CHAPTER III
DEVELOPMENT OF BANKING AND NPA

This chapter deals with: A-Origin of Commercial Banking in India, Financial sector reforms, History of NPA, and Latest policy of NPA, and B-General profile of the study area.

COMMERCIAL BANKING IN INDIA

Bank has peculiar importance in the industrial as well as economic development of a country. It is unique among other financial institution and widely differs from them by its functions. Banks play a critical importance in determining the money supply. Such banks in India have different connotation by way of indigenous and western type commercial banks. The present study analyses banking in: Pre-independence period, Post-independence period, Nationalisation of commercial bank, and Banking reforms.

PRE-INDEPENDENCE PERIOD

Commercial banking in India began in 1770 with the establishment of the first joint stock bank, named the Bank of Hindustan, by an English Agency in Calcutta. But this bank failed in 1832. The actual beginning of the modern commercial banking in the country was made with the establishment of the Bank of Bengal in 1806. Later on, the Bank of Bombay and the Bank of Madras were also set up in 1840 and 1843 respectively. All these banks were called the presidency banks; they were partly financed by East India Company; and they were given the right of note issue in their own regions.
In 1881, the first purely Indian bank (i.e.) Oudh Commercial Bank came into being. It was followed by the setting up of the Punjab National Bank in 1894, the three Presidential Banks and the Imperial Bank of India, the People's Bank in 1901, etc. The Swadeshi Movement of 1905 encouraged the growth of commercial banks in India. Thus, in the pre-independence period foundation for western type of commercial banking in our country was witnessed.

POST-INDEPENDENCE PERIOD

During this period the need for an apex monetary institution to supervise, regulate, control and develop the monetary and financial system of the country was felt. Accordingly the Reserve Bank of India was established on April 1, 1934. It was subsequently nationalised on Jan 1, 1949. There were many deficiencies in the operation of the banking system in the country. "Reserve Bank of India tried from time to time through credit controls, inspecting and licensing powers to instill discipline in lending, opening of new branches in unbanked areas, provision of differential terms for export credits and several other areas.

SOCIAL CONTROL

Government of India has introduced social control of Banking in 1967 with the intention to prevent bank failures and sustain public confidence in banking. This is to check the concentration of economic power; to stress the need for extending banking services in the rural sector, and to meet challenges of economic problems like inflation and unemployment through an effective integration of monetary policy with fiscal measures.

NATIONALISATION OF BANKS

Social control was affected by the government through nationalisation of banks to achieve certain important objectives. Accordingly, nationalisation of fourteen major banks in
1969 and six in 1980, made a drastic change in the Indian Banking System. The achievements of nationalisation by public sector banks include branch expansion, deposit mobilisation, bank credit and advances to priority sectors".¹

GOVERNMENT POLICIES

The opening up of the Indian economy was taken up in the mid-eighties: where the government undertook a major programme of economic liberalisation and restructuring. The objective is to integrate the Indian economy with the global economy and gradually eliminate the elaborate system of governmental control and regulation of different sectors of the economy. In phased manner withdrawal of government's financial support, banks will no longer be assured of their substance in the event of problems.

Economic liberalisation in early 1990's brought about phenomenal changes in the banking sector and also increased competition in the banking industry. A fair number of private sector banks with considerable financial might and expertise have already made an entry. Under the government policy to integrate the Indian economy with the world economy, the effective presence of multi national banks is seen in the banking sector.

FINANCIAL SECTOR REFORMS AND PUBLIC SECTOR BANKS

According to Y.V.Reddy² one of the objectives of nationalisation of the banks in 1969 was to extend the reach of organised banking services to rural areas and to the neglected sections or sectors of society. Since 1969, there has been a significant spread of the banking habit and a large mobilisation of savings by banks. Banking system also played a major role in

¹ CHHABRA TRILOK N. TANEJA PIYUSH K., Banking Theory and Practice, (Dhanpat Rai and Sons, 1990), pp.56-59.
² REDDY, Y.V. “RBI and Banking Sector Reform” address at Indian Institute of Management, Ahmedabad on November 14, 1998.
widening the entrepreneurial base of the country. However, by 'eighties, it was clear that the operational efficiency was unsatisfactory. Banks were characterised by low profitability with high and growing non-performing assets. Therefore, a series of reform measures were undertaken since 1985 in which the first phase of comprehensive reforms in the banking sector was undertaken in 1991.

Yet another study\(^3\) has dissected financial systems into three distinct components viz., institutions, markets and instruments. Financial institutions include banks, insurance companies, development financial institutions, non-banking financial companies, stock exchanges, clearing houses, stock broking companies, foreign exchange dealers, etc. Financial markets consist of market for government securities, corporate securities, foreign exchange, derivatives, short-term finance or money market, equity markets, etc. Instruments, in turn, comprise domestic and foreign currencies, stocks, equities, bonds, debentures, futures products, financial options, financial derivative products, etc. The Reserve Bank, as the central bank of the country, closely monitors developments in the whole financial sector. It is, however, the deposit-taking institutions and development financial institutions, which directly come under the regulatory ambit of the Reserve Bank.

He argued that the banks as the major group of deposit-taking financial companies assume a position of predominance in the financial sector. Savings in bank deposits are the most important form of financial savings accounting for around 45 per cent of the total during the late 'nineties. In India, the banking sector is dominated by scheduled commercial banks (SCBs). As at end of March 2001, there were 296 commercial banks operating in India. This included 27 public sector banks (PSBs), 31 private, 42 foreign and 196 regional rural banks.

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Further, there were 67 scheduled co-operative banks consisting of 51 scheduled urban co-operative banks and 16 scheduled state co-operative banks.

Over a period of time the operational and allocative efficiencies had deteriorated even though the extent of financial intermediation increased. PSBs had low capital base, large proportion of low quality assets in the portfolio and low levels of operational profit. The financial health of banks had become fragile and was progressively becoming weak. For the sector as a whole, the result was high cost of intermediation, low quality of banking services and fragile financial health of the institutions. In spite of their poor financial health, for the public, Government ownership of PSBs translated into a sovereign guarantee on the safety of deposits. So even when PSBs performed badly they never faced a liquidity crisis or a 'run on their deposits'. Needless to say this bred inefficiencies in bank operations.

