning up at such meetings. As the typical applicant for loans in priority sector is also *not* sophisticated enough for the general interface of customers with bank executives, the Committee recommend that some special and effective arrangement should be evolved by the Ministry and Reserve Bank of India to deal with complaints regarding applications for loan in priority sector so that the humblest of such applicants is able to get his grievance redressed in a convincing manner. Customer Service Centres, lacking investigative and disciplinary powers, and confined to urban centres cannot meet the situation adequately. In view of this, if the Ministry/RBI do not want to involve the internal or external Inspector of the banks with the aggrieved loan applicants, the Committee suggest that the Ministry/Reserve Bank of India should explore the possibility of evolving the recommended special mechanism for amelioration of grievances regarding priority sector loans in the Lead Banks themselves appointed in each District, taking care that these grievances are not routinely passed on by the District Lead Officer to concerned banks but rather adjudged independently, giving a sympathetic hearing to the complainant as also paying due regard to the prescribed norms applied by the banks concerned on the complainant's applications.

*Customer Education/Counselling*

*(Recommendation, Sl. No. 35, Para 3.7)*

1.30 The Committee had pointed out that the arrangements in public sector banks for publicity, Customer Education and Conselling in both rural and urban areas were more impressive on paper than to the satisfaction of the mainstream of banking clientele. The Committee therefore, recommended that arrangements in public sector banks for Customer Education/Counselling should be reviewed at a sufficiently high level with a view to augment and bring them up to the mark not only of the mainstream clientele of banks like traders, industrialists, exporters/importers, foreign exchange dealers and

farmers but also to that of small entrepreneurs workers of the formal and informal sectors and the rural proletariat with regard to both the schemes for deposit mobilisation as well as for disbursement of credit in the Priority Sector.

1.31 The Ministry has stated in reply that the observations of the Estimates Committee are being brought to the notice of all banks by Reserve Bank of India.

1.32 The Committee are not satisfied by the mere circulation of their recommendation to the banks by the Reserve Bank of India. The Committee reiterate that the existing arrangements in banks for publicity, customer education and counselling are inadequate and should be reviewed at a sufficiently higher level—say the Banking Division of the Ministry/Reserve Bank of India in conjunction with the Indian Banks' Association—with a view to augment the actual arrangements in quality and coverage to the satisfaction of all the prominent segments of banking clientele. The Committee would also like to be apprised of concrete action taken in this regard within the next 6 months .

*Security Inspection of Banks*

(Recommendation, Sl. No. 45, para 4.13)

1.33 The Committee had *inter alia* suggested that in view of the fact that the amount involved in the Bank decoities/robberies had rapidly increased from year to year, the Reserve Bank of India should conduct regular security inspection of the banks by specially trained Inspectors with a view to ensure that the security arrangements are fool-proof in the branches in view of the everchanging circumstances.

1.34 The Ministry has stated in reply that the Reserve Bank of India is issuing instructions to all public sector banks to set-up necessary procedures in banks for ensuring that this recommendation is followed. The Ministry has further stated that the Committee's recommendation that Reserve Bank of India should conduct a security inspection "will be examined in depth".

1.35 The Committee are distressed to note that during about eight months from 25th April, 1988 when the original report was presented to Lok Sabha till the 20th of December, 1988 when Government's replies were sent to the Committee, it has not been possible for the Ministry to "examine in depth" the Committee's recommendation that Reserve Bank of India should conduct regular security inspection of Banks. The Committee hope that the Ministry will now commence its "in depth examination" of their recommendation immediately and apprise the Committee in due course of the conclusions of the examination and concrete action taken thereon.



*Growth opportunities for security staff**(Recommendation, Sl. No. 49, para, 4.27)*

1.36 The Committee had recommended that the Reserve Bank should set up a working Group for exploring better avenues for career growth of the security staff urgently so that necessary incentives and motivation could be provided to them for performing their duties more efficiently.

1.37 The Ministry has stated in reply that the Committee's observation has been noted and necessary action is being taken.

1.38 The Committee regret to note the Ministry's half-hearted reply after eight months of the presentation of their Report that the recommendation "is noted and necessary action is being taken". The Committee would like to be apprised of the concrete action taken by the Reserve Bank of India in this regard. The Committee would also like to be assured that the contemplated Working Group has actually been constituted by Reserve Bank of India to look into the service conditions of security personnel in banks with a view to explore the avenues for their promotion on a time-bound basis.

*Non-detection of Bank frauds during Inspection/Audit**(Recommendation, Sl. No. 50, para 5.12)*

1.39 The Committee had noted that the internal security arrangements had proved woefully inadequate in as much as frauds had been perpetrated on the finances of the banks to the extent of Rs. 221.69 crores over a period of 5 years ending 1986. The Committee therefore, concluded that there existed several cases of frauds which ought to have been detected during inspection and audit but were not detected. The Committee felt that there was an imperative need for identification of the contributory factors that led to failure in noticing the frauds in time by audit/inspecting staff for fixing responsibility. Further, the Committee recommended that the inadequacy in quality and content as also periodicity of inspection and audit might be identified and special efforts taken to streamline the procedure.

1.40 The Ministry has stated in reply that the internal auditors who inspected stocks/securities in some accounts were able to detect frauds in the past and Banks did give wider coverage to detection of frauds in their various training programmes. The Ministry has further assured that in the light of the Committee's advice RBI would further instruct the banks to lay more emphasis on the detection of frauds during inspections/audits.

1.41 The sheer magnitude of frauds perpetrated on the finances of Nationalised/public sector commercial banks to the extent of Rs. 221.69 crores over a period of 5 years ending 1986 and the fact that most of the frauds in Banks were not detected in course of internal or external inspection and audit have led the Committee to the inevitable conclusion that arrangements for inspection and audit in aforesaid banks are more formal than substantive. The Committee, therefore, reiterate their recommendation that there is an urgent need for an in-depth study or investigation for identification of factors that lead to the failure in noticing of most of the cases of bank frauds in time by the inspecting and audit staff. The Committee recommend the Government should urgently initiate steps to conduct an expert study/investigation in this regard with a view to make both inspection and audit of banks more meaningful especially with regard to timely detection of frauds.

#### *Audit Certificates*

*(Recommendation, Sl. No. 53, para 5.15)*

1.42 Despite the extent of arrears in reconciliation of inter office transactions and balancing of books of branches as also the extent of frauds that are detected each year, the Committee found it difficult to reconcile that statutory auditors furnished to each bank clean audit certificates and did not qualify their report to indicate how far the arrears vitiated the correctness of the accounts. The Committee felt that had the auditors highlighted these arrears in their annual audit certificates all these years, the realities would not have remained a hidden factor. The Committee, therefore, recommended that the role of statutory auditors for supply of clean audit certificates should be clearly laid down.

1.43 In reply the Ministry has stated that the whenever certain aspects of a bank's books of Accounts are not found satisfactory, auditors do give appropriate qualifying remarks both (i) under "Notes" at the end of the Balance Sheet, and (ii) in the "Auditors' Report."

The Ministry has added that the statutory auditors do not always given clean audit certificates but do qualify their reports with appropriate remarks.

1.44. In view of the facts that a number of cases of frauds in Banks in recent years could not be detected in course of their inspection and audit, and the arrears of reconciliation of inter-office transactions and interbranch balancing of books were not being adequately highlighted in the audit reports of the banks, the Committee reiterate their recommendation that the role of statutory auditors for supply of clean audit certificates to banks should be gone into depth afresh and the Banking Regulation Act, 1949 amended, if necessary, with a view to make the statutory audit more effective and extensive than at present.

*Bank employees involved in frauds*

*(Recommendation, Sl. No. 55, para 5.33)*

1.45 The Committee had regretted the Banks' tendency to stop departmental inquiries against their employees involved in frauds as soon as cases thereon were instituted in courts by the parties concerned, because this enabled such bank employees to delay and postpone indefinitely the day of their reckoning for the maximum possible time.

1.46 In its reply the Ministry has stated that the suggestion will be examined in consultation with Indian Banks' Association and Ministry of Law and if found feasible shall be conveyed to banks for implementing in consultation with their Legal Departments.

1.47 The Committee regret to note that the Ministry has not been able or inclined to take action on the Committee's recommendation for 8 months from 25th April, 1988 when the Report was presented till 20th December, 1988 when replies were sent to them, and is still to examine the recommendation in consultation with the Indian Banks' Association and Ministry of Law. The Committee recommend that the Ministry should initiate action on their recommendation without any further delay and apprise them of the final action taken in this regard within 6 months of the presentation of this Report.

*Central Bank fraud case*

*(Recommendation, Sl. No. 56, para 5.34)*

1.48 The Committee were surprised to be informed that even in the case of a huge fraud to the tune of Rs. 59.85 crores committed as far back as 1983 in the London Branch of the Central Bank of India, final action with regard to the punishment to be awarded to some high officials involved therein was still pending.

1.49 In its reply, the Ministry has stated that the case related to fraud perpetrated in the accounts of M/s. Esal Commodities, M/s. Levenco Internation Ltd., and M/s. Druplace Ltd. The Scotland Yard Police, London was investigating the matter. Shri N.M. Valecha, the then Chief Manager, was dismissed from service after the departmental enquiry. Civil and Criminal suits had been filed against Shri N.M. Valecha and Shri B.R. Patankar, the then Branch Manager. The Ministry has assured the Committee that their observations would be advised to the banks and they would be urged to finalise cases pending against their officials speedily.

1.50 The Committee would like to be apprised of the final action taken against all the officers involved in the case within six months of the presentation of this report. The Committee, however, regret that

even though more than eight months have elapsed after the presentation of their Original Report, the Ministry is yet to advise the recommendation to the Banks with a view to finalise the case expeditiously.

### *Bad Debts*

*(Recommendation, Sl. No. 58, para 5.44)*

1.51 The Committee felt concerned to note that the extent of bad and doubtful debts accumulated over the years was not mentioned by the public sector banks in their annual accounts, in view of the statutory protection provided by the Banking Regulation Act, 1949. The Committee did not agree with the Ministry's stance during evidence that "time is not yet opportune" and "it may not be in our larger interest" for the public sector banks to disclose their bad debts through their published accounts immediately. The Committee considered it as a sacred right of the people to know what was happening to their hard earned moneys deposited with the Banks. In any case the Committee felt that the position had undergone a great change after nationalisation of the Banks. The Committee did not feel that an overall disclosure of the bad debts affected the customer-bank confidentiality as per the provisions of the present Act in any way. The Committee, therefore, recommended that Banking Regulation Act, 1949 and other concerned statutes should be amended, if need be, at the earliest with a view to make it obligatory for all banks, including public sector banks, to faithfully reflect the quantum of bad and doubtful debts including losses on account of frauds and dacoities, the amounts thereof written off as also their extent of overdue loans and advances to be recovered in their Annual Accounts for being laid on the Tables of Parliament.

