CHAPTER 4
BANKING SECTOR REFORMS

The economic reforms were introduced in June 1991 in the wake of severe balance of payments crisis in the Indian economy. The economic reforms initiated especially in the three sectors of the economy such as external sector, trade and industrial sector and financial sector. In financial sector reforms the main focus was on the banking sector since this sector was the main sector of the financial system of India. The banking sector reforms in India were an important part of the economic reform process initiated in the early 1990s.

The crisis of 1991 favoured bolder reforms being ushered in, the pace had to be calibrated to what would be acceptable in a democracy. Structural adjustment measures were undertaken simultaneously with the liberalisation programme in order to harness the stabilizing influence associated with certain measures of liberalisation. Macroeconomic stability was made a concurrent pursuit. Fiscal and external sector policies supported monetary policy in maintaining overall balance. The exchange rate was made flexible, foreign investment was made permitted and the current account was made fully convertible. Prudential regulations were put in place to ensure safety and soundness, while transparency and accountability in operations were aimed at restoring the credibility of the banking system. Recognising the inter-linkages between the real and financial sectors, wide-ranging reforms were also undertaken in the real sector so that financial intermediation kept pace with underlying economic activity.  

The recommendations of the two committees, one, the Committee on the Financial System, 1991 and second, the Committee on the Banking System Reform, 1998 both under the chairmanship of Mr. M. Narasimham are discussed in this chapter. The year-wise as well as heading-wise implementation of the reforms was discussed.

banking reforms are also considered in this topic. However, the recommendations
and implementations of the reform mentioned in this chapter are restricted only to
the aspect of commercial bank performance, which is related to the profitability,
efficiency, and productivity of a bank.

4.1 Report of the Committee on Financial System
(Narasimham Committee Report – I)

A high level committee with Shri. M. Narasimham as the Chairman was set
up to examine the various aspects of structure, organization, functions and
procedures of the financial system. This Committee on financial system submitted
its Report in November 1991. The main theme of the Report was to improve the
financial health of the banks and financial institutions. The thirst of the Report
was on greater market-orientation with more emphasis on profitability, efficiency
and productivity of banks. The important recommendations of the Committee are
mentioned here as well as implementation of these recommendations is also
discussed in this chapter. The part of implementation of reform / liberalization
process is mainly limited to the reform measures which are concerned with the
profitability, efficiency and productivity aspect of the performance of banks
especially reserve requirements, deregulation of interest rates, prudential norms,
etc.

1. Directed Investment

i) The SLR is brought in a phased manner to 25 per cent over a period of
five years.

ii) RBI should consider progressively reducing the CRR from its present high
level.

iii) The interest rate paid to banks on their SLR investments and CRR in
respect of impounded deposits above the minimum should be increased.

iv) The interest paid on SLR investments should be progressively market
related while that on CRR above the basic minimum should be broadly
related to average cost of deposits.
2. Capital Adequacy
   i) Banks should achieve a minimum 4% capital adequacy ratio in relation
to risk weighted assets by March 1993 of which tier 1 capital should be
not less than 2 per cent.
   ii) The BIS standards of 8 per cent should be achieved by March 1996.
   iii) For Banks with international presence it is necessary to reach these figures
even earlier.
   iv) In respect of banks which enjoy a good reputation in the markets and
whose operations have been successful, issue of fresh capital to the public
through the capital market should be permitted.
   v) Subscribers to such issue would be mutual funds, PSUs, employees and
general public.
   vi) In respect of other banks the Government could meet the shortfall by
direct, subscription to capital or by providing a loan, which could be
treated as subordinated debt.

3. Interest Rate Structure
   i) For the present, interest rates on bank deposits may continue to be
regulated, the ceilings on such rates however being raised as the SLR is
reduced progressively.
   ii) The interest rate on government borrowing may also be gradually brought
in line with market-determined rates, which would be facilitated by
reduction in SLR.
   iii) Concessional interest rates should be phased out.
   iv) The spreads between the bank rate, the bank deposit rates, the government
borrowing rates and the prime rate may be determined by the RBI broadly
in accordance with the criteria suggested by Chakravarty Committee so as
to ensure that the real rates of interest remain positive.
4. Directed Credit
   i) The priority sector should be redefined to comprise the small and marginal farmer, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections.
   ii) The credit target for this redefined priority sector should henceforth be fixed at 10% of aggregate credit.
   iii) A review may be undertaken at the end of three years to see the need for the continuance of directed credit programme.
   iv) In order to encourage banks to provide credit to the erstwhile constituents of priority sector, the RBI and other refinancing agencies institute a preferential refinance scheme in terms of which incremental credit to these sectors would be eligible for preferential refinance subject to normal eligible criteria.

5. Accounting System & Income Recognition
   i) Banks should adopt uniform accounting practices particularly in regard to income recognition and providing against doubtful debts.
   ii) There is need for adopting sound practices in regard to valuation investments on the lines suggested by the Ghosh Committee on final accounts.
   iii) In regard to income recognition, banks which are following the accrual system of accounting, no income should be recognized in the accounts in respect of nonperforming assets.
   iv) The asset would be considered non performing if interest on such assets remains past due for a period exceeding 180 days at the balance sheet date.

   i) The assets should be grouped, into four categories namely (a) standard (b) sub-standard (c) doubtful and (d) loss assets as against the existing eight categories.
   ii) In regard to sub-standard asset, a general provision equal to 10% of the total outstanding under this category should be made.
iii) In respect of doubtful debts provision should be created to the extent of 100% of the security shortfall.

iv) In respect of the secured portion of some doubtful debts further provisions should be created ranging from 20% to 50% depending on the period for which such assets remain in the doubtful category.

v) Loss assets should either be fully written off or provision be created to the extent of 100%. A period of 4 years should be given to the banks to confirm to these provisioning requirements.

vi) For effective compliance of the criteria for income recognition and provisioning (a) All specific provisions made in respect of doubtful assets should be allowed as deduction under section 36(i) (vii) of the Income Tax Act (b) the deduction available for general provisions under S.36 (i) vii) (a) of Income Tax Act should be modified to provide for a ceiling of 0.5% if the aggregate average non-agricultural advances in India instead of a ceiling of 5% of the net income.

7. Transparency
   (i) The balance sheets of banks should be made transparent and full disclosures made in the balance sheets as recommended by the International Accounting Standards Committee.