As a consequence of this 1991 marked a watershed in the history of Indian economy with the introduction of financial sector reforms. The reform measures are divided into three categories based on their aims. The first category of measures seeks to strengthen the financial system and institute systems and processes to reduce its vulnerability. Second categories of measures seek to enable market players to respond to market signals in an optimal manner on the basis of commercial considerations, without external restrictions. The third sets of measures are aimed at putting in place appropriate institutions and mechanisms to ensure a level-playing field for all market participants. The Measures to enable banks to operate freely in a commercially justifiable manner and competitive environment include the reduction of statutory pre-emption, deregulation of interest rates and giving banks greater autonomy and flexibility in day to day operations. Other measures in this direction include greater streamlining of the operations of development financial institutions and deregulation of the capital market.
Policies for establishing financial stability have dominated the agenda of reforms in the 1990s. There is a distinct country specific flavour to the approach to the responsibility for financial stability. Although considerable ground remains to be covered in the quest for a vibrant, and well-diversified and competitive financial sector with multiple intermediaries operating in various segments of the financial markets, the initial adaptation responses of financial intermediaries, particularly banks, has been encouraging.

The empirical results indicate that those banks which have secured the greatest reduction in non-performing assets have reaped the maximum gains in terms of profitability, or at least in terms of unshackling financial performance from policy intervention. Capital adequacy has almost uniformly produced an improvement in performance. For the public sector banks, evidence of a flight to quality indicates that application of capital ratios may not have provoked ‘risky’ portfolio selection, as found in some other countries. For the Indian banking system in general the adjustment to macro and micro prudential regulation has been relatively rapid although the speed of adjustment has varied across the industry.4

In India, financial sector reforms continued to focus on strengthening the financial system and improving the functioning of the various segments. The broad parameters of the reforms undertaken during the year comprised ongoing deregulation of the operation of institutions within the Reserve Bank's regulatory ambit, tightening of the prudential norms and improvement in the supervisory oversight, expanding transparency and market disclosure, all with a view to improving overall efficiency and stability of the financial system with regard to financial sector recapitalisation of the banking sector was initiated in 1993-94 roughly coinciding with the reforms in the financial sector. The Government's

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capital contributions over the period 1992-93 to 1998-99 aggregated Rs.20, 446 crore. No recapitalisation support was provided to banks for the years 1999-2000 and 2000-01.\(^5\)

**NPA- A HISTORICAL ANALYSIS**

In India, the problem due to Non Performing Advances attracted the attention of authorities, general public and International Financial Institutions. This has gained further prominence in the wake of transparency and disclosure measures initiated by Reserve Bank of India during recent years. The RBI in 1980 has introduced a 'Health Code' system for credit administration as explained in Chapter I.

The Committee on Financial System, Capital Account Convertibility Committee and Committee on Non-Performing Assets of Public Sector Banks has dealt with the subject of NPAs in Indian banks. The subject of high NPA levels in banks has also been frequently raised at various levels. A study of NPAs in banks, to understand the problem, its genesis and influence on the banking industry was conducted and the main recommendations are given below.\(^6\)

Sticky advances and NPAs were studied by using the present prudential norms for 34 banks from 31 March 1989 to 31 March 1997. The study indicated about the problems in the Indian banking sector. The Sticky accounts of these banks, account for 17.91 percent of gross advances as on 31 March 1989. The percentage of sticky advances to total advances would have been still higher even if a part of the amounts locked up in sick industrial units which were viable or were under nursing were included. The banks funds locked up in such sick units were substantial.

The Non Performing Advances of these banks were reduced to 17.44 percent as on 31 March 1997 after the introduction of norms as laid down by the RBI. The banks reduced the proportion of NPAs was mainly due to proportionately much higher rise in the advances portfolio. Lower level of NPA accretion after 1992 was estimated less than 5 percent on gross basis was an achievement. The gross NPAs of the entire banking sector had further declined to 16.02 percent as on 31 March 1998.

As of March 31, 2002, the gross NPAs of scheduled commercial banks stood at Rs.71, 000 crores, of which the NPAs of public sector banks alone account for Rs.57, 000 crores. The absolute amount of NPAs continues to be a major drag on the performance of banks. The large volume of NPAs reflects both an overhang of past dues and on-going problem of fresh accretion. Following the international norm of 90 days for recognition of loan impairment, there may be a temporary increase in crystallization of NPAs in the banking sector. It requires improvements in credit administration and management of credit risk. In this context, the Credit Information Bureau (CIB) helps in improving credit decisions by providing institutional mechanism for sharing of credit information on borrowers and potential borrowers among banks and financial institutions.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act of 2002 provides for cleansing the balance sheet of banks by facilitating foreclosure. The Constitution of an Asset Reconstruction Company (ARC) is another channel to remove NPAs from the balance sheets of banks through the processes of securitisation of assets. The Reserve Bank has recently posted on its website the draft of the directions on
prudential norms proposed to be issued by into securitisation companies or reconstruction companies.\footnote{Reserve Bank of India Bulletin, January 2003, pp 15-17.}

The high level of NPAs in the Indian nationalized banks is an outcome of historical legacy mainly due to lacunae in credit recovery system, largely arising from inadequate legal provisions on foreclosure and bankruptcy, long drawn legal procedures and difficulties in execution of the decrees awarded by the Court. A paper recently brought out by FITCHIBCA, an international rating agency, contains the following on the NPAs in the Indian banking system "The Indian legal system is sympathetic towards the borrowers and works against the banks' interest. Despite most of their loans being backed by security, banks are unable to enforce their claims on the collateral, when the loans turn non-performing, and therefore, loan recoveries have been insignificant. However, there is a significant improvement since 1991 when gross Non-Performing Loans (NPLs) to total loans were estimated to be around 23 percent, or even in 1995-96, when this ratio was 17.5 percent. The bulk of the NPLs in the banking sector are due to historical reasons and incremental NPLs, until now, were not a serious problem\footnote{Reserve Bank of India Bulletin, July 1999, pp 913-920.}.

