Chapter - 2

The Indian Banking System - An Overview

2.1 The History of Indian Banking - Evidence of existence of money lending operations in India is found since Vedic times. Sresthis or bankers were in existence during Buddhist period. Money lending and allied activities assumed considerable importance in ancient India. What were the interest rates? “A common base number was 15 per cent per annum - what banker economist Dr. Thingalaya calls the Hindu rate of interest”24.

It is believed that in India, the transition from money lending to banking must have occurred even before Manu, the great Hindu Jurist, who had devoted a section of his work to deposits and advances and laid down rules relating to rates of interest. During the Mogul period, the indigenous bankers played a very important role in lending money and financing foreign trade and commerce. During the days of the East India Company, it was the turn of the agency houses to carry on the banking business. The General Bank of India was the first Joint Stock Bank to be established in the year 1786. The others which followed were the Bank of Hindustan and the Bengal Bank. The Bank of Hindustan is reported to have continued till 1906 while the other two failed in the meantime. In the first half of the 19th century the East India Company established three banks; the Bank of Bengal in 1809, the Bank of Bombay

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24 Thingalaya being quoted by Dr. Y V Reddy, Deputy Governor, RBI during the Prof. G Ram Reddy Third Endowment lecture at Potti Sreeramalu Telugu University Auditorium Public Gardens, Hyderabad on December 4, 1999.
in 1840 and the Bank of Madras in 1843. These three banks also known as Presidency Banks were independent units and functioned well got amalgamated in 1920 and a new bank, the Imperial Bank of India was established on 27th January 1921. With the passing of the State Bank of India Act in 1955 the undertaking of the Imperial Bank of India was taken over by the newly constituted State Bank of India. The Reserve Bank which is the Central Bank was established in 1935 by passing Reserve Bank of India Act 1934. In the wake of the Swadeshi Movement, a number of banks with Indian management were established in the country, namely, Punjab National Bank Ltd [1894], Bank of India Ltd [1906], Canara Bank Ltd 1906], Indian Bank Ltd [1907], the Bank of Baroda Ltd [1908], and the Central Bank of India Ltd. [1911].

Up to mid 1969 the Indian banking system operated primarily in the private sector. The basic inability of the Indian banking sector to help develop the economy effectively and meaningfully to the desired levels lead to the demand for restructuring the banking industry. There were large scale failures of banks and insurance companies during the 1950’s and the early 1960’s for various reasons, and thus the Government of India had to intervene and decide in favour of mergers and amalgamation of such entities. This was necessary to maintain public confidence in the financial system and protect the small investors. A beginning was made in 1965 to link bank credit with national planning. In 1968, a scheme of social control of banks was made. Subsequently, increased political pressure led to the passing of the banking Laws [Amendment] Act of 1969 by the parliament. Consequent to this, 14
large commercial banks with a deposit level of Rs. 50 crores or more were nationalized on July 19, 1969 and six more commercial private sector banks were taken over by the government in the year 1980. Thus a major segment of the banking system was brought under the direct control of the Government. Even among the banking circles there were diverse views on nationalization. IBA [Indian Banks Association] which represents the employers of the commercial banks in the country was against nationalization. In a letter by the then Chairman of IBA it was clearly indicated that the association wanted the government to reconsider nationalization.

From the employee's side, the largest trade union All India Bank Employees Association [AIBEA], whole heartedly welcomed the nationalization. In 1964, AIBEA asked the Government to takeover private banks. After nationalization banks were asked to open branches in hitherto un-banked areas so that banking facilities could be available even to the poorest sections of the society. This led to the rapid expansion of branches and deposit, credit and employee strength.

After nationalization the banks embarked on systematic employee selection processes and thus highly qualified employees joined the banks as clerks and officers. In the year 1980, the Government of India took over six more banks, thus raising the total number of Public Sector Banks to 28 [20 nationalized banks and eight banks in the SBI group]. There were diverse criticisms and comments about the

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23 N Kumar. "The Letter by the Chairman of IBA, KMA Thakaray, was Addressed to the Prime Minister of India and Quoted in." Bank Nationalization in India Mumbai: Lalvani Publishing House, 1969, 193-198.

24 "Resolution Adopted by the 1964 Annual Conference of AIBEA at Trivandrum. Report of The 1964 Conference..."
performance of Public Sector Banks. On the positive side, as a result of the increase in branch network in the country, banking services were made available to a much larger segment of the society. Consequently, several million people in agriculture and small-scale industry, who were hitherto denied access to the banking system, started receiving benefits from the industry. On the negative side, the major complaints about banks centred around poor customer service, inefficiency of operational procedures, etc. The increase in the number of employees increased the strength of the unions, which, it is alleged, led to restrictive practices like long drawn strikes and other forms of union militancy during the seventies. “The over protection provided by the unions to employees was counter productive, and restrictive practices emerged in the process. For example, it became almost impossible for banks to make even employee transfers”\(^{27}\). With a view to improving services and efficiency, in the latter half of the eighties, banking was subjected to partial deregulation. The concern for efficiency, productivity and profitability became sharper as the country started moving towards economic liberalization. As a sequel to this, a committee was appointed in 1991 under the chairmanship of M. Narasimham to look in to the financial sector reforms. The report of this committee, among other things, recommended “restructuring of banks, bringing transparency in the balance sheets, reduction in directed lending, liberal branch licensing, stopping further nationalization and establishing level playing field between private and Public

Sector Banks.28 Although the opposition parties in the parliament and trade unions criticized the report, the present trend is towards the gradual implementation of several of the recommendations. It is a fact that the performance of most of the banks is not satisfactory. "Twelve out of the twenty nationalized banks are reported to be in major financial difficulties."29 The primary argument, therefore, is that, in order to be competitive in a globalized environment, banks need to be more efficient operationally, and the proposed reforms are essential.

Private sector banks have existed for over a century in India. Formation of the State Bank Group in 1955/1957 and two nationalizations in 1969 and 1980 have led to the dominance of Public Sector Banks. The Imperial Bank of India was a large private sector bank that handled all the commercial banking business as well as treasury related work of the Government until the Reserve Bank of India [RBI] was formed in 1935. It was in the post independence era, in 1948 that Reserve Bank of India itself converted it into a fully state owned bank. Prior to first major nationalization of 14 banks in July 1969, private capital called the shots in commercial banking. The Tatas owned the Central Bank of India, the Birlas - the United Commercial bank [The present UCO Bank] and so on. Appendix 5 furnishes the list of banks amalgamated since nationalization of banks in India.

Immediately after the Indian economy began resorting to reforms in the year 1991-92, there have been several structural, legal, organizational and other changes.

28 Ibid.

As far as the banking industry is concerned, an interesting development was the merger of one Public Sector Bank with another. New Bank of India was merged with Punjab National Bank during the year 1993-94. The former was nationalized in 1980, while the Punjab National Bank was among the 14 banks that were taken over by the Government of India in 1969. Both these banks are based in New Delhi. It is the only merger within the Public Sector Banks.

Two other private sector bank mergers/ conversion worth mentioning here are [1] the ICICI Ltd. reverse merger with ICICI Bank Ltd. and [2] Reserve Bank of India [RBI] granting permission for conversion of a highly successful non-banking finance company, viz., Kotak Mahindra Finance in to Kotak Mahindra Bank in March 2003. Another interesting development in recent years as regards private sector banks in India was permitting of Foreign Direct Investment [FDI], and The Vysya Bank Ltd., promptly utilized the facility and it got rechristened as ING Vysya Bank Ltd. Its management and functioning have changed dramatically in recent years.

"Indian banking history can be broadly categorized into three areas, viz., i] Pre nationalization era [earlier than 1969], ii] post nationalization era [Between 1969 to 1992], and iii] Post reforms era [1992 and thereafter]"\(^3\). In the post nationalization era, development of banks have taken place under the common ownership and the frame work of policies formulated by the Government and under the regulatory

environment of Reserve Bank of India. However, post reforms era has drastically changed the above system and process of banks to become more competitive. The post reform banking situation is aptly pointed out in the statement “Financial sector reforms were initiated in India a decade ago with a view to improving efficiency in the process of financial intermediation, enhancing the effectiveness of the conduct of monetary policy and creating conditions for integration of the domestic financial sector with the global system”\(^{31}\). The first phase of reforms was guided by the recommendations of Narasimham Committee I. The approach was to ensure that the financial services industry operates based on operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability. The second phase, guided by Narasimham Committee II focused on strengthening the foundations of the banking system and bringing about structural improvements. The concept of banking in recent years has undergone qualitative and quantitative changes due to market environment, deregulation, competition, information, and communication technology advancements. Hence, the reforms have altered the organizational forms and ownership patterns.

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During the phase of expansion [1970-80] banks went in for massive branch expansion across the length and breadth of the country and the resultant recruitment of clerical staff and probationary officers in thousands and a few specialists.

During the phase of consolidation, [1980-90] branch expansion slowed down considerably and hence recruitment too. Then came the phase of liberalization [1990-2000] when the new private sector banks were set up and additionally foreign banks were permitted to open branches in the country. During this phase, financial soundness of many banks were put to the test of international standards, particularly in terms of capital adequacy, non-performing assets [NPA], productivity and profitability etc. On the one hand, banks tried to boost the productivity and profitability with the changes in organizational structure, systems, work technology, procedures and processes and on the other hand, there was cost control measures such as curtailing overtime payments, delaying promotion to staff, cutting down on training expenditures and so on.

