

**REPORT OF THE
EXPERT COMMITTEE
TO REVIEW
DEPOSIT INSURANCE AND
CREDIT GUARANTEE SCHEMES**

1987

Deposit Insurance and Credit Guarantee Corporation

Bombay

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CHAPTER I

INTRODUCTORY

1.1 The Deposit Insurance Corporation was established by an Act of Parliament on 1 January 1962. With effect from 15 July 1978, it took over the functions of the Credit Guarantee Corporation of India Ltd., a public limited company promoted by the Reserve Bank on 14 January 1971. With the integration of the two organisations, the Corporation was renamed as the Deposit Insurance and Credit Guarantee Corporation. The Corporation performs the twin functions of offering insurance protection to small depositors of banks and offering guarantee support to credit facilities extended to certain categories of small borrowers, particularly those belonging to weaker sections of the society.

1.2 As no comprehensive review had been conducted of the Corporation's Schemes for two and a half decades, the Board of the Corporation decided to appoint an Expert Committee to undertake an in-depth review of the Deposit Insurance Scheme and Credit Guarantee Schemes of the Corporation. Accordingly, the Expert Committee was constituted on 14 July 1986 under the Chairmanship of Shri M.N.Goiporia, Chairman, Indian

Banks' Association with the following members :

- | | | |
|----|---|------------------|
| 1. | Shri U.K. Sarma
Executive Director
Reserve Bank of India
Bombay | Member |
| 2. | Shri B.D. Dikshit
Deputy Managing Director
State Bank of India
Bombay | Member |
| 3. | Shri A.K. Agarwal
Joint Secretary
Government of India
Ministry of Finance
Department of Economic Affairs
(Banking Division)
New Delhi | Member |
| 4. | Dr. S.A. Dave
Executive Director
Industrial Development
Bank of India
Bombay | Member |
| 5. | Shri Ashok Goenka
Chairman
General Insurance Corporation
of India
Bombay | Member |
| 6. | Shri L.P. Bhargava
Advocate
Ujjain | Member |
| 7. | Shri P.N. Shah
Chartered Accountant
Bombay | Member |
| 8. | Shri R.C. Suneja
Chairman
New Bank of India
New Delhi | Member |
| 9. | General Manager
Deposit Insurance and Credit
Guarantee Corporation
Bombay | Member-Secretary |

The Secretariat for the Expert Committee was provided by the Corporation.

1.3 The terms of reference of the Committee were as under :

TERMS
OF
REFERENCE

- (i) To examine the terms and conditions on which deposit insurance/credit guarantee cover is provided by the Corporation under its various schemes and to make suggestions for rationalising the same,
- (ii) To examine the existing procedures and to suggest simplifications, if necessary, for ensuring prompt payment of insurance premium/guarantee fee by credit institutions and expeditious disposal of claims by the Corporation,
- (iii) To examine, in the light of the growing claim liabilities, the adequacy of the Corporation's funds and to make suggestions, if necessary, for rationalising the level and structure of guarantee fee and the scope of guarantee cover so as to make the schemes viable,
- (iv) To examine the operational problems, if any, experienced by the participating credit institutions and make suggestions for improving the same and
- (v) To examine any other related matter and to make recommendations in respect thereof.

A copy of the Memorandum setting up the Expert Committee hereinafter called the Committee is given in Annexure - I.

1.4.1 A Sub-Group was constituted by the Committee in its meeting held on 25 September 1986 to look into the procedures followed by the Corporation in administering the various schemes.. The composition of the Sub-Group was as under:

- | | | |
|-------|---|--------------------|
| (i) | Shri B.D. Dikshit
Deputy Managing Director
State Bank of India
Bombay | Chairman |
| (ii) | Shri S.H. Khan
Executive Director
Industrial Development
Bank of India
Bombay | Member |
| (iii) | Shri N.S.S. Rao
General Manager
Central Bank of India
Bombay | Member |
| (iv) | Shri A.B. Chakravarty
Chief Officer
State Bank of India
Bombay | Member* |
| (v) | Shri M.L. Seth
Deputy General Manager
Deposit Insurance and Credit
Guarantee Corporation
Bombay | Member - Secretary |

