CHAPTER III

BANKING AND FINANCIAL SECTOR REFORMS IN INDIA

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3.1 Introduction

It is more than a decade since economic reforms were introduced in India and this is an appropriate time to look back for an evaluation and to plan the future course of action. The year 1991 is an important landmark year, as the economic reforms in the country started from that year. The country went through a severe economic crisis triggered by a serious balance of payments position. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy. The response to the crisis was to put in place a set of policies aimed at stabilization and structural reform. While the stabilization policies were aimed at correcting the weaknesses, that had developed on the fiscal and balance of payment fronts, the structural reforms sought to remove the rigidities that had entered into the various segments of the Indian economy.

For a balanced, productive and competitive system of economy in the country, a strong and efficient financial system is a must. The main object of the Financial Sector Reforms (FSRs) introduced from 1991 onwards is to attain such a strong and efficient financial system. The banking sector receives major emphasis in this, as the banking sector is the most dominant sector in the financial sector, accounting 80 percent of the funds flowing in the financial sector and 75 percent of assets as at the end of March 2004 (Reddy 2004). It plays an active role in the mobilization and allocation of savings which provide the life blood for the various kinds of economic activities. According to Rangarajan (1998), the financial sector performs this basic economic function of intermediation essentially through four transformation mechanisms.
1. Liability – Asset transformation (Accepting deposits as a liability and converting them into assets or loans)
2. Size transformation – (ie; providing large loans on the basis of numerous small deposits)
3. Maturity transformation (ie; offering alternative forms of deposits to savers according to their liquidity preferences while providing borrowers with loans of desired maturities) and
4. Risk transformation (ie; distributing risks through diversification which substantially reduces risks for savers which would prevail while lending directly in the absence of financial intermediation).

The process of financial intermediation supports increasing capital accumulation through the institutionalization of savings and investment and as such, fosters economic growth. The gains to the real sector of the economy, therefore, depends on how efficiently the banking and financial sector performs this basic function of financial intermediation.

3.2 Financial Sector Reforms – Global Scenario

The process of changing the character and structure of financial markets has in many ways been a global phenomenon, though the motivations for reforming domestic financial markets have varied from country to country. Issues of financial sector liberalization and reform, including elements such as effective bank supervision, changing banking regulations, interest rate policies etc., have received attention not only among developing countries but also in a large number of developed countries. The debt crisis of the early 1980s, accentuated the move towards adopting measures to impart greater depth, liquidity and stability to the International Financial Markets. According to the Bank for the International Settlements (BIS), more than 30 governments across the world have had to help their financial institutions in distress over the last 10 years and also bring about consequent changes in their regulatory environment and market structure (Rangarajan 1998).
The reform of the financial sector in the industrially advanced countries was triggered to a major extent by the globalization of banks and the financial markets. The globalization trend began at the end of 1960s and 70s and was influenced by factors such as restrictive regulations on banking like Regulation “Q” in the United States. In fact, the creation of the Eurodollar market was perhaps a precursor to creation of freer and market driven financial systems. Further, the collapse of the Brettenwoods system had ushered in an era of floating exchange rates in most countries. The subsequent abolition of capital controls by several countries resulted in the development of strong cross-border flows and trading. Simultaneous technological advances in the financial sector strengthened the information resources of banks, enabling them to offer real-time buying and lending of financial assets, creating profit and loss opportunities throughout the day. These trends were reinforced by the growth of strong competition among institutions, especially from non-banking financial institutions. With the distinction between banks and non-banks coming down, several restrictions specific to the banking sector got dismantled.

These developments, however, raised the level of risk being handled by the global financial system. While risk rose, the margins decreased. Response to increasing competition and decreasing margins came in the form of financial product innovations engineered particularly so as to remain off-Balance Sheet.