1.52 In its reply, the Ministry has contended :—

"The Question of disclosure of bad and doubtful debts of banks has been further examined by Government in consultation with the RBI. Banking business essentially being one of the dealing in credit, the bulk of the assets of a bank are represented by the loans and advances given by it. There is, therefore, an inherent risk element in such business. What is important is that a bank minimises such risks by appropriate pre-sanction credit appraisal and post disbursal supervisions over credit. To the extent the loans and advances become doubtful of recovery, the banks should ensure that they are in a position to provide such doubtful debts from current profits. The supervision over the commercial banks by the RBI ensures that banks have appropriate lending policies and the losses in this regard are kept to the minimum.

RBI, are therefore, of the view that mere reflection of the position about doubtful debts and provisions held therefor in the published accounts will not be of any over-riding advant-

ages; on the contrary, apart from affecting the image of the bank and confidence of the depositors, it may lead to uninformed criticism. Such criticism may adversely affect the image of the bank. This will have serious consequences in the discharge of the basic functions of the bank as financial intermediary in financing the economic growth and more importantly allocation of credit in accordance with the Government's planned priorities. As indicated earlier this aspect was recognised by the Ghosh Committee set up by the RBI and it had recommended that the exemption now available to banks from disclosing the position of bad and doubtful debts and the amount of provision held therefor should continue for the present."

1.53 The Committee are not satisfied with the above reply of the Ministry and are of the opinion that in view of the declining profitability of banks during the last 10—15 years, it is the concealment of bad debts that leads to un-informed criticism of banks and disclosure thereof by them would rather arouse responsible, informed and constructive criticism of banking operations and consequently halt a drift towards a financial crisis that might be invisibly brewing up in public sector banks due to progressive accumulation of their bad debts. The Committee are, therefore, of the view that public interest would now be better subserved if both public and Parliament are allowed to know the reality about bad and doubtful debts in Banks. The Committee are convinced that after nationalisation of banks there is no justification whatsoever for the public sector banks. practice not to disclose their 'bad and doubtful' debts in their Annual Accounts under the provisions of outdated Banking Regulation Act, 1949, thereby depriving Parliament from the meaningful scrutiny of banking operations in the Country. The Committee, therefore, reiterate that Banking Regulation Act, 1949, and other statutes should be amended, if necessary, at the earliest with a view to make it obligatory for all banks including public sector banks to faithfully reflect the quantum of bad and doubtful debts including losses on account of frauds and dacoities, the amounts thereof written off as also the extent of overdue loans and advances to be recovered in their Annual Accounts for being laid on the Tables of Parliament.

#### *Implementation of recommendations*

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

1.55 The Committee desire that reply in respect of the recommendation contained in Chapter V of the Report may be finalised and final reply of the Government furnished to the Committee expeditiously.

## CHAPTER II

### RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation Sl. No. 1 (Para No. 1.19)

The Committee note that during the last five years vacancies in public sector banks have frequently existed in the offices of Chairman-cum-Managing Director for periods ranging from more than 2 months to one year and three months and those of Executive Directors for periods ranging for more than two months to four years and ten months. Vacancies of Chairman-cum-Managing Director and Executive Director have also simultaneously existed in the Central Bank of India for more than 2 months i.e. from 19-2-85 to 24-4-85 and for more than 8 months i.e. from 24-9-84 to 13-6-85 in Andhra Bank. The Committee further note that as on 5th December, 1987 while only 14 Nationalised Banks and workman Directors, none of the Nationalised banks had non-official/non-workman director on its Board and that widespread litigation was going on regarding the manner of nomination of non-workman directors. Also Directors representing the interest of working class had not been appointed in any bank so far. The Committee consider this situation a most unfortunate and are firmly of the view that for effective functioning of any organisation, and in particular nationalised banks, which cater to the people at large day in and day out, thereought not to be any vacancies in the top management for long periods. The Committee also find that in terms of nationalised banks (Miscellaneous Provision) Scheme, 1970 and 1980 while the Government has assumed power to appoint or remove at will both whole time and other Directors on the Boards of Nationalised Banks, it has found it convenient to pull on with truncated boards of Directors on most of these banks lending credence to the representations to the Committee that with non-appointment of many whole time and other Directors on these Banks, Ministry was usurping powers belonging to the Boards of Directors through overcentralisation. The Committee strongly recommend that the Ministry and other agencies involved in appointment of Diectors on the Boards of Nationalised Banks should do a bit of advance planning cut red-tape and ensure that the post of whole time Directors on these banks are filled on due time and vacancies do not, in any case, remained unfilled beyond one month and that the posts of both Chairman -cum- Managing Director and Executive Director in the same bank are at no point of time allowed to remain vacant simultaneously, The Committee further recommend that urgent steps should be initiated to appoint workmen Directors in the remaining 6 nationalised

*banks and to appoint Directors representing the interest of workmen employees in all these banks.*

### **Reply of Government**

It has been endeavour of the Govt. to ensure timely decisions regarding appointment of whole time Directors. For this purpose a specific time schedule has been drawn up for advance action on anticipated vacancies. By and large Chief Executive positions in banks have not remained vacant except in exceptional circumstances. However, the Govt. accept the Committee's recommendation that the top level posts in public sector banks should not remain vacant for long and that the posts of CMD and ED in any bank are not allowed to remain vacant simultaneously.

Out of the 20 nationalised banks, the workmen Directors are in position in 13 banks and the position is lying vacant in 7 banks viz. Allahabad Bank, Indian Overseas Bank, Andhra Bank, New Bank of India, Corporation Bank, Oriental Bank of Commerce and UCO Bank. (the position in UCO Bank fell vacant only recently on 1-11-1988). Of the 7 positions that are vacant, verification reports from Chief Labour Commissioner (Central) are awaited in respect of 5 banks and the matter is being pursued with the Chief Labour Commissioner for expeditious completion of verification process. The Reports of the Chief Labour Commissioner have been received in respect of 2 banks and the matter is under consideration of the Government.

Regarding appointment of non-workmen employees Directors, efforts are being made to expedite the judicial consideration of the issues involved about the manner of their selection.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord dated 20-12-1988]

### **Recommendation Sl. No. 5 (Para No. 1.38)**

The Committee note that public sector banks have surplus pockets of staff, particularly in certain metropolitan and urban branches affecting their efficiency and productivity, whereas in some other branches there is justification for increase of staff on account of increase in work load. While earlier, banks were projecting their vacancies on the basis of their projected business, from January, 1987 banks have been issued guidelines providing *inter-alia* that Banks with productivity per employee below the industry average will have to restrict their additional requirements of staff to the extent of 1% of their total staff as in December, 1986 and those with average productivity per employee above the industry average can resort to fresh recruitment upto 1.5% of their total staff strength. Banks have further been directed to under take an indepth assessment of their staff requirements, identify the excess staff

in various offices/branches and redeploy it at needed branches/offices. The Committee note that only "some banks have identified the excess staff and redeployed them." The Committee recommend that measures should be initiated by all the public sector banks to study in depth their staff position, identify the branches having excess staff and redeploy the same in needy branches by a time bound programme with a view to avoid maldistribution of staff affecting efficiency and productivity.

### **Reply of Government**

Government have accepted this recommendation and banks have been asked to follow the recommendation.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

### **Recommendation Sl. No. 6 (Para No. 1.39)**

The Committee further recommend that the assessment for recruitment should be realistic to cover a particular period and once the Recruitment Boards select conditions for a particular number of vacancies in a certain Bank/Bank Group, all the selected candidates should be appointed before fresh vacancies are advertised by the Recruitment Board for the same Bank/Bank-Group.

### **Reply of Government**

Government have accepted this recommendation and banks have been asked to follow the recommendations.

[Ministry of Finance, Banking Division, O.M. No. 15/3/88-Coord, Dated 20-12-1988.]

### **Recommendation Sl. No. 7 (Para No. 1.40)**

The Committee regret to note the inordinate delay in determination of norms for recruitment in banks, as also the non-availability of the data on an average productivity per employee. The Committee recommend that henceforth the RBI should have this data compiled regularly every year and the Ministry should positively incorporate the same in their annual consolidated Reports on the working of Public Sector Banks which are laid on the Tables of Parliament every year.

### **Reply of Government**

Bank-wise data relating to average business per employees, which is an implementable productivity norm, would be given in the annual consolidated report on the working of public sector banks.

[Ministry of Finance, Banking Division, O.M. No. 15/3/88-Coord, Dated 20-12-1988)]



### **Recommendation Sl. No. 8 (Para No. 1.41)**

The Committee are distressed to find that on the basis of estimated productivity per employee for 1986, as many as 16 of the 28 public sector banks were below the industry level average. The Committee are anguished to note that leading public sector banks like State Bank of India and its seven associates should be lagging behind the industry level average notwithstanding the business of Government and public sector/autonomous bodies which is heavily concentrated in them. The Committee recommend that in all these 16 banks an indepth examination of their below average productivity should be conducted and effective remedial measures initiated to bring them up at least to the industry level average as early as possible. The Committee further recommend that the public sector banks who top the productivity scale in relation to industry level average, should be honoured suitably through, say a prestigious bank award as a motivation for better performance and emulation by others.

### **Reply of Government**

The data on business per employee' is primarily used as very broad index of income earning business in relation to their manpower strength in different banks. These averages are monitored by Reserve Bank of India as Part of the monitoring system for the implementation of Action Plans of the banks. All banks have been advised to aim at a 'business index' of Rs. 40 lakhs per employee by 1990. Banks showing slow progress are asked to carefully analyse and identify factors responsible and take corrective action in respect of the remediable once. The question of instituting some awards for best performance among the banks is under consideration of Government/Reserve Bank of India. It is not, however, desirable to restrict the parameter to just 'business per employee' as that too is not solely attributable to employees but also to the region of operation, type of business, composition of clientele etc.

[Ministry of Finance, (Banking Division,) O.M. No. 15/3/88-Coord, Dated 20-12-1988.]

### **Recommendation Sl. No. 10 (Para No. 1.53)**

The Committee are of the considered view that the problem of attitude and motivation of bank staff in relation to satisfactory customer service has not been given the priority it deserves by the managements of public sector banks. While a specific provision has been made in the formal Bipartite Settlement dated 17th September, 1984 between the Union and banks to improve housekeeping in branches to ensure efficient cordial and speedy customer service, management-union relations in some public sector banks leaves much to be desired. While

welcoming bonafide trade union activity and provision of facilities antecedent thereto, the Committee feel that such activities should be more responsive and constructive with a view to ensure efficient and speedy customer service which is in their own interest. In this regard, the Committee commend the example of Allahabad Bank where an agreement on a code of conduct has been entered into by the Management and employees of the Bank. The Committee recommend that this step should be emulated by the other public sector banks also. The Committee also consider the active involvement of leaders of the employees' unions in the motivation of the staff for putting in their best in the work allotted to them an essential ingredient for a cordial management—employee relationship.

### **Reply of Government**

The matter has been examined in consultation with IBA. It has been found that there was already an industry level agreement with all-India unions under the Bipartite Settlement which covered the main points of Allahabad Bank's agreement of code of conduct. Most Banks had bank-level understanding/agreements with their unions/associations whereby certain commitments were made by both parties i.e., management and unions/associations. For continued sustenance of co-ordial and harmonious industrial relations. Further representations of unions/association in various for a render a feeling of involvement/participation of the employees in the functioning of the Bank and serves as a motivating force.

