

## APPENDICES

### Appendix

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**Appendix 1**  
*(Para 1.2.1)*

### **Memorandum Reserve Bank of India Committee on Technology Upgradation in the Banking Sector**

The Committee on Banking Sector Reforms chaired by Shri M. Narasimham, in its Report submitted in April 1998, has commented on issues related to upgradation of information technology in the banking sector in Chapter IV, Paras 4.38 to 4.70 (Annexure I).

To examine various issues pertaining to technology upgradation in the banking and financial sector and to suggest steps for a time-bound implementation schedule of the Narasimham Committee's recommendations, to be followed by banks and financial institutions, the Reserve Bank of India has decided to set up a Committee in the Department of Information Technology. The composition of the Committee is as under:

- |  |          |
|--|----------|
| 1. Shri A. Vasudevan<br>Executive Director,<br>Reserve Bank of India   | Chairman |
| 2. Joint Secretary<br>Division of Banking<br>Ministry of Finance,<br>Govt. of India.                         | Member   |
| 3. Joint Secretary<br>Department of Electronics,<br>Govt. of India.  | Member   |
| 4. Dr.V.P. Gulati<br>Director,<br>Institute for Development & Research<br>in Banking Technology<br>Hyderabad | Member   |

- |    |   |        |
|----|---|--------|
| 5. | Prof. H.Krishnamurthy<br>Indian Institute of Science,<br>Bangalore. | Member |
| 6. | Prof. S.M. Padwal<br>National Institute of Bank Management,<br>Pune | Member |
| 7. | Shri M.N. Dandekar,<br>Secretary,<br>Indian Banks' Association      | Member |

**Reserve Bank of India**

- |     |  |        |
|-----|--|--------|
| 8.  | Legal Adviser,<br>Legal Department                                   | Member |
| 9.  | Chief General Manager,<br>Dept. of Non-Banking Supervision           | Member |
| 10. | Chief General Manager,<br>Dept. of External Investments & Operations | Member |
| 11. | Chief General Manager,<br>Dept. of Government & Bank Accounts        | Member |
| 12. | Chief General Manager,<br>Dept. of Banking Operations & Development  | Member |

**Commercial Banks**

- |     |                                  |        |
|-----|----------------------------------|--------|
| 13. | State Bank of India              | Member |
| 14. | Canara Bank                      | Member |
| 15. | Bank of Baroda                   | Member |
| 16. | Standard Chartered Bank          | Member |
| 17. | United Bank of India             | Member |
| 18. | United Western Bank              | Member |
| 19. | HDFC Bank                        | Member |
| 20. | ICICI Bank                       | Member |
| 21. | Saraswat Urban Co-operative Bank | Member |

The officials representing the banks should be of not less than the rank of General Manager.

Chief General Manager, Department of Information Technology, Reserve Bank of India, will be the Member-Secretary of the Committee.

The terms of reference are as follows:

(a) To suggest necessary legislative changes for implementation of electronic funds transfer with, inter alia, emphasis on:

- Encryption of Public Switching Telephone Network (PSTN) lines;

- Admission of electronic files as evidence;
  - Treating Electronic Funds Transfers on par with crossed cheques/drafts for purposes of Income Tax etc.;
  - Record keeping;
- (b) To recommend approaches for development of intra-bank / intra-city communication network to facilitate connectivity with VSATs;
- (c) To suggest ways to bring about computerisation of Government accounts in an expeditious and efficient manner;
- (d) To work out modalities necessary for development and optimal utilisation of a secure, robust Wide Area Network (WAN) based on satellite with the necessary security systems, by banks and other financial institutions, to ultimately develop a sound and an efficient payments system;
- (e) To examine methods by which technological upgradation in banks and financial institutions could be effected and in the context study the feasibility of establishment of standards, designing payments system backbone and standards relating to security levels, messages and smart cards by IDRBT;
- (f) To make recommendations for development of data warehousing and data mining, with a view to creating opportunities for development of efficient management information system (MIS) in near future;
- (g) To recommend guidelines for outsourcing of programme development and implementation work; and
- (h) To make recommendations on any other related issues.

The Secretariat support to the Committee will be provided by the Department of Information Technology.

The Committee will submit its Report by December 31, 1998.

