RESERVE BANK OF INDIA

FUNCTIONING OF PUBLIC SECTOR BANKS

REPORT OF THE COMMITTEE

CONTENTS

CHAPTER 1

INTRODUCTION

1.1 The nationalisation of the 14 major scheduled commercial banks in July 1969 brought in its wake a rapid growth in branch expansion, particularly in the rural areas, accompanied by considerable rise in deposits and advances. It also had a material impact on the pattern of deployment of banking funds, particularly to the priority sectors. Commendable as was the progress of public sector banks, it was felt that there was further scope for banks in meeting the needs of the community by making bank credit an instrument of economic development. It was also felt that the growth of banking should be directed more towards rectifying the regional imbalances, not only in respect of credit disbursal, but also of branch expansion. Despite efforts in these directions, however, there remained large-scale regional imbalances in banking facilities and operations, particularly for the weaker sections. It was with a view to examining the present position and future scope for a more balanced growth of banking as well as finding ways for getting banks more directly involved in the process of rural development that the Government of India set up, in July 1976, a Banking Commission under the chairmanship of Shri Manubhai Shah*. The Commission worked for six months upto February 1977 when Shri Shah resigned. The Government of India wound up the Commission in May 1977.

1.2 It was in this background that the Reserve Bank of India set up a Committee in June 1977 to study all aspects of the functioning of the public sector banks and in the light of such findings to make recommendations on the same. The composition of the Committee was as follows :

1.	Shri James S. Raj	Chairman
2.	Shri V. C. Patel	Member
3.	Shri T. D. Kansara	Member
4.	Shri B. K. Dutt	Member.

Kum. N. K. Ambegaokar, Adviser, Credit Planning Cell, Reserve Bank of India, Bombay was appointed Secretary to the Committee.

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* The members of the Commission were Shri N. C. Sen Gupta, Shri J. C. Luther, Shri J. N. Saxena, Prof. A. K. Datta and Shri M. K. Venkatachalam (Member-Secretary).

1.3 The terms of Reference of the Committee were as follows :

(i) To assess the impact of branch expansion that has taken place since 1969 and to examine whether any change in the tempo and direction of such expansion is called for;

(ii) To enquire into the present pattern of branch expansion of public sector banks and to suggest the future course of action keeping in view the need for rural development and removal of regional imbalances;

(iii) To evaluate the performance of public sector banks in the matter of lending to the priority sectors and weaker sections of the society and to suggest ways for the orderly and balanced growth of such advances;

(iv) To advise on improving the efficiency of banks with a view to rendering better and speedy service to the public;

(v) To examine the operation of vigilance work in the banks and to make recommendations to bring about improvements; and

(vi) To make any other recommendations germane to the subject of enquiry.

1.4 The Committee had the benefit of the views of Shri M. R. Shroff, Additional Secretary to the Government of India, Ministry of Finance, Banking Wing, Shri M. K. Venkatachalam, Member, Income-tax Settlement Commission, Government of India, who has been Member-Secretary to the Manubhai Shah Commission and Dr. Bhabatosh Datta, who had been a member of the Banking Commission under the chairmanship of Shri R. G. Saraiya. The Committee also had discussions with Shri K. Madhava Das, Executive Director in charge of Agricultural Credit Department, Dr. M. V. Hate, Chief Officer, Agricultural Credit Department and Shri P. N. Khanna, Chief Officer, Department of Banking Operations and Development, of the Reserve Bank.

1.5 The Committee issued detailed questionnaires to all public sector banks and other financial institutions, Indian Banks Association, Chambers of Commerce, other industrial and commercial organisations and the Bank Officers' Association and Workmen Employees' Unions and Associations, seeking their views in regard to the several aspects of banking covered by the terms of reference of the Committee. The Committee also issued a letter to some institutions and prominent persons in public life, eliciting their views on the functioning of public sector banks and the services rendered by them. A Press Note requesting the members of the public to send their views, if they desired, was also issued. The copies of the questionnaires and the Press Note are given in Annexures II to VI .

1.6 The Committee visited the Head Offices of the State Bank of India and the 14 nationalised banks and had discussions with the Chairmen/Managing Directors and other senior executives of these banks. In addition, the Committee met the Managing Directors of State Bank of Hyderabad and State Bank of Mysore and the Chairmen of a representative selection of private sector banks as well as of Regional Rural Banks. The dates and places which the Committee visited are given below :

Name of the Bank	*Date*	*Place*
United Commercial Bank	September 12, 1977	Calcutta
United Bank of India	September 13, 1977	Calcutta
Allahabad Bank	September 14, 1977	Calcutta
United Industrial Bank Ltd.	September 14, 1977	Calcutta
Indian Bank	October 3, 1977	Madras
Indian Overseas Bank	October 4, 1977	Madras
Bank of Madura Ltd.	October 5, 1977	Madras
Bank of Baroda	October 6, 1977	Bombay
Dena Bank	October 8, 1977	Bombay
Punjab National Bank	October 10, 1977	New Delhi
New Bank of India Ltd.	October 11, 1977	New Delhi
Punjab & Sind Bank Ltd.	October 12, 1977	New Delhi
Bank of India	October 27, 1977	Bombay
Central Bank of India	October 28, 1977	Bombay
State Bank of Hyderabad	November 7, 1977	Hyderabad
Nagarjuna & Visakha Grameen Banks	November 8, 1977	Hyderabad
Andhra Bank Ltd.	November 9, 1977	Hyderabad
State Bank of Mysore	November 15, 1977	Bangalore
Canara Bank	November 15, 1977	Bangalore
Cauvery Grameen Bank	November 16, 1977	Bangalore
Vijaya Bank Ltd.	November 17, 1977	Bangalore
Vysya Bank Ltd.	November 17, 1977	Bangalore
Karnataka Bank Ltd.	November 18, 1977	Bangalore
Bank of Maharashtra	November 23, 1977	Pune
Syndicate Bank	November 25, 1977	Manipal
Corporation Bank Ltd.	November 26, 1977	Mangalore
Union Bank of India	December 2, 1977	Bombay
State Bank of India	December 6, 1977	Bombay

1.7 The Committee took advantage of its visits to the above mentioned centres to meet representatives of the Federation of Indian Chambers of Commerce and Industry, New Delhi, the All India Manufacturers' Organisation, Bombay and the various associations of industry and trade in other cities. We also met representatives of the All India Small Industries Federation at New Delhi. The Committee also had the benefit of discussions with All India Bank Employees' Association (AIBEA) at New Delhi, the State Bank of India Officers' Federation at Madras, the National Organisation of Bank Workers at Bombay and the All India Confederation of Bank Officers' Organisations at Bombay. The Committee had a detailed and comprehensive discussion with the Indian Banks' Association at Bombay. We also paid visits to Bankers Training College, Bombay and the National Institute of Bank Management, Bombay and discussed the problem of training facilities for bank personnel with their officials. The Committee met on September 30, 1977 members of the Working Group under the Chairmanship of Prof. M. L. Dantwala, which was appointed by the Reserve Bank to review the performance of Regional Rural Banks and to make recommendations regarding the scope, methods, procedures and related aspects of their working. The names of representatives of the institutions and of individuals whom the Committee had met are given in Annexure VII. We thank all those who spared their valuable time to give us the benefit of their views.

1.8 The Committee in all met 21 times, 18 times at Bombay and once each at Calcutta, Madras and New Delhi on the following dates:

Place	*Date*
Bombay	June 10, 1977
Bombay	July 6, 1977
Bombay	July 28, 1977
Bombay	August 11, 1977
Bombay	August 18, 1977
Bombay	September 7, 1977
Calcutta	September 14, 1977
Bombay	September 23, 1977
Madras	October 4, 1977
New Delhi	October 12, 1977
Bombay	October 17, 1977
Bombay	December 17 & 18, 1977
Bombay	January 3, 1978
Bombay	January 7, 1978
Bombay	January 10, 1978
Bombay	January 12 to 26, 1978
Bombay	February 16, 1978
Bombay	March 11, 1978
Bombay	April 1, 1978
Bombay	April 17 to 20, 1978
Bombay	April 28, 1978

1.9 The format of the Report is as follows. The Report is divided into ten Chapters including this Introductory Chapter. The Second Chapter gives a broad evaluation of the performance of the public sector banks, particularly since 1969 when the fourteen major scheduled commercial banks were nationalised. It describes the progress made by the banks in the sphere of branch expansion, deposit mobilisation as well as credit disbursal, both in different regions of the country and to different sectors. In Chapter 3, an assessment is made of the impact of branch expansion, with a view to examining whether any change is called for in the tempo, direction and pattern of such expansion. This Chapter also examines the present pattern of branch expansion of public sector banks and makes suggestions for the future course of action keeping in view the need for rural development and removal of regional imbalances. In this connection, the question of the use of alternative agencies either for direct financing or for channeling funds of public sector banks through them is also dealt with. Chapter 4 attempts to evaluate the performance of public sector banks in the matter of lending to the priority sectors and to the weaker sections of society. It also deals with the various problems which the banks face in expediting the pace and scope of such lending and makes appropriate suggestions for the orderly and balanced growth of such advances. In Chapter 5, a review is made of the operational performance of banks, particularly in regard to efficiency of banking services to the public, and suggestions are made for improving the efficiency. Chapter 6 describes the present vigilance arrangements in the banks and after examining the operation of the vigilance work carried out at present, makes recommendations for bringing about improvements in the same. The problems relating to management-employee relations, which have a bearing on all aspects of the working of banks are dealt with in Chapter 7. Chapter 8 reviews the present position regarding training facilities for bank personnel and suggests measures for further improvements and expansion of such facilities in the context of the continuing expanding role of commercial banks in economic development. Chapter 9 deals with a few problems of a general nature such as the composition of Boards of Directors of public sector banks and their working, the composition of the top management of these banks and the functions of the chief executives. Besides these, mention is also made of the question of profitability of banks in the background of increasing costs in respect of staff salaries and emoluments and the rapid growth in establishment expenditure on the one hand and the deteriorating services in banks on the other hand. The problem of erosion in the "ratio of capital and reserves to working funds" of the banks is also dealt with briefly. Chapter 10 gives a summary of the major recommendations.

ACKNOWLEDGEMENTS

1.10 The Committee would like to thank the Reserve Bank of India for providing the Secretariat for the Committee under the charge of Shri K. R.

Viswanathan, Director, Economic Department, Bombay. The Secretariat comprised Sarvashri R. A. Nilakantan and R. Hariharan, Assistant Chief Officers, Department of Banking Operations and Development, Bombay, Shri M. R. Nair, Research Officer, Economic Department, Shri A. S. Menon, Staff Officer, Economic Department, Shri Alexander Thomas, Economic Assistant and Shri A. C. John Singh and Smt. Valsa George, Clerks, Shri T. S. Iyer, Personal Assistant to the Chairman, Sarvashri A. V. Raghuraman and P. L. Ghag, Stenographers, Sarvashri P. K. Pawar and V. D. Patil, Typists, Shri A. S. Mahadik, Subedar Grade I, Shri M. K. Tambe, Duftry and Sarvashri T. S. Mhapari and V. G. Kadlak, Peons. We would like to place on record our appreciation and thanks to the staff attached to the Committee. They all deserve our compliments for the efficient manner in which they have helped us at all stages of the Committee's work. Sarvashri Viswanathan, Hariharan and Nair accompanied the Committee on many visits to the various places and rendered valuable services in preparing notes on discussions with the bankers and others. Sarvashri Viswanathan and Nair also took considerable pains in collecting data and assisting in the preparation of this Report.

1.11 The Chairman and other members of the Comittee would like to pay a special tribute to the Secretary of the Committee, Kum. N. K. Ambegaokar, who has worked indefatigably for the Committee in addition to her regular duties in the Reserve Bank, and has brought to bear her wide knowledge and experience in Economics and various aspects of banking on the work of the Committee at all stages.

CHAPTER 2

PERFORMANCE OF PUBLIC SECTOR BANKS

2.1 In this chapter, a broad evaluation is made of the performance of public sector banks in regard to the various aspects of their working, in the light of the objectives of nationalisation of major banks. It has since long been recognised that banking constitutes an important link among the various economic activities and that it has to play a direct role not only in creating the machinery needed for financing developmental activities but also in ensuring that the finance made available goes into the desired directions. In India, emphasis on these objectives was laid as early as in the fifties, when the All India Rural Credit Survey Committee recommended in 1954, "the creation of one strong, integrated, state-sponsored, state-partnered commercial bank with an effective machinery of branches spread over the whole country". In pursuance of this objective, the State Bank of India came into being in 1955 as a subsidiary of the Reserve Bank of India with the objective of facilitating the extension of banking in the rural and semi-urban areas. By 1959, eight banks* in the erstwhile princely states were also brought under the control and full or near full ownership of the State Bank of India.

2.2 The formation of the State Bank of India and the other seven banks as public sector units contributed to a fairly rapid expansion of branches. This was further continued with the introduction in 1968 of the scheme of 'social control' of banks. This was taken a step further by the nationalisation of the 14 major banks in July 1969 which was primarily aimed at making bank credit a catalytic agent by their direct involvement in the economic development of the country, spreading the banking habit to the semi-urban and rural areas, duly aligning the credit policies and practices with national development programmes and making credit facilities available to a much wider section of the population, particularly to the hitherto neglected sectors of the society.

2.3 The achievement of these objectives necessitated significant changes being made in banking organisation, policies and practices which included, among others, the enlargement of the role of banking through wider branch expansion, particularly in the rural centres and areas hitherto unexposed to commercial banking, mobilisation of savings through intensive deposit collection and

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* These were formed later into seven banks as follows:
(1) State Bank of Bikaner and Jaipur, (2) State Bank of Hyderabad, (3) State Bank of Mysore, (4) State Bank of Patiala, (5) State Bank of Saurashtra, (6) State Bank of Travancore and (7) State Bank of Indore.

extension of deployment of credit to the hitherto neglected sectors and areas. In assessing the performance of the public sector banks in fulfilling the various tasks entrusted to them, we have concentrated on the quantitative as well as the qualitative aspects of banking growth, including the magnitude and direction of assistance given by banks, particularly to the priority sectors, the extent to which the intensive spread of banking network has contributed to the growth of savings of households and bringing them into the fold of the organised monetary sector and the impact of these activities on the quality of banking services.

2.4 In fulfilling the various objectives, the foremost task for the banks was to build up an effective machinery to spread banking in the various parts of the country, particularly in the rural areas. In this operation, banks were guided by two major policy measures. One was the operation of the Lead Bank Scheme, under which each of the public sector banks was given the 'Lead' role in each of a certain number of districts, in regard to opening of branches and provision of other banking services. Secondly, branch expansion of banks was done under the branch licensing policy formulated by the Reserve Bank of India on the basis of an advance plan for 2 to 3 years. This in turn, took into account several things such as the need for banking facilities and the potential for banking growth in certain areas, and suitability of particular banks for going to certain areas. Since 1969, the nuances of the branch licensing policy have been modified several times to suit the changing needs of the various areas or sectors in the economy. However, no attempt has so far been made to formulate a policy which would take into account the changing structure of the banking system as well as the needs of the geographical, organisational and functional attributes of individual banks.

2.5 The number of branches of all commercial banks (both scheduled and non-scheduled banks) rose from 8,262 in June 1969 to 26,996 in December 1977 or by 18,734 in the span of only 8½ years (Table 1 in the Statistical Appendix). Of this increase, as many as 14,748 offices (77 per cent) were opened by the public sector banks (including the Regional Rural Banks). The impetus of the branch expansion programme could be seen from the fact that State Bank of India and its associate banks opened 4,347 offices during these 8½ years, whereas they had opened only 1,000 offices during the 14 years from 1955 to 1969, i.e. after the coming into being of the State Bank of India as a public sector bank consequent on nationalisation of the Imperial Bank of India. This shows that the real thrust to the programme came only from 1969 onwards. With the overall increase in the number of bank offices, the size of population served per bank office in the country declined from 64,000 in 1969 to 20,000 in December 1977 (Table 2). The number of bank employees also rose from 2.20 lakhs in June 1969 to 4.12 lakhs in December 1976. Another notable feature of branch expansion was the tremendous increase in offices located at rural centres viz., 9,258 between June 1969 and December 1977, and equally impressive was the increase of 4,171 offices in semi-urban areas (Table 3). Thus, there was a six-fold increase in branches at the rural centres while those at semi-urban centres had more than doubled during this period. The proportion of rural branches to total number of branches went up from 22 per cent in June 1969 to 41 per cent in December 1977. Of the total rise in branches at rural centres (9,258), the largest share (4,347 or by 47 per cent) was on account of the 14 nationalised banks, followed by the State Bank Group (1,619 or by 23 per cent) (Table 4). The branch expansion programme since 1969 also laid great emphasis on the coverage of unbanked centres by banks as compared to the pre-nationalisation period. This was reflected by the fact that of the 18,734 branches opened between June 1969 and December 1977, 8,745 (or 46.7 per cent) branches were opened in the unbanked centres. As would be expected, the greater share in this rise in these branches was taken by the public sector banks.

2.6 The overall growth of bank branches in the last eight years, impressive as it was, is also to be assessed in terms of (a) its coverage relative to the areas, (b) removal of regional imbalances, and (c) its impact on deployment of credit in the desired direction. As regards the first point, viz., the coverage, in terms of physical presence, commercial banking has so far reached only a small fraction of the total area represented by the nearly 6 lakh villages in the country. The number of rural branches was 11,090 at the end of December 1977. Even assuming that one rural branch would on an average serve 10 villages, about 50,000 additional branches would have to be set up in rural areas to cover the 6 lakh villages. Again, if it is assumed that one rural branch can serve 10,000 of the population, for the present rural population of 450 million, around 34,000 additional offices would have to be opened in the rural areas. As regards the second point, viz., regional imbalances in the coverage by bank offices, taking branches in rural and non-rural areas together, the States in which the number of persons served by a bank office is higher than the national average of 20 thousand are Assam, Bihar, Madhya Pradesh, Manipur, Orissa, Uttar Pradesh, West Bengal, Arunachal Pradesh and Mizoram, despite the considerable improvement in this regard since 1969 as could be seen from Table 6. It is true that these numbers would be smaller 'as shown in Table 7' if account is taken of the fact that the number of licences pending/allotted totalled 2,535 at the end of December 1977. Further, even in the so-called well-banked States such as Maharashtra, Tamil Nadu and West Bengal, the population per bank office, if the number of offices in the metropolitan cities (Bombay, Madras and Calcutta, respectively) is excluded, is larger than the average for these States showing that much needs to be done in regard to geographical coverage of under banked areas within these "well banked" States.

Regarding the third point, viz., deployment of bank credit, it may be mentioned that, in absolute terms, scheduled commercial banks' advances have risen from Rs. 3,599 crores in June 1969 to Rs. 14,334 crores in December 1977. Of the increase in total credit of Rs. 10,735 crores, Rs. 3,419 crores is used for priority sectors, Rs. 2,122 crores for food procurement and Rs. 909 crores for exports. Thus, 60 per cent of the increase in credit has been deployed for these essential sectors. But there is another aspect in the deployment of bank credit in rural areas where the credit-deposit ratio is relatively low. Although this ratio has steadily grown sharply from 37 per cent in June 1969 to 51 per cent in June 1977, it is still below the national average, i.e. there continues to be migration of banked funds from rural areas to urban areas (though it may be noted in passing that the share of rural areas in the resources mobilised by branches located there is not high).

2.7 The foregoing analysis shows the remarkable progress made by public and private sector banks in extending banking facilities to the hitherto unbanked centres of the country. However, apart from the statistical improvement in the number of rural branches depicted by these figures, what is required to be seen is the progress in respect of mobilisation of deposits, disbursal of credit in the required direction and removal of regional economic imbalances in the country.

2.8 One of the main objectives of bank nationalisation was to bring a larger part of the monetary resources of the country within the fold of the organised banking sector. This required institutionalisation of savings and their investment in the economy to the maximum extent possible. That banks have been very successful in the last few years in mobilising the community's savings and channelising them towards the desired national objectives is evidenced by the actual performance of banks in this regard. While deposits of scheduled commercial banks rose from Rs. 4,646 crores in June 1969 to Rs. 20,679 crores at the end of December 1977, advances rose from Rs. 3,599 crores to Rs. 14,334 crores during the same period. Deposits per office also rose from Rs. 56 lakhs in June 1969 to Rs. 77 lakhs in December 1977, and credit per office rose from Rs. 44 lakhs to Rs. 53 lakhs (Table 2) despite a large increase in the number of offices during the period. As it stands, this would mean that even as banks went in for more rural banking, deposits and advances per branch rose. The fact of the matter is that part of the rise in these figures may be attributable to inflation. With this caveat, categorywise, the proportion of time deposits to total deposits increased from 55 per cent to 61 per cent during the same period. This shift in favour of time deposits is an indication of the growth of true savings in the rural areas and the preference for bank deposits as a medium of long-term financial savings as compared to the other financial instruments.

2.9 Population group-wise performance upto end-June 1977 of rural branches was promising (Table 8). As a consequence of the increasing coverage by banks of the rural areas, between June 1969 and June 1977, deposits in the rural centres rose by Rs. 1,618 crores while advances rose by Rs. 841 crores. The compound annual rate of growth in deposits and advances registered by rural offices worked out to 36.7 per cent and 42.0 per cent, respectively, as compared to 19.5 per cent and 21.1 per cent at semi-urban centres, 18.5 per cent and 19.8 per cent at urban centres and 17.5 per cent and 16.0 per cent at metropolitan centres. Consequently, the share of rural centres in total deposits as well as credit increased while that of metropolitan centres showed a corresponding decline, although, as would be expected, the metropolitan and urban centres together still held the bulk of deposits (68 per cent) and advances (80 per cent).

2.10 Table 9 gives data on the growth of deposits and advances for groups of banks between June 1969 and June 1977. During the 8 year period total deposits mobilised by public sector banks rose from Rs. 3,897 crores to Rs. 16,095 crores. The share of all public sector banks in total deposits increased from 83.5 per cent to 84.6 per cent. Within the public sector banks, while the proportion of the State Bank of India and its associates rose from 27.1 per cent to 29.3 per cent, that of the 14 nationalised banks showed a fall from 56.5 per cent to 55.3 per cent. The share of private sector banks also declined from 16.4 per cent to 15.4 per cent. In other words, the rate of deposit mobilisation by SBI group of banks was slightly more than that of the 14 nationalised banks and the private sector banks. Part of the explanation of this is that the State Bank Group had a larger share of the deposits of public sector undertakings than the nationalised banks. The compound annual rate of growth in deposits of the State Bank of India and its associates during 1969-77 was 20.4 per cent as compared to nearly 18.9 per cent for the 14 nationalised banks. The performance of private sector banks was, however, less at 18.3 per cent as compared to that of public sector banks (19.3 per cent).

2.11 Between June 1969 and June 1977, total advances by public sector banks rose from Rs. 3,035 crores to Rs. 11,923 crores. At this level, the proportion in total advances by all scheduled commercial banks rose from 84.1 per cent to 86.4 per cent. While advances by SBI and its associates as a proportion of total advances by all scheduled commercial banks declined from 33.3 per cent in June 1969 to 30.0 per cent in June 1977, that of the 14 nationalised banks rose from 50.8 per cent to 56.4 per cent during the same period. The share of the private sector banks 'including foreign banks' in total advances declined from 15.9 per cent to 13.6 per cent in the same period. The compound annual rate of growth of advances for SBI group was 16.8 per cent as compared to 19.7 per cent for 14 nationalised banks and 18.6 per cent for all public sector banks. On the other hand the growth rate for Private Sector Banks was 15.9 per cent.

2.12 The period since nationalisation has seen not only quantitative improvements in deposit mobilisation and credit deployment, but also qualitative shifts in both. In the field of deposit mobilisation, for example, more and more small account holders were brought within the ambit of the banking system. As a result, the number of deposit accounts with banks rose from 183 lakhs in March 1969 to 642 lakhs in June 1976. Further, the earlier predominance of demand deposits gave place to time deposits. In the case of advances, the qualitative changes were still more striking. Broadly, it could be said that the concept of 'mass banking' as against 'class banking' found its place more in credit deployment than in any other aspect of banking operations, as reflected in the considerable increase in the number of borrowal accounts from about 10 lakhs in March 1968 to 83 lakhs (of which 76 lakhs were with credit limits of less than Rs 10,000) in June 1976.

2.13 A noteworthy feature in regard to the deployment of bank credit during the post nationalisation period was the marked shift in favour of the public sector borrowing (including food procurement operations)—its proportion to total credit rising from 8.6 per cent in June 1969 to as much as 32.2 per cent in June 1977. Correspondingly, the share of the private sector came down from 91.4 per cent to 67.8 per cent. The substantial increase in credit to the public sector can be attributed mainly to public sector activity in regard to procurement, distribution and stocking of foodgrains though there was also some increase in credit to manufacturing units. Practically the entire amount of credit to public sector undertakings was met by the public sector banks. Though there was criticism from time to time of this development, this phenomenon is to be viewed from the point of view of larger national objectives as against traditional commercial banking activity. Moreover, in recent years, some of the private sector banks including foreign banks have also taken a share in the financing of public sector food procurement and stock holding operations.

2.14 Sectoral classification of bank advances shows that the amount lent by all public sector banks to priority sectors recorded a sharp rise from Rs. 441 crores to Rs. 3,147 crores between June 1969 and June 1977 (Table 10); the share of priority sector advances as percentage of total credit rising from nearly 15 per cent to 27 per cent. The number of borrowal accounts also rose from nearly 3 lakhs to over 65 lakhs during the same period. Within the priority sector, credit to small-scale industries rose from Rs. 251 crores to Rs. 1,315 crores, its percentage share to total credit rising from nearly 9 per cent to 11 per cent. As compared to this, the proportion of credit to large and medium industries declined from 60.6 per cent to 44.2 per cent during the period March 1968 to December 1975, although in terms of amount, the quantum of credit rose from Rs. 1,857 crores to Rs. 4,422 crores. The credit to small-scale industries, as a share of total priority sector credit, however, came down from 57 per cent to 42 per cent. This calls for corrective action, as indicated by us in Chapter 4. The increase in the flow of credit to priority sectors was in keeping with the national objectives and came about as a result of the widening of the network of bank offices, particularly in the rural and semi-urban centres. This also reflected the fact that advances to agriculture by public sector banks rose steeply from Rs. 162 crores in June 1969 to Rs. 1,275 crores in June 1977, its percentage share in priority credit rising from 37 per cent to 41 per cent. The number of borrowal accounts under agriculture also rose from 1.65 lakhs to over 45 lakhs. As regards the latter, almost the whole of the rise was on account of direct lending to agriculture, the number of accounts rising from 1.6 lakhs to over 40 lakhs. While the amount of direct lending to agriculture rose from Rs. 40 crores to Rs. 951 crores, its percentage share in total priority sector lending rose from 9 per cent to 30 per cent.

2.15 Table 11 gives bank-wise classification of priority sector advances in June 1969 and June 1977. In June 1977 the share of priority sector credit by the 14 nationalised banks to their total credit was 27 per cent, while that of the State Bank was 26.3 per cent. Within the public sector banks, Syndicate Bank topped the list with 36.3 per cent of its credit to priority sectors. This was followed by Bank of Maharashtra (36.1 per cent), Canara Bank (32.8 per cent), Indian Overseas Bank (32.4 per cent) and Union Bank (32.0 per cent).

2.16 Table 12 gives figures for state-wise distribution of priority sector advances by all scheduled commercial banks. These data reveal that the proportion of priority sector advances to total bank credit at the end of June 1977 was above 50 per cent in the case of States like Haryana, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Punjab and Tripura. In the case of the more developed states, however, this proportion was lower at 46 per cent for Andhra Pradesh, 42 per cent for Kerala, 40 per cent for Karnataka, 34 per cent for Gujarat, 28 per cent for Tamil Nadu, 20 per cent for Maharashtra and 14 per cent for West Bengal. This is explained by the fact that firstly, in the less developed States, the scope for advances to non-prioirty sectors, particularly large and medium industries, was smaller than in the industrialised States. Secondly, the total credit needs of the non-priority sectors in the more developed States were very large as compared to that in the less developed States. In the case of Haryana and Punjab, the predominance of small-scale industries, agriculture and other small borrowers in the economy would explain the higher percentage of advances to these sectors in the total credit. Again, in States like Manipur, Meghalaya and Tripura, the total credit itself is very meagre and most of it constitutes advances to small borrowers. The statistical implications of these percentages are, therefore, to be interpreted with great caution for subsequent action in framing policy decisions.

2.17 State-wise distribution of deposits and advances of public sector banks during the period from June 1969 to June 1977 also reveals interesting features about changes in the credit-deposit ratio in different States (Table 13). The rapid branch expansion in practically all the States was not accompanied by similar rise in both deposits and credit in the respective states. The broad trend emerging from these figures shows that particularly in the case of developed States like Maharashtra, Tamil Nadu, West Bengal, Karnataka and Punjab, where the rise in deposits was sizeable, there was an equally large rise in credit also. In the case of States like Kerala, Gujarat, Rajasthan and Assam, however, the growth in credit was not commensurate with growth in deposits, although there was some rise in the credit-deposit ratio in these States. On the other hand, in the case of comparatively less developed States/areas like Madhya-Pradesh, West Bengal (excluding Calcutta) and Meghalaya, the growth in credit was smaller than that in deposits which actually resulted in a fall in the credit-deposit ratio. In the case of States like Bihar, Uttar Pradesh and Orissa, although the rise in credit was smaller than in deposits, there was a slight rise in the credit-deposit ratio. In some of these States like Assam and Bihar in particular, the actual credit-deposit ratio would perhaps, be higher if account is taken of the fact that while advances are actually used in these States, credit for the same is shown on the books of branches in other States. For example, advances to tea producers in Assam are shown on the books of branches in Calcutta and advances to steel plants in Bihar are shown on the books of Bombay branches. Apart from this, however, the fact remains that the credit-deposit ratio in States which were predominantly rural and semi-urban, was lower than that in the industrially developed States.

2.18 The performance of scheduled commercial banks in ragard to the deposit mobilisation in rural and semi-urban centres has been very commendable, specially considering the fact that they entered the field only recently. For example, in the rural and semi-urban centres, their deposits rose from Rs. 1,169 crores in June 1969 to Rs. 4,791 crores in June 1976 i.e. rise of Rs. 3,622 crores. As compared to this, the deposits with the Primary Agricultural Co-operative Credit Societies (PACs) and District Co-operative Central Banks which also operate in rural and semi-urban areas rose from Rs. 258 crores to Rs. 798 crores i.e. a rise of Rs. 540 crores. Yearly figures too showed larger expansion in deposits with commercial banks than those with the PACs and District Co-operative Central Banks; the rise in 1973 was Rs. 656 crores for the former and Rs. 95 crores for the latter, while that in 1976 was Rs. 950 crores for scheduled commercial banks and Rs. 190 crores for co-operative banks (Table 14).

2.19 The remarkable progress made by commercial banks, particularly in the direction of branch expansion in the rural and hitherto unbanked areas, deposit collection and credit deployment to the priority sectors mainly emanated from the new orientation which was given to the working of banks in the country after bank nationalisation in 1969. Creditable as has been the progress, it has also been accompanied by several problems and phenomena, the chief among which are the deterioration in the quality of banking services and profitability of the banks—both arising from rapid expansion of branches in the rural and semi-urban areas and the organisational and managerial problems created by the same. Also, from the point of view of the national economy, it is to be noted that the disparities between the different regions as well as different areas within the regions have widened in regard to banking facilities, and that there is some wastage of national resources owing to unhealthy competition by the existence of several financial institutions (commercial banks and co-operative banks) in the same area.

2.20 A hitherto persistent problem facing banking in India is the existence of the regional imbalance in the branch coverage, deposits and advances. A general idea of these imbalances in banking can be had from the index numbers of the imbalances given by the Secretariat to the Banking Commission appointed under the Chairmanship of Shri Manubhai Shah. These index numbers are worked out by dividing the share of branches/deposits/advances of each State by the share of the concerned State in the population of India. The index numbers for individual States prepared on the basis of the data as of June 30, 1977 are given in Table 15. These showed the relative imbalances between the different States in the matter of branch coverage by 22 public sector banks. If the index for any State is above 100 for branches/deposits/advances as the case may be, that State is considered as having more than its proper share of branches/deposits/advances as of June 30, 1977. If it is below 100, then the States can be stated to have a deficiency in the share of branches/deposits/advances, as the case may be. This is intended to be taken into account in the future branch expansion programme for that State among all States. From the table it is evident that the regional imbalance in respect of States like Andhra Pradesh, Assam, Bihar, Jammu & Kashmir, Orissa, Madhya Pradesh, Rajasthan and Uttar Pradesh vis-a-vis other States is high. If the operations of private banks in the different States are also taken into account, the regional imbalances are further aggravated.

2.21 The second factor faced by the commercial banks, seeking to widen their operations according to national priorities is that of competition from other financial institutions viz. the co-operative banks in the rural and less developed areas. The existence of multiple agencies, especially in rural and semi-urban centres does harm where the banking potential is relatively limited. This has partly been responsible for the slower growth of banking in certain areas where no single agency is entrusted with the responsibility of development of that region. The need for demarcation of the areas to one or the other agency and the active co-operation of the State Governments for this purpose is necessary.

This problem is dealt with in Chapter 3. The rapid branch expansion has also created difficulties in administering effective remote control of branches in far away places. This has also led to managerial problems and caused strains on the available trained manpower suitable for deployment in rural areas. The success of rural branches depends very much on the motivation of the man on the spot, but commercial banks, as they are, are not yet well-equipped to provide for their present as well as future manpower requirements. The system has to be developed in such a way as to make such manpower available on tap. These problems necessitate some rationalisation of banking structure. This also is dealt with in Chapter 3.

2.22 Again, there is no disputing that the hitherto neglected sectors are to be given top-most priority by banks. However, priority sector advances pose certain problems for banks which they have to deal with. The major problems in this regard are dealt with in Chapter 4.

CHAPTER 3

BRANCH EXPANSION

3.1 While recognising the importance of rapid spread of bank branches that has taken place in the last eight years, particularly in the rural areas, it was also noted that the fast pace of expansion had brought in its wake several problems which affected both the nature of banking business and the quality of banking service. It is in this context, that the Committee has been asked to look into the question of the impact of branch expansion since 1969 and to examine whether any changes in the tempo and direction of such expansion are called for; the Committee has further been asked to enquire into the present pattern of branch expansion of public sector banks and to make recommendations on the future course of action, keeping in view the need for rural development and removal of regional imbalances.

3.2 The detailed review of the progress of banking described in the earlier Chapter has revealed that the impact of branch expansion has been generally satisfactory, particularly since banking has now reached some of the remotest parts of the country. However, the progress, particularly in respect of branch expansion would still seem to fall far short of the vast requirements of covering the whole country and there are still large gaps in regard to branch coverage in the rural areas as shown in Chapter 2 (Paragraph 2.6). This would reflect the inadequacy of achievement in the fulfilment of tasks facing the banking system, despite the great efforts made by public sector banks to push their branch expansion programmes against formidable odds.

3.3 The odds faced by the banks mainly relate to the several factors reflecting the adverse impact of a fast branch opening programme. The rapid growth in the number of branches and their geographical spread over a wider area of operations—at times, very remote from the Head Office of a bank—have not only caused severe strains on the bank's management, but also resulted in growing dilution of supervisory control, and reduced the degree of contact of higher management with branches, which usually imparts greater work motivation to the staff. These have in turn led, owing to delays in communication, to delays in decision making and delays in disposal of business. There is almost a consensus among both the bankers as well as bank users that this has led to apathy on the part of the staff and diluted the control by officers through reluctance to take decisions. We note particularly that the dilution of supervisory control has increased along with the size of the bank as well as with the simultaneous creation of intermediaries in personnel groups in the hierarchy of banks. The widening of the physical distance from points of control (e.g. Head Office or Regional Office or Divisional Office) has also added to the delays in communication and decision making. Inadequacy of trained personnel and too rapid an expansion of branches have forced banks to increase the number of operational and supervisory officers, even by curtailing their period of on-the-job and other training, and cut short the period of actual job experience of branch agents. For example, branch managers to-day, when they assume charge of a branch, have hardly had a few years' experience, as compared to those in earlier days when a bank worker had to put in many more years' service at different desks before he aspired to become a branch manager. Again, the wide spread of the area of operation of a bank and its unwiedly size in some cases have also resulted in the growing absence of contracts by higher management with the middle and junior cadres at different places, whereas such contacts used to act as a boost to the morale of good workers; their absence has made it difficult to maintain the managerial touch to the necessary extent.

3.4 On the other hand, we have also noted that considering the size of the country and the requirement of helping the neglected sectors of the populace in undertaking gainful employment, the achievements of banks are far short of the goals which they were expected to reach. This has been despite the sincere efforts made by banks to adopt new and innovative methods to reach the rural sectors through devices such as 'mobile branches', 'one-man branches', 'limited-day/s operation branches', 'satellite branches' and 'village development branches', the operations of which, though commendable, are short of the varied requirements.

3.5 The impact of rapid branch expansion has also been felt on the cost structure of banks following the rising staff salaries and emoluments and establishment costs, without adding to the productivity or the rate of earnings of banks. The growing inefficiency in banking operations on the one hand and the growing demands made on the resources of banks have thus affected the overall profitability of banks. While it is recognised that in the context of the varied tasks entrusted to the banking system towards fulfilling the socio-economic objectives, its performance cannot be measured solely by the profitability criterion, at the same time, from a long-term point of the sustained and healthy existence of the banking industry, consideration of profitability cannot be altogether lost sight of.

3.6 The question, whether the present fast pace of expansion of commercial banking should be maintained was thus considered in this context. On an examination of the relevant aspects relating to the impact of rapid branch expansion and also taking into consideration the views of the bankers, the Committee is of the view that the time has come when the gains achieved in regard to branch expansion should be consolidated, at least for a specific period.