The financial sector reforms in terms of deregulation of interest rates, capital adequacy norms, internationally accepted prudential accounting norms for income recognition, asset classification and provisioning on Non-performing Asset's, entry

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of new private and foreign banks, reducing Government stake in the equity of banks etc. have changed the character of banking and that can be termed as the globalisation era in the Indian banking arena.

Banks have now returned to their commercial character. They play their role within the regulatory framework and fast changing economic environment that is emerging in the post liberalization and globalization era. Profit and profitability have become the buzzwords. Banks are going to the capital market to augment their capital base. Without emphasizing on internal generation of surplus and attractive profitability record of accomplishment, they cannot attract investors in domestic as well as overseas capital market.


The co-operative banking system also has grown and developed significantly in the country in the past. Figure 1 shows the organisational system of the co-operative credit institutions in the country. Appendix 6 contains the details regarding the network of co-operative banks in India.
Figure 1 - The Organization of the Co-Operative Credit Structure

Co-Operative Credit Institutions

Rural Co-operative Credit Institutions

Short Term Structure

State Co-operative Banks

State Co-operative Agricultural and Rural Development Banks

Urban Co-operative Banks

Long Term Structure

District/Central Co-operative Banks

Primary Co-operative Agricultural and Rural Development Banks

Primary Agricultural Credit Societies
### The Indian Banking System

#### Public Sector Banks
1. SBI and its Seven Associate Banks Called the State Bank Group
2. Nineteen Nationalized Banks
3. 196 Regional Rural Banks Mainly Sponsored by Public Sector Banks

#### Private Sector Banks
1. Old Private Sector Banks
2. Eight New Private Sector Banks
3. Foreign Banks in India
4. Scheduled Co-Operative Banks
5. Non-Scheduled Banks

#### Co-Operative Sector
The Co-Operative Banking Sector in India is Divided into Several Components.
1. State Co-Operative Banks
2. Central Co-Operative Banks
3. Primary Agriculture Credit Societies
4. Land Development Banks
5. Urban Co-Operative Banks
6. Primary Agricultural Development Banks
7. Primary Land Development Banks
8. State Land Development Banks

#### Development Banks
1. Industrial Finance Corporation of India [IFCI]
2. Industrial Development Bank of India [IDBI]
3. Industrial Credit and Investment Corporation of India [ICICI]
4. Industrial Investment Bank of India [IIBI]
5. Small Industries Development Bank of India [SIDBI]
6. National Bank for Agriculture and Rural Development [NABARD]
7. Export Import Bank of India [EXIM Bank]
8. National Housing Bank [NHB]
Regional Spread of Banking - "The total number of branches of Scheduled Commercial Banks at the end June 2003 stood at 66,514. Branch expansion of commercial banks has recorded an average annual growth of nearly one per cent over the last five years. The state wise distribution of branches reveals that all regions witnessed a rise in the number of branches over the period June 2002 to July 2003. In tune with the regional distribution of national income, the Southern and Central regions accounted for the highest percentage of bank branches."\(^{33}\)

There is some recent evidence that the branch expansion program in India undertaken since the nationalization had positive impact on poverty and non-agricultural output. The social banking programs as employed by the Government served to redistribute resources to the rural poor. Using the data on sixteen major Indian states over the period 1961-2000, the following has been observed: "Branch licensing rule succeeded in encouraging commercial banks in opening branches in backward rural locations and rural banks managed to reach the rural poor, and commercial banks offered opportunities for households to save. The saving accounts provided households with means of accumulating capital which could be used to invest in various productive activities."\(^{34}\) Expanding access of finance to poor, rural setting can generate significant social returns.

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\(^{33}\) "Report on Trend and Progress of Banking in India 02-03 Appendix Table III.23." Reserve Bank of India

2.3 The Bank Employees - “The bank employees in the Public Sector Banks stand divided into two distinct classes, viz. Workmen or Award Staff and Officers [i.e. non workmen staff]. This distinction has its roots in the bureaucratic hierarchical organization of personnel in banks”\(^35\). It has been further strengthened by the legal provisions contained in the Industrial Disputes Act 1947\(^36\) and the separate unionization of the two classes of staff. Section two of the said Act defines the term workmen and the Act is applicable to workmen of industries covered by the Act. Banking industry is one such industry. While the clerical grade employees and the subordinate staff [popularly called sub staff] are covered by the definition of ‘workmen’, the officers of banks are excluded from it. Hence the clerical grade employees and sub staff are workmen but the officers are not.

The terms of employment [or conditions of service] applicable to workmen of banks have been settled by Awards of Tribunals appointed by the Government of India to adjudicate the industrial disputes between banks and their workmen. “The base Award has been given by the ‘All India Industrial Tribunal [Bank Disputes], appointed by the Government of India in January 1952’\(^37\). Justice S. Panchapagesa Sastry was the Chairman of the Tribunal and its award is popularly called ‘the Sastry Award’. The said award is operative substantially to date since subsequent awards and bilateral settlements have only amended its various provisions.


\(^{36}\) Central Act XIV of 1947 [Industrial Disputes Act 1947]

\(^{37}\) All India Industrial Tribunal [Bank Disputes] Award Published in Government Gazette, vide Government of India, Ministry of Labour Notification No. LR 100 [57], dated 26\(^{th}\) March 1953.
**The Workmen** - The workmen of banks too comprise of two distinct categories, viz. the clerical grade staff and the sub staff. The distinctions arose mainly from the type of work done traditionally by the clerical grade staff and by the sub staff. Due to this distinction, the scales of pay and allowances and other service conditions admissible to the clerical grade staff have always been relatively better than those admissible to the sub staff. There are several sub-categories among the clerical grade employees and also among the sub staff by reason of the variety of work to be attended to by the workmen. The clerical grade covers such diverse subcategories as clerks and cashiers, telex operators, typists and stenographers, head cashiers, tellers, godown keepers, special assistants and agricultural assistants. The Sastry Award stipulated only one scale of pay for all the sub categories called the ‘clerical grade’ and provided for various rates of ‘Special Allowance’ to compensate for the differences in the nature of their duties and responsibilities. The clerks, however, make the most predominant subcategory in the clerical grade. Their strength is estimated about 80-85 per cent of the total clerical grade staff in banks. The clerks are more often and more commonly sent for training in the bank’s training centres/colleges.

The sub staff category comprises such sub-categories as mazdoors, peons, cash peons and head peons, watchmen, armed guards, electricians, liftmen, bill collectors daftaries and drivers. They all have a common scale of pay and are entitled to different rates of ‘Special Allowances’ for their different duties and
responsibilities. They mainly attend to ‘manual duties’ and they cannot be appropriately clubbed with clerks.

The ‘workmen’ concept has, it seems, generated considerable psychological identity amongst the various categories of the workmen in banks. Further, the existence of a single scale of pay across a large mass of clerical grade staff and sub staff has tended to foster a valuable status affinity. The early leadership has well utilized these common bonds in building up a cohesive and, therefore, an enduring trade union movement of the workmen in the banking industry.

**The Bank Officers** - The bulk of the bank officers’ start their banking career through clerical grade. On promotion as officers, they are referred to commonly as ‘Promotee Officers’ or ‘Promotees’. The rest of the Officer cadre is made up of ‘Directly Recruited Officers’. Their proportion varies from 15 to 25 per cent in different banks. Apart from this initial distinction, the officer class in banks is made up of different categories of officers but this categorization is mainly hierarchical. This hierarchy is a multilayer one. There are officers who are ‘executives’ and ‘not executives’.

For several decades, however, officers of different banks were governed by scales of pay, allowances and other service conditions which varied from bank to bank. This variety persisted despite the standardization of service conditions of workmen of bank covered by the Sastry Award and the nationalization of 14 major commercial banks in July 1969. All the Public Sector Commercial banks adopted and implemented a standardized set of terms and conditions of employment for their
officers from first July 1979. Similar terms and conditions have since been extended to officers of six banks nationalized in April 1980.

The officers’ standardized pay structure is much different from the clerical pay structure. As against a single clerical grade and special allowances, there are four grades and seven scales of pay for bank officers. Scale I [Junior Management Grade] is the lowest officer scale of Pay and scale VII [Top Executive Grade] the highest.

In most of the banks, direct recruitment of officers is generally limited to the Junior Management Grade [i.e. Scale I]. Officers in Scale II and III are together called Middle Management Grade Officers. Further, bank officers in scales IV to VII are generally labelled ‘Executives’. But Pillai Committee clubbed scale IV and V officers in to ‘Senior Management Grade’ and those in scales VI and VII in to ‘Top Executive Grade’. The bulk of the members of the Officer’s Associations in banks largely consists of officers in scales I to II, however, the executives are not debarred from their membership.

Officers posted at branches generally work under the supervision and direction of ‘Accountant’ who reports to the Branch Manager. Several Branch managers work under the direction and control of the ‘Divisional or Regional Manager’ and several Regional Managers are supervised and directed by a ‘Zone Manager’. The officers at each lower level are thus appraised and reported upon by the officers at the next level.

38 In SBI [State Bank of India], scale IV has been split into two scales of pay, viz. Scale IV and Scale IV A. There is also a Special Top Executive Grade. It has thus nine scales of pay.
and the performance appraisal of the former level officers is reviewed by the officers at the next higher level. This kind of hierarchical supervision and control of the highly categorized officer class hampers emergence of psychological identity amongst them. Such hierarchical relationship is non-existent among the members of the clerical grade. It is also absent between clerical grade staff and sub staff. The ‘Special Assistant’ who is a workman and discharges some supervisory duties does not appraise and report upon any member of the clerical grade staff nor do the clerical grade employees appraise and report upon the sub staff. The across the board psychological identity noticeable among the workmen could, therefore, be found wanting among the members of the officer class.