Greater opportunities, competitive pressures, financial deregulation and liberalization, however, led to a tendency on the part of the banks and financial institutions to overextend their lending and investment decisions, such as, by accepting debtors of lower creditworthiness in an attempt to maintain profitability. In the mid 1980s, these forced the monetary authorities to strengthen the regulations and raise capital requirements which

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1 The new International Monetary Arrangement agreed in the Brettonwoods Conference is often called Brettenwoods System. It is a compromise between fixed and floating exchange rate system. It was the modified gold exchange standard in which the member countries maintained adjustable pegs relative to US Dollar. The US undertook to exchange gold for dollars with foreign central banks at a fixed rate. The new system aimed at establishing international harmony and exchange rate stability associated with the gold standard and allowing individual countries the freedom to pursue their own macro economic policy. The system of adjustable pegging faced recurrent crises and finally collapsed in 1973.
came to be popularly known as the Basel Norms\textsuperscript{1}. Rules were laid down for reporting non-balance sheet items and presenting higher risk capital to cover contingencies. Apart from the general objective of improving the working of the financial system, FSRs in many developing countries in Latin America and Asia were introduced as part of an overall programme of economic stabilization. In some of the Latin American countries, FSRs were initiated as early as from the middle of 1970s but in most of the countries this phenomenon gained prevalence in the mid 1980s. While in some countries financial sector reforms helped in the strengthening of the financial system, some other countries had to initially face some setbacks.

The experiences of several developing countries which introduced financial liberalization programme revealed the following facts.

1. A minimal system of prudential regulation is necessary before embarking on financial sector reforms.
2. The speed and nature of interest rate liberalization has to take into account the pace with which problem banks and their debtors can be restructured. Recapitalising the weak banks and restructuring their portfolios must receive attention in this context.
3. The success of the financial liberalization programme critically depends upon maintaining macro-economic control during the reform period.
4. Introduction of convertibility showed move from trade to current to capital account (Rangarajan 1998).

3.3 Background of Financial Sector Reforms in India

The financial sector reforms currently underway in India must be seen as a component of the overall scheme of structural reforms. The overall package is aimed at enhancing the productivity and efficiency of the economy as a whole and also increasing international competitiveness. The reforms are comprehensive in scope covering besides FSRs, several

\textsuperscript{1} The prudential norms for financial stability were finalized by the Bank for International Settlements in Basel, Switzerland came to be known as Basel Norms. The main object is to strengthen the soundness and stability of the International Banking System.
other components of economic policy introducing liberalization and deregulation of domestic investment, opening up of key infrastructure areas hitherto reserved for the public sector for private sector participation, opening up the economy to foreign competition by reducing protective barriers such as import controls and high tariff, encouraging direct foreign investment as a source of technology upgradation and also as a source of non-debt finance for investment, reforms of the public sector to impart greater efficiency of operations and reforms of the tax system to create a structure with moderate rates of tax, broader base of taxation and greater ease of administration. All these reforms are closely interrelated and progress in one area helps to achieve objectives in others and all these reforms can be materialized only if the banking and financial system plays a crucial supportive role (Rangarajan 1998).

The Indian banking and financial system has made considerable progress during the last few decades. Despite this progress in terms of geographical and functional coverage, the Balance Sheet of the performance of the banking sector was a mixed one- strong in widening the credit coverage but weak as far as viability and sustainability were concerned and characterized by low profitability, high and growing NPAs and relatively low capital base (Singh and Das 2002). It was against this background that the banking and financial sector reforms was initiated which aimed at addressing the causal factors both internal and external to the system.

3.4 Narasimham Committee

The government of India appointed a committee under the chairmanship of Sri. M. Narasimham to examine all aspects relating to the structure, organization, functions and procedures of the financial system. The committee on Financial System submitted its first report in November 1991. The report covers policy aspects, accounting practices, institutional and structural issues, and matters relating to organizational development of banks, but the co-operative banks were untouched.
Recommendations

1. Accounting practices have been prescribed more in consonance with international accounting standards with the main objectives of enhancing transparency, creditability and accountability.

2. Asset classification criteria have been prescribed and principles governing income recognition have been laid down with the aim of providing measurable objectivity.