For achieving this, we suggest a process of selective consolidation of branches by each bank for a specific period ranging between 3 and 5 years, the extent of consolidation recommended by us for individual banks would depend on the size of the bank as well as its spread in the rural areas and other relevant factors. In this connection, we would like to make it clear that this should not mean any stoppage in the programme of branch opening by all banks; it rather means rationalisation of the pattern and programme of branch expansion with different banks exercising different degress of consolidation or expansion. Having regard to the various factors relating to the matter, we consider that in the present context, the size of a bank be in the range of 1000 to 1500 branches: those having below 1000 branches may be permitted to grow upto 1000 if they so desire and those with over 1000 but below 1500 branches may go upto 1500 branches during the period of consolidation, namely 3 to 5 years, while for banks having branches over 1500, no expansion may be allowed during this period, except for strategic or compelling reasons. It is also suggested that the whole question may be reviewed after 4 to 5 years for future policy. In the case of State Bank of India, however, the Committee also took into account the fact that despite its efforts towards decentralisation, the operations of this bank were too unwieldy and consequently its efficiency in service to the public deteriorated, mainly because of the very size of the bank, flowing largely from fast expansion of branches over a wide area. We are convinced that this state of affairs is due mainly to the compulsions of spreading its branches all over the country in a short period. We have, therefore, considered the case of this bank on a different footing, both because of its historical background and its present size as well as the nature of Treasury work it is handling. For this bank, therefore, the Committee has considered the following alternatives :

(i) Holding company with 5 subsidiary banks, or

(ii) Splitting it up into 4 or 5 smaller independent banks.

The Committee feels that alternative (i), namely 5 zonal subsidiaries controlled by one Holding banking company would be desirable rather than splitting the present bank into 5 independent entities, which would otherwise have been more logical in the context of the present managerial and administrative constraints. The Committee is also of this view, since in order to keep up the status of State Bank in the international banking field, the size of its overall business should be left undisturbed. The suggestions made earlier in regard to the size of a bank, therefore, would be applicable to each of the 5 proposed subsidiaries of the State Bank. These may be conveniently located in the five broad zones, viz. Western, Eastern (including North-Eastern), Northern, Central and Southern, with Head Offices of each bank located at convenient and appropriate places. In this context, the Committee also suggests that four of the present seven subsidiary banks of the State Bank of India, namely, State Bank of (i) Hyderabad, (ii) Bikaner & Jaipur, (iii) Mysore and (iv) Travancore may be made independent entities to operate on their own, while the other three, namely, the State Bank of (i) Indore, (ii) Saurashtra and (iii) Patiala may continue as subsidiaries for the present, each one to be attached as subsidiary to one or the other of the 5 zonal subsidiaries of the State Bank of India as proposed in the respective regions.

3.7 The foregoing suggestions for 'selective consolidation' would also necessitate some changes in the phase and manner in which each bank would have to be allowed to open branches in different areas. Firstly, the Committee feels that the banks should not be forced to open offices in remote areas where it would be difficult for them to control the branches from their Head Offices. Secondly, the present branch licensing policy operated by the Reserve Bank of India needs some modification in line with the desired process of selective consolidation suggested by us. In this connection, the Committee examined the present system and policy of branch licensing of the Reserve Bank of India which determined the phase and direction of branch expansion of commercial banks. This policy has undergone many changes in the last few years and is subject to periodical review. According to the present policy, banks are required to prepare a rolling plan for a 3-year period giving details of the centres where they propose to open offices during the period. The main objective of the licensing policy is to widen, in a systematic manner, the spread of banking facilities to all potential unbanked centres in the country, specially to areas which are deficient in such facilities and thereby to bring about a balanced growth of banking in all regions. The main forte of banking development has been the spread of banking in such a manner that regional imbalances are minimised. This involves the task of taking banking to the rural unbanked and underbanked areas. Thus, with a view to distributing more equitably the burden on banks of opening offices in rural/semi-urban centres on the one hand and in urban/metropolitan centres on the other hand, the Reserve Bank has used a formula—which is reviewed and changed from time to time—whereby, the eligibility of banks to open offices in urban/metropolitan centres is linked to their ability to open offices in the rural/semi-urban centres. The formula for branch licensing in force since January 1, 1977 stipulates that a bank will have to open 4 offices in the unbanked rural centres to get an entitlement to open one office in a metropolitan/Port town and one office in a banked centre. This is known as the "4 : 1 : 1 formula".

3.8 The Committee had detailed discussions with the officials of banks as well as of Reserve Bank of India, both on the objective and working of the branch licensing policy. There was a near unanimity of opinion among bankers that the urban and metropolitan centres, particularly the latter, still held immense and still growing possibilities of business potential for banks, particularly in respect of resources mobilisation and that the banks would, therefore, continue to want a growing share in the number of offices in such centres, despite the apparent multiplicity of branches in the big cities and towns. The bankers also felt that the present licensing norm did not give adequate weightage to such of the banks as had 60 per cent or more of their branches already located in the rural and semi-urban areas or 40 per cent or more in rural areas. This was particularly inconvenient to banks which had a compact spread of branches in one contiguous region but which were compelled to open branches in the remote rural areas without adequate points of control, in order to get entitlement to open offices in urban or metropolitan centres. On the other hand, the main rationale of the Reserve Bank's branch licensing policy is that with the present geographical pattern of branch network of banks being characterised by concentration in the Western and Southern regions of the country, unless there is an element of compulsion in diverting branches to the unbanked and/or rural areas, the desired balanced branch coverage may not be achieved.

3.9 While conceding the force of the latter argument, the Committee recognises the difficulties encountered by banks in regard to inadequate control or supervision of remote branches. The Committee also agrees that consideration of continuous spread of banking in the rural areas has to be given due importance as implied in the Reserve Bank's present licensing policy. At the same time, the Committee feels that in order to have the growth of banking which would also provide for a balanced growth of each individual bank, considerations in regard to the existing pattern of branches of each bank will also have to be taken into account. This would also be in accordance with our recommendations of selective consolidation of branch banking programme for all banks. We, therefore, suggest that the existing banks should be categorised into 3 groups depending on the proportion of their rural branches to total branches and that the branch licensing formula for opening branches in rural, unbanked, metropolitan/port towns and banked centres, should be worked out on the following basis, subject to the limit on the size of the bank, as stated in the earlier paragraphs :

(i) Those having 40 per cent or more of their total number of offices in rural areas may be given a formula of 2 : 1 : 1,

(ii) Those having 35 to 40 per cent of their branches in rural areas a formula of 3 : 1 : 1 and

(iii) Those having below 35 per cent of their total number of branches in rural areas a formula of 4 : 1 : 1.

We suggest that this formula should also be applied to the independent zonal units to be carved out of the monolithic State Bank, after it is restructured on the lines suggested in the foregoing paragraph 3.6. It is true that the adoption of this formula will automatically slow down the pace of branch expansion in the country, particularly when it is operated along with the process of consolidation of branches of individual banks at the specified limits as stated earlier. This is done to accord with the Committee's suggestion that for meeting managerial and other constraints, the process of consolidation of branch expansion be introduced. The likely adverse impact this would have on the rate of branch expansion and on the consequent coverage of unbanked areas is sought to be remedied by other suggestions being made by the Committee viz. greater use of intermediaries like Primary Agricultural Credit Societies, wider expansion of Regional Rural Banks and also setting up of a few more banks. These are described in the later part of this Chapter.

3.10 We have also considered the question of the undue concentration of branches in metropolitan areas and come to the conclusion that there is still substantial scope for deposit mobilisation in metropolitan areas and that, therefore, there should be no restriction on several banks being given licences for opening offices in the same localities. We, therefore, feel that unless there is evidence of deliberate attempts of unhealthy competition among branches so located, undue importance need not be given to the question of concentration of bank offices in metropolitan areas. At the same time, the Committee feels that in metropolitan and urban areas, if branches run into losses continuously for over 5 years, the banks may be given the choice to close down such offices. We have taken this decision even after taking into account the direct and indirect benefits which opening of such offices imparted initially. Before doing so, however, the Reserve Bank may assess the overall utility of such branches to the concerned banks and the concerned areas.

3.11 The Committee also considered the question of the need for opening offices in areas where there was potential for development but no infrastructural facilities, as well as in areas where there was very little potential and no infrastructural facilities. The Committee concurred with the broad objectives of branch expansion policy in this respect viz., that even with initial difficulties or losses, banks should be persuaded to go in for opening branches in areas where there was very little business potential and no infrastructural facilities, as the Committee felt that banks could, in the long run, facilitate economic development of the areas and serve the needs of the population. In some cases, commercial banks would also have to go to remote areas for strategic reasons despite inconvenience and lack of infrastructural facilities. However, it is recognised by the Committee that the success of banks going into such areas would depend entirely on the type of personnel that is available with them; willing and suitable staff which is motivated to social commitment is the prime necessity in this respect. The

Committee feels that in places where extreme hardships are likely to exist, banks might think of giving some incentives to the staff by way of arranging facilities for residence, financial aid for education of their children and some reasonable inconvenience allowance. Co-operation from the State Governments in setting up and operation of bank branches, particularly for lending in rural areas is also very necessary for the success of the rural branches.

3.12 The Committee is also of the view that, as far as possible, the branch licensing policy should take into account the regional character of banks before asking them to open branches in the farflung areas unless the banks themselves voluntarily take on themselves the task of spreading to remote areas. In this connection, the Committee feels that there could be some sort of voluntary exchange of branches between respective banks with a regional character for the sake of better control and better management.

3.13 In its enquiry into the present pattern of branch expansion of the public sector banks, the Committee found that it would be advisable for commercial banks (excluding RRBs) to spread only up to some limit—e.g. up to the block headquarters—instead of expanding at the present rate to reach even the smallest village and, in the process, not being able to fulfil the necessary tasks because of the various constraints existing at present. The Committee would further suggest that below the level of block headquarters in the rural areas, a properly dovetailed system of suitable agencies should be utilised. Our broad conclusion in regard to the advisable pattern of branch expansion would be that the non-RRB commercial banks, with their manpower and other constraints cannot possibly aspire to cover all the villages in the country. Thus, while for deposit banking or for providing general banking services, commercial banks within easy reach of the population can cater to rural needs, the use of institutional intermediaries such as Primary Agricultural Credit Societies (PACS), Farmers Service Societies (FSS), Large-scale Multi-purpose Societies (LAMPS) and Regional Rural Banks (RRBs) would be the more appropriate agencies for ensuring a pervasive credit structure, reducing costs and providing better and necessary services to the rural population in general and the farm sector in particular. This is further supported by the fact that the rural areas need personalised banking service and, therefore, banking in these areas should have a local character to command the confidence of the people. The reluctance of bank personnel—who are still essentially urban-oriented—to serve in rural or even semi-urban areas, the frequent changes necessitated in the placement of staff and the resultant lack of continuity of personnel who are conversant with the areas, adversely affect the services rendered by banks to the small borrowers in rural areas. Again, the higher salary structure of commercial bank personnel operating in rural areas create social tensions in the areas and the higher administrative costs of bank offices in such areas add to the costs of banks.

3.14 We have considered the future course of action in respect of branch expansion by the public sector banks in the light of the present situation. Bank branches proper in the rural areas are at present controlled in a large way by public sector banks, to a small extent by private sector banks, and to some very small extent by RRBs, which are jointly owned by the Central Government, a sponsoring bank and the State Government in whose area the RRB is situated. In the last few years, there have been attempts to bring about a relationship between some weak co-operative societies and the commercial banks wherever State Governments have been willing to do this. This has taken the form of weak PACs being ceded to the commercial banks by the State Governments and being used as channels for supplying credit to the PACs' non-defaulting members. There are, however, some parts of the country where the co-operative structure is working well at the grass root level and the PACs are functioning satisfactorily. In certain other parts of the country where the working of the PACs is unsatisfactory, it is sought to be remedied by ceding the PACs to commercial banks or by grouping them into FSS or LAMPS. At present, however, by and large, the ceded PACs, FSS and LAMPS are mainly intermediaries for channeling credit.

3.15 The Committee feels that since PACs are spread all over the country and are already about 1,37,000 in number, the quickest way of covering the rural areas would be to convert PACs into branches of District Central Co-operative Banks to perform full-fledged banking functions with *advisory* assistance of the representative body of members. But it is well known and it has been so deposed before the Committee that generally the administration and control of PACs, DCCs and Apex Banks are subject to political influence of the States, and some of them are financially and operationally weak. If PACs are to function efficiently as banking units, it is essential to de-politicalise the entire co-operative structure at all levels. This will involve co-operation of the States. In order to de-politicalise and professionalise the co-operative structure, the Central Government would have to persuade the State Governments that in the interest of siphoning larger and larger credit to the rural areas from the Reserve Bank of India, which has been the main purveyor of credit reaching rural areas through the co-operatives, necessary reforms should be carried out in the administration and control of the co-operative banking system. These reforms would include restructuring the constitution and altering in a major way the composition of Boards of the Apex Banks and the DCCs as well as the Managing Committees of the PACs. The executive structure of these institutions would also have to be professionalised. The Committee believes that detailed proposals in this regard could be worked out without disturbing the "co-operative" character of the present structure.

3.16 It is possible that for some reasons, it may be found difficult to execute the above proposals to de-politicalise the co-operative structure in the near future. In that case, the Committee feels that since the country cannot wait indefinitely, other alternatives, though more expensive, would have to be adopted. In the light of these considerations, we suggest the following course of action for the immediate future :

(i) At village levels, co-operative institutions—PACs or FSS or LAMPS—may continue to operate provided they have reached a satisfactory level of functional efficiency; the commercial banks and/or RRBs may adopt such societies as is possible after they are duly reorganised and their management professionalised;

(ii) RRBs may open branches in rural areas, and wherever and whenever RRBs are well established, offices of commercial banks in the operating rural areas of RRBs may be taken over by the RRBs, their powers of lending may be widened to cover all borrowers and their area of operation should be clearly demarcated to cover one district or more than one district, depending on the size of the district/districts; and

(iii) Commercial banks, particularly the public sector banks and other fairly big private banks, may open branches upto the level of district headquarters or at best upto mandi or block level.

3.17 In suggesting this pattern of banking, we have been influenced by the considerations that for rural areas, where infrastructural facilities are not developed and the banks have difficulties in motivating their urban-oriented staff to render constructive service suited to rural environment and where there are difficulties in result-oriented supervision because of distances from the points of control, the task of spreading banking in these areas could best be assigned to RRBs (if the redesigning of the co-operative structure as indicated above is not practicable in the immediate future). In other words, the RRB will be the "core" of banking operations in a district area and the whole responsibility of developing that area will be fully and squarely put on it. The RRB, after its position is consolidated, will have its own personnel recruited from the local area and trained for the special tasks for that area and in this process, we suggest that gradually RRBs should take over the branches of commercial banks at all centres in rural areas. We also recommend that the present restrictions on the lending powers of RRBs be removed and their powers extended to cover not only small borrowers but also others. We do not, however, venture to propose any details of the structure or organisation, control and management of the RRBs, as another Committee under the Chairmanship of Prof. M. L. Dantwala has dealt with this question. However, we wish to make it clear at this stage that we consider the idea of developing one Regional Rural Bank which will be fully entrusted with the task of developing banking in a compact demarcated area, very important for initiating the integrated type of banking that we have suggested.

3.18 The other consideration that has weighed with us in recommending the use of intermediaries is that, at present most of the rural sector is already served by a vast network of co-operative credit societies, which could, with changes proposed earlier in this Report, be used for purveyance of credit in their respective areas. This would, however, be conditional on such societies being reorganised and their management professionalised and geared to the tasks of fulfilling socio-economic objectives. For this purpose, the right step, as stated above, would be to de-politicalise the functioning of the co-operative sector and we welcome the steps recently initiated by the Central Government towards this end. We recommend that State Governments be urged to take speedy action to make the co-operative credit societies healthy and self-supporting, if they are to be of adequate help to the poorer strata of society, and that it would be in the interest of such co-operatives to obtain help from commercial banks, both in respect of professional expertise as well as finances. We also urge that the Reserve Bank, in its capacity as the prime financier of the co-operative sector, should impress on the State Governments the need for taking the desired steps, particularly that of professionalising the management and supervising their operations.

3.19 While the foregoing suggestions may be considered for creating a workable institutional frame-work for enlarging banking services in the rural areas, we would like to emphasise that such a demarcation should not ignore the special requirements of specific areas. In other words, where the PACs are organisationally and operationally strong, they may operate on their own with or without the help of RRBs (or commercial banks). In other areas, the latter may adopt PACs (or FSS or LAMPS) according to the specific needs. There are some areas in which bank users' associations organised on a functional basis, e.g., Motor-rickshaw Association, Betelgrowers' Associations, etc. may be utilised either as advisory or financial channels of bank lending as may be appropriate. In making these suggestions, we are aware of the fact that no system of credit deployment for economic development would succeed unless it is backed by efforts and co-operation of the State Governments and/or voluntary bodies and we would urge the Central Government and the Reserve Bank to persuade the State Governments to accept the necessity of aligning the co-operative banking system to commercial banks in promoting rural development. We also wish to reiterate our earlier statement that the State Governments should take active steps to professionalise the management and streamline the operations of the co-operatives. We are suggesting this in the assured belief that the State Governments are equally concerned about speeding up the economic development of the rural and semi-urban areas and, for that purpose, would not hesitate to give all the necessary help to the commercial banks. The task of covering the unbanked areas in the country is so enormous that we feel that there is room for all agencies to operate in co-ordination with one another, with a view to achieving the best results. In this respect, the 'Lead areas', i.e., areas allocated to specific lead banks can be the focus of activities for RRBs and they should be made accountable for the all-round development of such areas.

3.20 In the course of the discussions on branch licensing, several views were expressed about the nature of the administrative authority to issue licences. It was stated that the decision-making authority in regard to licensing is at present concentrated in the hands of a single unit in the Central Office (DBOD) of the Reserve Bank and that the regional offices of the Bank, which have better knowledge of the locale of the sites suggested for branch offices, are not always involved in the decision-making process. This has the result that in many cases, branches are opened in close vicinity, although they are on two different roads. Although the regional offices are associated with the District/State level consultative committees where matters relating to location of branches are suggested, they do not directly participate in the decision-making process at the Central Office of the Reserve Bank. A suggestion has been made that there should be an independent Committee consisting of representatives of the Reserve Bank, Central Government, State Government and the Lead Bank, which would advise the branch licensing authority on the various aspects of opening bank offices. While we recognise the importance of licensing authority taking into account these aspects, we are of the view that the decision-making should not be diluted to that extent. We feel that the Central Office of Reserve Bank of India should consult all the interested parties, but the final decision on licensing branches should rest in its hands.

3.21 The Committee had to consider the question of branch expansion also from the point of view of removal of regional imbalances in the spread of branches. The present geographical pattern of branches is that not only a large number of branches but also head offices of the majority of banks are located mostly in the Western and Southern areas, with only a few in one Eastern State. While we have suggested in the foregoing paragraphs, a system of commercial banks spreading up to the block headquarters level and leaving the independent management of an area covering one or more districts in the hands of a Regional Rural Bank, which could operate either directly or through the co-operatives (depeding on the needs and conditions in the particular areas), we are of the view that more effective measures may have to be taken to cater to the banking needs of the Northern, North-Eastern and Central areas of the country, which are sparsely covered by bank branches relative to the area and relative to the rest of the country. One way of solving this problem would be to encourage a few banks with strong financial and managerial position which have an all-India presence to upgrade their Regional Offices in the Northern, North-Eastern and Central areas to practically autonomous mini-Head Offices and to give such offices a free hand in expanding their branch network fairly rapidly. This would have the advantage of organic growth of an existing structure. But in the light of the current experience of the several severe constraints in operations referred to earlier, we are not in favour of such further expansion of any existing banks.

3.22 We, therefore, suggest a more pragmatic solution to this problem, which is to establish one public sector bank each in the Central, North-Eastern and Northern regions of the country which are relatively more underdeveloped and underbanked than other areas. We think that separate banks would be necessary for these areas—not confined to any State—for bearing the responsibility and involvement for development of these underbanked regions which cannot, as at present, be done by banks with their head offices located in far away centres. This is also suggested for the purpose of having better and closer contact with as well as control by the Head Office and other controlling points with branches in that area, which is very large. With this in view, we suggest setting up three new banks in the public sector, to cover specifically the (i) North-Eastern region covering Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, (ii) Eastern Uttar Pradesh and Bihar and (iii) Madhya Pradesh and Orissa. The Head Offices of these banks may be located at suitable places in these regions taking into account the need for rural development. The new banks will start their own branches upto the level of blocks, leaving, as suggested earlier, the banking coverage beyond this limit to RRBs and their branches. Initially we do not suggest any transfer of branches from the existing banks to the new banks as we feel that there is ample scope for both to operate and also because this question can be considered in due course when the new banks get going. So far as the problem of manning the proposed new banks is concerned, we believe that there is enough trained top management in the public sector banks now to provide the required leadership in this respect.

CHAPTER 4

BANK FINANCE FOR PRIORITY SECTORS

4.1 One of the most important objectives of bank nationalisation was the extension of bank credit to the priority sectors and the weaker sections in the society in order to generate gainful employment in these areas. Since 1969, banks have made concerted efforts to increase this type of lending through introduction of various novel methods. The Committee has been asked to evaluate the performance of the public sector banks in the matter of lending to the priority sectors as well as to the weaker sections of the society, and to suggest ways for orderly and balanced growth of such advances.

4.2 Prior to the nationalisation of the 14 major Indian banks, the bigger of the commercial banks in India (except S.B.I. to some extent) had limited experience of financing either agriculture or the small-scale industry or the weaker sections of the society. The then relatively smaller banks such as the Syndicate Bank, Bank of Maharashtra, Union Bank of India, Canara Bank and the Indian Overseas Bank, however, had a material proportion of their advances given to these sectors. The State Bank of India entered the field of small-scale industries financing after 1956—i.e. after it became a nationalised institution. The introduction of the Credit Guarantee Scheme by the Government of India in 1960 encouraged banks to provide finance to small-scale industries. The entry of commercial banks in the field of farm credit has been, however, a more recent phenomenon, particularly after the introduction of social control over banks in 1968. The nationalisation of the 14 major banks in July 1969 further widened the scope of commercial banks' lending to the priority sectors. More recently, public sector banks have been asked to ensure that the total lending to priority sectors should reach a level of not less than one-third of their total outstanding credit by March 1979, and that about 60 per cent of the deposits mobilised in rural areas should be deployed for productive activities in these areas.

4.3 According to the present definition used for this analysis, credit to priority sectors includes lending to agriculture (both direct and indirect lending), small-scale industries, small road and water transport operators, retail trade, and small businesses and professional and self-employed persons. Between end-June 1969 and June 1977, outstanding advances by public sector banks to priority sectors increased from Rs. 441 crores to Rs. 3,147 crores, registering a seven-fold increase, while the number of borrowal accounts rose from

2.46 lakhs to 65.59 lakhs. The share of public sector banks in the total credit provided by all scheduled commercial banks to priority sectors was 90 per cent in December 1976. Of this, the share of the 14 nationalised banks was 58 per cent and of the remaining, 32 per cent was held by the State Bank group. As regards the performance of individual public sector banks in regard to the percentage share of priority sector credit to total credit, Syndicate Bank and Bank of Maharashtra had over 36 per cent of their credit deployed in the priority sectors, followed by Canara Bank (33 per cent), the Indian Overseas Bank and Union Bank of India (32 per cent each). Banks which had recorded a rather slow growth of priority sector credit were Allahabad Bank and United Bank of India. This indicates the leeway to be made by some of the banks to achieve the target by March 1979.

4.4 The proportion of credit to the priority sectors to total credit of all public sector banks increased from 15 per cent to 27 per cent during the period June 1969—June 1977. Within the priority sectors, small-scale industries accounted for the largest share of bank finance (42 per cent), followed by agriculture (41 per cent). With the expansion of branches in the rural and semi-urban areas, there was also a shift in agricultural credit from indirect finance to direct finance (Table 10). Broadly, of the total rise in priority sector advances of Rs. 2,706 crores that took place between June 1969 and June 1977, nearly 41 per cent was on account of agriculture, the bulk (80 per cent) of which, again, was for direct lending to agriculture. The increase in credit to small-scale industry accounted for 39 per cent; the rest was accounted for by credit to small transport operators, retail trade, etc.

4.5 It is well known that agriculture in India still continues to be dependent on the vagaries of nature. The risk of frequent crop failures is highlighted by the fact that out of 200 million hectares of cropped area only 46 million hectares or 23 per cent is irrigated by rivers, tanks and canals. This and the predominance of small holdings make Indian agriculture still a subsistence occupation, rather than a business proposition. It is unfortunately true that only 10 per cent of the commercial bank credit is deployed in agricultural sector, although this sector contributes about 48 per cent of our national income. Even so, considering the heavy risks in lending to agriculture (the recovery of agricultural loans of all scheduled commercial banks as a proportion of demand in terms of agreements with the borrowers was only 51 per cent in June 1976), and the comparatively short experience of banks' lending to this sector, it can be said that the performance of banks is reasonably satisfactory. As against only Rs. 162 crores provided in June 1969, public sector banks' advances to this sector increased to Rs. 1,275 crores in June 1977. Commercial banks provided not only short-term credit, but also medium/long-term finance to farmers. They financed 3,453 primary credit societies in 11 States at the end of December 1976. They organised and financed

164 Farmers Service Societies (FSS) in 3 States at the end of June 1977. They also extended credit to Regional Rural Banks which in turn finance agriculture and allied activities. In their efforts to increase financing of agriculture, banks have adopted new methods, such as for instance, the village adoption scheme with a view to bringing about the overall improvement of the rural economy. At the end of December 1976, they had adopted over 45,000 villages and financed nearly 12 lakh farmers to the extent of Rs. 234 crores. They have also been financing special agencies like SFDA, MFAL, as well as certain special schemes like Drought Prone Area Programme (DPAP), Intensive Agricultural Development Programme (IADP) and Command Area Development Programme (CADP).

4.6 Impressive as has been the performance of commercial banks relative to their late entry in the field, the progress of such financing seems to be rather tardy in the context of the aggregate needs for agricultural finance. This is because of a number of impediments which come in the way of banks in deploying credit to agriculturists. Broadly, these can be grouped into four major types, viz., (i) those which arise from the traditional nature of farming in the country and the generally poor holding power of the majority of agriculturists, (ii) those which depend on help or action by the State Governments, (iii) those which arise from the operations of commercial banks and (iv) those which arise from the inherent weak structure of agricultural credit institutions in the country. These are dealt with below.

4.7 The low credit absorption capacity of the small agriculturists is a major inhibiting factor in the rapid expansion of bank credit. The holdings are small and the farmers very poor so that the tendency to spend on consumption, rather than to invest in improvement of land is strong among them. Again, though intelligent and quick to grasp knowledge on new methods of farming, the Indian farmer has to be given convincing guidance to adopt new methods of farming as well as ways of using bank credit for commercial purposes. This includes his acceptance of guidance on profitable marketing of the products.

4.8 It is here that the State Governments' Agricultural Departments can play a significant role to educate the farmers about the application of modern methods of cultivation and to persuade them to make the best use of the available facilities for improving the yield from land. It is stated that very often, the State Government officials, are enthusiastic in encouraging banks to grant credit without formulating bankable schemes, but not co-operative in the follow-up action after lending the money to the borrowers. This resulted in accumulation of overdues over a period of years and consequent unwillingness on the part of branch managers to make fresh loans to the new borrowers. Effective co-ordination between State Government officials and banks would help banks in extending credit facilities to a larger section of rural population than hitherto. Lack of involvement of the bank officials in local development projects is also a serious problem. Since bank officials are mostly urban-oriented, they do not evince adequate interest in making credit available to the farmers. Suitable changes in recruitment policy and proper training to officers will enable them to identify themselves with the rural people.

4.9 Some of the States have not yet enacted legislation on the basis of the model bill recommended by the Talwar Committee and in the absence of such a law, it would be difficult for the banks to recover loans already granted to farmers and to grant fresh loans to new borrowers. In this connection, our attention has been drawn by banks to the enactment of the Public Money Recovery Act by two States—viz., Uttar Pradesh and Bihar, which enables banks to resort to quick legal remedies in the case of stuck up loans in agriculture and in small business. In the case of Rajasthan, the legislation is restricted only to agricultural advances. We, therefore, recommend that the State Governments which have not yet enacted such legislation should do so on a priority basis, covering within its scope not only agricultural advances, but also other advances to priority sectors and should implement the provisions of the law in right earnest.

4.10 Another problem in regard to lending to agricultural sector is the unsatisfactory maintenance of records of land/tenancy rights by the State Governments. Banks cannot properly identify the farmers and assess their credit-worthiness in the absence of legal title to the land owned or cultivated by them. It is, therefore, imperative that State Governments should expedite land reforms conferring tenancy/cultivating rights on the farmers who cultivate the lands, and giving them certificates of possession indicating the nature and extent of their land holdings. Banks have also often experienced difficulty in getting 'non-encumbrance certificates' from Government authorities to enable them to verify whether the land is already mortgaged to any other lender. We, therefore, feel that the procedure for issuing such a certificate should be simplified by the State Governments and suitable instructions should be issued to the concerned officials to promptly respond to the requests for such certificates.

4.11 It has also been represented to us that stamp duty and registration charges are heavy, making it very expensive for farmers to execute mortgages and obtain loans for agricultural purposes. No uniform policy appears to be followed by State Governments in this regard. We would, therefore, suggest that the levy of stamp duty on documents should be rationalised so as to minimise to the utmost possible extent the burden on agriculturists and other small borrowers. In this connection, a suggestion has been made to us that it would be desirable to waive the stamp duty in respect of small loans to weaker sections like small farmers, artisans, DIR loanees, etc., upto Rs. 10,000. We recommend that this be considered by the State Governments and suitable relief may be provided to the small borrowers.

4.12 The absence of crop insurance scheme is also one of the factors impeding recovery of bank loans to agriculturists. The frequent occurrence of natural calamities like droughts, floods, etc., makes it necessary to implement this scheme urgently. We understand that there is already a proposal before the Central Government to introduce such a scheme and we urge that early action be taken on the same.

4.13 The banks have expressed their desire to use the existing intermediaries wherever they are working well. The scheme of financing the PACs by banks is also stated to be working reasonably satisfactorily. However, it is represented to the Committee by banks that State Governments do not evince adequate interest in helping banks to adopt the PACs, and also in organising FSS in areas where the PACs are not effective. The State Governments have not yet completed the scheme of re-organisation of PACs and the appointment of full-time paid secretaries. The Committee feels that the scheme should be continued and extended to other areas also and the State Governments should, therefore, expedite the re-organisation of the societies (See Chapter 3—Paragraph 3.18) and appointment of full-time paid secretaries among other things to improve their working. We would also urge the State Governments to appoint the secretaries for the primary credit societies which are financed by the commercial banks in consultation with and approval of the banks to which they are ceded.

4.14 So far as Regional Rural Banks are concerned, the consensus among the public sector banks is that they play a useful role in catering to the credit requirements of the small and marginal farmers, and that they would, therefore, like to leave this field to RRBs in rural areas where the commercial banks would not like to have their own branches, in view of their high cost of operation. However, the public sector banks have stated that the majority of the State Governments still do not evince adequate enthusiasm in the setting up of Regional Rural Banks, as they fear that these banks would compete with the co-operative credit institutions. We feel that this fear is unfounded since in our view wherever PACs are strong and in a position to finance the productive needs of farmers they can continue to do so, elsewhere RRBs may operate either directly or through PACs. We also feel that the need for credit in rural areas is so big that there is scope for both co-operative and commercial banks (through RRBs) to co-exist in these areas. We have also recommended that commercial banks should extend their branch network only upto block headquarters and leave the field of expansion beyond that to RRBs, which with the enhanced full lending power which we have recommended, will be given the responsibility of financing the development of the district/s where they will operate.

4.15 The delays on the part of State Government departments as a result of which banks cannot extend finance to farmers at the right time, also come in the way of speedy deployment of agricultural credit. There were instances of delay on the part of the State Electricity Boards in energising tube wells, with the result that water could not be drawn from the wells for irrigating the fields. Sometimes, the Ground Water Directorates did not clear the feasibility of irrigation wells in the area and concerned banks found it difficult to provide loans. The State Governments should, therefore, ensure that such delays are avoided so as to enable the farmers to make the best use of the credit facilities available from banks.

4.16 As regards financing of small-scale industries by commercial banks, there has been significant growth in this in the last two decades. In 1961, small-scale industrial units numbered only 36,000* and in 1975 their number went up to 2.6 lakhs. Similarly, in 1961, they had accounted for a gross output of Rs. 950 crores and it rose to Rs. 5,700 crores in 1976. Also, it is estimated that an investment of Rs. 1 lakh in these units provided employment to 21 persons, while the corresponding figure for large-scale unit was 5, i.e., the small-scale units were four times more employment-oriented than the large-scale units.

4.17 Scheduled commercial banks' finance for small-scale units rose from Rs. 286 crores in June 1969 to Rs. 1,460 crores in June 1977. The number of small-scale units assisted by banks rose from 56,983 in June 1969 to 4,45,921 in June 1977; the number of borrowal accounts rose from 86,807 in June 1969 to 5,29,079 in June 1977. Commercial banks provided both short and medium-term finance to these units and the interest rate structure was generally on a slab basis with a favourable bias towards the smaller loans. Recently, the Reserve Bank of India has asked the commercial banks not to charge more than 11 per cent on term loans of 3 years and over to small-scale and other small units on all new loans effective from January 1, 1978. Banks have also been giving term-loans to technically qualified/experienced entrepreneurs who have viable projects, but not adequate capital. For the creation of adequate infrastructure, particularly in backward areas, commercial banks are extending financial assistance to the various State Government agencies like the Industrial Development Corporations and the Small Industries Corporations for establishing industrial estates.

* Refer to the number of units registered with the Commissioner of Small-scale Industries, Government of India.

4.18 However, commercial banks encounter a number of difficulties in financing small-scale industries. The absence of infrastructural facilities in many areas, especially backward ones, acts as a deterrent to the setting up of the small-scale industrial units. Most of the State Governments have established industrial estates to attract small-scale entrepreneurs to the hitherto undeveloped areas with many inducements such as ready made sheds, supply of electricity, water and other essential conveniences. Other infrastructure facilities such as good roads, easy availability of raw materials, etc., are also attended to. Some of the State Governments have also established Small-scale Industries Corporations to extend loans to entrepreneurs for the setting up of small-scale units in their States. Notwithstanding these facilities, not many entrepreneurs came forward to start small-scale units because of insufficient managerial and organisational skill. It has also been the experience of banks that many technically qualified persons who apply for bank loans do not make use of them as they leave the business as soon as they get lucrative jobs elsewhere. Banks can identify potential entrepreneurs provided they possess required skill and help them to formulate viable schemes. With a view to helping small entrepreneurs, some banks have already set up consultancy cells at major branches where the services of trained consultants are available to small entrepreneurs. Organisations such as National Institute of Motivational and Institutional Development in Bombay (NIMID), the various State Industrial and Technical Consultancy Organisations, the State Industrial Investment Corporation of Maharashtra (SICOM), the Gujarat Industrial and Investment Corporation (GIIC), etc., are playing a very useful role in arranging training programmes for small entrepreneurs. The Associations of Small Scale Industries in various States may also collaborate with these institutions in these programmes.

4.19 Inadequate equity base in the small entrepreneur's business, is one of the more serious impediments in the smooth running of his business. A high debt-equity ratio in all cases is not advisable; in the case of small industries it is to be particularly discouraged as it increases the burden of interest and debt repayments even before the business gets going. It is on this ground that, very often, banks find it difficult to lend to potential entrepreneurs who do not have the minimum equity capital. A suggestion has, therefore, been made that banks themselves may grant soft loans (quasi-equity) without interest, repayable in 7 to 10 years. We recommend that this proposal be given due consideration by the Industrial Development Bank of India (IDBI) which could provide the necessary refinance facilities to the banks. An alternative suggestion is that a "National Equity Fund" be set up by the Government of India for providing equity support to small-scale industries and this can be administered by the IDBI. We understand that this proposal is still under consideration by the Government. We recommend that action on this be taken soon.

4.20 Another constraint on banks' lending to small-scale industries is the lack of inter-institutional co-ordination. In this connection the IDBI constituted a Working Group for evolving effective co-ordination between the commercial banks and State Financial Corporations. The implementation of the recommendations of the Working Group will go a long way in bringing about better co-ordination between commercial banks and State Financial Corporations.

4.21 Many of the small-scale units have become sick for various reasons and banks are, therefore, unable to recover amounts due from them. It is, therefore, necessary to make special efforts to nurse the sick units back to health and at the same time prevent the healthy ones from falling sick. In this connection, a suggestion has been made for setting up a soft loan assistance fund by the Government of India for providing rehabilitation assistance without interest or at a nominal interest to such sick units. We recommend that this proposal be given due consideration by the Government of India and the Reserve Bank of India.

4.22 The Federation of Associations of Small Scale Industries also represented that banks usually asked the small-scale units to give collateral security such as house property, LIC policy, shares, third party guarantee, etc., for advances (in addition to charges on fixed and current assets) and this caused hardship to the small-scale units. According to the Federation, the banks should satisfy themselves about the viability of the project and the competence of the entrepreneurs without insisting on any additional security from them. On the other hand, banks stated that they considered it necessary to obtain such additional security for the loan because of the difficulties experienced by them in getting the losses reimbursed by the Credit Guarantee Organisation. Banks, therefore, urged that the claim procedure should be simplified by the Credit Guarantee Organisation in consultation with the banks and the Government of India and that Clause 7(1) of the Credit Guarantee Scheme should be deleted so as to enable the banks to make effective use of the Scheme. We recommend that this suggestion be considered by the Reserve Bank of India and the Government of India and the necessary changes made in the Scheme.

4.23 Another suggestion made by Associations of small-scale units is that some statutory protection should be given to small-scale industries to make reservation of production of goods by them effective, as suggested by the A. R. Bhat Committee. The Government's recent Industrial Policy statement has widened the field of reservation for small sector. In view of this development, we do not envisage need for any special legislation to give protection to the small-scale sector.

4.24 It was also represented to us by the banks and the Federation of Associations of Small Industries, that large-scale industrial units as well as Government undertakings and departments take a lot of time in making payments to small-scale units in respect of goods supplied by them. We understand that the banks generally allow supply bills facility in such cases and the small units (suppliers) are allowed to draw funds from banks against such bills upto 60 to 70 per cent of the value of the goods, upto a maximum period of 120 days. We recommend that banks should allow full drawing against such supply bills and that a suitable time limit should be specified for payment of such bills by the large units as well as Government departments. In this connection, a suggestion has been made that a part of the credit limit given to the large-scale industrial units may be specifically and compulsorily set apart as a sub-limit only for making payments to the small-scale units in respect of goods supplied by them. Alternatively, the existing specific limits granted to the small-scale units against supply bills be continued even against overdue bills to a reasonable extent. We would also recommend that the Reserve Bank of India may provide refinance to banks in respect of such supply bills/notes drawn by small-scale units on the large-scale industrial units/Government departments. At present the Reserve Bank of India does not provide any refinance to banks in respect of their lending to small-scale units, whereas a limited refinance facility is available in respect of their lending to small farmers. If, however, it is not feasible for the Reserve Bank to provide this facility, a separate Refinance Corporation for advances by banks to the Small-scale Sector may be set up, and it could refinance a specified portion (say 50/75 per cent) of banks' lending to Small-scale Sector.