(S.P. Talwar)  
Deputy Governor  
September 5, 1998

**Appendix 2**  
(Para 1.2.1)

### **Constitution of the Committee on Technology Upgradation in the Banking Sector**

| <b><u>Name</u></b> | <b><u>Designation &amp; Institution</u></b> | <b><u>Status</u></b> |
|--------------------|---|----------------------|
|--------------------|---|----------------------|

|                         |  |          |
|-------------------------|--|----------|
| Dr. A.Vasudevan         | Executive Director<br>Reserve Bank of India  | Chairman |
| Shri Sudhir Srivastava* | Director<br>Division of Banking<br>Ministry of Finance<br>Government of India                | Member   |
| Dr.Gulshan Rai          | Director<br>Department of Electronics<br>Government of India                                 | Member   |
| Dr.V.P.Gulati           | Director<br><br>Institute for Development and<br>Research in Banking Technology<br>Hyderabad | Member   |
| Prof.H.Krishnamurthy    | Indian Institute of Science<br>Bangalore   | Member   |
| Prof.S.M.Padwal         | National Institute of Bank<br>Management, Pune   | Member   |
| Shri M.N.Dandekar       | Secretary<br>Indian Banks Association<br>Mumbai  | Member   |
| Shri N.V.Despande       | Legal Adviser<br>Legal Department<br>Reserve Bank of India                                   | Member   |
| Shri V.S.N.Murthy       | Chief General Manager<br>Dept.of Non Banking Supervision<br>Reserve Bank of India            | Member   |
| Smt. Shyamala Gopinath  | Chief General Manager<br>Dept.of External Investments<br>& Operations,Reserve Bank of India  | Member   |

\* This position was later taken by ShriD.K.Tyagi, Director, Division of Banking, Ministry of Finance.

|                   |   |        |
|-------------------|---|--------|
| Shri B.Ramani Raj | Chief General manager<br>Dept.of Government & | Member |
|-------------------|---|--------|

|                    |   |                      |
|--------------------|---|----------------------|
|                    | Bank Accounts<br>Reserve Bank of India  |                      |
| Shri A.Ghosh       | Chief General Manager<br>Department of Banking<br>Operations & Development<br>Reserve Bank of India | Member               |
| Shri K.Sesha Sayee | Chief General Manager<br>State Bank of India  | Member               |
| Shri A.K.S.Rao     | General Manager<br>Canara Bank  | Member               |
| Shri R.Narasimhan* | General Manager<br>Bank of Baroda   | Member               |
| Shri K.S.Nayak**   | Indian Systems Support Group<br>Standard Chartered Bank   | Member               |
| Shri P.Basu        | Dy. General Manager<br>United Bank of India   | Member               |
| Shri R.R.Chavan    | Dy. General Manager<br>United Western Bank  | Member               |
| Shri C.N. Ram      | Senior Vice President<br>HDFC Bank  | Member               |
| Shri A.G.Prabhu    | Sr. Executive Vice President<br>ICICI Bank  | Member               |
| Dr.V.T.Godse       | Dy. General Manager<br>Saraswat Urban Co-operative<br>Bank  | Member               |
| Shri S.R.Mittal    | Chief General Manager<br>Department of Information<br>Technology<br>Reserve Bank of India           | Member-<br>Secretary |

\* This position was later taken by Shri R.V.Iyer, General Manager, Bank of Baroda.

\*\* This position was later taken by Shri Ashish Rege, Service Manager, Group Technology - India, Standard Chartered Bank.

**Report of the Committee on Banking Sector Reforms**  
**April, 1998**  
**Extracts of Paras 4.38 to 4.70 - Chapter IV :**

**Issues in Technology Upgradation**

4.38 No area of commercial activity has been more influenced by the ongoing revolution in Information and communications technology than the banking and financial systems. Information Technology and Electronic Funds Transfer system have emerged as the twin pillars of modern banking development. In fact, technology has moved banking towards a whole paradigm shift. Not only have the services or products offered by banks moved way beyond conventional banking, but access to these services has become a round the clock round the week routine. Most global banks can today be accessed on phone via PC, via internet or at the neighborhood ATM or kiosk. 24 hours a day, 7 days a week.