3. Prudential norms have been prescribed with respect to provision of substandard assets.

4. Interest rates deregulation.

5. Reduction of Statuary Liquidity Ratio and Cash Reserve Ratio.


7. Reduce the level of NPAs to strengthen institutional base.

8. The creation of assets reconstruction funds to revitalise weak banks.

9. Liberal approach towards foreign banks being opened in India.

10. Permission to new private sector banks to start.

11. The weak banks are to be recapitalised.

12. Upgradation of technology in banking to replace conventional system of banking.


The second phase of financial and banking sector reforms (1998) emphasize –

a. Enhancing the inherent strength of banks.

b. Reviewing the structure of the system, internal organization of banks and streamlining their procedures, upgrading technology and human resource development.

c. Introducing structural change in the system. (Narasimham Committee Report 1998).
According to C. Rangarajan, former Governor of RBI, the approach that governs both the I & II phase of reforms are similar and could be summarized as Panchasutra or 5 principles:

1. Cautious and proper sequencing of various measures giving adequate time to the various agents to undertake the necessary norms, example gradual introduction of prudential norms.

2. Mutually reinforcing measures, that as a package would be enabling reform but non disruptive of the confidence in the system. Example combining reduction in refinance with reduction in CRR which obviously improved bank profitability.

3. Complementarity between reform in banking sector and changes in fiscal, external and monetary policies, especially in terms of co-ordination with the government. Example, recapitalization of government owned banks, coupled with prudential regulation; abolition of ad hoc treasury bills and its replacement with a system of ways and means advances, coupled with reforms in debt markets.

4. Developing financial infrastructure in terms of supervisory body, audit standards, technology and legal framework. Example, establishment of Board for Financial Supervision, setting up of The Institute for Development and Research in Banking Technology and legal amendment to the RBI Act on NBFCs.

5. Taking initiatives to nurture, develop and integrate money, debt and forex markets in a way that all major banks have an opportunity to develop skills, participate and benefit. Example gradual reduction in the minimum period for maturity of term deposits and permitting bank to determine the penalty structure in respect of premature withdrawal, syndication in respect of loans, flexibility to invest in money and debt market instruments, greater freedom to banks to borrow from and invest abroad.
3.5 Objectives of Financial Sector Reforms in India

The ongoing financial sector reform programmes aim at producing a diversified, efficient and competitive financial sector with the ultimate objectives of improving the allocative efficiency of available resources, increasing the return on investments and promoting an accelerated growth of the real sector of the economy. More specifically the FSR programmes in India seek to achieve the following:

1. Suitable modifications in the policy framework within which various components of the financial system operate, such as rationalization of interest rates, reduction in the levels of resource pre-emptions and improving the effectiveness of directed credit programmes.

2. Improvement in the financial health and competitive capabilities by means of prescription of prudential norms, recapitalisation of banks, restructuring of weaker banks allowing freer entry of new banks and generally, improving the incentive system under which banks function.

3. Building financial infrastructure relating to supervision, audit technology and legal framework, and

4. Upgradation of the level of managerial competence and the quality of human resource of banks by reviewing the policies relating to recruitment, training and placement.

3.6 Features of Financial Sector Reforms

The main features of the FSRs undertaken are:

1. FSRs were undertaken as part of overall economic reform.

2. While the reform process itself commenced in India well after many developing countries undertook reform, FSRs were undertaken early in the reform cycle.
3. These were orderly as designed by a high level committee taking into account the prevailing circumstances.

4. While on the regulatory aspects and relevant financial ratios, there was discernable progress on structural aspects, especially public ownership and incentive structures including autonomy of PSBs, reform process fell short of expectation of Committee on Financial System (CFS).

5. The reforms have brought about some efficiency, as for example; evidenced by recent reduction in interest spreads or increasing trend on household savings, especially financial savings.

6. The financial system and in particular, the banking system displays continued stability relating to other countries (Reddy 1996).