8. Recovery
   (i) Special tribunals on the pattern recommended by the Tiwari Committee on the subject should be set up to speed up the process of recovery.

9. Asset Reconstruction Fund
   (i) The establishment of an Asset Reconstruction Fund (ARF) which could take over from the banks a portion of bad and doubtful debts at a discount.

10. Branch Licensing Policy
    (i) The branch licensing should be abolished and the matter of opening branches or closing of branches other than rural branches for the present, be left to the commercial judgement of the individual banks.
(ii) The policy with regard to allowing Foreign Banks to open offices in India either branches or as subsidiaries should be more liberal subject to other stipulations.

(iii) Foreign Banks when permitted to operate in India should be subjected to the same requirements as are applicable to domestic banks. In case where it is not possible like directed credit, RBI should workout alternate methods with view to ensuring level playing field.

11. Computerisation

(i) The Committee endorsed the view of the Rangarajan Committee on computerization that there is urgent need for a far greater use of computerized system than at present.

12. Recruitment of Staff and Officers

(i) The common recruitment system for officers should go and individual banks shall be free to make their recruitment.

(ii) As regards clerical grades the present system of recruitment through BSRBs may continue.

(iii) The appointment of the Chairman of these Boards should be totally left to the coordinating banks.

(iv) The various guidelines and directives issued by the Government or the Reserve Bank in regard to internal administration of the banks should be reviewed to examine their continuing relevance in the context of the need to ensure the independence and autonomy of banks. Such guidelines, which relate to matters of internal administration such as creation and categorization of posts, promotion procedures and similar matters, should be rescinded.
4.2 Report on Banking Sector Reforms – April 1998
(Narasimham Committee-II)

The Committee on Banking Sector Reform (Chairman: Shri M. Narasimham) was constituted on December 26, 1997 to review the progress of implementation of financial sector reforms recommended by the Committee on Financial Systems (CFS) (1991), and to suggest remedial measures for strengthening the banking system, covering areas of banking policy, institutional structure, supervisory system, legislative & technological changes. The recommendations of the Committee, submitted in April 1998 are as under:

i) Five per cent weight for market risk for Government/approved securities.

ii) The risk weight for government guaranteed advances to be the same as for other advances.

iii) Foreign exchange open position limit to carry 100% risk weight.

iv) A minimum target of 9% CRAR to be achieved in the year 2000 & 10% by 2002.

v) An asset be classified as doubtful if it is in the sub-standard category for 18 months in the 1st instance & eventually for 12 months & loss if it has been so identified but not written off.

vi) (a) The government guaranteed advances, which have turned sticky to be classified as NPAs.
   (b) Income recognition, asset classification & provisioning norms should apply to government guaranteed advances in the same manner as for any other advances.

vii) A general provision of 1% on standard assets be introduced.

viii) Banks should avoid the practice of ‘evergreening’.

ix) Any effort at financial restructuring must go hand in hand with operational with the cleaning up of the balance sheet, simultaneously steps to be taken to prevent/limit reemergence of new NPAs.
x) To enable banks in difficulties to issue bonds for Tier II capital, Government will need to guarantee these instruments which would then make them eligible for SLR investments.

xi) There is need for disclosure in a phased manner of the maturity pattern of assets & liabilities, movements in provision account & NPAs.

xii) Concentration ratios need to be indicated in respect of bank's exposure to any particular industrial sector as also to sectors sensitive to asset price fluctuations such as stock market & real estate. These exposure norms need to be carefully monitored.

xiii) Banks should bring out revised operational manuals and update regularly.

xiv) There is need to institute an independent loan review mechanism especially for large borrowal accounts & to identify potential NPAs.

4.3 Major Reforms Implemented: 1992 – 2004

4.3.1 Reserve/Liquidity requirement

There has been a distinct shift in the monetary policy framework and operating procedures from direct instruments of monetary control to market based indirect instruments. Consequently, a phased reduction in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) has taken place since 1991, thereby releasing the resources pre-empted earlier by reserve requirements.\(^{53}\)

a) Cash Reserve Ratio (CRR)

1992-93

i) The Scheduled commercial banks were exempted from maintenance of the 10% incremental CRR over the level of net demand and time liabilities (NDTL) as on April 17, 1992.

ii) One-third of additional cash balances maintained under the 10 per cent incremental CRR on NDTL between May 3, 1991 and upto the level of

April 17, 1992 was released to banks in three equal instalments from the
fortnights beginning October 17, November 14 December 12, 1992.

iii) Effective the fortnight beginning October 17, 1992, no interest was paid
on the increase in eligible cash balances based on NDTL maintained after
March 23, 1990 under the average 15 % CRR as well as on the eligible
cash balances maintained under the 10% incremental CRR.

1993-94
i) The average CRR on NDTL was reduced from 15 per cent to 14 percent in
two phases, i.e., 14.5 per cent from the fortnights beginning April 17 and 14
per cent from May 15, 1993.

1994-95
i) In order to sterilise the expansionary effect of the surge in foreign currency
assets, CRR was increased from 14% to 15% in three phases: 14.5%,
14.75% and 15% from the fortnights beginning June 11, July 9, and August
6, 1994 respectively.

1995-96
i) CRR was reduced from 15 per cent to 14.5 per cent from the fortnight
beginning November 11, 1995 and 14 per cent from the fortnight beginning
December 9, 1995.

1996-97
i) CRR was reduced from 14.5 per cent in two stages: to 13.5 per cent from the
fortnight beginning April 27, 1996 and to 13 per cent from the fortnight
beginning May 11, 1996. CRR was further reduced to 12 per cent from the
fortnight beginning July 6, 1996.

ii) CRR was reduced by two percentage points from 12 per cent to 10 per
cent in four phases of 0.5 percentage points as follows:

11.5 per cent by October 26, 1996
11 per cent by November 9, 1996
10.5 per cent by January 4, 1997 and
10 per cent by January 18, 1997.
1997-98

In accordance with the stance of phased reduction in statutory pre-emption of banks' resources, Monetary & Credit policy during the second half of 1997-98 announced reduction in the CRR to be maintained by SCBs (excl. RRBs) by 2.0 percentage points from 10 % of Net Demand & Time Liabilities (NDTL) to 8.0 % in eight phases of 0.25 percentage point each with effect from the fortnights beginning October 25, 1997, November 22, 1997, December 20, 1997, January 17, 1998, February 14, 1998, February 28, 1998, March 14, 1998, and March 28, 1998.