The causes for sickness or weak performance and consequently the account turning NPA in respect of the top 50 NPAs of 33 banks i.e. 27 Public Sector and top 6 Private Sector Banks as on 31 March 1997 were studied. Since some of these accounts are under consortium or multiple banking arrangements, and appear in the books of more than one bank, the number of accounts studied was about 1550 to 1600. The study brought following reasons for sickness and the factors leading to NPA.
1. Diversion of funds for expansion or modernisation or setting up new projects or helping or promoting sister concerns.
2. Time or cost over run while implementing the project.
3. External factors like raw material shortage, raw material or input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents, etc.
4. Business failure like product failing to capture market, inefficient management, strike or strained labour relations, wrong technology, technical problems, and product obsolescence, etc.
5. Failure, non-payment or over dues in other countries, recession in other countries, externalisation problems, adverse exchange rate, etc.
6. Govt. policies like excise, import duty changes, deregulation, and pollution control orders, etc.
7. Willful Default, siphoning of funds, fraud, misappropriation, promoters or management disputes etc.
8. Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-up, delay in release of limits, delay in settlement of payments or subsidies by Government bodies, etc.\(^9\)

Therefore, the RBI has introduced new guidelines and policies for concrete objectivity and assessment of NPAs.

**LATEST POLICY ON NPA**

An analysis of NPAs in the Indian banking system as on March 31, 2001 done internally in RBI had been put up to the Board for Financial Supervision (BFS) in its 79\(^{th}\) meeting held on December 27, 2001\(^10\). In this connection, the BFS directed to conduct a study on slippage of NPA accounts from sub-standard to doubtful category and to arrive at recommendations to prevent such slippage.

As directed by the BFS, a study was conducted by an in-house group in the Bank by scanning relevant information or data obtained from a select group of banks as also by holding discussions with bank officials, who manage NPAs at the policy level as well as those who look after actual recovery, rehabilitation or revival, restructuring of accounts at the

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\(^9\) Reserve Bank of India, ibid.,

implementing level. The group, on the basis of the study, had suggested a framework of recommendations for preventing slippage of NPAs relevant at the banks’ level. The preventive and corrective measures suggested under the framework of recommendations are an indicative but not exhaustive set of guidelines relevant at banks’ level. Appropriate action in respect of individual accounts may be taken keeping in view the peculiarities of the situation involved. Also, it was observed from the feedback received that a number of banks are already following some of the suggested measures in one form or the other in their NPA management. The objective underlying the exercise is to evolve a common minimum framework to tackle this problem, whilst leaving the individual banks or FIs free to formulate their own internal policies. Nevertheless, it is expected that concerned institutions will work out their strategic response in keeping with the broad thrust of these guidelines.

EARLY RECOGNITION OF THE PROBLEM

RECOGNISE THE PROBLEM EARLY

Identification of weakness in the very beginning is imperative. Assessment of the potential of revival may be done on the basis of a techno-economic viability study. Restructuring should be attempted where, after an objective assessment of the viability and promoter’s intention, banks are convinced of a turnaround within a scheduled timeframe. In respect of totally unviable units as decided by the bank or consortium, it is better to facilitate winding up selling of the unit early, so as to recover whatever is possible through legal means before the security position becomes worse.
RE COURSE TO THE NEW ORDINANCE

The Government of India has promulgated an ordinance on June 21, 2002, called "The Securitisation and Reconstruction of financial Assets and Enforcement of Security Interest Ordinance, 2002" to facilitate foreclosure of financial assets. In respect of totally unviable units as decided by the bank or consortium, action under this ordinance may be initiated without any loss of time. Banks are also strongly encouraged to take immediate recourse to this legal remedy where they encounter malfeasance on the part of promoters or borrowers.

EARLY ALERT SYSTEM

To control the growth of NPA effectively a system of identifying the weakness in accounts at an early stage is essential. For this the banks should prepare an "Early Alert" system which captures early warning signals in respect of accounts showing first signs of weakness. This system may be an integral part of the risk management process of the bank. Internationally, there is a similar system of "Special Mention Accounts". Under the "Early Alert" system, for internal monitoring purpose, banks may designate a time limit for overdue accounts to determine the threshold for a proactive intervention - well before the account becomes NPA. This is to enable a bank to assess whether the default is due to some inherent weakness or due to a temporary liquidity or cash flow problem, and accordingly calibrate its response. The account may be classified as potential NPA on account of one or more of the following illustrative list of features even though the account may be regular:

1. Delay in submission of stock statement or other control statements or financial statements.
2. Return of cheques issued by borrowers.
3. Devolvement of DPG installments and non-payment within a reasonable period
4. Frequent devolvement of LC and non-payment within a reasonable period.
5. Frequent invocation of BGs and non-repayment within a reasonable period.
6. Return of bills or cheques discounted.
7. Non-payment of bills discounted or under collection.
8. Poor financial performance in terms of declining sales and profits, cash losses, net losses, erosion of net worth etc.
9. Incomplete documentation in terms of creation / registration of charge / mortgage etc.
10. Non-compliance of terms and conditions of sanction.

SPECIAL MENTION ACCOUNTS

Early recognition is suggested to banks to introduce a new asset category between ‘Standard’ and ‘Sub-standard’ for their own internal monitoring and follow up. This asset category may be in line with international practice of ‘Special Mention Assets’ used by FDIC, U.S.A., MAS, Singapore, etc., while keeping in view the local requirements. An asset may be transferred to this category once the earliest signs of sickness / irregularities are identified. This will help banks to look at accounts with potential problems in a focused manner right from the onset of the problem, so that monitoring and remedial actions can be more effective. Once these accounts are categorized and reported as such, proper top management attention would also be ensured. Under off-site reporting, data on potential NPAs in terms of overdue position such as (i) Loans and Advances overdue for less than two quarters and (ii) Loans and Advances overdue for less than one quarter, are required to be submitted by banks on a quarterly basis. Banks already compile this data, which may be used gainfully by top management to gauge the potential asset problems. However, introduction of a ‘Special Mention’ category of assets would be on the basis of not only overdue position in the account but also other factors which reflect sickness/irregularities in the account. Some banks which already have ‘special mention’ category (by whichever name called) may continue the same on the basis of their internal norms. A Special mention account may briefly have the following main characteristics:
1. The asset has potential weaknesses which deserves close management attention and which can be resolved through timely remedial action.

2. If left un-corrected, the potential weaknesses in Special mention assets may result in deterioration of the repayment prospects and subsequent adverse asset classification.

3. Often a bank’s weak origination/servicing policies are the reason behind classification of an asset under the Special mention category though there may be cases where technical or other factors may also be responsible.

4. Apart from continuing irregularities, "special mention accounts" may also be categorised on the basis of factors such as inadequate cash flows and management integrity.

5. Apart from continuing irregularities, "special mention accounts" may also be categorised on the basis of factors such as inadequate cash flows and management integrity.