4.39 This phenomenon has largely by passed India. While most technologies that could be considered suitable for India have been introduced in some diluted form as a pilot. Requisite success has not been achieved because of the following reasons:-

- Inadequate Bank Automation.
- Not so strong commercially oriented inter-bank platform.
- Lack of a planned, standardised, electronic payment systems backbone.
- Inadequate telecom infrastructure.
- Inadequate marketing effort.
- Lack of clarify and certainty on legal issues
- Lack of Data Warehousing network.

4.40 With a very low level of old mainframe technology systems, India is poised to leapfrog several stages that other developed nations had to go through due to a fragmented and incremental approach.

4.41 In terms of developing a state-of-the-art IT infrastructure for the banking sector, we are of the view that the issue needs to be considered in terms of serving the two major sectors in India, that have slightly different priorities. viz., rural and urban.

4.42 The rural segment, at least as of today, is less mobile and the focus is more on "fairness" of the system and adequacy of credit. In urban areas, on the other part, there is a greater mobility of consumers and a relatively higher frequency of use. Thus, access, convenience and time are of the essence. We may sum up these needs as follows :-

**Rural**

- Quick credit on an objective basis at reasonable rates and sensitive to the vagaries of nature, and,
- A friendly supporting system for encouraging savings and attracting them into the financial mainstream.

**Urban**

- Quick credit on an objective basis at reasonable rates and sensitive to the vagaries of nature, and,
- Easy access to a wide range of banking and payment services of high quality customised to as narrow a segment of customers as possible.

4.43 This should not be taken to mean that the two sectors have divergent needs. In fact, the ultimate infrastructural needs for both the sectors are the same. However, the priorities for the two sectors differ somewhat and it would be advisable to keep this in mind in our technological solutions to address their needs. Obviously, the structure that we recommend should respond to these needs.

4.44 An overall examination of the products and services offered by banks in the more developed economies shows that technology adoption and absorption has revolved around two basic themes, viz., retail banking and corporate banking. Retail banking with its emphasis on numbers and segments of customers has leaned more on basic technology infrastructure.

4.45 Data warehousing technology is used to collect data on the credit profiles and payment of individuals, data mining and modelling tools to develop new products and the latest access technology to make the product accessible *anywhere, anytime and anyhow*.

4.46 Corporate banking on the other hand has moved way beyond such *triple a* to a *segment of one*. In corporate banking, therefore, there is a dominance of specific products offered by a few focused banks to a very narrowly defined customer segments.

4.47 Some of the major trends may be described as under :-

| Indian Situation  | Developed Economies   |
|---|---|
| <ul style="list-style-type: none"> <li>* Buy technology rather than considering other than alternatives</li> <li>* All banks to all people</li> <li>* Branch Network</li> <li>* Distributed Processing</li> <li>* Distributed Appraisal</li> <li>* Rules/Regulation driven</li> <li>* Bank at nearest bank</li> <li>* Walk to your branch</li> <li>* Little choice in types of accounts</li> <li>* Paper based, wire remittances only intra-bank</li> <li>* Directed credit, no knowledge rules</li> <li>* Delayed, reactive approvals</li> <li>* Regulations to force credit to underprivileged</li> </ul> | <ul style="list-style-type: none"> <li>* Buy technology or outsource it.</li> <li>* Specialised banks targeting specific segments of the market</li> <li>* PCs, Internet, Phone</li> <li>* Centralised processing</li> <li>* Centralised appraisals by specialised teams</li> <li>* Bank with most friendly bank</li> <li>* ATM, PC, Telephone, Internet</li> <li>* Wide array of products</li> <li>* Account to Account, Interbank EFT Objective, data based assessment</li> <li>* Proactive, pre-approved credits</li> <li>* Regulations to prevent discrimination</li> </ul> |
| <p>Some Innovation seen abroad</p> <ul style="list-style-type: none"> <li>* Franchising branch networks</li> <li>* Forming alliances with global banks for developing risk assessment skills</li> <li>* Limited bank joint ventures</li> </ul>  |   |

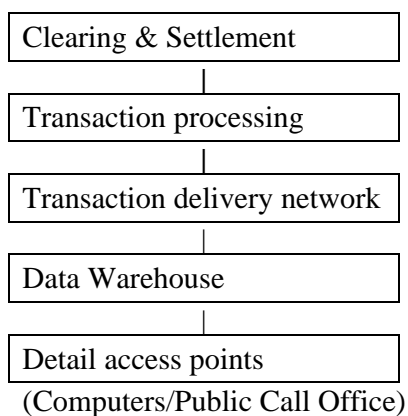
4.48 The challenge for India, very clearly, is to integrate this retail/corporate model into a rural/urban one.