With a view to rationalizing the system of payment of interest on eligible CRR balances, with effect from fortnight beginning October 25, 1997, banks would be paid interest at the rate of 4.0 % per annum on eligible cash balances maintained with the Reserve Bank under the RBI Act 1934. This had the effect of improving the return on such balances since the revised rate would be applicable on the entire eligible cash balances.

1999-2000

- Reduced to 10%(May 8, 1999)
- Reduced to 9.5% (November 6, 1999)
- Reduced to 9.0% (November 20, 1999)
- Reduced to 8.5% (April 8, 2000)
- Reduced to 8.0% (April 22, 2000)
- Raised to 8.25% (July 29, 2000)
- Raised to 8.50% (August 12, 2000)

2000-01

The CRR was reduced by 200 basis points to 5.50 per cent from 7.50 per cent of net demand and time liabilities (NDTL). Effective from the fortnight beginning November 3, 2001, CRR would stand reduced to 5.75 per cent; and
effective fortnight beginning December 29, 2001, the CRR will be reduced further to 5.50 per cent of NDTL.

With effect from the fortnight beginning November 3, 2001, the interest paid on eligible cash balances maintained with the Reserve Bank would be at the Bank Rate (i.e. 6.5 per cent).

2001-02

The RBI has been pursuing its medium term objective of reducing the CRR to its statutory minimum level of 3.0 per cent. The CRR was reduced from 11.0 per cent in August 2001 to 7.5 per cent by May 2001. In October 2001, the CRR of SCBs (excluding RRBs) was rationalized along with a reduction of 200 basis points to 5.5 per cent of NDTL. The CRR was reduced further to 5.0 per cent effective June 1, 2002.

The CRR was reduced from 5.0 per cent to 4.75 per cent effective from the fortnight beginning November 16, 2002.

2002-03

The CRR of SCBs that was at 15.0 per cent of Net Demand and Time Liabilities (NDTL) between July 1, 1989 and October 8, 1992 was brought down in phases to 4.5 per cent on June 14, 2003.

2003-04

On a review of the macroeconomic situation, the CRR was increased by one-half of one percentage point of the NDTL in two stages – to 4.75 per cent effective September 18, 2004 and further to 5.0 per cent effective October 2, 2004. However, the Reserve Bank would continue to pursue its medium-term objective of reducing CRR to its statutory minimum of three per cent. The Reserve Bank chose to increase the CRR, partly for absorbing liquidity in the system.
(b) SLR- Statutory Liquidity Ratio

1992-93

i) SLR was frozen at 38.5 per cent of the outstanding domestic NDTL as on April 3, 1992 and for any increase in domestic NDTL over April 3, 1992 level, the SLR was reduced from 38.5 per cent to 30 per cent.

ii) SLR on the level of outstanding domestic NDTL as on April 3, 1992 was reduced from 38.5 per cent to 37.75 per cent in three phases, i.e., 38.25 per cent from the fortnight beginning January 9, 1993, 38 per cent from February 6, 1993 and 37.75 per cent from March 6, 1993.

1993-94

i) SLR on domestic NDTL as on April 3, 1992 was reduced to 37.5 per cent from August 21 and further to 37.25 per cent from September 18, 1993.

ii) The base date for SLR on domestic NDTL was brought forward from April 3, 1992 to September 17, 1993 and SLR was fixed at 34.75 per cent.

iii) SLR on any increase in domestic NDTL over the level as on September 17, 1993 was reduced from 30 per cent to 25 per cent.

1994-95

i) SLR level on the level of domestic NDTL as on September 17, 1993 was reduced from 34.75 per cent to 34.25 per cent effective August 20, 1994 and further to 33.75 per cent effective September 17, 1994.

ii) The base date for SLR on domestic NDTL was brought forward from September 17, 1993 to September 30, 1994 and SLR was fixed at 31.5 per cent effective October 29, 1994 and for any increase in domestic NDTL over the level as on September 30, 1994 was fixed at 25 per cent.

1995-96

i) With a lower stipulation of SLR on incremental NDTL over the level as on September 30, 1994 and zero SLR requirements on certain specific
external liabilities, the overall effective SLR was estimated to have declined to 28.2 per cent by the end of March 1996 as against 29.3 per cent at the end of March 1995.

ii) Effective October 14, 1995 scheduled commercial banks (excluding RRBs) were required to adopt, for the purpose of SLR, the same system of valuation of Government securities as for the balance sheet purposes.

1996-97
1997-98

With a view to rationalizing the prescription of SLR, simplify the multiple prescription, with effect from fortnight beginning October 25, 1997, all SCBs were required to maintain a uniform SLR of 25 per cent on their entire NDTL which is the minimum stipulated under Section 24 of the Banking Regulation Act, 1949.

1999-2004

There has been no change in the statutory minimum requirement of SLR of 25 per cent of NDTL for commercial banks.

2003-04

The SLR has been progressively brought down from the peak rate of 38.5 per cent in February 1992 to the statutory minimum of 25.0 per cent in October 1997. Commercial banks, however, hold SLR securities well in excess of the statutory prescription in response to attractive risk-free yields. The banking system held SLR securities to the extent of 41.3 per cent of its NDTL as at end-March 2004.
4.3.2 Interest Rates

Prior to the reforms, direct monetary controls coupled with administered lending and deposit rates created distortions in both supply and demand for credit. The structure of administered interest rates has since been almost totally dismantled. Banks now have sufficient flexibility to decide their deposit and lending rate structures and manage their assets and liabilities accordingly. The policy measures focused on imparting greater flexibility and transparency to the interest rate structure so that interest rates evolve in alignment with the behavior of domestic and international macroeconomic and financial conditions. One of the major objectives of the progressive deregulation of interest rates was to provide considerable flexibility to banks in deciding their deposit /lending rate structures and managing their asset/liabilities.

a) Lending Rates

Lending rates were deregulated in October 1994 and banks were required to announce a prime lending rate (PLR), taking into account the cost of raising funds and transaction cost with the approval of their Boards. Further, the system of tenor linked prime lending rates (TPLRs) was introduced in April 1999 to provide more operational flexibility to banks. Despite a fall in deposit rates and lowering of the cost of funds, the range of PLRs of PSBs remained sticky downwards. Banks were advised to provide information on maximum and minimum interest rate charged alongside their PLRs which were placed on the Reserve bank website on a quarterly basis effective from June 2002.