There are primarily three categories at which individuals are recruited in banks, viz. Subordinate staff, Clerks and Officers. Certain upward mobility is possible from the sub staff to the clerical level; but one from the clerical to officer’s level is the most relevant and obvious to a career in banking. The agreements with the workers unions have ensured ample opportunities for the advancement of the lower category. “Of the vacancies existing for officers cadre 75-80 per cent [this varies from bank to bank] has to be filled in by way of promotions from the clerical category. This is what has given the banks a ‘Closed Career System’, implying that when one enters the clerical cadre, there are inbuilt opportunities for entering and advancing in the managerial cadre. Beyond the Junior Management Level most of the positions are filled by the promotion process. No direct recruitment is done. Only a
few specialists are inducted at different levels". The minimum eligibility in terms of years of service in each grade is laid down by the industry wise service regulations.

Table 5 - Eligibility Criteria for Promotion in Banks

<table>
<thead>
<tr>
<th>Management Level</th>
<th>Grade</th>
<th>Minimum Years of Service</th>
<th>Experience Required</th>
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<tbody>
<tr>
<td>1 Clerk</td>
<td></td>
<td>Not specified</td>
<td>Not specified</td>
</tr>
<tr>
<td></td>
<td></td>
<td>May take 5-10 years</td>
<td></td>
</tr>
<tr>
<td>2 Junior Management</td>
<td>JM I</td>
<td>7</td>
<td>Rural – 2 years</td>
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<tr>
<td></td>
<td>MM II</td>
<td>5</td>
<td>Semi urban/Urban–3 years.</td>
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<tr>
<td></td>
<td>MM III</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>3 Middle Management</td>
<td>SM IV</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SM V</td>
<td>2</td>
<td></td>
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<tr>
<td>4 Senior Management</td>
<td>SM VI</td>
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<td></td>
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<td></td>
<td>SM VII</td>
<td></td>
<td></td>
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<tr>
<td>5 Top Management.</td>
<td>TM VI</td>
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<td></td>
<td>TM VII</td>
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Table 5 gives the details of the eligibility norms for upward movement in a bank. As can be interpreted from the framework, every vertical movement has certain kind of assignments and a time frame as the pre requisite. These are uniform across the banks [of course not in the case of New Generation Banks]. According to this, in principle, an officer can reach the top management in a span of 25 years if he clears the promotion exercise at the first attempt at each level.

"Banks in general, do the business that is supervised by the top executives assisted by the seven scales [scale I to VII] staff pattern of officers in four

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management grades with the support of the lower staff under overall guidance of the board of directors.\textsuperscript{40}

"While far reaching reforms have been set in motion and largely implemented in areas like financials, prudential norms and to an extent in the area of technology, reforms in the areas of human resource [HR] have been lagging behind and halting.\textsuperscript{41}

It is pertinent to mention here the widely acknowledged fact that, even in the era of high technology, it is the quality and the skills in human capital that will give a competitive advantage to a business organization. Successful organizations will be those which skilfully and imaginatively align and organically integrate their HR and technology policies in order to get the best value from both and leverage them for enhanced business performance. The world is changing from an industrial to knowledge economy in which the value of intangible assets is increasing and value of tangible assets is decreasing. By an estimate of the Booker study, the percentage of market value related to intangible and tangible assets was 38 per cent and 62 per cent respectively, in 1982, which increased to 68 per cent and 32 per cent in 1992. Today, more particularly in the service sector, the sale turnover is directly proportional to the level of customer confidence in the company/organization. In order to have a cutting

\textsuperscript{40} Rajan V, Vaideswaran V and Ratul Rana op cit. p.31

edge in this area, the right kind of technology is not sufficient - rather a proper
organizational climate and the right people competencies are essential.

The New Generation Banks and foreign banks had aggressively entered the
market with many advantages like younger and talented staff with newer skills and
competencies, a market related compensation structure, new technology, high
marketing orientation and newer methods of acquisition and retention of customers
and lean and mean organizational structure. Their penchant for innovations in
products and services and their quality and speed of responsiveness to the customer
and the market were attracting customers largely taken away from the Public Sector
Banks. At the centre of all such initiatives, these banks enjoyed the advantage of full
freedom in regard to not only technology but also more important, human resources.
These banks skilfully and smartly leveraged the right mix of technology and man
power to acquire competitive advantage from day one.

In the absence of these reforms, Public Sector Banks were clearly at a
disadvantage at the market place. Apart from the absence of a level playing field in
the case of age, quality, talent, skills and competencies of the staff, Public Sector
Banks continued to bear the impact of the highly regulated and centralized HR
system. They could not recruit and induct young talent in tune with the emerging
requirement. Their training system continued to be nebulous and did not continue to
develop the right mix of skills and competencies. The promotions under the
standardized regulations have resulted in several inconsistencies in various cadres.
They could not also contain the flight of talent to the new banks on account of a
skewed compensation structure. In the matter of deployment of staff, Public Sector Banks continued to be governed by industry and bank level settlements resulting in high rigidities in their ability to deploy them as per need. Even in the area of performance appraisal of officers, Public Sector Banks have been following a common one-fit for all formats, which does not take care of individual and organizational needs. The net result was that the Public Sector Banks had to compete with the best in the market, with inadequate and inappropriate HR policies and systems.

Traditionally HR function in Public Sector Banks focused on establishment and administrative roles. With the passage of time, industrial relation had come to occupy the central place in the HR domain. Issues in HR were largely dictated and driven by the agenda of the unions which were essentially in the nature of 'demands,' make management often shied away from raising issues of substance relevant to HR reforms. It was more of buying peace than strategically leveraging IR for business and productivity improvements.

Very little higher order focus and attention were being paid to more critical issues like staff training and development relevant to the new era, management development and succession, leadership development, acquisition and honing of new skills and competencies, performance measurement and management and the like. Indeed the very HR systems and sub systems did not keep pace with the emerging requirements of the competitive market.
Another fallout was the confinement of HR being a departmental function and did not occupy the central place in the top management agenda. Apart from discussing routine items in the area of HR, bank boards did not consider it necessary to revisit and realign the HR domain with the rapidly changing times, possibly because of the perception that HR issues are governed by Government regulations and they were left with little freedom in this area. Unlike many other progressive public sector organizations like Oil companies, bank boards also did not have any domain specialists in the area of HR as members. In essence, Public Sector Banks did not have a professional spokesperson and champion in the higher echelons for spearheading HR reforms.

Employees in these new private sector banks started working in an environment that is free from any legacies whatsoever, including the union culture, and operate in a strict reward and punishment system, or in the framework of a free enterprise system within our mixed economy. The branch network of these banks has also been kept to the bare minimum, and they have been taking up the concept of universal banking very keenly to survive in the industry.

"Today, Public Sector Banks together handle mammoth business volume. As of March 31, 2004, the total deposit was Rs.12,26,838/- crore, total advances Rs. 6,25,678/- crore, total income Rs.1,37,677/- crore and net profit Rs.16, 622/- crore".42

42 Anil K Khandelwal op. cit.
Public Sector Banks have a bloated size and aging manpower. This is in stark contrast with the manpower profile of New Generation Banks and foreign banks. Composition of manpower [ratio of different categories of staff deployment to the total manpower] in Public Sector Banks is “officers [30.73 %] Clerks [46.93 %] and sub staff [22.34 %], whereas as in foreign banks it is 79 per cent, 15 per cent and six per cent respectively. The higher officer ratio in foreign and private banks matches with the requirements of the modern day business. Business per employee for Public Sector Banks is Rs. 2.47 crores whereas for private and foreign banks it stands at Rs. 4.22 crore and Rs. 8.77 crores respectively. Given the large wage bill, administrative overheads and low efficiency levels, the profit generation per employee among Public Sector Banks is one of the lowest in the industry at Rs. 2.20 crore whereas for private and foreign banks it stands at Rs. 9.23 crores and Rs. 18.08 crore respectively.43

Apart from the manpower profile, another factor that puts Public Sector Banks at a disadvantage is compartmentalization of roles severely inhibiting flexible use of manpower. For E.g., there are more than 40 types of special allowances paid to award staff [clerical and subordinate cadre] for undertaking different types of duties. This affects adversely the level of customer service.

On analysis of the factors attribute to the efficiency of these banks, it would become clear that Public Sector Banks need urgent revisiting and realignment of the

43 Ibid.
entire spectrum of HR and technology policies besides ushering in marketing, sales and service culture across the organization.

Yet another critical challenge before Public Sector Banks is how to smartly leverage a right mix of technology and manpower, given the skewed age structure and skill profile of the staff. While on the one hand Public Sector Banks were investing large sums in technology, they were seriously constrained in the absence of freedom and ability to right size and deploy the manpower at different operating units which spread across the length and breadth of the country. This was so because, the mobility of manpower was constrained by both industry and bank level settlements/understanding.

2.4 Challenges before the Public Sector Banks in the New Millennium

The Indian banks have been facing a set of challenges in the early years of the new millennium. This follows opening up of the sector to competition - both from the country and rest of the world. The soft interest rate regime is being advocated by the central bank and the intensified competition from the new private sector banks and foreign banks. The latter two categories of banks in India, that entered the industry during the post liberalization, started off with professionally qualified, young personnel along with most modern technology right from the very beginning. It is, thus important to mark the challenges the Public Sector Banks are going to confront in the next millennium.
Before initiation of the reform process as a sequel to implementation of the Narasimham Committee recommendations, the commercial banks in India were operating in a sheltered market. The total profit of a bank depended on the volume of business turnover generated by it. The Public Sector Banks particularly the premier banks, had also assured market as they were traditionally considered to be the safest banks, which people could trust their funds with. Volume was therefore just walking in. This phenomenon was being caricatured in Public Sector Banks circles as “Walking in minus Driven Out” business as the customers were not always welcome guests in their premises.