### **A Payment Systems Backbone**

4.49 The financial institutions and their customers are likely to incur substantial inefficiencies, redundancies and/or risk management gaps if there is not a structure in place for a set of payment services - each optimised to its own function. Conversely, if the infrastructural elements are designed within a comprehensive master plan, a higher level of customer service, timeliness, efficiency and risk management can be developed at less cost.

### **The Payment System Vision**

4.50 Thus, our vision for a payments system in this country comprises the following layers:-



4.51 The initial set of services that would ride on this infrastructure could include:

- Electronic intra-bank and inter-bank payment clearing and settlement
- Cheque truncation
- Electronic tax collection
- Electronic bill payment
- Corporate interest and dividend payments
- Salary and pension payments

### **Automated Clearing House Operations**

4.52 Today, no automated clearing house exists in the country. With the introduction of electronic clearing service, there is some progress in this respect and the Saraf Committee has proposed a tiered system of clearing houses, somewhat on the lines of the current paper based clearing systems. This architecture appears appropriate, except that currently the branches of most public sector banks are not electronically connected to their service branches.

4.53 Clearly, this is an area where RBI/IDRBT need to lay down standards for inter-bank file transfer and also learn from experience elsewhere by indigenising standards developed in some



other countries. Private commercial service providers could also be encouraged to offer such services to banks.

### **A Network of Regional Data Warehouses - Credit Information Bureaux**

4.54 Information management is an area where, globally, technology has played a very active role. Banks face this issue every day. Perhaps in no area does lack of readily available verifiable information hurt banks more than in risk assessment. What is needed is a broad information infrastructure that captures not only individual and corporate information, but also transactional information. This requires a new industry of information service providers that would develop and maintain relevant corporate and personal information that is easily accessible to all authorised users. This calls for an environment that facilitates the collection of accurate credit information on a transparent basis.

4.55 Banks would then have an easily accessible matrix for risk assessment that will enable them to benchmark their risk-reward position with the rest of the system. Such a system, by itself would tell banks whether the price they charge for the risk assumed is adequate and also whether their cost of intermediation is in tune with the local/global economy.

4.56 The essential requirement for data warehouses are as follows :-

- Unique identification, at least, for bank account holders - this could be the PAN, Voter ID, Driving Licence or some other identification facility. The ID will, of course, aid in several other national priorities, including driving/other licences, public distribution system, elections, taxes, police investigations, illegal immigration, etc.
- Storage of land records and land use data on electronic media, particularly in rural areas; and
- Storage of loan utilisation and repayment data on electronic media.

4.57 We further recommend setting up, possibly by IBA, a high-level group to suggest the kind of data to be picked up which can serve the purpose meaningfully. Such data would be stored at regional centres and could be available, subject to user passwords and security levels, whenever necessary, to district Government bodies as well as bankers for determining credit needs. Where required, the system would automatically access other regional databases.

4.58 Such a system would ensure availability of past payment records and enable statistical models (based on regional information) rather than subjective assessments. The data will also enable credit delivery to be tailored to regional industry needs.

4.59 A great deal of attention is being paid to customer confidentiality. This is certainly warranted. However, the emphasis is somewhat misplaced considering the fact that it can be taken care of very easily through technological as well as administrative measures. It should be remembered that a good system will benefit the consumer as much as the banker. It can be very easily ensured that the information is made available only to authorised institutions subject to a certification to the effect that the institution has the consent of the concerned consumer to obtain the information. Of course, every borrower and loan applicant may be presumed to have given this permission. Necessary legislative changes with requisite safeguards would be required for this purpose.

4.60 This service could be developed by a group of banks and financial institutions or it could be organised, managed and offered by independent private bureaux.

### **Bank Automation**

4.61 Little of what we have discussed so far can be achieved without basic bank automation. While banks in India seem to have realised this, the pace is rather slow for various reasons.