* Co-opted as a member on 20 November 1986

The terms of reference of the Sub-Group were as under :

- (i) To examine the existing procedures and suggest simplifications for ensuring prompt payment of insurance premium/guarantee fee by credit institutions and expeditious disposal of claims by the Corporation,
- (ii) To examine the operational problems, if any, experienced by the participating credit institutions and make suggestions for improving the same and
- (iii) To examine any other related matter and to make recommendations in respect thereof.

The Sub-Group was required to keep the following aspects in view before making recommendations:

- (a) The Expert Committee may make recommendations for structural changes in the Corporation's Schemes as a result of which it may be necessary to evolve a completely new procedure/set of formats.
- (b) Changes to be suggested by the Sub-Group should be compatible with the computerised system presently in vogue in the Corporation.

The Sub-Group held two meetings at Bombay on 21 November and 5 December 1986 and submitted its report on 31 January 1987. A copy of the Sub-Group's Report is given in Annexure - II.

1.5 In order to facilitate the work of the Expert Committee a detailed questionnaire as per Annexure-III was issued to the credit institutions to elicit their views on various items under the terms of reference and this was followed by discussions held at Bombay, Calcutta Madras and New Delhi with major banks/State Financial Corporations (SFCs) in the different regions. The Committee has kept in view the various suggestions made by the banks/SFCs during the discussions and in response to the questionnaire, while making its recommendations.

1.6 The report is divided into the undernoted 7 Chapters :

<u>Chapter</u>	<u>Subject</u>
I	Introductory
II	Deposit Insurance and Credit Guarantee Corporation - A Review
III	Deposit Insurance Scheme
IV	Credit Guarantee Schemes
V	Financial Implications of Credit Guarantee Schemes.
VI	Procedural aspects and operational problems
VII	Summary of conclusions and recommendations

Since the Committee has undertaken a comprehensive review of the Schemes of the Corporation for the first time in the last twentyfive years it has been felt necessary to deal with the various Schemes at some length tracing the evolution and the detailed terms and conditions governing the Schemes so that the issues emanating therefrom and the recommendations made by us are viewed in their proper perspective.

1.7 The Committee met on six occasions on 25 September 1986, MEETINGS 27 April, 9 May, 26 June, 4 July and 11 July 1987.

1.8.1 At the outset of its deliberations, the Expert Committee had the benefit of the valuable advice and guidance of Dr.P.D. Ojha,

ACKNOWLEDGEMENTS Chairman of the Corporation who gave a direction to the work of the Committee. The Committee wishes to thank Shri B.D. Dikshit, Chairman and other members of the Sub-Group for their useful suggestions for streamlining the existing procedures of the Corporation. Shri S.H. Khan, Executive Director, IDBI attended all meetings of the Committee, as a special invitee, and the Committee would like to thank him for sparing his valuable time and making useful contributions. The Committee also acknowledges its gratitude to all the institutions, officials and non-officials who personally or through correspondence gave it the benefit of their views.

1.8.2 The Secretariat of the Committee was provided by the Corporation. The Committee wishes to express its thanks to Shri K.K. Saxena who was General Manager of the Corporation till October 1986 for preparing the background papers for its first meeting. The Committee would like to place on record its appreciation of the ungrudging and dedicated efforts of the staff of the Corporation and, in particular, Shri V.V. Herwadkar, Manager and Sarvashri G.R. Kulkarni and P.C. Antony, Development Officers and also Dr. C.L. Agarwal and DESACS who helped in the preparation of statistical statements for the Report. Finally, the rest of the members place on record their sincere appreciation of the able assistance rendered by the Member-Secretary, Ms. I.T. Vaz at all stages of the preparation of the Report.