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54 Ibid.
55 Report on Trend and Progress of Banking in India, RBI, 2001-02.
1992-93

i) Effective April 22, 1992 the lending rates structure was rationalized from the earlier six categories of which one was a minimum rate and interest rate on CDs were freed.

ii) The minimum lending rate (MLR) for credit limit of over Rs. 2 lakh was reduced from 20 per cent to 19 per cent effective March 2, 1992, to 18 per cent effective October 9, 1992 and further to 17 per cent effective March 1, 1993.

1993-94

i) The lending rates structure was further rationalized into three categories of which one was a minimum rate effective April 8, 1993 from four categories earlier.

ii) Effective October 16, 1993, bank-wise limit on issue of CDs was withdrawn.

iii) The minimum maturity of a term deposit under the NRE Deposit scheme was raised upwards from 46 days to 6 months effective May 16, 1994.

iv) MLR was reduced to 16 per cent effective June 24, 1993 and further to 15 per cent effective September 2, 1993.

v) MLR on term loan of 3 years and above was reduced from 15 per cent to 14 per cent effective March 1, 1994.

vi) The fixed interest rate on term loans over Rs. 25,000 and upto Rs. 2 lakh was reduced from 15 per cent to 14 per cent effective March 1, 1994.

1994-95

i) Effective October 18, 1994 MLR for credit limits of over Rs. 2 lakh was abolished and banks were free to fix their own Prime Lending Rates (PLR) subject to the approval of their Board of Directors. PLR as the minimum rate chargeable by banks to their borrowers with credit limit above Rs. 2 lakh.
ii) Effective October 18, 1994 the lending rate for credit limits of over Rs. 25,000 and up to Rs. 2 lakh for all advances including term loans was fixed at 13.5 per cent.

iii) The stipulation of effective interest rate on bill discounting of over Rs. 2 lakh which was at one percentage point below the lending rate under this category was withdrawn from October 18, 1994.

1995-96

i) Effective October 1, 1995 banks were allowed to fix their own interest rates on advances over Rs. 2 lakh against term deposits.

1996-97

i) On October 19, 1996 the Reserve Bank advised the banks to announce the maximum spread over the PLR for all advances other than consumer credit along with their PLRs approved by the Boards.

1997-98

Interest rates in India were further deregulated during 1997-98. As part of the progress of deregulating interest rates on credit limits up to Rs. 2 lakh & in view of the movements in the interest rates, effective October 22, 1997, the lending rate prescription for credit limits of over Rs. 25,000 and up to Rs. 2 lakh, was changed from fixed rate of 13.5 % to a ceiling prescription of not exceeding 13.5 %. With a view to giving banks more freedom to determine the interest rates, banks were allowed in October 1997 to prescribe separate Prime Term Lending Rates (PTLRs) with approval of their Boards, for term loans of 3 years & above, apart from the freedom to fix separate Prime Lending Rates (PLRs) for cash credit & loan components given earlier.
1999-2000

Boards of Directors of banks were allowed to delegate powers to ALM Committee to fix interest rates on advances. “Banks allowed to operate different PLRs for different maturities”. Banks allowed to offer fixed rate term loans subject to conformity to ALM guidelines effectively from April 24, 1999.

2000-01

The banks are also permitted to offer tenor linked PLRs. Effective April 21, 2001; commercial banks have been permitted to lend at rates below PLR to exporters and other creditworthy borrowers.

2001-02

In order to ensure appropriate pricing of loans, banks were encouraged to review both their PLRs and spreads within reasonable limits around PLR subject to approval of their Boards.

Banks are free to prescribe respective prime lending rates (PLRs) across various tenors, as also to lend at sub-PLR rates.

To extend the benefits of lower interest rates to a wider spectrum of borrowers, banks were urged to review and disclose the maximum spreads over PLR and reduce them if unreasonably high, so as to enhance transparency and ensure credit availability at reasonable rates.

2002-03

In the annual policy Statement of April 2003, banks were advised to announce a benchmark PLR with the approval of their boards, taking into
consideration: (i) actual cost of funds, (ii) operating expenses and (iii) minimum margin to cover regulatory requirements of provisioning and capital charge, and profit margin.

In the Mid-term Review of Monetary and Credit Policy for 2002-03, it was clarified that since lending rates for working capital and term loans can be determined with reference to the benchmark PLR, by factoring in term premia and / or risk premia, a need for multiple PLRs may not be compelling. Banks were free to price their loan products based on time-varying term premia and relevant transaction costs. Freedom has also been given for pricing loan products on the basis of market benchmark in a transparent manner.

2003-04

At present the only lending rates that are being regulated are those pertaining to exports, small loans of up to Rs. 2 lakh, and the differential rate of interest (DRI) scheme and all other interest rates are deregulated.

b) Deposit Rates

1992-93

i) Effective April 22, 1992 deposit rates were subject to only one ceiling rate as against the prescribed rates earlier.

ii) Banks’ maximum deposit rate was reduced from ‘not exceeding 13 per cent’ to ‘not exceeding 12 per cent’ effective October 9, 1992 and further to ‘not exceeding 11 per cent’ effective March 1, 1993.

iii) The interest on savings deposits under the NRE scheme was raised from 5 per cent to 6 per cent with effect from October 9, 1992.
1993-94

i) Effective July 1, 1993 interest rate on savings deposits was reduced from 6 per cent to 5 per cent.

ii) Effective April 8, 1993 maximum term deposits rate under NRE Scheme was reduced from ‘not exceeding 13 per cent’ to ‘not exceeding 12 per cent’, and to ‘not exceeding 11 per cent’ effective October 12, 1993 and further to ‘not exceeding 10 per cent’ effective May 16, 1994.

iii) Term deposits rate was reduced to ‘not exceeding 10 per cent’ effective September 2, 1993.

iv) New FCNR (B) Scheme was introduced effective May 15, 1993 entailing the commercial banks to provide the exchange rate guarantee to depositors.

1994-95

i) Effective October 18, 1994 term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was reduced from ‘not exceeding 10 per cent’ to ‘not exceeding 8 per cent’.

ii) Effective November 1, 1994 the savings deposit rate including under NRE accounts was reduced to 4.5 per cent from 5 per cent earlier.

iii) Effective February 10, 1995 maximum term deposit rate was increased to ‘not exceeding 11 per cent’ from ‘not exceeding 10 per cent’ earlier.

