CHAPTER - 2

REVIEW OF LITERATURE
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The present chapter is devoted to review the existing studies so far available on commercial banking with reference to India and Assam. The main objectives of the present chapter is to know the scope of different studies made so far on commercial banking and to examine the relevance of the present study. But while going through some of the prominent studies, we find that most of them are specific in nature, dealing with some particular aspects (like profitability, productivity, NPAs, rural development, agricultural development etc.) or with some particular schemes (like IRDP, PMRY, LBS, SGSY etc.) relating to commercial banks. Moreover, various studies on structural reforms in the banking sector have been conducted with special reference to India. From observation, we find that the number of studies made on development of commercial banking as a whole, covering all aspects with special reference to Assam is very limited. Most of the studies conducted by individual researcher are pertaining to functioning of Regional Rural Banks (RRBs) or development banks (IDBI, LIC etc.) or a particular bank with special reference to a particular district of Assam as a case study. Therefore, a humble attempt has been made through this study to assess the performance of commercial banks in Assam during the post-reform period with the help of different criteria. The studies so far available on commercial banking can be divided into the following categories -

(i) Reports of the Committees and Working Groups appointed by the RBI and the Government of India,

(ii) Studies conducted by the individual researchers (published thesis, research article).
2. (i) REPORTS OF THE COMMITTEES AND WORKING GROUPS APPOINTED BY THE RBI AND THE GOVERNMENT OF INDIA.

2. (i) (a) REPORT OF THE COMMITTEE ON CUSTOMER SERVICE (1991)

In September, 1990 the RBI set up a Committee under the Chairmanship of M.N. Goiporia (Chairman, SBI) to examine the problem of customer service in banks and suggest measures to improve the situations. The main objectives of the Committee were, to identify structural and operational rigidities in the banking system, to find ways and means to upgrade technology in banks, to point out deficiencies in bank service, suggest ways to improve work culture among bank employees.

The Committee submitted its Report on 6th December 1991. In its Report, the committee observed that disservice to customer should be treated as delinquency and that an indifferent and casual approach to work should not go unnoticed. The Report had identified quite a number of areas of customer service which call for improvement.

The major recommendations of the Committee were - extension of banking hours for all transactions except cash to render uninterrupted service during business hours; making bank employees more responsive and customer-friendly by job enrichment, proper training, reward system; making deposits more attractive by raising interest rates and by giving tax benefits on deposits; technology upgradation and continuous review of the system and procedures in tune with changing needs of customers to support effective and efficient services; compensating customers for delay in collection of cheques; full use of discretionary powers vested in the bank staff at all levels; opening

of specialised branches for different customer groups; extension of teller's duty; introduction of a new instrument in the form of bank order; introduction of restricted holidays in banks.

2. (i) (b) REPORT OF THE COMMITTEE ON BANKING SECTOR REFORM (1991)

In 1991, the then Finance Minister, Mr. Monmohan Singh, constituted an Expert Committee under the Chairmanship of M. Narasimham (Former Governor of the RBI) to suggest ways of improving the functioning of the banking system. The committee submitted its Report on December 17, 1991. The Committee had put emphasis on operational flexibility, functional autonomy and greater degree of professionalism in management with a view to enhancing efficiency, productivity and profitability of the Indian banking system.

The main objectives of the Committee were - to examine the existing structure of the financial system and its various components, to make recommendations for improving the efficiency and effectiveness of the system, to review the existing supervisory arrangement relating to various entities in the financial sector, to examine the existing legislative framework and to suggest necessary amendments for implementing the recommendations.

The major recommendations of the Committee were - establishment of a four-tier structure of the banking system, deregulation of interest rates on deposits and advances, abolition of branch licensing policy, no further nationalisation of banks, unrestricted entry of private banks, phased reduction of Statutory Liquidity Ratio (SLR) (25%) and Cash Reserve Ratio (CRR) (9%), reduction of priority of sector advances (PSAs) from Government of India (1991), "Report of the Committee on Financial System", Chairman, M. Narasimham, (Govt. of India, New Delhi).
40% to 10%, implementation of Information Technology (IT) enabled services, abolition of dual control, introduction of Capital adequacy norms (CAN) of 8%, creation of asset reconstruction fund, setting up of special Debt Recovery Tribunals (DRTs) etc.