Today the scenario is fast changing. The Public Sector Banks have already started feeling the pinch and are definitely going to confront far stiffer challenges from a more competitive domestic financial system, especially from intermediaries like Mutual Funds and Non-banking Financial Companies in the coming days. Some of the challenges to be overcome are:

**Competition** - One of the most important processes unleashed by the economic liberalizations and banking reforms is competition which has arisen due to the easing of entry norms for private and foreign banks. Eight New Generation Banks [Appendix 4] and “31 foreign banks with around 245 branches are operating as on September 30th 2005” in the urban/ metro areas with benefit of easy foreign capital

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45 Report on Trend and Progress of Banking in India for the Year ended June 30, 2005. Reserve Bank India.
and technology products. The saving grace for the Public Sector Banks is the absence of the New Generation Banks and foreign banks from the semi urban and rural markets. The recent emphasis of the Government on the rural projects including infrastructure projects offer exclusive avenues to the Public Sector Banks to expand their business.

**Productivity** - One of the areas which has not received the full attention of the bank managements in the past is the human resource [HR] related issues especially in the context of the need for restructuring and rationalization of manpower, particularly after implementation of Voluntary Retirement Schemes [VRS]. The most important factor in connection with labour in the Public Sector Banks is their low productivity. The low productivity is due first to huge surplus manpower, secondly the absence of good work culture and thirdly lack of motivation in otherwise monotonous work.

"It is very necessary that productivity measurement should deserve the attention not merely of the bank management but also of the trade unions to ensure growth in the competitive environment for the simple reason that it is only the fittest that would survive in the present century. Staff productivity in Public Sector Banks is poor"\(^{a6}\). It is not however, true that the quality of staff in Public Sector Banks is poor. The present generation of employees in Public Sector Banks is highly educated, capable of learning any skill required for efficient performance of their duties. The

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problem is that of commitment. Hence it is an urgent need for the Public Sector Banks to increase the productivity.

**Disintermediation** - Another important offshoot of the banking reforms is the process of dis-intermediation under which the corporate access resources from each other without the intervention of banks. This route is often taken by the blue chip companies, which were the traditional clients of Public Sector Banks. As a result, the market share of the Public Sector Banks both in respect of deposits and advances is severely affected. It is now time to change the methods of pricing from cost plus basis to other innovative methods.

**Treasury Functions** - Reserve Bank of India [RBI] has in phases, deregulated interest rates except saving bank interest rate and interest rates on loans up to Rs. two lakh and export credit. The deregulated economy has, to an extent, triggered price war not only between the New Generation Banks / Foreign Banks and the Public Sector Banks but also among the Public Sector Banks themselves. The deregulated economy has also thrown up a major threat to the Public Sector Banks in the form of hither to unknown liquidity risks and interest rate risks in addition to the other usual risks like credit risks, currency risks etc., Many of the Public Sector Banks have already implemented Reserve Bank of India [RBI] instructions to set up ALM with Asset Liability Management Committees at the corporate level to monitor the risks if these overflow the corporate stipulated levels. Under the circumstances, the treasury operations in banks will become even more important.
Integration in the Financial Markets - The distinctions between financial institutions and commercial banks are melting away. The financial institutions have already indulged in accessing short term resources for a minimum of one year and above and meeting working capital requirements by way of opening letters of credit. Similarly, the commercial banks have already entered in to the field of term lending which was earlier the domain of only financial institutions. Not only that, the Public Sector Banks have also entered in to other sub sectors like merchant banking, mutual funds, securities trading, leasing, housing finance, investments, funds management, venture capital, consultancy, insurance etc., through their wholly owned/partly owned subsidiaries.

The Changing Customer - The life styles of customers are fast changing. And so are their expectations. Computerization helps, inter-alia in improving the customer service by offering speedier service and introducing new and complex products, it improves staff productivity, volume growth, feedback and monitoring of the operations. The tele-banking, anywhere banking, virtual or internet banking, ATM cards, credit card and the interest swap, forward rate agreements etc., are some of the products innovated by the Indian banks through technology. The rather tardy progress in the area has been due to the initial reservation of the staff unions against computerization and the existence of a large number of branches in the rural areas. Despite these problems, the Public Sector Banks have made a good beginning. The Public Sector Banks are having the challenge of catering to the sophisticated customers in the urban area and the traditional customers in the rural area.
**Capital Adequacy Norms** - The Bank for International Settlement [BIS] has circulated a consultative paper on new norms for capital adequacy. It will have tremendous implications for Non-performing Assets, Provisioning, Capital adequacy and the whole range of management related issues.

Another vital area, which poses threat to the Public Sector Banks, is the size and nature of Non-performing Assets. "The gross and net Non-performing Assets of the banking system as a percentage of the advances have declined to 16 per cent and 8.2 per cent respectively by March 1998. In terms of percentage to total assets, gross and net Non-performing Assets have declined to 7.0 per cent and 3.3 per cent respectively by March 1998"⁴⁷. The Public Sector Banks will, therefore, have to reduce the Non-performing Assets to the international level of below five per cent of their loan assets.

**Legal Reforms** - Our legal framework has not been touched till now by the reform process. It is imperative that appropriate amendments are carried out immediately in the various laws such as The Sick Industrial Companies [Special Provisions] Act, 1985 [SICA], Urban Land Ceilings Act, Foreign Exchange Regulation Act, Foreclosure Laws, recovery of debts due to banks and financial institutions etc. to enable the Public Sector Banks to deal with the cancerous problem of Non-performing Assets more effectively.

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Developing A Truly Global Banking System - "In spite of the good progress achieved by the Indian banking system over the years, it is still not perceived to be a fully global system, internationally. It is still required to gain the strength and diversity to be recognized as one.\textsuperscript{48} Banks need to bring fundamental changes in their business strategies, goals and functioning styles to achieve this objective.

Policy Changes - Public Sector Banks are allowed to go to the market and raise funds to meet capital adequacy norms. According to a report, the Finance Ministry is now charting out a plan wherein 50 per cent of the Public Sector Banks would be quoted on the stock market soon\textsuperscript{49}. By an ordinance, the Banking Regulation Act of 1949 was amended to increase the voting right of shareholders from one per cent to ten per cent\textsuperscript{50} with a view to providing incentives to shareholders through participation in decision making. The Government has relaxed the restrictions on opening private sector banks leading to a sudden increase of their number.

Banking Reforms Committee Recommendations - Some of the recommendations of the committee on banking sector reforms\textsuperscript{51} set up by the Government of India would pose further challenges and greater opportunities to


\textsuperscript{51} Narasimham Committee II, 1998.
Indian banking in the new millennium. It includes [1] Capital adequacy should also take into account market risks [2] Capital to Risk Weighted Assets Ratio [CRAR] should reach nine per cent by 2002. Reserve Bank of India [RBI] can increase CRAR of any bank if need be. [3] By 2001, the entire investment in Government securities to be marked to market and these will have five per cent weightage for market risk. [4] Advances guaranteed by the Government carry risk weightage equal to the other advances. [5] Foreign exchange open credit limit to carry 100 per cent risk weight as against five per cent now. [6] Public Sector Banks should be allowed to access both domestic and foreign capital. [7] Banks in bad shape to raise Tier II capital through issue of bonds. [8] Total elimination of interest subsidy element for priority sector. [9] Principal or interest is to be received within 90 days for the purpose of income recognition and asset classification. [10] Introduction of a general provision of one per cent even on standard assets. [11] Recruitment of skilled personnel from the open market should be allowed and the remuneration packages should be market related. [12] Redefine the scope of vigilance with reference to banking. [13] Development and strengthening of the information system, control system, asset liability management and treasury management are crucial for the financial system. [14] Development Financial Institutions [DFIs] should become banks. [15] Government holdings in Public Sector Banks should come down to 33 per cent level. [16] Weak banks should be nurtured into healthy units. Mergers and acquisitions should be encouraged in the process.
2.5 New Private Sector Banks in India

"Privatization, globalization and liberalization are important contemporary forces. Only those enterprises can survive, which work economically and efficiently, providing consumer oriented services and using latest technology. Today government owned bodies, particularly in India, are not providing customers satisfactory services, though they have a very huge infrastructure and large base". The truth of this observation becomes obvious when we observe the performance of public sector banks in India.

The Government constituted a committee under the Chairmanship of Mr. M Narasingham, former Governor of the Reserve Bank of India, to examine the structure and functioning of the existing Indian financial system. On the basis of this committees report, the government has permitted individuals, corporations, foreign and non- resident Indians to open private banks in India. The Reserve Bank of India has issued on 22nd January 1993 specific guidelines for the establishment of new private banks in the country. This is in recognition of the need to introduce greater competition which can lead to higher productivity and efficiency in the banking system.

These banks came in to existence after March, 1995, and are called New Private Sector Banks [NPSB] or popularly New Generation Banks [NGB]. IndusInd Bank was the first private sector bank to operate in the post liberalization era. Presently, there are Eight New Generation Banks working in India.

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The economy expected a lot from the setting up of the New Private Sector banks. "The banks are expected to sub-serve the underlying goals of the financial sector reforms which are to provide competitive, efficient and low cost financial intermediation services for the society at large. Work technology is expected to be upgraded in the banking sector at the same time running the system on viable lines"\textsuperscript{53}.