6. Special mention assets would not require provisioning, as they are not classified as NPAs. Nor are these proposed to be brought under regulatory oversight and prudent reporting immediately. The step is mainly with a view to alerting management to the prospects of such an account turning bad, and thus taking preventive action well in time.

As regards introducing a 'special mention' category as part of RBI's 'Income Recognition and Asset Classification norms' (IRAC norms), it would be considered in due course.\(^{11}\)

FOCUS ON CASH FLOWS

While financing, at the time of restructuring, banks may not be guided by the conventional Funds Flow Analysis only, which could yield a potentially misleading picture. Appraisal for fresh credit requirements may be done by analysing Funds Flow in conjunction with Cash Flows rather than only on the basis of Funds Flow.

MANAGEMENT EFFECTIVENESS

The general perception among borrowers is that it is lack of finance that leads to sickness and NPAs. But this may not be the case all the time. Management effectiveness in tackling adverse business conditions is a very important aspect that affects a borrowing unit’s fortunes. Additional finance to an ailing unit may be committed by a bank only after basic viability of the enterprise also in the context of quality of management is examined and

\(^{11}\) Reserve Bank of India, Guidelines on preventing slippage of NPA accounts, op.cit.
confirmed. Where the default is due to deeper malady, viability study or investigative audit should be done - it will be useful to have a consultant appointed as early as possible to examine this aspect. A proper techno-economic viability study must thus become the basis on which any future action can be considered.

CONSORTIUM OR MULTIPLE FINANCING

a. During the exercise for assessment of viability and restructuring, a pragmatic and unified approach by all the lending banks or FIs as also sharing of all relevant information on the borrower would go a long way toward overall success of rehabilitation effort. However, there is an element of risk in any restructuring exercise, given the probability of success or failure. One may expect a success rate of 50 percent restructuring efforts, for it is unrealistic to expect 100 percent success rate.

b. In some default cases, where the unit is still working, the bank should make sure that it captures the cash flows (there is a tendency on part of the borrowers to switch bankers once they default, for fear of getting their cash flows forfeited), and ensure that such cash flows are used for working capital purposes. Toward this end, there should be regular flow of information among consortium members. A bank, which is not part of the consortium, may not be allowed to offer credit facilities to such defaulting clients. Current account facilities may also be denied at non-consortium banks to such clients and violation may attract penal action. The Credit Information Bureau of India Ltd. (CIBIL) may be very useful for meaningful information exchange on defaulting borrowers once the setup becomes fully operational.

c. In a forum of lenders, the priority of each lender will be different. While one set of lenders may be willing to wait for a longer time to recover its dues, another lender may have a much shorter timeframe in mind. So it is possible that the latter category of lenders may be willing to exit, even at a cost – i.e., by a discounted settlement of the exposure. Therefore, any plan for restructuring/rehabilitation may take this aspect into account.

d. Corporate Debt Restructuring mechanism has been institutionalised in 2001 to provide a timely and transparent system for restructuring of the corporate debts of Rs.20 crore and above with banks and FIs on a voluntary basis and outside the legal framework. Under this system, banks may greatly benefit in terms of restructuring of large standard accounts (potential NPAs) and viable sub-standard accounts with consortium/multiple banking arrangements.12

12 Reserve Bank of India, op.cit.,
LEGAL AND RELATED ISSUES

CHANGE IN MINDSET REGARDING LEGAL ACTION

As part of legal action the Banks or Financial Institutions (FIs) are convinced and the authorities have put pressure on the borrowers in order to reduce the chances of depletion in the value of the security. In this context, the new securities ordinance, as mentioned earlier, will go a long way in developing the culture of prompt repayment of banks’ or FIs’ dues. Under this ordinance, substantial powers have been granted to the Banks or FIs for enforcement of securities without the intervention of the courts or tribunals. Similarly powers have been given to Banks or FIs to take over the management of business of the defaulting borrowers. With these special powers a strong message is being sent to the borrowers of Banks or FIs across the country. Banks would do well to capitalise on this message in dealing with recalcitrant borrowers and willful defaulters.

a. Banks may take recourse to criminal proceedings along with civil suit where misleading information has been furnished influencing the bank’s credit decision. Also in case of value-less guarantees and diversion of funds, bank may not hesitate to initiate criminal proceedings. Also borrowers may be asked to declare on oath their borrowings, assets, and all other material facts, which can be the basis for criminal action in future, if details are not found to be correct.

b. When considering a plan for the revival/rehabilitation, the lenders should retain the right to exercise control over the ownership/management. This can be done by ensuring pledge of promoter’s shareholding to the lenders with a right to change ownership if certain covenants/stipulations are not met.

GOVERNMENT RELIEF

State Government relief (state tax waiver, subsidy etc.) in respect of accounts enjoying the same takes long time to come, thus worsening the overdue position. There is a need to work in the direction of cutting down/ reducing the time lags by closer monitoring.
While it may so happen that circumstances warrant a different course of action, the above set of guidelines may be adhered to as a broader framework for preventing slippage of NPAs."

In addition, **Up-gradation of Off-site Monitoring and Surveillance Function (OSMOS)** was set up in 1995 with the primary objective of analysing the financial condition of banks in between on-site examinations. Banks are required to submit a total of 14 off-site returns to Reserve Bank. These returns include 7 returns in the first tranche that were introduced in March 1996, 4 ALM returns comprising the second tranche introduced in June 1999 and 2 annual returns viz., balance sheet and bank profile statements prepared on the basis of audited figures. The last off-site return, introduced in September 2000, pertains to operations of domestic subsidiaries of banks. The new OSMOS system having a data-warehousing component was successfully commissioned in January 2001. This has enhanced data storage, information retrieval and analytical capabilities.

**INTRODUCTION OF HALF-YEARLY REVIEW**

For getting timely feed-back about the financial position of the public sector banks, half-yearly review of accounts of these banks was introduced from September 30, 2001. This will cover advances, provision for non-performing assets (NPAs), investments, income and expenditure items, etc., with the major thrust on verification of income and expenditure items rather than on balance sheet items.

**STRENGTHENING THE BANKING SYSTEM**

**CAPITAL ADEQUACY**

1. Effective from the year ended March 2000, stipulation on minimum CRAR of scheduled commercial banks were increased by one percentage point to 9 per cent.

2. In addition to the existing 100 per cent risk-weight for credit risk, banks are required to
assign a risk-weight of 2.5 per cent to cover market risk in respect of all securities including securities outside the SLR from the year ended March 2001.

