Annexures
Annexure-I

BRIEF OUTLINE OF THE RECOMMENDATIONS OF THE COMMITTEE ON FINANCIAL SYSTEM

(NARASIMHAM COMMITTEE - I - 1991)

• According to the committee the government intervention in Indian Banking Sector was in the form of high SLR. In this way, government promoted bank resources at below market rate. It benefited the government by reducing its cost of borrowings, thus reducing the profits of the banks. Therefore, the committee suggested that SLR should not be used for financing public sector. The committee recommended phased reduction in SLR from 38.5% in 1991 to 25% of the net demand, over the period of 5 years to leave more funds with the banks.

• Earlier CRR was used as a principle instrument of monitory and credit control. The committee recommended that RBI should relay on open market operations and should educe its dependence on CRR. According to the committee, the CRR should be reduced from the present high level.

• The committee recommended that the directed credit should be phased out. The committee argued that this system should not
be used regularly but in the extraordinary circumstances only. In order to support the weak sections of the society. The priority sector should be redefined to include marginal farmers, tiny, village, cottage industry, small business, transport operators, rural artisans and other weaker sections.

- The committee recommended that asset reconstruction fund should be set up to help the banks to take off bad and doubtful debt from their balance sheet and recycle the funds realized through this process into more productive uses.
- The committee recommended a board for financial supervision under the direct control of RBI should be setup.
- The committee recommended abolition of branch licensing. The committee suggested that the government should become more liberal with opening of branches of foreign banks in India. The government should not interfere in the internal organizations of the banks.
- The committee favoured less regulated system. It suggested more freedom should be given to banks to recruit officers.
- The committee recommended that duality of control over banks by RBI and banking division of the finance minister should be ended.
- The committee recommended for the adoption of uniform accounting practices mainly in regard to income recognition and provisioning against doubtful departments. The committee also recommended imparting for transparency of banks

- The committee suggested reconstitution of banking system to have a few large banks, some national banks and local banks, by defining the jurisdiction of each and every bank.
- The committee suggested deregulation of interest rates. According to the committee, the interest rates should be market related. Banks should be free to offer varying rates of interest for different size of deposits.
- The committee suggested BIS norms in a phased manner particularly regarding CAR. The committee suggested that profitable banks should be allowed to raise funds from the capital market immediately.
- The committee suggested that DFIs should be granted operational flexibility and adequate internal autonomy. Cross equity holding amongst DSFIs should be done away with and various new guidelines relating to their working should be issued at the earliest.
Brief Outline of the Recommendations of the Committee on Banking Sector Reforms

(Narasimham Committee II – 1988)

• The committee recommended an increase in the minimum capital adequacy ratio to 9% by 2000 and further to 10% by 2002 by assigning 5% weightage for the government and other approved securities to hedge against market risk.

• The committee suggested that there should be a strong banking and financial system in order to have capital account convertibility.

• The committee recommended merger of strong banks with strong banks. It was against the merger of weak banks with strong banks. The committee suggested that weak banks should narrow down their operations to safer business.

• According to the committee the government was playing an excessive role in the functioning of the public sector banks. The committee suggested more autonomy and flexibility should be provided to these banks and government interference should be reduced.

• The committee suggested that lending operations of NBFCs should be integrated with the financial system. The NBFCs would get access to other forms of instruments in money market like treasury bills, bill discounting, commercial papers
etc. It also suggested the opening of the treasury bill markets to foreign institutional investors.

- The committee recommended a review and strengthening of the operations of the rural financial institutions in terms of appraisal, supervision and follow up, loan recovery and creating healthy relationships with the customers.

- The committee recommended that greater internal controls should be there as far as banking sector is concerned. The committee suggested that the regulatory and supervisory authorities should ensure transparency and creditability.

- The committee recommended review of various Acts like RBI Act, SBI Act, Banker Book Evidence Act and Banking Companies Regulations Act.

- The committee suggested greater managerial autonomy to the public sector banks and reducing the government ownership in these banks. The committee suggested improvement in the recruitment practices of public sector banks. According to the committee the board of PSBs should be professionalized.

- The committee felt that there was an urgent need of utilizing information technology in the banking sector at the earliest.

- The committee suggested that effective system for asset liability management and risk management should be put in practice.
Annexure-III
Brief Outline of the Recommendations of the Working Group for Harmonisation of the Operations of DFIs and Banks

(Khan Committee – 1998)

• According to the committee, a super regulator should be there to coordinate the activities of other regulators.

• The committee recommended redefining of the priority sector. It suggested change in the method of determining priority sector targets for financial institutions and banks. According to the committee infrastructure credit should be kept out of the net bank credit.

• The committee recommended that the time has come when the financial system of India should adopt universal banking.

• The committee favoured mergers between banks and banks, and banks and financial institutions but it suggested that these mergers should be done in practical way and such reconstruction should be useful for the financial system as a whole.

• The company suggested that the various conditions on financial institutions regarding resource mobilization were against the interest of financial sector reforms and such a restrictions should be done away with.

• The committee suggested various changes in the state level financial institutions.
• The committee suggested the setting up of a coordination committee of banks and financial institutions to standardize the lending policies and quantity of credit.

• The committee recommended fast legal reforms in order to make quick recovery of loans.

• Another main recommendation of the committee was regarding reduction in CRR and elimination of SLR.
Brief Outline of the Recommendations
Of the Working Group on Restructuring Weak Public Sector Banks

(Verma Committee – 1999)

The committee developed a four dimensional comprehensive programme for the restructuring of the weak public sector banks. The main areas were:

- Fist of all the committee emphasized on operational restructuring. The committee suggested that the banks should aim at increasing the income and by reducing their costs. The committee suggested that the banks should go into the lower and middle segment of the credit market. They should use ultra modern technology to compete with new private sector and foreign banks. The committee suggested that major problem of the public sector banks was mounting NPAs and it is suggested a various ways to deal with this problem. The committee suggested that there is overstaffing in the public sector banks and it should be done away with at the earliest.

- As far as organizational restructuring is concerned, the committee suggested that unprofitable branches should be closed and there should be rationalization of the bank branches. The committee suggested that the CMD of a bank should be a capable person who can be appointed by giving more pay and
perks. There should be two EDs to help the CMDs. The committee strongly recommended that proper training facilities should be provided to bank personnel and the government should not interfere in the working of these banks.

- The committee recommended that financial reconstruction is very much necessary for the improvement in the functioning of the public sector banks. For this purpose, it suggested the establishment of Financial Restructuring Authority. The committee suggested that changes should be made in the working of debt recovery tribunals.

- The committee suggested systematic restructuring providing for legal changes and institutional building for aiding the entire restructuring process.