[Ministry of Finance, (Banking Division), O.M. No. 15/3/88-Coord, Dated 20-12-1988.]

### **Recommendation Sl. No. 11 (Para No. 1.60)**

The Committee are unhappy to note that the Ministry is not monitoring the shortfall/backlog in the training facilities for public sector bank officers/staff in terms of the number of training institutions, their annual intake and relevant courses available for officers and staff separately. However, from the material placed before them, the Committee are convinced that the backlog of untrained employees especially at clerical level and shortage of training institutions/centres for them are still considerable. As the quality of customer service is by and large conditioned by the attitude of clerical staff manning the bank counters, the Committee strongly recommend that the Standing Committee of the RBI should take greater interest in augmenting the training programmes, and institutions made available for the clerical staff of public sector banks with a view to expose the staff to better working and management techniques on a time bound basis. The Committee also recommend that besides initial training courses, refresher course at suitable intervals should be devised for all categories of Bank employees, to update their skills and improve the quality of service.

### Reply of Government

The coverage, quality and content of training programmes in banks are overseen by the Standing Coordination Committee on Training in the Reserve Bank of India. Duplication of the Committee's work at Ministry level are, therefore, considered not necessary.

Recommendations of the Committee on creation of training facilities and exposure of bank employees to periodical training programmes have been brought to the notice of RBI for consideration and implementation by the Standing Committee on training.

[Ministry of Finance, (Banking Division), O.M. No. 15/3/88-Coord, Dated 20-12-1988.]

### Recommendation Sl. No. 12 (Para No. 1.64)

The Committee regret that the recommendation of working group on customer services relating to promotion policies of banks is still "required to be discussed with its employees" by the Dena Bank; and State Bank of Indore is still "examining the recommendation for implementation." The Committee would like that these two public sector banks should be asked to implement the recommendation without any further delay.

### Reply of Government

State Bank of Indore/Dena Bank have already been advised by Reserve Bank of India to implement the recommendation of the Committee.

[Ministry of Finance, (Banking Division), O.M. No. 15/3/88-Coord, dated 20-12-1988.]

### Recommendation Sl. No. 13 (Para No. 1.65)

The Committee note the Ministry's reply that public sector banks "have included customer service/public relation as one of the parametres for judging the performance of their executives". The Committee wonder why the parametre has been fixed for bank executives only. The Committee recommend that the parametre of customer service for evaluating performance should be fixed for clerical staff also as it is they who are directly exposed to the customers and provide customer image of the banking services. The Committee therefore desire the Ministry to initiate appropriate measures in this regard.

### Reply of Government

Service Conditions of Clerial Staff are governed by bank level as well as industry level settlement/agreements. However, the re-

commendation made by the Committee is being considered in consultation with the Indian Bank's Association.

[Ministry of Finance, (Banking Division) O.M. No. 15/3/88-Coord, Dated 20-12-1988.]

#### **Recommendation Sl. No. 14 (Para No. 2.6)**

The Committee regret to note that more than a decade has passed after the Working Group on Customer Service submitted its final report in 1977, and still all the 121 recommendations finally accepted by the Government have been implemented by only 7 out of the 28 public sector banks and the remaining 21 banks have so far implemented only 108 to 119 of the recommendations. Since the primary function of banks is provision of customer oriented services to the satisfaction of customers, the Committee expect the Reserve Bank of India to monitor their implementation more vigorously. The Committee feel that actual implementation should be accorded a very high priority during inspections and on-the-spot visits to public sector banks and the branches of banks found dilly dallying in the implementation of any of the recommendations accepted by Government should be brought to the notice of competent authorities in the Bank as well as the Ministry so that appropriate action can be taken to bring round recalcitrant banks to implement the recommendations.

#### **Reply of Government**

Reserve Bank is monitoring the implementation of Talwar Committee recommendations. To make it more effective it has been decided that Inspecting Officers of RBI would now look into these aspects during the course of their inspection of the banks. RBI is once again reiterating its directions to all public sector banks to implement the recommendations of the working group effectively.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

#### **Recommendation Sl. No. 16 (Para No. 2.23)**

The Committee feel that even if an upward revision of service charges had become due in 1985 "after about a decade", the hike could have been a little more rational and less harsh. The Committee recommend that the new Costing Committee should have a fresh look into the service charges raised in 1985, taking into account the amount spent on the concessions granted to bank employees, the element of service expenditure that goes to determine the difference between borrowing and lending rates of banks and the problem of bank customers with regard to specific service charges.

### Reply of the Government

The observations of the Estimates Committee have been forwarded to Indian Banks' Association for referring the matter to its Committee on Costing and Pricing. There does not, however, appear to be any scope for reduction of the charges in view of general increase in the price and increasing operational costs of banks and lowering of interest rates on some of the advances.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

#### Recommendation No. 17 (Para No. 2.24)

With regard to remittances through Drafts, MTs and TTs, the Committee agree in principle with the Ministry's rationale behind the revised charges being at the lowest level, lesser than the cost, and at higher than the cost. The committee, however, feel the present hike should not have led to the peculiar situation wherein it is wiser for a customer to purchase 20 DD's of Rs. 5000/- each against a DD for Rs. one lakh, to minimise the bank charges. The Committee therefore recommend the need for a review of these charges afresh, as the nature of service to be rendered for all DD's, MTs, etc., irrespective of the amount, is uniform.

### Reply of the Government

The Committee set up by Indian Banks' Association on Costing of Banks Services in 1987 considered the relative merits and demerits of the slab basis and percentage basis of recovery of service charges. The Committee was in favour of adopting the slab basis in view of the same being simpler, more easily varifiable and provide no room for undesirable practices. It is true that the one of the shortcomings of the slab system is that where the rate of recovery varies depending upon the slabs to provide for cross subsidisation, it would be possible to circumvent the stipulation of higher rate by breaking the transactions into several ones. The Committee, however, after taking into account such factors felt that these practices would disappear on their own in the long run on account of the operational inconveniences. The Committee therefore, recommended that the slab system of scheduling the charges should continue. However, the observations of the Estimates Committee have been forwarded to IBA for referreing the same to the Committee on Costing and Pricing for examination and for taking further necessary action.

[Ministry of Finance (Banking Division) O.M.No.15/3/88-Coord dated 20-12-1988]

#### Recommendation Sl. No. 18 (Para No. 2.25)

In view of the fact that banking instruments are transmitted actually in bulk the postal tariff now charged by the banks, especially

for ordinary post and telegrams, appears to be on the high side even taking into consideration the reasons advanced by the Ministry justifying their increase. The Committee recommend that the new costing Committee should also review present postal tariff charged by the banks.

### **Reply of the Government**

The observations of the Estimates Committee have been brought to the notice of Indian Banks' Association for referring the matter to its Committee on Costing and Pricing. It is, however, reiterated that insistence on banks charging the precise cost of envelope and registration charges would preclude banks adopting costlier but faster means of transmission of documents—like say using special courier services.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord. dated 20-12-1988.

### **Recommendation Sl. No. 19 (Para No. 2.26)**

Though the Committee agree with the need for standardisation and uniform adoption of folio Charges by public sector banks, the Committee feel that the parties having heavy and numerous transactions have been put in a disadvantageous position. The Committee not in this regard that as per information "available with RBI" 13 of 21 foreign banks do not levy folio charges in India or home country while folio charges of some of the other banks are more moderate than the revised rates of public sector banks. The Committee find no justification for folio charges, because the very basic function of banks is to transact business of customers and folio charges should be considered normal expenses of the banks and not of special nature to be charged extra.

### **Reply of The Government**

The observations of the Estimates Committee have been forwarded to Indian Banks' Association for referring the matter to its Committee on Costing and Pricing. It may, however, be mentioned that it would not be appropriate to compare public sector banks and foreign banks on a segmented basis. There are very basic differences between the two in terms of their size and spread, resource structure, clientele, types of advances, average return on advances and so on. In a segmented comparison, the service of foreign banks may, therefore, give an illusory impression of being more economical. Secondly, the folio charges prescribed are related to both, the volume of transaction and balances maintained. An account in which there is only large volume of transactions and little balances is definitely costlier to a bank than another account with low volume of transactions and large balances. As commercial institutions, therefore, there is nothing wrong in the banks

asking the former type of account holder to pay towards the additional cost of large number of transactions. Unless such rationalisation of costing is encouraged, the burden of Cost will get spread over all the customers which is inequitous for customers using banks mainly for keeping their savings. Besides, account holders having large volume of turnover are business organisations where bank charges are admissible business expenditures. Subsidising them at the cost of small/low turnover account holders will be contrary to the principles of Cross-subsidisation in an organisation oriented towards the benefit the small and the poor.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord. dated 20-12-1988]

#### **Recommendation Sl. No. 20 (Para No. 2.33)**

The finding of the Banking Division of the Ministry itself that some of the bank branches do not display the time norms indicates that the public sector banks does not take the norms with as much seriousness as with which they had been evolved. Even though the display of and compliance with the time norms is stated to be checked by Regional Managers and Inspectors on their visits to the Branches, there have been persistent complaints from prominent segments of bank customers that the norms are not being displayed and adhered to by most of the public sector banks. The onus for displaying of and complying with the norms is stated to rest with the branch managers. The Committee, therefore, feel that more effective measures should be taken by the banks to ensure display of time norms in all the branches and both the Branch Manager and Counter Staff should be held personally responsible for adherence to the time norms.

#### **Reply of the Government**

The Government are broadly in agreement with the views expressed by the Committee. Keeping in view observations of the Estimates Committee, instructions have been reiterated to all the banks indicating that the branches should display the time norms and comply with the same and the Branch Manager and the Counter Staff should be held personally responsible for any lapse in this regard.

[Ministry of Finance (Banking Division)U.O. No. 15/3/88-Coord dated 20-12-1988.]

#### **Recommendation Sl. No. 21 (Para No. 2.34)**

The NIBM study on remittance services indicates that while 20 % to 30 % customers were non-committal, 5 % to 14 % of customers were explicitly dissatisfied with these services in public sector banks. the Committee are of the view that customers who chose to be non-committal in the study, did

have some reservations on the quality of these services but did not opt to comment due to some inexplicit reasons. In any case the Committee do not think that this percentage of customers can be construed to be satisfied with the service simply because they did not express dissatisfaction explicitly. The delay in remittances through DD and MT in rural and urban areas (except metropolitan and big cities) has been attributed to the Banks dependence on Post and Telegraphs Department. Based on their personal experience the Committee have, however, reasons to believe that the despatch branches in the banks themselves tend to delay despatch of letters. The Ministry having conceded deficiency in the area of remittance services in all areas, the Committee strongly recommend that banks must in the first instance, have control over its despatch wing and Courier Services and other faster means of remittance can also be introduced by banks, if it can be established that delays are actually with the Posts and Telegraphs Department. The Committee also recommend that identified cases of delay may be taken up with Department of Posts for appropriate action.

