Chapter V

Operational Planning and Control

In the preceding chapters, the two facets of Management planning and Control systems were discussed. Planning for the future and guiding the enterprise to greater heights as explained in chapter III, is the job of top management. Managing the enterprise for attainment of objectives during the current year, as amplified in chapter IV, is the responsibility of middle-level management. However, in order that the current year's budget is effectively and efficiently carried out, day to day operations of the organization ought to be effective and efficient, this is ensured through Operational Planning and Control administered through the supervisory level of management. Therefore, operational planning and control is the process by which effective and efficient performance of specific tasks/operations is ensured. Specific tasks are assigned to the staff and their efficiency is measured on the basis of accomplishment of such tasks. The detailed planning is in quantitative terms and specific standards/targets are set. Actual performance is compared against the standards/targets and this enables an exact measurement of efficiency. Thus, "Operational planning and control process focusses on single task or operation, involves relatively little judgments; has more reliance on rules and following of directions, is based upon a rational structure; uses the information that is tailor made to the operation and is precise and often real time. This process is related with the day-to-day activities so far as the time horizon is concerned," (Anthony and
Dearden 1976). Since at the supervisory level, the focus is more on execution and therefore, there are more elements of control and less of planning in the process of planning and control of operations, so the operational planning and control is also called operational control (Anthony 1965). As such, the two terms "operational Planning and Control, and Operational Control" would be used interchangeably in this Chapter.

So far as commercial Banking organizations are concerned, the operational planning and control systems have always been present in these organizations in one form or the other, to assure that the day-to-day operations are carried out by the concerned units of the organisations. However, their thrust have considerably changed in the recent years owing to the changes in the nature and scope of their activities and operations for performing the new role in the recent liberalized economic environment where they are expected to perform a highly balancing act of helping the economy to grow, meet social obligations and at the same time ensure a high degree of operational efficiency comparable to global standards. Taking this into consideration, a bank should try to maximize profits (or minimize losses) within the constraints of social obligations and the regulations of the overall financial system. Once this basic premise is accepted, it logically follows that to achieve corporate objectives, each branch (which is an organizational decentralized unit) of a bank should also try to maximize the profits, subject of course, to the socio-economic constraints of the environment. As the branches are the roots of any commercial Bank and branches generate a significant portion of the total income of the bank. Thus, "the branch be assessed on the basis of the profit it makes or that there exists a case for profits planning for the bank branch," (Govind Rajan and Ramamoorthy, 1980). At this epoch, the profit planning approach is based on the logical recognition
that social obligations of the bank can only be met if it maintains its profitability and is able to survive. This approach would persuade the branch manager to make various operational decisions and effectively deploy the bank's resources and thereby take optimal trade-off decisions between costs and revenues. Thus a branch manager may take the decisions regarding various bank tasks like Deposits, Advances and cash (fund-based activities), other services (fee-based activities) and the aspects of costs and revenues. In the succeeding pages, therefore, the discussion of the operational control at the shop-level would revolve around these operations in the following sequences:

1. Control of Fund-based activities;
2. Control of Fee-based activities;
3. Control of efficiency of operations.

1. Control of Fund-Based Activities

The primary function of a commercial bank is to deal in fund-based activities, that is, accepting deposits and deploying them to productive purposes. In this process the bank has to function within the constraints of monetary policy and the socio-economic objectives of the country, in addition to its liquidity and profitability premises. The bank has to fulfill its statutory obligations like statutory liquidity Ratio (SLR) and cash Reserve Ration (CRR). Besides, the statutory requirements, the bank has to follow the directives issued by the government regarding the direction of credit, which affects the profitable deployment of resources left with the bank after meeting the statutory obligations. In this way, the bank branch only has a part of the amount of deposits which can be effectively deployed either through advances, or through investment by central office. Thus granting advances to various interested parties for a price is another major function of a commercial bank branch.
Since some branches have more deposits than they can grant in loans, i.e. they are Deposit-Heavy, while in other branches the reverse may hold true, then they are loan-Heavy branches. This problem is tackled by transferring funds from deposit-heavy branches to loan-heavy branches. Such transfers are normally routed through the central office. Obviously the transferring branch should get some credit for the funds transferred and the transferees branch should bear some cost for the funds borrowed. This is done by attaching interest on the funds transferred to and from the central office. This process is called transfer price mechanism. The determination of the transfer price gives rise to the following issues:

a) on what basis should these transfer prices be fixed?
b) Should the deposits to and borrowings from the central office carry the same transfer price?
c) Should subsidies be given for low interest bearing priority sector schemes?
d) Should new branches be given subsidized rates?
e) Should the transfer price be uniform across all the branches or should separate branch wise/region wise/zone wise rates be determined?
f) Should different rates be given to different categories of deposits?

Whatever may be the transfer price reached after making a detailed analysis of the above issues, the ideal transfer price in banks should stand the test of the following three criteria:

i) It should motivate the branch managers to take decisions in line with corporate objectives;
ii) It should help determine the economic performance of a branch, as accurately as possible, and
iii) It should be simple to understand and easy to administer.

In the following paragraphs, the current practices of transfer pricing will be examined in the banks under study and then attempt will be made to develop a methodology for a suitable transfer price mechanism.

Current practices of Transfer Pricing

Different banks use different transfer pricing mechanisms in India and abroad. In the USA, "in some banks, the rate of interest on excess funds equals: net earnings from loans and investments of the entire bank divided by the average deposits of the entire bank less reserve requirements; in some banks, the rate of interest on excess funds equals: net earnings from investments of the entire bank divided by the average deposits of the entire bank, less reserve requirements and less average loans of the entire bank; and in some other banks, the rate mechanism fixes separate rates for demand deposits and time deposits. The Deposit-Heavy branches are credited with revenue at these rates applied to the amount by which their demand and time deposits exceed their loans. The Loan-Heavy branches are charged at a rate related to one of these two rates" (Paik 1963). In India, in some banks, the interest rate was fixed on the average rate of interest realized by the bank on its advances for the funds transferred from central office to Loan-Heavy branches. In some other banks, the interest rate is fixed on the basis of the average rate of interest paid by the bank on its actual deposit mix and in a very few banks the interest rate was fixed according to the nature of the deposits as demand and time deposits, as revealed by Govind Rajan & Ramanooothy (1980). So far as the transfer price mechanism of A-Bank and B-Bank are concerned they follow neither of the above mentioned practices.
The information supplied by A-Bank reveals that in this bank the transfer price interest rate paid by the central office to the Deposit Heavy branches is 12% on the weekly balances as on every Friday and the interest rate transfer price charged by the central office to the Loan-Heavy branches is 12.5% on the weekly balances as on every Friday.