The following norms are to be followed by the new banks to be formed [1] The bank will have to be registered as a public limited company under the companies Act of 1956, [2] The bank will be governed by the provisions of the Reserve Bank of India Act 1934 and Banking Regulation Act of 1949, [3] The minimum paid up capital for such a bank should be Rs.100 crores. The bank will have to achieve capital adequacy of eight per cent of the risk weighted assets from the very beginning. The shares should be listed on the stock exchanges. Voting rights of an individual shareholder will be governed by the ceiling of one percent of the total voting rights. The existing norms regarding export credit and priority sector lending will be applicable to the new banks as well [4] the new banks will have to make full use of the modern infrastructural facilities in office equipments, computer and telecommunications in order to provide good customer service and [5] the new banks shall not be allowed to set up a subsidiary or mutual fund until the completion of three years from the date of establishment.

The branch expansion policy applicable to these banks will be the existing policy. These banks are free to open branches at various centres without prior approval of the Reserve Bank of India provided they satisfy the capital adequacy and prudential accounting norms. They are required to open rural and semi-urban branches also as may be laid down by Reserve Bank of India.

Operations, sales and marketing are the three major divisions of activities in New Generation Banks. Even though it varies according to positions, test and interview are the most common recruitment mechanisms. Direct recruitment from other organisations is another method used for recruitment and selection of employees.

Degree is the entry-level qualification for the New Generation Banks employees. An MBA is preferred. More than that consistent above average academic and career performance is the most important aspect.

"We conducted an in-depth study of the competencies required to succeed in ICICI Bank. They are: [1] Drive for results [2] Process Orientation [3] Interpersonal Effectiveness [4] Analytical Thinking [5] Innovation and [6] Team Effectiveness. In order to assess the same we use a set of three tools - [A] Mental Ability Tests [for candidates with 0-2 years of work experience] [b] Personality Profiling System [c] Personal Interview. The Mental Ability Test gives a fair and objective assessment of candidates’ skills in the areas of verbal reasoning, numerical reasoning and diagrammatic reasoning. These are important skills for the role of an entry level. Candidates are also required to complete the Occupational Personality Questionnaire
before they appear for the interview, the results of which are integrated into
our interview process.54

The employee supervision system is very effective as most of the elements are
automatic and online. It is very much up to date due to the use of the modern
technology. It is usually said that if you achieve your targets everything else is okay.

Some of the different categories of training provided are on the job, class
room training and online training. In one of the banks a specialised online-learning
matrix is being developed. In some of the banks, classroom training is provided and
online tests are conducted once in every three months.

None of the new generation banks have a training centre in Kerala.
Behavioural Sciences training is usually provided by outsourced staff and product
training by senior officers. Thus it is a mixture of own training and training
outsourcing.

As far as the New Generation Banks are concerned it is a refreshing fact that
there is promotion possibilities all the way up to chairman of the bank. An employee
who is consistently performing well will have the chance to go up in the ladder. Such
a non bureaucratic context which encourages efficiency and merit turns out to be
extremely motivating to the employees.

The employee appraisal mechanism follows the hierarchy. Boss apprises the
subordinate, which is evaluated by the super boss. This automatic appraisal by the
super boss may avoid all possibilities of irregularities. In some banks, they have got

54 http://www.icicicareers.com/selection_process.htm
the national ranking of the employees, but that is considered to be unfair to a lot of employees.

The employee appraisal with the use of the performance management system takes place every six months. It is entirely based on performance i.e. business brought, adherence to RBI rules and compliances, by assessing targets and achievement. Some of the personality aspects measured are integrity, character, leadership qualities, and passion to work. The thorough performance measurement system gives maximum weight to numbers and less for efforts and processes. This focus on numbers and absence of subjectivity helps in avoiding dissatisfaction among the employees.

The work time in the New Generation Banks is not as rigid as we see in the case of the Public Sector Banks. However, it seems that in most of the situations, the flexible work time turns out to be detrimental to the employees.

Generally, it can be said that the work atmosphere in the New Generation Banks are more stressful but that depends on the nature of the employees. One should be ready to bear with the targets, results, the pressure of time and the constant appraisals.

In the case of New Generation Banks the relationship between the employees are healthy and positive and the class differences between the employees are comparatively less. However, the marketing and target focus results in healthy competition and the work atmosphere encourages each other to work hard.
The New Generation Banks claim that they do not have any clerical staff. It is not because that there is no clerical work but because the work is not divided into clerical and non-clerical. The person who is responsible to do something will have to do everything related to it and all the work related to it is considered to be the normal banking work. The focus is on the responsibility to be performed and not on the specific work to be done. Another reason is the existence of the ‘off the roll’ staff that does only clerical work but they are not in the rolls of the bank. Technically, they are not bank’s employees. Also due to the sweeping changes in technology, there are significant changes in the way in which the banking work is being done.

The employees opine that its salary and remuneration system are good; it is at par with responsibility and market standards in the New Generation Banks.

Excellent work atmosphere is present in the new generation banks. Some of the characteristics of such a work atmosphere are based on the growth made by individual performance, excellent exposure through interaction with seniors without any hierarchical issues, flexibility, powerful computer system in line with the current technological growth, maximum utilisation of the available resources, hard work, open organisation, more of a seamless interaction amongst the employees and frequent partying.

The New Generation Banks recognise that, while employees look for growth and development, they also seek a challenge from the job. There is a constant effort to keep employees motivated to meet with challenges positively. These banks believe
that investment in people is the core to a service provider and it needs to be contemporary.

The New Generation Banks definitely provide a fast track growth for dynamic young professionals besides providing a challenging work environment. One gets to have a cross-functional exposure along with remuneration at par with the industry.

There are some negative aspects of the New Generation Banks' work culture. Even though the on roll staff have good growth prospects, outsourced staff rarely gets a chance to develop. Insecurity in the job, high work pressure, lack of proper communication down the line are difficult aspects. Even when the target focus is appreciated, the emphasis on numbers alone day in and day out creates dissatisfaction among the employees especially the not so high performers. The irony of the work culture is that if you perform well everything is good; otherwise, everything turns out bad.

The performance of the employee, the individual interest and approach of the employees and the availability of suitable positions elsewhere are some of the factors, which affect employee continuity in the New Generation Banks. The organisation does not demand or the employees do not believe in long-term loyalty to a single organisation.

Most of the employees working in the new bank system are happy with their work situation. They are either highly satisfied or at least moderately satisfied. It may be because those who are unable to cope with New Generation Bank work culture are
either not joining such organisations or leaving these organisations after their initial experience.

The absence of trade unions and associations is a feature of the new bank work culture. The professional management of the banks designs the human resource policies of the banks so that the employees do not feel the need for a trade union. At the same time other facilities like Trekking Club, Photography Club, Saturday Kids Club for the children of the employees which turns out to be a place to learn, to unwind and have lots of fun, Fitness Centre, Health Services, Club Membership, Discount offers/schemes, Holiday Homes in the better-known vacation spots all over the country, Scholarship schemes for the children of the employees, are provided in important centres.

If you are a high performer, the organisation needs you and there is high amount of job security. Moving out of the organisation is completely at your discretion. Suppose if you happen to be a low performer, the continuity of your life in the organisation is at risk. Thus it entirely upon the employees to make sure whether there is job security. Thus continuously updating and equipping oneself becomes paramount importance to the employees themselves. The New Generation Banks employees generally feel that the selection method for training and the transfer policy are fair. It is based on the job requirements.

The employees claim that disciplinary actions are very rare in the New Generation Banks. There can be different reasons for this. The appraisal system is very much based on targets and numbers. It is not at all dependent on the subjective
assessment of the superiors. There is greater extent of transparency in the organisation and less complaints and dissatisfaction which avoids the need for disciplinary action. The work is designed in such a manner that it avoids the possibility of disciplinary action.

Computerised internal control systems are developed so that the work done by the subordinate is monitored by the superior in the New Generation Banks. The system is hierarchical, as the immediate boss is the one to control the subordinate which may be evaluated by the super boss. Some employees feel that the monitoring system is too comprehensive and exhaustive.

Team work is very much advocated and frequently pronounced in the new generation banks but some employees experience dissatisfaction in implementation. The New Generation Banks encourage and focus on innovations and it is frequent and open to all. Any employee can give his/her own innovative ideas but it will be implemented if it ensures positive financial results. Bureaucratic and procedural hurdles are less in the implementation of new ideas. The small number of employees facilitates openness to ideas for improvement.

The new competencies possessed to be effective differ from those to be possessed by an old banker. It includes knowledge of market and product, excellent communication and interpersonal skills, anticipation, innovation, quick action, reliability, integrity and quality of work.
Those who join for employment in the New Generation Banks are well aware of the marketing orientation needed and respond positively to the requirements of the management.

According to the employees the work atmosphere in the New Generation Banks is moderately or highly stressful. Those who want to be successful in such a situation should have the capacity to work under pressure and withstand stress.

2.6 Recent Developments in Indian Banking

Evolution of Hi-tech Banking in India - Banking all over the world is undergoing a rapid and radical transformation due to the all-pervasive influence of information technology, tele-communications and electronic data processing. "The first blue prints of adaptation of IT in banks were drawn by the landmark report of Dr. Rangarajan Committee [1984] and the signing of the settlement on computerization with the bank unions. Various committees like the second Rangarajan committee, Saraf Committee, Shere Committee and the Vasudevan Committee had gone in to various aspects of computerization in the banking sector."55.