### Reply of the Government

The public sector banks have been advised as recommended by the Committee to look into the procedures adopted by them in their despatch wing and ensure that there is no delay in despatch of communications particularly in the matter of remittances of funds to their clients. For improving the speed of transmission of funds banks are enlarging the coverage of courier service so that more cities and towns can have speedier transmission of instruments. With the Computerisation of clearing houses and also setting up of national clearing cells by Reserve Bank of India, it is expected that there would be speedier clearance of cheques and other instruments between large metropolitan towns.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88- Coord., dated 20-12-1988.]

### Recommendation Sl. No. 22 (Para No. 2.35)

The Committee is very much concerned to note that certain public sector banks in some places refuse, to render certain basic banking services like (a) issuance of Demand Drafts against Cash; (b) acceptance of soiled notes from public; (c) acceptance of Advance Tax Payments, through authorised by the Reserve Bank of India etc. The Committee feel that such instances are not confined to one or two places alone but are also prevalent elsewhere. The Committee recommend identification of pockets where such maladies are in existence for taking positive measures to curb them. The Committee also recommend that branch/office managers should be held personally responsible for denial of such basic banking services to their customers



and suitably instructions/directives should be issued in this regard by the Reserve Bank of India and compliance with the instructions ensured through inspections by the Reserve Bank of India and Banks themselves.

### **Reply of the Government**

Instructions have already been issued by Reserve Bank of India to the banks regarding issue of demand drafts against cash and also in the matter of acceptance soiled notes from public. Arrangements regarding advance payment of tax are also announced by RBI. Branch Manager is responsible to ensure that proper services are available to customers at his branch. Whenever specific complaints are received in this regard, the same are looked into and action taken wherever lapses are noticed.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988].

### **Recommendation Sl. No. 23 (Para No. 2.43)**

The Committee note that inspite of instructions issued by Reserve Bank of India to public sector banks in July 1987 for not insisting on succession certificates where the amount to the credit of the deceased depositor does not exceed Rs. 25000 and to observe the usual safeguards in settling such claims including obtaining indemnity bond wherever required, a very large number of instances have come to the notice of the Committee during their tours where these instructions are being followed more in breach than in practice. The Committee would like these instructions to be observed in letter and spirit so that the nominees/legal heirs of the deceased depositors do not feel harassed. Adequate discretionary powers should be vested in Branch Managers to achieve this end.

### **Reply of the Government**

Instructions in this regard have been issued by RBI only in July 1987. So far no feed back about compliance of these instructions has been received by the Government. However, keeping in view the recommendations of the Committee, the public sector banks have again been advised by the Government to observe the instructions of Reserve Bank of India in letter and spirit and also adequate discretion should be made available to the Branch Manager for this purpose.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988.]

### **Recommendation Sl. No. 25 (Para No. 2.51)**

The Committee are distressed to note that recent RBI survey has revealed on improvement in the matter of compliance of Reserve

Bank's instructions to Banks for granting immediate credit of outstation cheques for the value not exceeding Rs. 2500 and payment of interest for delayed collection beyond 14 days where the amount involved is more than Rs. 2500. During evidence Banking Secretary admitted that the customer is neither aware nor told that he is entitled to interest on collection delayed beyond 14 days. Now that the Chief executive of Banks have been advised to fix responsibility for non-implementation of these instructions on Zonal/Regional Managers and to take action against Branch Managers also the Committee hope that compliance of these instructions by Banks would be regularly assessed and ensured through periodic sample surveys, on the spot visits of branches by RBI Executives and special Inspection by the Banking Division of the Ministry. The Committee also feel that provision of timely credit and affording of interest are legitimate matters of account and not mere administrative instructions and hence recommend that the auditors, both internal and statutory, are instructed to bring to notice, cases of violation in their reports to management.

### **Reply of the Government**

Government too have been concerned about the slow acceptance of the measures at the ground level in the banking system and have impressed upon top management of the bank that action should be taken for non-compliance of the instructions. The banks have also been advised to have separate registers for outstation cheques of Rs. 2500 or less so that these are specifically watched by the branch managers and internal inspectors. The general assessment now is that the implementation of the measure has improved.

2. As regards the suggestion that the Statutory Auditors should be instructed to look into these aspects also, it is submitted that the role of the Statutory Auditors is different from that of internal inspectors of the Bank and RBI inspectors. Basically, a Statutory Auditor would not extend his scrutiny to areas outside the purview of annual account which are required to be certified by them under the relevant statutes under which they are appointed. Therefore, the issues like immediate credit of outstation cheques, payment of interest for delayed collection, etc., are operational matters of internal nature of banks which need to be monitored by the banks themselves.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988.]

### **Recommendation Sl. No. 26 (Para No. 2.57)**

The Committee note the Ministry's contention that introduction of Teller System in a bank branch is operational decision and Teller System normally works out favourably only in cases of large branches where small payments predominate and the volume of transactions is heavy enough to create delays if handled in conventional manner.

From the data supplied by the Ministry with regard to the number of branches of each bank where Teller System has been introduced it appears that several banks functioning in same areas under similar circumstances have not introduced the teller system, though others have introduced the system. The Committee therefore would like the Ministry/Reserve Bank of India/Indian Banks' Association to conduct a study of larger branches of these bank with a view to examine the feasibility of extending the Teller System in as many branches as possible and in any case, in all branches of all banks functioning in similar conditions in same areas.

### **Reply of the Government**

In terms of the recommendation of the Working Group on Customer Service teller is to be introduced in branches where the workload warrants. Banks have been specifically advised by the Reserve Bank of India in this regard. However, introduction of teller system being an operational decision it is felt that the matter be best left to the discretion of the individual bank. The observation of the Committee have, however, been brought to the notice of the banks and they have been advised to examine the need for Teller System as soon as a branch becomes a very large branch (VLB).

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988.]

### **Recommendation Sl. No. 27 (Para No. 2.60)**

The Committee note that all public sector banks have issued instructions to their branches to implement the recommendation of the Working Group on Customer Service (1977) that transfer of account from one bank to another should be effected by handing over the transfer documents in a sealed cover to the customer himself to enable him to get his account opened at new place/branch immediately on reaching there. During visits of the Committee to various bank branches, the Committee have come to know that the instructions are not, in practice, being followed by the banks. The Committee, therefore, would like strict compliance with the aforesaid instructions by the bank branches.

### **Reply of the Government**

Reserve Bank of India have informed that the banks have advised having implemented the above recommendation of the Working Group on Customer Service. However, RBI is once again reiterating its instructions in this regard to all public sector banks.

[Ministry of Finance, (Banking Division) O.M. No. 15/3/88-Coord., dt. 20-12-1988.]

### **Recommendation Sl. No. 30 (Para No. 2. 75)**

The Committee note that out of 28 public sector banks, 22 have been entrusted with and have actually undertaken the payment of pension to Central/State Governments pensioners and of the remaining six banks nationalised in 1980, 3 banks namely Vijaya Bank, Corporation Bank and Andhra Bank have actually undertaken payment of pension to State Govt. pensioners only. As the other 3 banks namely Oriental Bank of Commerce, Punjab and Sind Bank and New Bank of India have not so far been entrusted with payment of pension to either Central or State Government pensioners, the Committee recommend that the Ministry should arrange to do so as early as possible to provide the facility to pensioners in the areas in which these Banks cater.

### **Reply of Government**

With effect from 1st April, 1988 all 28 public sector banks have actually undertaken pension payment to Central Government pensioners. As regards entrustment of pension payment of State Government pensioners to the Oriental Bank of Commerce, Punjab and Sind Bank and New Bank of India, the State Government concerned have to initiate suitable steps and they are being approached by Reserve Bank of India to do the needful.

[Ministry of Finance, Banking Division O.M. No. 15/3/88-Coord., dated 20-12-1988.]

### **Recommendation Sl. No. 31 (Para No. 2. 76)**

The Committee are, however, distressed to note that some State Governments/Union Territories Administrations like Assam, Chandigarh, Delhi, Jammu and Kashmir, Sikkim, Arunachal Pradesh, Mizoram, Maharashtra and Tamil Nadu have not so far adopted the scheme of payment of pensions through public sector banks. The Committee are not able to realise the difficulties in Union Territories like Delhi for adopting the scheme. The Committee recommend that more vigorous efforts should be made by the Government and Reserve Bank of India in persuading the aforesaid State/Union Territory Governments to opt for the scheme as early as possible for convenience of their pensioners.

### **Reply of Government**

Pension payment to pensioners of Delhi, Chandigarh, Dadra and Nagar Haveli, Andaman and Nicobar Islands and Lakshadweep Union Territories is already covered by the scheme for payment of pension to Central Government civil pensioners through public sector banks introduced by the Ministry of Finance, Office of the Controller General of Accounts.

As regards other States the State of Maharashtra, Assam, Tamil Nadu and Manipur are actively considering the proposal to implement the scheme and the work of implementation of the scheme is at the final stage. The remaining States, viz. West Bengal (for their pensioners drawing pension outside the metropolitan city of Calcutta), Jammu & Kashmir, Sikkim, Mizoram and Arunachal Pradesh have been approached by Reserve Bank of India regarding introduction of the scheme in their respective States.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988.]

### **Recommendation Sl. No. 32 (Para No. 2.81)**

Taking note of the widespread public demand for locker facility vis-a-vis the limited installed capacity therefor in public sector banks, the Committee feel that the banks should come in a big way to meet the needs of the public for lockers, not as a case of business proposition, but as a service to the Community at large. For this purpose, the banks should make a systematic assessment of the total demand for locker facility in the country in relation to the installed capacity in public sector banks and on the basis thereof prepare a scheme for augmenting the installed locker facility in the banks in a phased manner.

The Committee also recommend that the guidelines for hiring of lockers viz. 80% of lockers to be hired on first come first served basis, should be firmly implemented.

### **Reply of the Government**

Reserve Bank of India has reported that it is reiterating its instructions issued in March 1984 in the matter of safe deposit locker facility by public sector banks with a view to ensure strict compliance of the same. Regarding the suggestion that the banks should make systematic assessment of total demand for the locker facility in the country, RBI is proposing to take up the matter with IBA with the request to make an assessment of total demand and supply and preparation of a scheme for expanding the capacity under a time bound programme.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord. dated 20-12-1988.]

### **Recommendation Sl. No. 36 (Para No. 3.8)**

The Committee further recommend that the Joint Publicity Committee and the individual Banks should lean more heavily on the medium of regional languages in the matter of publicity and customer education through publication of brochures, booking of advertisements in printed and electronic media and through exhibitions etc.

### Reply of the Government

This has been the approach advised to all public sector banks by Government. However, observations of the Committee are again being brought to the notice of all banks by Reserve Bank of India.

[Ministry of Finance, (Banking Division) O.M. No. 15/3/88-Coord. dated the 20-12-1988.]