1995-96

i) Effective April 18, 1995 the maximum term deposit rate was increased to ‘not exceeding 12 per cent’ from ‘not exceeding 11 per cent’ earlier.

ii) Effective October 1, 1995 banks were given freedom to fix their own interest rates on domestic term deposits with a maturity of over two years.

iii) Effective October 1, 1995 the maximum term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was raised from 8 per cent to 10 per cent and further to 12 per cent effective October 31, 1995.
1996-97

i) Effective April 4, 1996 with a view to bringing about an alignment of the maturity structure of NRE term deposits with that on term deposits, interest rate on NRE term deposits of over two years was freed.

ii) Effective July 2, 1996 banks were given freedom to fix their own interest rates on domestic term deposits with a maturity of over one year. Further, to provide some outlet for management of short-term surplus funds, owing to the developments in the money market and progressive move from the cash credit system to a loan system, the minimum period of term deposits was reduced from 46 days to 30 days. Accordingly, effective July 2, 1996, the interest on domestic term deposits of 30 days and upto one year was prescribed at 'not exceeding 11 per cent per annum'.

iii) Effective October 21, 1996 the interest on domestic term deposits of maturity between 30 days to one year was reduced to 10 per cent.

1997-98

It was announced on April 29, 1998 that all advances against term deposits would be at interest rates equal to PLR or less.

The minimum period of maturity of term deposits was reduced from 30 days to 15 days in April 1998.

With a view to giving banks full freedom to determine the interest rates on term deposits of different maturities effective October 22, 1997, interest rates on domestic term deposits of 30 days and above were deregulated.

Banks were permitted to determine their own penal interest rates for premature withdrawal of domestic term deposits and banks were advised to ensure that depositors are made aware of the applicable penal rate along with the deposit rate.
1999-2000

Saving deposit rate on domestic and ordinary non-resident savings deposits as well as savings deposits under Non-resident (External) accounts schemes of scheduled commercial banks reduced from 4.5% to 4.0% (April 3, 2000).

2000-01

Banks are free to accept FCNR (B) deposits for a maturity period of 1 to 3 years and offer fixed or floating rates.

2001-02

In order to further improve flexibility, banks were given freedom to decide the period of reset on variable rate deposits. Except for savings deposits on which the interest rate is fixed at 4 per cent, banks are free to offer fixed/floating rates. To impart flexibility, banks are encouraged to consider introducing flexible interest rate systems for all new deposits, in addition to the fixed rate option already available to depositors.

2002-03

The interest rates on domestic and ordinary non-resident savings deposits as well as the Non-resident (External) Savings Accounts Scheme were reduced from 4.0 per cent to 3.5 per cent per annum effective March 1, 2003.

2003-04

At present, on the deposit side, only savings deposit rate (which is at 3.5 per cent per annum currently) and NRI deposit rate are being prescribed by the Reserve Bank. Banks are otherwise free to offer interest rates on deposits of any maturity above 15 days for regular deposits and 7 days for wholesale deposits (over Rs. 15 lakh) from residents. In the mid-term Review of annual policy for
2004-05 banks have been allowed to reduce the minimum tenor of retail domestic term deposits (under Rs. 15 lakh) from 15 days to 7 days, at their discretion.

4.3.3 Prudential Norms

In line with the international practices and as per the recommendations made by the Committee on the Financial system (Chairman: Shri M. Narasimham), the Reserve Bank introduced in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts. The endeavour of the Reserve Bank is to move to a policy of income recognition that is more objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of an objective criteria which would ensure a uniform and consistent application of the norms. Also, the provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realizable value thereof.56

Prudential norms serve two primary purposes – First they reveal the true position of the bank's loan portfolio, and secondly, they help arrest it deterioration. Prudential reforms introduced in India relate to income recognition, asset classification and provisioning for bad & doubtful debts and capital adequacy. Over a period of time these measures have been tightened.

a) Capital Adequacy Norms

In view of the management of cross border capital flows following oil-crisis and international debt crisis, the 1988 Basel Accord prescribed a common minimum capital standard to banking industry of Group of Ten (G-10) to be achieved by 1992. With a view to adopting the Basle Committee framework on

capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, the Reserve Bank decided in April 1992 to introduce a Risk Asset Ratio system for banks including foreign banks in India as a capital adequacy measure. Essentially, under the above system the balance sheet assets, non-funded items and other off-balance sheet exposures are assigned weights according to the prescribed risk weights and banks have to maintain unimpaired minimum capital funds equivalent to the prescribed ratio on the aggregate of the risk weighted assets and other exposures on an ongoing basis. 57

Basel II Developments

The Basel Committee on Banking Supervision (BCBS) released the International Convergence of Capital Measurement and Capital Standards on June 26, 2004, which is expected to be implemented by the end of 2006. The main objective for revision in the 1988 Accord was to develop a framework that would further strengthen the soundness and stability of the international banking system by promoting adoption of stronger risk management practices by the banking industry. 58

1992-93

i) In order to improve the financial health of the banking system, the Reserve Bank introduced a risk-asset ratio system for banks in India as a capital adequacy measure. Accordingly, all Indian banks with international presence were asked to achieve a capital to risk asset ratio of 8 per cent by March 31, 1994. Foreign banks operating in India were asked to achieve this norm of 8 per cent by March 31, 1993. Other banks were asked to achieve 4 per cent ratio by March 31, 1993 and 8 per cent ratio by March 31, 1996.

58 Ibid, 30
1993-94

i) The Government of India had made a provision of Rs. 5,700 crore in the 1993-94 Union Budget for recapitalisation of nationalized banks. Recapitalisation of 19 nationalised banks was made on January 1, 1994 subjecting the banks under time bound 'performance obligations'. The recipient banks were required to invest the Government's capital subscription in Government bonds known as '10 per cent Recapitalisation Bonds, 2006'.

ii) Indian banks having branches abroad were given one year extension to achieve the capital adequacy norm of 8 per cent i.e. by March 31, 1995.

1994-95

i) As against the budgetary provision of Rs. 5,600 crore towards recapitalisation of nationalized banks for the year 1994-95, the revised estimates was Rs. 5,287.12 crore out of which a sum of Rs. 4,362.54 crore was allocated to 13 nationalized banks and Rs. 924.58 crore passed on as Tier II capital to six nationalized banks against the World Bank assistance.