From Automated Ledger Posting Machines [ALPMs] and mini computers, technology in banking moved on to Magnetic Ink Character Recognition [MICR] Society for Worldwide Inter Bank Financial Telecommunication [SWIFT], Electronic Data Interchange [EDI], Electronic Clearing Services [ECS], Electronic

Fund Transfer at Point of Sales [EFTPoS], Credit and Debit cards, Telephone Banking and the like. The Indian Financial Network [INFINET] which was set up in 1999 is a landmark in the field of banking. It is a Wide Area Satellite network based on VSAT technology which facilitated an efficient and integrated inter bank payment system in the country.

"In banking industry technology is finding its use in five key areas namely viz., convenience in product delivery and access, managing productivity and performance, product design, adapting to market and customer needs and access to customer market". Information Technology has also enabled banks to meet the new challenges of Asset Liability Management and Credit Risk Management in the new deregulated environment through better Management Information System [MIS]. The other major advantages of technology adaptation are quick and effective customer service, better house keeping, increase in productivity and profitability, faster decision making, better operational efficiency and increase in volumes.

**Deregulation in Indian Banking** - "Banking sector reforms in India were introduced in order to improve efficiency in the process of financial intermediation. It was expected that banks would take advantage of the changing operational environment and improve their performance". Towards this end, the Reserve Bank of India initiated a host of measures for the creation of a competitive environment.

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57 "Efficiency in Indian Banking" Report on Trend and Progress of Banking in India 2002-03. Supplement to RBI Bulletin 2003. 66
To compete effectively with non-banking entities, banks were permitted to undertake newer activities like investment banking, securities trading and insurance business. This was facilitated through amendments in the relevant Acts and by encouraging the entry of new private and foreign banks. At the same time, banks also needed greater attention focused on operational efficiency in order to control their transaction costs.

Simultaneously with the deregulation measures, prudential norms were instituted to strengthen the safety and soundness of the banking system.

**Efficiency Improvements** - "In the international context, it has been found that; overall, depository financial institutions/banks experience annual average efficiency of around 77 per cent, keeping enough room for augmenting outputs from the same level of inputs. Inefficiencies emanate from either of the two components, viz. technical and allocative"\(^{58}\). Due to the former, there is likely to be sizeable under utilization or wastage of resources. On the other hand, due to higher allocative inefficiency, banks may not be able to choose correct input combinations in terms of their price.

Recent research found that "over the period of 1992-2003, there has been a discernible improvement in the efficiency of Indian banks. The increasing trend in efficiency has been fairly uniform, irrespective of the ownership pattern. The rate of such improvements has, however, not been sufficiently high. The analysis also reveals that the Public Sector Banks and Private Sector Banks in India did not differ

significantly in terms of their efficiency measures. Foreign banks, on the other hand, recorded higher efficiency as compared with their Indian counterparts.59

The pattern of efficiency improvement is broadly in consonance with what is expected from an industry undergoing deregulation and transformation. Clearly, “all the bank groups registered efficiency gains, even in the face of increasing competition in the financial marketplace. However, while sustaining the current trends in efficiency, there remains scope for banks to expand their asset base relative to their input usage by adapting innovations in production technology.”60

**Technology Applications** - Technology has become a strategic and integral part of future banking. Future banking shall be fully technology driven enabling customer service efficient through multiple delivery channels such as ATMs, the internet, mobile phones, etc. All back office functions should be shifted to centralized processing centres with only sales and service to be performed at the front office. A customer of the branch will become the customer of the bank. There will be reversal in the direction of data flow in the CBS environment with the data captured from branches converted into meaningful information at regional service centres, data processing centres, then transmitted back to branches and offices. The responsibility for making best use of the MIS, for strategic initiatives, will clearly lie in the corporate office.


Further, there would be high level technology integration in payment and settlement systems coordinated by Reserve Bank of India [RBI]. Cheque truncation, Real Time Gross Settlement [RTGS], etc, have already been made operational and these would have large implications on the over all response time and service delivery. Centralized funds management system [CFMS], Structured Financial Messaging Solution [SFMS], inter connection of clearing houses through Indian Financial Network [INFINET], etc, are significant moves in technology and they reaffirm the symbiotic relationship between IT and banking.

The Reserve Bank of India [RBI] has been playing a pivotal role in the upgradation of technology in the banking sector, with the objective of putting in place a safe, robust, efficient and integrated payment and settlement system. This includes measures aimed at integration of financial entities through the INFINET, encouraging retail electronic mode of payment including implementation of an Electronic Funds Transfer [EFT] system, establishing the Negotiable Dealing System [NDS], development of a Centralized Fund Management System [CFMS] and National Settlement System [NSS] and finally, introduction of the Real-Time Gross Settlement [RTGS] system. Reserve Bank of India [RBI] has commenced the implementation of the RTGS system in a phased manner.

Managerial Autonomy for Public Sector Banks - The managerial autonomy package announced by the RBI recently contains the following provisions [1]

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Autonomy now given to Public Sector Banks to operate in new business areas and undertake business rationalization, i.e., opening of new vistas in business, closing of unviable business units, setting shops overseas in sync with banks’ overall business strategy. [2] Now banks can formulate their own HR policies in recruitment, staffing pattern, mobility, promotion, disciplinary rules etc., specific to their organizational needs. Public Sector Banks can thus leverage HR for business growth and design innovative policies for people’s development. [3] Strong banks have been given autonomy in deciding the number of general managers as per their organizational requirements. [4] Strong Public Sector Banks can also offer differential pay packages to genuine high performers within the overall grades as decided under the wage settlement at industry level. It would instil a culture of performance - linked pay and would be a strong motivation for high achievers. [5] Removal of the cap on staff welfare expenditure made by banks is yet another avenue which banks can explore in designing the right mix of the overall employee benefits package which can have a tremendous impact on employee motivation and retention.

Better Choices for the Customer and Professionalism in Banking - Private sector banks have started using telephone banking and internet banking to increase their retail reach without investing too much in infrastructure. These banks established inter-branch network, 24 hours automated teller machines [ATMs], and home delivery. They have introduced the concept of ‘Anywhere Banking’, in which the customers can satisfy all their banking needs at any of its branches in India. They
provide longer banking hours and offer tailor made products for different segments of customers.

Thus, the New Private Sector Banks [NPSB] have adopted newer technologies and targeted key segments of the market. "These banks have high proportion of non-interest, fee based incomes in their profit and loss account. The professional approach to banking and limited and carefully thought-out branch network has enabled them to perform superbly"\textsuperscript{62}.

**Voluntary Retirement Scheme [VRS] and Indian Banks** - "As per the recommendations of the HRM committee, the Government of India permitted the Indian banks Association to circulate the Voluntary Retirement Scheme [VRS] to Public Sector Banks for implementation as per their man power planning\textsuperscript{63}. All the Public Sector Banks except the Corporation Bank have introduced Voluntary Retirement Scheme [VRS] between 15\textsuperscript{th} November 2000 and 22\textsuperscript{nd} March 22, 2001 for their staff with a view to right size the workforce, increase operational efficiency and control costs for competitive edge.

**Effect of Voluntary Retirement Scheme** - A study shows that, out of the 14.7 per cent of the employees applied for VRS, 11.7 per cent of the applications have been accepted. The response to Voluntary Retirement Scheme [VRS] is high in the case of Officers [27.1 per cent] in comparison to clerical [11.4 per cent] and subordinate staff [6.8 per cent].

\textsuperscript{62} Pawan Kumar op cit.

The percentage of total applications received under the scheme of the total strength in the nationalized banks and the State Bank Group is almost equal. But the nationalized banks have relieved more percentage [13.3 per cent] of staff and significantly more percentage [22.0 per cent] of the officers under Voluntary Retirement Scheme [VRS] in comparison to the State Bank Group where it is 8.9 per cent and 12.1 per cent respectively.

When there is need for improvement in the employee mix, especially in the ratio of Officers to Award Staff and the right sizing of the employees, one of the objectives of the implementation of Voluntary Retirement Scheme [VRS], the result was the opposite.

With respect to the age profile, it is observed that there is no remarkable improvement in the age profile of the nationalized banks, as the average age of the employees, post Voluntary Retirement Scheme [VRS], has come down by mere 1.3 years from 43.7 years to 42.4 years.

Regarding skill profile, it is observed that since a sizeable number of skilled / experienced staff left the banks under Voluntary Retirement Scheme [VRS], there is an urgent need for up gradation of the skills of the remaining employees in the shortest possible time. Transfer liability is one of the major reasons [42 %] for the employees to opt for Voluntary Retirement Scheme [VRS].

The number of trainings being presently imparted to the staff during the service period is six in the case of officers and four in the case of clerical staff. The training cycle is 2.4 years, 3.8 years and four years in the case of directly recruited
officers, Promotee officers and clerical staff respectively. It is also observed that the main channel of training is in house off site training and the existing facilities will take normally three years to impart training once, to each employee.

**IT Strategy for Indian Banks** - "Technology has moved banking towards a whole paradigm shift. Not only the services and products offered by banks moved way beyond conventional banking, but access to these services has become a round the clock round the week routine. Most global banks can today be accessed via Phone / PC / internet / ATM or Kiosk 24 hours a day, 7 days a week"\(^\text{64}\).

Pace of adoption of information Technology [IT] by our banks remained at a very low level due to a variety of reasons. Bank’s unions allowed mechanization in a very constrained way in the years 1982, 1987, and 1989. It was only after the bi-party agreement in 1993 between the employee’s unions and the bank management that has allowed total Branch Computerization and other IT applications in a big way. Still a large branch network is working on manual systems although, in terms of coverage of business, a significant achievement has taken place during recent years. The Reserve Bank of India [RBI] has set up committees from time to time to implement the IT strategy in the Indian banks.