### Recommendation Sl. No. 39 (Para No. 3.20)

The Committee note that though Ministry had reported implementation of the Working Groups' recommendation Nos. 168 and 169 for providing complaint Boxes and Registers in each Branch, by all the banks, it has found during the 1986 Review that "in some branches complaint boxes were not maintained nor were the addresses of Regional/Zonal Managers available to whom customers could appeal displayed." Instructions are stated to have been issued after the Review to all the banks to organise a system of inspection to ensure the implementation of all customer service measures including provision of complaint boxes and registers in each branch.. The Committee recommend that provision of complaint Boxes and registers in branches should be ensured by surprise inspection by senior officers and appropriate follow-up action taken.

### Reply of the Government

Instructions have already been issued to the banks to organise a system of inspection by senior officers to ensure implementation of all customers service measures by the branches and to put up to their boards regularly findings of such inspection. Govt. have reiterated these instructions again in the light of the recommendations of the Estimates Committee.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord. dated 20-12-1988.]

### Recommendation Sl. No. 40 (Para No. 3.26)

The Committee trust that Customer Service Committees have been actually set up in all the branches of public sector banks as claimed by the Ministry. The Committee hope that these Committees would meet at least once a month as stipulated in the Report of the Working Group to take stock of the Customers' complaints and suggestions for follow up action. The Committee also feel that customers should be associated with the customer service Committees, as far as possible, in all the Branches of public sector bank with a view to make the Committees more vibrant and meaningful.

### **Reply of the Government**

The Customer Service Committees are basically branch level internal committees which are expected to deliberate on internal procedures with a view to improving customer service. Customers may not have anything to say on these while their presence may inhibit a free discussion. Therefore, as a regular measure association of Customers with Customer Service Committees is not considered feasible or advantageous. However, whenever customers have given suggestions for improvement for any clarification or better application of the same, Customers could be invited. Public Sector banks are being advised on these lines.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

### **Recommendation Sl. No. 41 (Para No. 3.37)**

The observation that the representation of customers at the monthly interface with Bank Executives on 15th of every month had now almost 'dwindled to nil' in all banks, shows that the system over a period of time has become stale, bit too fast and fails to be a productive exercise. The Committee also do not expect that customers who deal with banks, for encashment of cheques, purchase of DD, MT, TT etc. and such other functions, would find it convenient to come out of their avocations and meet the bank officials on the prescribed date. On the other hand, Committee feel that the meet can be made meaningful if a cross section of customers, selected at random is invited periodically to express their views on banks' services. The Committee hence recommend that feasibility to substituting present practice by a more meaningful utilitarian system may be explored and appropriate action taken.

### **Reply of the Government**

The recommendation of the Committee is accepted. It is proposed that while observing 15th of every month as 'Customer Day' the banks also call the meetings of Customer Service Committees wherein customers who have made suggestion for improvement/modification of procedures etc. could be invited on selective basis. These suggestions should however be with specific reference to improvement in the systems and procedures obtaining in the Branch so that better customer service could be rendered. Necessary instructions to banks have accordingly been issued.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88 -Coord, dated 20-12-1988.]

### **Recommendation (Sl. No. 42 (Para No. 3.38)**

The Committee are of the firm view that Bank Executives meeting with the representatives of trade and industry should be held at regular

intervals, say quarterly at Head Office level and at Banks' initiative with a view to personally assess customers grievances and suggestions. The Committee further recommend that while priority should be accorded by the Bank Executive in these meetings to discuss problems peculiar to various segments of trade and industry, their representatives should not be barred from raising the customers bonafide individual grievances also for their amelioration. If need be, customers having specific problems, can be invited for a separate meeting so that he can be properly counselled.

### **Reply of the Government**

The recommendation of the Committee is accepted and instructions to the banks have been issued accordingly.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

### **Recommendation Sl. No. 43 (Para No. 3.40)**

The Committee note that Chief Executives/Senior Officers of public sector banks visit rural branches "frequently" to assess the quality of service rendered by banks in these areas and that rural branches have been "advised to observe one day in a week as non-public business day to facilitate the branch managers to have personal contacts with customers to ascertain their grievances." The Committee recommend that the intended visits of the senior officials should be made known to the public through a notice board at the bank and the senior officials should assign specified time for the rural public to call on them and voice their grievances if any. The Committee also recommend that safeguards should be initiated by the Chief Executives of Banks to ensure that the advice is actually implemented by all their rural branches in letter and spirit.

### **Reply of the Government**

The recommendation of the Committee is accepted. It is proposed that the internal visits of Senior Officers of the rank of Zonal Manager and above to the rural branches would be made known to the public through a notice board at the bank branch and specific time would be assigned by these Senior Officers for the rural public to call on them and voice their grievances. Instructions to the banks in this regard have been issued accordingly.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

### **Recommendation Sl. No. 44 (Para No. 4.12)**

The Committee are gravely concerned with the losses which amounted to about Rs. 13.91 crores (excluding gold ornaments,



cheques etc.) incurred by Public Sector Banks as a result of dacoities/robberies from 1982 to the end of June 1987. They also consider the Ministry's contention that the Banks might not have to bear the entire losses involved in the dacoities/robberies as "some of the amount might be recovered by the police", or they "might be able to recover part or full amount from Insurance Companies" as unfortunate. It is needless to point out that such contentions only help the Banks becoming more complacent and discourage them in making adequate and tight security arrangements in the branches.

### **Government's Reply**

The Committee's concern has been noted. Government are equally concerned about losses caused by bank robberies/dacoities and have, therefore, been insisting with the Banks for improving their security arrangements in a phased and cost-effective manner. RBI is also monitoring the implementation of the security guidelines by banks on regular basis.

[Ministry of Finance (Banking Division), O.M. No. 15/3/88-Coord, dated 20-12-1988.]

### **Recommendation Sl. No. 45 (Para No. 4.13)**

The Committee note that the Ministry, Reserve Bank of India and the Banks have constituted a number of Expert Committees over the years for considering ways and means of strengthening security arrangements in Banks and guidelines based on the findings of such Committees have been issued from time to time to the Banks. However, in view of the fact that the amount involved in the Bank dacoities/robberies have rapidly increased from year to year, the Committee can not help concluding that the guidelines have not been followed by the Banks in letter and spirit. The Committee expect all the Banks to follow strictly these guidelines and in case any thefts, dacoities still occur in the branches, the compliance or otherwise thereof by the affected Branches should be critically analysed and responsibility fixed apart from taking such other action as may be deemed necessary. The Committee would also like the Reserve Bank of India to conduct regular security inspection of the Banks by specially trained Inspectors with a view to ensure that the security arrangements are fool-proof in the branches in view of the everchanging circumstances.

### **Government's Reply**

(a) Committee's recommendation that "the Banks should follow strictly these guidelines and in case any thefts, dacoities still occur in the branches, the compliance or otherwise thereof by the affected branches should be critically analysed and responsibility fixed....." is noted and Reserve Bank of India is issuing instructions to all public

sector banks to set-up necessary procedures in banks for ensuring that this recommendation is followed.

(b) The Committee's recommendation that Reserve Bank of India should conduct a security inspection will be examined in depth.

(c) On the basis of Dr. Ojha Committee Report Security Planning Cell has been set up at Reserve Bank of India, Central Office, under the charge of a Special Security Adviser. State Level Security Committees have also been set up at all State Capitals with the Manager, Reserve Bank of India, Local Office as its convenor and Currency Officer, representatives of DBOD, Police Department and State Government are members of these Committees. These Committees review and discuss the security problems in the State and suggest remedial measures. The functioning of these Committees is monitored by the Security Planning Cell. Reports of robberies/dacoities are also being received by the Security Planning Cell and these are analysed for their modus operandi and if considered necessary, the matter is taken for follow-up of these cases with the Police Department.

[Ministry of Finance (Banking Division), O.M. No. 15/3/88-Coord., Dated 20-12-1988.]

#### **Recommendation Sl. No. 46 (Para No. 4.16)**

The Committee are concerned to note that while a majority of the States issue licences for guns etc. only against the individual names of Branch Managers of banks causing difficulties to banks on change of incumbency, only one State on request by Banks, issues licences to branch manager by designation. It is understood that a few other States have also since agreed to issue the licences by designation instead of in the names of branch Managers. The Committee recommended that the legal position in this regard may be so revised if necessary, so as to ensure that the existing problems in the issuance of licences when there are changes in incumbency of the officer are obviated.

#### **Government's Reply**

In regard to this recommendation Ministry of Home Affairs have already issued instructions to the Chief Secretaries of all States vide order No. V-11013/2/87-Arms dated 8 December 1987. Compliance with the order with reference to the specific complaints will be monitored by the State Level Security Committees constituted recently in each State.

[Ministry of Finance, (Banking Division) O.M. No. 15/3/88-Coord., Dated 20-12-1988.]

**Recommendation Sl. No. 47 (Para No. 4.17)**

The Committee further note that the time taken by State Governments in issuing licences varies from State to State but on the whole is excessive. The question of obviating the delay is stated to have been taken up by the Ministry of Finance with the Ministry of Home Affairs. The Committee recommend that pending amendment to existing legal provisions a suitable working arrangement may be arrived at to tide over the present bottlenecks.

**Government's Reply**

Nodal Officers will be instructed to take up the question of expediting licensing procedures with their counterparts in the State Governments with review to evolving suitable working arrangements.

[Ministry of Finance (Banking Division), O.M. No. 15/3/88-Coord, Dated 20-12-1988.]

**Recommendation Sl. No. 48 (Para No. 4.23)**

The Committee find that the idea of setting up of a separate security force for banks, on the lines of Central Industrial Security force, did not find favour with various committees which went into this question from time to time. The committee, therefore, suggest that each public sector bank should revamp and augment its own security staff on an adequate level so that it is not dependent on other paramilitary organisations except in case of currency chest branches and branches in disturbed areas. The Committee also suggest that the Security Planning Cell of the Reserve Bank of India should draw up a time bound plan for revamping and augmenting both in number and quality the security staff of each public sector bank and stringently monitor its implementation by the individual banks.

**Government's Reply**

Committee's observation is noted and necessary action is being taken to review the organisations and strength of the security staff. However, it is reiterated that the responsibility for law and order and security vests on the State Governments. Whatever measures the Banks took would have to be cost effective.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord, dated 20-12-1988.]

**Recommendation Sl. No. 49 (Para No. 4.27)**

The Committee are unhappy to note that even though the High Power Committee on Security arrangements in banks had in their

report in 1983 recommended that the banks in consultation with RBI should explore the avenues of promotion for bank guards, the Reserve Bank is still only "contemplating" to set up a working group to look into service conditions of security personnel in banks. The Committee urge that the Reserve Bank should set up the working Group without any further loss of time for exploring better avenues for career growth of the security staff, so that necessary incentives and motivation could be provided to them for performing their duties more efficiently.

### **GOVERNMENT'S REPLY**

Committee's observation is noted and necessary action is being taken.

[Ministry of Finance (Banking Division), O.M. No. 15/3/88-(Coord, dated 20-12-1988.)]