4.25 The rate of interest charged by banks on advances to small-scale units is considered to be high by many institutions and the Committee found the rates to be in the range of 12 to 15 per cent by different banks. It was also noticed that in view of the additions in the form of service charges, inspection charges, calculation of interest at monthly rests, etc., the effective cost of loans worked out to about 18 per cent for many units. We also found that there appeared to be no uniformity in the rates charged by different banks on loans to SSI units. Considering that the small-scale industries sector is as important as agriculture, we see no reason why less importance should be given to the former than to the latter, particularly as both are in the priority sectors. For this reason and because we feel that the rates structure for the small-scale sector is on the higher side, we recommend a maximum rate of interest of not more than one per cent above the Bank rate in respect of credit limits upto Rs. 2.50 lakhs and 3 per cent above the Bank rate on credit limits above Rs. 2.50 lakhs but not exceeding Rs. 10 lakhs. It was also represented to us by the Associations of small-scale industrial units that in case of non-payment of discounted bills by the parties in time, banks debit the amount to the loan accounts of small-scale units and charge penal interest on the entire outstanding amount in their accounts. We feel that the banks may give due consideration to the complaint of the small-scale units and charge penal interest only on the amount of the discounted bill which has not been honoured.

4.26 We are given to understand by the Associations of small-scale units that banks apply indiscriminately the Tandon Committee norms for advances to such units. According to instructions by the Reserve Bank, banks can apply the norms only in respect of total credit limits of Rs. 10 lakhs and above, enjoyed by a unit from the banking system. Hence, this does not apply to the small-scale units which avail of bank advances upto Rs. 10 lakhs. In order to provide relief also to such units as avail of bank advances for working capital exceeding Rs. 10 lakhs, we recommend that these norms should not be made applicable to them.

4.27 The Associations have represented that the bank facilities to small-scale units for L/C limits, bank guarantees, purchase of outstation cheques should normally be provided over and above the credit limits sanctioned by banks for working capital. We consider this request reasonable and, therefore, recommend that banks may be asked to provide such additional facilities wherever necessary on terms appropriate to each case.

4.28 As regards term loans of 3 years and over granted to small-scale units, the Reserve Bank of India has recently asked the banks not to charge more than 11 per cent with effect from January 1, 1978 irrespective of whether the loans are too small to be eligible for refinance from the IDBI and irrespective of whether the bank concerned actually avails of refinance facility from the IDBI. This benefit would be available to (a) small-scale units covered under the Credit Guarantee Scheme and units promoted by the technical entrepreneurs covered by the special guarantee scheme, (b) small road transport operators and (c) small units in the specified backward districts/areas. In this connection we recommend that the procedure for refinancing such loans, followed by the IDBI should be simplified so as to enable banks to avail of this facility fully. The associations of small-scale units have pointed out that the procedure for repayment of term loans causes some difficulty to such units. The payment of instalments to the banks/financial institutions for term-loans generally commence after the first disbursement of the loan, while the factory could start production only some time after the final disbursement of the loan. It is, therefore, suggested by the Associations that the time schedule for repayment of the loan should commence after the full amount of the term-loan is disbursed to the unit and the unit has been in commercial production for a year. We recommend that this procedure be adopted by the banks in order to give legitimate relief to the small-scale units—this would be on par with the position in practice in regard to most term loans to large units.

4.29 A suggestion has also been made by the Associations of small-scale units that the units should have the freedom to have loan accounts with more than one bank. We have considered this request carefully and feel that it is not desirable for a party to borrow from more than one banker, as the banks will not be able to impose financial discipline on such borrowers. If the borrower is not satisfied with the services of his banker, he may be permitted to change over to another banker of his choice. We, therefore, **recommend that the Reserve Bank may issue suitable instructions to the banks in this regard.**

4.30 The delay in the disposal of loan applications by banks had been mentioned to us by the Associations. To a large extent, we believe, such delays would emanate from the fact of branches being far away from the Regional or Head Offices, inadequate communications between the two and the general apathy on the part of top management towards this type of financing. We suggest that the portfolios of credit to the priority sectors in general should be directly under the control of senior executives who will give proper policy directions for any changes required to be made for attending to this work with more dynamism and alacrity. With the changes in the banking structure that we have suggested earlier (Chapter 3) whereby the size of a bank would be more compact and its operations manageable in a better way, we believe that greater attention can be paid by bank management to these sectors.

4.31 In some cases, we were given to understand, the delays in sanctioning loans were mainly due to incomplete information furnished by the applicants and the consequent time taken in correspondence. A High-powered Committee* which was appointed by the Government of India to examine the bank credit problems of small-scale units has recommended simplified application forms for small-scale industries and other small borrowers. The introduction of simplified application forms, as suggested by the Committee will be of great help to the entrepreneurs as it will reduce the delay to a considerable extent. We understand that steps are being taken to bring about uniformity in appraisal procedures to be followed by all banks, as well as on other aspects such as margin, security, rate of interest, repayment of loan, etc. We hope that quick action will be taken on the Committee's recommendations so that most of the difficulties experienced by small-scale units in regard to bank finance could be removed.

* The Committee which was headed by Shri I. C. Puri, has since submitted its report to the Government.

4.32 The present 3 year limit for validity of loan documents under the law of limitation is also causing considerable difficulty to banks. In view of this, it is suggested that the period of limitation in respect of small loans (say upto Rs. 1 lakh) may be extended from 3 to 6 years to avoid frequent renewal of documents which is a staff-time-consuming and therefore, costly procedure. This is also worthy of consideration by the Government, and we would, therefore, suggest that early action be taken on the same.

4.33 The banks have stated that by and large their experience of lending to priority sector has been satisfactory and that the proportion of stuck up advances in this sector is not more than that in other sectors. With the adoption of area approach, recruitment of specialised personnel, adequate training of the staff and better supervision over the end-use of funds, banks' recovery performance of advances to priority sectors has shown some improvement in recent years. Even so, in view of the inherent weaknesses of these borrowers such as inadequate owned funds, poor technology, lack of managerial competence and of marketing facilities, the position leaves much to be desired. The banks may provide assistance to small entrepreneurs through Advisory Cells. At the same time, the State Governments and other institutions charged with the development of the infrastructure and other facilities for the priority sectors as well as the Federation of Small-scale Industries Associations and their State units have a more important role to play in this regard. The Federation can also take measures to provide consultancy, training and guidance for their members, particularly the small industrial and business units, and also actively help them in regard to marketing their products.

4.34 We have made the several recommendations as above for the benefit of the small-scale units in the assured belief that (i) the small-scale industries constitute a substantial section of the priority sector and (ii) banks have a duty to undertake and carry out *developmental* effort for the revival, healthy functioning and growth of these units, in spite of the difficulties experienced by the banks in the form of stuck-up advances.

4.35 We believe that if the recommendations made in this Chapter are implemented, it should not be difficult for banks to reach the target of lending to priority sectors viz., 33⅓ per cent by March 1979 (the ratio of priority sector to total bank credit being 27 per cent at the end of November 1977). We have also considered the question whether banks should be asked to aim at a higher target, say 40 per cent, 3 years after the present one of 33⅓ per cent is reached. We feel that banks should attempt to reach this target, especially in the context of the need to create more employment in the rural areas, and the small-scale industries are highly employment oriented compared to large-scale units.

CHAPTER 5

EFFICIENCY IN BANKS

5.1 In fulfilling the manifold tasks which the commercial banks are expected to perform to-day, the quality of service to the public in their operations and the speed with which it is done are of considerable importance. The Committee was asked to advise on improving the efficiency of banks with a view to rendering better and speedy service to the public. From what the Committee gathered, in the course of its discussions with various interests, as well as from its own experience, there was a general feeling that there has been a qualitative deterioration in the banking services—particularly of the public sector banks—during the last few years. In an overall evaluation of the performance of public sector banks, the Committee thought it appropriate to take this opportunity to examine the various aspects of efficiency in operations of banks. The Committee has, therefore, taken a broader view and gone into the whole question of the different aspects of efficiency in banking operations, services and management.

5.2 In this connection, it may be recalled that the Reserve Bank of India had appointed, in 1976, a Committee to go into the problems of Productivity, Efficiency and Profitability of banks (PEP Committee), wherein matters relating to these aspects were looked into and several suggestions were made. In our examination of the problems of efficiency in banks, we have taken into account the assessment and recommendations made by the PEP Committee.

5.3 In considering the problems of efficiency in banks, we have classified them into three broad groups, viz., those relating to (i) internal efficiency, (ii) external operations and (iii) managerial control. These three are, to a large extent, inter-related and dealt with accordingly. Besides these, there are the problems of management-employee relations, which are examined separately in Chapter 7.

5.4 Among the problems of internal efficiency, we consider that one of the foremost requirements for maintaining the general efficiency in the internal working of banks is the extent of direction, supervision and control exercised by the bank. The Committee observed that in the case of many banks, even where there were well designed systems and procedures chalked out for day-to-day work, there was no adequate implementation because of lack of follow-up and supervision. The Committee felt that it would be necessary for the banks to evolve a suitable machinery to ensure that the several procedures prescribed for operational efficiency are followed. For this purpose, periodical visits of the senior management to branch offices would be helpful, in addition to a monitoring system. In some cases, it was also noticed that although the nature of banking business had changed considerably, the methods and procedures that were earlier prevalent in the banks had not been sufficiently modified, to meet the present day requirements. We also observed that new management techniques have not been sufficiently widely adopted in some of the banks. Moreover, in banking, where a large part of the work is of a routine nature and is being done manually, the working conditions in offices are important. In this connection it was observed that conditions in office premises in many branches left much to be desired, although a great deal of expenditure is incurred on furnishing and decorating Head Offices, some regional offices and some branches. The Committee felt that proper attention to matters such as the environment and working conditions in the office, direction, control and supervision of work, facilities of communication among different branches, the general reporting and feed back systems and also to matters relating to fixation of norms of work could go a long way in improving the internal efficiency in banks.

5.5 With the rapid expansion of branches of banks in the last few years, the need for a large number of trained staff is increasingly felt. Banks have, therefore, to enlarge and strengthen their training facilities and reorient their recruitment procedures to take into account the needs flowing from regional requirements. The extreme shortage of well trained staff has contributed to the growing inefficiency in offices and there is, therefore, urgent need to undertake advance manpower planning—for both recruitment and training to take care of the planned expansion in branches and in the concerned business. The Committee would also like to emphasise the need for preparing the contents of the various courses to suit the type of business handled by a bank. This is particularly important in the context of the pattern of deployment of funds by banks, which materially differs from bank to bank. Each bank also has to take into account the particular business-mix it is financing, and think of the spread of inherent risks involved therein before or when it decides to go in for new lines of business. A proper deployment of resources, not only in different lines of uses but in different types of advances is also a part of proper financial management, which ultimately would contribute to the healthy working of a bank. In this connection, the Committee has noted that in the case of some public sector banks, steps were taken to undertake systematic planning with greater emphasis on detailed performance targets. A few banks have also set up Data Monitoring Units to enable them to study the economic trends and thereby to assess the credit requirements of the various economic sectors into which banks may put their resources.

5.6 The Committee examined several aspects of efficiency of banks with respect to their external dealings with the public. The major aspects included the following, viz., (i) customer service in respect of the usual banking transactions such as payment and collection of cheques, collection of bills, opening of letters of credit, preparation of pass books, remittance facilities, etc., (ii) motivation of staff to enable them to take up the new challenge of banking service to a more varied clientele, (iii) service in regard to entertaining and sanctioning of loan proposals, (iv) the follow-up action for supervising the loan operations, and (v) other problems such as difficulties in transfer of accounts, consortium arrangements for bigger loans, etc.

5.7 As regards customer service, a working group was appointed by the Government of India in March 1975 under the Chairmanship of Shri R. K. Talwar. The working group submitted an interim report to the Government in August 1975 and its final report in March 1977. In all, the Group made 176 recommendations, most of which have been accepted by the Government of India and these relate, inter-alia, to deposit accounts, remittances and collections, loans and advances, foreign exchange business, Government business, discipline and attitudes and general matters. The Reserve Bank has recently advised all the commercial banks to implement these recommendations and to submit quarterly progress reports on their implementation to the Reserve Bank. There are also some recommendations of the Working Group which can be implemented only after the necessary action is taken by the Government/Reserve Bank. These, inter-alia, refer to enactment of legislation to make drawing of cheques without funds a penal offence, nomination in the case of deposit accounts on the same lines as in the case of deposits with Post Offices and LIC policies, establishment of new clearing houses at centres having more than 3 banks, use of cheques in all Government payments, increase in business hours by 4½ hours per week and the setting up of a high powered permanent steering committee on customer service on the national plane. Recommendations relating to the concept of modest self-supervision, widespread and increased use of electronic/mechanical aids, staggering of duty hours and effective enforcement of basic discipline require negotiations with employees' unions for their co-operation.

5.8 We feel that in order to improve the operational efficiency and the quality of service and to speed it up, a judicious use of computers for selected services would be useful for banks as this will result in better financial management and higher profitability. In this respect, the general prejudice on the part of workmen unions against the use of computers needs to be dispelled by discussion with them. The point to emphasise would be that, apart from an increase in efficiency, it will, by reducing the load of routine and repetitive work, make a workman's job more interesting or at least less boring and would leave him more time to give better customer service.

5.9 Another aspect of operational efficiency related to the delays which occur in clearing and collection of cheques. Most of the complaints from the public relate to the delays in the clearance of cheques, outstation instruments, the writing up and submission of pass books and credit advices, etc. In this respect, mention may be made of the scheme of clearing submitted by the Indian Banks' Association to the Reserve Bank and the Government for a regional and/or a national clearing system for dealing with this problem. The Committee recommends that this scheme be examined and necessary action taken soon.

5.10 In any discussion on efficiency of bank services to the public, the foremost question is that relating to the attitude, outlook and approach of bank employees, in the context of the growing demands made on banks' resources and services. Here, the inspiration that the management can impart to the staff by personal contacts and example will be very important in creating the sense of motivation for achieving the new tasks entrusted to the banks to-day. It is noticed that one of the very common causes of the apathy and indifference on the part of the bank staff towards their clientele is the increasingly impersonal manner in which work in a bank is done nowadays. The size of a branch and the varied types of activities that the branch has to perform and the consequent added responsibility thrust on the managers also contribute to this state of affairs. We feel that it is necessary that bank management should devote considerable time and effort to ensure that the services at the counters are given with courtesy, speed and accuracy. For this purpose, periodical visits by higher-ups in the management to the areas of operation will be highly useful. It would also be advisable to form customer service committees at the branch level by securing the involvement of staff. The PEP Committee has also recommended that an official may be stationed at bigger branches to handle customer traffic and complaints of customers. We recommend that this suggestion be implemented.

5.11 One factor which acts as a damper on motivation of bank employees is the routine and repetitive nature of the work, which employees with high academic qualifications are called upon to perform but for which such qualifications are not necessarily required. What is really expected and required of staff is hard work, integrity and devotion to duty. The Committee, therefore, feels that banks should consider recruiting a much higher percentage of personnel at the clerical levels with educational qualification down to matriculation and give them appropriate job training—it would lead to a more satisfied and not a frustrated staff.

5.12 In regard to sanctioning of loans by managers of branches, the Committee has taken note of the fact that the usual systems and procedures of banking which were in vogue earlier for loan appraisals and sanctions, viz., those which took into account the nature and quantum of security charged to the bank and the general credit-worthiness of the borrower are not adequate in the present conditions which require that the banker give importance to the viability of the project of the proposal rather than the security offered, and the ability of the entrepreneur to generate income from working the project from which to repay the loan. In earlier days, it was easy for bank managers to calculate the risk involved and ensure against it by asking for adequate security: the rules and procedures in the banks were also attuned to take care of this practice. To-day, however, when the bank manager is called upon to assess the proposal, not only from the view point of the security, but more importantly, the viability, the norms and procedures prescribed previously are no longer adequate. In order to enable the branch managers to make a proper and quicker assessment of the loan proposals, the Central Offices of banks should issue to them detailed manuals of instructions preferably in the form of a check list, if they have not already done so. It is also suggested that for quicker disposal of loan proposals, the branch managers may be given powers such that around 75 to 80 per cent of the cases can be disposed off by them without reference to higher authorities, and necessary confidence be created in them so that they use these powers and not avoid exercising them.

5.13 Another type of lending which leads to inordinate delays in what is known as 'consortium loan arrangements' under which working capital and term loans, for fairly big projects, are being financed by a group of banks/term financing institutions. It was represented to us that the different lending practices and procedures followed by the 'consortium' institutions necessitated separate credit appraisal by each bank/institution which led to delays. These delays were, at times, so inordinate that they involved changing the whole scheme because of cost escalation in the intervening period and this led to the consequent need for another appraisal once again by all the concerned institutions. The Committee feels that this state of affairs needs urgent consideration by the managements of banks and other financial institutions and suggest that the recommendations made by the Indian Banks' Association in this respect, be speedily implemented—this recommendation being that the Consortium institutions should form an expert group of senior officers for finding out the borrowers' requirements, that this group should be entrusted with the task of assessing the viability of the project and the other institutions should accept the assessment of the group and not go through the exercise of their own separate assessment as at present. For this purpose, our Committee thought it very necessary that the institutions should have common application forms and common terms and conditions for loans and that the assessment should be at the level of a group of senior executives of the concerned institutions. Another reason for delay in disbursement of loans is the variety of documents to be executed for the different consortium institutions. In this connection, we recommend that the Indian Banks' Association take up the question of simplification and standardisation of documents and of evolving a single document for creation of the security and recital of terms for all the institutions.

5.14 The Committee was told that in recent years, after the introduction of the norms suggested by the Study Group to frame Guidelines for Follow-up of Bank Credit (viz., the Tandon Committee), the borrowers were put to considerable inconvenience and hardship not only in being called upon to supply several types of details and in experiencing inordinate delays in obtaining sanctions for loans, but also in being required to introduce and maintain the Tandon Committee norms, in circumstances often beyond their control. The Committee is of the view that the time has come when the whole question of the aforesaid norms and the method of enforcing them by banks be reviewed by Reserve Bank in consultation with groups of bankers and of borrowers. The Committee would like to state here that they welcome the principle involved in requiring banks to enforce certain disciplinary norms on the borrowers but feel that in their actual application, the banks should take into account the genuine difficulties which the strict enforcement of these norms creates in the working of the borrowing units—the theoretically permissible flexibility is not observed in actual practice. The Committee also feels that the investment and economic conditions in the country as well as the liquidity position of banks are to-day different from those which prevailed when the Tandon Committee's norms were introduced, and that a much greater degree of flexibility can now be introduced in the application of these norms, depending on the requirements and merits of each case. To take care of any future changes in the monetary situation, the Committee would also recommend that the banks as well as the credit authorising authority (viz., the Reserve Bank) in consultation with some representative organisations of borrowers may review the question with a view to introducing an element of built-in flexibility in the scheme. The Committee further recommends that the Reserve Bank may avail of the occasion of the annual review of its credit policy to assess the actual working of the Tandon Committee norms in the preceding year and to make such modifications in these norms as may be deemed appropriate with respect to the following year.

5.15 Another difficulty experienced by bank borrowers and which reflected on the efficient working of banks was that relating to the transferability of borrowal accounts from one bank to another. We found that, at present, it was virtually impossible for borrowers to transfer their loan accounts from one bank to another inspite of the guidelines issued by Reserve Bank from time to time in this respect. We understand that the permission of the existing banker is necessary for transfer of such borrowal accounts. In this regard, we recommend that this procedure should be further simplified so that such transfers be ordinarily permissible.

5.16 In addition to the problems of maintaining efficiency in the internal and external operations of banks, there are also certain problems of organisational nature. The Committee noticed that the delays in operations and the general deterioration in efficiency in banks were the direct result of the dilution of control resulting from the wide spread of branches and the communication gaps between the Head/Regional Offices and branches. For dealing with this problem, it is necessary that the controlling structure be further rationalised, i.e., made more direct. We, therefore, recommend that :

(a) there should be three-tier management structure in each bank, viz., (i) the Head Office, (ii) the Regional/Zonal/Area/Divisional Office and (iii) the branch office. In the context of the suggestions made by us in Chapter 3 on the compactness of the size of a bank and the demarcation of the area of operation of the commercial bank vis-a-vis primary co-operative credit society and/or the RRB, we consider that the organisation of a bank on a 3-tier basis would be desirable and practicable;

(b) an operational and controlling unit of a bank (be that a Regional/Divisional/Zonal/Area Office) should have a controlling charge of around 100 offices, depending on the magnitude of business and the area of operation. The criterion should be that the credit and other proposals sent from branches to the higher offices and the decisions taken thereon should not take more than 2 to 3 weeks from the date the borrowers furnish the full particulars;

(c) the problems faced by middle management of officers may be dealt with by delegating to them adequate powers of sanctioning loans, seeing to it that they use these powers and assuring them full support from senior management in bona fide cases of doubts or mistakes; wherever practicable, higher power could be delegated to be exercised by 2/3 executive officers jointly at the middle tier; and

(d) at the top level, i.e., at the Head Office, an Executive Committee of senior officers, each senior officer being in charge of one or two or even three regions—be set up to take decisions on important matters and issue instructions to the Middle and Branch Offices, and powers at all levels be increased wherever they are currently low.

5.17 In the matter of efficiency in banks, the management-employee relations play a pivotal role. The successful working of a bank and the achievement of the banking objectives to-day mainly depend on a proper understanding between the management and the employees and the realisation on the part of both of their respective roles. In view of the vital importance of this subject, it is dealt with separately in Chapter 7.

CHAPTER 6

VIGILANCE ARRANGEMENTS

6.1 The Committee has been asked to examine the operation of vigilance work in the banks and to make recommendations to bring about improvements. This chapter covers the present arrangements in this regard and reviews them. On the basis of this review certain recommendations for improving the situation are made.

6.2 The question of vigilance arrangements in banks has to be viewed against the background of the increasing complaints regarding the incidence of defalcations, frauds and corruption in banks. The Committee first tried to ascertain whether such malpractices have increased in recent years. As is well known, there is a general feeling among the public that there has been a considerable deterioration in standards of honesty among bank officials since nationalisation. Since in the nature of the case, this is an aspect of bank operations which is difficult to quantify, we enquired of the managements of the banks about their assessment of this matter. The unanimous feeling was that defalcations, frauds and corruption have increased in respect of both numbers and amounts. But at the same time, most of the managements have stated to us that the extent of corruption has not grown more than in proportion to the volume of business. It was not possible for us to verify this impressionistic statement, but we cannot also ignore adverse comments made in responsible quarters.

6.3 Bank managements feel that much of the present public outcry against corruption in banks is due to extraneous factors. Many of the complaints, they feel, are due to the fact that there have been widespread misunderstandings regarding the manner in which help by the banks is to be extended to priority sectors. Disgruntled elements, therefore, are encouraged to lodge such complaints due to denial on valid grounds of advances facilities. Inter-union/Association rivalries, groupism, parochial sentiments at centres where bank offices are situated, as well as resentment at efforts to enforce discipline by Branch Agents/Managers are also cited as reasons for increase of complaints on the part of the disgruntled employees.

6.4 While most bank managements are inclined to underplay the problem of corruption in banks, the evidence we have collected shows that the scope for defalcation, frauds and corruption has increased enormously. The old-time restraints which operated to make a bank employee conscious of his enormous responsibilities in handling other peoples' money have been weakened, partly because of lack of fear of the immediate consequences of any malpractices and partly because of a general decline in standards of integrity in the environment. We, therefore, have no doubt that while the prevalance of complaints especially of the anonymous variety may be on a much larger scale than warranted by actual instances of fraud and corruption, there is probably quite a considerable increase even in the relative volume of malpractices and their value.

6.5 Before proceeding to review the present arrangements in banks regarding vigilance, it has to be noted that the scope for frauds in banks is practically unlimited. Dishonest or fraudulent misappropriation or misuse of money entrusted to an employee or under his control and falsifying records in order to prevent detection can easily be resorted to by any bank official. Moreover, with the extension of smaller advances and lending to priority sectors in the rural areas there is considerable scope for bribery and corruption, especially when dealing with illiterate clients who are used to corruption in dealing with official agencies.

6.6 All the public sector banks now have a separate vigilance cell with Chief Vigilance Officer at their respective head offices who has been appointed by the Board of each bank in consultation with the Central Vigilance Commission. Chief Vigilance Officers are directly responsible to the top management of the bank, i.e., to the Chairman-cum-Managing Director or the Managing Director as the case may be. They are generally drawn from the senior management levels, in some cases Deputy General Manager and in some other cases Assistant General Manager. They are provided with some staff to carry out their duties. They also co-operate with the inspection and audit departments of the bank.

6.7 The Chief Vigilance Officer deals not only with allegations against an employee of offences of frauds, bribery, corruption, forgery, cheating, etc., but also with such matters as fraudulent claims under various concessions extended to employees and the exercise of personal influence or official position in order to secure any advantage for himself or any other person. It may be mentioned that the Chief Vigilance Officer deals even with cases concerning officers senior to him in the bank hierarchy, with the exception of the Chairman/Managing Director; in the case of the latter, however, the Government may entrust cases for investigation, if any, to the Central Bureau of Investigation. In respect of officers having basic pay of more than Rs. 1,000 per month, action is taken by the bank on the basis of the investigation and findings by Chief Vigilance Officer in consultation with the Central Vigilance Commission.

6.8 The manner in which the vigilance organisations function in various banks may be briefly dealt with. The vigilance organisations do not ordinarily take cognisance of anonymous/pseudonymous complaints against employees.

However, where the complaint contains allegations of specific and verifiable nature, it is generally enquired into. If the complaint is made by an identifiable person and contains information definite enough to require a further check, preliminary enquiries/investigation will be made by the vigilance organisation to decide whether there is a prima facie case against the employee. Such a preliminary enquiry will be conducted either by the Chief Vigilance Officer himself in absolutely necessary cases or by the officers of the Inspection Department of the bank. If prima facie there is substance to the complaint, the officer/employee is generally asked to furnish an explanation, and if it is not found satisfactory, he may be charge-sheeted, and further disciplinary proceedings will be initiated.

6.9 Apart from the vigilance arrangements within banks, there is, of course, the Central Bureau of Investigation (CBI) which comes into the picture either by the bank asking for its help or directly through CBI itself taking cognisance of a complaint which has reached it through other sources. The Committee enquired into the experience of banks with regard to investigations conducted by CBI. There was almost unanimous opinion that CBI takes an unconscionably long time to complete its investigations. There was also a feeling that during the period of investigation of cases, the image of the bank is affected in the eyes of the public due to the manner in which the enquiries are carried out. In some cases, the bank managers get unnecessary bad publicity. A few bank managements went so far as to say that CBI officers treat the suspected bank officers on par with criminals even before prima facie guilt is established.

6.10 Once a case has reached the stage of asking an employee for his explanation or handing it over to CBI for investigation, there seems to be nothing to prevent ultimate punishment of the employee, if he is found guilty. Bank managements are generally of the view that they do not encounter resistance on the part of the unions against the taking of action where complaints of fraud and corruption are concerned. Some instances have come to our notice, however, where due to inter-union rivalry, one or other union has championed the cause of an employee suspected of corruption. But this does not seem to be on a large scale to be of significance.

6.11 On the basis of the facts presented to us, we feel that there are a few organisational changes within the present framework which might help to reduce the incidence of frauds and malpractices. One improvement would be to involve two or three or more officials in any particular decision on advances or any other matter involving outlay of funds or important executive decision.

6.12 There is, however, no doubt that the present vigilance arrangements require strengthening in several respects. Although the present internal arrangements of banks are reasonably satisfactory, the problem arises when an extraneous agency like CBI has to be involved in the investigative process. We feel that CBI staff should be strengthened to deal with banking offences by the induction of suitable experienced banking personnel into their ranks, as has been done in other spheres, e.g., by appointment of Income-tax Officers, Exchange Control personnel, etc., on the CBI staff. Alternatively, we consider RBI would be a better agency—being better equipped to deal with banking matters. However, so long as the present arrangements continue, we believe that in view of the sensitive nature of banking business, CBI should as far as possible deal with cases of frauds and corruption in banks very tactfully.

6.13 The main complaint of the banks regarding the present procedure relates to the lack of familiarity of any outside investigating agency with the working of bank transactions. We feel that one way of filling up this gap would be to give an appropriate role to the Reserve Bank in regard to vigilance in banks. At present, many of the cases of frauds in banks come to light through either internal or external inspections. We would suggest that the Inspection Wing of the Department of Banking Operations & Development of the Reserve Bank be given the function of enquiring into the cases of frauds and corruption in the banks. This might entail the setting up of a separate vigilance wing in the Reserve Bank of India (DBO&D). Ultimately, it should be possible for the Reserve Bank to take over the functions currently performed by the CBI in regard to the whole sphere of vigilance.

6.14 We would conclude our enquiry by stating that while everything should be done to improve vigilance in banks, the present situation is partly the resultant of a general deterioration in standards of honesty in many walks of life. We have no wish to go into details on this matter. It is well-known that corruption is not confined to banks alone and that many official agencies have also reported an increase in the incidence of corruption. The entire problem may, therefore, be viewed in the context of the growing functions of various official agencies, because the opportunities for corruption have undoubtedly increased without corresponding institutional arrangements to prevent them.

CHAPTER 7

MANAGEMENT EMPLOYEE RELATIONS IN THE BANKING INDUSTRY

7.1 Our inquiry into the present state of affairs in the public sector banks has led us inevitably to the conclusion that the solution to many of the problems of the banks lies in an improvement in the morale and motivation of their staff at all levels. While every effort is being made by managements to recruit the right people and to train them in the varied skills necessary for conducting the operations of the banks at every level, the root cause of inefficiency seems to lie in a general malaise which has affected both officers and staff—to some extent even top management. In this chapter, we make an attempt to diagnose the causes of this situation and to suggest possible remedies.

7.2 So far as top management is concerned, some of the causes for the present situation lie outside the banks. When the ownership of the 14 banks passed to Government, the reaction of most of the managements was to wait for cues from the Government officials concerned with their affairs. There were some instances of representatives of Government on the Boards of nationalised banks taking an unduly strong position on non-policy matters. The general feeling of insecurity on the part of the top managerial personnel of public sector banks appears to have led to a certain amount of personal lobbying, using political influence for retention of or promotions to high offices or seeking extensions of tenure. The unpredictable manner in which the appointments and tenure of the heads of the nationalised banks was decided tended to undermine management authority.

7.3 We are glad to note that more recently, relations between the owner and the managements have grown on more healthy lines. There is no longer any desire to keep senior appointees on tenterhooks by giving them unduly short tenures, nor is there reported interference by Government Directors in the day-to-day affairs of the banks. We trust these tendencies will be reinforced and strengthened, and that Government will in future concentrate on directing the banking system as a whole to fulfil the tasks set for it by current overall policies. All the same, some institutional changes would seem called for as noted below.

7.4 Coming to the question of the relationship between management and the officer cadre, there are deep-seated reasons for officer discontent. It is well-known that because of factors such as large increases in workmen staff salaries and other emoluments, the relative position of officers has worsened considerably. Apart from this, the meagre attention paid to representations by officers, the introduction in banks in 1976 of regulations governing the conduct of officers (but not workmen staff) and the discipline and appeal regulations governing them, as well as the denial of bonus to officers drawing over Rs. 1,600/- have created discontent all round. It is in this context that the recent agitation against the Pillai Committee Award has to be viewed. There is also a discernible tendency for senior managers in banks to migrate to private banks or business houses in India as well as abroad. We are aware of the rationale of the decisions of Government with respect of bank officers. We are only recording the fact of officer discontent particularly of the more competent ones. At the same time, it is as well to bear in mind that banks do not require many intellectually highly competent officers, but many officers of very high integrity and devotion to duty to serve the common people. This has a bearing on future recruitment policy with its impact on the question of officers' discontent.

7.5 Apart from the decline in the enthusiasm of officers in banks for reasons stated above, essentially it is the attitude of the workmen staff which is crucial in determining efficiency in banks. In order to understand the present state of affairs, a little background regarding the unions now active in the banking industry would be helpful. There is first the All-India Bank Employees' Association (AIBEA) which is an organisation of both CPI and CPI(M) supporters. Then come the All-India Bank Employees' Federation (AIBEF) and the National Organisation of Bank Workers (NOBW) which did not have majority status in 12 out of 14 nationalised banks as gathered by the verification made by the competent authority for selecting workmen Directors to be placed on the Boards of the nationalised banks. Finally, there is a new body called the Indian National Bank Employees' Congress (INBEC) which began as a Congress Party Organisation and has been trying to make inroads into several banks during the past two years or so. INBEC claims to be a strong organisation in the State Bank of India.

7.6 At present, things are somewhat up in the air as regards workmen staff matters, because the life of the Second Bipartite Settlement made between Indian Banks' Association (IBA) and AIBEA ended on 31st December 1973. From September 1974 to July 1975, IBA have had no talks with AIBEA on revision of pay scales and on other matters as no agreement was possible. Then came the Emergency and things were quiet on the unions' front. After the Emergency was lifted, AIBEA has since July 1977 revived its demand for wage revision and has called for industry level bipartite negotiations for revision of wages and service conditions. It has also accused bank managements of having withdrawn many facilities and enforcing discipline "with the rigidity of jail code, memos, charge-sheets, suspensions on very flimsy grounds and arbitrary transfers to far-off places".

7.7 In this kind of "free-for-all" situation, there is a general air of uncertainty hanging over management-employee relations, with consequent repercussions on staff performance. Quite apart from the atmosphere of gheraos and demonstrations which is still part of life in the banks in metropolitan and urban areas, the unions have gone back to the restrictive practices and coercive tactics they had been accustomed to adopting in the past before the Emergency. Examples of such practices are: the resistance to reallocation and redistribution of work according to office exigencies; reluctance to undertake the work of another employee who may have more work than usual on a particular day; reluctance to work in another department when required; resistance to the introduction of staggering of hours of work; and resistance to transfers from one place to another even in the same State and sometimes in the same city, etc., etc.

7.8 Part of the reason for "work-spreading" and insistance on preventing inter-spatial and inter-functional mobility of staff lies in the fact that such methods force the banks to employ more staff than they really need. Estimates of the overstaffing in the public sector banks vary, but most managements admit that they could comfortably do without around 25 per cent of their present staff, provided they are allowed freely to deploy the remainder according to exigencies of work and the staff diligently attend to their duties for the full period for which they are paid.

7.9 More serious is the attitude of the unions towards any disciplinary measures taken by management. When recourse is taken to the procedure laid down in the Second Bipartite Settlement for taking disciplinary action, in many cases, employees either resort to agitational methods to pressurise the bank to withdraw the charge-sheet or create obstacles in the smooth conduct of the enquiry. For example, Unions sometimes raise objections to the holding of enquiries in cases of acts of individual misconduct where they also amount to offences involving moral turpitude, on the plea that in all such cases, the management must take steps to prosecute employees instead of holding departmental enquiries. Even the issue of memos pointing out mistakes and advising the employees concerned to be careful is objected to by unions. Again, simply recording the quality of work and performance of an employee in his or her service file sometimes lead to mass agitation. Many of these problems are compounded by inter-union rivalry where for example, each union vies with other unions in showing itself as the biggest defender of an individual employee.

7.10 It is also interesting that even when there is a clear case for the introduction of mechanisation and assurances are held out by management that nobody will lose his job, most of the unions stoutly resist it. A look at the notes appearing in the balance sheets of some banks would indicate that the balances in certain accounts, including in particular inter-branch reconciliation accounts have not been tallied for several years. When banks attempt to retrieve the position by mechanising certain aspects of banks' accounts and computerising inter-branch accounts, workmen unions in some banks object to taking such measures on the plea that they reduce the job potentialities in the banks and are inimical to the interests of the working class as a whole.

7.11 From time immemorial, the basic principle of motivating staff to work has been the so-called "carrot and stick" approach. It has been amply shown above that under present conditions there is no place for the stick in the banking industry, neither does there appear to be much room for the carrot. In the public sector banks today, the time-scale of workmen staff enables them to go on getting regular increments for 20 years, without any kind of efficiency bar at reasonable intervals. According to the various agreements signed by banks' managements with the unions, around 80 per cent of the vacancies arising in non-specialist officer cadres are to be filled up by promotion from the clerical grade, mostly by seniority, which militates against gearing up of efficiency in performance. There is thus only limited scope for infusing fresh blood because of large-scale selection based on seniority without assessment of merit from the clerical cadre, not to talk of getting sufficient new blood from outside into the officers' cadre in the bank.

7.12 We have tried to ascertain from the Workmen employees' unions the rationale for the behaviour of their members. There are two lines of argument which have been put forward by the top union leaders. One is that reports of the employee indiscipline and laziness are highly exaggerated. The other is that employees have not been given the chance to participate meaningfully in the tasks set before the banks. In one form or another, this complaint has been voiced by representatives of unions at branch level also. We would, therefore, like to pay some attention to the question of bank employees not being given a chance to show their mettle.

7.13 One of the peculiarities of the banking industry is that, particularly in the recent years, because of the high incidence of educated unemployment and the consequent keen competition in the cities, the calibre of clerks recruited by the banks is higher than before. Practically every bank management has conceded that very many of the clerks recruited recently are potential officers. Then, why the malaise? Banks' workmen staff unions are controlled by senior clerks. Unless their constituency, namely, the more senior clerks, get promoted to the officer's cadre largely on the basis of seniority, they would not allow the junior clerks the opportunity of selection mainly by merit. Any attempt, therefore, to introduce "meritocracy" in the promotion of clerks gets defeated.