3. The risk-weight of 100 per cent prescribed on staff advances was reviewed in the light of the safeguards available to the banks to effect recovery. It was decided that banks need to assign 20 per cent risk-weight on all loans and advances granted to their staff which are fully covered by superannuation benefits and mortgage of flat/house?

4. Deposits placed with NABARD/SIDBI in lieu of the shortfall in banks’ advances to the priority sector vis-à-vis the prescribed target were assigned a 100 per cent risk-weight as these deposits is in lieu of assets that carry a similar risk-weight.

RECOVERY MANAGEMENT

In pursuance of the announcement in the Union Budget for 1999-2000, guidelines were introduced from July 2000, which provided a simplified, non-discretionary and non-discriminatory mechanism for recovery of NPAs. The revised guidelines, operative till March 31, 2001, were subsequently extended upto June 30, 2001 and for processing applications / cases, banks were given time up to September 30, 2001. All public sector banks were required to uniformly follow these guidelines, to maximise recovery of NPAs within the stipulated time.

EXPOSURE NORMS

As a prudential measure intended for better risk management and avoidance of concentration of credit risks, banks were advised to fix limits on their exposure to i) individual borrowers and group borrowers in India, ii) specific industry or sectors, and iii) unsecured guarantees and unsecured advances. Besides, banks are also required to observe certain statutory and regulatory exposure limits in respect of ‘advances against shares, debentures and bonds’ and ‘investments in shares, debentures and bonds’.

CREDIT EXPOSURES

Credit exposures to individual or group borrowers is initiated from April 1, 2000, the
ceiling on a bank’s exposure to an individual borrower was lowered to 20 per cent of the capital funds from the existing limit of 25 per cent with a view to moving closer to the international standard of 15 per cent in phases. Where the existing level of exposure, as on October 31, 1999, was more than 20 per cent, banks were expected to reduce the exposure to the 20 per cent limit over a two-year period, (i.e., by end-October 2001).

In September 2001, the Reserve Bank, on an experimental basis, as recommended by the RBI-SEBI Standing Technical Committee and keeping in view circumstances prevailing in the equity markets, permitted banks to extend finance to stockbrokers for margin trading within the overall ceiling of 5 per cent prescribed for exposure of banks to the capital market. Banks could accordingly provide finance to brokers for margin trading in actively traded scrips forming part of the NSE Nifty and the BSE Sensex, subject to certain guidelines. These guidelines will be valid for a period of 60 days (i.e. up to November 22, 2001) and will be reviewed in the light of actual experience. Banks are required to disclose the total investments made in equity shares, convertible bonds and debentures, units of equity-oriented mutual funds and aggregate advances against shares in the ‘Notes on Accounts’ to their balance sheets.

ASSET CLASSIFICATION — “PAST DUE” CONCEPT

As part of improvements in the payment and settlement systems, recovery climate, upgradation of technology in the banking system, etc., were introduced to dispense with ‘past due’ concept, with effect from March 31, 2001. Accordingly, effective that date, an advance has to be classified as NPA, if interest and/or installment of principal remain overdue for a period of more than 180 days in respect of a term loan, and the account remains ‘out of order’ for a period of more than 180 days, in respect of an Overdraft/Cash Credit (OD/CC). With a
view to moving towards international best practices and to ensure greater transparency, the
intention to adopt the 90 day norm for recognition of loan impairment from the year ending
March 31, 2004 was announced in the statement on Monetary and Credit Policy for the year
2001-02.

CONSOLIDATED SUPERVISION

The adoption of Basel Core Principles for Effective Banking Supervision requires
adherence to the principles of consolidated accounting and supervision of the affairs of the
bank’s subsidiaries. With a view to moving towards international best practices, banks were
advised on May 3, 2000, to voluntarily build in the risk-weighted components of their
subsidiaries into their own balance sheet on notional basis, at par with the risk-weights
applicable to the bank’s own assets and earmark additional capital in their books, in phases,
beginning from the year ending March, 2001. Furthermore, in order to bring more
transparency to the balance sheets, public sector banks were advised to annex the balance
sheet in respect of each of their subsidiaries, to their own balance sheets beginning from the

RISK-BASED SUPERVISION

In the Monetary and Credit Policy of April 2000, the Reserve Bank had announced its
intention to move towards a risk-based approach to supervision of banks with the assistance
of international consultants. The switchover to risk-based supervision (RBS) from the current
CAMELS based approach will enhance supervisory standards and practices in alignment with
the international best practices. M/s. Pricewater House Coopers (PwC), UK, were engaged as
consultants to facilitate the transition to RBS under assistance from the Department for
International Development (DFID), UK.
The consultants submitted the final deliverables in May 2001. The RBS model suggested by them consists of (i) a formal risk assessment of a bank by producing a detailed risk profile, (ii) developing a unique supervisory action plan for each bank based on the risk profile, (iii) defining the scope and extent of supervision, and (iv) setting up quality assurance and enforcement functions to maintain objectivity and neutrality in application of supervisory standards. The project has entered the implementation phase from June 2001 and a dedicated Project Implementation Group has been set up in the Reserve Bank to address the transitional and change management issues for switchover to RBS.

The RBS approach will involve allocation of supervisory resources in accordance with the risk profile of a bank. A high-risk bank will be subjected to enhanced supervisory focus through a shorter supervisory cycle and greater use of various supervisory tools like targeted inspections, intensive off-site surveillance, structured meetings with the bank management, etc. On the contrary, a low risk bank will be subjected to a longer supervisory cycle and use of fewer supervisory tools. Thus, the RBS approach will lead to an optimum use of supervisory resources by focusing them on the targeted banks and the specific areas within the banks that pose the greatest risk to the system and to the supervisory objectives. The RBS approach is planned to be put in operation after the pilot run in the last quarter of the financial year 2002-03.

**CREDIT INFORMATION BUREAU**

With a view to developing an institutional mechanism for sharing of information on borrowers or potential borrowers among banks and financial institutions, the Credit Information Bureau (India) Ltd. (CIBIL) has been set up in August 2000 for collecting, processing and sharing credit information on the borrowers of credit institutions. In order to strengthen the legal mechanism for making the functioning of CIBIL effective, a draft master
legislation covering responsibilities of the Bureau, rights and obligations of the member credit institutions, safeguarding of the privacy rights, is under preparation by the Government.