#### **Recommendation Sl. No. 51 (Para No. 5.13)**

Two of the contributory causes for non-detection of frauds have been stated to be delay in settlement of inter-office transactions and in balancing of books. While in respect of inter-office transactions, it is reported that outstandings have come down from 408.71 lakh items for a value of Rs. 321701.72 crores in 1985 to 251.51 lakh items for a values of Rs. 195693.94 crores in 1985, arrears in balancing of books have also been reported to have come down from 7232 branches in December, 1985 to 3531 branches in June, 1987. The Committee note in this connection that value of arrears was only Rs. 168565.26 crores in 1983 which has unfortunately shot up substantially later. In the circumstances, there can be no escape from the conclusion that the extent of arrears has piled up and position has deteriorated. The Committee need hardly recommend that a time bound programme will have to be chalked out for clearing the arrears in these fields.

#### **Reply of the Government**

RBI has been impressing upon Banks from time to time the importance of prompt reconciliation of entries in inter-branch account and urging them to initiate effective and concerted measures to keep this work up-to-date by streamlining their systems in this regard. The progress made by the Banks is being monitored on a quarterly basis during the Action Plan discussions held by the Governor of RBI with the Chairman of the Public Sector Banks and there has been considerable and steady improvement in this regard. The position regarding balancing of books is also being reviewed on quarterly basis during the action plan discussions by the Governor with the Chairman of Public Sector Banks. The banks have been advised to bring about

improvement by deploying special squads to complete the task with a time-bound programme. We have also reiterated to banks the need in particular for closely monitoring the difficult branches and regions for the purpose.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord,  
dated 20-12-1988.]

### **Recommendation Sl. No. 52 (Para No. 5.14)**

In so far as arrears in reconciliation of inter-office transactions and balancing of books of branches are concerned, the Committee recommend that steps should be taken to ensure that under no circumstances, fresh arrear are allowed to accumulate before the accounts for the year are certified by the statutory auditors and for this purpose, periodical reconciliation system may be enforced and progress monitored and guided from the highest level.

### **Government's Reply**

Reserve Bank of India and Government have been impressing upon the banks from time to time the need for timely balancing of books and speedy reconciliation of inter-branch accounts. The banks have been advised to make effective and sustained efforts to keep these areas of work upto date by taking all possible steps including streamlining of their systems and procedures, continual monitoring of arrear position, switching over from manual system of clearance to advanced modern scientific system of mechanisation/computerisation wherever possible and also by deploying special squads for liquidation of old arrears in a time-bound programme. The Committee's observations have also been brought to the notice of the Chief Executives of Public Sector Banks. Government have impressed upon the Chief Executives of banks the immediate need for taking necessary steps for clearing the old outstanding arrears in a time frame as quickly as possible and to ensure that no arrears are allowed to accumulate in future so as to bring the position upto date with a shortest possible time. The progress made by the banks is closely monitored by Governor, RBI on a quarterly basis during his discussions on the Action Plans with the Chief Executives of Public Sector Banks. The progress is also reviewed by Minister of State for Finance/Finance Minister in his quarterly meetings with the Chief Executives of Public Sector Banks.

As a result of continued emphasis given by Government/Reserve Bank of India to these areas of house-keeping, various steps as indicated above have been taken/are being taken by the banks to liquidate the arrears in a time frame and there has been considerable improvement in this regard.

[Ministry of Finance (Banking Division), O.M. No. 15/3/88-Coord,  
Dated 20-12-1988.]

### Recommendation Sl. No. 54 (Para No. 5.32)

The Committee are alarmed at the enormity of frauds being committed year after year in connivance with the bank employees with impunity. They strongly feel that unless all the loopholes in the banking procedure are plugged and scrupulous adherence thereto is ensured there will be no end to this menace. As a first step in the direction, the Committee consider that the cases pending against bank employees for their involvement in the bank frauds should be processed with a sense of urgency and deterrent punishment awarded to such employees, if found guilty. It is really regrettable that in the case of as many as 1139 bank employee involved in frauds, departmental inquiries were still pending at the end of the year 1986. The Committee see no reason why the banks are proceeding with such cases in a lackadaisical manner. The Committee expect the banks concerned to finalise the departmental inquiries without any further loss of time and take up the follow-up action on a priority basis.

### Governments' Reply

This issue has been taken up with the banks number of times both at the Government and Reserve Bank's level. In the meetings of Central Vigilance Officers held from time to time the banks are urged to complete the departmental enquiries with greater speed. Though the banks are already seized of the matter and are taking suitable steps in this direction we will again convey the Committee's concern and advise them to make all out efforts to complete the pending enquiries without further loss of time.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord,  
dated 20-12-1988]

### Recommendation Sl. No. 56 (Para No. 5.34)

The Committee are surprised to be informed that even in the case of a huge fraud to the tune of Rs. 59.85 crores committed as far back as 1983 in the London Branch of the Central Bank of India, final action with regard to the punishment to be awarded to some high officials involved therein is still pending. Even where the punishment has been awarded to some officials, it is of a very minor nature. The Committee consider it a question of moral turpitude on the part of the Bank employees who are involved in Bank frauds and are strongly of the opinion that exemplary punishment should be awarded to such employees irrespective of their status, so that it acts as a deterrent to other employees. The Committee would like the authorities to finalise all these cases without any further loss of time.

### Government's Reply

The case relates to fraud perpetrated in the accounts of M/s. Esal Commodities, M/s. Levenco International Ltd. and M/s. Drup-

lace Ltd. The Scotland Yard Police, London is investigating into the matter. Shri N.M. Valecha the then Chief Manager was dismissed from services after the departmental enquiry. Civil and Criminal suits have been filed against Shri N.M. Valecha and B.R. Patankar, then Branch Managers. The observations of the Estimates Committee will be advised to the banks and they will be urged to finalise cases pending against their officials speedily.

[Ministry of Finance, (Banking Division), O.M. No. 15/3/88-Coord,  
Dated 20-12-1988]

### **Recommendation Sl. No. 57 (Para No. 5.35)**

The Committee take note of the measures taken to check the recurrence of frauds in overseas branches of public sector banks. It has, however, transpired to the Committee during evidence that the banks do not have the benefit of adequate economic intelligence which could fore-warn them against shady developments in their branches, abroad. The Committee, therefore, suggest that the Government should consider the feasibility of developing a suitable apparatus for collecting relevant economic intelligence and for disseminating the same to the banks which have branches/offices abroad so that the possibility of major frauds taking place in such branches could be averted in time.

### **Government's Reply**

As sequel to certain developments during 1983/84 in centres like London, Reserve Bank of India has asked banks to constitute a forum in each of the overseas centres where more than one Indian bank is functioning for exchanging all vital information relating to economic and other business activities particularly with regard to developments in the host country as well as in all other countries to decide country's exposures relating to trade financing and extending sovereign loans etc. An apex body of all the eight public sector banks having overseas branches was constituted at the instance of Reserve Bank of India by the banks themselves named as FIDI (Forum of international divisions of Indian banks) which apart from getting feedback from individual bank and giving information to them, is also preparing several country profiles. RBI officers attend the FIDI meetings as observers. The FIDI will be asked to consider providing any other economic intelligence required for their branches abroad.

Apart from above RBI also as and when it comes across any major instance of fraud having been perpetrated at overseas branches of the banks. issues caution advices to other banks having overseas branches so as to avoid perpetration of such frauds in their overseas branches also.

[Ministry of Finance (Banking Division), O.M. No. 15/3/88-Coord,  
Dated 20-12-1988]

## CHAPTER III

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

#### **Recommendation Sl. No. 2 (Para No. 1.20)**

The Committee, therefore, recommend that appointment of Chief Executives in public sector banks should be planned sufficiently in advance and a scheme of "understudy" officers should be worked out to familiarise the incoming Chief Executive or Executive Director with the functions to be performed by him. Initial appointments should as far as possible, be for the full approved term.

#### **Reply of Government**

Initial appointment of the Chief Executives is normally made for a full term of 5 years subject to the condition that this does not take him beyond the age of superannuation as determined by the Government. As indicated in reply to recommendation No. 1.19, every effort is made to ensure completion of selection process in time so that by the time the vacancy arises, Government is in a position to appoint the Chief Executives. Banks do have systems for familiarising incoming Chairman and Managing Director/Executive Director, if they are from outside the banks concerned, with their overall operations, policies and programmes. Where the whole time Directors are from within the banks no familiarisation is felt necessary. No 'Scheme' as such of 'understudy' officers for familiarising the incoming Chief Executives/Executive Directors with the working of the Banks is considered necessary.

[Ministry of Finance (Banking Division) U.O. No. 15/3/88-Coord.,  
dated 20-12-1988.]

#### **Recommendation Sl. No. 15 (Para No. 2.7)**

The Committee also recommend that as far as possible, the basic requirements to be complied by banks as customer service may be notified in the form of rules and regulations under the relevant Acts.

#### **Reply of the Government**

Banks are financial institutions rendering to their customers a series of financial services. In rendering these services banks have



to act prudently in the interest of the customer and also in its own interest. Therefore, it is not possible to make it a statutory liability of the banks to render specific services. For example, opening of an account of a person is basic service expected of a bank. One may not, however, render this service where the bonafides of the applicant are suspect or where the identity is doubted (benami accounts). According services a statutory status is, thus, not likely to be operationally feasible. Besides, the status of customer service is not merely related to specific items. It depends on its quality which cannot be guaranteed by statutory status. Training and change of attitude towards work and customers are the two critical inputs for improving customer service. These aspects are receiving more attention from the banks.

[Ministry of Finance (Banking Division) O.M. No.15/3/88-Coord., dated 20-12-1988].

### **Recommendation Sl. No. 28 (Para No. 2.64)**

The Committee are surprised to note that the Government/ Reserve Bank of India have introduced MICR cheque technology in banks solely on the basis of operational convenience without bothering to consult Indian Banks Association and prominent associations of bank customers which should have been taken into confidence before altering the structure of such a popular banking instrument as cheque. The Committee are convinced that with the MICR cheque as it is, the customers have been put to immense inconvenience for want of counterfoil, adequacy of space, convenience of posting in postal envelopes and so on. Provision of a page in lieu of the counterfoil at the end of the cheque book is too inconvenient to be of any practical use to the customers. The Committee recommend that Government/ Reserve Bank of India should examine the feasibility of providing counterfoils and adequate space in MICR cheques with a view to provide relief to the banking public from the inconvenience caused by use of these cheques. The Committee are, however, strongly opposed to the cost of cheques being borne by customers who have already been hit by the steep hike in service charges effected by banks in 1985.

### **Reply of Government**

The matter has been examined in consultation with the Reserve Bank of India (RBI). As a part of the modernisation/mechanisation of banking operations, it was decided to introduce MICR Technology for mechanised cheque processing covering local clearing and out-station clearing. The RBI has reported that a decision to do away with the counterfoils of MICR cheque was taken by it with the concurrence of Indian Banks' Association (IBA) and after taking into account the views of the All India Bank Depositors' Association.