1995-96


ii) Banks were directed to maintain Tier I capital funds of 5 per cent of the foreign exchange open position limit besides the existing capital adequacy requirements.

1996-97 No concerned developments in this year.

1997-98

Capital Adequacy has been the cornerstone of prudential regulatory framework in India. Taking into consideration the substantial off balance sheet exposure of banks, the Narasimham Committee - II had recommended
enhancement of CAR from 8 per cent to 10 per cent by 2002. Endorsing this decision, the Union Budget, 1998-99 has announced raising of the minimum CAR to 9 per cent by March 31, 2000 & to 10 per cent as early as possible thereafter.

1998-99

In the Monetary and Credit Policy October, 1998 banks have been advised to achieve a minimum CAR of a 9% by March 31, 2000. The proposed capital accord of BIS (June 1999) further suggests that banks have to provide additional charge on capital for various kinds of risks including credit risk, market risk, operation risk, interest rate risk, etc. at an early date.

2000-01

i) Effective from the year ended March 2000; stipulation on minimum CRAR of scheduled commercial banks was increased by one percentage point to 9 per cent.

ii) 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.

iii) 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.

iv) 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 are in lieu of assets that carry a similar risk-weight.
2001-02 No concerned developments in this year.

2003-04

In the annual policy Statement of April 2002, banks have been advised to adopt the Basel norm for capital charge for market risk. With a view to ensuring smooth transition to Basel II norms, it was proposed in the annual policy Statement of 2004-05 to phase the implementation of capital charge for market risk over a two-year period.

4.3.4 Priority Sector Lending

A target of 40 per cent of net bank credit has been stipulated for lending to priority sector by domestic scheduled banks, both in public and private sectors. Within this, sub-targets of 18 per cent and 10 per cent of net bank credit, respectively, have been stipulated for lending to agriculture and weaker sections of population. A target of 32 per cent of net bank credit has been stipulated for lending to priority sector by foreign banks. Of this, the aggregate credit to SSI sector should not be less than 10 per cent of net bank credit and that to the export sector should not be less than 12 per cent of the net bank credit.

4.3.5 Capital Restructuring

1993-94

i) ‘The State Bank of India Act, 1955’ was amended by an Ordinance in October 1993 to enhance the scope of the provision for partial private share holding.

ii) SBI was first public sector bank to tap the capital market with an equity-cum bond issue of Rs. 3,212.18 crore in December 1993.

1994-95

i) Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 were amended with effect from July 15, 1994 permitting the banks to raise capital up to 49 per cent from the public.
ii) Oriental Bank of Commerce was the first nationalised bank to access the capital market with an equity of Rs. 387.24 crore in October 1994.


1995-96

i) The Government of India provided Rs. 1,506.21 crore during 1995-96 towards writing down of the capital base of two banks for adjustment of their losses. A further provision of Rs. 1,532 crore was made in the Union Budget (interim) 1996-97 for similar writing down of capital base of three more banks.

1996-97

i) A provision of Rs. 909 crore was made in the Union Budget 1996-97 for recapitalisation of public sector banks in 1996-97.

ii) Dena Bank entered the capital market to raise Rs. 180 crore in October 1996 while Bank of Baroda entered the capital market to raise Rs. 850 crore in December 1996.

b) Income Recognition and Provisioning

1992-93

i) In April 1992, it was decided to implement the Narasimham Committee’s recommendations on financial sector reforms with certain modifications, in a phased manner over three year period commencing from the accounting year 1992-93. Accordingly, a prudential system of income recognition, classification of assets and provisioning for bad debts was put in place beginning financial year 1992-93.

ii) In order to reflect actual financial health of banks, the Reserve bank instructed the commercial banks to treat an amount in respect of term loans, overdrafts and cash credit accounts, bills purchased and discounted and
other accounts as “past due” when not paid on the due date (since revised to 30 days beyond the due date)

1. A ‘non-performing asset’ is defined as a credit facility in respect of which interest has remained ‘past due’ for a period of four quarters ending March 31, 1993, three quarters ending March 31, 1994 and onwards. Banks were instructed not to charge and take the interest on all Non-Performing Assets (NPAs) to income account.

2. Banks were required to classify their advances into four broad groups: (a) standard assets, (b) sub-standard assets, (c) doubtful assets, and (d) loss assets from the earlier system of eight health codes.

3. Banks were advised in March 1993 to make 100 per cent provision in respect of loss assets, and not less than 30 per cent of the total provisioning needed in respect of sub-standard and doubtful advances and advances with outstanding balance of Rs. 25,000 for the year ended March 31, 1993. The balance of provisioning needed in respect of the above categories of advances not provided for as on March 31, 1993 together with the fresh provisioning needed in respect of credit facilities identified in the year ending March 31, 1994 should be made as on that date.

4. In respect of advances with an outstanding balances of less than Rs. 25,000, banks were asked to make aggregate provisioning to the extent of 2.5 per cent of the total outstanding for the year 1992-93, rather than a case by case evaluation of a very large number of small accounts.

1993-94

i) Banks were required to make full stipulated provision against NPAs identified during 1993-94 besides the carried forward provisioning for 1992-93.

ii) In respect of advances with balances less than Rs. 25,000, the required provision for the year ended March 31, 1994 was enhanced from 2.5 per cent to 5 per cent of such advances without reckoning the DICGC/ECGC cover.
1994-95

i) The provisioning requirement for NPAs with balances of less than Rs. 25,000 was increased from 5 per cent of the aggregate amount outstanding in respect of such advances for the year ending March 31, 1994 to 7.5 per cent for the year ending March 31, 1995 and further to 10 per cent for the year ending March 31, 1996. From the year 1996-97, the provisioning requirement for NPAs with balances of less than Rs. 25,000 was to be made as per the classification of advances.

ii) The ratio of permanent and current investment in the approved securities was prescribed at 70:30 percent for the year ended March 1995.