Table 6 presents the list of different committees formed by RBI in connection with the IT strategy for Indian banks and their major recommendations.

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\(^{64}\) The Committee on Banking Sector Reforms - Narasimham II
Table 6 - RBI Committees and Recommendations in Connection with the IT Strategy for Banks

<table>
<thead>
<tr>
<th>Committee</th>
<th>Year</th>
<th>Chair Person</th>
<th>Major Recommendations</th>
</tr>
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<tbody>
<tr>
<td>1 - Committee on Mechanization/Computerization in Banks 1983 and 1988</td>
<td></td>
<td>Dr. Rangarajan, Deputy Governor of RBI</td>
<td>These committees have drawn the perspective for five years each for mechanization / computerization of Indian banks in a phased manner. While the first committee suggested the installation of Automated Ledger Posting Machines (ALPMs), the second committee emphasized total branch computerization and networking of branches to improve customer services.</td>
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<tr>
<td>2 - Committee on Communication Networks in Banks 1987</td>
<td></td>
<td>Mr. TNA Aiyer, Executive Director of RBI</td>
<td>Set up a network infrastructure called ‘Banknet’ to connect seven major cities with leased lines from DoT [Department of Telecommunication]. It was created in 1991 to facilitate intra bank and inter bank communication.</td>
</tr>
<tr>
<td>3 - Committee on Technological Issues 1994</td>
<td></td>
<td>Mr. W. S. Saraf, Executive Director on technical issues relating to Payment Systems, Cheque Clearing and Security Settlement in banking Industry.</td>
<td>EFT systems have been implemented between major cities, Electronic Clearing Services (ECS), both credit and Debit, for payment of dividends, interests, etc. on the one hand and payment of utility bills like telephone bills, electricity bills etc., on the other have been operationalized. The Committee suggested delivery versus payment (DVP) system and currency chest reporting electronically, creation of high speed transmission facilities like VSAT technology, fibre optics, etc. for bank connectivity and establishment of Institute for Development and Research in Banking Technology (IDRBT). The IDRBT was set up in 1996 and the institute has launched a VSAT based network system, Indian Financial Network (INFINET) on June 19, 1999 for Indian banks. It has also been envisaged to implement the Real Time Gross Settlement (RTGS) and other risk mitigation measures like Centralized Fund Management System (CFMS), Securities Settlement System (SSS), Negotiated Dealing System (NDS) and Integrated Accounting System (IAS) at the earliest for secured and efficient payments and settlements. The Structural Financial Massaging System (SFMS) has already been adopted to improve the efficiency of financial message communication system.</td>
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<tr>
<td>4 - Committee for Legislation on Electronic Funds Transfer and Other Electronic Payments 1995</td>
<td></td>
<td>Ms. K S Shere.</td>
<td>A set of EFT regulations under the Reserve Bank of India (RBI) Act,</td>
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</table>
1934 and amendment to Banker's Book Evidence Act, 1891 as short term measures and promotion of a few Acts like Electronic Funds Transfer Act, The Computer Misuse and Data Protection Act, etc. as long term measures.

5 - Committee on Banking Sector Reforms 1998
Chair Person - Dr. Rangarajan, Deputy Governor of RBI
Major Recommendations - The committee has observed that, while most technologies that could be considered suitable for India have been introduced in some diluted form as a pilot, requisite success has not been achieved because of [a] inadequate bank automation, [b] not so strong as commercially oriented inter bank platform [c] lack of planned, standardized electronic payment systems backbone [d] inadequate telecom infrastructure [e] inadequate marketing efforts [f] lack of clarity and certainty on legal issues and [g] lack of data warehousing network.

6 - Committee on Technology Up Gradation in the Banking Sector 1998
Chair Person - Dr. A Vasudevan, executive director, RBI.
Major Recommendations - [A] Improving effectiveness of VSAT [INFINET] network by enhancing the transponder capacity, integration with high performance fibre backbone to make Indian Financial Network [INFINET] a blend of satellite, microwave and terrestrial links to draw the best advantage of these technologies.
[B] Standardization of protocol for Wide Area Network to TCP/IP
[C] Institutional arrangement for key management and authentication by way of certification agency
[D] Adoption of standard cryptography procedures to prevent data tamper. Identification of suitable mail/groupware solution which can run on the Indian Financial Network [INFINET]
[E] Outsourcing software technology in view of rapid changes taking place in IT so that the advantages of latest developments are available to the banks.
[F] Computerization of all bank branches dealing with Government transactions and synchronization and computerization of Government departments with the computerization of bank branches dealing with Government transactions.
[G] Establishment of robust MIS founded on data warehousing and data mining, at individual bank level for implementation of various regulatory guidelines, the IBA is to initiate the process of building industry level Data Warehouse so that the participating institutions can derive the benefit of business segmentation and analysis and trend forecasting on various banking operations.
[H] Amendment of Reserve Bank of India [RBI] Act, 1934 to assume the regulatory and supervisory powers on payment and settlement systems and enactment of EFT regulation to facilitate multiple payment systems, amendment to various legislations viz. Bankers Book Evidence Act 1891, The Negotiable Instrument Act 1881 etc.
**Electronic Delivery Channels** - Due to IT adaptation in banking there is a marked shift from conventional banking to convenience banking. Most modern electronic delivery channels like ATMs, Smart cards, Tele Banking etc. are the order of the day. Once seen as a novel cash dispenser ATMs have now emerged as a marketing tool to target the Indian middle class. “After years of putting up with endless public holidays and bank strikes, Indians are catching up with the concept of banking anytime through ATMs”\(^{65}\). A network of connected ATMs of various banks is operational in Mumbai. The Shared Payment Network System [SPNS] symbolizes the use of technology for the direct improvement of customer service.

The smart card technology is going to bring about a dramatic change in our daily life. All leading technology savvy banks are planning to get in to smart card issuance. Smart card is a kind of chip based electronic purse.

**Mobile Banking** - The bank in association with cellular service providers, offers mobile banking service. The short key words on the mobile, enables the customer to get the required information without any manual exercise. The information provided is not transitory. “It is different from tele - banking in certain aspects. In tele - banking the bank answers one’s request; this information has to be recorded manually, because it is transitory”\(^{66}\).

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\(^{66}\) Narayanan V ‘Nuts and Bolts of Internet Banking’ Business Line from the Hindu Group of Institutions on 16-7-2000.
High tech - Wireless Application Protocol [WAP] is hot technology heralding sweeping changes in the fields of telecommunications and Information Technology and it revolutionized the world of internet. With the rise of online banking services, mobile banking with WAP aided cell phones is the next logical step for banks to improve customer service. A customer will be able to use his cell phone to download electronic cash from his account on to a smart card, which can be used to pay for goods etc.

**Real Time Gross Settlement Systems [RTGS]** - Radical changes in payment and settlement systems have affected the world over in recent times. From Electronic Fund Transfer [EFT] and Electronic Fund Transfer at Point of Sales [EFTPoS] etc., Reserve Bank of India [RBI] is moving with a major objective of establishing a Real Time Gross Settlement System [RTGS] which will bring online banking in India at par with the rest of the world and revolutionize net banking. “Once RTGS becomes operational one can directly make payment to anybody by punching in a few keys; no matter in which bank he maintains his account. RTGS would provide a high degree of certainty to important inter bank payments and would provide the much needed safeguard for the financial stability of lifting the duration of inter bank credit exposure”67.

**Indian Financial Network [INFINET]** - Indian Financial Network [INFINET] was inaugurated on June 19, 1999. It is a Closed User Group [CUG] for

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the Banking and Financial Sector. In Phase I of the VSAT network, about 400 VSATs have been installed and commissioned. A number of banks have started using the network for various applications. “Currently the banks are using the network mostly for messaging, File Transfer and Chat Services. A few banks have started using the network for critical applications like multi branch banking and some of the banks are in the process of building their own internal applications”.

The proposed applications on Indian Financial Network [INFINET] are:

- Anywhere Banking
- Interactive Transaction Oriented Applications
- Database Inquiries
- Automated Teller Machines
- Credit / Debit card applications
- Electronic Fund Transfer [EFT] - on real time basis for high value, time critical transfers for corporate and in batch for regular customers
- EFTPoS
- Electronic Data Interchange [EDI]
- Inter Branch Reconciliation
- E-mail for correspondence
- Issuing instructions, circulars etc.
- Government Securities Transactions and Settlement
- Accounting of Receipts and Payments of Government Transactions
- Currency Chest Accounting

2.7 The Reserve Bank of India and Supervision of the Indian Financial System

The Reserve Bank of India, the central bank of the country was set up on the basis of the recommendations of the Hilton Young Commission. The Reserve Bank of India Act, 1934 provides the statutory basis for the functioning of the Bank, which

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commenced operations on April 1, 1935. The Central Office of the Reserve Bank has been in Mumbai since inception. Though originated as a private institution, the Reserve Bank is fully owned by the Government of India since nationalisation in 1949.

The Bank began its operations by taking over the functions so far being performed by the Controller of Currency and the management of Government accounts and public debt performed by the Imperial Bank of India.

The RBI, since its inception pioneered the concept and practise of using finance to catalyse development. The Bank was also instrumental in institutional development and helped to set up institutions like the Deposit Insurance and Credit Guarantee Corporation of India, the Unit Trust of India, the Industrial Development Bank of India, the National Bank of Agriculture and Rural Development, the Discount and Finance House of India etc. to build the financial infrastructure of the country.