Most of the recommendations of the Committee have been accepted and implemented by the government and all the Schedule Commercial Banks have already started to implement the major recommendations of the committee.

2. (i) (c) REPORT OF THE COMMITTEE ON INFORMATION TECHNOLOGY (1994)

In June 1994, the RBI appointed a Committee on technology issues relating to payments system, cheque clearing and securities settlement in the banking industry under the chairmanship of W.S. Saraf. The major recommendations of the Committee were - setting up of an Electronic Funds Transfer System (EFTS), introduction of Delivery Vs. Payment system (DVP) in the transactions of Government securities, reporting of currency chest transactions through National Informatic Centre Network (NICNET), introduction of Electronic Clearing Service (ECS) for low-value transactions, extension of Management Information and Customer Relation (MICR) clearing to non-metropolitan centres, extensive use of Reserve Bank of India Network (RBINET), promote credit card culture in India and training to staff.

Following the recommendations of the Committee, the RBI has already started to launch Electronic Fund Transfer System (EFT) in the metropolitan areas, set up Satellite transmission network to provide reliable communication, setting up of HUB and network management system at the Institute for Development and Research in Banking Technology (IDRABT) which is located at Hyderabad.


The RBI constituted a Working Group under the chairmanship of S.H. Khan (Chairman and Managing Director, IDBI) on December 8, 1997 to suggest measures to harmonise the roles and operations of the development financial institutions (DFIs) and banks. The committee submitted its Report in April 1998 to the Governor of the RBI. The Khan Working Group recommended the conversion of the DFIs into banking institutions. The main objective of the Working Group was to review the role, structure and operations of DFIs and commercial banks and to suggest measures for strengthening organisation, human resources, risk management (RM) practices and other related issues. It recommended a progressive move towards universal banking which is a combination of both commercial banking and investment banking, i.e., issuing, underwriting, investing and trading in securities etc. The Working Group also recommended for merger of banks, both strong and weak and also Financial Institutions (FIs) and banks, doing away with concessional lending, reducing CRR and SLR to international standards, establishment of a super regulator and development of a risk-based supervisory framework, maintenance of capital adequacy norms and prudential norms.

2. (i) (e) REPORT OF THE COMMITTEE ON AGRICULTURAL CREDIT (1998)

In 1998, the RBI appointed a Committee under the Chairmanship of R.V. Gupta to examine the various problems faced by commercial banks in lending credit to agricultural sector.

Reserve Bank of India (1997) "Report of the Committee on Harmonising the Role and Operations of Development FIs and Banks", Chairman, S.H. Khan, (RBI, Mumbai).
The major recommendations of the Committee were - freeing of interest rates on farm loans, expansion of subsidy linked credit on commercial basis, fixation of agricultural lending norms annually by the RBI, allowing banks to operate outside their service areas, permitting borrowers to go to any branch, offering farmer a composites credit package to satisfy all their short-term credit needs.

2. (i) (f) REPORT OF THE COMMITTEE ON NON BANKING FINANCIAL INSTITUTIONS (NBFIs) (1998)

The Union Government set up a Task Force in 1998 on NBFIs to look into the working and functioning of NBFIs headed by C.M. Vasudev (Special Secretary, Banking. RBI). The Task Force headed by Vasudev provided a numbers of recommendations relating to NBFIs.

The major recommendations were - upward revision of the minimum prescribed Net Owned Fund (NOF) of Rs. 25 lacs, change, in the existing legislative and regulatory framework for NBFIs, time bound programme for disposal of applications for registrations of NBFIs, increase of liquid asset ratio from 12.5% to 25% of public deposits in a phased manner, statutory provisions to unsecured depositors.