Standardisation of cheque forms is a pre-requisite for mechanised cheque processing system. This standardisation requires not only uniformity in size but also the quality of the paper. The MICR cheques have to be printed on paper that stands mechanical stress and enables smooth movement on machine rollers. The Cheques are, therefore, printed on higher value paper and contain magnetic ink which costs more than the traditional cheque. Counter-foil which was available with the traditional cheque book was about 1/3rd of the size of cheque leaf. In view of the increased cost arising from stipulation of higher quality specifications for cheque paper and for printing, provisions of counter-foils would have resulted in higher cost of the cheque books. In India, cheque books are provided to the customers free of cost and the entire cost is to be borne by the banks.

Some customers had expressed unhappiness over the non-availability of counter-foils in the MICR cheque books. The Reserve Bank of India had examined this matter. According to Reserve Bank of India, apart from the cost angle, reintroduction of counter-foils would pose certain difficulties and also lead to wastage of capital investments made by some of the printers. However to mitigate the grievances of general public, provision of 1 or 2 record slips have been made in cheque books for convenience of customers to keep a record of deposits/withdrawals etc. Reserve Bank of India are also of the view that introduction of MICR cheques would facilitate eventual switch over to the practice of issuing cheques in loose leaves which is now followed by several countries. The revised system is expected to offer speedier clearance of cheques, thus benefitting the customers in a long run to a great extent.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988]

#### **Recommendation Sl. No. 29 (Para No. 2.71)**

The Committee note that Income Tax is already being collected at selected branches of State Bank of India and understand that these banks also collect electricity charges in some metropolitan centres like New Delhi. Since the recipients of the respective revenues maintain their cash in the banks only, the feasibility of extending personalised services in a bigger way than at present can be explored by the various banks managements.

#### **Reply of the Government**

An examination of the feasibility of banks taking over the functions of collection of taxes/dues of local authorities was examined with reference to Delhi Administration. It was found that banks cannot undertake this function without creating separate branches

for receipt of taxes/dues as combination of this function with normal branch work would result in deterioration of standards of service to customers. Banks at present perform the collection function for specific undertakings through specific agreements which are based on commercial considerations and careful assessment of workload involved. It may not be desirable to load the banks with numerous non-banking functions.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988.]

#### **Recommendation Sl. No. 33 (Para No. 2.84)**

The Committee note that credit card scheme has been introduced by only 4 Public Sector Banks, namely Andhra Bank, Bank of Baroda, Central Bank of India and Canara Bank. The Ministry's contention that introduction of such a schemes by remaining 24 public sector banks should be left to the discretion and commercial judgement of the individual bank does not carry conviction as many of those banks who have not yet introduced the scheme operate in the same regions and cater to the similar clientele as those catered to by the aforesaid four banks who have introduced the scheme. The Committee therefore, recommend that all the public sector banks which have not introduced the scheme yet should also examine the matter in the light of the peculiar composition of their clientele and pattern of their operations and start credit card scheme as far as practicable.

#### **Reply of the Government**

As per the information available with the Government, so far credit card scheme has been introduced by Andhra Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Vijay Bank and State Bank of India. Allahabad Bank has entered into collaboration with Bank of Baroda for use of latters card by its clientele. Dena Bank has introduced an agricultural credit card for catering to the needs of the farmers. Government are of the view that the scheme of credit cards being essentially a scheme meant for the relatively better of section of banks' clientele and involving canvassing of the cards with shops and establishments for their acceptability, there is no larger public interest involved to justify RBI/Govt's intervention to make all banks issue their own cards and that the public sector banks should be left to their individual commercial judgement to decide in the matter.

[Ministry of Finance (Banking Division) O. M. No. 15/3/88-Coord., dated 20-12-1988.]

#### **Recommendation Sl. No. 37 (Para No. 3.13)**

The Committee agree that the customers service centres which have been started with laudable objectives, can perform only a limited

role in the present system. The Committee, however, feel that the service centres should be looked upon as institutions available for undertaking an overall view on problems of common nature rather than as institutions to redress individual grievances. The Committee hence recommend that the utility and objective of these centres may be reviewed and put on a profitable footing.

### **Reply of the Government**

Customer Service Centres have been established primarily with a view to ensuring that grievances of public against banks are taken note of and expeditious action taken to redress the grievances. The scheme of Customer Service Centres envisages collection of complaints at one central place, distribution of the same amongst the banks and monitoring of disposal of the complaints so received. The Customer Service Centres do look into some of the common issues which are source of the complaints and do suggest remedial measures to the appropriate authorities for guidance and advice. Whether some sort of Coordination Committees of these centres could consider common practices/procedural problems giving rise to customer complaints and make recommendations to RBI/Govt./IBA is being examined. However, the Customer Service Centres have to basically ensure expeditious redressal of grievances. It is not the intention of the Government to alter this basic objective of the Customer Service Centres.

[Ministry of Finance (Banking Division) O. M. No. 15/3/88-Coord., dated 20-12-1988.]

### **Recommendation Sl. No. 38 (Para 3.14)**

The Committee also recommend that the customer services centres can profitably undertake the job of educating the customers on their respective roles in their dealings with the banks in respect of various types of transactions, including credit facilities, by arranging periodical workshops, guidance classes etc. in coordination with local Chambers of Commerce and customer organisations.

### **Reply of the Government**

Loading of Customer Service Centres with a number of extraneous functions is not considered desirable as it is likely to dilute the basic objective for which the customer service centres have been set up and make them spend their energies on functions which need to be performed by the banks through state-level Bankers' meetings etc.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord., dated 20-12-1988.]

## CHAPTER IV

### RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

#### **Recommendation Sl. No. 3 (Para 1.29)**

The Committee commend the branch licensing policy of RBI for the period 1985-90 under which branch expansion in urban and metropolitan areas will continue to be restrictive and new branches will be opened only in unbanked and underbanked pockets, as metropolitan and urban areas are already well banked. The Committee, however, regret that the RBI and public sector banks have not taken any policy decision for pruning, relocating and restructuring branches in the metropolitan/urban areas as suggested by the National Institute of Bank Management on the ground that the demand for banking services in these areas is expected to "go up with improved activities and economic development". The Committee are convinced that there are a number of over banked pockets in metropolitan/urban areas and public sector banks should identify such areas therein and relocate, restructure and prune such branches as suggested by NIBM, to improve efficiency as well as customer services in such branches.

#### **Reply of Government**

The National Institute of Bank Management (NIBM) had conducted a national survey on Savings and Deposit Trends and Patterns at the instance of Indian Bankers Association (IBA). It is presumed that the Committee has this in mind. In its findings, the NIBM has mentioned that "suitable location of bank branches and 'quality of service' offered, are found to be the main criteria for choosing a type of bank by bank savers and as such, while opening new branches in future, both the location and customer service should deserve special attention of banks". Commencing from the 1982-85 branch expansion plan, expansion in Urban and Metropolitan areas has been permitted on selective basis, particularly in under-banked/unbanked pockets in such centres. This policy has been continued for 1985-90 plan period as well. The question of closing of unviable urban/metropolitan branches or shifting them from over-banked areas to under-banked/unbanked pockets was considered by RBI and the banks were advised to make a quick review of such branches in over-banked areas and draw a suitable programme to shift the non-viable branches to other under-banked/unbanked localities. The response received

from the banks indicates that they are not in favour of closing any of the urban/metropolitan loss-making branches at this juncture. However, it has been indicated by banks that they have examined the working of such branches and are initiating time-bound action plan to make such branches viable. It is also likely that with the improved activities and economic development in urban and metropolitan areas, the demand for banking services and consequently business of bank branches in these areas will increase. Moreover, in view of the inconvenience that would be caused to the existing customers of such branches in the event of their closure and other dislocations that would be caused to the business thereby RBI is of the view that any attempts to close/shift the existing branches to reduce the branch concentration, should be considered only as a last resort and on a very selective basis.

[Ministry of Finance (Banking Division) U. O. No. 15/3/88-Coord. dated 20-12-88].

#### **Recommendation Sl. No. 4 (Para No. 1.37)**

The Committee are informed that the productivity norms per employee is at present fixed at Rs. 16.84 lakhs. business per employee. This is not considered adequate and scientific. The Committee recommend that time and motion study for all major functions in a bank should be undertaken and scientific norms for staffing and productivity should be evolved.

#### **Reply of Government**

This recommendation has been examined by Government in consultation with Reserve Bank of India. Government as well as RBI is of the view that a broad and simple implementable criterion of total business, i.e. deposits —advances is considered to be adequate for calculating productivity per employee.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord. dated 20-12-1988].

#### **Recommendation Sl. No. 9 (Para No. 1.42)**

As most of the functions performed in a bank are group functions, the Committee recommend that suitable incentive schemes should be provided to reward staff whose productivity during a specified period is above the average norms laid down.

#### **Reply of Government**

'Productivity / measured by business per employee is a broad & simple criterion and it is practically difficult to work out 'productivity'

of an individual. The concept as such does not include such factor as customers services. Moreover, most of the functions being group functions, it may not be practically feasible to institute any award for individual employees.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88 - Coord. dated 20-12-1988].

### **Recommendation Sl. No. 24 (Para No. 2.44)**

Chairman Indian Bank's Association has admitted during evidence that large amounts of deposits made by account holders who have made no nominations are being held up in banks as dormant accounts which ultimately go to Government and are lost to the legal heirs of depositors. The Committee recommend that as a social service to the family of the deceased, the Banks must intimate the legal heirs at the earliest opportunity with a view to move them to initiate legal measures to get the account of the deceased settled. The Committee recommend that norms of confidentiality should be relaxed and Banking Acts/Regulations amended, if necessary, in this regard.

### **Reply of the Government**

The objective underlying the Committee's recommendation that balances of deceased people should not be lost to their heirs is unexceptionable. Efforts have been made during the recent past to ensure that deceased accounts' balances are disbursed to successors/nominees. Problems become complex when the customers change addresses without informing the banks which prevent them from checking up the reasons for a dormant account.

2. The Committee's suggestion has been examined in consultation with the Legal Department of RBI. The advice is that a banker cannot disclose about its customer's accounts except where disclosure is by the compulsion of law or where there is a duty to the public to disclose or where interest of the banks requires disclosure or where the disclosure is made by the express or implied consent of the customer. A view is held that duty of secrecy continues even after the customer's death.

3. However, keeping in view the need to resolve the problem RBI has been advised to examine again the feasibility of (a) taking from each customer an undertaking that information about the number, name of the account, address of the account holder, branch where it is held etc, may be published in a local newspaper if the account remains inoperative for one year or after maturity remains without instructions for one year or (b) giving to banks the authority to publish the above information on dormant account before transferring them to RBI.

[Ministry of Finance (Banking Division) U.O. No. 15/3/88 - Coord. dated 20-12-1988].