### 3.7 Reform Measures Introduced in India

**Interest Rate Deregulation**

The reform of the interest regime constitutes an integral part of the FSR. The RBI has withdrawn its control on interest rates fixed by banks in deposits and loans and advances. Now the banks have sufficient flexibility to decide their deposit and lending rate structures and manage their assets and liabilities accordingly. At present, except savings bank account and NRE deposits on the deposits side and export credit and small loans on the lending side, all other interest rates are deregulated.

**Pre-entions of Deposits**

Indian banking system has operated for a long time with a high-level reserve requirements both in the form of SLR and CRR. This is really due to the high fiscal deficit financing to the government.

**Statutory Liquidity Ratio**

SLR is the reserve which is statutorily required to be maintained by SCBs with the RBI as a security to safeguard the interest of depositors. The SLR has been brought down from the pre-reform of the peak of an effective rate of 38.5 percent in February 1992 to
31.5 percent in 1994 and further to the statutory minimum of 25 percent in October 1997 (Kanagasabapathy 2001).

**Cash Reserve Ratio**
The CRR is one which the banks have to maintain with itself in the form of cash reserves or by way of current account with the RBI, computed as a certain percentage of its demand and time liabilities. The objective is to ensure safety and liquidity of deposits with the banks. The CRR has been brought down from peak of 15 percent in 1994-95 to 8 percent in 2000-01 and further to 5 percent in October 2004. RBI would continue to pursue its medium term objective of reducing CRR to its statutory minimum of 3 percent (RBI 2004).

**Directed Credit (Priority Sector Advance)**
In respect of directed lending, the recommendation of the CFS to scale down the rate of priority sector advance from 40 percent to 10 percent of the net bank credit was not accepted by RBI. The earlier prescription of 40 percent of the net bank credit to the priority sector, such as agriculture (18 percent), SSI and small business (10 percent) and the programme for poverty alleviation, is retained. Since the bulk of borrowers with such credit needs fall within the priority sector, they will continue to obtain bank finance at concessional rates. Priority sector borrowers with credit needs of higher amounts will, however, be governed by the general interest rate prescription. This will ensure that a certain proportion of bank credit goes to the designated sector and to the needy borrowers, without unduly affecting the viability and profitability of banks (Rangarajan 1998).

**Prime Lending Rate (PLR)**
The Prime Lending Rates of banks have fallen considerably through the reduction of SLR and CRR (Kumar 2002). PLR is the benchmark rate fixed for lending by commercial banks. Now the commercial banks have the freedom to fix their own PLR. The PLR of a bank depends on its cost of borrowings and lower this cost, the finer the interest rate bank will be able to offer its customers. The freedom given to commercial banks to offer loans
as below the PLR will unleash tremendous competition among them to corner the best accounts of corporates as previously they were not allowed to dip below the PLR once it was fixed (Monthly commentary 2001(a)).

**Prudential Norms**
A strong and resilient financial system and orderly evolution of financial markets are the key prerequisites for financial stability and rapid economic progress on sustainable basis (RBI 2000). It is recognized that increased competition in the financial system heightens the need for prudential regulation and supervision to ensure financial stability (Jalan 1999). Prudential reforms introduced in India relate to income recognition, asset classification, provisioning for bad and doubtful debts and capital adequacy. Prudential norms serve two purposes - first, they bring out the true position of a bank’s loan portfolio and secondly, they help to arrest its deterioration. In the absence of an effective prudential framework, the reform process can run into difficulties. Introduction of prudential regulations as part of the reform process is, therefore, a must.

**Non Performing Asset**
A proper definition of income is essential in order to ensure that banks take into account income which is actually realized. Banks have been given a clear definition of “non performing asset” and instructions have been issued that no interest should be charged and taken into income account on any non-performing asset. An asset would be considered as non-performing, if interest on it remained due for a period exceeding 90 days at the balance sheet date. The definition of non performing asset is also being tightened over time. Banks are now required to make provisions on advances depending on the classification of assets into 4 broad groups.