However, the transfer price practices are totally different in case of B-Bank. A scrutiny of the transfer price mechanism of B-Bank amplifies that the transfer price determination is based upon the daily balances. The central office gives a credit @13% P.a interest on daily balances to the deposit heavy branches and charges the advance-heavy branches @ 11% P.a on daily balances for the funds supplied to them.

Regarding the above transfer pricing system the executives who are affected are not convinced about its effectiveness so far as its becoming the representative of branch profitability is concerned. The views of the branch managers are given in Table 5.1.

<table>
<thead>
<tr>
<th>Branch Type</th>
<th>Metropolitan Branches</th>
<th>Urban Branches</th>
<th>Semi-urban branches</th>
<th>Rural Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-Bank Satisfied %</td>
<td>50</td>
<td>37</td>
<td>45</td>
<td>57</td>
</tr>
<tr>
<td>B-Bank Satisfied %</td>
<td>47.5</td>
<td>41.5</td>
<td>47.5</td>
<td>55.0</td>
</tr>
<tr>
<td>Total Satisfied %</td>
<td>55</td>
<td>54</td>
<td>50</td>
<td>47.0</td>
</tr>
<tr>
<td>A-Bank Dissatisfied %</td>
<td>50</td>
<td>63</td>
<td>55</td>
<td>43</td>
</tr>
<tr>
<td>B-Bank Dissatisfied %</td>
<td>52.5</td>
<td>58.5</td>
<td>52.5</td>
<td>45.0</td>
</tr>
<tr>
<td>Total Dissatisfied %</td>
<td>52.5</td>
<td>58.5</td>
<td>52.5</td>
<td>45.0</td>
</tr>
</tbody>
</table>

Sources: Data collected through survey.
An analysis of the table 5.1, reveals that majority of the branch managers are dis-satisfied with the current mechanism of the transfer prices in both the banks. In case of A-Bank, the number of branch executives who are not satisfied with the present system is to the extent of 55% in case of metropolitan branches followed by urban branch executives at 54%. The percentage of semi-urban and rural executives who are not happy with the present practices of transfer prices is 50% and 47% respectively.

A further analysis of the table 5.1, indicates that in case of B-Bank, the highest number of dissatisfiers with the prevalent practices of transfer pricing is that urban branch executives forming a percentage of 63 among all executives placed in urban branches. Among the branch managers working in semi-urban areas 55% have grievances against the present system, followed by 55% from amongst the metropolitan branches. However, the rural branch executives who are dissatisfied with the present system only forms 47%. This gives an overall picture of the attitude of the branch executives towards the current practices. The branch executives in personal discussion with the investigator and in response to the questionnaire gave the following views regarding the transfer price mechanisms currently in operation in their respective banks:

i) Some pleaded that the formula for the transfer price should be set at regional/zonal office level instead of central office level, so as to arrive at better analysis of proper utilization of funds by the region/zone as a whole.

ii) Some argued that while formulating the transfer price, the deposit mix of the branches should be
duly considered i.e. interest rates should be fixed separately on the time deposits and demand deposits.

iii) A few of the executives also advocated that the central office should at least provide interest on the pattern of FDR of 3 years maturity i.e. it should pay the branches at the same rate on which an FDR of 3 years maturity fetches in the bank.

iv) Some executives have desired that the transfer price for deposits or advances should be based upon the opportunity cost for each item of liabilities and assets.

v) Majority of the executives have complained that the determination of the transfer prices has always been the prerogative of the central office and it has arbitrarily decided the rate of it without any consultation at the gross root level, i.e at the branches.

Testing the transfer pricing mechanism of both the banks on the earlier mentioned criteria of motivation, goal congruence, simplicity and accurately administering the branch performance, it seems that the current practices of transfer prices in the banks understudy are arbitrary and lack the spirit of motivation on the part of branch managers. These practices are not the true representative of the branch performance as the costs and overheads are not taken into account. However, at the same time the alternative formulae as mentioned above proposed by the branch executives may not be practicable as the number (i) & (ii) are difficult to administer because they would involve very complicated calculations. The alternatives (iii) & (iv) are also not desirable because the (iii) being illogical as it is connected with the 3 years FDR, but in case of
fourth, the definition of opportunity cost would generate a lot of conflicts—should the opportunity cost be taken within the bank as available through advances/investments or outside in the market place. Therefore, there arises a need to suggest a transfer price methodology for both the banks which would stand the above tests. In this direction, the transfer pricing methodology as developed by Govindrajan & Ramamoorthy (1980) is recommended, and the same is explained as follows:-

The transfer price can be fixed on the following two basis;

a) Cost of deposits;
b) Yield on funds;

Since the overall yield on funds is what the bank earns on its deposits. This should accrue to the branch where the deposit originated. However, this yield is the result of investments made at the central office as well as advance given at the branches. As such, the further costs incurred in earning this yield will have to be deducted in arriving at a fair price for the deposits. Thus the formula of transfer price for funds transferred to Head office is:

Transfer price for funds transferred to central office. = Overall yield on funds less (service cost of advances as a percentage of total deposits + central office expenses as a percentage of total deposits)

However, the same basis can not be used for borrowings from the central office as the overall yield includes low-yielding investments made at the central
office. The average yield on advances is a better indicator of the opportunity cost of the loanable funds. However, there are service costs which need to be incurred by the branches while making the advances. These need to be deducted from the average yield on advances to arrive at a fair price. Thus the formula would be:

\[
\text{Transfer price for} \quad \text{Average yield on advances less} \\
\text{funds borrowed from} = \quad \text{service cost of advances as a} \\
\text{central office} \quad \text{percentage of total advances.}
\]

Hence the above methodology stands the tests as mentioned earlier because of the following reasons.

i) The rate on funds lent to central office represents a reasonably a fair price and should motivate branches to mobilise more deposits since it provides sufficient margin for most categories of deposits (except a very few which do not form a significant proportion to warrant separate consideration).

ii) The rate on funds borrowed from central office gives enough margin to branches for all types of advances which should motivate them to exploit all the potential in their areas of operation.

iii) The administrative overhead incurred at the regional/zonal/central office levels are factored into the transfer rates. Thus, the controlling offices operate, 'no profit, no loss' basis. This results in fairly accurate pictures of branch profits.