**Recommendation Sl. No. 34 (Para No. 2.91)**

Notwithstanding the detailed procedures evolved for scrutiny, sanction or rejection of loan applications, the Committee have received several complaints on delays and irregularities in bank's functioning in processing of loan applications, not only in regard to loans in industries in normal credit areas but also in regard to loans in priority sector. The Committee realise that the complaints could be in some cases due to individual grievances which cannot be adequately met with by the banks with due regard to prescribed norms. However, the Committee believe that there are several cases wherein delays in processing of applications, release or loan after sanction, and rejection of applications are not necessarily based on genuine grounds and that a lot of technicality is allowed to play for even ordinary mistakes or slips in applications, much to the inconvenience and embarrassment of the customers. The Committee recommend that in respect of each bank, a sample survey of the processing of loan applications may be conducted critically and at the same time, the public should be allowed to meet the inspecting officers to air their problems, so that an objective review of the performance of the banks could be done".

**Reply of the Government**

As regards the suggestion of the Committee to conduct a sample survey for each bank, Government considers that it would be worthwhile to utilise the existing set up for the purpose. The lead District Officer is being asked to look into during his monthly branch visits the processing of loan applications of priority sector beneficiaries in general and those of Government sponsored programmes in particular during October-December, 1988 quarter, after the village allocation under the service Area Approach is completed. During these visits they will be asked to look into the extent and cause for delays in sanctions disbursements and submit separate notes thereon. A consolidated report in respect of the rural branches visited by the LDO's will also be submitted. Necessary follow-up action on the basis of the findings of these visits will also be taken.

As regards the questions of providing an opportunity to the applicants to air their problems, Reserve Bank of India has already issued adequate instructions to banks for expeditious disposal of loan applications a time bound programme has been laid down for the purpose and adequate mechanism exists in different banks to monitor these aspects. Individual complaints, if any, are looked into by appropriate enquiries. In view thereof, it is not considered necessary that aggrieved customers should have interface discussion with any authority to air their grievances. Even otherwise, the fora of meeting the public on a specified day of the week/month already exists where such grievance could be aired.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88-Coord. dated 20-12-1988].



### **Recommendation Sl. No. 35 (Para No. 3.7)**

The Committee have reasons to believe that the arrangements in public sector banks for publicity Customer Education and Counselling in both rural and urban areas are more impressive on paper than to the satisfaction of the mainstream of banking clientele. The Committee therefore, recommend that arrangements in public sector banks for Customer Education/Counselling should be reviewed at a sufficiently high level with a view to augment and bring them up to the mark not only of the mainstream clientele of banks like traders industrialists, exporters/importers, foreign exchange dealers and farmers but also to that of small entrepreneur workers of the formal and informal sectors and the rural proletariat with regard to both the schemes for deposit mobilisation as well as for disbursement of credit in the Priority Sector.

#### **Reply of the Government**

Conservations of the Estimates Committee are being brought to the notice of all banks by Reserve Bank of India.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88 Coordinated 20-12-1988].

### **Recommendation Sl. No. 50 (Para No. 5.12)**

The Committee have been informed that under the existing arrangements, each branch is subjected to inspection once in every 12 to 18 months, and a statutory audit once in 3 years for small branches and once a year for big branches, head offices and other accounts. In addition, a vigilance machinery, external checks by RBI etc., are also reported to be functioning. Notwithstanding these measures, it is perturbing to note that the internal security arrangements have proved woefully inadequate in as much as frauds have been perpetrated on the finances of the banks to the extent of Rs. 221.69 crores over a period of 5 years ending 1986. The Ministry is not in a position to furnish any data regarding the extent of frauds not located during inspection, audit etc. but subsequently noticed though the transactions concerned ought to have been covered by inspection and audit. The Committee, therefore, cannot but conclude that there exist several cases of frauds which ought to have been detected during inspection and audit but were not detected. The Committee feel that there is an imperative need for identification of the contributory factors that led to failure in noticing the frauds in time by audit inspecting staff for fixing responsibility. Further the inadequacy in quality and content as also periodicity of inspection and audit may be identified and special efforts taken to streamline the procedure.

#### **Reply of Government**

The main focus of the internal inspection/audit of the banks is to ensure that various prescribed procedures and systems are followed me-

ticulously. Because of limitations of time available inspectors have to satisfy themselves with sample checking in certain matters. Though during the inspection they do see fraud prone area also it is difficult for them to examine all the transactions to rule out the frauds unless the inspectors have special reasons to suspect frauds. The internal auditors who inspected stocks/securities in some accounts were able to detect frauds in the past. Banks to give wider coverage to detection of frauds in their various training programmes. In the light of the Estimate Committee's advice RBI will further instruct the banks to lay more emphasis to the detection of frauds during inspections/audits.

[Ministry of Finance (Banking Division) O.M No. 15/3/88-Coord. dated 20-12-1988].

### **Recommendation Sl. No. 53 (Para No. 5.15)**

Despite the extent of arrears in these fields as also the extent of frauds that are detected each year, the Committee find it difficult to reconcile that statutory auditors furnish to each bank clean audit certificates and do not qualify their reports to indicate how far the arrears vitiate the correctness of the accounts. The Committee feel that had the auditors highlighted these arrears in their annual audit certificates all these years, the realities would not have been a hidden factor. The Committee, therefore, recommend that the role of statutory auditors for supply of clean audit certificates may be clearly laid down.

### **Reply of Government**

Format of a bank's Balance Sheet and Profit & Loss Account and the type of reports an auditor is required to give are governed by Sections 29 and 30 of the Banking Regulation Act, 1949. Whenever certain aspects of a bank's books of Accounts are not found satisfactory, auditors do give appropriate qualifying remarks both (i) under "Notes" at the end of the Balance Sheet, and (ii) in the "Auditors' Report".

Auditors' Reports and "Notes" in Balance Sheets of most of the banks contain several qualifying remarks such as "Reconciliation of inter-branch accounts and transactions are in arrears and items involving large amounts remained to be cleared for the past years" and "Non-reconciliation and non-adjustment of various accounts including inter-branch adjustments and their effect on accounts including revenue not being presently quantifiable. . . ." etc.

It would be seen that the statutory auditors do not always give clean audit certificates but do qualify their reports with appropriate remarks.

[Ministry of Finance (Banking Division) O.M. No. 15/3/88—Coord. Dated 20-12-1988.]

### Recommendation Sl. No. 58 (Para No. 5.44)

The Committee are concerned to note that the extent of bad and doubtful debts accumulated over the years is not mentioned by the public sector banks in their annual accounts, in view of the statutory protection provided by the Banking Regulation Act, 1949. The Committee do not agree with the stance during evidence that "time is not yet opportune" and "it may not be in our larger interest" for the public sector banks to disclose their bad debts through their published accounts immediately. The Committee consider it as a sacred right of the people to know what is happening to their hard earned moneys deposited with the Banks. In any case, the position has undergone a great change after nationalisation of the Banks. The Committee do not feel that an overall disclosure of the bad debts affects the customer-bank confidentiality as per the provisions of the present Act in any way. The Committee therefore recommend that Banking Regulation Act 1949 and other concerned statutes should be amended, if need be, at the earliest with a view to make it obligatory for all banks including public sector banks to faithfully reflect the quantum of bad and doubtful debts including losses on account of frauds and dacoities, the amounts thereof written off as also their extent of overdue loans and advances to be recovered in their Annual Accounts for being laid on the Tables of Parliament.

### Reply of Government

The Question of disclosure of bad and doubtful debts of banks has been further examined by Government in consultation with the RBI. Banking business essentially being one of the dealing in credit, the bulk of the assets of a bank are represented by the loans and advances given by it. There is therefore an inherent risk element in such business. What is important is that a bank minimises such risks by appropriate pre-sanction credit appraisal and post disbursal supervisions over credit. To the extent the loans and advances become doubtful of recovery, the banks should ensure that they are in a position to provide for such doubtful debts from current profits. The supervision over the commercial banks by the RBI ensures that banks have appropriate lending policies and the losses in this regard are kept to the minimum.

RBI, are therefore of the view that more reflection of the position about doubtful debts and provisions held therefor in the published accounts will not be of any over-riding advantages; on the contrary, apart from effecting the image of the bank and confidence of the depositors it may lead to uninformed criticism. Such criticism may adversely affect the image of the bank. This will have serious consequences in the discharge of the basic functions of the bank as financial inter-

mediary in financing the economic growth and more importantly allocation of credit in accordance with the Government's planned priorities. As indicated earlier this aspect was recognised by the Ghosh Committee set up by the RBI and it had recommended that the exemption now available to banks from disclosing the position of bad and doubtful debts and the amount of provision held therefor should continue for the present.

[Ministry of Finance (Banking Division) O.M.No.15/3/88—Coord. dated 20-12-1988].

## CHAPTER V

### RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE AWAITED

#### Recommendation Sl. No. 55 (Para No. 5.33)

The Committee regret the Bank's tendency to stop departmental inquiries against their employees involved in frauds as soon as cases thereon are instituted in courts by the parties concerned because this enables such bank employees to delay and postpone indefinitely the day of their reckoning for the maximum possible time. The Committee strongly recommend that unless the courts issue specific stay orders against the departmental inquiries into the fraud cases, the bank should proceed with the departmental enquiries and finalise them quickly, say with a maximum period of six months. In this connection, the Committee further suggest that in cases the parties concerned have obtained stay order from courts, the feasibility of issuing duly amended charge-sheets should be considered if the original charge-sheets have proved to be inadequate/incomplete/inaccurate.

#### Reply of Government

The suggestion will be examined in consultation with Indian Bank's Association and if found feasible shall be conveyed to banks for implementing in consultation with their Legal Departments.

[Ministry of Finance, (Banking Division) O.M. No. 15-3-88—Coord,  
Dated 20-12-1988.]

New Delhi;  
April 10, 1989  
Chaitra 20, 1911 (S)

ASUTOSH LAW  
Chairman,  
Estimate Committee

## APPENDIX

(Vide introduction)

### *Analysis of action taken by Government on 64th Report of Estimates Committee (Eighth Lok Sabha)*

I.	Total number of Recommendations . . . . .	58
II.	Recommendations/Observations which have been accepted by Government (S. No. 1, 5-8, 10-14, 16-23, 25-27, 30-32, 36, 39-49, 51-52, 54, 56-57)	
	Total . . . . .	41
	Percentage to total . . . . .	71%
III.	Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies (Sl. Nos. 2, 15, 28, 29, 33, 37, 38)	
	Total . . . . .	7
	Percentage to total . . . . .	13%
IV.	Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee (Sl. Nos. 3, 4, 9, 24, 34, 35, 50, 53, 58)	
	Total . . . . .	9
	Percentage to total . . . . .	16%
V.	Recommendations/Observations in respect of which final replies of Government are awaited (Sl. No. 55)	
	Total . . . . .	1
	Percentage to total . . . . .	1%

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SECRETARIAT PUBLICATIONS**

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9.	M&J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor 68, Jyotiba Fuele Road, Nalgaum-Dadar, Bombay-400014.	22.	M/s. Amrit Book Co. N-21, Connaught Circus, New Delhi.
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<b>TAMIL NADU</b>		24.	M/s. Sangam Book Depot, 4378/4B Murari Lal Street, Ansari Road, Darya Ganj, New Delhi-110002.
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