2. (i) (g) REPORT OF THE COMMITTEE ON BANKING SUPERVISION (1998)

The RBI set up Khanna Committee in 1998 for recommending a framework for supervision of the financial companies. The recommendation included, inter alia, supervision of Non Banking Financial Institutions (NBFIs) through an off site surveillance.
system and introduction of a supervisory rating system for NBFIs. It also recommended to amend some chapters of the RBI Act, 1934 in order to regulate NBFIs effectively and to improve their financial health and viability.

2. (i) (h) REPORT OF THE COMMITTEE ON BANKING SECTOR REFORM (1998)

In 1998, the then Finance Minister, Mr. Yashwant Singh constituted an Expert Committee under the Chairmanship of M. Narasimham (Former Governor of the RBI), to review the progress of reform process in the banking sector over the past 6 years and to suggest a future course of action. The Committee submitted its Report on 23, April 1998. The Committee laid emphasis on strengthening the foundation of the banking system by bringing structural changes in the system.

The important recommendations of the Committee were - introduction of three tier structure in the banking system, merger of strong banks, reduction of NPAs to a reasonable limit, introduction of Asset-liability Management (ALM) guidelines and Risk Management (RM) guidelines, speeding up the process of modernisation and computerisation, review of recruitment policy of banks. The Committee was against the merger of weak banks with strong banks because it would have some negative effect on the asset quality of the strong banks. It also recommended to increase capital to risk-weighted assets ratio (CRWR) to 10% within a stipulated time period. It laid stress on the improvement of the organisational effectiveness of banks for which initiatives will have to be come from the banks themselves.

2(i) (i) REPORT OF THE COMMITTEE ON BANKING SUPERVISION (1999)

In June, 1999, the Basle Committee released a consultative paper on new
supervisory framework and new capital adequacy framework with a view to strengthen the soundness of the financial system.

It proposed a revised capital adequacy framework in 1999 which used three pillar approach consisting of - a minimum capital requirement pillar, a supervisory review pillar and a market discipline pillar. The revised framework on capital adequacy is presently being discussed by supervisory authorities all over the world.

The revised framework placed an explicit emphasis on ratings, both internal and external. According to the Committee, risk differentiation between counter parties be they sovereign govt., banks, corporates, public sector enterprises etc. was sought to be done either on the basis of external or internal ratings. But the Committee put greater reliance on internal rating based approach for adequate safe guard. In its view, domestic rating agencies that had up-to-date and on-going access to information on domestic macro-economic conditions would be better placed to rate domestic entities vis-a-vis external rating agencies.

The Committee also suggested another type of rating, known as supervisory rating such as Capital, Asset, Management, Earning, Liability (CAMEL), which could play an important role in specifying risk profile of individual banks.

2. (i) (j) REPORT OF THE WORKING GROUP ON RESTRUCTURING OF WEAK PUBLIC SECTOR BANKS (1999)

Keeping in view the urgent need to revive the weak banks, the RBI set up a Working Group in February, 1999 under the Chairmanship of M.S. Verma to suggest
measures for revival of weak public sector banks in India.

The Committee submitted its Report on October 4, 1999. It identified 3 banks as weak banks - the United Commercial Banks (UCO), the United Bank of India (UBI) and the Indian Bank (IB) and other 6 banks - Allahabad Bank (ALB), Central Bank of INDIA (CBI), Indian Overseas Bank (IOB), Punjab and Sind Bank (PSB), Union Bank of India (UNI) and the Vijaya Bank (VB) were listed as showing incipient sign of distress. The Committee had found that expenditure on staff account, a cause for the sickness of 3 identified weak banks and suggested a number of anti-employee measures such as wage freeze, reduction in wages, voluntary retirement scheme (VRS), massive technological upgradation for reduction of manpower and its cost. The Committee did not suggest any direct method to recover the loan which could drastically reduce the amount of Non - Performing Assets (NPAs) of the banks in general and 3 identified weak banks in particular; rather the Committee suggested for setting up of Asset Restructuring Fund which would acquire big assets of not less than Rs. 50 lacs. The Committee also suggested other allied steps to the extent of forming an Asset Management Company through appropriate legislation. It also recommended for the constitution of weak bank specific Financial Restructuring Authority (FRA).