4.62 Bulk of the Indian (domestic) banking system today is based on a Branch Automation model. Customers today have accounts at a branch, not a bank. Increasingly, however, customers are demanding a higher degree of flexibility and anytime, anywhere banking. The branch automation model cannot achieve this unless the branches are networked. Networking intra-bank branches which is a common denominator should at least start with immediate effect and banks should take up the selection of communication software and development of the requisite interfaces. While the interfaces would be specific to the application and communication software, the use of a message standard like ISO 8583 would enable easy compatibility with an inter-bank platform. One approach suggested the adoption of a cluster automation model which facilitates anywhere banking, at least within defined regions in urban areas. This could be achieved by setting up relatively centralised processing in selected regions, which would then link up at State and national levels, via wide area networks.

4.63 Another approach to this issue could be to encourage service providers who enable the outsourcing of branch/bank automation. Small and medium sized banks need to, then, invest in expensive technological investments in small, isolated branches and can yet automate such branches by hooking up to the service provider.

4.64 Technology needs to be introduced in this area at two different levels. One of these is the Inter-branch networking, which we referred to. What is perhaps equally important is customer access. This can happen via telephones, ATMs, PCs, point of sale terminals at convenient locations.

4.65 Further, bulk of branch automation today is a mere translation of existing manual processes, which in turn have changed little since they were first conceived. What is called for, therefore, is a total process re-engineering to suit an automated environment. Designing the process again needs to be done with high levels of domain knowledge and familiarity with what technology can achieve. For instance, whole functions rather than individual elements need to be considered. Similarly, signatures are still often verified manually rather than *imaging* on computer. An integrated approach is, therefore, required while developing software.

### **Computerisation as Management Control Tool**

4.66 MIS is the key to successful operation and control of any business. Managements need to know and track the key parameters like credit outstanding, liabilities/deposits, reserves maintained, earnings on day to day basis, etc., on a real time basis. Computerisation helps in

better deployment of human resources and enables management to interact electronically. Information and control systems need to be developed in several areas like :-

- Tracking spreads, costs and NPAs better for higher profitability
- Accurate and time information for strategic decisions - Identify and promote profitable products and customers
- Risk and Asset-Liability management; and
- Efficient Treasury management

### **Approach towards technology introduction and management**

4.67 Banks all over the world are grappling with the problem of attracting and retaining high quality technical talent. In India, particularly in the public sector, given the salary structure of staff, this should be equally true and more so, because technology is not the core activity of banks. Top management of banks cannot devote more attention to technical staff than they do for their mainstream employees. On the other hand, the technical employees need an environment where they can learn more and keep their knowledge up to date. It is also essential that a mechanism be devised which ensures that in areas of hardware and software banks keep pace with fast changing technology.

4.68 At a different level, small banks find it difficult to make heavy investments in technology at a time when they are struggling hard to maintain capital adequacy. One possible way of making investments by banks in technology more attractive is by offering suitable fiscal incentives like provision for accelerated depreciation, for such investments. Another solution for such problems could, as mentioned earlier, be outsourcing. Today, in many countries, outsourcing is done at various stages and it offers the whole range between build-own-operate-maintain to utilising the services alone on a pay-per-use basis, very much analogous to public telephones. In these countries, such services are available to banks in several areas, including :

- EFT Networks
- ACH
- Bank Automation
- Data Warehousing
- Call Centres
- ATM Networks
- Systems maintenance

4.69 It is such sharing that would defray the investments of service providers and enable them to offer state-of-the-art technology at affordable prices. This needs to be encouraged by providing clarity in laws relating to customer confidentiality and giving banks a free hand in areas not specifically restricted. Here banks need to solve their own problems rather than wait for RBI to act or pronounce on an issue, before any action is taken. They could take the initiative by setting up an expert committee which could frame guidelines for the following with particular reference to outsourcing these services :-

- Type of services to be introduced and in what sequence ;
- Rollout Plan (to start with 4 metros may be covered);
- Technical specifications of the various services to be offered;
- Qualification criteria for the bidder and technology Joint Venture partner;

- Ceiling on tariff to be charged from the users;
- Foreign equity permissible in JV;
- Criteria for selection of the best service provider and
- Other commercial terms/rollout plan.