Another aspect of planning and control of deposits and advances is whether the deposits are advanced as per credit plan are not. Thus every branch has to
follow a given credit planning and control system as discussed hereunder:-

**Credit planning and control system**

Credit planning implies the estimating of available resources in a given period and their allocation among different sectors in conformity with national policy, goals and targets. At the level of an individual bank, the credit allocation is influenced by the overall Monetary policy pursued by the RBI, including credit restraint directions issued by it from time to time for controlling credit expansion and its channelization into desired sectors. The allocation of bank credit is normally in accordance with certain sectoral and regional priorities. At present, "the socio-economic objectives or national goals of the overall credit plan are:-

i) Credit to priority sector should form 40% of the total credit;

ii) Direct Agricultural credit should form 18% of the total credit.

iii) Advances to weaker sections should form 10% of the total credit or 25% of total priority sector advances.

iv) Credit under DRI should form 1% of total credit. Out of this, share of scheduled castes and scheduled tribes should form 40%. About 66.7% of this credit should be routed through rural and semi-urban branches" (Choudry and Kulshershthta 1993).

After providing for statutory obligations like CRR and SLR, and also making provision for financing of public sector food stocks, in addition to the afore-
mentioned priorities, the remaining funds are allocated to industry, trade and other sectors. Moreover the credit policy, adopted by the R.B.I. from time to time may change the direction and overall thrust in the economy and every bank is supposed to follow it.

To make the credit plan exercise successful in achieving the above stated objectives, each divisional/regional manager formulates a detailed credit plan for his division/region. The procedure involves the following steps.

i) The regional manager has to determine the likely total increase in resources. For this purpose, he estimates (a) the incremental deposits, branch-wise, for the plan period and (b) the expected increases in the refinances and rediscounts from various refinancing institutions. The aggregate of both these items constitutes the incremental resources for the plan period.

ii) Updating the regional profiles for (a) assessing the scope for agricultural, small scale industry, and priority sector advances for commitment under national policies; (b) quantifying the anticipatory recovery or return flows are determined after consulting the concerned borrowers, (c) finding out the scope for increasing exports, (d) preparing detailed lists of potential demand and anticipated return flows from the above assessments; (e) exploring the scope for getting new connections and assessing their requirements (f) calculating the details of refinance entitlements from the foregoing, and (g) fixing targets for the recovery of funds and including them as a source of funds.
iii) Allocating the aggregate lendable resources to various sectors branch-wise in a district and district wise in a region /zone. These allocations are then submitted to the planning department at the head office along with the potential demand and seasonalities.

iv) The head office planning division approves the divisional/ regional plans in consultation with different credit department at the head office, keeping in view the overall targets for the bank as a whole. The finalized and approved regional plans are then communicated to the divisional/ regional managers, who in turn pass on this information to the respective branch managers operating in their jurisdiction.

v) Monitoring the actual credit deployment. For this, each region evaluates its incremental deposits, advances and sectoral flow and undertakes immediate corrective measures. If the increase in the resources has been lower than envisaged, the release of credit may have to be correspondingly pruned. Similarly, if the availing of refinancing has not kept pace with the expectations, efforts have to be made to make full use of this facility.

So far as the Banks under study are concerned, they follow the same procedure as mentioned above. In case of A-bank, the credit plan is formulated by the concerned regional manager taking into account the needs and potential of the region. Moreover, the regional manager also views the requirements of the area under the lead bank scheme and incorporates those in his credit plan. Then he directs his branch managers to follow the same. To see whether the branches have followed the credit plan or not, they are required to submit the requisite statements to the concerned
region as well as to the credit planning and monitoring department at the zonal/central office for allowing credit. The lending officer evaluates the credit worthiness of the customer. The various tools of project appraisal are used to ensure the safety of principle and interest. The A-Bank is monitoring close supervision of borrowal accounts with regard to timely submission of quarterly review sheets and annual review of all accounts. Large borrowers are closely monitored through the system of officers at zonal offices and specially designated officers in branches having large accounts. In line with the R.B.I directives based upon the recommendations of Tandon committee and chore committee, the A-Bank asks for submission of

a) Quarterly forms nos. I and II incorporating the estimated and performance of each quarter in which items such as sales, purchases, inventory, production debtors, creditors etc. are included

b) Half-yearly funds flow statement and operating statement in form III.

c) Annual review of all accounts.

d) Monthly statement of select operational data.

In the case of large accounts where A-bank is the consortium leader, meeting of consortium are held quarterly to ensure that credit discipline is followed by all parties. Moreover, the bank has developed a credit decision support system. under this system specific studies of different industries are undertaken to provide information in the shape of "industries scan" to the credit managers and a technical cell works under this system which is manned by engineers and other technical experts to advise the credit managers.
In the same way, the credit planning and control process in the B-bank is administered when the district/area manager, immediate controlling office of the branch, ascertains the credit needs of his district/area then formulates the credit plan, of course, taking into account the requirements under the lead bank schemes. The branch managers have to act upon these sector wise/area wise /scheme wise allocations to reach the target set by the district /area manager. To ensure that the branches follow these planning directives, they are required to submit the specific statements to the district /area/ divisional/ central offices.

For lending purposes, B-bank also tries to examine the credit worthiness of the borrowers by making the project appraisal. They appraise the small projects with their own staff at the district/ divisional or central office level. However, if the project is a complex, technical and large, they get it appraised from their consultants which stand approved with the bank.

Monitoring of stagnant Accounts and Non-performing advances

Another aspect of bank lending is to monitor the progress of those accounts which have become stagnant at a point of time. Such accounts are identified by branches and their progress is reported to the controlling office from time to time and the controlling office takes action against them as per the overall policy of the bank.

With the adoption of the new economic policy, the Reserve Bank of India prescribed norms for Income Recognition, Asset Classification and provisioning.
Under these guidelines, banks have been advised that they should not charge and take to income account interest on all Non-performing Advances (NPA's). An asset becomes non-performing for a bank when it ceases to generate income and the basis for treating an asset a non-performing depends upon the nature of assets and the periodicity of the non-receipt/recovery of principal instalment and interest accrued on it" (Sarda 1996). These norms are detailed in appendix III.

If certain advances get converted into NPA's it is necessary to take corrective steps to reduce them. Reduction in NPA's is necessary to improve profitability of the banks and comply with capital adequacy norms.

So far as the NPA's in the banks under study are concerned as per 1994-95 figures, the A-bank has the ratio of NPA's to gross credit as 17% which was 21.4% a year ago. The various steps taken by the A-bank for the recovery of advances include:

i) Sending of letters to defaulting borrowers and issue of detailed notices to borrowers not responding to the letters;

ii) Recovery officers were posted at strategic points to supervise the recovery process;

iii) Recovery seminars were organized to create awareness among field functionaries;

iv) Zone-wise, region-wise recovery budgets were fixed and progress was closely monitored at the H.O level;

v) The bank's protested advance division, law division and industrial rehabilitation division concentrated on recovery of delinquent loans by
compromises, legal action etc.