The Committee suggested a comprehensive restructuring strategy dealing with operational, organisational, financial and systematic aspects for the revival of the weak public sector banks (PSBs). To identify bank’s weakness or strength, the Committee recommended the following 7 parameters- (a) capital adequacy ratio (CAR), (b) coverage ratio, (c) return on assets, (d) net interest margin, (e) ratio of operating profit to average working funds, (f) ratio of cost to income and (g) ratio of staff cost to Net interest Income & other incomes. It also recommended for recapitalisation of weak banks to achieve the prescribed capital adequacy norms.
2. (ii) STUDIES CONDUCTED BY INDIVIDUAL RESEARCHERS (PUBLISHED THESIS, RESEARCH ARTICLES)

2. (ii)(a) Ghosh (1999) in his work had made an effort to analyse the problem of recovery of bank credit and their effect on profitability with special reference to India and Assam since their inception. He had conducted a field survey in two blocks- Boko and Rangia in the District of Kamrup taking altogether 90 sample beneficiaries from two branches of Allahabad Bank (ALB) and one branch of the United Commercial Bank (UCO) mainly to identify the causes of poor recovery of bank loans.

The main findings of his study was that both internal (such as faulty selection or identification of borrowers, deficiencies in the processing of loan applications, lending policies, disbursement procedures and supervision of end-use of the credit) and external factors (such as willful defaulters, natural calamity) were responsible for emergence of overdue problem in banks. The study also found that there was no uniform approach to the concepts of overdues.

The researchers had put forward a number of suggestions for the improvement of the recovery of bank loans. He suggested some recovery measures such as filing a suit, setting up of recovery tribunals, reviving the loan policy on a regular basis.

The main deficiency of this study is that it is related to only one aspect, namely, profitability, leaving all other aspects.

Ghosh, S R (1999) "Banks Credit vis-à-vis Recovery and Its Impact On Profitability" (Published Thesis, Gauhati University)
2. (ii) (b) Tamuli (1992) in his study had made an effort to analyse the role of banks in rural development in Assam with special reference to functions, achievements and problems of Subansiri Gaonlia Bank (SGB) in undivided Lakhimpur district. The study which was based on sample beneficiaries of SGB revealed that SGB had played an important role in the development of rural areas by providing credit at a concessional rate in the undivided Lakhimpur district.

The main deficiency of the study was that it dealt with the growth, performance and problems of only one Regional Rural Bank (RRB), i.e., the SGB out of 5 RRBs, operating in the state and the area of the study was also limited to only one district i.e., the Lakhimpur district.

2. (ii) (c) Sarmah (1990) in his work assessed the performance of commercial banks in Assam during the post-nationalisation period (1969 -1989). The study observed that the commercial banks had made rapid strides in various spheres such as - in spreading geographical coverage, in mobilising deposit and in deploying credit to the needy borrowers since 1969. However, the qualitative performance of banks presented a dismal picture.

The researcher had put forward a number of suggestions such as increasing the banking habits of the people, improving the recovery process and customer service in banks etc. for the improvement of the banking system as a whole.

The main limitation of the study was that it was a very simple analysis of the quantitative performance of commercial banks in Assam during the post-nationalisation era, neglecting the other qualitative aspects of banks such as organisational, operational efficiency, profitability, capital adequacy etc.

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Tamuli R. (1992), "Institutional Finance for Rural Development-A study on Subansiri Gaonlia Bank in undivided Lakhimpur district (Assam)", (Published thesis, Gauhati University)
Sarmah, B. (1990), "Impact of Bank Nationalisation in Assam", (Published Thesis, Gauhati University)
2. (ii) (d) Muhammad and Allan (1998) in their book, highlighted the importance of micro-credit and formation of Self-Help-Groups (SHGs) in improving the conditions of rural poor in eradicating rural poverty in Bangladesh by giving vivid description of the role and functions of Grameen Bank (G.B). The G.B. was founded on the principles of trust and solidarity. In their study they successfully interpreted the role played by G.B. in uplifting the socio-economic status of the underprivileged sections of the community and in improving their living conditions. G.B. provides loans only to those who are living below the poverty line (BPL) whom the traditional banks do not provide. Both functional and geographical coverages of G.B. has extended considerably during the last 15 years. About 34,000 villages are now covered by the G.B. It has now gradually started to diversify its activities. The G.B. is based on the principle of peoples' participation and their mutual co-operation. It was initially started as a pilot project and later converted into a full-fledged bank in 1983.