## Implementation Steps

4.70 The action points emerging from the points discussed in the foregoing paragraphs may be summarised as follows (in order of priority, but each item does not necessarily depend on the conclusion of ones listed earlier):-

(i) Necessary legislative changes keeping in view the recommendations of Shere Committee should be implemented at the earliest. This will build necessary confidence in the new processes and ensure wholehearted participation. In particular, the following issues need to be addressed immediately:-

- Encryption on Public Switching Telephone Network (PSTN) lines;
- Admission of electronic files as evidence;
- Treating electronic funds transfers on par with crossed cheques/drafts for purposes of income tax, etc; and
- Record keeping

(ii) Automation of banks needs to be coupled with process re-engineering and expedited. Service providers, who can offer branch/bank transaction services, could be considered.

(iii) Intra-bank networking which is a common denominator should be expedited. This would be facilitated by clarity on issues relating to connectivity of leased lines with VSATs and of network to network connections.

(iv) Government(s) should take the lead in adopting technology to automate inbound and outbound funds transfers. To begin with, the ideal for applications in selected areas the top metros should be automated and the success should then be methodically replicated in an increasing number of applications and cities.

(v) The IDRBT, in consultation with RBI, should accelerate the process of establishing standards, designing the payment systems backbone and other enablers of technology adoption and should not be getting into operating and managing networks. Operational and transactional areas should be progressively handed over to private hands. The IDRBT should focus on establishing standards relating to:

- Security levels;
- Timelines desired which can, otherwise be close to immediate;
- Roles and obligations of the entities involved; and
- It should examine the various standards available for smart cards and lead the way not only in introducing a *universal* solution for the country, but also impacting the way the technology has been moving globally.

(vi) RBI should take the lead in enabling the allotment of unique identifier to anyone needing the use of banking services. A beginning could perhaps be made with persons transacting above certain values. This should become a mandatory/electronically verifiable part of any transaction. The Personal Account Number of the Income-tax Department, the IDs on driving licenses or those on Election Cards may be adopted for

this purpose. This is an area where large technology integrators and data warehousing companies could be asked to put in bids.

(vii) RBI should encourage the set up of a network of regional data warehouses, to enable objective, up-to-date and quick risk assessment against verifiable information, besides comprehensive statistical information. Here also, emphasis should be more towards inviting third party service providers to build, own and operate on a pay-per-use mode. IBA/banks should participate in suggesting the kind of data required from time to time.

(viii) RBI should encourage the development of a strong payment system backbone including ACH across the country and mandate/encourage all payments to use this route. It should encourage the inter-linking of payment system networks and establishment of third-party networks. RBI should encourage usage of call centres for various transactions/queries

(ix) The possibilities of outsourcing many of the activities should be actively pursued. To this end banks could set up an expert committee for framing guidelines.

#### **Appendix 4** **(Para 1.3.2)**

### **Constitution of Sub-Groups**

#### **1. Sub-Group on Legislative framework for electronic banking**

|                     |          |
|---------------------|----------|
| Shri N.V. Deshpande | Convenor |
| Shri M.N.Dandekar   | Member   |
| Shri A.K.S.Rao      | Member   |
| Shri S.R.Mittal     | Invitee  |

#### **2. Sub-Group on strategy for intra-bank / intra-city networking**

|                   |          |
|-------------------|----------|
| Dr.V.P.Gulati     | Convenor |
| Dr.Gulshan Rai    | Member   |
| Shri R.Narasimhan | Member   |

#### **3. Sub-Group on Computerisation of Government Transactions**

|                        |          |
|------------------------|----------|
| Shri B.Ramani Raj      | Convenor |
| Shri S.R.Mittal        | Member   |
| Shri P.Basu            | Member   |
| Shri Sudhir Srivastava | Member   |

#### **4. Sub-Group on standardisation and application development for VSAT network**

|                      |          |
|----------------------|----------|
| Prof.H.Krishnamurthy | Convenor |
| Shri C.N.Ram         | Member   |
| Shri K.Sesha Sayee   | Member   |

#### **5. Sub-Group on outsourcing of services and technology by banking sector**

Prof.S.M.Padwal  
Shri C.N.Ram  
Shri A.K.S.Rao

Convenor  
Member  
Member

**6. Sub-Group on Data warehousing and MIS for banking sector**

Shri M.N.Dandekar  
Shri R.Narasimhan  
Shri A.Ghosh  
Smt.Shyamala Gopinath  
Dr.V.T.Godse