With respect to B-bank no significant concerted efforts have been made by the bank. It is for this reason that the ratio of NPA's to aggregated advances has come down only marginally (by just 1% from 13% a year ago to 12% in 1994-95). The usual practices of the bank to recover loans are:-

i) Writing letters to the defaulting parties;

ii) Personal persuasion of the branch manager;

iii) Interest remission and compromises where the project is having potential to recover;

iv) Legal course of filing the suits in the courts of law;

Because of the B-bank's operations being concentrated in one state as compared that of the A-bank, therefore, the former did not undertake a lot of measures to recover dues from the borrowers as the bank got relieved when the central govt. announced a special waiver package for the loans up to Rs. 50,000 for the borrowers of that state in which B-bank has concentrated operations. This way, the bank's major burden can be further reduced from 12% of aggregate advances also to just 4%. Under this scheme approximately 26,000 beneficiaries fall. However, in the long run, the B-bank should adopt a loan-recovery policy at the bank level and ask its branches to follow it vigorously.

Planning and control of cash

At each branch level there should be optimal cash balance maintained as too much cash with the branch means only holding costs and opportunity costs and less
cash would tantamount to losing customers. In both the banks, the cash planning and control is satisfactory by and large.

2. Control of Fee-based services

The bank branches sell fee-based services in addition to those of deposits and advances (fund based activities). These fee-based services include:

i) Remittances through drafts, Mail transfers (METS) and Telegraphic transfers,

ii) Rupee travelers' cheque (RTCs)

iii) Demand Draft purchase (DDP)

iv) Outward collections

v) Business done on behalf of other branches like letters of credit, Bills amount, Mutual funds etc.

These fee-based operations of bank-branches are discussed as under:-

i) Remittances- Drafts, Mail transfers (MTS) and telegraphic transfers (TTS) constitute remittance business in the banks under study. Since high level of this business means float funds for the banks, which can be used for credit deployment and income generation, besides, of course, improving their C.D. Ratio, but branches of the banks under study do not have any motivation to improve this business as no credit is given to them for raising the business of this activity. Thus, if a part of the income accruing to the bank due to deployment of float funds is passed on to the branches, the branches would be motivated to contribute more to the overall goal congruence of the bank as a
whole. This can be done by working out statistically the average time during which a draft normally floats—i.e., the average time elapsed between issuance of a draft and its payment, suppose it is 2 days. Let us also presume that bank fetches a rate of return of 9% on deployment of the floated funds. Now branches can calculate, in their general ledger Drafts Account, interest for 2 days @ 9% on the daily credit entry (not the balance there in). This income accumulated for the bank as a whole, as is the current practice in the banks understudy, for the whole month, may be added to branch net result as an incentive.

ii) Rupee travelers' cheques (RTC) issued—Similar treatment as mentioned in the case of remittances above, may be given to RTC account in general ledger, and income generated there from be added to concerned branch net result.

iii) DD Purchase—If DDP instruments are not paid expeditiously at drawee branch— which is mainly due to delay in dispatch at originating branch— then the bank loses on the logic of being out of funds for the intervening time. Hence, it may be stipulated that a given percentage of the aggregate amount outstanding in DDP books (i.e., those where acknowledgements are not received and marked off), for more than 15 days, will be deducted from net result of the branch as a disincen-
tive.

iv) Outward collections: 'Collections not realized expeditiously mean not only income outgo by way of interest payment, but also poor customer service. This is the state of affairs in both the banks understudy. It may, therefore, be stipulated that cheques/drafts sent on collection (SCS) but not realized within a given time, say 3 weeks will be isolated and a given percentage of the aggregate value of such SCS will be
deducted from the net result of the branch as a disincentive.

v) Collection by small branches: - In the banks understudy it has been found, that many large corporations have their main account in a big branch, and collection accounts spread over many small branches. These small branches have to handle large number of debit and credit transactions in collection accounts, and then at the end of the day, they are required to transfer the balance amount of main account by TT at par. Obviously, these small branches do not get a share in the income generated for the big branch which maintains the main corporate account. Treating the final balance transferred by TT as implied branch deposit (only for purposes of calculating interest), some interest income should be transferred by the big branch to small branches, at least at the prescribed central office transfer price rate for current account.

vi) Letter of credit (LC) Business:- In the banks understudy, many branches, which are not authorized to handle forex business, get accounts opened on behalf of their clients through forex-active branches. These forex branches should share 50% of LC's commission income with non-forex branches on the premise that business had originated at non-forex branches in such cases.

vii) Bills Business:- In the banks understudy, when bills purchased are sent on collection, then drawer branch is entitled only to its out of pocket expenses (i.e. postal charges) where as substantial labour cost is involved in handling these bills. The originating branch should share some % of the income generated from this business with the drawer branch to compensate the latter for the work handled on its behalf. The % should be determined by the central office as a part of the
policy of the transfer price mechanism.

In addition to these operations, the routine activities of the branch include updating pass books, issuing cheque books, making statement of accounts, opening of new accounts and so on. To exercise control on all aforementioned operations, it is desirable that a standard may be fixed for each operation in terms of time required for each operation. Once time standard is set for providing each service, the customer satisfaction could be ensured. This will lead to better time management for the branches' business operations and help in ensuring improved profitability and better productivity. To facilitate the standard setting at the individual bank level, the Indian Banks Association (IBA) has recommended a time catalogue for performing different bank functions/operations. These norms were set only after conducting a feasibility study in varied branch settings and in all modules. These norms are given in table 5.2 in the next page.
Table 5.2