With liberalisation, the Bank's focus has been shifted back to core central banking functions like Monetary Policy, Bank Supervision and Regulation, and Overseeing the Payments System and developing the financial markets.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as: “to regulate the issue of Bank Notes and keeping of reserves
with a view to securing monetary stability in India and generally to operate the
currency and credit system of the country to its advantage".

The Reserve Bank's affairs are governed by a central board of directors
appointed by the Government of India.

The Reserve Bank of India performs the function of Financial Supervision
under the guidance of the Board for Financial Supervision [BFS]. The Board was
constituted in November 1994. The primary objective of BFS is to undertake
consolidated supervision of the financial sector comprising commercial banks,
financial institutions and non-banking finance companies.

It considers inspection reports and other supervisory issues placed before it by
the supervisory departments. The BFS oversees the functioning of Department of
Banking Supervision [DBS], Department of Non-Banking Supervision [DNBS] and
Financial Institutions Division [FID] and gives directions on the regulatory and
supervisory issues.

Some of the functions of BFS include [1] restructuring of the system of bank
statutory auditors and [4] strengthening of the internal defences of supervised
institutions.

The financial markets have become more sophisticated and global in nature,
adding to the challenges faced by central banks. At the same time rapid strides in
telecommunication and electronic data processing coupled with new funding

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 Reserve Bank of India Department of Banking Supervision Central Office Mumbai December 2000
instruments, growth of securitisation, emergence of new institutions have increased
the role and responsibilities of bank supervisors.

Current Focus areas of BFS include [1] supervision of financial institutions [2]

Regulation Act, 1949 governs the functions of the RBI. Acts governing specific
regulates government securities market [3] Indian Coinage Act, 1906 governs
Management Act, 1999, governs trade and foreign exchange market.

banks as companies [2] Banking Companies [Acquisition and Transfer of

National Housing Bank Act and [6] Deposit Insurance and Credit Guarantee
Corporation Act.

Apart from its Head Office in Mumbai, RBI has got 22 regional offices, most of them are in state capitals. RBI gas six training establishments for providing training to bank professionals.


**Supervisory Process** - The major instrument of supervision of the financial sector is inspection. The inspection process focuses mainly on aspects crucial to the bank’s financial soundness with a recent shift in focus towards risk management. Areas relating to internal control, credit management, overseas branch operations, profitability, compliance with prudential regulations, developmental aspects, proper valuation of asset/liability portfolio investment portfolio, and the bank’s role in social lending are covered in the course of the inspection. The Department undertakes statutory inspections of banks on the basis of an annual programme,
which is co-terminus with the financial year for public sector banks. After the inspection report is released to the bank, followed by a ‘supervisory letter’ based on the inspection findings to the bank, the concerns of the inspections are discussed with the CEO of the bank and a Monitorable Action Plan is given to the bank for rectification of those deficiencies. The Department submits a memorandum covering supervisory concerns brought out by the inspection to the Board for Financial Supervision [BFS]. Specific corrective directions of the BFS are conveyed to the banks concerned for immediate compliance.

Closer supervision had a perceptible impact on the Non Performing Assets [NPAs] of public sector banks. The banks have shown a declining trend in terms of percentage of NPAs to total advances during the last four years. “The percentage of gross NPAs to gross advances of public sector banks declined from a high level of 19.45 at the end of March 1995 to 13.86 as on 31 March 2000. The net NPAs formed 8.07 per cent of the net advances as on 31st March 2000.”

The Capital to Risk-weighted Assets Ratio [CRAR] for banks initially fixed at 8 per cent was increased to 9 per cent from March 2000. “The position of banks, not achieving the prescribed CRAR level since 1995, has come down from 42 banks [14 public sector] as on 31 March 1995 to 4 banks [1 public sector] as on 31 March 2000 due to constant monitoring and directions for improvement in this area at quarterly intervals.”

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60 ibid. p.4

61 ibid. p.4
On-Site Inspection of Banks - In terms of the new approach adopted for the on-site inspection of banks, the Inspecting Officers concentrate on core assessments based on the CAMELS model [Capital adequacy, Asset quality, Management, Earnings appraisal, Liquidity and Systems and controls]. This approach works out to be an effective one.

It was introduced for the inspection cycle commencing from July 1998. The review of the supervisory rating system has been completed to make it more consistent as a measure of evaluation of bank’s standing and performance as per on-site review.

A model to rate the level of customer service in banks was developed and forwarded to Indian Banks’ Association for conducting appropriate surveys on customer satisfaction at periodical intervals. During the course of annual financial inspections ‘customer audit’ is carried out to evaluate the quality of customer service at the branches of commercial banks

A Quarterly Monitoring System through on-site visits to the newly licensed banks in their first year of operation has been put in place. Old and new private banks displaying systemic weaknesses are also subjected to quarterly monitoring.

A new Inspection Manual has been brought out in 1998 taking into account evolving supervisory needs and shift in approach towards risk based supervision. Another new manual for the use of inspectors looking at ALM and Treasury operations was prepared with the help of international consultants under the
Technical Assistance Project funded by Department for International Development [DFID], UK and has been put to use by the RBI inspectors.

Detailed guidelines on risk control systems in computerised banks have been circulated amongst banks along with the details of electronic records to be maintained for supervisory access. Specialised training modules along with extensive guidelines for the use of RBI inspectors are in place for inspection of computerised bank systems. An international consultancy firm, funded by the DFID [UK], helped the Bank in its aforesaid project. A system of evaluation visits, covering all branches functioning at different overseas financial centres, has been instituted as a part of the initiatives taken to strengthen cross border supervision.

**On-Site Inspection of Financial Institutions** - All India financial institutions are being covered by on-site supervisory process [CAMELS standards] on the lines in vogue for banks since 1995. Taking into account the developmental functions and supervisory functions exercised by some of these institutions - NABARD supervises state/central cooperative banks and regional rural banks, National Housing Bank [NHB] regulates and inspects housing finance companies, and IDBI inspects state financial corporations - a modified approach for supervisory assessment of these institutions has been introduced.

Non-Banking Financial Companies - The system of on-site examination is structured on the basis of CAMELS approach and the same is akin to the supervisory model adopted for the banking system. A comprehensive Inspection Manual has been brought out for the use of Inspecting Officers.
Off-site Monitoring and Surveillance System of Banks - As a part of the new supervisory strategy, an off-site monitoring system for surveillance over banks was put in place in RBI in March 1996. The first tranche of OSMOS returns require quarterly reporting on assets, liabilities and off balance-sheet exposures, CRAR, operating results for the quarter, asset quality and large credit exposures in respect of domestic operations by all banks in India. Data on connected and related lending and profile of ownership, control and management are also obtained in respect of Indian banks.

Transparency and Disclosure of Information - RBI has always been committed to enhance the element of transparency and adequate disclosures in the financial statements of banks. While international accounting standards are broadly followed, specific valuation standards have been prescribed in respect of investments and foreign exchange positions. The task of moving towards greater disclosure by banks in India was taken up in 1982 when the formats of the financial statements were revised and expanded. Following the liberalization measures introduced in the beginning of this decade, the process and extent of disclosure by the banking system have been further enhanced. Over the past few years, banks have been advised to disclose key information on capital adequacy and composition, NPA's, provisions, investments and shareholding of Government. Banks are also required to disclose certain critical financial ratios on profitability and efficiency. More recently, banks have been asked to disclose maturity pattern of assets and liabilities, movement in NPA's and exposure to sensitive sectors.
As a part of its efforts to enhance the credibility of information available on Indian banking system, RBI publishes [since March 1998] bank-specific information on financial and performance indicators, including asset quality ratios, CRAR and earning ratios in its annual publication of ‘Trends and Progress in Banking in India’.

Reserve Bank of India’s efforts in this area have been well recognised in international forums and in August 1999, it was made a Member of the Core Principles Liaison Group [CPLG] of the Basel Committee for Banking Supervision, which has been set up to promote the implementation of the Core Principles worldwide. RBI has also examined the proposed New Capital Adequacy Framework currently under discussion by the BCBS, and has communicated its response to the Basel Committee. RBI is also represented on the Working Group of Capital of the Core Principles Liaison Group, which has been constituted to obtain the inputs of the non G-10 countries in the international standard setting exercise.

The Plan for the Future in the Regulatory Mechanism - One of the major changes brought about in the supervisory functioning is to introduce a consultative process with banks preceding the introduction of major measures. The guidelines on Asset-Liability Management [ALM] on comprehensive Risk Management Systems and guidelines for investment in non-SLR securities and review of reporting system covering overseas branches of Indian banks have been finalised in 1999.

The risk based supervision project under consideration, which is being guided by international consultants with the assistance of Department for International Development [UK], would lead to prioritisation of selection and determining of
frequency and length of supervisory cycle, targeted appraisals and allocation of supervisory resources in accordance with the risk perception of the supervised institutions.

The Prompt Corrective Action [PCA] framework, which will link regulatory action to quantitative measures of performance, compliance and solvency such as CRAR, NPA levels and profitability, after gathering suggestions from the stakeholders is to be considered by the BFS before being implemented.

An approach of consolidated supervision that while leaving the responsibility of supervision of bank subsidiaries to their respective regulators, will allow bank supervisors to obtain a consolidated view of the operations of bank groups has been approved.

With the increasing reliance upon off-site reporting as an instrument of supervision, upgradation of reporting systems has been a focus area of the BFS and this focus will continue in the future. With the introduction of technology and new products and the move towards risk-based supervision, the skill-set required by supervisors need to be improved continuously.