CHAPTER - 5

ASSESSMENT OF BANKING SECTOR REFORM IN ASSAM
The banking sector reform has brought numerous diversifications and innovations in the commercial banking sector in Assam along with the rest of the country through its restructuring programmes. Important structural and organisational changes have taken place in the commercial banking sector in Assam. The commercial banks are now given full freedom in respect of their functions and management. During the pre-reform era, the performance of commercial banks was quite satisfactory in terms of their functional and geographical coverages both in India as well as in Assam. The total number of branches, the volume of aggregate deposits and advances etc. increased tremendously during the pre-reform era in Assam as in the case of India. But the quantitative performance of these banks was at the expense of quality. The qualitative performance in terms of productivity, profitability and efficiency were not properly assessed, rather they were neglected in Assam during the pre-reform era. The overall performance of these banks had been jeopardised due to prevailing discrepancies in the banking sector. Persistent inefficiencies crept the banking system as a whole in Assam. It was mainly to prevent financial recession, the Government of India constituted an Expert committee under the chairmanship of M. Narasimham in 1991 to restructure the banking sector through reform measures in the country as a whole and Assam in particular. The committee put emphasis on assessment of qualitative aspects such as efficiency, productivity and profitability of banks. But these aspects have not still properly assessed in Assam due to non-availability of data pertaining to these aspects for the Schedule Commercial Banks (SCBs) as a whole. These aspects are overlooked in Assam. So, it becomes difficult to make accurate and proper assessment of financial performance of SCBs as a whole in Assam. Performance is judged only in terms of other criteria such as branch expansion, deposit mobilisation, deployment of credit, C/D ratio, NPAs, employment generation, risk management, information technology, customer service, rural banking, most of which are quantitative in nature. There-
fore, even during the post-reform period, qualitative assessment of commercial banks' performance is not getting due importance in Assam.

The main objectives of the banking sector reform are -

(i) to examine the existing structure of the financial system and its various components,

(ii) to make recommendations for improving the efficiency and effectiveness of the financial system,

(iii) to review the existing supervisory arrangements and make recommendations for ensuring appropriate and effective supervision,

(iv) to review the existing legislative framework and to suggest necessary amendments for implementing the recommendations.

As per recommendations of the Narsimham Committee (1991) following measures are so far implemented - deregulation of interest rates, phasing out of directed credit programmes, reduction of CRR and SLR, introduction of capital adequacy norms and prudential norms of income recognition, asset classification, setting up of special debt recovery tribunals (DRTs) for speedy recovery of loans. These measures are also implemented by the commercial banks functioning in Assam.

While making critical assessment of various aspects of the banking sector reform, we find that the banking sector reform itself has some weakness which lead to unsatisfactory performance in several areas. The weaknesses of the banking sector reform are discussed below -

i) During the post-reform period, the social commitment of banks has been neglected in Assam which is evident from declining PSAs (from 50.5% in 1991 to 47.04% in 2000) and rural advances (from 29.48% in 1991 to 25.73% in 2000). Further, the advances towards weaker section and other small sector have also declined considerably in Assam. The weaker section and small sector have received only 17.24% and 12.57% respectively of total advances in Assam as on September, 2000. Thus, during

---

1. Govt. of India, "Report of the Committee on Financial System", Chairman: M. Narasimham, (Govt. of India, New Delhi, 1991).
the post-reform period, the SCBs as a whole has ignored their social accountability on the ground of profitability in Assam.

(ii) As a policy measure for reduction of high volume of NPAs, commercial banks have reduced their volume of lending to small borrowers in Assam during the post-reform period. Most of these small borrowers do not repay the loans timely which ultimately leads to the huge accumulations of NPAs in banks and hamper their profitability. Thus, during the reform-period, small borrowers are neglected in Assam as in the case of India.

(iii) Further, as a result of banking sector reform, the distributive aspects of bank's funds have been distorted in Assam which is evident from declining C/D ratio in the state (32.3% in 2000). During the post-reform period, commercial banks have shown greater interest to channelise their funds for investment than credit in Assam. Even though SLR has been reduced to 25%, investments are increasing at a faster rate in Government securities, commercial papers, bonds etc. The percentage share of investment in State Government securities has increased from 29% in 1993 to 68% in 1999 in Assam.