Time norms for important services at the branch in normal circumstances.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Nature of transactions</th>
<th>Time to be observed in minutes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Encashment of cheque</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) through teller system</td>
<td>5 to 8</td>
</tr>
<tr>
<td></td>
<td>(ii) through cashier</td>
<td>8 to 15</td>
</tr>
<tr>
<td>2)</td>
<td>Receipt of cash (depending upon the denomination of notes)</td>
<td>10 to 25</td>
</tr>
<tr>
<td>3)</td>
<td>Issuance of demand draft (travelellers /term deposit receipt)</td>
<td>15 to 25</td>
</tr>
<tr>
<td>4)</td>
<td>Payment of demand draft</td>
<td>10 to 20</td>
</tr>
<tr>
<td>5)</td>
<td>Payment of term-deposit receipt</td>
<td>15 to 25</td>
</tr>
<tr>
<td>6)</td>
<td>Opening of Account</td>
<td>20 to 25</td>
</tr>
<tr>
<td>7)</td>
<td>Retirement of Bill</td>
<td>20 to 30</td>
</tr>
<tr>
<td>8)</td>
<td>Updating passbook (for a few entries)</td>
<td>05 to 15</td>
</tr>
<tr>
<td>9)</td>
<td>Collection of cheques;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Local cheques</td>
<td>2 to 3 days</td>
</tr>
<tr>
<td></td>
<td>(ii) Outstation cheques</td>
<td>14 to 21</td>
</tr>
<tr>
<td>10)</td>
<td>Statement of Account within 5 to 7 days from the date.</td>
<td></td>
</tr>
</tbody>
</table>


"When these norms were prescribed, it was believed that the banks would compulsory follow them, as the estimates committee of parliament 1988 strongly recommended for the display of time norms in all branches which is a sufficient proof to highlight the importance of time management in banking operations". (Chockalingam 1993).

However, like the majority of the commercial banks of India, the banks under study i.e, A-Bank and B-Bank do not follow these norms in letter and spirit. In case of A-bank only in an insignificant number of branches, these norms are displayed and in rest of the branches, they are neither displayed nor adhered to like that of B-bank where the staff are surprised to know about any time norms for the banking operations.
3. Control of Efficiency of operations

Branches can contribute to total bank profits by operating efficiently, that is, by reducing their expenses and increasing their incomes. In other words, the branch managers have to control the costs and work for propelling the revenues to achieve the desired level of profits. Thus to improve profitability the spread i.e, interest income (interest received—interest paid) has to be increased and the burden i.e, non-interest expenditure (Non-interest expenses—Non-interest income) has to be checked. The management of spread and burden may be done in the light of factors as depicted in the table 5.3.

An introspection of the table 5.3 indicates that the spread is dependent on interest earned on advances and interest paid on deposits. The interest earned in turn depends upon (a) the total earning assets, (b) composition of earnings assist, and (c) yield in each type of assets, which subsequently are influenced by Government and RBI policies, competition and cooperation among banks and quality of assets management decisions. Similarly interest paid on deposits depends upon (a) total interest payment liabilities (b) composition of interest paying liabilities, and (c) interest rates on each components which subsequently are influenced by Govt and R,B.I. policies, competition and cooperation among Banks and quality of liability management decision.

Spread management:- Since the interest payable on deposits and interest receivable on advances are not fully de-regulated (as only in a limited way the banks can fix up the interest rates within prescribed limits), the following strategy can be adopted to improve the spread.
### Table 5.3: Profit Analysis Framework for Commercial Banks

<table>
<thead>
<tr>
<th>Variable to be controlled</th>
<th>Primary factors</th>
<th>Secondary factors</th>
<th>Tertiary factors</th>
<th>Fourth Associate factors</th>
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<tr>
<td>Spread</td>
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<tr>
<td>Interest Earned</td>
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<tr>
<td>a) Total Earning Assets</td>
<td>a) Govt. &amp; RBI Policies</td>
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<tr>
<td>b) Composition of Earning Assets</td>
<td>b) Competition and cooperation among banks</td>
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<tr>
<td>c) Yield on each Type of Asset</td>
<td>c) Quality of Asset Management decisions</td>
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<tr>
<td>Interest paid</td>
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<td>a) Total interest paying liabilities policies</td>
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<td>b) Composition of interest paying liabilities</td>
<td>b) Competition and cooperation among banks</td>
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<tr>
<td>c) Interest Rates on each component</td>
<td>c) Quality of liability Mgt. decisions</td>
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<td></td>
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<tr>
<td>Profit before tax</td>
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<tr>
<td>Non-interest income</td>
<td>a) Range and volume</td>
<td>a) Competition among banks</td>
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<tr>
<td>a) Range and volume</td>
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<tr>
<td>of services</td>
<td>b) Service charges</td>
<td>b) Discretionary powers to Managers</td>
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<td>b) Service charges</td>
<td>b) Service charges</td>
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<td></td>
<td>b) Salary structure</td>
<td>b) Wage agreements and policies</td>
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<tr>
<td>Burden</td>
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<tr>
<td>Manpower Expenses</td>
<td>a) Number, seniority and composition and placement policies of employees</td>
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<td>a) Number, seniority and composition and placement policies of employees</td>
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<td>b) Salary structure and Salary structure and Wage agreements and policies</td>
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<td></td>
<td>b) Budgeting and cost control</td>
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<tr>
<td>Other expenses</td>
<td>a) Nature &amp; volume of business decisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Nature &amp; volume of business decisions</td>
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<td></td>
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<tr>
<td>b) Systems and procedures</td>
<td>b) Budgeting and cost control</td>
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</tbody>
</table>

A- Changing the mix of Branch Advance Portfolio.

i) By going in for high yielding advances to the extent possible, our efforts should be directed to book more and more accounts following under C & I and SSI units, as interest on advances on accounts following under these two categories is remunerative.

ii) By keeping the advance to priority sector just above the minimum limits fixed by the government.

B Ensuring quality of loan portfolio

i) Using the principles and techniques of efficient credit management.

ii) Managing the sticky accounts and NPA in the way as discussed in the first section of this chapter.

C Changing the mix of Branch Deposits.

i) Efforts should be made to attract more and more low cost deposits, viz, current Account and savings Bank Deposits.

ii) By booking more and more corporate deposits or big business men who generally prefer to keep funds in current accounts.

D Interest

i) Since the deregulation of interest has been started in a small way, it is expected that over the years banks would be free to fix up their interest
rates. In this way, "the customers would become much more rate conscious and the bank liabilities would become more interest elastic, so that small rate changes can produce large fluctuations in outstanding balances. In this way," banks will have to monitor the composition and the cost of their funding sources as changes in composition alter borrowing costs and may reduce available liquidity. Changes in financing costs require corresponding changes in asset yields to maintain profit margins" (Koch 1988). With further deregulation, both the frequency and magnitude of these changes will be increased significantly. Thus, there is a dire need to compute the costs of bank funds to use them for taking various product and pricing decisions.

In addition to the above, the income leakages in a branch can be plugged through the following measures.

i) Accounts calculation of products and interest,

ii) Application of the interest on the due date, delay results in loss of compounding effects.

iii) Claiming refinance with out any delay

iv) Correct calculation of periodical payment of interest of TDR.

v) Round of the product to nearest ten, instead of completed ten and no payment of interest below rupee one.