It is learnt that junior clerks resent it, but have been able to do little about it, and they get frustrated and do not acquire job satisfaction, as would be available on promotion to officer cadre, particularly in the context of the fact that most of work of clerks in banks is highly routinised and monotonous. Most managements we have questioned on this matter professed complete inability to solve this problem unless the present system of automatic salary increases over a long period of two decades is replaced by one of rewards and deterrents and selective promotion opportunities to officers' cadre. There is, of course, a redeeming feature in this situation, viz., as mentioned to us that, by and large, the staff employed in non-metropolitan and non-urban but in semi-urban and rural branches, being to some extent isolated from organised mass union activity are fulfilling their duties fairly well. Another extenuating factor is that there has been a general lowering of standards of service in all spheres in our national life which cannot but have an impact on bank staff. But even when one compares bank employees with, say, employees of Government offices, transport services, and other public utilities, the deterioration in banks may be said to be relatively greater than in other services. With this said, however, the present situation is definitely unsatisfactory and deteriorating. We have given considerable thought to what can be done to improve this situation. To our thinking, the first step would be to organise a high-level dialogue between the managements and the unions on the whole question of work norms to be subject to biennial revision, and the unions should be induced to undertake responsibility for getting work done in accordance with agreed norms instead of merely protecting the interests of their members. And further, the unions must agree to the induction of efficiency bars every 4/5 years in the 20 years grade to filter out the inferior workers and accept the principle of accelerated promotion for good work and stagnation in promotion for bad work within each grade of 4/5 years.

7.14 After having said this, we are also constrained to say further that the behaviour and practices followed by managements, in circumstances of the kind stated above, also leave much to be desired. On many occasions in the past, it was seen that bank managements avoided taking a firm and consistent line of policy in dealing with staff matters, particularly regarding redressing staff grievances. In any case, it must be clear that the management cannot abdicate its responsibilities and rights. It has to make a clearcut distinction between dealing with Unions and the "collective grievances", as against cases of individual insubordination. The former can be settled according to a well-defined and time-bound grievance removal procedure, while the latter should be dealt with by the management according to set rules. In other words, the management should clearly define the area of unions' activity and firmly deal with individual cases of defiance of authority according to the prevalent procedures, without any exception. In this connection, we would like to point out that even at present, the bank managements have adequate powers, under the existing rules and regulations and the various awards, to enforce discipline in the broader interest of the bank, but we feel that such powers are not being used either for want of knowledge or worse still, on account of fear. We, therefore, urge that each bank Chairman should build up a good management team and delegate adequate powers of staff regulation to these officials. In many cases, branch managers are not even aware of their powers to deal with various labour problems. There is need for educating them in matters of industrial relations along with operational matters. As for the alleged fears of political interference in staff matters, we have to state that a bank Chairman would always be justified in taking a firm stand in regard to staff matters according to his best judgement and acting in the best interest of the bank.

7.15 Since the banking system is an important part of the country's economic activity, it might perhaps be useful that in any comprehensive law governing industrial relations, special provisions be made for banks to ensure that there is no disruption of work by strike, work to rule, go slow etc., and that disputes, if any, are settled by a machinery specially constituted for the purpose. In our view, considering the dislocation of the economy which can result from the malfunctioning of banks, there is a case for declaring banking an "essential service". To deal with disputes affecting workmen staff, procedures for the redressal of grievances and compulsory arbitration should be laid down. To avoid conflict of interests and loyalties, it should be laid down that (i) officers (promoted from clerical ranks) cannot continue as members of workmen staff unions, and (ii) officers who have to discharge executive functions at Central/Head/Zonal/Regional/Divisional/District/Area offices should not be members of Officers' Associations.

7.16 In some of the States where the provisions of the Shops and Establishments Act are made applicable to the banks, the workmen staff get the best of both the Bipartite Settlement and the Shops and Establishments Act. Similarly, there are several Acts operating in different States which are also made applicable to banks. It would be appropriate that there be uniformity of laws pertaining to industrial relations in banking. Here, the appropriate Acts/provisions of the Central Government rather than of the State Governments should apply, since the service conditions of bank employees are regulated on all-India basis.

7.17 In their evidence before us, some of the workmen unions have contended that after nationalisation of the banks, they offered to act as leaders in the respective branches to get work done and to improve customer service. They stated that IBA had discouraged these offers on the ground that such a role for union leaders would impinge on an essential function of management.

We do not think the unions are quite innocent in this matter. We get the impression that what the Unions are seeking is to have an effective say in the administration of banks at all levels. The Chairman of one bank informed us that when he tried to organise the staff of a particular branch to form a well-integrated team under the branch manager to improve public relations he was informed by the Union Secretary that such direct dealings by the management with the staff of branch was not correct, and that the branch manager would have to deal with the staff only through the union leader of the branch. The result was that the management lost interest in the matter and nothing further ensued.

7.18 Our investigations have revealed that clearly the central core of the problem of good banking services lies in management-employee relations. There have been alleged acts of commission and omission on the part of both management and staff in the past, but by and large, the workmen staff have continuously been agitating for more emoluments, without commensurate increase in productivity. It has been one-way traffic all the time, banks having got nothing, not even in the matter of better discipline in return for better emoluments to the workmen staff. We can only express the hope that Unions will come to realise that they have a duty to the public and that one way or the other, they must get together with the managements and induce their members to turn in a full day's work for a full day's wage.

CHAPTER 8

TRAINING FACILITIES FOR BANK PERSONNEL

8.1 Our study of the functioning of public sector banks has underlined the importance of adequate training facilities for bank personnel in the context of the vast expansion of the banking system and the social objectives of banking. In this chapter, we trace the evolution of training institutions, assess the availability of facilities and identify the gaps which need to be filled in. Towards the end of the chapter, we make certain recommendations to make the training system more effective and useful.

8.2 Until the establishment by the Reserve Bank of India of the Bankers Training College (BTC) in 1954, there was no formalised training arrangement for the bank personnel at the industry level. The newly recruited clerical and officer staff were expected to acquire knowledge of the banks' procedures and operations through on-the-job training. The BTC was set up in 1954 as the leading training institution for imparting knowledge to bank officers in specialised fields of operations such as industrial finance, foreign exchange, agricultural finance, credit appraisal, organisation and methods, etc. Some of the bigger banks were imparting training to their staff in their own procedures and practices. The scope and variety of training facilities were subsequently extended by the banks by setting up their own training colleges, either singly or jointly with another bank. The Indian Institute of Bankers (IIB) which was only an examining body, provided no training facilities at all. In the fifties and sixties, a number of commercial banks set up training schools/colleges, mainly for the benefit of their middle level officers and clerical staff. Thus, it was only after the nationalisation of the 14 major commercial banks in 1969 that the training of the large number of clerks and officers became possible through the building up of infrastructure of training facilities.

8.3 The Indian Institute of Bankers was established in 1928 as a professional body for the purpose of conducting examinations in banking and related subjects. Only the staff members of banks are eligible to appear for the examinations conducted by the Institute. The Institute provides library and reading facilities and arranges intensive lectures on the subjects covered by the examinations. In view of the importance given by banks to the passing of the Institute's examinations (Parts I and II) and the large increase in the number of branches of banks, the number of candidates who take the examinations has increased considerably.

8.4 The introduction of social control over commercial banks in 1967 necessitated review of the training facilities available for the bank staff in view of the emphasis placed on the professionalisation of bank management, more rapid expansion of branches and extension of credit facilities to the priority sectors, which increased the need for a large number of trained officers and staff. The appointment of professional chief executives for banks and the new orientation in their lending and investment policies called for a change in outlook and attitude on the part of bank officers and other staff. In the context of the socio-economic objectives set before the banking system, the concept of security-oriented lending system was enlarged to include greater emphasis on viability of projects and the consequent ability of the borrowers to repay the loans. It was, therefore, necessary to design a training system which would equip the bank personnel to perform the new tasks entrusted to them.

8.5 It was in this context that the Reserve Bank set up in December 1967 a Working Group under the Chairmanship of Shri B. N. Adarkar (i) to suggest the lines on which management orientation programmes may be organised for senior and middle level executives of commercial banks with particular reference to the social and economic objectives of banking, aligning individual bank's credit operations to national credit policies and priorities, and expansion, both functionally and territorially, of banking services; (ii) to examine how far the training facilities available to the executive and supervisory staff of commercial banks were adequate to promote the objectives mentioned above and to suggest measures for their improvement and extension; and (iii) to suggest measures for (a) the co-ordination of the activities of the training institutions of the Reserve Bank of India and the State Bank of India and other commercial banks, and (b) the periodical review of the activities thereof.

8.6 The Working Group felt that training was a necessary tool in the hands of the management to bring about qualitative changes in the attitude and behaviour of bank personnel, and it, therefore, viewed training in the broad sense of the term, to facilitate the development of both technical and managerial skills of bank officials. According to the Working Group, the objective of training should be to make an officer not merely a good banker, but also to develop his potential as a leader in the profession of banking. The Working Group noted that the existing facilities available in the BTC and the colleges run by commercial banks were not sufficient to cover the large number of middle level officers of banks. On the basis of the annual intake of trainees by these colleges, the Working Group estimated that it would make about 12 years to cover the middle level and junior officers of banks to be trained. The position would worsen if the additional backlog created by the annual recruitment of estimated 10 per cent of the officers strength was taken into account. As regards the utility of the training courses offered by the BTC and the colleges run by commercial banks, the Working Group felt that these courses were designed to impart technical skill and that they needed qualitative improvement in the new areas such as agriculture and small-scale industries so as to enable the officers to deal effectively and creatively with the problems arising in these new fields. Secondly, there was virtually no arrangement for providing adequate training for the trainers to develop their training skills. Thirdly, there was no arrangement under the existing set up for conducting research into practices and procedures of the commercial banks. Finally, there was no agency which could take an overall view of the training needs and provide a degree of co-ordination between the various training institutions. It, therefore, recommended the establishment of the National Institute of Bank Management (NIBM), as a nucleus of training and development activity in the banking system to operate as the central co-ordinating agency for effective man-power planning and utilisation and development of bank personnel. In accordance with this recommendation, the NIBM was established in June 1968. The important functions of the Institute were laid down as under:

(i) Conducting research in problems of the banking industry;

(ii) Conducting postgraduate education in Bank Management for ensuring a continuous supply of highly trained and dedicated personnel to the banking industry;

(iii) Training higher level bank personnel in bank management;

(iv) Providing consultancy services to individual banks to translate policies and findings into suitable programmes; and

(v) Improving the training system in the banking industry by providing training facilities to trainers, and by designing courses and instructional materials and methods.

8.7 The Working Group also made certain recommendations relating to the BTC, colleges of commercial banks and the IIB. As regards the BTC, the Working Group felt that its future operations should be merged with the proposed NIBM, so that there would be a two-tier training system consisting of the NIBM and the colleges of individual commercial banks. In so far as the colleges of commercial banks are concerned, the working group emphasised that their activities should be strengthened and expanded to meet the training needs of the large number of junior officers. Towards this end, the NIBM should provide assistance and guidance to the individual banks for proper organisation and management of their colleges. The Working Group recommended that the bigger commercial banks should provide accommodation facilities for training officers of the smaller banks in their training colleges and also provide opportunity for on-the-job training. In regard to the IIB, the Working Group pointed out that some formal training should be imparted to the candidates in order to improve the standards of their performance in the examination and it, therefore, recommended a system of correspondence course to be organised with the assistance of the proposed NIBM.

8.8 Most of these recommendations of the Working Group have unfortunately not yet been implemented. The functional courses organised by the BTC have been found to be very useful by the banks, and there has been an ever-increasing demand for such courses to cater to the needs of middle level officers of banks. On the other hand, the NIBM has been concentrating its attention on the facilities for training in management for the senior management of banks as well as on research and consultancy services. These two national institutions have developed their skills in different spheres; the question of the merger of these two institutions into a single administrative set-up has not so far been considered. In actual practice, while there has been some duplication of training programmes, the two institutions have been acting in co-ordination in such matters as relate to trainers' programme, workshops and seminars conducted for the bank personnel. So far as the colleges run by individual banks are concerned, their training facilities have been expanded and their faculty has been strengthened during the last few years. As regards training facilities for smaller banks, two colleges have been set up by the private sector banks—one in New Delhi and another at Coimbatore—to serve the training needs of the Northern and Southern regions, respectively. On the question of conducting correspondence courses for the candidates appearing for the Indian Institute of Bankers examinations, neither the NIBM nor the Institute seems to have taken any worthwhile action. However, 2 private colleges recognised by the Institute are providing some correspondence courses, but these are quite inadequate for the purposes in view.

8.9 Subsequent to the nationalisation of the 14 major banks in July 1969, not only have the training facilities of the individual colleges of banks been expanded, but also to some extent teaching techniques have undergone change. From exclusive reliance on class room lectures and other methods, the emphasis has shifted to self-instructional and participative methods. While at the clerical/junior officers' level the emphasis seems to be more on the lecture-cum-discussions, participative methods, live case studies, syndicates, etc., are being utilised for training the higher categories of staff. In conformity with the priorities in bank lending laid down as national policy, some training is imparted to the officers to be appointed as rural branch agents, to those engaged in priority sector lending, and to new entrants. With the diversification of the activities of public (as well as private) sector banks, new courses in specialised areas like performance budgeting, management of human resources, credit management and export finance have acquired greater importance. Another noteworthy feature is the organisation of faculty development programmes in developing and enhancing the knowledge and competence of the faculty for handling diverse programmes.

8.10 Another significant development has been the setting up in 1973 by the Government of India of the Committee of Direction for Formulation and Implementation of Training in Public Sector Banks. The Committee for the first time provided a forum for formulation of plans, monitoring them and deciding on activities at the industry level. The Committee meets every quarter to review the progress. Uniform reporting systems, sharing of experience and uniform approach to certain key areas could be considered as the Committee's major contributions towards developing the system.

8.11 In the field of training for officers of co-operative banking, the Reserve Bank set up a separate institution in 1969, then called the Co-operative Bankers Training College in Poona which took over the training facilities in rural credit already provided by the BTC. Subsequently, this college has been renamed as College of Agricultural Banking (CAB), which conducts training programmes for officers of co-operative banks, commercial banks, Reserve Bank and State Governments in agricultural finance. The CAB also conducts an intensive 4-week Agricultural Projects Course aimed at identification, formulation, appraisal, monitoring and follow-up of medium and long-term agricultural projects and their financing. It has developed itself into an apex training institution of agricultural finance. It is also undertaking trainers' training programmes aimed at faculty development in the agricultural and co-operative banking fields. The training of branch managers of Regional Rural Banks is also being handled by the CAB.

8.12 A study carried out by the Committee of Direction for Formulation and Implementation of Training Programmes of public sector banks reveals that at the end of 1975, the faculty strength of the entire training complex of public sector banks stood at 290 persons. Moreover, there has, in recent years, been a considerable diversification in the range of subjects in which faculty members are experts. These subjects cover broadly the following areas :

(i) Economic Analysis;
(ii) Credit Management for Commerce and Industry;
(iii) Small-scale Industries and Small Borrowers;
(iv) Foreign Exchange;
(v) Agriculture;
(vi) Management and Human Relations;
(vii) Banking Law, Practice and Operations, Audit and Inspection; and
(viii) Industrial Relations.

8.13 It may also be noted that over the years 1973 to 1975, there has been a relative increase in the strength of the specialised faculty as compared to the faculty in the general area of banking law, practice and operations. The scope of the faculty has also been widened by some banks evolving a mixed faculty pattern combining faculty taken from the bank with some specialists recruited directly for the training institutions, called "Core Faculty". The collaboration between faculty members drawn from operational posts in the banks and the "Core Faculty" brought from academic circles has worked to the advantage of both and has developed teams with a blend of academic strength and operational experience.

8.14 As regards the training programmes conducted by the Staff Training Colleges of banks, these consist broadly of clerical level courses and junior officers' level courses. The clerical level courses are generally of somewhat short duration of a few weeks and are intended for clerks who have put in at least some years' service. All types of routine banking operations such as deposits, advances, remittances and collections and foreign exchange are covered in these courses. As for junior officers' level courses, they are also mostly of a few weeks' duration but the subjects covered are of a higher level of sophistication tailored to the requirements of newly promoted or directly recruited officers, managers of branches of various degree of importance. There are also courses intended for specialists in finance for agriculture/small-scale industries, export finance and on personnel management and industrial relations.

8.15 Although there has been a gradual improvement of course-contents of training and its linkage with the banks' departments dealing with the Manpower Planning and Development, there has been a reduction in the period of training which in most cases is of 3-4 weeks duration. Thus, it would appear that the intensiveness of training has been reduced in order to achieve a higher output from the training institutions of banks, as seen from the reported large number of personnel trained by these institutions.

8.16 In making an assessment of the existing facilities, the Committee took into account the broad objectives of training, viz., (i) to re-orient the thinking of banking personnel to subserve the social objectives of banking; (ii) to develop their technical skills; and (iii) to improve their managerial abilities so as to enable them to deal with the new problems which have arisen in the banks, e.g., in the field of staff relations. While the first and second objectives are common to all training programmes, the remaining one is more relevant for managerial staff.

8.17 Although the number of officers and clerks trained in the banks' staff training colleges has shown a marked increase during the last few years, at the same time, there is clearly a wide gap between demand and supply because of the limited capacity of the staff training colleges. On the qualitative aspect, there are many new tasks to which the staff training colleges have still to address themselves. The development of managerial skills, performance budgeting and improvement in knowledge in such areas as foreign exchange and dealing with sick industry need to be well looked after. Greater attention must be paid to training programme in industrial relations, particularly for managers who supervise large branches or hold senior position in Regional or Zonal Offices and in Central Office. Similarly, the vertical supervision of branches in the matter of audit and inspection from the Central Office and the Regional Office needs to be much further improved, and some effective course will have to be developed to meet this need. The importance of training and education has not been integrated into the organisational and functional set-up of the banks and follow-up measures have not been taken to ensure that the trained manpower is properly or adequately used for the efficient functioning of the banks. There is, thus, some avoidable wastage of the knowledge and skills acquired by the trained staff.

8.18 As mentioned earlier, the Committee of Direction for Formulation and implementation of Training in Public Sector Banks acts as a co-ordinating body at the national level and reviews the progress of training from time to time. However, this arrangement does not provide for a systematic and continuous assessment of the training needs of banks, formulation of long-term measures for future expansion of training facilities and their effective implementation by the various training institutions. We would, therefore, recommend that a Standing Committee consisting of the Chairman of 4 or 5 banks (to be nominated by the Indian Banks' Association), the Director of NIBM, the Principals of the BTC and CAB, the Chief Secretary of the Indian Institute of Bankers and a representative from the Government be constituted under the chairmanship of a Deputy Governor of the Reserve Bank of India. The Standing Committee would have its secretariat in the Reserve Bank for assisting the Deputy Governor in making proper assessment of the requirements of training of staff for banks taking into account their future branch expansion programme, and in the overall formulation of the policy in regard to the training programmes. This Committee would also review the progress of training from time to time and provide for effective co-ordination of the working of the training institutions at the national level.

8.19 One of the serious constraints on branch expansion by commercial banks is the non-availability of adequate and adequately trained staff: Banks are also experiencing difficulties in the implementation of lending policies and even in the proper administration of the organisation owing to the paucity of trained staff. Almost all bank Chairmen have, therefore, deposed before us that they would like to consolidate the existing branch network over the next 3 to 5 years before embarking upon future branch expansion (vide Chapter 3, Para 3.6). In view of the importance of the training arrangements for bank staff and the urgency to deal with this problem, the Committee strongly recommends that a separate department be set up in the Reserve Bank to deal with the problem of training of bank staff. This department may or can be under the charge of the existing Deputy Governor holding the charge of the DBOD but it seems to us that having regard to the volume of work being already handled by the Deputy Governor in charge of DBOD and the size of the problem in respect of staff training, there is a case for creation of a post of another Deputy Governor to be exclusively in charge of staff training throughout the banking system. He will be also in charge of the BTC, NIBM, CAB, IIB and other apex training institutions likely to be set up in future.

8.20 The Committee has considered whether the BTC and NIBM should continue as separate institutions or be merged as recommended by the Working Group headed by Shri B. N. Adarkar. We consulted the Principal of BTC and his Deputy as also the Director and faculty members of NIBM. They seemed to be in favour of the continuance of the two institutions as separate entities with provision for consultation between the two for the purpose of co-ordination. We are not, without a study in depth of the working of the two institutions, able to make a judgement in the matter. We suggest that the Reserve Bank consider this question in detail for appropriate decision.

8.21 At present, the selection of teaching staff for the banks' training colleges is made on an ad hoc basis. The postings are made depending upon the exigencies of service in each bank. We feel that the faculty members for the various training colleges should be selected according to their aptitude and experience. There is great reluctance on the part of the officers who have the requisite qualification and experience to move from the operational to the teaching side. There is no incentive as such to persons to take up teaching in the colleges. Therefore, selection of personnel for the colleges should be done on a rational basis and these positions made attractive by giving suitable incentives and by making provisions for them to return to the operational side, if they so desire after a specified period of say, 3 years.

8.22 We tried to assess how far BTC and CAB are able to cater to the training needs of staff in all the parts of the country. There is a general feeling that Eastern, and North-Eastern regions cannot be adequately served by the present training colleges. In view of the urgency to remedy the inadequacy of training facilities for bank staff in the Eastern and North-Eastern regions, we recommend that:

(i) priority may be given to the establishment of a training college combining the functions of BTC and CAB at Patna to serve the needs of the Eastern and North-Eastern regions.

(ii) Similar types of institutions in the Northern, Central and Southern regions of the country be established in a phased manner, the location being decided by RBI in the light of the various factors involved.

8.23 We have given careful consideration to the question of continuance of the Indian Institute of Bankers as an examining body for bank personnel. It serves a useful purpose in enabling the clerical staff working in banks to qualify themselves for promotion to higher cadre. It is managed by a council consisting of the Governor of the Reserve Bank and other eminent bankers. The Banking Commission headed by Shri R. G. Saraiya recommended that the examination may be re-designed by revising the syllabus so as to make it more suited to the requirements of banks in the present context. We understand that a Committee has been constituted under the chairmanship of Prof. C. N. Vakil to go into this question. We consider that the Institute should organise correspondence courses on the lines of May's correspondence courses in U.K., with necessary changes/additions thereto, to meet our national requirements. We feel that this course will be particularly useful to the bank personnel serving in the semi-urban and rural areas where the Institute's reading room facilities and lecture programmes are not available. We must add here that the working Group headed by Shri B. N. Adarkar referred to earlier also made a similar recommendation.

8.24 The Committee is convinced that the existing training facilities are not adequate quantitatively for meeting the requirements of large number of personnel still untrained and the future entrants to the banking profession. Qualitatively also, they are not satisfactory as their duration has been cut short to over-come the paucity of trained staff for manning the large number of branches. We, recommend that the training facilities available in banks be expanded and improved both in the infrastructure and faculty membership. We, therefore, urge that the Reserve Bank give serious consideration to this problem and take quick action to bring about all-round enlargement and improvement in the training facilities.

CHAPTER 9

GENERAL PROBLEMS

9.1 Our examination of the performance and progress of the public sector banks has brought to the surface certain overall problems of both managerial and financial nature which affect the efficient working of banks. In this chapter we deal with some of these problems because we believe a satisfactory solution of them would tone up the efficiency of banks and lead to a more healthy financial position for them. We are conscious of the fact that profits should not be the only criterion by which the banks should be judged, but there is a point beyond which the deterioration in the financial position of a bank might produce other repercussions affecting Government's finances.

9.2 One of the matters which was brought to our attention was that the ownership of the public sector banks directly by Government affected adversely the independence of managements. Specifically, the point was made that managements became directly open to political pressures of various kinds. A point of view was put forward before us that since the State Bank of India is largely owned by the Reserve Bank (with a very small minority holding by private shareholders), there may be a case for bringing the other public sector banks also under the ownership of the Reserve Bank. In favour of this suggestion is the undeniable fact that the Reserve Bank being itself a financial institution would have greater knowledge and more intimate understanding of the problems of public sector as well as private sector banks. On the other hand, it is not clear to us whether the State Bank has been less subject to political influence than other public sector banks. On balance we believe that there may be nothing to be gained by transferring the ownership of public sector banks to the Reserve Bank, since apart from anything else this would entail legislation which may be controversial*.

9.3 On the question of ownership, again on the analogy of the State Bank, it was suggested to us by some trade and commercial associations that it would be desirable to allow the public to subscribe to a small part, say 24 per cent, of the equity capital of public sector banks. We consider that the shares of public sector banks are not likely to command much investor interest under present monetary circumstances. Moreover, the presence of a small but vocal minority of shareholders, whose main interest would be an attractive return on their investment, might lead to confusion with respect to the corporate

* See Shri Kansara's note on paragraphs 9.2 to 9.5 at Annexure I

objectives of public sector banks, which at present are set with the main aim of promoting the overall public interest. We, therefore, do not favour diluting Government ownership of public sector banks by the infusion of any private capital.

9.4 One of the matters which is agitating the minds of top managements in public sector banks is the composition of the Boards of Directors of the 14 nationalised banks which they have to deal with. There were varying degrees of dissatisfaction with the Board of Directors of 14 nationalised banks constituted until recently, but there has since been some improvement as a result of the inclusion of professionals such as Lawyers, Chartered Accountants and Economists, etc. There is, however, a feeling both on the part of top management of banks, industry and trade that since nationalisation, the pendulum has swung to the other extreme and trade and industry which were previously well represented on the Board are now not at all adequately represented. While we do not contemplate bringing back in any decisive way the heads of large trading and industrial houses on the Boards, we feel that there is scope for better representation of trade and industry through the appointment of professionals who are familiar with these sectors of the economy including retired Chairman of banks, provided they are appointed on Boards other than that of the bank where they served.

9.5 At present the posts of Chairman and Managing Director are combined in all the 14 nationalised banks. The question is whether this system should be continued. On this subject, we found that the views of the managements of public sector banks as well as of organisations of bank users were mixed. One view was that having two separate posts of Chairman and Managing Director may blur the responsibility of the Chief Executive (i.e., Chairman) and make it possible for him to dilute his responsibility. To this, the answer could be that in State Bank of India, it has not led to any dilution of responsibility of the Chairman, though there have been two Managing Directors (as provided in the State Bank of India Act). The other view was that the work in the public sector banks has increased so enormously that one individual is no longer able to cope satisfactorily with policy making and planning functions on the one hand and executive and administrative functions on the other. In the legislation relating to nationalisation, there is a provision for a Chairman to be on a part-time basis in addition to a full-time Managing Director. We feel that both posts should be full-time because of the enormous volume of work that they now have to handle. The Chairman while continuing to be the Chief Executive should be exclusively free to devote his time to perspective planning and overall decisions involving corporate objectives. The Managing Director should look after the overall functioning of the bank in line with corporate objectives, his main function being to review and co-ordinate the various functional policies, subject, of course to supervision by the Chairman, so as not to dilute the latter's responsibility for the overall management of the bank. As is already the case in State Bank, given proper clarity of the roles, a broad division of managerial functions between major policy issues on the one hand and overall operations on the other would make for far greater effectiveness in decision making. We, therefore, suggest that the question of having separate Chairman and Managing Directors for the public sector banks be seriously considered soon by Government.

9.6 Several bank managements represented to us that it would be desirable to include as Board Members some of their own senior management staff. They justified this partly on the basis that since officer and award staff are represented on the Board, there is no reason why some top executives should not be allowed to become Board members. But their main argument was that if the Board could have some functional Directors representing areas of activity such as Planning and Development, Advances, Priority Sectors, International Business, etc., the Board would have direct access to the expertise of such senior management personnel. While we feel that Board should not be overloaded with internal senior executives, we are of the view that two or three additional members of top management in the public sector banks might well be added to the Boards as functional/executive directors without voting rights depending on the size of the bank. Briefly, the Board would comprise of a whole-time Chairman, a whole-time Managing Director and 2/3 whole-time executive/ functional directors depending on the size of the bank, besides the other directors.

9.7 At present the Chief Executives (Chairman) of the banks are appointed by the Government of India directly, in consultation with the Reserve Bank. A view was expressed before us that it would be desirable to increase the influence of the Reserve Bank with respect to these appointments by formalising the consultation procedure, e.g., by the Reserve Bank putting up a panel of say, three or more candidates, out of whom Government should choose one. We think there is much to be said in favour of this view, but the precise procedure to be followed in this matter would be for Government to consider. We also feel that, as far as possible, the selection of the Chairman should be from within the respective banks.

9.8 Some of the Chief Executives of the public sector banks were at one time given very short tenures of appointment, limited to a few months to one year in several cases. This led to considerable dislocation of work and a general feeling of uncertainty in the banks concerned. No Chairman/Managing Director can be expected to apply himself single mindedly to planning the future operation of his bank if his own tenure is too short and his continuance is uncertain. Unduly short tenures also tend to lead to weakness in the face of pressures on the part of other members of bank management. The position has improved lately, as the period of tenure has generally been increased. We feel that to the extent possible, the Chief

Executives of banks should be appointed for terms of at least 3, preferably 5 years.

9.9 In our examination of the time taken to take decisions regarding large advances or propositions of a new character, we found that one of the bottle-necks is the interval between one Board meeting and another. At present, the Boards of the banks deal not only with policy matters, but also with numerous loan proposals, write offs even of small amounts, details of some individual accounts, etc. This would not matter much where it is customary for the Boards to meet often. But where the meetings are once a month or less frequent as in some banks, this leads to avoidable delay with respect to operational decisions. Moreover, the Committee feels that it would be desirable to have some uniformity in the types of items of the Agenda to be submitted to the Boards of banks of comparable size. This could best be brought about by the Government of India issuing appropriate guidelines in the matter.

9.10 It is generally agreed that Board Agendas now tend to get longer and longer because numerous items come to the Board for consideration. Several suggestions have been made to us for getting over this problem. Even now in some banks certain sanctioning powers are delegated to the Chairman-cum-Managing Director, General Manager/s and Deputy General Manager/s. If business proposals are dealt with upto reasonably adequate limits by a Committee of the senior management and by a Committee of the Board, there would be more time for the Board to devote itself to the really large advances in addition to considering the working of the bank in various spheres like advances to priority sectors, branch expansion programme, deposit mobilisation, inspection and audit of branches, vigilance work, etc. We are of the view that the Boards should be substantially relieved of taking decisions on loan proposals below certain limits—which should be raised from the present levels—and similar operational matters, which should be delegated to a smaller and more compact body, e.g., an executive committee of the Board which could meet every week as in State Bank of India. We also suggest that the Board meet more frequently than now for speedy disposal of work. One alternative suggestion would be that the Board and Executive Committee may meet in alternate weeks.

9.11 While examining the performance of public sector banks since nationalisation, the Committee observed that the rise in profitability of the banks had not been commensurate with the increase in their working funds since nationalisation. The Committee examined the ratio of balance of profit before taxes as a proportion to total working funds since nationalisation. This ratio is substantially lower than in the preceding decade; in any case, we consider this ratio to be unduly low, compared to that of banks in the developed countries. We, therefore, consider that adequate steps be taken to substantially improve this ratio. One way would be for banks to improve their income earnings from certain categories of services they render to their customers as has been suggested by the PEP Committee. The banks may, thus, consider ways and means of charging fully for the services they render to customers but, before doing so, they should take care to see that the cost which they incur on collecting charges for such services, does not exceed the amount of such charges.

9.12 Looking to the future, we believe that profitability is likely to be eroded by such factors as the increasing costs of staff salaries and other emoluments, as the impact of normal increments begins to be felt and the likelihood that working funds may not increase as fast as they have done in the past and that more and more retail banking would tend to add to the unit cost of banking operations. When we went into this question with the managements of banks, their general feeling was that they were quite helpless in regard to reducing costs and increasing income because expenses consisted largely of inelastic items and the income was set by the differential between the borrowing and the lending rates which were largely covered by Reserve Bank directives and certain statutory provisions.

9.13 Another aspect of the banks' working which causes concern is the secular decline in banks' owned funds to the deposit liabilities. The ratio of paid-up capital and reserves (owned funds) to total deposit liabilities of all scheduled commercial banks, at present constitutes around 1.5 per cent as compared to 9 per cent in 1950 and 4 per cent in 1960. This present ratio is also poor in comparison with the similar ratios maintained by banks in other developed countries. We consider that there is abundant need for substantially raising this ratio. It is, therefore, necessary to improve the inherent financial soundness of the Indian banks by building up their reserves. It may be recalled in this connection that Reserve Bank had advised the banks, as far back as in 1961, to aim at a ratio of 6 per cent for their owned funds to deposits and banks were accordingly advised to build up their capital funds by augmentation of their published reserves through compulsory annual transfers of 20 per cent of their declared profits to their published reserves, besides raising funds whenever possible through fresh issue of capital till such time as their published reserves and paid-up capital reached a level of 6 per cent of their deposits. It was considered by perceptive bankers then that this target would prove to be a receding target and so it has been. The Committee feels that an attempt should be made to reach this target (of 6 per cent) within the next 5 years and in order to enable banks to achieve it, the Committee strongly recommends that:

(i) banks should be required to transfer 40 per cent of their disclosed profits to the published reserves free of tax, as has also been recommended by the PEP Committee;

(ii) since the banks are performing a major developmental function, a developmental grant should be made to them as is the case for State Bank of India since its inception;

(iii) Reserve Bank should pay on the entire quantum of the statutory cash reserves of the banks held with it, interest at the same rate as the coupon rate which the Government of India pay on their long-dated securities, subject to an annual review and revision if required : this would be without prejudice to the interest which is being paid at present on the impounded deposits; and

(iv) the tax levied by Government on income earned by banks on account of the interest charged on advances be abolished.*

9.14 We believe that if the various suggestions which we have made in this chapter to improve the managerial performance and to strengthen the financial position of the banks are implemented, there will be considerable gains by way of better management morale and greater capacity on the part of banks to adjust to a rapidly changing environment. We also believe that while profitability should not be the only criterion in regard to assessing the performance of banks, the discipline which is imparted by trying to watch the profit and loss account is itself calculated to improve efficiency in the system as a whole.

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* This tax has been abolished with effect from March 1, 1978.

CHAPTER 10

SUMMARY OF RECOMMENDATIONS

10.2 On the question of the tempo of branch expansion of commercial banks, viz., branch expansion, lending to priority sectors, efficiency in bank services to the public and vigilance arrangements in banks have been discussed in the foregoing chapters and the Committee's recommendations have been given therein. The major recommendations are summarised in this chapter.

A. *Tempo and Direction of Branch Expansion*

10.2 On the question of the tempo of branch expansion of commercial banks, taking into account the impact of rapid branch expansion on several aspects of banks' working, the Committee recommends that :

> There should be a process of selective consolidation of gains achieved in branch expansion by each bank for a period of 3 to 5 years on the basis of the size of the bank as well as its performance in respect of its spread in rural areas. The size of a bank should be in the range of 1000 to 1500 branches. Those below 1000 branches should grow upto 1000 branches during the period of consolidation viz., 3 to 5 years if they so desire, while those with over 1000, but below 1500 branches may go upto 1500, while for banks with branches over 1500, no expansion may be allowed during this period, except for strategic or compelling reasons. The whole question may be reviewed after 4 or 5 years.
>
> (Para.3.6)

10.3 In the case of State Bank of India, however, the Committee has taken a different approach: the Committee recommends that:

(i) State Bank of India be formed into a Holding Company with 5 zonal subsidiaries which will act as independent financial entities. These zonal subsidiaries may be located in the following zones, viz., (i) Western, (ii) Eastern (including North-Eastern), (iii) Northern, (iv) Central and (v) Southern regions, with the head office of each subsidiary bank located in a convenient and appropriate place in the region.

(Para.3.6)

As regards the existing 7 subsidiaries of the State Bank of India, the Committee recommends that:

(ii) the 4 subsidiaries, viz., State Bank of Hyderabad, State Bank of Bikaner and Jaipur, State Bank of Mysore and State Bank of Travancore may be separated from the State Bank of India and may be made independent entities. The other 3 subsidiaries, viz., State Bank of Saurashtra, State Bank of Patiala and State Bank of Indore may continue for the present as subsidiaries, each one to be attached as subsidiary of one or the other of the proposed 5 zonal subsidiaries of the State Bank of India, in the respective zones.

(Para.3.6)

10.4 For the present, the formula for branch licensing should be operated in the following manner:

(i) The existing banks should be categorised into 3 groups depending on the proportion of their rural branches to their total number of branches and the branch licensing formula for opening branches in rural unbanked, metropolitan/Port Towns and banked centres should be worked out on the following basis, subject to the limit on the size of the banks;

(a) Those having 40 per cent or more of their total number of offices in rural areas may be given a formula of 2: 1: 1;

(b) Those having 35 to 40 per cent of their branches in rural areas a formula of 3: 1: 1; and

(c) Those having below 35 per cent of their total number of branches in rural areas a formula of 4: 1: 1.

(ii) This formula should also be applied to the 5 zonal units to be carved out of the State Bank of India after its restructuring on the lines suggested earlier, and

(Para.3.9)

(iii) In this process no bank should be forced to open branches in an area very remote from the area of its operation, unless it so desires. Voluntary exchange of such branches may be permitted among banks with a regional character for the sake of better control and management of branches.

(Para.3.12)

10.5 In regard to the direction of branch expansion and its balanced growth in all areas, the Committee suggests:

(i) Depoliticalisation of the co-operative banking system and professionalisation of the management of the Apex Co-operative Banks, District Central Co-operative Banks and Primary Agricultural Credit societies. It is possible that for some reasons, it may be found difficult to execute this proposal. In that case, we suggest the following course of action;
(Paras.3.15 and 3.16)

(ii) At village level, co-operative institutions—PACs or FSS or LAMPS—may continue to operate provided they have reached a satisfactory level of functional efficiency; the commercial banks and/or RRBs may adopt such societies as is possible after they are duly reorganised and their management professionalised;
(Para.3.16)

(iii) RRBs may open branches in rural areas and wherever and whenever RRBs are well established, offices of commercial banks in the operating rural areas of RRBs may be taken over by RRBs, and their powers of lending may be widened to include not only small borrowers but also others. Their area of operation should be clearly demarcated to cover one district or more than one district, depending on the size of the district/districts; and
(Para.3.16)

(iv) Commercial banks, particularly the public sector banks and other fairly big private banks may open branches upto the level of district head-quarters or at most up to mandi or block level.
(Para.3.16)

10.6 In regard to the question of evolving a pattern of branch expansion which will meet the needs of rural development and at the same time remove regional imbalances in banking, the Committee found that more intensive measures should be taken to cater to the banking needs of the Northern, North-Eastern and Central regions of the country which are sparsely covered by bank branches. For this purpose, the Committee recommends that :

Three new public sector banks with strong financial and managerial position be established, one each in the North-Eastern, Central and Northern regions of the country to cover specifically (i) the North-Eastern States, viz., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, (ii) Eastern Uttar Pradesh and Bihar and (iii) the States of

Madhya Pradesh and Orissa, respectively, with Head Offices located at suitable places in these regions, taking into account the need for rural development. These new banks will have their own branches for the present and the Committee do not recommend any transfer of branches from the existing branches to the new banks till they get going.