1995-96

i) The ratio of ‘permanent’ and ‘current’ investments in approved securities was enhanced to be 60:40 for the year ending March 1996.

ii) Banks were advised on April 3, 1995 that interest accrued and credited to income account during the year ended March 1994 in respect of accounts identified as NPAs for the first time during the year ended March 31, 1995 should be reversed or provided for as on that date.

iii) Banks were advised that provision need not be made for a period of one year from the date of disbursement in respect of additional facilities sanctioned under the rehabilitation package approved by BIFR/term lending institutions.

iv) Banks were advised that from 1995-96 onwards, for arriving at the provision required to be made in respect of doubtful assets, the realizable value of the securities should be deducted from the outstanding balance in respect of advances guaranteed by ECGC/DICGC.
1996-97

i) The ratio of investments in the permanent category for scheduled commercial banks was reduced from 'not exceeding 60 per cent' in 1995-96 to 'not exceeding 50 per cent' in 1996-97.

1996-97

In India, NPAs are defined as an advance that has not been serviced, as a result of 'past dues' accumulating for 180 days & over. Narasimham Committee II (1998) had recommended that we move towards international norm of the one quarter of a year.

2000-01

With regard to provisioning for standard assets, it was clarified that the general provision of 0.25 per cent on standard assets should be made on global portfolio basis, and not on domestic advances alone.

While recognizing the need to give autonomy to banks for the assessment of risks associated with their asset portfolios, it was emphasized that provisions in excess of the amount required could be made by banks, keeping in view their own risk perceptions.

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 to Individuals/Group Borrowers

With effect 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 closure to the international standard of 15 per cent in phases.

Banks were advised to reduce exposure to a single borrower to 15 per cent from the existing level of 20 per cent of the bank’s capital funds with effect from March 31, 2002.

The banks were also advised to consider fixing internal limits for aggregate commitments to specific sectors so that the exposures are evenly spread over various sectors.

With effect from March 31, 2001, an advance has to be classified as NPA if interest and/ or instalment of principal remain overdue for a period of more than 180 days in respect of a term loan, and the accounts remains ‘out of order’ for a period of more than 180 days, in respect of an Overdraft/Cash Credit (OD/CC).

2003-04

As per the earlier guidelines, banks were advised to make a provision of 50 per cent in respect of the secured portion of NPAs included in ‘doubtful for more than three years’ category irrespective of its age, till it is identified as a loss asset. On a review, it has been decided in June 2004 to introduce a graded higher provisioning on the secured portion of NPAs under this category as on March 31, 2004, ranging from 60 per cent to 100 per cent over a period of three years in a phased manner, with effect from March 31, 2005. However in respect of all
advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement would be 100 per cent. The provisioning requirement for unsecured portion of NPAs under the above category will continue to be 100 per cent.

c) Recovery of Bank Loans

1993-94

In order to effect speedy recovery of loans, a new Act 'Recovery of Debts due to Banks and Financial Institutions Act, 1993', for the creation of Special Recovery Tribunals was passed by the Parliament on August 27, 1993.

1994-95

Debt Recovery Tribunals at Calcutta, Delhi, Bangalore, Jaipur and Ahmedabad and Appellate Tribunal at Mumbai were set up. However, Delhi High Court quashed the notification of constituting the Tribunal for Delhi region in March 1995.

1995-96

i) Banks were required to have loan recovery policy delineating, inter alia, norms for write-off.

ii) The Supreme Court stayed the operation of the Delhi High Court judgment in April 1995 and admitted special leave petition filed on behalf of the Government.

1996-97

ARC – The Union Budget for 1998-99 proposed the creation of ARF, which will take over the NPA of the banks & swap them with special bonds. An amount of Rs. 400 crore was set out in the budget.
1998-99

Asset Reconstruction Companies (ARCs) in India, progress in setting up of ARCs is yet to be seen partly because the Debt Recovery Act & other relevant legislations are yet to be strengthened. Sub-standard asset – The RBI has decided that an asset should be classified as doubtful, if it has remained in sub-standard category for 18 months instead of 24 months by March 31, 2001.

1999-2000

DRT- Union Budget 2000-01 announced setting up of 7 more DRTs, strengthening the infrastructure of DRTs and amendment to Recovery of Debts Due to Banks andFI’s Act.

SAC- The Reserve Bank had issued guidelines to PSBs for the constitution of Settlement Advisory Committees (SACs) for compromise settlement of chronic NPAs of small-scale sector in May 1999, but progress has not been satisfactory.

CIBIL – The Union Budget 2000-01 announced the establishment of a Credit Information Bureau to obtain and share data on borrowers for sound credit decisions, thereby helping to facilitate avoidance of adverse selection. This would also facilitate reduction in NPAs.

2000-01

As a first step towards activating the Credit Information Bureau (CIB), it was decided to initiate the process of collection and dissemination of some relevant information, within the existing legal framework. The Reserve Bank accordingly decided to constitute a Group drawing representation from CIB, IBA, select banks and FIs to examine the possibility of the CIB performing the role of collecting and disseminating information on the list of suit-filed accounts and the list of defaulters, including willful defaulters, which is presently handled by the Reserve Bank.
SAC- in pursuance of the announcement in the Union Budget for 1999-00, guidelines were framed for the constitution of Settlement Advisory Committees (SACs) for compromise settlement of chronic NPAs of small-sector, which were valid till September 30, 2000. While banks were required to take effective measures to strengthen the credit appraisal and post-credit monitoring to arrest the incidence of fresh NPAs, a more realistic approach was needed to reduce the stock of existing and chronic NPAs in all categories. The guidelines were, therefore, modified in July 2000, which provided a simplified, non-discretionary and non-discriminatory mechanism for recovery of NPAs. All PSBs were required to follow uniformly these guidelines, to maximize recovery of NPAs within the stipulated time.

With a view to developing an institutional mechanism for sharing of information on borrowers / potential borrowers among banks /FIIs, 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.

A scheme has been put in place to collect and disseminate, amongst banks, the details about borrowers of banks with outstanding aggregating Rs. 1 crore and above which are classified as 'doubtful' or 'loss' or where suits have been filed. So far, information up to the half-year ended September 30, 2000 has been disseminated.

2001-02

On the direction of BFS, a study of early warning systems (EWS) in banks for identification of NPAs and initiating prompt steps for recovery was taken up.
CIBIL was set up in January 2001 by SBI in collaboration with HDFC Ltd. and M/s Dun & Bradstreet Information Services (India) Pvt. Ltd and Trans Union International Inc. with a paid up capital of Rs. 25 crores to serve as an effective mechanism for exchange of information between banks for curbing growth of NPAs.

Information on cases of willful defaults of borrowers with outstanding balance of Rs. 25 lakh and above is also collected and disseminated on a quarterly basis effective quarter ended June 1999. Such information as at quarter ended December 31, 2001 has been disseminated to banks.