2. (ii) (e) Kohli (1999) in her work tried to evaluate a comparative picture of the bank's branch licensing policy during the pre and post-reform period and also their role in the rural areas.

The study also offered the Indonesian's Transformation of Bank Rakyat Indonesia as a Model relevant for the rural branches of public sector banks (PSBs) in India. It argued for their transformation as an alternative to closure or gradual substitution by private sector banks. The study found that the quantitative expansion of Indian banking industry has been at the expense of quality. The study suggested restructuring of rural branches of public sector banks, arguing in favour of transformation of these institutions as an alternative for replacement or closure during the financial sector reform. The study urged that in terms of profitability, rural branches should not be considered as a

Yunus Muhammad & Jolis Allan (1998), "Banker to the Poor" (The University Press Ltd., Dhaka)
liability to the bank. In its view, weak and ineffective control over rural branches was a major cause of non-viability of most of the rural branches of PSBs.

2. (ii) (f) Mahanty (1997) in his work had made an effort to analyse the prospects of development of linkage banking and micro finance in India.

The study found that the system of linkage banking (linking informal Self - Help Groups (SHGs) with formal banking system) was first introduced in India by National Bank for Agriculture and Rural Development (NABARD) in February, 1992 as a pilot project. The study also laid stress on the role played by NGOs in the formation, nurturing, linkage and stabilisation of SHGs for the qualitative expansion of the linkage programme. The study found that adoption of linkage banking strategy would fulfil the twin objectives of commercial viability and service to the unreached poor. Already 4757 SHGs had been linked with 28 commercial banks, 60 RRBs and 7 co-operative banks, covering 16 states and 1 union territory and involving 127 NGOs as on 31st March, 1996 and the number of women groups constituted 73.5% of the total under the Project.

2. (ii) (g) Kotaiah (1997) in his work had made an effort to analyse the role and importance of micro-entrepreneurs (which broadly comprised of small and marginal farmers) engaged in various economic activities under both farm and non-farm sector, tiny industries, khadi and village industries. The study found that among various financial institutions, NABARD occupied a unique place in providing credit to the small and marginal entrepreneurs sector. Recognising the various constraints, NABARD provided "Credit Plus Approach", facilities to the tiny and micro-entrepreneurs in the rural areas and also launched SHG linkage Project in 1992, a single window scheme for rural women, District Rural Industries Programme.

2. (ii) (h) Dr. Rangarajan (1997) in his work laid stress in the development and importance of extensive use of IT in the banking sector of the country to meet the different needs of the customers. The use of IT had already radically altered the traditional way of banking. In his study, he had discussed about the development of banking technology in India with special reference to the recommendations of various committees. He also highlighted several impediments faced by banks in the smooth introduction of computers and suggested some measures like the need for attituditional and organisational changes, availability of power, upgrading the legal system, adequate training to personnel. He identified some core areas such as customer service, house-keeping, decision-making and productivity/profitability which need immediate computerisation. He further suggested to create a greater awareness among the massess to accept this new trend.

2. (ii) (i) Mahapatra (1999) in his work analysed the origin, significance and the prospects of credit rating business in India. The study made a critical analysis on some of the controversial issues like rating of equity, rating of new instruments, rating of financial institutions, rating of non-financial products. The study found that the credit rating business which was initially confined to only debenture and bond rating, had now started entering into other new areas of business. The study finds that credit rating protects the interest of both the borrowing companies as well as the investors. Investors are the biggest beneficiaries of a credit rating system. The first credit rating agency in India, known as Credit and Information Service of India Ltd. was set up in 1988, which was promoted by ICICI and UTI. Credit rating is done on the basis of the information provided by the borrowing company or obtained from other reliable sources. The study finds that rating is expressed in symbolic form which shows the degree of risk.