(Para.3.22)

B. *Lending to Priority Sectors*

10.7 As regards agricultural sector, the Committee recommends that:

(i) State Governments which have not yet enacted the legislation recommended by the Talwar Committee, or which have not framed rules in that respect, should do so on a priority basis, covering within its scope, not only agricultural advances, but also other advances to priority sectors;

(Para.4.9)

(ii) State Governments should expedite the implementation of land reforms and conferment of tenancy/cultivating rights on farmers and issue certificates of possession of land;

(Para.4.10)

(iii) The procedure for issuing a 'non-encumbrance certificate' to farmers should be simplified by the State Government and suitable instructions issued to concerned officials to promptly respond to the requests for such certificates;

(Para.4.10)

(iv) State Governments may waive the stamp duty in the execution of mortgages in respect of small loans to the weaker sections of borrowers such as small farmers, artisans, DIR loanees, etc., upto an amount of Rs 10,000/- each;

(Para.4.11)

(v) Early action may be taken to introduce crop insurance.

(Para.4.12)

10.8 The Committee noted that the scheme of banks financing the PACs ceded to them was working satisfactorily. In view of the suitability of commercial banks using intermediaries for financing the rural sectors, the Committee recommends that:

(i) The scheme of bank financing the ceded PACs should be continued and extended to other areas also;

(Para.4.13)

(ii) the State Governments should expedite the reorganisation of the PACs financed by commercial banks and appoint full-time paid secretaries in consultation with and approval of banks to which they are ceded; where PACs are not effective, the State Governments should organise the Farmers' Service Societies (FSS) which will be used as channels for lending by banks and RRBs; and (Para.4.13)

(iii) State Governments should evince more interest in setting up of RRBs in suitable areas. RRBs may lend either directly to farmers or through PACs wherever the latter are effective. (Para.4.14)

10.9 As regards the Small-Scale industries (SSI) sector, inadequate equity base in small entrepreneur's business is one of the serious impediments to banks' lending to this sector. The Committee, therefore, recommends that:

(i) the IDBI may give due consideration to a suggestion that it will provide refinance to banks which may grant soft loans (quasi-equity) without interest, repayable in 7 to 10 years; (Para.4.19)

(ii) Alternatively, Central Government may favourably consider the proposal made by State Bank of India to the Government sometime ago, that a "National Equity Fund" may be set up by the Government of India for providing equity support to the small-scale industrial units. This Fund may be administered by the IDBI. (Para.4.19)

10.10 In order to bring about better co-ordination among the different financial institutions, such as banks and SFCs, certain recommendations were made by the Working Group appointed by the IDBI. Early action may be taken on these recommendations.

(Para.4.20)

10.11 As many of the small-scale units have become sick and are, therefore, to be nursed back to health, a suggestion has been made that a soft loan assistance fund should be set up by the Government of India to provide rehabilitation loans to these sick units without interest or at a nominal rate of interest. We suggest that this proposal may be given due consideration by the Government of India and Reserve Bank.

(Para.4.21)

10.12 It was represented by the Associations of small industries that the small-scale units were asked to give collateral security such as house property, LIC policy, shares, third party guarantee, etc., in order to be able to avail of bank finance. Banks considered such additional security necessary because of difficulties experienced by them in getting the losses reimbursed by the Credit Guarantee Organisation. The Committee, therefore, recommends **that:**

(i) ordinarily, security other than the fixed and current assets of the SSI's should not be asked for by the banks and

(Para.4.22)

(ii) the Reserve Bank may consider simplifying the claim procedures in consultation with the Government of India and deleting Clause 7(1) of the Credit Guarantee Scheme so as to enable the banks to make effective use of the Scheme and to remove the hardship to small-scale industrial units.

(Para.4.22)

10.13 As regards the long delays experienced by small-scale units in getting payments from large-scale units as well as from Government departments/ undertakings, for goods supplied to them, we recommend that:

(i) banks should ordinarily allow full drawings against such supply bills given to small-scale units and a suitable time limit should be specified for payment of such bills by the large units as well as the Government departments/undertakings;

(Para.4.24)

(ii) a part of the credit limit given to the large-scale units may be specifically and compulsorily set apart as a sub-limit to be used only for making payments to small-scale units in respect of goods supplied by them;

(Para.4.24)

Or

(iii) existing credit limits granted to small-scale units against supply bills be continued even against overdue bills to a reasonable extent;

(Para.4.24)

(iv) Reserve Bank of India may provide refinance to banks in respect of bills/notes drawn by the small-scale units on the large-scale units/Government departments/undertakings;

(Para.4.24)

(v) Reserve Bank of India may also consider providing refinance facility to banks in respect of their lending to small-scale units, as was done in the past, and as is now being done in respect of bank lending to small farmers; and

(Para.4.24)

(vi) alternatively, the Government of India may consider setting up a separate Refinance Corporation for Small-scale Industry for refinancing a specified portion of banks' lending to small-scale sector.

(Para.4.24)

10.14 The Committee felt that if total charges levied by banks on small-scale units by way of interest, service charges, inspection charges etc., were taken into account, the rate structure for this sector could be considered to be on the high side and, therefore, recommends:

(i) a maximum rate of interest which should be not more than 1 per cent above the Bank rate on advances to small-scale sector, including small-scale industrial units for amounts upto Rs. 2.5 lakhs and 3 per cent above the Bank rate for advances of more than Rs. 2.5 lakhs, but not exceeding Rs. 10 lakhs; and

(Para.4.25)

(ii) banks should not charge penal rate of interest on the *entire* outstanding amount of borrowing by small-scale units, but only on the amount of overdue bills discounted by banks.

(Para.4.25)

10.15 In regard to application of Tandon Committee's norms, we recommend that:

such norms should not be applied by banks to advances availed of by small-scale units, even if such advances exceed Rs. 10 lakhs.

(Para.4.26)

10.16 The Committee recommends that the portfolios of lending to priority sectors should be directly under the charge of senior executives who will give proper policy directions for any changes required to be made for carrying out this work with more dynamism and sincerity. This should be possible with the changes in the pattern of branches which has been suggested earlier.

(Para.4.30)

10.17 In the case of small loans (say upto Rs. 1 lakh), in order to avoid frequent renewal in documents which is a time-consuming and, therefore, costly procedure, the period of validity of documents be extended from 3 to 6 years.

(Para.4.32)

10.18 Banks should attempt to reach the target of lending to priority sectors fixed by the Government of India and also aim at a higher target, say 40 per cent to be reached in 3 years subsequent to March 1979.
(Para.4.35)

C. *Efficiency in Banks*

10.19 In regard to the efficiency in banks, the Committee classified the problem into 3 broad groups viz., those relating to (i) internal efficiency, (ii) external efficiency and (iii) managerial control. While making recommendations on these, the Committee has taken into account the assessment and recommendations made by the PEP Committee. Our recommendations are given below.

Internal Efficiency

10.20 In regard to internal efficiency we recommend that:

(i) Banks should evolve a suitable machinery to ensure that the procedures prescribed for operational efficiency are followed through periodical visits by the senior management and the procedures be modified whenever necessary, so that new management techniques are sufficiently and widely adopted in all branches. This should be in addition to the present monitoring systems prevalent in banks. Efforts should also be made to improve the working conditions and environment in branches where necessary.
(Para.5.4)

(ii) Banks should make advance man-power planning for both recruitment and training to take care of the planned expansion in branches and in the concerned types of business.
(Para.5.5)

External Efficiency

10.21 In regard to external efficiency, we recommend that:

(i) In order to improve the customer services, we endorse the recommendations made by the Talwar Committee in regard to the banking transactions, motivation of staff, servicing of loan proposals and follow-up action for supervising loan operations.
(Para.5.7)

(ii) Banks must try to dispel the general prejudice on the part of workmen unions against the use of computers, so that partial and judicious use of computers for selected services could be resorted to.
(Para.5.8)

(iii) The scheme for regional or national clearing system suggested by the Indian Banks' Association may be examined and necessary action taken thereon.

(Para.5.9)

(iv) The suggestion made by the PEP Committee in regard to forming customer service committee at the branch level for better counter service by securing the involvement of the staff should be adopted.

(Para.5.10)

(v) Since most of the work in banks is routine and repetitive in nature, banks should consider recruiting a higher percentage of personnel at the clerical level with educational qualification down to matriculation and give them appropriate job training.

(Para.5.11)

(vi) Central Offices of banks should issue to branches detailed manuals of instructions in regard to the appraisal of different types of loan proposals, preferably in the form of check lists. The branch managers may also be given powers such that 75 to 80 per cent of the proposals can be disposed of by them without reference to higher authorities and necessary confidence should be created so that such powers are actually used.

(Para.5.12)

(vii) In regard to consortium loan arrangements, the recommendation made by the Indian Banks' Association viz., that an expert group of senior bank officers should assess the viability of the project and that their assessment should be accepted by the participating banks, should be implemented.

(Para.5.13)

(viii) The question of enforcement of the Tandon Committee norms should be reviewed by the banks and Reserve Bank in consultation with representative organisations of borrowers, with a view to introducing an element of built-in flexibility in the scheme. The Reserve Bank should review the actual working of such norms every year at the time of the annual review of its credit policy.

(Para.5.14)

(ix) The procedure for transfer of borrowal accounts from one bank to another should be further simplified so as to make such transfer ordinarily permissible.

(Para.5.15)

Managerial Control

10.22 For dealing with the problem of delays in operations and dilution of control resulting from the wide-spread branch network and communication gap between Head Offices, Regional Offices and branches, we recommend that:

(a) an operational and controlling unit of a bank (be that a Regional/Divisional/Zonal/Area Office) should have a controlling charge of around 100 offices, depending on the magnitude of business and the area of operation. The criterion should be that the credit and other proposals sent from branches to the higher offices and the decisions taken thereon should not take more than 2 to 3 weeks from the date the borrowers furnish the full particulars;
(Para.5.16)

(b) there should be a three-tier management structure in each bank, viz., (i) the Head Office, (ii) the Regional or Zonal or Divisional Office and (iii) the branch office. In the context of the suggestions made by us in Chapter 3 on the compactness of the size of a bank and the demarcation of the area of operation of the commercial bank vis-a-vis primary co-operative credit society and/or the RRB, we consider that the organisation of a bank on a 3-tier basis would be desirable and practicable;
(Para.5.16)

(c) the problems faced by middle management of officers may be dealt with by delegating to them adequate powers of sanctioning loans, seeing to it that they use these powers and assuring them full support from senior management in *bona fide* cases of doubts or mistakes; wider powers could be granted for exercise by 2/3 executive officers jointly; and
(Para.5.16)

(d) at the top level, i.e., at the Head Office, an Executive Committee of senior officers be set up to take decisions on important matters and issue instructions to the Middle and Branch offices, and powers at all levels be increased, wherever they are currently low.
(Para.5.16)

D. *Vigilance arrangements*

10.23 In order to reduce the scope of malpractices and frauds in banks and for better vigilance arrangements in banks, we recommend that:

(i) two or three or more officials, as required by the exigency of the situation, should be involved in any particular decision on advances or on any other matter involving outlay of funds, or important executive decisions or two/three senior officers may take a joint decision;

(Para.6.11)

(ii) the Central Bureau of Investigation Organisation should be strengthened, in dealing with banking offences, by induction of suitable experienced banking personnel into their ranks;

(Para.6.12)

(iii) alternatively, the Inspection Wing of the Department of Banking Operations and Development in the Reserve Bank which would be a better agency should be entrusted with the function of enquiring into the cases of frauds and corruption in banks.

(Paras.6.12 and 6.13)

E. *Management-Employee Relations*

10.24 The solution for the malaise affecting the banking industry seems to lie largely in better management-staff relations and in this context, we recommend that:

(i) A high-level dialogue should be organised between the management and unions on the whole question of norms of work, to be subject to a biennial revision and the unions should be induced to undertake responsibility for getting work done in accordance with these agreed norms;

(Para.7.13)

(ii) Unions should be induced to agree to the induction of efficiency bars every 4 to 5 years in a 20-year clerical grade which could help banks in punishing the inefficient workers and to accept the principle of accelerated promotion for efficient workers;

(Para.7.13)

(iii) since banking is an important service in the national economy, it would be useful that in any law governing industrial relations, special provision is made for banks to ensure that there is no disruption of work by strike, work-to-rule, etc., and that disputes are settled by a special machinery;

(Para.7.15)

(iv) there is a case for declaring banking as an 'essential' service;

(Para.7.15)

(v) to avoid conflict of interests and loyalties, it should be laid down that (a) officers cannot continue as members of workmen staff unions and (b) officers who have to discharge executive functions at Head/Central/Zonal/Regional/Divisional/District/Area offices of banks, should not be members of officers' associations; and

(Para.7.15)

(vi) there should be uniformity of laws pertaining to industrial relations in banking and that, for that purpose, the appropriate Acts/ provisions of the Central Government laws should apply, instead of those of the various State Governments.

(Para.7.16)

F. *Training Facilities for Bank Personnel*

10.25 The Committee has noted that notwithstanding the existence of training institutions at the levels both of the banks and the industry, there is a wide gap between the demand and supply because of the limited capacity of the staff training colleges. On the qualitative side, there are many new tasks to which the staff training colleges have still to address themselves. The Committee, therefore, recommends that—

a Standing Committee consisting of the Chairman of 4 or 5 banks (to be nominated by the Indian Banks' Association), the Director, NIBM, the Principals of the BTC and CAB, the Chief Secretary of the Indian Institute of Bankers and a representative of the Government be constituted under the Chairmanship of a Deputy Governor of the Reserve Bank of India. The Committee would have its secretariat in the Reserve Bank for assisting the Deputy Governor in making proper assessment of the requirements of the training of staff for banks, taking into account their future branch expansion programme, and in the overall formulation of the policy in regard to the training programmes. The Committee would also monitor the progress of training from time to time and provide for effective co-ordination of the working of the training institutions at the national level.

(Para.8.18)

10.26 In view of the importance of the training arrangements for bank staff and the urgency to deal with this problem, the Committee strongly recommends that—

a separate department be set up in the Reserve Bank to deal with the problem of training of bank staff. This department may and can be under the charge of the existing Deputy Governor holding charge of the DBOD, but having regard to the size of the problem in respect of staff training, there is a case for creation of a post of Deputy Governor to be exclusively in charge of staff training throughout the banking system. He will be also in charge of the BTC, NIBM, CAB, IIB and other apex training institutions likely to be set up in future.

(Para.8.19)

10.27 The Committee has considered whether the BTC and NIBM should continue as separate institutions or be merged as was recommended by the Working Group headed by Shri B. N. Adarkar and recommends, at this stage of the evolution of the two institutions, that—

the Reserve Bank consider this question in detail for appropriate decision.

(Para.8.20)

10.28 We feel that the faculty members of the various training colleges should be selected according to their aptitude and experience and recommend that—

the selection of personnel for the colleges should be done on a rational basis and these positions should be made attractive by giving suitable incentives and by making provision for them to return to the operational side if they so desire after a specified period of say, 3 years.

(Para.8.21)

10.29 In view of the urgency to remedy the inadequacy of training facilities for bank staff in the Eastern and North-Eastern regions, we recommend that—

(i) priority may be given to the establishment of a training college combining the functions of BTC and CAB at Patna to serve the needs of the Eastern and North-Eastern regions.

(ii) Similar types of institutions in the Northern, Central and Southern regions of the country be established in a phased manner, the location being decided by RBI in the light of the various factors involved.

(Para.8.22)

10.30 We have given careful consideration to the question of continuance of the Indian Institute of Bankers as an examining body for bank personnel. It serves a useful purpose in enabling the clerical staff working in banks to qualify themselves for promotion to higher cadres. We feel that—

the Indian Institute of Bankers should organise correspondence courses on the lines of May's correspondence courses in U.K., with necessary changes/additions thereto to meet our national requirements.

(Para.8.23)

10.31 The Committee is convinced that the existing training facilities are not adequate quantitatively for meeting the requirements of large number of personnel still untrained and the future entrants to the banking profession. We, therefore, recommend that—

> the training facilities available in the banks be expanded and improved both in the infrastructure and faculty membership. The Reserve Bank may, therefore, give serious consideration to this problem and take quick action to bring about all-round enlargement and improvement in the training facilities.
>
> (Para.8.24)

G. *General Problems*

10.32 In regard to problems of a general nature, the Committee recommends that:

(i) on the question of the composition of Boards of Directors of the 14 nationalised banks, while it is not intended that heads of large industrial and trading houses on the Boards be brought back, trade and industry may have their representation through appointment of professionals who are familiar with the various sectors of the economy, including retired Chairmen of banks, provided they are put on boards other than that of the banks where they served;

(Para.9.4)

(ii) the posts of Chairman and Managing Director should be separated and both be made full-time, in view of the enormous volume of work they have to handle now;

(Para.9.5)

(iii) 2/3 wholetime executive/functional directors may be appointed on the Boards of banks;

(Para.9.6)

(iv) Reserve Bank may be asked to recommend a panel of candidates for appointment of Chief Executive of a public sector bank and Government should choose one of them; as far as possible, the selection of the Chairman should be within the respective banks;

(Para.9.7)

(v) the Chief Executives of banks should be appointed for terms of at least 3, preferably 5 years;

(Para.9.8)

(vi) it would be desirable for the Boards of banks of comparable size to have uniform items of Agenda; Government of India may issue appropriate guidelines to banks in this regard;
(Para.9.9)

(vii) credit limits for consideration of (loan) proposals by Boards be generally raised by delegation to a smaller and more compact body such as an Executive Committee of the Board. Similarly, there be further delegation of powers to deal with administrative members from the Board to the Executive Committee. This Committee should meet once a week. The Board should meet more frequently than now for disposal of work. The Board and the Executive Committee may meet in alternate weeks;
(Para.9.10)

(viii) banks may consider ways and means of charging fully for the services they render to customers but before doing so, they should take care to see that the cost which they might incur on such services, does not exceed the amount of such charges;
(Para.9.11)

(ix) In order to strengthen the capital funds of banks, the following measures be taken—

(a) banks should be required to transfer 40 per cent of their disclosed profits to the published reserves, free of tax, as has also been recommended by the PEP Committee;
(Para.9.13)

(b) since the banks are performing a major developmental function, a developmental grant should be made to them as is the case for State Bank of India since its inception;
(Para.9.13)

(c) Reserve Bank should pay, on the entire quantum of the statutory cash reserves of the banks held with Reserve Bank, interest at the same rate as the coupon rate which the Government of India pay on their long-dated securities, subject to an annual review and revision if required : this would be without prejudice to the interest which is being paid at present on the impounded deposits; and
(Para.9.13)

(d) the tax levied by Government on income earned by banks on account of the interest charged on advances be abolished.
(Para.9.13)

CONCLUSIONS

The Committee believes that the recommendations made by it have taken into account the objectives with respect to economic development, particularly of the backward areas and social justice which were the objectives of the nationalisation as well as restoring financial health to the banks. Some of the recommendations made may take some time to be implemented, especially those which involve legislation. If all the measures recommended by the Committee are implemented, even with some delay, the Committee believes that the twin objectives of fulfilling the socio-economic objectives of nationalisation, and vigorous and growing banking system covering all the areas of the country and all sections of the population will be achieved.

(James S. Raj), Chairman

(V. C. Patel), Member

(T. D. Kansara), Member

(B. K. Dutt)*, Member.

Reserve Bank of India,
Bombay,

Dated April 28, 1978.

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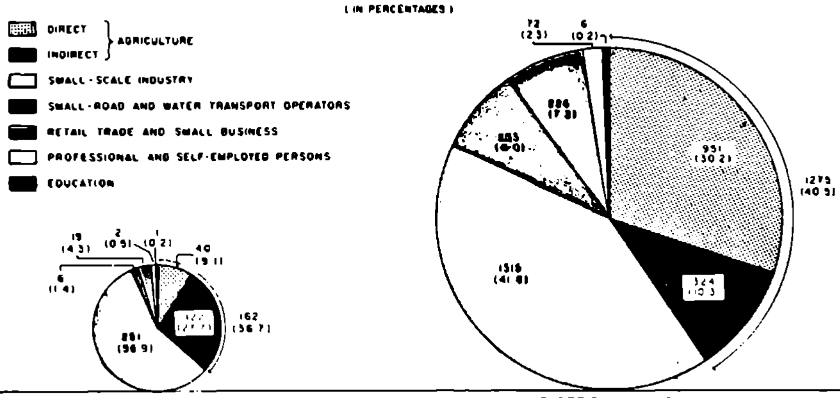
*Subject to separate Report submitted to the Committee.

PRIORITY SECTOR ADVANCES BY PUBLIC SECTOR BANKS

(IN PERCENTAGES)



JUNE 1969 Rs 441 CRORES | JUNE 1977 Rs 3147 CRORES

REGION-WISE BREAK-UP OF PUBLIC SECTOR BANK OFFICES AS ON 30th SEPTEMBER 1977

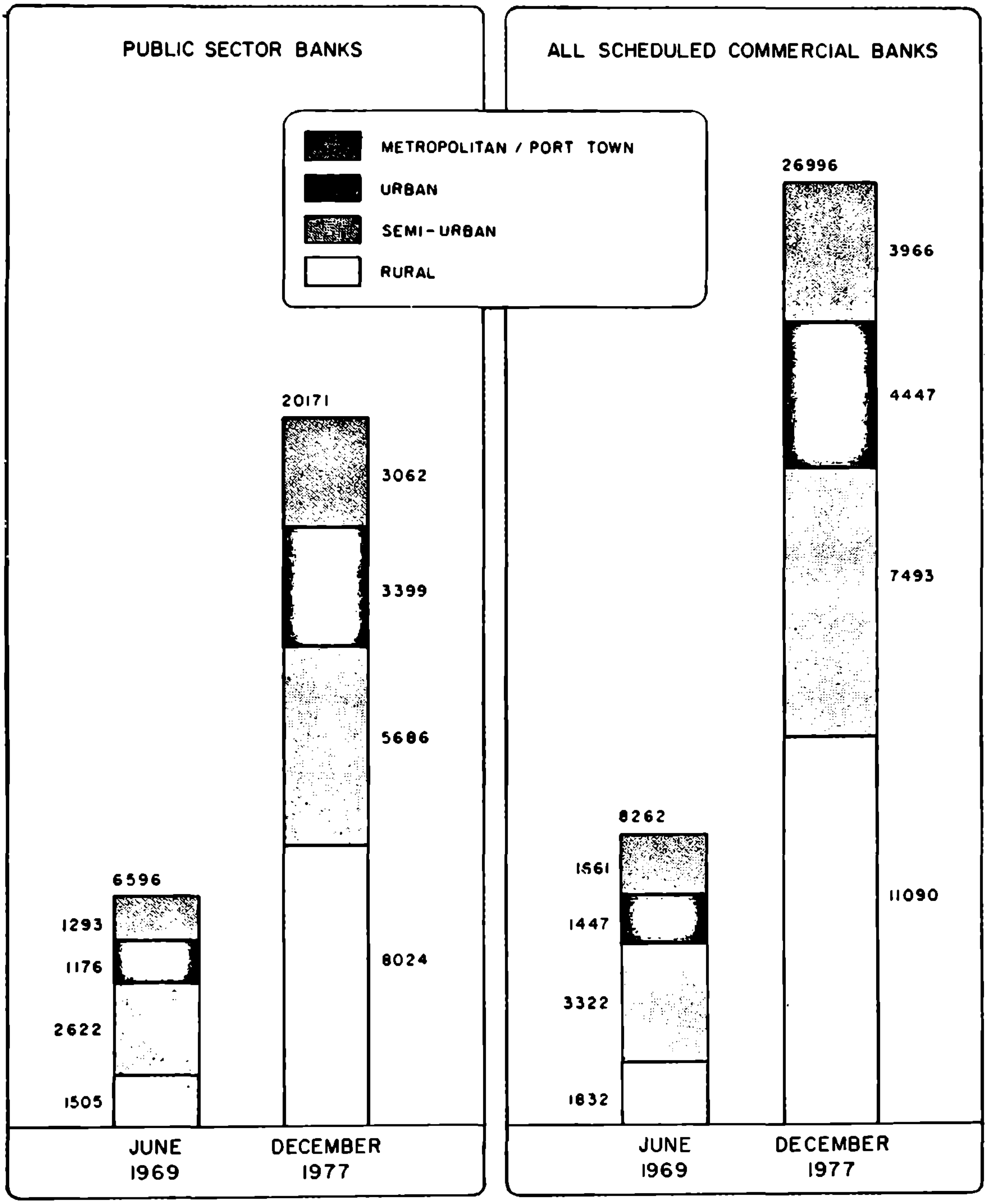
REGIONS	NORTHERN	NORTH-EASTERN	EASTERN	CENTRAL	WESTERN	SOUTHERN	TOTAL ALL REGIONS
STATE BANK OF INDIA	573	126	928	1110	753	962	4452
ASSOCIATE BANKS OF SBI	662	1	12	166	295	924	2058
ALLAHABAD BANK	80	18	186	321	37	22	664
BANK OF BARODA	157	11	77	192	565	112	1114
BANK OF INDIA	112	2	201	222	429	115	1081
BANK OF MAHARASHTRA	16		2	25	426	50	519
CANARA BANK	37	4	68	53	147	746	1055
CENTRAL BANK OF INDIA	247	14	263	355	360	222	1461
DENA BANK	28	2	16	55	520	44	665
INDIAN BANK	46	12	68	27	68	482	703
INDIAN OVERSEAS BANK	62	4	54	41	75	393	629
PUNJAB NATIONAL BANK	596	15	182	381	116	82	1374
SYNDICATE BANK	77	2	32	70	110	618	909
UNION BANK OF INDIA	112	17	74	214	274	279	970
UNITED BANK OF INDIA	26	154	493	24	24	13	734
UNITED COMMERCIAL BANK	215	71	321	126	133	99	965
TOTAL	3046	453	2977	3382	4332	5163	19353

Note The underlined figure against the bank shows the location of its head office

I. Northern Region	II North-Eastern Region	III Eastern Region	IV Central Region	V Western Region	VI Southern Region
Haryana	Assam	Bihar	Madhya Pradesh	Gujarat	Andhra Pradesh
Himachal Pradesh	Manipur	Orissa	Uttar Pradesh	Maharashtra	Karnataka
Jammu & Kashmir	Meghalaya	West Bengal		Dadra & Nagar Haveli	Kerala
Punjab	Nagaland	Andaman & Nicobar Islands		Goa, Daman & Diu	Tamil Nadu
Rajasthan	Sikkim				Lakshadweep
Chandigarh	Tripura				Pondicherry
Delhi	Arunachal Pradesh				
	Mizoram				

POPULATION GROUP-WISE CLASSIFICATION OF COMMERCIAL BANK OFFICES

(AS AT THE END OF JUNE AND DECEMBER)



ANNEXURE I

SHRI T. D. KANSARA'S NOTE ON PARAGRAPHS 9.2 TO 9.5 OF THE REPORT

The question of ownership of the Public Sector Banks—whether by Government or Reserve Bank of India should be considered from two angles:

(i) As regards policy matters.

(ii) As regards administration matters including sanction of advances.

In regard to (i), it would probably make little difference between the two alternative concepts of ownership in respect of the larger/wider policy issues, though in respect of the relatively smaller issues, balance of advantage would seem to lie in ownership of the Reserve Bank of India, *BUT*,

In regard to (ii), experience over the years since nationalisation of the 14 major banks in 1969 shows beyond reasonable doubt that the ownership by Reserve Bank of India is preferable to that by Government. The Government Directors, being officials from the Government, are liable to be subject to political influence emanating from Ministers, who are "political persons", and who, either on their own or at the behest of others, again on political pressures, endeavour through Government Directors to influence decisions in Board Meetings, ostensibly on grounds of merit, but really on political considerations. The Chairmen of banks, desirous of advancing/protecting their own personal interests, prefer to cultivate the goodwill of their political masters, in whom, in one way or the other, their future prospects lie. If the ownership be vested in Reserve Bank of India, the Chairmen, being professional bankers, would be able to argue the merits of the propositions under consideration by the Boards with freedom from fear of incurring the displeasure of the Government. It is relevant in this context to bear in mind that a Bank Chairman and a Reserve Bank Director are on less unequal terms in any discussions than the Chairman and a Government Director. It is implicit in this view that

(a) appointment of Chairman would be by Government on the advice of Reserve Bank,

(b) removal of Chairman would also be by Government on the specific advice of (and not merely in consultation with) Reserve Bank

i.e., in both processes, the decision to appoint as well as the decision to remove would be made jointly by Government and Reserve Bank. This proposal to transfer ownership of the 14 banks from Government to Reserve Bank would make for healthy growth of the banks in respect of advances, which constitute, by far, the largest part of the business of the banks.

Besides, there is no rationale in the existence of the dichotomy represented by ownership of the largest public sector bank viz., State Bank of India being with Reserve Bank and ownership of the 14 nationalised banks, which together transact much larger lending business, with the Government. After all, one arrangement must be better than the other—it cannot be that anybody has been studying this subject over the last 8 years and more without coming to any conclusions on the merits of the two alternatives. If a study has not been made, I suggest it be made.

I accept that legislation would be required for effecting the change. If such legislation is likely to raise a controversy, it is as well that Parliament deal with it and take a view on the matter and decide. Perhaps, in this context, there may be a case for consideration by Parliament of the performance of Public Sector Banks generally.

In regard to the composition of the Boards of Directors, several Chairmen were somewhat reluctant to comment on it. It is my impression from our informal conversations that (prior to the very recent changes), the Boards (except in respect of Government and RBI Directors) could have been more effective instruments of execution of Government policies and control of the advances within their purview. The recently changed Boards constitute generally material improvement on the previous Boards. All the same, I consider there is abundant need and scope for further substantial improvement in their composition. Having regard to the composition of the Boards

(1) when the 14 banks were in the private sector (prior to 1968),

(2) when these banks were under "Social Control" during 1968—July 1969,

(3) of these banks since their nationalisation in July 1969,

(4) of the State Bank of India since 1955,

I consider that it would be in the interests of the healthy functioning and growth of the banking system *AND* of the general public

(a) to have Boards of 15 members,

(b) to have their composition more or less similar to that of the Boards, when the banks were under "Social Control", with a new provision for at least 3 Directors representing professional industrial interests,

(c) to provide for

  (i) a full-time Chairman,

  (ii) a Managing Director,

  (iii) three (in the larger of the 14 banks) and two (in the smaller ones) Executive Directors,

(d) to provide for the 3 professional industrial Directors [mentioned at (b)] to be elected by private shareholders of the bank—for which purpose capital of the public sector banks upto 24% should be thrown open to public subscription.

I am unable to accept that there would be no investors in the capital of the banks under the present monetary conditions: I think that good professional industrialists would come forward to invest in the capital of the banks in order to acquire some reasonable say in the conduct of the affairs of the banks by way of being elected to the Boards from their constituency—it being clearly understood that this will in no way dilute the overall objective of Government to make the banks more and more responsive to the needs of the general public and particularly the priority sectors, especially in the rural areas, as determined by Parliament from time to time.

ANNEXURE II

September 9, 1977

Committee to study functioning of Public Sector Banks invites suggestions and views from the public

The Committee appointed by the Reserve Bank to study all aspects of the functioning of public sector banks and to make recommendations for ensuring improvement in the efficiency of their operations has invited suggestions and views from the members of the public and others interested. The same may be forwarded to the Secretary of the Committee on the Functioning of Public Sector Banks, C/O Reserve Bank of India, Central Office, Post Box No. 406, Bombay 400 001, before September 30, 1977.

Shri James S. Raj is the Chairman of the Committee. The other members are Shri V. C. Patel, Shri T. D. Kansara and Shri B. K. Dutt. Kum. Nalini K. Ambegaokar (Reserve Bank of India) is the Secretary to the Committee. The terms of reference of the Committee are:

(1) To assess the impact of branch expansion that has taken place since 1969 and to examine whether any change in the tempo and direction of such expansion is called for; (2) to enquire into the present pattern of branch expansion of public sector banks and to suggest the future course of action keeping in view the need for rural development and removal of regional imbalances; (3) to evaluate the performance of public sector banks in the matter of lending to the priority sectors and weaker sections of the society and to suggest ways for the orderly and balanced growth of such advances; (4) to advise on improving the efficiency of banks with a view to rendering better and speedy service to the public and (5) to examine the operation of vigilance work in the banks and to make recommendations to bring about improvements.

Confidential

ANNEXURE III

Committee to Study Functioning of Public Sector Banks

QUESTIONNAIRE FOR BANKS

It is requested that all information be given with reference to your bank's actual experience. Since the Committee's object is a pragmatic evaluation of the actual performance and functioning of banks during the past eight years, frank replies will assist us in our task.

Part I

Branch Expansion

It is generally believed that branch expansion of banks has taken place, since nationalisation, at a forced pace in an anxiety to achieve numerical targets without taking into account the inherent constraints like inadequacy of trained personnel. Such rapid expansion has resulted in a lack of effective supervision and control over branches, delay in sanctioning of credit proposals and a general feeling of remoteness in the relationship and communication of branches with their Central Office.

1.1 In the light of your experience, please give, in brief, your assessment of the impact on your bank of branch expansion that has taken place since nationalisation of banks, particularly in regard to:

(a) fulfilling the objectives of bank nationalisation;

(b) covering the unbanked centres;

(c) mobilising deposits;

(d) meeting the credit needs of the population, particularly, the priority and neglected sectors;

(e) the bank's cost structure because of rapid and wide expansion of the branch net work;

(f) the bank's management;

(g) general development of the area under your operation.

1.2 What concrete suggestions would you make for a healthy and orderly expansion of branches without producing any adverse effects? Is your bank well equipped to carry out the suggestions you make?

1.3 Do you consider the present norm of the Reserve Bank of India as to the minimum ratio of rural/semi-urban *vis-a-vis* urban/metropolitan branches desirable? If not, state whether any modification is necessary.

1.4 Do you think that the present geographical jurisdiction prescribed for the operation of a branch in rural areas needs to be changed if banking is to spread rapidly in the underdeveloped areas? If so, kindly specify the areas of operation of your bank—particularly your Lead districts—where such a change in policy is necessary.

1.5 Having regard to the necessity of providing banking services to the unbanked/underbanked areas in the country,

(i) do you think that the tempo of branch expansion that has taken place since nationalisation can be maintained or even accelerated in the coming years? If so, what measures would you suggest to enable you to carry out your purpose?

or

(ii) would you rather wish to consolidate your branch expansion position before taking up further expansion? Please state your reasons for the same.

or

(iii) if you had any option, would you want to close down any of your branches? If so, give reasons.

1.6 Consistent with the present conditions in regard to the inadequacy of trained staff, and distance of branches from controlling centres, how many branches could you open every year? In this connection, do you suggest any limitation as to the size of your bank? If so, on what criteria is your suggestion based?

1.7 If branch expansion is to be directed in such a way as to achieve a balanced geographical distribution of branches in the country, what steps would you suggest to realise this aim?

1.8 Do you think that the clustering of branches in some areas in metropolitan centres has led to unhealthy competition among banks? What has been the impact of this on your bank's operations in such areas?

1.9 Do you have any Mobile Branch units? If so, please furnish particulars. What is the number of days in a week the Mobile Branch Unit serves a particular location? Does the Mobile Branch Unit provide all ordinary banking services including advances or is the business restricted to collection of deposits? What is your experience of safety in running these Mobile Branch Units? Would you prefer to run many more Mobile Branch Units instead of opening new branches in the rural areas? How would the rural public react to such an exercise?

1.10 Do you think that greater use of mobile banks, one-man branches, or branches operating for a limited period in the day etc., would be preferable to further branch expansion in certain areas—e.g., under developed areas or hilly/remote regions? Have you made any cost-benefit assessment of operating mobile branch units in relation to the 'fixed location' branches? If so, kindly advise us about it together with your comments.

1.11 What are your views about the use of institutional intermediaries such as co-operative banks, Farmers' Service Societies, Large-scale Multi-purpose Societies

(LAMPS) etc., by banks for spread of banking particularly in rural areas? In what functional and territorial areas would you like to make use of such intermediaries?

1.12 If your bank has sponsored any Regional Rural Bank, please give your views on its performance and potential in the near future.

1.13 Do you consider that the rapid branch expansion in the banks has led to a decline in the 'personal touch' among the staff? If so, has the growth of 'impersonality' any bearing on the functional efficiency of the banks?

1.14 What in your judgement, is the appropriate size, in respect of the number of branches of a bank in the overall Indian context for the purpose of rendering prompt and efficient service to the public and to improve the health of the banking system? It has been suggested in some quarters that the optimum number of branches of a bank could be within the range of 1000 to 1500. Do you agree with this opinion?

1.15 In your assessment of the branch expansion of your bank, achieved so far or to be undertaken in the next 5 years, what could be the bearing on such an expansion of the following factors, namely:

(a) Availability of trained staff and willingness of such staff to be deployed anywhere in the country?

(i) In this respect, do you have proper arrangements for advance recruitment and training of staff so as to be available 'on tap' for immediate posting whenever required? If so, please specify such arrangements. If not, what are your suggestions in that respect?

(ii) Regarding training of staff, from your experience, do you think that the functions of the National Institute of Bank Management can be suitably enlarged to cope with the requirements of banks?

or

(iii) Whether Indian Institute of Bankers should undertake postal correspondence courses for those in the banks as well as those who intend to join the banks?

(iv) What measures do you suggest to make deployment of staff anywhere in the country acceptable to it?

(b) In regard to availability of suitable premises for branches and for housing of the staff

(i) Please give your views and suggestions with due regard to the necessary economy in the matter.

(ii) Do long distances between branches and the Head Office lead to dilution of the H.O. control?

1.16 Is it possible to arrange for recruiting special staff (including officers) for manning branches in rural or under developed areas and to devise special training courses for them? What is your view about having a separate "rural cadre" in the banks for rural branches?

1.17 Having regard to the present means of communications (by letter, telegram, telephone, telex) available in the country, would you advocate any upper limit to the number of branches which can be efficiently administered by a bank? If so, what limit would you suggest?

1.18 In view of the need for communicating with customers in the local language, how do you propose to orient your staff recruitment, training and deployment policies?

1.19 In regard to the task of spreading bank branches in underdeveloped states or such areas in States, has the existence of bank branches contributed significantly to the development of such States or areas in the States? Or, do you think that it is necessary to have other factors such as suitable infrastructure, responsive government administration or presence of entrepreneurs before branches are opened?

1.20 For the healthy development of banking in the country, proper control, direction and supervision of branches by Head Office is essential (among various requirements). The Committee would welcome your suggestions for ensuring this, in the context of the well-known fact that there has been considerable dilution in the matter in the last decade.