1. **Standard assets**
Standard assets are those accounts, which do not disclose any problem or carry much risk and are regular in all respects. These assets do not require provisions.

2. **Sub-standard assets**
Sub-standard assets would be those, which exhibit problems and would include assets classified as non-performing for a period not exceeding two years.
3. **Doubtful assets**

Doubtful assets are those non-performing assets which remain as such for a period exceeding two years and would also include loans in respect of which interests are overdue for a period exceeding two years.

4. **Loss assets**

Loss assets are accounts where loss has been identified, but the amount has not been written off (Narasimham Committee Report 1998).

**Capital Adequacy**

The prudential regulations also include norms relating to adequacy. A strong capital base of banks is essential for ensuring sustained growth of banks business and for absorbing unexpected losses (RBI 2004). A capital to risk weighted asset system has been introduced more or less in conformity with international standards. The present norm fixed is 10 percent of the aggregate of risk-weighted assets. The introduction of 90 days delinquency norms for recognition of loan impairment effective from March 31, 2004, reduction in the transition period for migration of a substandard asset into doubtful category for 18 months at present to 12 months effective from March 31, 2004, making adequate provision to cover country risk etc. would put increased pressure on the capital adequacy and bottom lines of banks (Muniyappan 2002).

**Competition and Transparency**

Competition is allowed in the banking sector by permitting new private sector banks and more liberal entry of branches of foreign banks. The share PSBs in the banking business is going down, particularly in metropolitan area. Competition is encouraged in rural and semi urban areas also by encouraging local area banks (Reddy 1998). Some diversification of ownership in selected PSBs has helped the process of autonomy and thus some response to competitive pressures.

The transparency and disclosure standards have been enhanced to meet international standards. These relate to maturity pattern of assets and liabilities, movements in provisions account and NPAs (Bhide et. al; 2002).
Supervision
An independent Board for financial supervision under the aegis of RBI has been established and consistent with international practices. Focus is also on offsite inspections and on control systems internal to the banks. Status of implementation of core principles of banking supervision shows that of the 46 principles, 33 have been implemented, 11 are partially implemented, while only two are yet to be implemented. These two relate to the critical aspect of adequacy of reserves against country risk and transfer risk and consolidated reporting (Reddy 1996).

Credit Controls
Selective Credit Controls have been dispensed with. The advances to priority sector lending have been enlarged, interest rates deregulated and alternate avenues of investment permitted, thus making the priority advance far more flexible than before. The major area of serious concern relates to government sponsored programs involving subsidies, where there are serious problems of both co-ordination and recovery (Reddy 1996).

Incentives and Legal Reforms
The most critical issue in FSR related to consequences of the extent of public ownership and special laws governing PSBs. The CBSR has devoted a significant part of its report to reform of PSBs, on which government as the Principal needs to act. At present, public ownership has adverse effect on the level playing field among banks, capacity and willingness to compete in the market place, incentives to perform and binding work practices/ methods that inhibit efficiency. The issue of efficiency in PSBs has several dimensions and legal is one of them. Again, issues of optimal efficiency, autonomy and ownership are intertwined. The central government reduced the government stake on PSBs from 51 percent to 33 percent (Monthly commentary 2001(b)).

Lok Adalats
With the enactment of Legal Services Authority Acts 1987, Lok Adalats were conferred a judicial status and have since emerged as a convenient method for settlement of
disputes between banks and small borrowers. The RBI has issued guidelines to CBs advising them to make increasing use of Lok Adalats. Government has recently revised the monetary ceiling of cases to be referred to Lok Adalats organized by civil courts from Rs.5 lakhs to Rs.25 lakhs. The number of cases filed by CBs with Lok Adalats stood at 485, 046 involving an amount of Rs. 2433 crore. The number of cases decided was 205032 involving an amount of Rs.974 crore and recoveries effected in 159316 cases stood at Rs.328 crores as on 31st March 2004 (RBI 2004).