A further analysis of the table 5.3 exhibits that Burden is dependent on Non-interest income and Non-interest expanses like Manpower expanses and other operating expenses. The Non-interest income is turn,
based upon the (a) range and volume of services and (b) service charges. Which subsequently are influenced by competition among banks. Discretionary powers to managers and cost of services. Similarly the Manpower expenses depend upon (a) Number, seniority and mix of employees; and (b) salary structure which subsequently is influenced by Recruitment, promotion and placement policies and wage agreements and policies. On the same analogy Other expenses depend upon (a) Nature and volume of business; and (b) Systems and procedures, which subsequently are influenced by the quality of expenditure decisions and Budgeting and cost control practices. Thus from the above discussion it follows that to reduce the burden there should be proper management of burden.

Burden management

The major share of non-interest expenditure is accounted for by the payment of salaries, allowances perquisites, popularly known as establishment expenses. The other significant factor is overhead expenditure which is further divided into two categories: (i) costs which can be controlled like stationary, printing, electricity charges, postage, telephones, traveling and halting allowances, etc.; and (ii) costs which cannot be controlled like rent, taxes, insurances etc.

The first group of expenses can be controlled by prudent decisions, careful planning and conscious efforts at each level, as these decision have direct bearing on branch profits: The other group consist of committed costs; that is, they reflect decisions taken in prior periods and can not be currently varied by the management discretion, at least not in the short run.

Another aspect of Burden Management is the Non-interest incomes. The income is derived from the fee-
based activities like letters of credits, Bank guarantees, Deferred payment guarantees, Foreign exchange, Bills Remittances etc. Which is vital for the profitability of the branch. Therefore due care should be taken for their control so that the burden of the branch is reduced.

From the above spread and Burden analysis one reaches to a conclusion that to offer various products/services in the branch, there should be proper pricing of these services and the proper pricing depends upon the current cost computations of these products/services. This suggests that cost computation is the basic factor as the profitability of a branch depends upon its costs (interest and non-interest) and revenues (interest and non-interest). Thus whether the prices charged from different products/services offered by the branch and whether the costs incurred by the branch in offering these products/services are reasonable poses a big question mark. This necessitates that in every bank there should be a well developed costing system which may help the banks to control their costs by fixing certain costing parameters visa-viz to different activities. "Suppose the cost could be computed per voucher, per Rs 100, per account etc." (Ghosh 1979). The other parameters of cost as mentioned in costing Manual issued by RBI (1987) include computation of ratios like interest to working funds, expenditure to working funds, salaries to working funds and so on. Further the measures of profitability, productivity and efficiency have also been suggested in the manual for a bank branch.

So far as the banks understudy are concerned, that is, A-Bank and B-Bank, the A-Bank made some conscious efforts to improve its profitability. It conducting various costing studies and introduced profit budgeting exercise for the gross root level. As convenor of the
costing forum of North-based banks, the A-Bank organized four meetings during 1988-89 to review the progress made by member banks in conducting costing studies. As a member of the committee of pricing and costing constituted by IBA, the bank undertook studies on 'impact of revision in service charges on the volume of business and income' and 'time study for issue of a draft /payment of a cheque'. On the basis of another study on the cost of providing locker services, the bank has decided on upward revision of locker services.

In addition to these studies, various other studies were conducted. Even in some cases, the service cost was compared with that of the group of seven large banks as well as the banking industry. Wherever, the cost was found to be higher, detailed probe was made to find out the reasons and corrective steps were taken by the bank, thus indicating competitive spirit in bank management. As a sequel to develop the cost accounting practices the bank has appointed qualified cost accountants on the job of costing departments.

However, in case of B-Bank, there is no costing cell which will compute the costs of different services and operations. Although way back in 1985 the Bank started a preliminary work to compute the costs per voucher in certain branches in a disguised way through some general staff members not by trained costing professionals, however, this practice died in its infancy and the bank at present determines the price of its products and services either on the price of other banks or on some & increase of the historical cost of a service. Since the bank's largest customer is the state government, so the bank does not feel the need to create customer and undertake the costing studies for pricing the products and taking steps for the control of costs on the findings of such studies. Moreover, since the bank is operating in a protected
environment (as the broaches of nationalized and foreign banks do not pose any competition in the state in which its operations are concentrated), that is why the bank was not forced by the circumstances to adopt a marketing approach in offering its services. However, this narrow approach would be very fatal for the bank, in the long run, and needs to be changed according to the consumer orientation approach of the modern times.

Profit Planning

In case of A-Bank, for profit budgeting from the grass-root level was initiated, since 1991-92. The regular analysis of the monthly statements, quarterly analysis of expenses of administrative offices, assessing comparative operational efficiency of branches/regions/zones overtime and also with comparable units with the help of selected ratios, with proper planning, monitoring & follow-up, there was been an improvement in profitability of the bank since 1991-92. Further, profitability committees were set up with the objectives of effectively monitoring the performance of various branches/regions/zones.

In the case of B-Bank although no concrete efforts were made by the bank at large scale, yet the emphasis on profitability is apparent from the performance of the bank. The shift from total business as a performance measure of the branch to profits shown by the branch is evident during the last 5 years. Every branch manager now tries to go for low-cost deposits to increase the spread of his branch and increase the overall results. The profitability analysis of the branch at the controlling office is now gaining wider use.
Control techniques

In addition to the above discussed in-built control mechanism of bank branch operations, other methods of internal control of banks are enumerated as under:-

i) Morning checking of previous day's work at branch.
ii) Submission of control reports.
iii) Concurrent audit.
iv) Inspection and internal audit by the specific department.
v) Statutory audit.

(i) Morning checking

Every branch manager is making an overall review of the previous day's closing just to find out some omissions and commissions which might have remained because of oversight, fatigue and so on. This method has been very useful in various banks. However, the banks understudy, this practice is prevalent only in A-Bank and the B-Bank managers are totally not familiar with this. This usefulness of this control technique is clear from the table 5A

<table>
<thead>
<tr>
<th>Usefulness of morning checking in A-Bank</th>
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<tbody>
<tr>
<td>% of response of branch managers</td>
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<tr>
<td>Semi</td>
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<tr>
<td>------</td>
</tr>
<tr>
<td>Useful</td>
</tr>
<tr>
<td>Not useful</td>
</tr>
</tbody>
</table>

Source: Data collected through survey.