(iv) During the post-reform period, commercial banks have been given less importance in the rural areas which is evident from declining proportion of rural branches to total number of branches (from 72.15% in 1991 to 66.53% in 2000) and declining percentage of rural advances (from 29.48% in 1993 to 25.73% in 2000) as compared to other semi-urban and urban areas in Assam.

(v) Further, the lowering of interest rates on deposits by the banks as policy measure during the post-reform period in Assam along with the rest of the country, discourages the public to deposit money in banks which is evident from declining rate of growth of deposits of commercial banks in Assam. Rather they prefer to deposit money in other non-banking financial institutions (NBFIs) which offer higher interest rates.

(vi) The prescribed requirement for maintenance of capital adequacy norms (CANs) by the SCBs effect the three identified weak banks - the UCO, the UBI and the Indian
Bank which do not have sufficient capital in 1999 even in Assam. This requirement leads to their closure. But due to Government intervention they are somewhere saved from closing.

(vii) Further, although the banking sector reform has given much emphasis on RM, but in Assam it becomes difficult for some weak banks due to high cost involved in managing risk which effect the profitability of banks.

(viii) Further, rapid modernisation and computerisation of banking services in Assam along with the rest of the country indirectly encourages the growth of unemployment problem in the economy. Banks are now recruiting only technically efficient persons and giving voluntary retirement to some of their staff members with traditional backgrounds. Moreover, the local youths who do not have any HI-TECH, background due to financial constraint, do not get jobs in banks.

(ix) Even in Assam, sometimes banks have to make comprise with wilful defaulters at high social cost due to absence of proper atmosphere for recovery of loans (mainly for reduction of NPAs) which ultimately benefits the defaulters.

x) During the post-reform period, several attempts have been made by the Government to privatise the nationalised banks with the special plea of making their services better and competitive. But privatisation move of the Government has been strongly protested by the bank's employees union in Assam also. It is urged that such move of the Government is against the interest of the bank employees.

Thus, various policy measures so far undertaken as a part of the Banking Sector Reform have some weakness which hamper their effective implementation. Therefore, necessary steps should be taken to control them and should implement the measures carefully. Further, through various measures banks should try to eradicate various bank-specific and region-specific problems in Assam.

Further, in the context of the fast growing developments that are taking place in the banking sector in the country as a whole, Assam can hardly afford to remain backward so long as in this field as Assam is the core state of the North-Eastern region. Therefore, it is the need of this backward regions so that they can fulfill the hopes and
aspirations of the people living in the state. So, banking sector reform is quite justified in Assam. It brings to some extent qualitative dimensions in the banking system through its restructuring programmes.

The assessment of the performance of various policy measures of the banking sector reform reveals the following facts-

(i) As a result of banking sector reform, commercials banks have acquired full freedom in respect of their branch expansion, merger or closure, recruitment of staff, fixation of lending rates and deposits rates in Assam along with the rest of the country. Functional autonomy to banks ensures organisational and operational flexibility in the system. The commercial banks functioning in Assam can also fix their interest rates on all term deposits of maturity over one year and all advances greater then Rs. 2 lacs.

(ii) The banking sector reform has also strengthened the capital base of SCBs as a whole in Assam. All the SCBs functioning in Assam are now maintaining the required 9% capital adequacy norms as prescribed by the RBI. They are now make 30% provisions against bad and doubtful debts (or NPAs) in Assam.

(iii) Further, the phased reduction of CRR and SLR to 9% and 25% respectively of net demand and time liabilities (NDTL) (the minimum prescribed norms under the Banking Regulation Act, 1949) by the end of November, 1999 has increased the volume of loanable funds with the SCBs functioning in Assam to the extent of Rs. 297844 lacs as on December, 2000.

(iv) In order to increase the competitive efficiency of public sector commercial banks, the banking sector reform has allowed the private sector banks to set up their branches in the state. Accordingly, a new private sector bank, i.e., the Grindlays Bank (GND) is set up at Guwahati during the reform period. Presently, there are two private sector banks (i.e., the Federal Bank and Grindlays Bank) functioning in Assam and they make rapid progress in the field of information technology.