**Debt Recovery**

Progress in establishing and operationalizing debt recovery systems has been painfully slow, partly due to judicial review. CBSR suggested several legislative measures that would facilitate debt recovery, securitisation electronic systems etc. A serious consequence of tightening prudential norms and pressuring banks to reduce NPA without strengthening the debt recovery system is the choking of credit (Reddy 1996). To speed up the debt recovery of banks, Debt Recovery Tribunals (DRTs) are established by the RBI. As on June 30, 2004 out of 63600 cases (involving Rs.91,926 crores) filed with DRTs by the banks, 27956 cases (involving Rs.25358 crores) have been adjudicated by them. The amount recovered so far through the adjudicated cases is placed at Rs.7,845 crores (RBI 2004).

**Accounting Standards**

The need for high quality accounting standards is to ensure that information contained in the financial statements is accurate, timely and comprehensive so that it is particularly useful for markets and stakeholders (RBI 2004). The Indian Accounting Standards followed by the Indian banks are not in line with International Accounting Standards. It will be seen that on accounting and valuation, Indian Standards and de facto practices are not comparable with International Standards. The major area of divergence in accounting is in respect of group accounting and consolidation. In India, currently consolidation is not required and investments in associated companies are not accounted for under equity methods. With regard to disclosure, Indian banks do not, at present, disclose maturity pattern of assets/liabilities, concentrations of assets/ liabilities and off-balance sheet...
items, net foreign currency exposure, movement in provisions account and gross NPAs and related party transactions. Banks are prohibited from granting advances to firms in which a director is interested (Reddy 1996).

**Financial Markets**

Since April 1997, the RBI has been taking special efforts to develop various segments of the financial markets, in particular, money market, government securities market and foreign exchange market. Significant steps have been taken to introduce new instruments, strengthen the institutional infrastructure, widen the participant base, introduce efficient settlement mechanism, rationalize tax measures and improve transparency in operations (Reddy 1996).

a. **Money Market**

In order to facilitate the conduct of monetary policy, it is essential to improve the efficiency of transmission mechanism through the money market. The main measures taken by the RBI in recent past are -

- Cautious entry to additional participants in the inter bank call money market,
- Actions to develop the term money market, the major among them being the exemption of inter bank liabilities from CRR & SLR stipulations and
- Refinements in instruments such as commercial paper, certificate of deposit, inter bank participation certificate and rediscounting of commercial bills. The Liquidity Adjustment Facility is also introduced by the RBI (Reddy 1996).

b. **Government Securities Market**

The role of Government securities market in promoting stability of financial systems derives from stable prices and stable markets (RBI 2004). There are various reforms introduced by the RBI in Government securities market like selling government securities through auctions, introduction of new instruments such as zero coupon bonds, introduction of treasury bills of varying maturities, establishment of specialized institutions such as Securities Trading Corporation, installation of a system of primary dealers and satellite dealers, establishment of the system of delivery vs. payment,
prescription of standard valuation norms and transparency in operations through market process and dissemination of information (Reddy 1996).

c. Foreign Exchange Market
In an open economy environment, the foreign exchange market has assumed critical importance for stability of the financial system, since banks balance sheets are being influenced by the foreign capital inflows and various other external transactions (RBI 2004). Measures initiated to integrate the Indian foreign exchange market with global financial system include permitting banks to fix their own position limits as per international terms and aggregate gap limits; to borrow from and invest abroad up to 15 percent of their tier 1 capital, and to arrange to hedge risks for corporate clients through derivative instruments. Other measures such as permitting forward cover for some participants and the development of the rupee foreign exchange swap markets also have provided additional instruments to hedge risks and help reduce exchange rate volatility. There has been a temporary slow down in further progress due to uncertainties in the market. These matters will have to be reviewed from time to time and the process of reform restored with appropriate change (Reddy 1996).

Greater Autonomy for Public Sector Banks
The Government announced greater operational flexibility for PSBs with a view to making them compete more effectively with private sector banks as well as speed up their business decisions. PSBs, henceforth, will be able to pursue new lines of business as part of overall business strategy and make suitable acquisitions of companies or businesses, close or merge unviable branches, open overseas offices, set up subsidiaries and also exit a line of business.