From the table 5A, it is indicated that Morning checking is extremely useful to the branches to rectify certain mistakes which might have remained in the previous working day. The response of the branch manag-
ers shows that for 95.7% of the branch it has been found useful as a method of control of operations.

ii) Internal control reports

The control of on-going activities and operations can be exercised internally through structural periodic returns and statements submitted by the branches and regions/divisions to the controlling divisions and head office. The periodicity of different returns and statements could be daily, weekly, monthly, or quarterly depending upon the nature of information contained and the purpose required to be served. The main purpose of these returns is to ensure a proper and effective control over a set of identical elements of operations. The controlling offices (divisions/ regional/ zones, head offices) scrutinize these returns and provide a feedback to the branches, mainly through correspondence, on the irregularities identified.

In the banks understudy there are varied reporting systems prevalent as per their organizational structures. In case of A-Bank every branch is supposed to send the relevant report to its regional or zonal or central office. In the regional office these reports are consolidated through computer and reported to zonal and central offices.

In case of B-Bank the branch managers submit their reports to their district/area/zonal/ central offices which is their controlling office. Since in B-bank there are not enough computers, the processing of central reports at the different controlling offices especially district managers office (which is the branches immediate controlling offices) takes a lot of time which hinders the feedback and feedforward mechanism to a great extent.
A review of the reporting system of both the banks has revealed that the multiplicity of periodical statements and returns, (which branches are required to submit), is a considerable drain on their resources, and also the repetition of some information to be submitted to different higher offices of the bank makes the branch dis-interested and fatigues. It would be desirable if only a few reports (excluding daily /weekly returns) may be designed which would be submitted monthly or quarterly. These statements would act as master statements and would contain data about various activities of the branch. At the regional/ zonal/ divisional level with the help of suitable computer programmer, various periodical returns/ statements about various master statements and could be fetched to different departments/ offices of the bank and external agencies as required. In this way, the reporting system would be cost efficient and decision-effective and would bring about total revolution of the banks' MIS so far as productivity is concerned.

iii) Concurrent Audit

As demonstrated by the securities irregularities and the subsequent bank frauds at a large scale, the R.B.I. realized that there has to be better control and supervision upon the banks so that banks in a responsible fashion comply with the prudential guidelines and directives of the R.B.I. Towards this end, in addition to other measures of control and supervision, banks were directed to introduce a concurrent Audit of the day-to-day operations of their big branches.

In line with the R.B.I directives the A-Bank also introduced the concurrent Audit system and now as many as 336 big branches of the bank covering 50% of the bank's total business has been brought under the ambit of concurrent audit.
On the similar lines the B-Bank has started the conduct of concurrent Audit in as many as 20 big branches operating in the county. These big branches cover the maximum business of the bank.

iv) Periodic inspection and Internal Audit

The periodic inspection and audit carried out by a specific department of the bank which is entrusted with this responsibility offers a chance to plug the loopholes and avoid frauds. Thus the inspection and the internal audit is a powerful weapon in the armory of the management by which effective control and supervision is exercised over the working of the branch and the different departments of the head office. The inspection/audit department, therefore, should be manned by persons having the necessary expertise and the strength of the department should be such as to enable a bank to examine branches around 12 months. This department makes interpretations of an organization's policies and procedures. It checks on compliance of rules and procedures. This department also suggests improvement in systems and procedures, sometimes brought about by simplifying procedures or by reducing certain accounting entries. This change in the accounting entries which reduces paperwork in financial institutions/banks to a substantial extent can be compared to an improvement in production process in a manufacturing unit by reducing some steps, saving in time and cost, (Blowmilk 1997).

In both the banks understudy the periodic inspection and internal audit is conducted on regular time internals. In case of A-Bank, the department is headed by a senior level officer and during the year 1995-96 as many as 3032 branches got duly inspected and audited. Moreover, in line with the directives of the R.B.I, the A-Bank has constituted an audit committee.
the Board of Directors level. Such committees have also been formed at the zonal levels to oversee the functioning of the inspection and audit department.

In case of the B-Bank, the inspection and Audit department is manned by experienced staff and is headed by the senior level officer of the rank of G.M. At the division level also, there is an inspection department. Normally the inspection/audit is undertaken yearly in case of big branches, 1½ yearly in case of medium branches and after every 2 years in case of small ones. The internal auditor in B-Bank evaluates whether the branch maintains proper records, follows the periodical guidelines of the bank issued through circulars, booklets etc. Whether the staff is working in team spirit so that exact staff requirements can be ascertained, whether banks' funds are utilized properly and that there is security of the staff as well as that of the material in a particular branch and so on and so forth. The inspector/internal auditor plays the role of pace setter for the branch as he is supposed to make on spot reform and get things rectified through the branch staff through wrap-up discussion across the table with them.

v) Visits by senior executives of the branch

In addition to the above control methods, in both the banks, senior executives occasionally visit the branches. Generally the branches controlling officers pay visits to the branches to scrutinize certain aspects like extent of sticky advances, steps taken for recovery and monitoring of backlog in balancing reconciliation and so on.

vi) Statutory Audit

Both the banks are making use of statutory audit as required under the Indian companies Act. Since this
audit is generally for external reporting, but at
times, the investigation carried out by them also help
the branch to set their records right and be efficient
and effective in the discharge of the functions of the
branch.

Conclusion

From the foregoing discussion, it follows that
operational planning and control or precisely known as
operational control is the process of ensuring that
specific tasks or operations are carried out effective­
ly and efficiently. In case of commercial banks, the
operational control relates to the day-to-day activi­
ties of bank so far as rendering the services to the
customers is concerned. At the branch level the opera­
tional control aspects are concerned with the efficient
planning and control of (i) fund-based activities like
Deposits and Advances, (ii) Fee-based activities like
Remittances, Travelers cheques, D D purchases, outward
letters of credit, bills etc. and (iii), Control of
efficiency of operations through profitability like
spread management, Burden management and so on.
To exercise effective control over all these activi­
ties either in-built mechanism is developed in com­
cmercial banks or control techniques like Morning check­
ing, control reports, concurrent audit, periodical
inspections and internal audit by the concerned depart­
ment, surprise inspections by senior executives and
statutory audit are applied. In the succeeding para­
graphs, the findings of the operational planning and
control processes as exercised in the A-bank and B-bank
are presented.