LEGAL REFORMS

The experience of the financial restructuring process initiated since early-1990s indicates that the success of financial sector reforms often hinges crucially on appropriate reforms of the underlying legal framework. Keeping this in view, important legal reforms initiated in the banking sector in the recent months include areas such as security laws, Negotiable Instruments Act, fraud on banks and regulatory framework of banking. The Reserve Bank has forwarded its recommendations to the Central Government for comprehensive amendments to the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949. In view of the increasing level and complexity of frauds in the banking industry, a Committee on legal aspects of bank frauds has been constituted to define financial frauds, lay down procedural laws, and examine the process of investigation of bank frauds and prosecution of persons involved.

The Government of India constituted an Expert Committee (Chairman: Shri T. R. Andhyarujuina) on legal reforms, which submitted its report in February 2000. As a follow up measure, the Government constituted a Working Group on Asset Securitisation (Chairman: Shri S. H. Bhojani) in July 2000. This Working Group has submitted a draft Bill to the Government. In order to examine the vesting of powers with banks and financial institutions for taking possession and sale of securities without intervention of the courts and to draft a Bill for consideration, another Working Group was constituted by the Government in July 2000 (Chairman: Shri M. R. Umarji). The Working Group submitted its Report to the
Government along with the draft Bill in May 2001.\textsuperscript{13}

**NEW CAPITAL ACCORD**

The Basel Committee on Banking Supervision (BCBS) released the second consultative document on the proposed draft New Capital Accord in January 2001. The New Accord places greater emphasis on banks’ own assessment of their risks in calculating their capital requirements. The new Accord will be effective from 2005. The feedback received from a few banks on the same indicated that they would have to substantially upgrade their existing MIS, risk management practices and procedures and technical skills of the staff. Banks would, therefore, need to initiate necessary steps to ensure that they are equipped to adopt the new Accord as and when approved.\textsuperscript{14}

**A- PROFILE OF THE STUDY AREA**

Maharashtra is one of the largest states in India, both in terms of population and land area. Its booming capital, Mumbai is India’s principal center for financial, commercial, communications and transportation activities. It is the economic powerhouse of India, and also the most affluent industrial centre of India. Mumbai is India’s busiest airport for international arrivals and departures. The city has the country’s largest and busiest port, handling 50 percent of India’s total foreign trade and cargo. Due to its infrastructure, it has been the first choice of the private entrepreneur in India. It is a city of tall skyscrapers, wide sprawling slums, one of them (Dharavi) being the biggest in Asia. The study area is truly cosmopolitan population bustling with activity, so western and yet so Indian.

Due to its enormous economic growth this city has given the unique position of being the most cosmopolitan city in the country. The city has emerged as great Metropolis and

\textsuperscript{13} Reserve Bank Of India., op.cit.,

\textsuperscript{14} Ibid.,
economic service centre of the subcontinent. It's being considered as the stronghold of free enterprise in India, a major manufacturing center for everything from cars and bicycles to pharmaceuticals and petrochemical. Mumbai is important in textile industry of India.

During this century Mumbai had further extended its position as the major commercial, industrial financial and trading center of India. It's an active, alive city full of interest in its own right and yet also an ideal gateway to the States around it. Mumbai is an Island, connected by Bridges with the main land. At one time it was actually a number of Islands and low swampy areas. The principal part of the city is concentrated at the southern end of the Island and the northern end is comparatively thinly populated. The airport, Santa Cruz is 26 Km to the north. There are three main railway stations in the city center. Church gate and Victoria Terminus are conveniently central, but Mumbai central is some distance away. Mumbai's two main land marks: The Gateway of India and the Taj Mahal Hotel- are at Colaba. In this chapter the geographical, historical, socio - economic conditions are briefly analysed.

HISTORICAL PROFILE OF THE STUDY AREA

According to historians, the Aryans having settled in the Indus Valley and Western India carried on trade with Persia, Babylon and Egypt as early as 1000 BC from Salsette, present Kalyan. Upto the 4th Century BC, Salsette enjoyed its prominence as the main commercial center. Mumbai (Mumbai) was part of the Mauryan Empire under control of the great Buddhist Emperor Asoka (273-232 BC). Under the Mauryian regime this city serves as a main harbor. After Asoka, it came under control of the Satavahana Kings. During this period, trade flourished with foreign countries. Kalyan (Salsette) and Broach (Bharuch, in Gujarat) became the most important centers of trade with the Greeks, Scythians, Parthians etc., The Satavahana Kings could not hold on to Mumbai for long because the Maurya and
Chalukya dynasties came up successively as great powers. They had the capital of Mangalapuri, on the present Elephanta caves.

Much earlier, the Kolis, fisher folk came to inhabit the island, followed by the Bhandaris or palm-tapers, the Kunbis or agriculturists and the Dheds or Menials. These were the tribes who inhabited the islands in the early days and carried on life in an almost primitive fashion. By 1510, the Portuguese were becoming a force to be reckoned with. In 1534, a treaty was signed between the Sultan Bahadur Shah and the Portuguese, according to which Bassein and the nearby areas including Mumbai were ceded to D Joao III, King of Portugal. The Portuguese called in Bombaim or Good Bay, which is said to have become its name. These areas came under one Maestro Diogo.

When the Portuguese arrived on the scene Mumbai consisted of seven Islands occupied by simple fisher folk known as Kolis. In 1534 the Sultan of Gujarat in the Treaty of Bassein ceded the seven Islands, from Coloba in the south to Mahim in the North, to Portugal. In 1665 the British took possession of all seven Islands and in 1668 the British Government leased them to the East India Company for an annual 10 gold coins. Soon after the British took over, Mumbai started to develop as an important trading Port. One of the first signs of this was the arrival of the Parsis who settled in Mumbai in 1670 and built their first Tower of Silence in 1675. In 1687 the Presidency of the East India Company was transferred from Surat to Mumbai and by 1708 it had become the trading headquarters for the whole West Coast of India.