1.21 In view of your past experience in regard to the approximate gestation period of rural, semi-urban, urban and metropolitan branches opened by your bank, the relevant cost structure of such branches and the difficulties in getting suitable personnel for manning these branches, what suggestions can you offer for evolving an appropriate branch expansion policy which would fulfill the objective of making banking a catalytic agent of economic development in the country?

Part II

Lending to Priority Sectors

There is a general feeling that inspite of the praiseworthy performance of banks and the rapid strides made by them in this direction since nationalisation, their achievements fall far short of the real needs of the country. The Committee would welcome a realistic evaluation by banks of their role and performance, particularly, in regard to lending to priority sectors and weaker sections of the society, difficulties encountered by them and suggestions by them in this respect. Replies to the following questions are requested:

2.1 Please give an evaluation of the performance of your bank in the matter of lending to the priority sectors and the weaker sections of the society. What in your opinion are the impediments which stand in the way of your bank increasing credit to these sectors?

2.2 Please state measures that your bank can adopt for further expansion of such advances. If supportive action is needed from other sources, please indicate its nature and extent.

2.3 Please give figures—both in number and amount—of 'stuck up' advances to priority sectors and weaker sections category-wise—as at the end of each year beginning from 31-12-1970, together with the total figures, in number and amount, of outstanding advances to the respective sectors (above mentioned) at the end of the relative years.

2.4 Please give the number and total amount of such advances where recovery proceedings have had to be instituted in court for each of the years from 31-12-1970. How much money has been recovered as a result of such proceedings?

2.5 Having regard to the actual experience of your bank, could you emphatically state that the proportion in amount of 'stuck up' and doubtful advances is less in the priority sectors and weaker sections than advances to other segments?

2.6 What is your frank opinion of the performance of your bank in regard to priority sector advances in the Lead Bank areas assigned to you? What are the impediments, if any, which you have faced? Is it possible to measure the economic impact of credit already given by your bank in your Lead Bank area? If so, please give corroborative figures such as generation of new employment, emergence of new production activities, increase in crop output etc.

2.7 Under the present banking set-up, agricultural credit is being provided by a multiplicity of agencies, viz., branches of commercial banks, co-operatives, Regional Rural Banks and commercial banks through primary co-operative credit societies. In your opinion, is the co-existence of such different agencies in one and the same village or block a healthy phenomenon? If not, what are your suggestions for rationalisation?

2.8 What are the methods followed by your bank to supervise the use of loans granted to small farmers and other small borrowers?

2.9 What is your experience regarding the recovery of loans given to agriculturists, artisans and other small borrowers in rural areas in accordance with agreements with the borrowers? What is your experience in regard to actual or apprehended bad debts from such advances? What suggestions would you offer to improve the quality of such advances?

2.10 Do you think that the area approach is preferable to scattered lending, so far as lending to small borrowers in rural areas is concerned? In which areas has your bank undertaken area planning? What was your experience in that respect? Please state with special reference to difficulties, if any.

2.11 What is your experience regarding the working of the Differential Interest Rates scheme?

2.12 What is your experience regarding the working of the scheme for financing of primary credit societies by the commercial banks in selected areas? Do you consider the experiment of extending credit through these bodies worth pursuing and if so, what suggestions would you offer to make it successful? If you consider the experiment a failure or near failure, please state the conditions under which failure can be transformed into success, if possible.

2.13 Please give a brief assessment of the performance of Regional Rural Banks (RRBs) sponsored by your bank. Can you make any suggestions for making RRBs successful?

2.14 Do you think that the use of institutional intermediaries such as co-operatives, Farmers Service Societies, LAMPS, etc., by banks would be necessary and/or desirable for the expeditious disbursal of bank credit, particularly, to the priority sectors? If so, to what extent, in what areas (i.e., rural, etc.) and for what type of banking business would you recommend the use of such intermediaries?

2.15 Do you have any machinery by which the controlling office/s of your bank can collect information about the refusal by your branches of credit applications from small entrepreneurs, agriculturists, etc.? What steps do you take when this information is collected? Is there any provision for follow-up action to help the applicants?

2.16 Do your branches/Regional offices maintain continuous contacts with State Government Departments and co-ordinate the lending schemes for weaker sections with the schemes drawn up by the State Governments for the benefit of the rural population? What is your experience in regard to the sanction, grant and recovery of such advances?

2.17 You are aware that one should aim at orderly and balanced growth of advances to priority sectors. Do you experience or envisage any difficulties in concentrating more on such advances in the underbanked States and underbanked areas in States? If so, please enumerate them, together with suggestions for any possible solutions.

2.18 Are you satisfied that the personnel at branches/departments of your bank, which handle the business of credit to priority sectors (including neglected sectors) are equipped to deal with such credit proposals? What suggestion would you make to improve their competence for this purpose?

2.19 What is your experience in regard to any dereliction of duty on the part of your staff in granting advances to the priority sectors? Do you think that the reports about such advances are exaggerated or they are an understatement of the actual situation?

Part III

Efficiency of Services in Banks

There is a general feeling that there has been a qualitative deterioration in the banking services during the last few years. This may be due to various reasons such as rapid expansion of branches without adequate trained personnel, lack of motivation on the part of the staff, organisational deficiencies, increase in the volume and nature of functions that the banks are called upon to perform etc. Considering the necessity of efficient and satisfactory service from banks, the Committee would like banks to give a frank reappraisal of their performance in this respect and to make suggestions for an improvement in the same. Banks are requested to give replies to the following questions:

3.1 What are the norms used by your bank for measuring the operations and efficiency in your bank?

3.2 What steps have been taken by your bank to improve operational efficiency? Do you think these are adequate? If not, what further measures do you contemplate taking in this regard?

3.3 Please enumerate the reasons for the inability of your bank to render efficient service to your customers in respect of specific types of work, such as encashment of cheques, clearance of cheques on the same day, timely completion of their pass books or statement of account, collection of bills on outstations in a reasonable time, getting drafts on branches and other remittances, say within half an hour, compliance with standing instructions of clients, replies to their enquiries etc. These instances are not exhaustive but are given only as a guide line.

3.4 Please state which recommendations of the 'Working Group on Customer Service in Banks' have been implemented by your bank?

3.5 What are your suggestions for "orienting your staff to perform duties of the kind expected of them in the context of the composition of the clientele of banks?" Besides the monetary benefits, do you think you can use any other means by which the motivation of staff would be stimulated?

3.6 What are the reasons for the reportedly long delays in the sanction of credit limits by banks? Please enumerate these in detail and suggest practicable remedies.

3.7 Do you agree that considerable paper work has been introduced in recent years for the estimates of a credit proposal? Can you suggest any reduction of the paper work involved?

3.8 The National Institute of Bank Management had invited views from the public on the efficacy of banking services. Please state which recommendations of the N.I.B.M. on this subject have been implemented by your bank?

3.9 There is a general feeling that there has been a qualitative deterioration in the main assets of the banks (viz., advances) over last few years and that if corrective steps are not taken, the sickness prevailing in some industrial units will soon overtake the banks also. Do you agree with this view and if so, what are your suggestions for improving this state of affairs?

3.10 Has a systematic delegation of authority been practised in your bank at various levels? Is there any arrangement to verify that this delegation is observed in spirit? Do you generally believe that inspite of delegation, your officers do not exercise their discretionary powers or are reluctant to do so? If so, what are the reasons? What corrective measures do you suggest to ensure that delegation is really effective?

3.11 Are there any limitations on direct recruitment of officers in your bank? Do you suggest any changes in your present system to secure better personnel without causing justifiable frustration or resentment among the existing staff?

3.12 What is the bearing of the means of communications between the head office and branches as well as among different branches, on the promptness and efficiency of service to the public?

3.13 It is reported that participation or consortium idea for advances has led to considerable delay and inconvenience to customers. What are your suggestions to eliminate these delays and/or lack of co-ordination between participating banks and institutions?

3.14 Do you think that operational efficiency of your bank has suffered because the instructions from the head office being usually in English are not fully understood by the staff? Do you think it advisable to have the circulars from head office/regional offices translated into local languages wherever necessary?

3.15 Do you consider that undue time is being spent to cultivate good public relations by head office senior staff and branch managers? What are your suggestions for economising of investment in time in this regard?

3.16 Do you think that there are too many conferences, seminars, workshops and other meetings held, which have to be attended by senior officers of the bank including the chief executives? Are the advantages from such meetings, in your assessment, commensurate with the investment of time therein?

3.17 There is a general complaint that on account of numerous and pressing demands on time from Government and other public sector agencies, the senior executives are not easily and frequently available for discussions with customers. Have you any suggestions to make in this regard?

Part IV

Vigilance Arrangements

There is an impression among the public that frauds and defalcations have increased in banks in recent years. It is possible that operations of banks are now more exposed to the public. In any case, there seems to be a greater need for proper vigilance and supervisory control. In this respect, the Committee would like to elicit your views on the following questions:

4.1 What is the vigilance arrangement in vogue in your bank? Please state briefly the procedure followed for enquiring into the allegations made.

4.2 Do you consider the present arrangements for vigilance in banks adequate, both in the interest of the banks and the staff? If not, what suggestions would you make for improving them?

4.3 Do you think that in recent years, frauds and defalcations by customers and staff have increased in banks in respect of both number and amount? If so, what, according to you, are the reasons for these?

4.4 It is believed that use of mechanical or electronic aids help in reducing frauds in banks. What would be your view in regard to taking help of such aids in concerned activities for facilitating vigilance work? Do you expect any resistance from staff to this?

4.5 Please describe how the interests of the staff members are protected (e.g., by giving them an opportunity to refute the charges against them). What has been the role of staff unions in protecting their members in case disciplinary proceedings in regard to corruption charges are proposed against any of them?

4.6 From the experience of the past 5-6 years, can you say that the vigilance arrangement in banks has succeeded in achieving its purpose? If not, what suggestions do you make in this regard.

4.7 What according to you, has been the effect of the working of vigilance arrangements in banks on the initiative of officers to assume responsibility and to take decisions? What steps would you suggest for banks in regard to redefining the role of vigilance with a view to removing apprehensions from the minds of the operational staff?

4.8 What are the extra duties performed by vigilance staff which were not normally done previously by the internal auditors and inspectors of banks? The ultimate object of both the Vigilance staff and the Audit and Inspection staff being identical, namely preventive measures rather than the punitive action, what would you suggest to integrate the roles of those two wings without mutual conflict and contradictions?

4.9 What is your experience regarding entrusting the cases of fraud to the Central Bureau of Investigations?

4.10 What legislative measures do you recommend (e.g., drawing of a cheque without funds being made a criminal offence) to reduce frauds?

4.11 At present, all officers of the bank, including the Chairman and the Managing Director, are not subject to the jurisdiction of the Vigilance Officer. What is your view on the suggestion that vigilance arrangements should cover all officers of the bank, including even those who are senior to the Vigilance Officer?

4.12 If you agree that vigilance should cover all officers, what *modus-operandi* would you suggest for the vigilance system in your bank?

4.13 Is there a system in your bank for obtaining information regarding increase in the assets of the staff members or any unusual increase in their standard of living which is not in conformity with their known sources of income? If so, do you ask for a periodical declaration from your staff members regarding changes in their assets (movable and immovable)?

4.14 Would the existence of effective vigilance work tend to prevent frauds or would it demoralise the staff to the point of avoiding responsibility for decisions? If speed in the disposal of work involving decisions is to be achieved and if effective vigilance would operate as a dis-incentive to taking decisions, how do you propose to reconcile the two? Do you think devolution of decision-making authority to two or more persons *jointly* could be an answer? It is reported that in some banks decisions are made in meetings of "Management Committees" where there are "open" discussions and the decisions are in the presence of several executives. The procedure does mean more administrative cost, but in the long run, it is cheaper by the avoidance/ elimination of frauds. Somewhat similar arrangements could be made at regional offices or group offices or even at most branches. What are your views in the matter?

4.15 Do you think that procedures for taking disciplinary action in cases of frauds are dilatory? If so, what are your suggestions for prompt and fair disposal of such cases? From your experience, please tell us how the representatives of the "officers" and "workers" on the Boards of the banks assist/react in the taking of prompt disciplinary action?

4.16 Is the reported decline in integrity in banks part of the general decline in integrity in the country and elsewhere in the world? If so, what institutional and other arrangements would you suggest to isolate, if possible, the banks from the general climate?

Part V

General

The questions in this part cover other aspects of bank's working such as management—staff relations, composition and meetings of the Board of Directors, etc.

5.1 Do you suggest any changes in procedures, laws, etc., governing the existing industrial relations which might lead to better relations between staff and management in banks?

5.2 Do you suggest any changes in the structure and composition of your Board which would improve the overall direction and management of the bank?

5.3 Would it lead to a more efficient managerial set up if the posts of Chairman and Managing Director were not held by the same person?

5.4 It is said that after nationalisation, the disposal of Board work is delayed and the meetings of the Board are held at long intervals. Please give your suggestions for improvement.

5.5 To what extent are the middle level officers able to carry out the instructions issued to them by senior officers in banks? If there is any deficiency in giving full effect to these instructions, what are the reasons and what are your suggestions to rectify the deficiency?

5.6 Do you agree with the view that some of the advertisements could be stopped by public sector banks? If not, what are your views in this matter?

5.7 What steps would you suggest to avoid wasteful expenditure of banks?

5.8 A view is held that the performance of public sector banks should not be judged by profits alone, as they are required to open a large number of offices in rural and unbanked areas and to lend to weaker sections. Do you agree with this view? If so, what are your suggestions for evolving a more appropriate assessment of the performance of public sector banks?

ANNEXURE IV

Committee to Study Functioning of Public Sector Banks

QUESTIONNAIRE TO STAFF AND OFFICERS' UNIONS OF BANKS

Part I

Branch Expansion

It is generally believed that branch expansion of banks has taken place, since nationalisation, at a forced pace in an anxiety to achieve numerical targets without taking into account the inherent constraints like inadequacy of trained personnel. Such rapid expansion has resulted in a lack of effective supervision and control over branches, delay in sanctioning of credit proposals and a general feeling of remoteness in the relationship of communication of branches with their Central Office.

1.1 Do you consider that the rapid expansion of banks' branches has led to a decline in the 'personal touch' among the staff? If so, has the growth of 'impersonality' any bearing on the functional efficiency of the banks?

1.2 What measures do you suggest to make deployment of staff anywhere in the country acceptable to them?

1.3 In view of the need for communicating with customers in local languages what arrangements do you suggest for orienting banks' policies for staff recruitment, training and deployment?

1.4 What is your view on the question of recruitment of special staff (including officers) for manning branches in rural or underdeveloped areas and devise special training courses for them? What do you think about having a separate 'rural cadre' in the banks for rural branches?

1.5 What are your views about the mobile branches, 'one-man' branches, and 'limited-day-operation' branches in certain areas (e.g., underdeveloped areas or hilly/remote regions)? Do you think that banks should go in for such branches particularly in underdeveloped and hilly areas instead of opening branches in remote places?

1.6 What, in your opinion is an appropriate branch expansion policy, having in mind the costs involved and the deployment of staff for manning the branches?

Part II

Lending to Priority Sectors

2.1 Are you satisfied that the personnel at branches/departments of banks, which handle the business of credit to priority sectors (including neglected sectors) are equipped to deal with such credit proposals? What suggestions would you make to train the staff for this purpose?

Part III

Efficiency of Services in Banks

There is a general feeling that there has been a qualitative deterioration in the banking services during the last few years. This may be due to various reasons such as rapid expansion of branches without adequate trained personnel, lack of motivation on the part of the staff, organisational deficiencies, increase in the volume and nature of functions that the banks are called upon to perform, etc.

3.1 What is the basis on which you would suggest norms for different items of work in the banks?

3.2 What are your suggestions for "orienting bank staff to perform duties of the kind expected of them in the context of the composition of the clientele of banks?" Besides the monetary benefits, do you think use of any other means can be made by banks to stimulate the motivation of the staff?

3.3 What are your views on direct recruitment of officers in banks? Would you suggest any changes in the present system?

3.4 Do you think that operational efficiency of banks has suffered because the instructions from the Head Office being usually in English are not fully understood by the staff? Do you think it advisable to have the circulars from Head Office/regional offices translated into local languages wherever necessary?

Part IV

Vigilance Arrangements

4.1 Do you consider the present arrangements for vigilance in banks are in the interests of the banks and the staff? What suggestions would you make for improving them?

4.2 Do you think that in recent years, frauds and defalcations have increased in banks in respect of both number and amount? If so, what, according to you, are the reasons for these?

4.3 It is believed that use of mechanical or electronic aids help in limiting frauds in banks. What would be your view in regard to taking help of such aids in concerned activities for facilitating vigilance work?

4.4 Please describe how the interests of the staff members are protected in case disciplinary proceedings in regard to charges are proposed against any of them?

Do you think that procedures for taking disciplinary action in cases of frauds are dilatory? If so, what are your suggestions for prompt and fair disposal of such cases?

4.5 What steps would you suggest for banks in regard to redefining the role of vigilance with a view to removing apprehensions from the minds of the operational staff?

Part V

General

The questions in this part cover other aspects of banks' working such as management-staff relations, salary structure, etc.

5.1 Do you suggest any changes in procedures, laws, etc., governing the existing industrial relations which might lead to better relations between staff and management in banks?

5.2 Do you agree that the staff working in branches as well as in other offices should be transferred from desk to desk in order to enable them to acquire wider banking experience?

5.3 What are your views on the salary structure of the different categories of staff in public sector banks? Do you think that there should be a common salary structure for all public sector banks in respect of officers as well as other staff? If so, what are your suggestions in this regard?

5.4 Should recruitment of clerical and subordinate staff be mainly on the basis of 'language' area?

5.5 What are your views on the recruitment of relatives of bank employees? What degree of limitation should be placed on such recruitment?

5.6 To what extent are the middle level officers able to carry out the instructions issued to them by senior officers in banks? If there is any deficiency in giving full effect to these instructions, what are the reasons and what are your suggestions to rectify the deficiency?

5.7 Do you think that the lack of rural background is a handicap for officers dealing with borrowers in rural areas? If so, what suggestions would you make for making the officers rural-oriented?

Confidential

ANNEXURE V

Committee to Study Functioning of Public Sector Banks

QUESTIONNAIRE TO PUBLIC FINANCIAL INSTITUTIONS

1.1 Banks have been and are opening branches in the underbanked areas in a large way in recent years. Do you consider that banks by themselves can substantially contribute to economic growth in such areas or that *prior* availability of infrastructure in such areas *and* the willingness of entrepreneurs to go to such areas are necessary for the banks to make their contributions? Please comment and offer your suggestions.

1.2 Credit needs of industry and commerce are quite different in character. How would you want to define separate criteria for the purpose? In the light of the Tandon Study Group's report on working capital requirements of industry, what norms would you suggest for credit to commerce?

1.3 Credit needs of industry for

(*a*) establishment and maintenance of fixed assets,

(*b*) working the fixed assets for production

are also quite different in character. What norms would you like to suggest for their different requirements?

1.4 There are several public financial institutions—IDBI, ICICI, IFCI, LIC, GIC, UTI—and many State Government institutions to cater for the medium/long-term financial requirements of industry. Is there any need for the commercial banks to go in for such advances i.e. should they not confine themselves to provision of only working capital requirements of the borrowers?

1.5 It is reported that participation or consortium idea involving joint financing by several banks and financial institutions, both for short-term and long-term credit has led to considerable delay and inconvenience to customers. What are your suggestions to eliminate these delays and/or lack of co-ordination between participating banks and institutions?

1.6 A suggestion has been mooted that in order to improve the working of the Public Sector Banks, a part of their capital—say not exceeding 24 per cent—be thrown open to subscription by the public, who would thereby be enabled to comment on their functioning at annual (or other) meetings of shareholders. What are your views in the matter?

Confidential

ANNEXURE VI

COMMITTEE TO STUDY FUNCTIONING OF PUBLIC SECTOR BANKS

QUESTIONNAIRE TO INDUSTRIAL AND COMMERCIAL ASSOCIATIONS

Part I

Branch Expansion

1.1 Latterly (last 8 years), commercial banks have gone in for extending banking services to rural and underbanked (by the commercial banks) areas in the country; the co-operative banking system has been catering to their requirements for several decades—but not adequately. In this context, do you consider:

(*a*) that commercial banks should continue to extend their activities to the still underbanked areas; *or*

(*b*) the co-operative banking system should be strengthened, and if so, how; *or*

(*c*) some effective co-ordination of the commercial banks and the co-operative banks can be successfully worked out so as to avoid duplication and consequent wastage of efforts.

1.2 If you have any experience of or information on the working of the Regional Rural Banks, please tell us and suggest any changes required.

1.3 Banks have been and are opening branches in the underbanked areas in a large way in recent years. Do you consider that banks by themselves can substantially contribute to economic growth in such areas or that *prior* availability of infrastructure in such areas *and* the willingness of entrepreneurs to go to such areas are necessary for the banks to make their contributions. Please comment and offer your suggestions.

Part II

Lending to Priority Sectors

2.1 It has never been the policy of the Government or the RBI to deny reasonably adequate credit to metropolitan and urban areas in order to provide credit to the rural areas. What is your experience in the matter? Please suggest any required action, bearing in mind the overriding need to provide credit to underbanked areas in the country.

2.2 Credit needs of industry and commerce are quite different in character. How would you want to define separate criteria for the purpose? In the light of the Tandon Study Group's report on working capital requirements of industry, what norms would you suggest for credit to commerce?

2.3 Credit needs of industry for:

(*a*) establishment and maintenance of fixed assets, (*b*) working the fixed assets for production,

are also quite different in character. What norms would you like to suggest for their different requirements?

2.4 There are several public financial institutions—IDBI, ICICI, IFCI, LIC, GIC, UTI and many State Government institutions to cater for the medium/long-term financial requirements of the borrowers. Is there any need for the commercial banks to go in for such advances i.e., should they not confine themselves to provision of only working capital requirements of the borrowers?

Part III

Efficiency of Services in Banks

3.1 There is a general feeling that there has been a qualitative deterioration in the banking services during the last few years. Do you subscribe to this view? If so, what, according to you, are the reasons for this and what are your suggestions for improvement?

3.2 What suggestions do you have for eliminating reportedly long delays in the sanction of credit limits by banks?

3.3 What is the bearing of the means of communication between the Head Office and branches as well as among different branches on the promptness and efficiency of bank services to the public, particularly to the industry and business in different areas, namely, metropolitan, urban, semi-urban and rural?

3.4 It is reported that participation or consortium idea for advances has led to considerable delay and inconvenience to customers. What are your suggestions to eliminate these delays?

3.5 There is a general complaint that on account of the numerous and pressing demands made on the senior executives of banks who have to attend the various seminars, workshops, conferences and other meetings, these bank officials are not easily and frequently available for discussions with customers. Have you any suggestions to make in this regard?

Part IV

General

4.1 From the functional viewpoint of efficiency of banks, so far as their dealings with industry and trade are concerned, do you consider the present number of 71 banks comprising of:

(*a*) 22 Public Sector Banks

(*b*) 37 Private Banks

(*c*) 12 Foreign Banks

too few or too many or about right for India having regard to the size, population and ethnic variety of the country? Do you suggest or advise any changes? If so, please detail them, giving reasons.

4.2 Based upon your experience of the working of the Public Sector Banks, what would you advise the optimum size of banks should be:

(*a*) in respect of the number of branches,

(*b*) in respect of the size of the staff,

(*c*) in respect of the geographical coverage by the branches.

4.3 What is to be done with banks which have branches larger than the 'optimum size'? What is your suggestion regarding the excess number of branches?

4.4 There are varying opinions on the establishment of Zonal Banks. We have had for 20 years experience of the establishment of linguistic States in the country. Does the experience warrant the view that Zonal Banks would promote regionalism in the banking field also to the certain detriment of the underbanked States? What are your views and suggestions?

4.5 It is a fact that most Head Offices are located in a very few metropolitan centres. What are your views on the subject—bearing in mind the need for avoidance of dislocation of the functioning of the Head Office of the banks. Would you consider the establishment of *sufficient* number of Regional Head Offices by the nationalised banks (somewhat on the lines of the Local Head Offices of State Bank of India) an adequate answer?

4.6 A suggestion has been mooted that in order to improve the working of the Public Sector Banks, a part of their capital—say not exceeding 24 per cent—be thrown open to subscription by the public, who would thereby be enabled to comment on their functioning at annual (or other) meetings of shareholders. What are your views in the matter?

4.7 From your knowledge and experience regarding the constitution of the Boards of Directors of the State Bank Group and of the nationalised banks have you any comments or suggestions on the method of choice of the Directors and how they should function?

4.8 There are Public Sector Banks, Private Sector Banks, Co-operative Banks, Land Development Banks and Regional Rural Banks to cater to the credit requirements of rural areas. What are your suggestions for avoidance/elimination of duplication of efforts by these several institutional agencies?

4.9 In the realisation of the general objective of nationalisation of banks, namely, responding to the social needs of the economy, what co-operation can be extended by industry and trade, in matters such as proper end-use of funds, adhering to the norms prescribed by the monetary authorities etc.?

4.10 In view of the special attention being paid by public sector banks in opening branches and meeting the credit requirements of different types of borrowers in under developed and backward areas, has there been adequate response from entrepreneurs to take advantage of these facilities? If not, what factors have been responsible and what further measures would you suggest in this regard?

ANNEXURE VII

NAMES OF REPRESENTATIVES OF VARIOUS INSTITUTIONS AND INDIVIDUALS

I. Bombay

1. Shri P. C. D. Nambiar, Chairman, State Bank of India.
2. Shri R. C. Shah, Chairman & Managing Director, Bank of Baroda.
3. Shri C. P. Shah, Chairman & Managing Director, Bank of India.
4. Shri P. F. Gutta, Chairman & Managing Director, Central Bank of India.
5. Shri B. K. Vora, Chairman & Managing Director, Dena Bank.
6. Shri B. L. Paranjape, Chairman & Managing Director, Union Bank of India.
7. Shri Udhavdas Girdharidas, President, The Shikarpuri Shroffs Association Ltd.
8. Shri M. R. Pai, Hon. Secretary, All India Bank Depositors' Association.
9. Shri A. M. Puranik, General Secretary, National Organisation of Bank Workers.
10. Shri K. R. Podar, Chairman, Indian Merchants Chamber.
11. Shri L. V. Subramaniam, Secretary General, All India Confederation of Bank Officers' Organisation.
12. Shri P. F. Gutta, Chairman, Indian Banks Association.
13. Shri M. R. Shroff, President, All India Manufacturers Organisation.
14. Dr. V. R. Cirvante, Principal, Bankers' Training College.
15. Shri N. Vaghul, Director, National Institute of Bank Management.
16. Shri S. G. Shah, Executive Adviser, Credit Trust.
17. Shri S. R. Mohan Das, Industrial and Managerial Relations Consultant.

II. Calcutta

18. Shri V. R. Desai, Chairman & Managing Director, United Commercial Bank.
19. Shri S. Niyogi, Chairman & Managing Director, United Bank of India.
20. Shri A. Ghosh, Chairman, Allahabad Bank.
21. Shri J. N. Biswas, Chairman, United Industrial Bank Ltd.
22. Shri J. M. Jathia, President, Indian Chamber of Commerce.
23. Shri Milan Kumar Mookerjee, Vice-President, Bengal National Chamber of Commerce & Industry.
24. Shri C. M. Taparia, Chairman, Jute Baler's Association.
25. Shri I. K. Kejriwal, Chairman, Indian Jute Mills Association.
26. Shri N. L. Tantia, Vice-President, Tea Association of India.
27. Shri C. S. Samuel, Vice-President, Indian Tea Association.
28. Shri S. Chakraborty, President, Federation of Small & Medium Industries.

29. Shri A. K. Rungta, President, Bharat Chamber of Commerce.
30. Dr. Bhabatosh Dutta.
31. Shri C. S. Rangaswamy, Editor, Indian Finance.

III. Madras

32. Shri M. V. Subba Rao, Chairman & Managing Director, Indian Bank.
33. Shri A. M. Kadhiresan, Chairman & Managing Director, Indian Overseas Bank.
34. Shri R. M. Muthaiah, Chairman, Bank of Madura Ltd.
35. Shri C. K. Duraivelan, President, Southern India Chamber of Commerce & Industry.
36. Shri C. S. Krishnaswami, Secretary, Madras Chamber of Commerce & Industry.
37. Shri P. Kotaiah, President, All India State Bank Officers' Federation.
38. Shri M. S. Parthasarathy, President, Tamil Nadu Small Scale Industries Association.
39. Shri R. M. Dave, President, Hindustan Chamber of Commerce.

IV. New Delhi

40. Shri O. P. Gupta, Chairman, Punjab National Bank.
41. Shri D. R. Gandotra, Chairman, New Bank of India Ltd.
42. Shri Autar Singh Bagga, General Manager, Punjab & Sind Bank Ltd.
43. Shri M. L. Nandrajog, Secretary General, Punjab, Haryana and Delhi Chamber of Commerce.
44. Shri D. P. Chadha, President and Shri Prabhat Kar, Gen. Secretary, All India Bank Employees Association.
45. Shri P. V. Gandhi, Vice-President, Federation of Associations of Small Industries of India.
46. Shri S. S. Aggarwal, Vice-President, Federation of Associations of Small Industries of India.

V. Hyderabad

47. Shri S. K. Nathan, Chief General Manager, State Bank of India, Local Head Office.
48. Shri S. K. Datta, Managing Director, State Bank of Hyderabad.
49. Shri O. Swaminatha Reddy, Chairman, Andhra Bank Ltd.
50. Shri N. K. Murlidhar Rao, Andhra Pradesh State Co-operative Bank.
51. Shri D. R. K. Patnaik, Chairman, Visakha Grameena Bank.
52. Shri Y. V. S. Murthy, Chairman, Nagarjuna Grameena Bank.
53. Shri Satyanarayana Gupta, President, Andhra Pradesh Grain Seeds Merchants' Association.
54. Shri A. Sanker Reddy, Local President, Federation of Associations of Small Industries of India.
55. Shri T. L. Kapadia, Vice-President, Andhra Pradesh Federation of Chambers of Commerce.

VI. Bangalore

56. Shri M. B. Deshmukh, Managing Director, State Bank of Mysore.
57. Shri C. E. Kamath, Chairman & Managing Director, Canara Bank.
58. Shri V. N. Setty, Chairman, Vysya Bank Ltd.
59. Shri K. Surya Narayan Adiga, Chairman, Karnataka Bank Ltd.
60. Shri M. Sunder Ram Shetty, Chairman, Vijaya Bank Ltd.
61. Shri H. G. Balagopal, Chairman, Cauvery Grameena Bank.
62. Shri A. Krishnamurthi, Hon. Secretary, Federation of Karnataka Chamber of Commerce.
63. Shri K. R. Narsimha Setty, President, Karnataka Small Scale Industries Association.

VII. Pune

64. Dr. M. V. Patwardhan, Chairman & Managing Director, Bank of Maharashtra.
65. Shri H. M. Gadre, President, Pune Bank Users' Association.
66. Dr. B. R. Sabade, Secretary, Maharashtra Chamber of Commerce.

VIII. Manipal

67. Shri K. K. Pai, Chairman, Syndicate Bank.

IX. Mangalore

68. Shri N. N. Pai, Chairman, Corporation Bank Ltd.

ANNEXURE VIII

TABLE No.

1. Number of offices of all commercial banks in India.
2. Progress of banking in India.
3. Number of offices of all commercial banks in centres of different population-groups.
4. Population group-wise break-up of the total number of commercial bank offices in India as on the 30th June 1969 and 31st December 1977.
5. Number of commercial bank offices in India as on the 30th June 1969 and 31st December 1977 (Bank Group-wise).
6. Population per bank office in selected States.
7. State-wise distribution of commercial bank offices, licences pending, population coverage, etc., as on the 31st December 1977.
8. Distribution of deposits and advances of scheduled commercial banks according to population-group—1969-1977.
9. Deposits and advances of scheduled commercial banks (Bank-Group).
10. Priority sector advances by public sector banks.
11. Priority sector advances by public sector banks—Bank-wise.
12. State-wise distribution of priority sector advances by all scheduled commercial banks.
13. State-wise distribution of deposits and advances of public sector banks during June 1969 and June 1977.
14. Deposits of co-operative societies/banks and scheduled commercial banks.
15. State-wise Index number of imbalances in respect of bank offices, deposits and advances as on the 30th June 1977.

TABLE 1

Number of Offices of All Commercial Banks in India

Bank Groups	As on 30th June 1969	As on 31st December 1977*	Increase between (1) and (2)
	(1)	(2)	(3)
(*a*) State Bank of India	1,569	4,668	+ 3,099
(*b*) Associate banks of SBI	893	2,141	+ 1,248
(*c*) 14 Nationalised Banks	4,134	13,362	+ 9,228
(*d*) Regional Rural Banks	—	1,172	+ 1,172
(*e*) Total public sector banks (*a* to *d*)	6,596	21,343	+ 14,747
(*f*) Other commercial banks (including foreign banks)	1,666	5,653	+ 3,987
(*g*) All commercial banks (*e*) + (*f*)	8,262	26,996	+ 18,734

*Data for December 1977 are provisional.

Source: Data supplied by the Department of Banking Operations & Development.

TABLE 2

Progress of Banking in India

	Public Sector Banks		All Scheduled Commercial Banks	
	June 1969	December 1977	June 1969	December 1977
1. Number of Offices	6596	20171	8262	26996
(i) Rural	1505	8024	1832	11090
(ii) Semi-Urban	2622	5686	3322	7493
(iii) Urban	1176	3390	1447	4447
(iv) Metropolitan/Port Town	1293	3062	1661	3966
2. Population per Office (in '000s)	—	—	64	20
3. Deposits in India (Rs. crores)	3872	17473	4646	20679
(i) Demand	1824	6883	2104	8040
(ii) Time	2048	10590	2542	12639
4. Deposits per Office (Rs. lakhs)	59	86	56	77
5. Credit in India (Rs. crores)	3017	12183	3599	14334
6. Credit per Office (Rs. lakhs)	47	60	44	53
7. Per Capita Deposits (Rs.)	—	—	88	376
8. Per Capita Credit (Rs.)	—	—	68	261
9. Deposits as percentage of National Income (at current prices)	—	—	15.3	28.6+
10. Share of Priority Sector Advances in Bank Credit	14.9	23.0*	13.4	25.9*
11. Credit Deposit Ratio	77.9	69.7	77.5	69.3
12. Investment Deposit Ratio	30.0	33.7†	29.3	32.6
13. Cash Deposit Ratio	8.5	8.9†	8.2	8.2
14. Number of Employees ('000s)	N.A.	336@	220	412@

Note: Data for December 1977 are provisional.

* Refers to June 1977

@ Staff position as at end December 1976.

\+ Deposits as at end March 1977 as per cent of Net National Product at current prices (quick estimates).

† December 23, 1977.

N.A. Not available.

Sources: 1. Basic Statistical Returns and Weekly returns submitted by scheduled commercial banks.
2. Data supplied by the Department of Banking Operations & Development.

TABLE 3

Number of Offices of All Commercial Banks in Centres of Different Population Groups

	June 1969	% to total	December 1977	% to total	Change 3 over 1	% to total
	1	2	3	4	5	6
TOTAL	**8,262**	100.0	**26,996**	100.0	+ **18,734**	100.0
Of which, in						
(*a*) Rural centres	1,832	22.4	11,090	41.1	+ 9,258	49.4
(*b*) Semi-urban centres	3,322	40.1	7,493	27.7	+ 4,171	22.3
(*c*) Urban centres	1,447	17.5	4,447	16.5	+ 3,000	16.0
(*d*) Metropolitan and Port Town centres	1,661	20.0	3,966	14.7	+ 2,305	12.3

Data for December 1977 are provisional.

Rural centres = With population upto 10,000.

Semi-urban centres = With population over 10,000 and upto 1 lakh.

Urban centres = With population over 1 lakh and upto 10 lakhs.

Metropolitan centres = With population over 10 lakhs.

Port Towns—Cochin, Kakinada, Mangalore, Nagapattinam, Okha, Paradeep, Pondicherry, Port Blair, Kandla, Visakhapatnam, Tuticorin and Mormugao.

Source: Data supplied by the Department of Banking Operations and Development.

TABLE 4

Population Group-wise break-up of the Total Number of Commercial Bank Offices in India as on the 30th June 1969 & 31st December 1977

	No. of offices as on 30-6-1969					No. of offices as on 31-12-1977*					Net increase since 30-6-1969 upto 31-12-1977				
	R	SU	U	M/PT	T	R	SU	U	M/PT	T	R	SU	U	M/PT	T
State Bank of India	462	795	162	150	1569	2081	1459	632	496	4668	1619	664	470	346	3099
Associate Banks of State Bank of India	357	375	86	75	893	910	723	290	218	2141	553	348	204	143	1248
14 Nationalised Banks	686	1452	928	1068	4134	5033	3504	2477	2348	13362	4347	2052	1549	1280	9228
Regional Rural Banks	—	—	—	—	—	1052	101	19	—	1172	1052	101	19	—	1172
Other Commercial Banks	327	700	271	368	1666	2014	1706	1029	904	5653	1687	1006	758	536	3987
TOTAL	1832	3322	1447	1661	8262	11090	7493	4447	3966	26996	9258	4171	3000	2305	18734
	(22.4)	(40.1)	(17.5)	(20.0)	(100.0)	(41.1)	(27.7)	(16.5)	(14.7)	(100.0)	(49.4)	(22.3)	(16.0)	(12.3)	(100.0)

Note: Figures in brackets are percentages to the total.
Data for December 1977 are provisional.

R = Rural centres — Places with a population upto 10,000.
SU = Semi-urban — Places with a population over 10,000 and upto 1,00,000.
U = Urban centres — Places with a population over 1,00,000 and upto 10,00,000.
M = Metropolitan centres — Places with a population over 10,00,000.
PT = Port Towns — Cochin, Kakinada, Mangalore, Nagapattinam, Okha, Paradeep, Pondicherry, Port Blair, Kandla, Visakhapatnam, Tuticorin and Mormugao.
T = Total

* The classification is based on 1971 Census.

Source: Data supplied by the Department of Banking Operations & Development.