The quality and performance of advances have direct bearing on the profitability and viability of banks. Although the net NPAs of the commercial banks in India have witnessed a decline over the past several years, they are still high as compared to developed country standards of around 2 per cent. It becomes imperative that a reduction in NPAs would require both a “stock” (a one time cleansing of balance sheet) and a “flow” (preventing substantial accretion) solution.  

Several measures have been taken to address the ‘flow’ problem such as Lok Adalats, settlement advisory committees, whereas the issue of stock of NPAs has not been adequately addressed. Towards this end, the central Government Budget for 2002-03 announced the setting up of a pilot Asset Reconstruction Company (ARC) with the participation of private and public sector banks. Accordingly, the Ordinance to regulate Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest was promulgated on June 21, 2002 subsequently re-promulgated on August 22, 2002.

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2002-03

One-Time Settlement / Compromise Schemes – The guidelines for compromise settlements of chronic NPAs up to Rs. 5 crore were issued in July 2000. The revised guidelines issued on January 29, 2003 for compromise settlement of dues relating to NPAs of public sector banks in all sectors.

Guidelines for special One-Time Settlement Scheme for loans up to Rs. 50,000 to small and marginal farmers by PSBs, which were issued in March 2002, were to be operational up to December 31, 2002. With the request from banks it was decided to extend the operation of the guidelines, for a further period of 3 months.

Lok Adalats – The Reserve Bank has issued guidelines to commercial banks to enable them to make increasing use of Lok Adalats.

Debt Recovery Tribunals – The Government has substantially amended the Debt Recovery Tribunal (Procedure) Rules, 2003 to facilitate better administration of the Act including plural remedies for banks after receiving suggestions from a Working Group (Chairman: Shri S.N. Agarwal).


The Government issued the SARFAESI Act, 2002 which provides, for enforcement of security interest for realization of dues without the intervention of courts or tribunals. The Act provides for sale of financial assets by banks / FIs to securitisation companies / reconstruction companies.

CDR Mechanism

Consequent upon the union Budget announcements, 2002-03, a High Level Group (Chairman: Shri Vepa Kamesam) was constituted in order to revamp
the earlier CDR (Corporate Debt Restructuring) scheme. Based on the recommendations made by the High Level Group and in consultation with the Government, a revised scheme of CDR was finalized and forwarded to banks in February 2003.

Credit Information on Defaulters and role of Credit Information Bureau

In order to alert banks and put them on guard against the defaulters to other lending institutions and help in better management of their NPAs, the Reserve Bank has put in place a scheme on sharing credit data. Information on non-suit filed accounts i.e. doubtful and loss accounts is disseminated on half-yearly basis, viz., as on March 31 and September 30 on floppy diskettes for their confidential use. The information on suit filed accounts is published as on March 31 every year and is updated on quarterly basis.

2003-04
One-Time Settlement/Compromise Scheme

Based on the requests received for further extending the time limit for operation of the guidelines and in consultation with GOL, the time limit for receiving applications was further extended up to July 31, 2004.

Lok Adalats

With the enactment of Legal Services Authority Act, 1987, Lok Adalats were conferred a judicial status and have since emerged as a convenient method for settlement of disputes between banks and small borrowers.
Debt Recovery Tribunals

The amendments made in 2000 to the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, and the rules framed thereunder have strengthened the functioning of DRTs.


In the Union Budget 2004-05, the Government has proposed to amend the relevant provisions of the Act to address the Supreme Court’s concerns regarding a fair deal to borrowers while, at the same time, ensuring that the recovery process is not delayed or hampered.

Corporate Debt Restructuring

The Scheme of CDR was further fine-tuned in February 2003 based on the recommendations made by a working Group under Shri Vepa Kamesam. A recent review of the operation of the Scheme revealed that nearly one-third of the units assisted under the Scheme improved their financial position.

Asset Reconstruction Companies (ARCs)

The Reserve Bank has granted certificate of registration to three ARCs so far out of which ARCIL has already started its operations.

Credit Information on Defaulters and Role of Credit Information Bureau

Dissemination of credit information covering data supplied on suit filed defaulters in the financial system is being undertaken by CIBIL, with effect from March 2003, and the data can be accessed on CIBIL’s website.
Following the recommendations of Working Group on Wilful Defaulters (Chairman: Shri S.S. Kohli), with a view to making the scheme of willful defaulters effective, the banks were issued a revised definition of 'wilful defaulters' on May 30, 2002.

Supervision:
1997-98

The new approach to annual financial inspections based CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity & internal control Systems) framework commenced from July 1997. The main endeavour of this system is to detect problems before they manifest themselves.

Transparency and Disclosure norms
1997-98

The lack of transparency results in incentive to evergreens of loans, thereby impacting on the performance of assets.

1999-2000

In February 1999, the Reserve bank issued guidelines for improving transparency in the financial statements of banks. Accordingly, banks were required to disclose, the following information as, 'Notes on Accounts', to their balance sheets from the year ended May 31, 2000: i) maturity pattern of loans and advances, interest in securities, deposits and borrowings ii) foreign currency assets and liabilities iii) movements in NPAs and lending to sensitive sectors as defined by the RBI.

Such disclosures and transparency practices would help to improve the process of expectations formation by market players and eventually lead to effective decision-making by banks.
2000-01

It was decided that banks should furnish the following additional disclosures in the ‘Notes on Accounts’ in their balance sheets, from the year ending March 2002 (i) movements of provisions held towards NPAs and (ii) movements of provisions held towards depreciation on investments.

2001-02

In India, as apart of the ongoing efforts towards transparency, banks have been asked to disclose certain financial and operational parameters in their balance sheets. These disclosures have gradually been expanded over the last few years. More recently, from the year ended March 2002, banks have started making additional disclosures relating to movement in provision held towards NPAs and those held towards depreciation of investments as part of regulatory requirements of RBI.

The significant improvement recorded by banks in post reform period could be attributed to the sustained efforts to recover NPAs, improved incomes and efficiency and reduction of costs including staff expenses through adoption of voluntary retirement schemes (VRS) as well as close monitoring of the progress under restructuring plans. (T&P, 2001-02, 29)

Capital Restructuring in the Banking Sector

Rs. 21,746 crore provided as recapitalisation support to nationalized banks upto end-March 2002.⁶⁰

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⁶⁰ Ibid, 30.