In 1857, there was a great national revolt that was put down. In 1858, by a special Proclamation, the Administration of the country itself was taken over by the Queen of England, Queen Victoria, from the Company. A Viceroy was appointed to rule the country in the name of the Queen. This period marks the tremendous growth of modern Mumbai.
Politically, Mumbai had come under the direct rule of the British. In 1861, the Mumbai-Baroda (Mumbai-Vadodara) and Central Indian Railway opened its first section followed by the opening of the Broach (Bharuch) and Baroda (Vadodara) lines. In the same year, the civil war broke out in America, which gave the biggest boost to cotton prices and cotton market of the Mumbai. Mumbai made the most out of it. This boost tremendous growth for the already existing commercial centers; along with this a large number of new enterprises were launched. These concerns along with the government were ultimately responsible for the Apollo Bunder, Mody Bay, Elphinstone, Mazagaon, Tank Bunder and Frere Reclamations of the east of the island and the Back Bay Reclamation from Colaba to the foot of Malabar Hill on the West. These were the forerunners of the present-day modern docks and harbor. Reclamation still continues.

GEOGRAPHIC DETAILS

Maharashtra's Konkan land strip lies on India's west coast, and is a slim stretch of low land has several small dykes and minor hills formed with small, swift, west flowing streams. This narrow strip of land is widest near Mumbai. The trapezoid-shaped island city lies off the northern Konkan coast and located near the shimmering waters of the Arabian Sea and at latitude 18° 53' 45" and longitude 72° 52'. Once seven beautiful islands separated by creeks and channels that were filled and bridged by successive generations.

CLIMATE AND RAINFALL

The climate of Mumbai is mainly warm and humid. In March, the heat and humidity start mounting, and July is extremely hot and sticky. Temperatures vary from 35° C in May to 15°C in January. Then in July to September come the torrential downpours. The annual average rainfall brought mainly by the southwest monsoon is 180 cm (71 inches) with 60 cm (24 inches) falling in July alone. In short, Mumbai is quite a comfortable place to live in with
normal temperate climate and pleasant surroundings. The moderate climate of the city provides conducive environment for the economic and industrial growth.

**POPULATION**

The total population of Mumbai is around 10 Crores out of which 10 percent is floating population. It is a second biggest city in India after Kolkotta. The population of the city consists of varied ethnic races, which are from different part of the country. Hence the city has different culture group. And also there is a high influence of the western culture is also evident. Table 3.1 brings out the details of population in Mumbai.

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Area</th>
<th>Total population</th>
<th>Child population</th>
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<tr>
<td></td>
<td></td>
<td>Persons</td>
<td>Males</td>
</tr>
<tr>
<td>1</td>
<td>Mumbai</td>
<td>3326837</td>
<td>(27.92)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>327398</td>
<td>(24.93)</td>
</tr>
<tr>
<td>2</td>
<td>Mumbai suburban</td>
<td>8587561</td>
<td>(72.08)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>985612</td>
<td>(75.07)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>11914398</td>
<td>(100.00)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1313010</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>

Values in brackets are percentages- calculated by the researcher


According to Table 3.1 the total population of Mumbai suburban (8577561) is more than the Mumbai (3326837). In both the area males’ population is more than females’ population. With regard to child population Mumbai suburban (985612) is more than the Mumbai (327398). Literacy rates by sex shown in Table 3.2 explains that in 1991 as well as 2001 the literacy rate was more in Mumbai than Mumbai suburban. It is observed that in both the areas the literacy level has marginally increased over a period of 10 years.
Table 3.2

<table>
<thead>
<tr>
<th>Sl.No</th>
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<th>2001</th>
<th></th>
<th></th>
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<tr>
<td></td>
<td></td>
<td>Persons</td>
<td>Males</td>
<td>Females</td>
<td>Persons</td>
</tr>
<tr>
<td>1</td>
<td>Mumbai</td>
<td>83.61</td>
<td>88.54</td>
<td>77.24</td>
<td>86.72</td>
</tr>
<tr>
<td>2</td>
<td>Mumbai suburban</td>
<td>81.96</td>
<td>87.53</td>
<td>72.12</td>
<td>87.14</td>
</tr>
</tbody>
</table>


ECONOMIC PROFILE

Mumbai alone accounts for close to 20 per cent of the total employment in India’s organised industry. It is also famous as the biggest film-producing city in the world. It is one of the world biggest textile industry centres. The most strategically placed ports, where major imports and exports flourish. In the subsequent paragraphs the economic growth has been drawn.

BUSINESS AND INDUSTRIES

Mumbai’s natural harbour has attracted merchants and traders from the world over. India today ranks fifteen in the world shipping tonnage and of her major ports in which Mumbai is the biggest, handling more than a quarter of the total cargo traffic of the country. The Mumbai’s docks cover an area of more than 283 hectares. Besides the docks, there are a number of “bunders” or open wharves. About 60 percent of the container traffic from India is handled by the Mumbai Port, the bulk of which consists of petroleum products and dry cargo. Mazagaon dock is a major shipbuilding yard of the country located in the city.

The Nariman point of the city is one of the main commercial centers where the land reclamation has been carried out. This area consists of a series of skyscrapers. Visitors usually impressed by its sleek skyscrapers, which resemble Manhattan’s Skyline, have called
this place "a piece of Manhattan transported to Mumbai: This still being reclaimed area is the
city’s new commercial center, full of luxurious restaurants and plush offices.

Mumbai is India’s commercial and financial nerve center. Mumbai pays one third of
the country’s income tax, 20 percent of central excise and 60 percent of all customs duties.
Mumbai’s financial stronghold may be better appreciated when one considers the most major
financial institutions like Reserve Bank of India, Life Insurance Corporation, Unit Trust of
India, Central Bank, Bank of India, Union Bank and Bank of Baroda all have their head
quarters at Mumbai. Several foreign banks and almost half of the country’s corporate giants
are based in Mumbai. By 1972, 70 percent of India’s bank deposits were held by banks with
had their head offices in Mumbai. The over all trade in the city is estimated to be over
Rs.30, 000 Crore per annum15.

MUMBAI’S STOCK EXCHANGE

The Mumbai’s Stock Exchange ranks as the third largest exchange in the World
following the U.S.A. and Japan. Every year the exchange increases the number of
shareholders by about 1.5 million. A large number of brokers operate at the exchange. The
Mumbai Stock Exchange, established in December 1887, is the country’s oldest trade
association. It was the first to be recognised among eight stock exchanges recognised by the
Government of India, under the Securities Contracts (regulation) Act. In the year 1956 this
stock exchange is the only one that has been granted the privilege of permanent recognition.
It is recognised as the best organised stock exchange in the country16.

16 ibid.,
INDUSTRIES

Mumbai is called as a commercial capital of India, the growth of industries. Banks and financial institutions are traced hereunder.