Convenor  
Member  
Member  
Member  
Member

No. 8(I)(h)/98(2)  
**CENTRAL VIGILANCE COMMISSION**

Jaisalmer House, Man Singh Road,  
New Delhi - 110011.  
Dated the 27<sup>th</sup> November, 1998

**SUB : Improving vigilance administration in Banks**

The Central Vigilance Commission Ordinance 1998 under Section 8(I)(h) directs that the power and function of the CVC will be the following:

"exercise superintendence over the vigilance administration of the various Ministries of the Central Government or corporations established by or under any Central Act, Government companies, societies and local authorities owned or controlled by that Government".

2. Improving vigilance administration is possible only i.e. system improvements are made to prevent the possibilities of corruption and also encourage a culture of honesty. In exercise of the powers conferred on the CVC by Section 8(I)(h), the following instructions are issued for compliance :

**2.1 Electronics clearance system**

2.1.1 All the Banking companies, Financial Institutions under the purview of the CVC will have to compulsorily offer electronics clearance services to their customers with immediate effect. This step is visualised as a method of checking fraud because a significant part of the frauds in the banks are related to the remittances and collection in the payment system.

2.1.2 The Reserve Bank of India will put up a network of 438 VSATs linked with their hub so that the Wide Area Network (WAN) becomes operational, within one year. The CVC will take up the matter with concerned authorities to see that requisite transponder capacity is made available to RBI. RBI may examine whether the spare capacity of earth stations in the software technology parks of the Department of Electronics can be utilised by them to quickly set up a WAN so that the electronic clearance system becomes operational at the earliest. RBI must be able to have its VSAT network in place latest before 1.1.2000.

**2.2 Computerisation of the branches of the banks**

2.2.1 All the banks must ensure that 70% of their business is captured through computerisation before 1.1.2001. As this issue is directly related to improving vigilance administration in the banks, this will not be an issue to be negotiated by the bank management with the unions. This principle will be applicable mutatis mutandis to all concerned with the computerisation of the clearing houses.

2.2.2 In order to achieve this goal, the banks will need technical manpower both at entry level and at supervisory levels. Within the present framework they can fill up posts up to 25% through direct recruitment. This flexibility must be used for inducting both at entry level and senior levels, competent technical manpower so that lack of availability of skilled manpower does not become a negative factor in slowing the pace of computerisation of the banks in achieving their target of computerising the banks by 1.1.2001.

2.2.3 One of the difficulties expressed by the banks was that the hardware and software was not available and more important even after sale services were not satisfactory. In the context of achieving the goal of computerisation before 1.1.2001, MAIT and NASSCOM must be asked to gear up their services and interact closely with the Indian Banks Association as well as the individual banks to resolve the issue. They could give a schedule of how these difficulties can be overcome.

2.2.4 At the time of computerisation, we should also take care of the need for encryption as well as safety in the banking operations so that computer frauds are not encouraged, for which the DRDO may be consulted.

### **2.3 Lack of communication between Banks**

2.3.1 All cases of wilful default of Rs.25 lakhs and above will be reported by all banks to RBI as and when they occur or are detected.

2.3.2 Whether a matter is a case of wilful default will be decided in each bank by a Committee of Officers.

2.3.3 The RBI will circulate the information received from the banks of wilful default, every three months. The data with the RBI will also be accessible directly by the banks concerned after the WAN is installed in position.

2.3.4 There should be greater intra bank communication about wilful default, frauds, cheating cases, etc. so that the same bank does not get exploited in different branches by the same defaulting parties.

3. Hindi version will follow.

**(N. VITTAL)**  
**CENTRAL VIGILANCE COMMISSIONER**

To

- i) The Governor / Deputy Governor, RBI.
- ii) The Special Secretary, Banking Division, D/o Eco. Affairs.
- iii) The Director, CBI.
- iv) The Chairman, Indian Banks Association.



- v) All Chief Executives of Banks / Financial Institutions.
- vi) The Joint Secretary and CVO, Banking Division, D/o Eco. Affairs.
- vii) All CVOs of Banks / Financial Institutions
- viii) The Comptroller & Auditor General of India.