1. Deposits and Advances

In this field, the problems of banks understudy
are concerned with the transfer price and managing the
credit in a bank branch. Both the banks fix up the interest on H.O balances with branches, and branches balances with head offices arbitrarily as complained by most of the branch managers which acts as a disincentive to the performance of the branches. It would be desirable if the transfer prices mechanism would be set by using the "overall yield on funds less service costs of advances as a percentage of total deposits plus central office expenses as a percentage of total deposits, for the funds transferred to H.O from branches. In case of funds transferred to branches from H.O. The transfer price should be based on the average yield on advances less service cost of advances as a percentage of total advances. Since this formula is expected to stand the test of motivation, simplicity and a better way of administering the branch performances, the branch managers need to be well informed about the formula and its advantages for the efficient & effective goal-congruence in the overall bank.

With respect to credit planning and control, "identification of early warning signals and taking timely follow-up action is the essence of credit management, as this process may prevent any advance becoming NPA" Sinea and KaVer (1994). However, for the overall efficiency of the credit planning and control, the following measures are suggested.

i) Banks should make pre-sanction and post-sanction inspections on a regular basis in order to ensure the proper utilization of the asset acquired, so as to see that the expected income generation is there for prompt repayment of installments.

ii) On the pattern of quality circles, if the "Recovery circles" are formed in a branch, wherein a group of branch employees meet with the branch manager and loan officer as members only. The
circle can gather the information, study the borrower a fresh and suggest strategy for recovery. While discussing the borrowers in the meeting, some members may come out with suggestions on such borrowers like names of the influential persons through whom the borrower can be pressurized for repayment.

iii) In each bank a special recovery cell should be created to formulate policies and strategies of loan recovery at each tier of the organizational hierarchy.

iv) If payment schedule is not fixed properly or a unit is not able to generate expected profit during a period which corresponds to loan installment, possibility may be explored in consultation with the borrowers, for rephasing of the loan installment.

v) Banks should encourage acquisition of sick units by the healthy units, wherever they feel it may reduce the NPA's. Banks may even help the sick units to get suitable buyers, as bank has contact with a large number of unit holders.

vi) There should be regular recovery camp-meetings in each village to highlight to the borrowers that there will not be any more loan waivers and that the loan should be repaid in time.

vii) Under the govt. sponsored schemes, as the beneficiaries of the sponsored programmes are incapable of making financial decisions, the implementing agencies should assess the suitability of the activity to the borrower and extend training facilities to the proposed beneficiaries wherever required.
viii) There is a need to fix up targets to the field functionaries not only for the implementation of the schemes but also for the recovery of the loans given in the earlier years. Periodical inspection of units financed in the earlier years and follow-up of these loans for prompt recovery need be made a part of their job and their performance may be reviewed on the recovery front as well during the regular reviews.

ix) The village level workers may be advised to maintain the registers for details of various borrowers under government, sponsored schemes to ensure regular follow-up.

x) The cases may be referred to the recovery tribunals if non-legal methods fail to bear fruit.

xi) To minimize the chance of a loan becoming an NPA, the viability of the proposal needs to be investigated very deeply which demands up-gradation of skills at the appraisal stage, and to introduce skill up-gradation, it is essential to introduce a certain degree of specialization which may be done by cadre-creation from the recruitment and post-recruitment stages. The training should be the regular feature of credit appraisers.

xii) Banks can also make use of expertise of credit-rating agencies in areas of credit appraisals, for instance, both CRISIL and ICRA are offering products called (BLR) Bank Loan Rating, while ICRA has on internationally tested model called WINFAST (designed by a Moody Subsidiary). These products could be at least used where required to confirm the bank's own evaluation.
In order to enhance business from the fee based activities, the suggestions may be the following.

i) Certain incentives and disincentives may be introduced in the performance evaluation of the branches. A part of draft mail transfers and telegraphic transfers travelers cheques etc. may be credited to the branches which are originating these activities in their business ratio. In the same way small branches which are making collections on behalf of large branches should share such income with big ones; certain branches which are not authorized to deal in foreign exchange get accounts opened on behalf of their clients through forex-active branches, should share 50% of letters of credit commission with forex branches and in case of bills business the drawer branches should share some % of income generated with the drawee branches to compensate the latter for the work handled on its behalf. This % should, be determined by the control office on the basis of the time and motion study and as a part of the transfer price mechanism.

ii) On the same analogy, a given percentage of the aggregate amount outstanding in DDP books, i.e. those whose acknowledgements are not received and marked off for more than 15days, may be deducted from the net results of the branch as a disincentive.

ii) For providing various services to the customers the time norms framed by the IBA should be displayed visibly at every branch and followed strictly. This would create a better image in the minds of the customers and thus would act as a book for the banks' performance.
boo for the banks' performance.

3. Efficiency of operations

The operations of bank should be performed efficiently, i.e. least cost should be incurred for performing each activity. This requires that the costs should be reduced and revenues should be improved by better spread and burden management. The main suggestions may be in the following directions:

i) To increase returns from advances, efforts should be made to book more and more accounts falling under C&I and SSI units as interest in these two categories of advances is remunerative.

ii) Using the latest techniques of credit management to reduce the chances of NPA's and manage the sticky accounts and NPA's in the way as discussed in the first section of this chapter.

iii) In order to reduce the cost of funds, efforts should be made to attract more and more low cost deposits, viz, current account, savings accounts etc.

iv) Fix up the competitive interest rates and when these are fully de-regulated. In this direction, the computation of the cost of bank funds may help to take an efficient price and product decision.

v) Attempts should be made to arrest the income leakages so far as the interest calculation of products application of interest on due date, cleaning refinance, without any delay correct payment of interest on TDR's, rounding off the product to nearest ten and no payment of interest below rupee one are concerned.
vi) To reduce the costs of stationary, electricity charges, postage, telephones, traveling allowances etc., careful planning and constant efforts may help to keep these costs in check.

vii) For charging the price of the fee-based products, the computation of costs in offering these services should be used as a main criterion. All this calls for a well-developed costing department manned by the qualified costing professionals so that cost per voucher, per Rs 100, per account, per employee etc. may be obtained to take various operational decisions in the bank.

viii) For evaluating the performance of a branch in addition to the above, the parameters of profitability productivity and efficiency should be used.

4. Control techniques

In addition to the above measures the following steps may help to exercise effective control on bank branch operations:

i) Morning checking technique may be used as a necessary control technique in the banks where it is not in vogue.

ii) Multiplicity of periodical statements and the repetition drastically reduced. It would be desirable if only a few reports may be designed which would act as master statements by containing data about various activities of the branch. On the raw data of these statements, various reports could be prepared with the help of suitable computer programming. In this way, the reporting/control system would be cost efficient &
iii) The internal audit department should be encouraged to review the systems & procedures as well instead laying more emphasis on the following of the existing systems & procedures. The suggestions of the branch staff may be sought in a friendly atmosphere in this direction.

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