COTTON TEXTILE INDUSTRIES

Mumbai is the Manchester of India. The Cotton textiles formed the first modern industry established in India. The efforts of Cowasji Nanabhoy Davar has pioneered the factory production of yarn and cloth in the country, with the opening of “Bombay Weaving and Spinning Company” in 1854. From 1870 onwards, the textile industry resumed a gradual and steady growth, currently, the cotton textile industry has the distinction of being the single largest enterprise in the country’s organised sector. Mumbai today has the largest cloth marketed in the world. Nearly 8 percent of the country’s textile mills, 16 percent of the spindles and 29 percent of the loom are located in the city. In fact, Mumbai accounts for 26 percent of India’s total cloth production. The textile mills employ close to 12 lakh workers and provide for about 20 percent of employment in textile industry. The mills in Mumbai have 57,300 looms of which 18,891 are automatic looms and 32,160 spindles.

DIAMOND AND JEWELLERY

India was the earliest source to supply the world with diamonds and remained the main source for diamond trade over a period of 2,000 years with a significant share (about 20%) of the world trade. Mumbai is a major exporter of gems and jewellery including pearls and precious and semi-precious stones. It is also the commercial center for diamonds in India. Over 80 percent of the diamond cutting is done in Gujarat, with Mumbai as the trading center. Some of the better quality diamonds are processed in Mumbai and the city has approximately 75,000 diamond cutters. India processes around 50 percent of the total world production of diamonds and gems the top rank in the export of cut and polished diamonds.
Gems and jewellery is the second largest export-earning item from India, next only to engineering goods and amounting close to Rs.2500 Crore.

OFF-SHORE OIL AND HEAVY INDUSTRIES

The discovery of offshore drilling of oil and gas near Mumbai was started in 1977 and it was a major milestone in the city’s industrial and economic history. And this off shore drilling facilitates the petroleum and allied industries in the city. Within two years of discovery of the petroleum, commercial production commenced. The offshore area of Mumbai high accounted of 15.5 million tones of crude in 1980-81, which increased, to around 17 million tones in 1982-83. The availability of gas and crude from Mumbai High has opened new vistas in industrial realm of Maharashtra and further enhanced the development of petrochemical and organic chemical industries in not only in the Maharashtra State and that of Indian subcontinent.

FINANCIAL INSTITUTIONS AND BANKING SECTOR OF MUMBAI

Though, the capital of India is Delhi for all political purposes, Mumbai is the financial capital of India. This can be proved through the following facts namely that the following all most all Leading financial Institutions and Developmental Financial Institutions are head Quartered at Mumbai only. The list is given below which has its head quarters at Bombay.

- Export Credit Guarantee Corporation of India Limited (ECGC)
- Exports & Imports Bank of India (EIBI)
- General Insurance Corporation of India (GIC)
- Industrial Credit and Industrial Corporation of India (ICICI)
- Industrial Development Bank of India (IDBI)
- Life Insurance Corporation (LIC)
- National Bank for Industrial & rural development (NABARD)
- Infrastructure leasing financial services (ILFS)
- Infrastructure development finance company Ltd. (IDFC)

Apart from this, the following other Financial Institutions have their Zonal Offices at Mumbai: Industrial Financial Corporation of India, Industrial Investment Bank of India, and Small Industries Development Bank of India. In the context of the Mutual Fund the largest
mutual fund of India namely the Unit Trust of India (UTI) is housed at Mumbai. It is note
worthy to mention that the major mutual funds like LIC Mutual Fund, SBI Mutual Fund, and
Can bank Mutual Fund, Ind- bank Mutual Fund and many of the leading private Mutual
Funds are head quartered at Mumbai.

Coming to the Banking industry there are about 28 Public Sector Banks namely .The
State Bank of India, which was earlier called as Imperial Bank of India which deals with all
treasury operations of all the State Governments as well as Union of India is head quartered
at Mumbai employing more than 2.0 laces of employees. The Public Sector Banks and
Commercial Banks head quartered at Mumbai: State Bank of India, Union Bank of India,
Central Bank of India, Bank of India, Bank of Maharashtra (Maharashtra-Pune), Bank of
Baroda, Corporation Bank of India, ICICI Bank, HDFC Bank, UTI Bank, and Centurion
Bank

Apart from this, almost all other commercial banks and Public Sector banks will have
their Zonal Offices besides their Regional Offices at Mumbai. They are Canara Bank, Vijaya
Bank, Syndicate Bank, UCO Bank, State Bank of Hyderabad, State Bank of Travancore,
State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Sourashtra, State
Bank of Indore, Indian Overseas Bank, Indian Bank, Andhra Bank, Punjab National Bank,

Besides, Public Sector Banks major foreign banks like City Bank, Standard Chartered
have its operational head quarters at Mumbai only. The above mentioned facts proves that
because of the commercial activities prevailing in Mumbai all these banks preferred to have
its Head quarters at Mumbai for simple reason that for any administrative problems, decisions
can be taken instantaneously.
Coming to the trade and industrial organizations and associations, it is found that almost all the trade and industrial organizations and associations are based at Mumbai, namely:

1. All India manufacturers association or Manufacturers association
2. Bombay Chamber of Commerce & Industry
3. Bureau of Indian Standards
4. Confederation of Indian Industry
5. Federation of Indian export organizations
6. Indian Merchants Chambers having its own building at Church gate
7. Indian Trade promotion organization
8. World Trade Center in Maharashtra
9. National association of Computer Trainers
10. The Council of EU chamber of commerce in trade

About 50 percent of the banking service and financial transactions of the country have been dealt by these financial and banking institution headquartered at Mumbai. Thus, ultimately they can be called as nerve center of financial transaction of the country. Certainly, the failure of the banking sector may have adverse effects on the other sectors in general and adverse effects in the national economy in particular. In the new millennium, the Indian banking system faces the open economy and its challenges earlier, which was earlier operating in a closed economy.

The general profile of the study area discussed highlights that Mumbai is an important landmark in the banking field and capital market transaction of our country. In Mumbai city about 50 percent of the financial activities are carried out and the Officers of the Public Sector Banks are responsible for sanctioning of loans as well as monitoring the loans. The history of NPA and the latest policy on NPA are also important literature in the present study to understand the research problem. Therefore, an attempt is made in the next Chapter to study the opinion of Bank Officers on various issues of NPA.
<table>
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<th>Page Number</th>
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| 64          | 12. Reserve Bank of India, op.cit. |
              | 14. *bid.*. |
              | 16. *bid.*. |