PSBs have been empowered to take decisions on all human resource issues relating to them including staffing pattern, recruitment, placement, transfer, training, promotions, pensions etc. They can now prescribe essential academic qualifications, minimum qualification standards and modalities of promotion/recruitment to various categories.
Banks, now, also have the freedom to prescribe standards for categorization of branches based on volume of business and other relevant factors as well as undertake visits to foreign countries to interact with investors, depositors and other stakeholders. They can also lay down policy accountability and responsibility of bank officials.

The board of directors of stronger banks with capital adequacy of 9 percent or more, net NPA of less than 4 percent, net profits over the last 3 years and minimum owned funds of Rs.300 crores will have additional autonomy for framing their own human resource policies and procedures for recruitment, for creating additional posts of general managers etc.

The board of PSBs, hence forth, will enjoy freedom to carryout their function efficiently without any impediment subject to statutory requirements, Government policy prescriptions and regulatory guidelines issued by the RBI (New Indian Express 2005).

**Foreign Direct Investment (FDI)**

RBI announced 74 percent FDI in private sector banks of India. The maximum voting power of 10 percent, whatever may be the share holdings, is dispensed with. Foreign bank are allowed to enter into India in two stages –

The first phase is 4 years upto 31st March 2009. The second phase will start on 1st April 2009. They can function here as subsidiary or through branches with 74 percent stake holdings. A plan is designed by the RBI for takeover of Indian banks by foreign banks after 2009. In this time, the subsidiary foreign banks can list their shares in stock exchanges (SEs) of India. The foreign banks should provide 26 percent of share capital to Indians. The Indians can participate in their share capital through Initial Public Offer (IPO). Upto 2009, the foreign banks can purchase shares only in those banks selected by the RBI for reconstructions. These banks will get controlling power step by step. The minimum capital requirement fixed by the RBI for floating a subsidiary banking company in India is Rs.300 crores (Mathrubhumi 2005).
One time Settlement / Compromise Scheme
One time settlement / compromise Scheme has been introduced for settlement of chronic NPAs of PSBs. The time limit for receiving application was extended to July 31, 2004 (RBI 2004).

Corporate Debt Restructuring (CDR)
The scheme of corporate debt restructuring started in 2001 with a view to put in place a mechanism for timely and transparent restructuring of corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, was further fine-tuned in February 2003 based on the recommendations of the working group headed by Shri. Vepa Kemesam. The CDR system has been evolved on the lines of similar mechanism prevalent in United Kingdom, Korea, Thailand, Malaysia etc. (Ranjanakumar 2003).

The number of cases and value of assets restructured under the CDR mechanism stood at 94 and Rs.64,017 crores respectively as on June 30, 2004 (RBI 2004).

Asset Reconstruction Companies (ARC)
To solve the problem of bad loans, ARCs have been promoted which take over NPAs of banks and Financial Institutions (FIs) at a discounted rate and manage and dispose such assets. So far the ARCs have acquired NPAs worth Rs.9631 crores from banks and FIs at a price of Rs.2089 crores (RBI 2004).

Consultative Processing Policy Formulation
In order to ensure timely and effective implementation of the measures, the RBI has been adopting a consultative approach before introducing policy measures. The consultative approach not only enables benchmarking the financial services against international best standards in a transparent manner but also provides useful lead time to market players for smooth adjustment with regulatory changes.
Resource Management Discussion (RMD)

RMD meetings are held every year prior to the monetary and credit policy announcements with select banks. These meetings mainly focus on perception and outlook of the bankers on economy, liquidity condition, credit outflow, development of different markets and direction of interest rates along with their expectations from the policy and suggestions in this respect.