TABLE 5

Number of Commercial Bank Offices in India as on the 30th June 1969 and 31st December 1977 (Bank Group-wise)

Name of the Bank	30-6-1969					31-12-1977				
	R	SU	U	M/PT	T	R	SU	U	M/PT	T
1. State Bank of India	462	795	162	150	1569	2081	1459	632	496	4668
2. Associate Bank of SBI	357	375	86	75	893	910	723	290	218	2141
Total of (1)+(2)	**819**	**1170**	**248**	**225**	**2462**	**2991**	**2182**	**922**	**714**	**6809**
3. Allahabad Bank	10	46	61	36	153	250	194	153	100	697
4. Bank of Baroda	81	97	96	99	373	462	331	219	198	1210
5. Bank of India	43	52	76	103	274	428	270	233	204	1135
6. Bank of Maharashtra	25	67	36	25	153	192	142	121	82	537
7. Canara Bank	54	133	54	84	325	350	315	189	251	1105
8. Central Bank of India	78	219	136	131	564	538	421	308	236	1503
9. Dena Bank	42	72	37	83	234	278	159	116	147	700
10. Indian Bank	16	100	39	63	218	206	241	134	142	723
11. Indian Overseas Bank	35	58	44	61	198	235	173	118	131	657
12. Punjab National Bank	76	262	126	106	570	536	393	272	200	1401
13. Syndicate Bank	99	115	37	56	307	387	228	138	190	943
14. Union Bank of India	57	50	56	78	241	406	256	176	163	1001
15. United Bank of India	20	65	32	58	175	343	159	100	142	744
16. United Commercial Bank	50	116	98	85	349	422	222	200	162	1006
Total (3) to (16)	**686**	**1452**	**928**	**1068**	**4134**	**5033**	**3504**	**2477**	**2348**	**13362**
17. Regional Rural Banks	—	—	—	—	—	1052	101	19	—	1172
18. Other Scheduled Commercial Banks	265	595	231	228	1319	1978	1677	1017	784	5456
19. Foreign Banks	1	2	9	118	130	—	3	9	119	131
20. Non-Scheduled Banks	61	103	31	22	217	36	26	3	1	66
TOTAL	**1832**	**3322**	**1447**	**1661**	**8262**	**11090**	**7493**	**4447**	**3966**	**26996**

Data for December 1977 are provisional.
R=Rural centres SU=Semi-Urban centres U=Urban centres M=Metropolitan centres
PT=Port Towns T=Total

Source: Data supplied by the Department of Banking Operations and Development.

TABLE 6

Population per Bank Office in Selected States

(Figures in thousands)

	State/Union Territory	June 1969	December 1977	Including licences pending or allotment made
		1	2	3
1.	Assam	198	38	33
2.	Bihar	207	43	40
3.	Madhya Pradesh	116	30	27
4.	Manipur	497	43	40
5.	Orissa	212	36	31
6.	Uttar Pradesh	119	30	28
7.	West Bengal	87	25	23
8.	Arunachal Pradesh	—	43	25
9.	Mizoram	—	67	24
	ALL INDIA	65	20	19

Source: Data supplied by the Department of Banking Operations and Development.

TABLE 7

State-wise Distribution of Commercial Bank Offices, Licences Pending, Population Coverage, etc. as on the 31st December 1977

Name of State/Union Territory	No. of Offices: June 30, 1969	No. of Offices: December 31, 1977	Increase between 1969 and 1977	Population per Bank office (in thousands): 30-6-1969	Population per Bank office (in thousands): 31-12-1977	No. of licences pending/allotment made as on 31-12-1977	Population per bank office taking into account licences pending/allotment made (in thousands)
	1	2	3	4	5	6	7
1. Andhra Pradesh	567	2041 (1786)	1474	75	21 (25)	241 (201)	19 (21)
2. Assam	74	386	312	198	38	57	33
3. Bihar	273	1306	1033	207	43	126	40
4. Gujarat	752	2043 (1754)	1291	34	13 (15)	106 (76)	12 (14)
5. Haryana	172	660	488	57	15	25	15
6. Himachal Pradesh	42	283	241	80	12	34	11
7. Jammu & Kashmir	35	325	290	114	14	32	13
8. Karnataka	756	2278 (1921)	1522	38	13 (15)	238 (178)	12 (13)
9. Kerala	601	1946	1345	35	11	137	10
10. Madhya Pradesh	343	1373	1030	116	30	148	27
11. Maharashtra	1118	2839 (2004)	1721	44	18 (24)	270 (162)	16 (20)
12. Manipur	2	25	23	497	43	2	40
13. Meghalaya	7	43	36	141	24	14	18
14. Nagaland	2	24	22	205	22	8	11
15. Orissa	100	616	516	212	36	84	31

16. Punjab	346	1379	1033	42	10	92	9
17. Rajasthan	364	1121	757	70	23	97	21
18. Tamil Nadu	1060	2480 (2065)	1420	37	17 (20)	189 (150)	15 (18)
19. Tripura	5	67	62	276	23	4	22
20. Uttar Pradesh	747	2916 (2762)	2169	119	30 (33)	291 (266)	28 (29)
21. West Bengal	504	1741 (1121)	1237	87	25 (39)	189 (114)	23 (34)
22. Andaman & Nicobar Islands	1	10	9	82	12	3	9
23. Arunachal Pradesh	—	11	11	—	43	8	25
24. Chandigarh	20	72	52	7	4	13	3
25. Dadra & Nagar Haveli	—	4	4	—	19	—	19
26. Goa, Daman & Diu	85	208	123	8	4	23	4
27. Lakshadweep	—	5	5	—	6	—	6
28. Mizoram	—	5	5	—	67	9	24
29. Delhi	274	748	474	10	5	101	5
30. Pondicherry	12	41	29	31	12	4	10
ALL INDIA	8262	26996	18734	65	20	2535	19

Note: Figures in brackets show number of offices/licences/population per bank office in the State after excluding number of offices/licences/population per bank office in the metropolitan cities in the respective State.

Data for December 1977 are provisional.

Source: Data supplied by the Department of Banking Operations and Development.

TABLE 8

Distribution of Deposits and Advances of Scheduled Commercial Banks according to Population Group—1969-1977
(As on the last Friday)

(In Crores of Rupees)

Population Group*	June 1969		June 1977		Variations of June 1977 over June 1969		Compound Annual Growth Rate	
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
1. Rural	145 (3.1)	54 (1.5)	1763 (9.3)	895 (6.5)	1618 (11.3)	841 (8.2)	36.7	42.0
2. Semi-urban	1024 (22.0)	407 (11.3)	4258 (22.4)	1881 (13.6)	3234 (22.5)	1474 (14.5)	19.5	21.1
3. Urban	1209 (25.9)	722 (20.0)	4685 (24.6)	3072 (22.3)	3476 (24.2)	2350 (23.1)	18.5	19.8
4. Metropolitan	2287 (49.0)	2426 (67.2)	8330 (43.7)	7953 (57.6)	6043 (42.0)	5527 (54.2)	17.5	16.0
TOTAL	**4665** (100.0)	**3609** (100.0)	**19036** (100.0)	**13801** (100.0)	**14371** (100.0)	**10192** (100.0)	19.2	18.3

Note: Data for June 1977 are provisional.
Figures in brackets represent percentages to Total.
* Based on 1971 Census.

Source: Basic Statistical Returns.

TABLE 9

Deposits and Advances of Scheduled Commercial Banks (Bank Group)

(Amount in crores of Rupees)

Bank Group	Deposits			Advances		
	June 1969	June 1977	Annual Compound Growth Rate	June 1969	June 1977	Annual Compound Growth Rate
SBI and its Associates	1260.05 (27.1)	5569.72 (29.3)	20.4	1200.84 (33.3)	4137.07 (30.0)	16.8
14 Nationalised Banks	2636.92 (56.5)	10525.68 (55.3)	18.9	1833.76 (50.8)	7785.64 (56.4)	19.7
Total Public Sector Banks	3896.97 (83.6)	16095.40 (84.6)	19.3	3034.60 (84.1)	11922.71 (86.4)	18.6
Other Scheduled Commercial Banks	768.22 (16.4)	2940.86 (15.4)	18.3	574.26 (15.9)	1878.62 (13.6)	15.9
All Scheduled Commercial Banks	4665.19 (100.0)	19036.26 (100.0)	19.3	3608.86 (100.0)	13801.33 (100.0)	18.2

Note: Data for June 1977 are provisional.

Source: Basic Statistical Returns.

TABLE 10

Priority Sector Advances by Public Sector Banks

(Number of Accounts in 000's)
(Amount in Rupees crores)

		June 1969		June 1977		Increase between 1969 and 1977	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Agriculture	165	162 (36.7)	4546	1275 (40.5)	4381	1113 (41.1)
	(*a*) Direct	160	40 (9.1)	3986	951 (30.2)	3826	911 (33.7)
	(*b*) Indirect	5	122 (27.7)	560	324 (10.3)	555	202 (7.5)
2.	Small Scale Industries	31	251 (56.9)	430	1315 (41.8)	399	1064 (39.3)
3.	Small Road and Water Transport Operators	2	6 (1.4)	166	253 (8.0)	164	247 (9.2)
4.	Retail Trade and Small Business	38	19 (4.3)	889	226 (7.2)	851	207 (7.6)
5.	Professional and self-employed persons	8	2 (0.5)	504	72 (2.3)	496	70 (2.6)
6.	Education	2	1 (0.2)	24	6 (0.2)	22	5 (0.2)
	TOTAL (1 to 6)	**246**	**441** (100.0) 14.9*	**6559**	**3147** (100.0) 27.0*	**6313**	**2706** (100.0)

Note: Total priority sector advances for June 1969 in this table do not tally with the figure given in Table 11 since the bank-wise classification in Table 11 do not include data on Retail Trade, Small business and Professional and self-employed persons.

Figures in brackets represent percentage to total.

Data for June 1977 are provisional.

* Represents percentage to total credit of public sector banks.

Source: Data supplied by Department of Banking Operations and Development and Industrial Finance Department.

TABLE 11

Priority Sector Advances by Public Sector Banks—Bank-wise

(In lakhs of Rupees)

Banks	June 1969*	Per cent to total credit of the bank	June 1977	Per cent to total credit of the bank
1. State Bank of India	168,48	17.3	875,21	26.3
2. Subsidiaries of SBI	34,43	15.3	243,79	31.1
3. Allahabad Bank	5,55	6.5	47,11	18.2
4. Bank of Baroda	16,06	9.1	190,90	25.1
5. Bank of India	22,48	9.2	215,69	25.0
6. Bank of Maharashtra	16,76	31.8	99,50	36.1
7. Canara Bank	17,57	16.3	204,07	32.8
8. Central Bank of India	30,79	9.2	225,68	22.8
9. Dena Bank	13,42	17.0	86,46	27.9
10. Indian Bank	12,38	20.7	100,65	27.9
11. Indian Overseas Bank	13,82	30.9	94,49	32.4
12. Punjab National Bank	18,54	7.9	191,36	23.8
13. Syndicate Bank	22,21	24.1	181,88	36.3
14. Union Bank of India	8,48	11.4	161,06	32.0
15. United Bank of India	5,67	5.3	104,48	21.7
16. United Commercial Bank	11,94	8.6	124,05	24.6
17. Total Public Sector Banks	**418,58**	**13.8**	**3146,38**	**27.0**
18. All Scheduled Commercial Banks	**482,20**	**13.4**	**3485,87**	**25.9**

*Excludes data on retail trade, small business and professional and self-employed persons.

Source: Data supplied by the Department of Banking Operations and Development and Industrial Finance Department.

TABLE 12

State-wise distribution of priority sector advances by all Scheduled Commercial Banks

(Rupees Lakhs)

Sr. No.	Name of the State	Agriculture		Small-Scale Industry		Other Small Borrowers		Total		Increase in 1977 over 1969 (Col. 8-7)	Priority sector Advances to total Bank Credit	
		End-June 1969	End-June 1977	End-June 1969	End-June 1977	End-June 1969*	End-June 1977**	End-June 1969	End-June 1977		1969	1977
		1	2	3	4	5	6	7	8	9	10	11
1.	Andhra Pradesh	1903	15952	2073	8446	48	3393	4024	27791	23767	27.4	46.0
2.	Assam	29	508	155	919	1	1501	185	2928	2743	13.2	35.8
3.	Bihar	134	6298	324	3530	6	4358	464	14186	13722	8.9	46.3
4.	Gujarat	754	7959	2477	12979	16	3922	3247	24860	21613	16.6	33.7
5.	Haryana	159	5348	656	4456	5	1150	820	10954	10134	31.3	64.3
6.	Himachal Pradesh	1	477	14	239	—	433	15	1149	1134	0.4	58.4
7.	Jammu & Kashmir	1	246	34	622	—	1383	35	2251	2216	0.6	55.9
8.	Karnataka	1864	14985	1767	10348	284	7124	3915	32457	28542	22.4	40.5
9.	Kerala	520	5475	2332	8830	40	3421	2892	17726	14834	29.3	42.1
10.	Madhya Pradesh	522	6815	863	3801	5	3360	1390	13976	12586	21.3	49.0
11.	Maharashtra	4086	18875	6332	29350	171	10033	10589	58258	47669	9.9	19.8
12.	Manipur	—	39	—	16	—	155	—	210	210	—	76.1
13.	Meghalaya	—	43	—	9	—	173	—	225	225	—	54.5
14.	Nagaland	—	6	2	30	—	61	2	97	95	33.3	42.9

15. Orissa	30	2026	142	1102	2	1344	174	4472	4298	10.5	43.4
16. Punjab	184	7884	1465	8263	2	2109	1651	18256	16605	28.4	62.2
17. Rajasthan	168	4497	544	3301	—	1599	712	9397	8685	16.1	39.8
18. Tamil Nadu	5181	14561	3750	15409	151	4779	9082	35749	25667	23.9	27.6
19. Tripura	—	125	—	24	—	164	—	313	313	—	73.6
20. Uttar Pradesh	1556	16937	2084	11355	6	4783	3646	33075	29429	21.1	41.9
21. West Bengal	897	5039	2141	12140	17	5736	3055	22915	19860	4.4	14.5
22. Chandigarh	315	1788	30	564	—	375	345	2727	2382	5.3	5.4
23. Delhi	458	1406	1060	9277	16	2058	1534	12741	11207	5.3	5.1
24. Others	76	795	315	1008	52	1070	443	2873	2430	18.0	32.9
TOTAL	**18838**	**138084**	**28560**	**146018**	**822**	**64484**	**48220**	**348586**	**300366**	**13.4**	**25.9**

* Refer to Road and Water Transport.

** Refer to Road and Water Transport, Retail Trade and Small Business, Professional and Self-employed Persons and Education.

Data for June 1977 are provisional.

Source: Data supplied by the Department of Banking Operations & Development and Industrial Finance Department.

TABLE 13

State-wise Distribution of Deposits and Advances of Public Sector Banks during June 1969 and June 1977

(Rupees Crores)

State/Union Territories	June 1969			June 1977		
	Deposits	Advances	Credit Deposit Ratio	Deposits	Advances	Credit Deposit Ratio
1. Andhra Pradesh	121	122	100.8	659	474	71.9
2. Assam	33	13	39.4	168	74	44.0
3. Bihar	142	52	36.6	789	302	38.3
4. Gujarat	401	185	46.1	1375	726	52.8
5. Haryana	49	23	46.9	231	133	57.6
6. Himachal Pradesh	12	3	25.0	83	18	21.7
7. Jammu & Kashmir	18	1	5.6	68	19	27.9
8. Karnataka	188	143	76.1	731	665	91.0
9. Kerala	117	77	65.8	471	309	65.6
10. Madhya Pradesh	107	63	58.9	540	270	50.0
11. Maharashtra	943	882	93.5	3493	2537	72.6
12. Manipur	1	..	—	7	3	42.9
13. Meghalaya	9	3	33.3	24	4	16.7
14. Nagaland	..	..	—	5	2	40.0
15. Orissa	29	15	51.7	160	97	60.6
16. Punjab	185	50	27.0	696	220	31.6
17. Rajasthan	73	38	52.1	317	198	62.5
18. Tamil Nadu	233	311	133.5	1016	1063	104.6
19. Tripura	4	..	..	15	4	26.7
20. Uttar Pradesh	337	154	45.7	1546	712	46.1
21. West Bengal	456	501	109.9	1881	1313	69.8
22. Chandigarh	23	64	278.3	103	470	456.3
23. Delhi	360	245	68.1	1510	2226	147.4
24. Others	55	25	45.5	208	84	40.4
TOTAL	**3896**	**2970**	**76.2**	**16096**	**11923**	**74.1**

Data for June 1977 are provisional.

.. Negligible

Source: Basic Statistical Returns.

TABLE 14

Deposits of Co-operative Societies/Banks and Scheduled Commercial Banks

(Rupees Lakhs)

	June 1969 (outstanding)	Increase over the previous year							June 1976 (outstanding)	Increase in June 1976 over June 1969	
		1970	1971	1972	1973	1974	1975	1976		Amount	Percentage
1. Primary Agricultural Co-operative Credit Societies	54,64	5,53	6,57	5,47	9,50	4,58	11,39	15,32	113,00	58,36	106.8
2. District Co-operative Central Banks	203,34	24,98	36,59	42,07	85,88	56,02	60,60	175,52	685,00*	481,66	236.9
TOTAL (1+2)	257,98	30,51	43,16	47,54	95,38	60,60	71,99	190,84	798,00	540,02	209.3
3. All Scheduled Commercial Banks	1169,02	—	—	—	656,39	488,58	568,17	950,59	4791,38	3622,36	309.9
(i) Rural	144,96	N.A.	N.A.	N.A.	195,29	182,01	190,63	319,48	1345,96	1201,00	828.5
(ii) Semi-urban	1024,06	N.A.	N.A.	N.A.	461,10	306,57	377,54	631,11	3445,42	2421,36	236.4

* Excluding deposits of primary credit societies.

N.A.—Not available

Source: Statistical Statements Relating to the Co-operative Movement in India and Basic Statistical Returns.

TABLE 15

State-wise Index Number of Imbalances in respect of Bank Offices, Deposits and Advances as on 30-6-1977

States	Bank Offices	Deposits	Advances
1. Andhra Pradesh	83.3	52.6	51.3
2. Assam	55.2	34.5	20.7
3. Bihar	56.4	48.5	24.8
4. Gujarat	192.0	170.0	122.0
5. Haryana	122.2	77.7	61.1
6. Himachal Pradesh	183.3	83.3	33.3
7. Jammu & Kashmir	87.5	50.0	25.0
8. Karnataka	141.5	84.9	109.4
9. Kerala	112.8	74.4	66.7
10. Madhya Pradesh	75.6	43.6	29.5
11. Maharashtra	128.0	233.3	229.0
12. Orissa	57.5	25.0	20.0
13. Punjab	180.0	172.0	72.0
14. Rajasthan	85.4	41.7	35.4
15. Tamil Nadu	109.5	85.1	120.3
16. Uttar Pradesh	73.2	61.1	38.2
17. West Bengal	91.5	142.7	134.1

Note: Index Numbers of inter-State imbalances have been worked out by dividing the share of bank offices/deposits/advances of each State by the percentage of share of population of the concerned State.

REPORT BY

B. K. DUTT

MEMBER

TO THE COMMITTEE ON PUBLIC SECTOR BANK—1977

CONTENTS

January 10, 1978.

Chairman,
Committee on Public Sector Banks,
Bombay.

Sir,

I am very sorry that a separate report is to be submitted by me. My approach to the Terms of Reference, has been from *man* to *institutions* and not the other way about. The concept vis-a-vis finance for the weaker section of the community, that concretised in my mind during the enquiry by the Sir Purusottamdas Committee, has not only not diluted, it is firmly established in my mind as a matter of faith.

2. Since the first meeting of the Committee, I found myself to be thinking on a different wave-length. Through various notes, I tried to assist in formulating an approach conforming to, in my view, the needs of the society. That did not bring the wave-lengths closer. Finally I placed a synopsis of my approach (slightly edited copy attached) for a concrete discussion on my basic theme, which, in my opinion, did not get the attention it deserved.

3. So I have felt it essential to tell my story in my own way. Hence a separate report, which could not be adequately developed for want of time. Hence it is suggested that the approach paper may also be read along with the report.

4. The report (and the synopsis submitted to the Committee for its consideration) is sent herewith.

5. Before I close, may I add that the majority Report, as to discussion on various aspects, data and some of the recommendations will be useful to whoever considers the report.

Yours faithfully,
Sd/-
(B. K. Dutt)

Encls.: as above.

January 11, 1978

REPORT

COMMITTEE ON PUBLIC SECTOR BANKS

By B. K. Dutt, Member.

Introductory

1. No study of the working of the public sector banks can be useful without, at the same time, having a reference to the banking system as a whole, the environment in which the banks (including the private sector banks) operate and the basic objectives of the banking operations. The expression "to study all aspects of the functioning of the public sector banks" is, therefore, to be interpreted accordingly. A study of only the public sector banks themselves on the basis of their present status of functioning with a view to finding out what further improvements can be made, can only be a superficial exercise yielding hardly any useful results. The approach has to be to try and find out what is needed, by way of a banking system, for assisting expeditious growth of the economy *where the common man is important* and not to advise a patch work on the existing structure, organisation or system and then to expect the people to fit into it.

1.1 Traditionally, borrowing from the system abroad developed in a completely different socio-economic situation, banking in India has developed itself into a service for the minority group of elitists, leaving the overwhelmingly large portion of the population out of its scope. But since the social control of banks, the concept has been changing and with the nationalisation in 1969 a completely different orientation has been brought into play.

2. The basic objectives of the public sector banks now can briefly be stated as follows:—

(a) Mobilisation of deposits by covering a large sector of the economically active population, who are not at present within the banking fold, and servicing the depositors in a manner as would assist spread of banking habit.

(b) Servicing the organised sectors of industry and commerce by providing credit and rendering collection, remittance and similar other services.

(c) Assisting the hitherto neglected sectors to become economically more active (particularly in the case of agriculturists, small-scale industrial units, artisans, etc.), in developing their economy and in enabling them to generate incremental income and thus improve their standard of living.

(d) Assisting establishment of social overhead at micro-level essential for implementation of Plans (e.g., roads and bridges) where toll is realisable and social services (e.g., hospitals etc.) where fees may be charged, particularly in the semi-urban and rural areas.

(e) Generating reasonable profit to be retained for strengthening the banking system and also for contributing a reasonable return to the owners of the banks.

Importance of adequate profit

2.1 It is being held that while profit has to be there, even a low profit would be enough if the social objectives [vide (c) and (d) above] are achieved satisfactorily. However, this particular point needs a more realistic appraisal. Admittedly, "Maximisation" is not the objective. But what can be regarded as an adequate profit?

3. Viability of banks would depend on the adequacy of profits and profitability. Adequacy of profit has to be so determined that losses incurred in the new areas, [vide (c) and (d) in para 2], may be absorbed without shock, that losses arising out of industrial units and others turning sick may be borne, that the pressing requirements of continuous and adequate growth of the capital funds (capital and reserves) may be met. The networth of the banks has to be strong and adequate. It would be a misconception to feel that Government ownership has eliminated the need for institutional strength of the banks and building up of the capital funds and internal reserves. Irrespective of ownership, a credit institution which is not self-sufficient, is bound to be an inadequate instrument in fulfilling its objectives, whether the traditional ones or those of social needs enjoined on them in recent time.

Achievements of public sector banks—1969-76

4. At this stage it may be relevant to have a look at the comparative position of the public sector banks between 1969-76 in relation to the important items of their operations; this is reflected in the table in Appendix I.

4.1 It will be seen from Appendix I, that in relation to the position of the public sector banks in 1969, their progress with regard to deposits, advances, advances to priority sectors, opening of branches (with emphasis on rural areas) is really noteworthy. Indeed it can be said that expansion of this order is perhaps unmatched in the history of banking development in this country so far.

5. However, this growth has brought about in its wake certain trends which are all but heartening. The ratio of capital funds to deposits has sharply gone down while the ratio of net profit to deposits has, by and large, been maintained by mark up of the lending rates significantly. At the same time staff in-take has markedly gone up, the cumulative effect whereof will be a sharp rise in the ratio of staff cost to deposits.

6. The quality of banking services has deteriorated significantly. (It is necessary here to controvert the popular impression that the quality of customer service of the banks had deteriorated on account of nationalisation. The quality of services as it existed during the first two years after nationalisation was about the same as it was a few years before the nationalisation. It must be remembered, that since early sixties, the services of the banks started deteriorating and relatively they were no worse during 1970 and 1971. However, the sharp decline in the quality of services is noticeable from 1972 due mainly to the fast rate of growth and expansion.)

6.1 At the same time, the normal safety measures have become a casualty. Inter-branch accounts remain unreconciled. This involves risk to the banks themselves and also causes suffering to customers because of avoidable delay in credit of collections/remittances. Balancing of personal ledgers and other accounts (e.g. clearing) remains in arrear for a long stretch of time involving tremendous risk both to the banks as well as to the customers. I would quote here the observation of State Bank of India, which mentions that the branch expansion programme was 'forced':

> "In achieving this performance we have, however, been compelled to accord less than due priority to several important aspects of our working, like customer service, house keeping....".

7. While the management is kept busy with the rush of expansion and development and are worried out of wits by disuse of the safety tools, workers go on deferring their work and manipulating for lesser and lesser work thus having spare time to undertake activities not related to banking operations. The management loses control as demand for higher and higher rewards for lower and lower per capita work goes on mounting. All this has contributed to a general deterioration in industrial relations and proliferation of various agitational patterns.

8. The overall impression is paradoxical. On the one hand there has been growth on which the public sector banks may be congratulated and on the other a situation has developed where peaceful teamwork is practically absent.

8.1 On top of this, there has developed a new feature in the environment arising from public gaze. Retrogatory headlines in newspapers on the face of any complaint against a bank, without assessing the merit of such complaint, and appointment of committees for post-mortem examination of certain decisions taken in the past, at a time when the imperatives of the circumstances under which the decisions were taken are completely lost sight of.

9. This has contributed to fostering a fear psychosis amongst the bank managers leading to abdication of decision making authority at various levels, resulting in delay and indecision, further contributing to deterioration in the banks' services and also to the general atmosphere of near-chaos in the operation of the banks themselves.

9.1 Any study of the public sector banks which ignores this over-all climate would be unrealistic and infructuous.

10. Going back to the progress made by the public sector banks, while, in terms of their relative position in the time period, there admittedly has been significant and creditable growth, when this performance is related to the over-all requirements of the nation, it would be seen that the performance has not touched even the fringe of the basic needs.

11. Take the case of finance for agriculture—only about 3 million accounts have been covered under this head by all scheduled commercial banks in the country. Of these, about 2.6 million accounts have been covered by the public sector banks. Considering that, on an average, every farmer would have at least two loan accounts

because of seasonal requirements and considering that rural households in the country are about 70 million, bank finance to agriculture would seem to have barely scratched the surface of the needs.

11.1 Similar is the position with regard to artisans, small-scale industrial units, small business and professionals. Where man is important, any suggestion for 'orderly balanced growth' of bank credit to fulfil the "needs for rural development and removal of regional imbalances" needs to be made in relation to this horizon.

Specific Terms of Reference

12. At this stage an item-wise discussion of the Terms of Reference is relevant. For this purpose Items 1 and 2 of the Terms of Reference may be clubbed together and similarly Items 4 and 5 may be taken together. The points to be considered would be as follows, viz:

A. *Items 1 & 2*

1. "To assess the impact of branch expansion that has taken place since 1969 and to examine whether any change in the tempo and direction of such expansion is called for;

2. To enquire into the present pattern of branch expansion of public sector banks and to recommend the future course of action keeping in view the need for rural development and removal of regional imbalances."

Observations

12.1 To find the impact of branch expansion, at least four essential objectives of the recent branch expansion of the public sector banks need to be looked into. These are as follows:—

(a) *Area-wise distribution of branches.* According to the present branch licensing policy, about 2/3rds of the total new branches to be opened by a bank must be in the rural area and preferably at unbanked centres. Since 1969, until recently, it was required that 50% of such new branches to be opened should be in the rural and unbanked areas. This loading in favour of rural and unbanked areas, with regard to branch expansion, has been in consonance with the declared objectives given to the public sector banks. The question that, therefore, needs to be looked into is whether the area-wise distribution of branches has been according to the objectives and, if so, how many of the unbanked rural and semi-urban areas have already been covered by the public sector banks through their branches and what proportion does it bear to the total of such centres as were in 1969? The performance is not unsatisfactory in this regard.

(b) The next question is whether such branches have been able to generate banking habit and to mobilise deposits at their respective centres? In five years, if the average deposits per rural branch have grown to the vicinity of Rs. 10/12 lakhs, one would say that the impact in this regard has not been too bad. However, an assessment of number of accounts and the activities of the deposit accounts would give a further and better appreciation of the situation in this regard. A general observation indicates that a large segment of the potential depositors still remains untapped.

(c) (i) The next point is what has been the impact of priority sector advances made by the bank branches? This has been a basic objective given to the public sector banks. The assessment in this regard may take two bases, both of which need be appraised.

(ii) First, quantum-wise: The total number of priority sector advance accounts, classified category-wise (e.g. small-scale industrial unit, transport, agriculture and other allied activities etc.), is to be seen against the assessed total number of such units which need result-oriented supervised credit. By this token, as already pointed out in the foregoing, achievement of the public sector banks has not yet touched even the fringe of the total requirement. It, however, has to be understood and borne in mind that never were the public sector banks expected to cover the entire ground; indeed they cannot reasonably be expected to do that. What is to be seen is whether they have been able to make a *marginal* impact which they were expected to do. Even here, perhaps, the impact has remained below marginal.

(iii) Secondly, in these accounts (or in the majority of them), have the banks been able to provide result-oriented credit in a supervised manner calculated to improve the operational technique and thus to bring about at least some elevation in the economic standard of the concerned loanees? This is to be a qualitative study. Many banks of their own have made sample study of their finances to different categories in the priority sectors, in order to assess their achievement in this particular sphere. Copies of such studies have also been fed into the Department of Banking, Government of India. One might say that, by and large, in overwhelming majority of cases such financing has not been adequately supervised and, therefore, has failed to produce the desired impact.

(d) Another item of enquiry is the impact of fast branch expansion (with weightage for rural branches), on the total profit and loss situation of the banks. In this regard it is to be borne in mind that admittedly a portion of the total profit of the banks should be diverted towards achieving certain social objectives. The question is what should be the proportion? However, it has at the same time to be borne in mind that on account of the state of the national economy in the past few years, there has been a high mortality in the enterprises, particularly in the industrial field. This has faced the banks with the problem of carrying sick accounts, which means reduced earning from these units and need for adequate provision for them.

12.2 There is thus enough evidence to show that the impact of branch expansion with emphasis on rural areas, has not been enough in relation to the needs of the economy in general and the priority sectors in particular. It has been mixed in relation to the banking system itself. The latter aspect can be specified as follows, viz:

(a) While deposits have grown sharply,—and this is a good thing—the banks have been left with a small margin of profit, even after substantial mark-up in lending rates, which is not enough to build the capital funds and to service the sick accounts adequately.

(b) The sizes of banks have suddenly increased in a manner that it has not been possible for the banks organisationally to match up with the requirement. Large recruitments, almost in masses, have regularly been made, rendering it impossible to induct properly training and orientation to the new staff before posting them at the branches. There is, today, by and large, a preponderance of new and untrained (or inadequately trained) staff in relation to the experienced and trained ones. The load, therefore, falls unevenly on the latter group resulting in tilted functioning. Quick expansion in size requires frequent changes in the organisational set up and this creates confusion.

(c) With sharp and continuous expansion of size, the lines of communication have elongated out of proportion. This has resulted in inadequacy of communication (because, despite everything, regular verbal and personal communication is not only effective but is also essential; this, however, has become impossible). Thus, the objective and purpose visualised and planned at the top level gets diluted as it filters through the different tiers of the organisation and most times gets distorted when it reaches the operating points. Lack of rapport as between the different levels in the organisation produces a system of working which is more mechanical than innovative.

(d) Deterioration in services as a result of the impact, as has been discussed earlier.

12.3 It follows from the above discussion,

(a) That there should be considerable slowing down of branch expansion of the public sector banks for a period of time, say, 3 years, when consolidation of branches already opened and/or the organisational structures that have been evolved, can take place.

(b) That the public sector banks can hardly provide the required banking service to vast rural areas of the country and that there is need for some other mechanism of providing banking services to the priority sectors and weaker sections of the society, both in the rural and urban areas, as complementary to the present public sector banking system. Only then can the banking system make an effective contribution towards orderly and balanced growth of different regions.

(c) That it should urgently be considered whether banks should not be allowed to transfer to their internal reserves at a maximum rate of one-half of one per cent (½%) of their credit portfolio every year *without any tax whatsoever.*

B. *Item No. 3 of the Terms of Reference is as follows:*

"To evaluate the performance of public sector banks in the matter of lending to the priority sectors and weaker sections of the society and to suggest ways for the orderly and balanced growth of such advances."

13. The evaluation is to be on three different counts, namely,

(a) Quantitative, in relation to the needs in the economy. It has been seen that the performance has not yet come up to the expected level except of a marginal impact.

(b) Yet from the aspect of relative change in the position from that upto 1969 and to that at the end of 1976, the growth of finance to these concerned sectors has been significant, as has never occurred before. (Appendix II provides details of the occupation-wise classification of outstanding credit extended by banks). If this is considered with the organisational limitation of the banks, as has already been discussed, and the limitations owing to delay in lack of assistance from quarters like the State Governments, it may be observed that the performance, as far as the banks themselves are concerned, has been commendable.

(c) Although the performance in relation to the needs of the economy has fallen short, there has been a marked and noticeable qualitative impact inasmuch as the activities of the public sector banks have at least made the small entrepreneurs in the concerned sectors conscious of the facilities available from the public sector banks, either in launching of a new project or in improving/expanding their existing activities. And a section of loanees in these categories have derived economic benefit. This qualitative impact is indeed a breakthrough and can be expected to gather momentum and to have a demonstrative effect towards more and better utilisation of the banking services in this area, albeit in limited geographical areas.

(d) It should also be remembered in this regard that a complete re-orientation of the bank staff who have already been conditioned for years together to a different approach to business, need time for absorption of the concept and effectively to apply it in their day-to-day working. At the same time a thorough re-orientation has to be given by the bank staff to the proposed borrowers/loanees in these sectors not only to make their proposals bankable but also to guide them in their day-to-day activities for conforming to the imperatives associated with improved techniques necessary for realising incremental income; this is a new approach as far as these borrowers are concerned. Seven years cannot be regarded as too long a time span for this purpose.

C. *Terms of Reference Nos. 4 & 5*

4. "To advise on improving the efficiency of banks with a view to rendering better and speedy service to the public.

5. To examine the operation of vigilance work in the banks and to make recommendations to bring about improvements."

Observations

14. The efficiency of banks as already pointed out, can be improved only if there is complete rapport as amongst the staff at different levels and when the organisational structure has some breathing time to consolidate and achieve adequate control. This can hardly be achieved in a state of flux. Thus, there is need for hastening slowly. The criteria stated here for achieving efficiency are basic and essential.

14.1 Bank service has not only to be speedy but has also to be personalised. By that token there is need for striking an optimum size for a bank. It has been found and proved that a new branch provides better service to its customers, whether by way of speed or by way of personalised service, than an old branch. The reason, it has been found, is that as the branch becomes older, its business and activities increase with consequent increases in staff strength; there is then loss of personal contact with customers and in service. Eventually a point is reached when rapport of the branch management with different levels of staff gets diluted and then the control is lost. This has every time been found in the life of the branches over the years. The situation is exactly the same with regard to the total organisation of a bank.

14.2 There is hardly an agreed formula by which the optimum size of a bank can be ascertained. Whereas some hold that a bank should not have more than say 1000 branches, some hold that the number of branches should not exceed 500, yet others think that 5000 branches can easily be managed. Similar disparity exists in the matter of total number of staff for a bank which may be regarded as the optimum size.

14.3 If past experience is any guide and the coverage of a large geographical area is the objective and where test of efficiency is not only prompt but also personalised service, any claim of efficiently managing a branch network of even 500 with all the variety of demands pressing at different directions, is only wishful thinking.

15. At the same time, the vastness of the country and wide varieties of the economic status and situation at different regions, would not allow waiting for a long time for spreading banking services far and wide. This makes it essential that there should be banks each devoted to rather small territories, spread out in different parts of the country to provide banking services, primarily to the rural and semi-urban areas, where the gap is the widest. This then points to the validity of the scheme of District Banks as discussed hereafter.

16. Operational vigilance work in the banks is not quite effective. The situation is bound to be so, because of the size and spread of each bank. It is absurd to imagine deployment of a large staff of vigilance officers at the different operation points (particularly when there is an acute dearth of trained staff even for day-to-day operations). There is much validity in the theory that the need for extra vigilance is substantially narrowed down if the organisation is well-knit, purposive and capable of establishing and maintaining rapport all along the line. Personal discussions, understanding and examples are more effective in such organisations than in a loosely-knit colossal one. The optimum size of a bank, therefore, again has its relevance.

RECOMMENDATIONS

17. The above discussion indicates that, what with the imperatives of rural development and the need for equally servicing the organised industrial and business sector in the metropolitan and urban areas at the same time, the present banking structure would seem to be deficient and inadequate. The first pre-requisite for the banking service is personalised dealings with customers. This cannot be achieved through monolithic organisations.

18. Again, the basic requirements of banking service for these two major sectors of the economy, are completely different in nature and content and are wide apart from each other. The so-called neglected sector requires complete understanding of not only its need for finance but also of its problems and potentialities. Plenty of zeal and attention, innovation and development is required of the bank staff in this area. This cannot be a routine function to be achieved through circulars and manuals of instructions. At the same time the organised industrial sector equally needs specialisation of a different type and constant attention.

18.1 Further, it has been seen that expansion and growth of bank business in a variety of areas (geographical as well as functional) has brought in its wake a number of problems affecting the efficiency of banking operations and evaporation of zeal and determination. Innovation and ability to service the common man in very small units of activity are what is required. Credit has to be made available to the weaker section of the society on a "tailor-made" basis and not on a "ready-made" basis.

19. Finally, in such a vast country with divergent geographical, social and economic situations in different areas, the required coverage, if it is to be achieved with the existing pattern of structure, would take such a long time that the process itself could frustrate the objectives.

20. The situation, at present, is such that a bank with its main centre of activities say in South Canara district opens up offices in the far corners of North-Eastern area or in the North-Western area. A Calcutta bank perhaps is the lead bank for a district in an under-developed area of Jammu & Kashmir, or for that matter in Rajasthan. Such criss-cross banking does good to none, and least to the people of the concerned areas. This system not only fails to achieve the national objectives but also results in wastage of time, energy and money, and creates vigilance problems.