(v) During the reform-period, the supervisory system of commercial banks has
been strengthened in order to supervise the risk aspects of banks functioning in Assam along with the rest of the country. The Risk Management (RM) has been given much thrust during the reform period in Assam especially for high credit risk. The commercial banks are now started to follow the new supervisory rating system, i.e., the "CAMELS" as prescribed by the Basle Committee (1999) with a view to identify the risk profile of banks.

(vi) In order to speed up the recovery process, a special Debt Recovery Tribunal (DRT) has been set up at Guwahati in Assam during the post-reform period. This facilities quicker recovery of loans arrears from the borrowers.

(vii) Regarding RM, an efficient comprehensive Asset Liability Management (ALM) system has been maintained by the commercial banks in Assam. Banks are now making full disclosure of their balance-sheet. Banks are also undertaken risk-based supervision for avoiding different types of risks.

(viii) Further, during the post-reform period, the quality of customer service in banks in Assam has been gradually improved due to large scale use of information technology (IT), in banking services and also due to establishment of Banking Ombudsman (BO), at Guwahati. It is also evident from declining number of complaints registered with the BO from 115 in 1997-98 to 48 in 1999-2000 in Assam.

(ix) Further, 80% of the total banking business in Assam has been now fully computerised. The commercial banks are now given much thrust on total branch automation which reduces transaction cost and processing time. Some banks have opened ATM services in major cities and towns in Assam.

(x) Although the reform process has given much importance in reduction of prior-
ity sector advances (PSAs) for their high administrative cost, but it still accounted for a major share in total advances in Assam (about 47% in 2000) 'micro credit' has been now getting wide popularity in Assam along with the other states of the country. The commercial banks (specially the RRBs) now started to provide micro-credit to the needy poor borrowers at a very low rate of interest through different self-help-groups (SHGs) and NGOs.

(xi) The volume of employment generated by SCBs has increased in several folds in Assam during the post-reform period (1991-2000). The total volume of employment increased from 13862 in March 1991 to 15773 in March 2000, accounting 13.8% growth over the period under study (1991-2000) in Assam.

(xii) The commercial banks have also played an active role in the formation of SHGs with the help of local NGOs which facilitates them to provide financial assistance to the needy poor borrowers at a concessional rate. Already, about 1282 number of SHGs have been linked with banks by the end of September, 2000 with the total outstanding bank credit to the tune of Rs. 98 lacs.

(xiii) Commercial banks are also maintaining a good balance between profitability and sociability criteria during the post-reform period. Although it is urged that the commercial banks have ignored their social accountability on the ground of profitability, but we find that they are still providing a good amount of financial assistance to the rural poor, educated unemployed and misguided youths, deprived women and backward classes under different Government sponsored schemes such as IRDP, PMRY, SGSY etc. Under the SGSY, about 17327 swarozgaries and under the PMRY about 8750
number of beneficiaries have been benefitted as on September 2000. Further, for the rehabilitation of the misguided youths, about Rs. 9403.71 lacs has been provided by the SCBs as whole in Assam.

Thus, Assam has experienced a steady banking growth during the post-reform period (1991-2000) due to certain policy changes such as deregulation of interest rates, phasing out of directed credit programmes, introduction of capital adequacy norms and prudential norms for income recognition and asset classification, recapitalisation of banks, setting up of special DRTs, reduction of CRR and SLR, allowing banks to enter into the capital market etc. The operational and organisational flexibility, functional autonomy and professionalism in management enhance the efficiency, productivity and profitability of banking system to some extent in Assam. The competitive efficiency of public sector commercial banks has improved considerably in Assam during the period under study. Most of the commercial banks are now financially sound. The banking sector reform initiated in 1991 is now passing through the 2nd phase (1998) which laid stress on improvement of organisational effectiveness of banks which need accountability of banks towards their development. The 2nd phase mainly reviews the progress of reform measures in the banking sector over the past few years. It highlights that the overall performance of commercial banks in Assam is quite satisfactory and encouraging in several areas due to many factors such as introduction of new products, specialised services and automation, quality lending, improvement in customer service and recovery procedures. Thus, many concomitant developments have taken place in the commercial banking system in Assam during the post-reform period.