Technical Advisory Committee (TAC)

The TAC under the chairmanship of Deputy Governor of RBI has emerged as a key consultative mechanism among the regulators and various market players. The committee has been crystallizing the synergies of experts across various fields of the financial market and thereby acting as a facilitator for the RBI in steering reforms in money and Government Securities markets.

National Payments Council (NPC)

The NPC looks after reforms in payment and settlement system, chaired by a Deputy Governor. It is the apex policymaking body in the arena. This council consists of representatives of banks, NSE, SEBI and NBFC. The NPC took several policy initiatives during 2003-04, including extension of structured Financial Messaging Solution (SFMS) facilities over the internet, removal of the limit on EFT and extension of RTGS facilities to primary dealers.

Technological Developments

Computerization of banking has received high importance in recent years. PSBs crossed 70 percent level of computerization of their business. The direction from the Central Vigilance Commission (CVC) to achieve 100 percent computerization, has resulted in renewed vigour in PSBs towards fulfillment of this requirement which could go a long way to better customer service. Networking in banks has also been receiving focused attention during recent times (RBI 2004).
Payment and Settlement Systems
Payment and Settlement Systems serve an important role in the economy as the main arteries of the financial sector. It has been the endeavor of RBI to improve the efficiency of the financial system by ensuring safe, secure and effective payment and settlement system for the country. To fulfill the requirements of international payments and settlements, the RBI implemented the Real Time Gross Settlement System (RTGS) during the year 2003-04. The impetus given to retail payment systems also continued with a new facility being made available - the Special Electronic Fund Transfer (SEFT) system (RBI 2004).

Real Time Gross Settlement Systems (RTGS) in India
The RTGS system was implemented by the RBI on March 26, 2004. It provides for an electronic based settlement of inter bank and customer based transactions with intra-day collateralized liquidity support from the RBI to the participants of the system. As on November 19, 2004, 51 banks offer RTGS payment services through 1451 branches located in 152 cities and towns (RBI 2004).

Retail Payment System
Indian retail payment system is characterized by a substantial number of funds transfers, being effected through MICR clearings, and technologically advanced system like Electronic Clearing Service (ECS Debit and credit clearing), EFT, the special EFT card based systems (credit, debit, ATM and Smart cards) are also gaining increased usage by customers of bank. As at the end of October 2004, 112.02 lakh credit cards have been issued by banks to their customers (RBI 2004).

Online Tax Accounting System (OLTAS)
A measure aimed at providing better facilities for the government tax collection and for taxpayers was the introduction of OLTAS with a network of various branches authorized for collection of tax receipts. The RBI and the Tax Information Repository at the National Securities Depository Ltd (NSDL) are also part of the OLTAS. Data are
captured from the challans submitted by tax payers tendered at the designed bank branches and transmitted electronically to the repository (RBI 2004).

**Securitization**

It involves the process of pooling and repackaging of homogeneous illiquid loans into marketable securities and distributing to a broad range of investors through capital markets. In the process, the lending institution’s assets are removed from its balance sheets and are instead funded by investors through a negotiable financial instrument. The increased pressure on operating efficiency market niches, competitive advantages and capital strength provide impetus for change. Securitization has emerged as one of the solutions to these challenges.

**Bank Assurance**

Many European markets have put bank assurance into practice. In France more than 50 percent of life insurance is sold through banks. In UK a large number of banks deal with insurers as providers of products. In the liberalised sector, in India too, banks have been offering insurance package through the concept of universal banking – SBI Life Insurance, ICICI Prudential Life, HDFC Standard Life, Birla Sun Life etc. (Baslas and Bansal 2001).

**Review of Banking Sector Reforms**

The reforms measures introduced in India have targeted and achieved International best practices and standards in a systematic and phased manner (Mathur 2002). The Narasimham Committee II had reviewed the progress of reform measures recommended by the Narasimham Committee I. Reviews are also found in the annual reports of RBI and in several studies made related to this, such as Ahluwalia (1999), Sarkar (1999), Reddy (1999), Patra (2000) and Bhide et. al; (2002).
References
Mathrubhumi Daily, March 2, 2005.