21. "Delegation" cannot achieve the objectives of providing "tailor-made" customer service in the rural areas in the broad canvas of the nation with varying and divergent local conditions and situations. In a big organisation, delegation is limited to the extent of functioning within clearly laid down procedural directives and operation systems. Manoeuvrability is so limited as to be insignificant.

21.1 What then is needed is transfer of centre of authority into the district and rural areas.

21.2 The recommendations have, therefore, been divided into two basic heads, viz., (a) structural and (b) operational, the latter being recommendations with regard to specific aspects of influence on the operation of banks.

Structural

22. The structure that is visualised is as follows:

(*a*) There is to be a category of banks devoted to metropolitan, big urban centres and port-towns and operating nationally for industry, trade and business including transactions as amongst these centres. The existing structure of public sector banks can effectively render this service primarily devoted to the industrial and business requirements of the urban, metropolitan and port-town areas.

(*b*) There would be banks for the common man (generally referred to as 'neglected sector'): (i) one type for the rural sector, operating only within a particular district (where a district is rather large there may be two banks and where contiguous districts are small in size there may be one bank for two districts), and (ii) the other type at the urban areas for servicing smaller people like small industrialists, traders, artisans, etc.

(*c*) At the grass-root level, i.e., at the village level, there would be primary co-operatives (say one for every 1000 rural houeholds) linked to the nearest branch of the district bank, the district bank having branches mainly in the block headquarters and the growth centres at the village level, within the district, as well as in the urban and semi-urban areas. Such linking should be only for common planning and mutual business interest, without in any way disturbing or altering the structure of co-operation.

(*d*) While for business with the rest of the country the district banks will have correspondent relations with assigned public sector banks, the former will not be allowed to operate outside the district so that their whole focus is confined to the district (or the defined area of a town as the case may be), thus making it imperative on them intensively to mobilise deposits and use such resources within this area of operation for its economic development.

22.1 District banks, which would primarily be village-oriented should be formed by merging all the existing branches of nationalised and non-nationalised banks and RRBs.

22.2 In larger towns, including metropolitan towns, there will be 'Small Sector Banks' to provide credit to the weaker sections of the community. These banks are to be encouraged to intensify their coverage of specified areas, rather than engage in wasteful competition by adding to the branch net-work all over the cities. Such banks shall not accept any demand deposits and shall not do other business than making loans to the weaker sector of the community. To ensure adequate mobilisation of resources and face the competition from larger banks they may be permitted, if need be, to pay a higher rate of interest on deposits, and provide marginally added facility.

22.3 Each district bank and small sector bank would organise function-wise Associations, Groups, etc., (duly registered under the existing laws) for availing credit from the banks in an orderly fashion. These Associations will sponsor and monitor credit operations of their members, thereby relieving the banks much of the initial work, follow-up and recovery problems. These groups under the guidance and support of the banking and co-operative systems, can take to a large measure the micro-level infrastructural needs. For the purpose of feeding the 'Association' at the grass level, arrangements should be made to reach banking services to each 'Association' on the spot, as often as necessary.

22.4 Services of Farmer's Service Societies and suitable non-credit societies could continue to be availed of by the banks as far as possible.

23. To enable them to keep their refinance needs and operating costs down, the liquidity norms as prevalent now should not apply to the 'District Banks' and the 'Small Sector Banks'. The implementation of the scheme and follow up of the performance of development of the 'District' and 'Small Sector Banks' can be ensured through a supervision machinery, created out of DBOD, including its Inspection Division, the Agricultural Credit Department of the Reserve Bank of India. There could also be members of the Agricultural Finance Corporation.

(*Note:* The intention in making this suggestion is to keep down the costs by reducing the low yielding assets to the minimum. It will be recalled that one of the objectives of additional liquidity norms is to control the availability of credit to the affluent sector but in the case of 'District' or 'Small Sector Banks' there would be only large number of borrowers for rather small amounts and mostly in the priority sector).

23.1 All the 'District Banks' and the 'Small Sector Banks' should be owned by the Central Government. The Chairman of the 'District Banks' and the 'Small Sector Banks' should not be appointed notionally, but should be recruited by advertisement, from within the banks and outside. Selection should primarily be based on personal qualities, e.g., leadership, capacity to innovate etc., and seniority and experience in banking may be given only secondary weightage. The maximum age should not be more than 35/40. The terms of employment of the Chairman of the 'District Banks' and the 'Small Sector Banks' should be the same for the nationalised bank Chairman with longer tenure. This is because their services will be less glamorous and more strenuous.

23.2 The staffing pattern of the newly suggested banks should be officer-oriented. The work should be so organised that an officer gets fully acquainted with the full range of the banking needs of a given client or a group of clients. In the process, he may have to do some work which is now handed over to the clerical staff.

23.3 The salary structure (for the clerical staff and the officers) should not be different from that of the existing bank of the same size. For, in the short run this will create various difficulties and in the long run the differences will disappear.

23.4 Recruitment of officers and other staff should be made by advertisement. The old staff at different bank branches who may have to be taken over by a District Bank, being mostly of an average of three or four years of service, should not be difficult of assimilation by the District Bank. Since the District Banks will expand faster, after the first preparatory pause, the scope for promotion will be good.

23.5 Even though bi-partite arrangement is same for all, work style and norms are different in different banks depending on what was initially there. So a new bank can set up its own style, establish new norms and staggering hours (this is most essential for rural areas). Gradual replacement of the old staff will then create a new atmosphere.

24. The State Bank of India should be given all possible support to develop international business through branches in a big way and in a speedy manner. In addition to the State Bank of India, there may be few other selected banks to undertake and perform International Business.

25. In view of the suggested reorganisation, the role of private banks would have to be confined only to the regions where they are operating. They have functioned successfully in their chosen fields and hence they should be allowed to operate but not beyond their respective chosen regions, as in that case they would merely add to the wasteful competition and diffuse the sharpness of their focus.

Operational—'Management'

26. Coming to the operational aspects, the first and foremost is Management. It is probable that more than credit problem, 'Management' is the most important problem in the banking industry. Up to date, the basic management principles have hardly been applied in the banks and management is regarded as synonymous with 'management by crisis'.

27. Even at the risk of repetition it must be said that in an industry like banking, management is bound to be a nagging problem as the banks have grown at a quick pace, and beyond a manageable optimum. The basic distinction between a manufacturing industry and the banking industry is to be recognised. Banking deals with an intangible product called 'service' and the entire range of services marketed by the banks, multifarious in nature as these are, is by and large, the product of clerical activity. There is no work-output norm established and accepted in the industry. On top of that, banking is devoted to 'retail' marketing through a large number of branch offices, which may be called 'shop windows'. With such shop windows spread out extensively throughout the country, there is bound to be breakdown of communication and loss of touch with and control of the day-to-day activity. It, therefore, has to be re-emphasised that for the sake of better management, which alone can ensure better services, the sizes of the banks should be kept within controllable optimum and operations limited to compact and easily accessible geographical areas.

The Board of Directors

28. There is need for rethinking on the composition of the Board of Directors of the public sector banks. While the representatives of the Reserve Bank, the Government, as well as the workmen and officers have to be there, the other directors perhaps could carefully be picked from known sources, preferably from those who possess technical knowledge and experience with regard to some of the important industries (of different scales) as well as with regard to the economic activities in the rural areas. Such directors may make useful contribution to the Board deliberations and also help the Chairman and other senior executives in formulating policies with regard to different matters of importance.

28.1 Further, the Board should form committees to deal with important matters of operation, viz., the normal traditional credit activities, credit to priority sectors, matters of management (particularly management development), etc. It has to be mentioned that the existing public sector banks in the suggested structure will continue to render priority sector finance at the city and urban branches.

Industrial Relations

29. There is an urgent need for developing suitable atmosphere with regard to industrial relations. Multiplicity of unions is a problem and either by tripartite discussions or by legislation, a situation has to be developed where there can be only one union in one bank. Even recourse to legislative measures is suggested because banking is a very sensitive area and has a special importance in the matter of development and growth of the economic activities in the country. The matter, therefore, cannot be allowed to drift.

29.1 The establishment charges should have a ceiling ratio (in aggregate or separately) for the emoluments of the officers, clerks and the subordinate staff that it may bear to the working fund or deposits. The ratios are not intended adversely to effect the emoluments, but to eliminate, as far as possible, the non-monetary facilities, restrictive practices and host of allowances. Ceiling ratio shall exclude, new District and Small Sector Banks for 3/4 years.

29.2 The concept of 'ceiling ratio' is not a new one. Justice Sastry had, in his award, commended the idea, which, unfortunately, was not properly taken up. This is not anti-labour. The idea is to make the management and staff cost-conscious facing them with the constraints of a ceiling ratio. The ratio would periodically be negotiated and agreed upon on bipartite basis. This will also lead to a better understanding of the banks' obligation towards the community at large. A beginning has been made in this direction.

Training

30. Most of the public sector banks have made arrangements for formal training of their staff. However, such formal training continues to be somewhat detached from the mainstream of operations and the members of the faculty hardly have adequate touch with the day-to-day real situation. Further, in the training of officers even today, the entire emphasis is on the legal side and technicalities of operation. The management aspects of the job of an officer is either absent or bears an insignificant proportion to the total training curriculum. At the same time, the training courses, by and large, seem to be rather long drawn. There is need for more study on the subject. At least two-thirds of the total training period should be on-the-job, with formal training relating to the different phases of the on-the-job training, sandwitched for brief periods. In other words, after a period of, say one month, on actual job in certain type of operation, the trainees may be called to the formal training centre for a short term of, say about two weeks, to obtain theoretical and technical insight into matters handled by them while on the job and to give them guidance with regard to the problems that they may have faced on the job during the particular phase. The batch then goes back to training on the job in some other operation and so on. However, there still would remain the need and scope for deeper study in theory and technicalities, after the trainees have reached a certain level. This may be pre-determined.

Capital

31. It has been emphasised earlier in this note that capital fund has an important role to play in banking operations. It has also been pointed out how awfully poor

is the ratio which capital fund bears to the deposits. There is need for quick building up of capital fund of the public sector banks. Besides the requirements of their respective operations, this is also necessary for commanding credibility with the bankers and customers overseas. It is the experience of public sector banks that on account of this particular aspect, often they find it difficult to make arrangement with their correspondent banks abroad for large commitments. In some countries letters of guarantee of Indian banks are not accepted by the buyers when the amount involved exceeds a certain limit.

32. The self-suggesting method is for the Government to subscribe to enough capital of the banks to make it 6% of the current deposits and to be paid in, say 5 instalments. Another way could be to issue 6.5%/ 7% preference shares, redeemable over a period of 20 years from the profits of the respective banks, if the profits are allowed to take care of it, and guaranteed by the Government so that the Life Insurance Corporation can subscribe a part in it.

33. In order that banks are enabled to make better contribution to the published reserves than heretobefore, the profitability of banks needs to be improved; certain steps which may be taken by the Government immediately are:

(*a*) Abolition of tax on gross interest earning of banks. This will achieve two purposes; viz.,

(i) reduction in the lending rates and

(ii) marginal increase in banks' profitability.

(*b*) Up to one half of one per cent of the (excluding priority sector) credit portfolio of the respective banks should be allowed for building up of internal reserve free of any tax, on lines similar to the charge off allowed to the banks in America.

(*c*) Interest charged on the sick accounts, and kept in outstanding accounts, should not be taxed. Interest has to be debited to the accounts in order that this may not go by default at the time of settlement of claim either at the court or otherwise. But such interest cannot go to inflate the profit and has to be kept in outstanding account. In fact, this portion of the interest should be left out of the purview of tax until there is actual realisation. For this purpose a certificate from the bank should be acceptable, if necessary on due certification by the auditors of the bank.

34. Along with the published reserves the internal reserves also need to be strengthened. The system of commitment charge on loans sanctioned to medium and large business units should be revised and streamlined and the income from such commitment charge should be allowed to be put straight to the internal reserve and the amount so put in the internal reserve should be free of tax.

Profits

35. The cost of deposits has gone up tremendously during the last few years and the trend remains unabated. Here there is need for better rationalisation of the rates of interest both on temporary and short-term deposits (including savings accounts) as well as on advances. The recent directive issued by the Reserve Bank to the commercial banks in 1977 is a right step in this direction.

36. The staff cost needs to be controlled. On the one hand, the dearness allowance goes on mounting without commensurate increase in productivity or in general income on the other, the output per employee goes on decreasing. In order to increase the productivity of the workers there is need for better rapport and understanding with the staff and their unions who have to make a conscious effort, by co-operating with the management, in improving the situation as a part of their duty.

36.1 At the same time there has to be a proper study, preferably by joint committees of representatives of the management and the representatives of the staff, to streamline the work procedures and to improve the per capita output. Admittedly this is not an easy task, more so because of the size of the banks. However, with better reorganisation and re-orientation, this should not be impossible to achieve.

37. The service charges, for remittances and collections as well as for maintenance of highly active accounts, need to be looked into and suitably revised so that the rates are formulated on cost basis. It may be mentioned here that a large part of the staff cost incurred by banks in the USA is covered by service charges. But in India the service charges constitute a very minor item of income in the profit and loss account of a bank.

38. Another leakage is the staff cost at the headquarters of banks. On account of the size of the banks the Head Offices grow and in the absence of any system and norm of work measurement, the growth follows the pattern of Parkinson's Law. An examination will indicate that a major operation of the Head Office and allied offices (which is non-earning), is indeed non-producing and, on most occasions, are deterrents to the efficiency and quality of services rendered at the operating levels. With a compact operational region, suitable organisation, and proper management much of this wasteful expenditure can be avoided.

Deposit Insurance

39. Since nationalisation of the banks, deposit insurance seems to have lost its impact and importance which however should not have been the case. There is a danger in continuing to propagate and strengthen the impression that the public sector banks being owned by the Central Government are quite safe. Such propaganda has, in response, created amongst the minds of the borrowers in the priority sector the same psychosis which is prevalent among the masses about the Government loans. By experience the people at large have found that Government loans need not be repaid and these are eventually cancelled out. They have also started thinking that the loans taken from the "Government-owned" banks similarly need not be repaid. This is a dangerous situation.

39.1 While, therefore, on the one hand the banks should be strengthened, on the other the emphasis on the Government ownership of the public sector banks has to be played down. Simultaneously the safety of depositors on account of deposit insurance has to be projected and developed vigorously through various public communication media. This will assist better deposit mobilisation particularly in rural areas and enable it to avoid the danger discussed above.

Advances

40. The credit to some corporate accounts by one bank continues to be high. It may be worthwhile to consider whether there should not be a ceiling given for

individual bank, in line with the system in the USA, on the quantum that may be advanced to a single party, this being related to the bank's net worth by way of a fixed ratio. Such a ratio, however, need not be as low as in the USA. Suiting our requirements the ratio may be fixed anywhere from 50% upwards. This will necessitate consortium arrangements as amongst the banks. Consortium are already in vogue with regard to very large accounts. So the system may not be difficult of being developed for more extensive application.

Sick Accounts

41. Sick Accounts have taken an alarming proportion in Banks' credit portfolio and judging by the trend now noticeable, there does not appear to be much prospect of an early reversal of the situation. Banks have to carry sick accounts and nurse them. While the stake is heavy, banks are unable to devote as much time and attention to these sick accounts as is necessary. In order that these accounts may be revived, they need to be nursed, guided and controlled by the banks effectively and on a pragmatic basis. In most cases sickness had developed years back, grew unnoticed and eventually when the accounts turned sick the problem was not amenable to any easy solution because the sickness in the meantime became deep-rooted and problems became multiheaded.

42. It is not only finance that is needed (indeed in many cases if adequate steps are taken, need for fresh finance may be only marginal). The units also need supervision and guidance with regard to technical as well as managerial aspects; and few banks today are in a position to provide such service to the sick units, nor does there appear to be existing any suitable organisation for this purpose.

43. In the circumstances it is recommended that depending on the proportion of the sick accounts to the total credit portfolio, each bank should start a subsidiary for the purpose of reconstruction of the sick units. Such subsidiary of a bank should be headed by a person of the level of General Manager (age 35/40 years) and will have to be a rounded banker with keen faculty, knowledge of management and ability to take quick decisions. He should report directly to the Chairman and the Board, although he will have lateral and diagonal communication with his other compeers in the organisation. He must be supported by skilled and qualified technical executives belonging to the disciplines to which the preponderance of the sick units belong. There should also be a panel of experts whose services may be drawn upon as and when needed. In suitable cases it may be advisable for this subsidiary also to organise and maintain its own industrial engineering cell to service the units. The subsidiary will provide a package service for the sick units in the manner that each unit may need.

43.1 The smaller banks or those whose proportion of such accounts is rather low, may engage the subsidiary of a sister bank for providing technical and managerial guidance and supervision to the units and for making recommendations to them.

43.2 Such an organisation in a bank will be able not only to provide timely, spontaneous and continuous service in adequate quality to the sick units—its objective being reconstructing the units and not to be a fault-finding machinery. Such a subsidiary then will further be able to render assistance to the normal credit department through periodical analysis of the bigger accounts and assist not only in spotting any sickness that may be creeping in any account but also in providing remedial and prophylactic measures in good time to prevent sickness developing.

43.3 Such a subsidiary indeed would be an expensive organisation, with hardly much business return accruing to them. But since this is necessary and imperative, not only for the banking industry itself but also for the industrial scene as a whole, and therefore to the national economy as such, it would be logical to provide adequate financial support to the banks from the Government exchequer in maintenance of such subsidiaries. This may be done indirectly by allowing the banks exemption from tax, such amount of profit as is proportionate to the cost of maintaining the subsidiary.

44. It may be noted that, the recommendation here is for asking the banks to form their own subsidiaries instead of recommending to the Government/Reserve Bank to set up a corporation on national basis. This has been done because one single corporation for this purpose will have to be a big organisation and being completely detached from the main stream of banking will tend to be a sophisticated organisation functioning from an ivory tower. This will not help the situation. Indeed it is likely to further complicate the problem. Every bank has its own personality, philosophy and knowledge of the local atmosphere and industrial culture. Individual banks thus will be better suited to serve the sick units through their respective subsidiaries than an independent national organisation.

B. K. Dutt
Calcutta
14-12-1977.

Approach paper, submitted in synopsis form
to the Committee on Public Sector Banks.

1.0 The Committee had issued questionnaires and had discussed various aspects of the functioning of the Public Sector Banks, with some of the public sector banks and a section of the business community.

1.1 International Banking (through branches), Metropolitan Banking, Banking in large urban areas on the one hand, and banking in the rural areas and banking for the weaker section of the people, all over, on the other, are not mutually compatible.

1.2 The impact of branch expansion since social control and nationalisation of the 14 banks, has been both favourable as also inadequate in certain major respects.

1.3 The favourable points are that, a significantly large number of branches have been opened by the Public Sector Banks (and other banks), as a consequence whereof, there has been a significant rise in the deposits of the Public Sector Banks (and other Banks also) and significant territorial coverage by the bank offices.

1.4 The weaknesses that have developed, and are further developing, have made banking a serious management problem as of now and for the future. For too long, Banking has been equated with credit problem. Banks at the top level, by and large, are anxious to provide adequate, timely appropriate, supervised credit; but at different levels, including the grass-root level, the policies of the banks have not taken appropriate operational shape. Service to the depositors and others, and even the affluent borrowers has deteriorated very significantly. Bank officers, by and large, do not use the delegated powers for various reasons.

1.5 As to the public sector banks, the number of households in the priority sector served through credit, are few, compared to the number of house-holds that could and could have made economic contribution to the economy by providing goods and services to themselves and others.

2.0 It is evident that the State Governments are not inclined to fall in line, (without mental reserve), with the idea of the Co-operative Credit Societies at the grass-root level being tagged to the commercial banks. It is apparent that endeavour to tag the control of financial system under the authority of the State Governments, to the Central Government system has not produced results. May be, it is not beneficial to the society to break up the co-operative system, even if it were feasible.

3.0 Every bank is seeking to solve the problem of management, efficiency and absence of personal touch, by creating informal 'Mini Banks' within the banks. Indifferent working at almost all levels, and restrictive practices at the level of award staff and officers also, may possibly be improved by personal touch from top if it were feasible. But some special legal provisions vis-a-vis unionisation in the banks, would be essential. The required personal touch and development of rapport will not be achieved by adding to the number of circulars etc., issued from different levels of management to the branches, feedback reports and adding to the number of staff at various levels at the Head Office and other non-operating offices of different kinds.

3.1 Management problem has become unmanageable also due to criss-cross branch opening. There are cases where banks from deep south have opened branches deep in the east of the country and vice versa.

4.0 Banks have assumed, that their function in so far as the weaker section of the community concerned, is to provide credit facilities following the growth of micro-level infrastructure. This has considerably defeated the objective of bank nationalisation. As such, every infrastructure facility, so long those are not national in nature or has Statewise implication, could be commercialised as self-financing. So every bank needs to have an 'Infrastructure Subsidiary', to draw up micro-level schemes and to implement those, on an economic basis through the subsidiary. Such schemes could attract subsidy from the State Governments. However, they cannot be independent of the Plans and Schemes, of the State Governments and bank's schemes should be formulated in consultation with the State Government.

4.1 Every bank has acknowledged dilution of management in all respects. To quote SBI—"In achieving this performance we have, however, been compelled to accord less than due priority to several important aspects of our working, like, customer service, house keeping......".

4.2 The State Bank of India has also used the word "Forced" with regard to branch expansion.

4.3 Considering everything, it appears that structural cordoning of the bank operations, in the rural area, in particular, is extremely essential, as that alone may lead to innovative banking in depth.

5.0 As such there should at least be three categories of commercial banks, one having branches in larger location, for international banking through foreign branches, and functioning in metropolitan and large cities within the country. In addition, only one of the public sector banks will have a branch in each of the District Head Quarters. The State Bank of India, however, may have to have branches within the district for discharging their treasury duties etc.

5.1 The second category will comprise, with Head Offices at the District Head Quarter, 'District Banks' with which will merge all the existing branches of nationalised and private sector banks and RRBs. There will be more or less 365 such District Banks. That will initiate removal of regional imbalance, as to finance.

5.2 In larger towns, including metropolitan towns there will have to be "Small Sector Banks" to provide credit to weaker sections of the community. These banks, constituting the third category are to be encouraged to intensify their coverage of specified areas, rather than engage in wasteful competition by adding to the branch net-work all over the cities. Such banks shall not accept any demand deposits and shall do no other business than making loans to the weaker sector of the community. To ensure adequate mobilisation of the resources and face the competition from larger banks, they may be permitted to pay a higher rate of interest on deposits, if need be and other facilities.

6.0 Since endeavours to tag Credit Co-operative Societies or FSS to the commercial banks at the grass-root level have not succeeded, each District Bank will have to organise functionwise or for integrated functioning "Registered Associations" at grass-root levels, leaving the existing co-operative structure undisturbed. The two systems can complement and compete with each other.

6.1 Services of Farmer's Service Societies and suitable non-credit societies could be availed of by the banks as far as feasible.

6.2 For the purpose of feeding the "Association" at the grass-root level, there should be small non-glamorous mobile banks to visit every "Association" as often as necessary.

7.0 The liquidity norms should not apply to the 'District Banks' and the 'Small Sector Banks' to keep the refinance need and their operating cost down. The implementation of the scheme and follow up of the performance of development of the District and Small Sector Banks can be ensured through a supervision machinery, created out of DBOD, including its Inspection Division, the Agricultural Credit Department of the Reserve Bank of India and the Agricultural Finance Corporation.

7.1 It may be mentioned herein, that the State Bank of India should be given all possible support to develop international business, through extensive branch network, in a big way and in a very speedy manner. In addition to the State Bank of India, there may be only, say, a couple of more banks to carry on International Business through foreign branches.

7.2 The private sector banks should be contained within a region and should not be allowed to spread out too far. Branches outside such regions are to be ceded to the nationalised banks, oriented to that area.

7.3 It may also be considered whether licences should not be issued, to suitable applicants for establishing new "Unit Type" banks in the metropolitan and large towns.

8.0 All the 'District Banks' and the 'Small Sector Banks' should be owned by the Central Government and/or Reserve Bank of India. The Chairman of the 'District Banks' and the 'Small Sector Banks' should not be appointed notionally, but should be recruited by advertisement, from within the banks and outside. Selection should be based on leadership criteria, capacity to innovate etc., and not on the basis of seniority and experience in banking. The maximum age should not be more than 35/40. The terms of employment of the Chairman of the 'District Banks' and the 'Small Sector Banks' should be the same as for the nationalised bank Chairmen with longer tenure. This is because their services will be less glamorous and more onorous.

8.1 Recruitment of officers and award staff should also be made by advertisement.

8.2 The staff structure of the 'District Banks' and 'Small Sector Banks' would be such that there would be more officers and less of others. A different salary structure for the award staff or officers may not be thought of, as in the short run this will create various difficulties and in the long run the difference will disappear.

8.3 In the metropolis and big cities etc., the Reserve Bank of India may identify the need and location of bank offices before it issues any licence. In so far unhealthy competition through closeness of offices and otherwise has developed, the branch of one bank will merge with the branch of a bank of local region or local orientation.

8.4 Moneylenders in the rural areas and Multani Bankers of Metropolitan areas should be eligible to be licensed, for functioning, by the nationalised banks, on suitable terms, because these are also institutions for assisting the weaker section. These are to be controlled through refinance policy, collectively and individually.

9.0 High rent has added to the cost structure. The Reserve Bank of India may issue directives that rent for premises shall not exceed a certain amount per sq.ft. in each region. There are cases where the rent, well over Rs. 4/- per sq.ft. has been paid in addition to the cost of modernisation of the office and construction finance. Cost of furniture should also be controlled.

9.1 Special labour laws should be there to ensure that the restrictive practices cannot be enforced by the workers nor federation of 'District Banks' and 'Small Sector Banks' unions may develop.

9.2 The establishment charges should have a ceiling ratio separately or in aggregate for the emoluments of the officers, clerks and the subordinate staff, as it would bear to the working fund or deposits. The ratios are not intended to adversely affect the emoluments, but to eliminate, as far as possible the non-monetary facilities, restrictive practices and host of allowances. Service and economy will then rule the situation. Ceiling ratio shall exclude, new branches of all banks for 3 to 4 years. Making banking service an essential service by executive order will not achieve any change in the climate for functioning, either in the short run or long run.

10.0 As to the recommendations of the Tandon Committee, while there is a system of reviewing the same at times, the Tandon Committee Report should be treated as academic for the information of the banks and the banks should not, in deciding credit needs, try to adhere to the recommendations as if it were a directive. Public announcement in this respect would be essential.

11.0 It is essential to refer to sick accounts which have grown very fast. In the metropolitan and urban sectors, sickness has grown for various reasons; the significant reason for this being the absence of close follow up of accounts at higher levels. So it may be considered whether there need not be a 'Sick Accounts Subsidiary' for each bank for transfer of the sick accounts to the same for management. Such a subsidiary will function as a consultant and an innovator as also super-manager for the industries concerned. Once such transfer has taken place, other account must not be allowed to get into difficulty except for reasons altogether beyond control. Ordinarily there would be a system of assigning a number of accounts to a group of officers so that, thereby no dilution of direct contact with the accounts of the borrowers be there, in any category, sick or otherwise. Accountability could then be identified. The 'District Banks' and 'Small Sector Banks' can have a sick account agency for a number of Banks.

12.0 Training is best if it is 'on the job'. 'Synthetic' training can take training upto a point. A mixture of these is essential.

13.0 To develop a severe constraint on using the bank services for business transactions in cash, no transaction with a bank shall be permitted except through a current or saving account.

14.0 Published 'networth' of the banks should be improved to 6% of the deposits by providing additional share capital. So that 6% level can be maintained, allocation to the published reserves should be adequate and should not be taxed. To achieve the target of providing adequate internal reserve, that also should be tax free. One of the sources for adding to the reserves could be the imposition on credit limit granted to the extent of say, ¼% to ½% as the present net profit of banks varying from 0.07% of deposits to 0.25% is too small to contribute to networth as required.

14.1 To bring the operating cost down, it is essential to study in depth as to why the cost of non-branch expenditures excluding interest on deposits and borrowings range between 28% and 35% (notional calculation).

14.2 Head office control should confine to policy matters and the regional offices of the public sector banks should be as independent as possible, as is the case with the Federal Reserve Bank in the U.S.A.

14.3 Wherever necessary and possible, special concessional rates of interest has been allowed to be charged, in recognition of the fact that higher rate of interest on borrowing is a constraint on the safety of advance and growth. As such it may be considered whether the general lending rate can not be substantially reduced by controlling cost and the rate of interest offered on the deposits, after taking into account the actual effective cost on account of liquidity requirements and by relating the service charges to the cost of providing the services. This will affect the traders mainly.

14.4 Methods and systems in all respects and reporting system to the Head Office, the Reserve Bank and others should be substantially simplified, at least for the 'District Banks' and 'Small Sector Banks'.

14.5 Power available to SFC's, for recovery of loans should be available to the banks.

14.6 All these proposals can be implemented by an ordinance and then put on the statutes with modifications necessary but not inconsistent with the basic theme.

APPENDIX I

ACHIEVEMENT OF PUBLIC SECTOR BANKS, 1969-76

(Figures are in Rs. Crores)

		1969	1976
1.	Deposit	4,646	17,132
2.	Credit	3,599	12,909
	Of which credit to priority sector	504	N.A.
3.	Credit Deposit Ratio	77.5%	76.4%
4.	No. of branches		
	(*a*) (i) in Rural and Semi-urban	5,175	15,900
	(ii) Others	3,087	7,755
	(iii) Total	8,262	23,655
	(*b*) Ratio		
	(i) to (iii)	63%	67%
5.	Capital funds as ratio to deposits		1.45%
6.	Net Profit as ratio to deposits	0.13% (1973)	0.21%
7.	No. of staff	2,98,321 (1973)	3,26,747

Source: Banking Statistics, December 1975—R.B.I.

APPENDIX

Bank-group and Occupation-wise Classification of Outstanding Credit of Scheduled

OCCUPATION	STATE BANK OF INDIA & ITS ASSOCIATES			
	No. of Accounts	Credit Limit	Amount	% to Total
1	2	3	4	5
I. AGRICULTURE AND ALLIED ACTIVITIES	**933,119**	**458,83**	**307,34**	**10.7**
1. Agriculture excluding plantations	869,007	402,53	273,22	9.5
(a) Direct Finance	834,330	240,50	191,97	6.7
(b) Indirect Finance	34,677	162,03	81,25	2.8
2. Allied Activities	61,212	31,15	19,90	0.7
3. Plantations	2,900	25,15	14,22	0.5
II. INDUSTRY	**151,689**	**2892,25**	**1945,84**	**67.9**
A. **Mining and Quarrying**	**378**	**86,70**	**55,57**	**2.0**
B. **Manufacturing Industry**	**92,291**	**2646,95**	**1778,73**	**62.0**
1. Rice Mills, Flour and Dal Mills	1,101	21,57	12,85	0.4
2. Sugar	249	154,15	45,71	1.6
3. Edible Oils and Vanaspati	643	47,09	27,28	0.9
4. Beverage and Tobacco	349	32,61	10,30	0.4
5. Textiles	8,782	470,34	317,12	11.1
(a) Cotton Textiles	4,555	288,08	195,64	6.8
(b) Jute Textiles	132	95,99	65,65	2.3
(c) Other Textiles	4,095	86,27	55,83	2.0
6. Paper, Paper Products & Printing	2,469	52,81	39,77	1.4
7. Leather and Leather Products	821	38,95	32,57	1.1
8. Rubber and Rubber Products	983	33,97	25,22	0.9
9. Chemicals and Chemical Products	6,195	220,56	148,78	5.2
(a) Heavy Industrial Chemicals	219	19,85	15,16	0.5
(b) Fertilisers	255	75,81	41,47	1.5
(c) Drugs & Pharmaceuticals	924	29,86	22,24	0.8
(d) Others	4,797	95,04	69,91	2.4

II

Commercial Banks (As on December, 1975)

(Amount in lakhs of rupees)

14 NATIONALISED BANKS				ALL SCHEDULED COMMERCIAL BANKS			
No. of Accounts	Credit Limit	Amount	% to Total	No. of Accounts	Credit Limit	Amount	% to Total
6	7	8	9	10	11	12	13
1701,170	**817,69**	**618,89**	**10.9**	**3038,401**	**1493,21**	**1070,39**	**10.7**
1583,913	625,23	496,50	8.8	2845,914	1139,01	840,47	8.4
1439,935	383,61	344,50	6.1	2654,534	680,20	588,90	5.9
143,978	241,62	152,00	2.7	191,380	458,81	251,57	2.5
105,512	64,58	50,48	0.9	174,793	101,42	75,21	0.8
11,745	127,88	71,91	1.2	17,694	252,78	154,71	1.5
453,429	**5324,30**	**3409,15**	**60.1**	**670,125**	**9575,62**	**6215,95**	**62.1**
1,410	**90,71**	**69,50**	**1.2**	**1,985**	**188,34**	**131,65**	**1.3**
177,061	**4712,82**	**2962,47**	**52.2**	**295,581**	**8552,60**	**5468,48**	**54.6**
4,203	74,94	36,69	0.6	6,773	124,95	65,88	0.7
618	199,88	70,40	1.2	973	370,07	122,71	1.2
3,106	108,85	44,04	0.8	4,543	195,98	82,97	0.8
1,602	73,71	47,29	0.8	2,378	147,33	82,17	0.8
18,740	966,79	625,07	11.0	31,457	1618,71	1056,38	10.6
7,843	553,56	362,29	6.4	14,042	928,04	615,22	6.2
318	77,39	51,19	0.9	502	190,84	126,90	1.3
10,579	335,84	211,59	3.7	16,913	499,83	314,26	3.1
6,489	171,38	116,48	2.0	10,103	255,03	178,30	1.8
1,435	37,53	26,14	0.5	2,691	91,29	70,83	0.7
2,034	64,54	46,03	0.8	3,330	145,28	104,22	1.0
12,770	548,09	349,39	6.2	20,827	932,75	589,92	5.9
452	57,21	37,84	0.7	818	96,91	64,23	0.6
394	126,29	81,32	1.4	733	233,37	135,76	1.4
2,123	99,69	82,99	1.1	3,516	194,86	118,74	1.2
9,801	264,90	167,24	3.0	15,760	417,61	271,19	2.7

Bank-group and Occupation-wise Classification of Outstanding Credit of Scheduled

OCCUPATION	STATE BANK OF INDIA & ITS ASSOCIATES			
	No. of Accounts	Credit Limit	Amount	% to Total
1	2	3	4	5
10. Manufacture of basic Minerals	272	102,94	43,70	1.5
11. Cement	177	40,77	28,42	1.0
12. Basic Metal and Metal Products	7,828	429,28	339,96	11.9
(*a*) Iron & Steel	2,364	293,85	245,34	8.6
(*b*) Others	5,464	135,43	94,62	3.3
13. Engineering	8,697	590,03	416,85	14.5
(*a*) Heavy Engineering	1,596	482,29	332,83	11.6
(*b*) Light Engineering	7,101	107,74	84,02	2.9
14. Vehicles, Vehicle Parts & Transport Equipment	2,579	150,73	116,25	4.0
15. Others	51,146	261,15	173,95	6.1
C. Electricity-Generation, Transmission & Distribution	**630**	**45,90**	**29,23**	**1.0**
D. Construction	**417**	**19,10**	**13,24**	**0.5**
E. Transport Operators	**16,209**	**64,66**	**48,85**	**1.7**
F. Personal and Professional Services	**41,764**	**28,94**	**20,22**	**0.7**
TRADE	**69,530**	**954,21**	**421,49**	**14.7**
1. Wholesale Trade	5,930	906,83	389,88	13.6
2. Retail Trade	63,600	47,38	31,61	1.1
PERSONAL LOANS (INCLUDING CONSUMER DURABLES)	**337,250**	**100,78**	**84,20**	**2.9**
ALL OTHERS	**556,695**	**212,30**	**109,39**	**3.8**
TOTAL BANK CREDIT (I+II+III+IV+V)	2048,283	4618,37	2868,26	100.0
of which Small-scale industry	90,213	592,59	408,07	14.2

II

Commercial Banks (As on December, 1975)

(Amount in lakhs of rupees)

14 NATIONALISED BANKS				ALL SCHEDULED COMMERCIAL BANKS			
No. of Accounts	Credit Limit	Amount	% to Total	No. of Accounts	Credit Limit	Amount	% to Total
6	7	8	9	10	11	12	13
580	61,34	43,19	0.8	964	209,47	109,24	1.1
228	34,25	24,62	0.4	418	76,49	53,83	0.5
13,615	517,34	333,54	5.9	23,462	1070,21	755,25	7.6
4,521	264,34	179,26	3.2	7,763	625,60	466,93	4.7
9,094	253,00	154,28	2.7	15,699	444,61	288,32	2.9
15,987	1035,80	666,60	11.8	27,082	1867,96	1230,67	12.3
3,539	726,23	463,07	8.2	5,836	1349,42	877,51	8.8
12,448	309,57	203,53	3.6	21,246	518,54	353,16	3.5
4,908	229,20	156,80	2.8	8,510	432,58	311,12	3.1
90,746	589,18	376,19	6.6	152,070	1014,58	654,99	6.5
866	**113,61**	**66,49**	**1.2**	**1,650**	**174,38**	**106,23**	**1.1**
3,972	**54,16**	**43,51**	**0.8**	**5,477**	**90,08**	**70,08**	**0.7**
72,732	**201,88**	**157,95**	**2.8**	**103,422**	**328,37**	**259,79**	**2.6**
197,388	**151,12**	**109,23**	**1.9**	**262,010**	**241,85**	**179,74**	**1.8**
313,956	**1832,19**	**1139,22**	**20.1**	**443,886**	**3251,44**	**1819,84**	**18.2**
57,756	1574,12	959,45	16.9	83,864	2866,58	1556,92	15.6
256,200	258,07	179,77	3.2	360,022	384,86	262,92	2.6
592,225	**215,14**	**167,52**	**2.9**	**1303,224**	**393,47**	**316,33**	**3.1**
771,461	**564,04**	**338,08**	**6.0**	**1891,624**	**984,19**	**590,70**	**5.9**
3832,241	8753,36	5672,86	100.0	7347,260	15697,93	10013,21	100.0
154,490	999,99	652,47	11.5	262,122	1772,88	1177,90	11.8

Source: Banking Statistics, December, 1975—R.B.I.