2. (ii) (j) Das (1999) in his study has made an attempt to evaluate the trend of growth and operations of commercial banks especially in the rural areas during the post nationalisation era with the help of five indicators such as branch expansion, deposit mobilisation, credit deployment, advances to priority sector and credit-deposit ratio. The study found that during the post-nationalisation period, the commercial banks had given special emphasis on the development of rural areas in order to minimise regional disparities and accordingly there had been a rapid expansion of the branch network programme in the rural areas. However the study reveals that the new financial sector reform not encourages the commercial banks to operate in the rural areas.

2. (ii) (k) Rajagopal (1996) in his work had made an effort to analyse the objectives and components of risk management. He finds that components of risk management involves identification, measurement and control of risk and among these, risk assessment or risk measurement is the most difficult step since it involves estimation of the size, profitability and timing of a potential loss under various scenarios.

2. (ii) (l) Jalan (2000) in his work had analysed the various issues such as legal reforms, regulation and supervision, capital adequacy norms of the financial sector reform and made some suggestions to build an open and competitive banking system. The study also highlighted the importance of Information Technology (IT), Human Resource Management (HRM) and Risk Management (RM), Corporate Governance in the internal management of the banks and recommended for speedy computerisation of bank branches and strengthening the quality of human resources.

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2. (ii) (m) Kaveri (1999) in his work had analysed the various constraints, both bank-specific and region-specific that hinders the development of financial institutions in the North-Eastern region and accordingly suggested some measures to resolve the problems such as strengthening the recovery machinery at the grass root level, adoption of total planning instead of credit planning for a village/ a district, establishment of a currency chest for movement of cash to branches, creation of an informatic centre in the region to facilitate the entrepreneurs with required information to make a project more viable. Further the study suggested that collective efforts are needed to resolve the external factors that hamper the overall performance of banks. Further, the study suggested that the RBI should appoint a separate Committee to study the problems of banks and financial institutions in the North-Eastern region which experience low recovery and high C/D ratio.

2. (ii) (n) The survey report of the NEIBM (2000) reveals that poor borrowers of rural areas still have a larger association with the money lenders who charge an exhorbitant rates of interest from them which is more than the principal, because of the following reasons - no formality is involved in the process, purpose of loan immaterial to the moneylenders, money is available even in odd hours, moneylender being a local person maintains a friendly relationship with the vulnerable poor villagers.

The survey has further found the reasons given by the poor borrowers in the rural areas for not preferring to borrow from banks, are - borrowing from bank is time consuming, bank procedures are complex and all - Greek to the illiterate and semi-illiterate poor men, poor and illiterate people are not considered for bank finance, banks

do not explain formalities in convincing manner, banks first ask to deposit money and then agree to sanction loan, the rural poor people are under the impression that banks are meant for the rich only.

The NEIBM survey report suggested a number of measures to bring the rural poor from the clutches of private moneylenders. The major suggestions of the Report are - creation of a data bank on rural people who are living below the poverty line by the banks with help of Panchayats, provision of counselling the poor borrowers for not going to moneylenders, implementation of Swarnajayanti Gram Swarazgar Scheme (SGSY) which is meant for creating self-employment for rural poor, invitation of the concept of time management in rural branches which are under-staffed by the respective branch managers, selection of a specific day of a week for making loan appraisal, execution of documents, verification of loan application and pre-sanction inspection, simplification of bank procedures.

**IMPORTANCE OF THE PRESENT STUDY:**

After a detailed review of the existing literature, it is found that most of the studies so far conducted highlighted the various problems of commercial banks at the national level. There has hardly any effort been made to study the various aspects or problems of commercial banks in Assam specially after the post-reform period. Therefore, it becomes necessary to highlight the problems and performance of commercial banks at the state level and to make inter-state comparisons.

The present study is an attempt to analyse the performance and working of commercial banks in Assam since their inception with special reference to post-reform era (1991-2000).

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