CHAPTER II

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION - A REVIEW

2.1 The Deposit Insurance and Credit Guarantee Corporation performs the twin and cognate functions of deposit insurance giving protection to small depositors in banks and providing guarantee cover for credit facilities extended by the financing institutions to certain categories of small borrowers. Towards this end, the Corporation is operating the following Schemes :

1. Deposit Insurance Scheme, 1961
2. Small Loans Guarantee Scheme, 1971
3. Small Loans (Financial Corporations) Guarantee Scheme, 1971
4. Service Co-operative Societies Guarantee Scheme, 1971
5. Small Loans (Small Scale Industries) Guarantee Scheme, 1981
6. Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982
7. Small Loans (Co-operative Banks) Guarantee Scheme, 1984.

The origin, evolution and principal elements of the Schemes and progress thereunder are given below. The resources and the management and organisational set-up of the Corporation are also indicated in this Chapter.

DEPOSIT INSURANCE SCHEME

2.2 The question of introducing a scheme of deposit insurance in India first received attention after the banking crisis in Bengal in 1948.

HISTORY

However, the introduction of such a scheme was considered premature at that stage. The question came up for reconsideration in 1949, when it was decided again to hold it in abeyance till adequate arrangements were made for periodical inspections of banks, so that the Reserve Bank could with confidence, advise on the inclusion of banks in the deposit insurance scheme. In 1950, the Rural Banking Enquiry Committee in its Report* regarded the proposal for a deposit insurance scheme for the Indian banking structure as "commendable in principle". It, however, felt that the risks and uncertainties surrounding the banking situation did not warrant the immediate introduction of such a scheme. The Committee, therefore, suggested that the question might be deferred till the process of consolidation of the banking system as envisaged in the Banking Companies Act, 1949 had been completed. The Committee on Finance for the Private Sector (Shroff Committee) had opined that the scheme of deposit insurance had useful potentialities and recommended that a scheme on the U.S.

* P. 71 of Rural Banking Enquiry Committee Report, 1950

model should be adopted if there was a consensus of opinion amongst banks regarding the desirability of the scheme. The scheme still did not take any concrete shape till 1960. However, when the Palai Central Bank Ltd. and Laxmi Bank Ltd. failed and the depositors' confidence in the banking system was shaken, a decision was taken to set up a Corporation for introducing a scheme in order to afford protection to small depositors in banks and also as a means of preventing any retardation in the spread of the banking habit as a result of isolated cases of bank failures. The Corporation was to be a very specialised institution, perhaps the second institution of its kind in the world (the U.S.A.'s Federal Deposit Insurance Corporation being the first) and was envisaged to operate on a commercial basis without any subsidy. Accordingly, the Corporation was established on 1 January 1962 by an Act of Parliament viz., Deposit Insurance Corporation Act, 1961 with a capital of Rs.1 crore subscribed by the Reserve Bank and the Deposit Insurance Scheme was introduced from the same date. The title of the Act was subsequently changed to the "Deposit Insurance and Credit Guarantee Corporation Act, 1961" in July 1978 consequent upon the Corporation assuming credit guarantee functions.

COMMERCIAL BANKS

2.3.1 Initially the insurance scheme was applicable to all functioning commercial banks in India including the State Bank of India and its subsidiaries.

APPLICABILITY

Branches of foreign banks operating in India were also covered. In terms of Section 10 of the DICGC Act, 1961 the Corporation was required to register these banks as insured banks before the expiry of 30 days from the date of commencement of the Act. Thus, in 1962, as many as 276 commercial banks were registered as insured banks. Consequent upon the process of amalgamation, reconstruction and liquidation and registration of new banks, their number declined and, as on 31 December 1986, the number of insured banks stood at 83.

CO-OPERATIVE BANKS

2.3.2 Since 1968, with the enactment of the Deposit Insurance Corporation (Amendment) Act, 1968, the Corporation was required to register eligible co-operative banks as insured banks under Section 13A. An eligible co-operative banks means a co-operative bank (whether it is a state co-central co-operative bank or primary co-operative bank) operative bank/ in a State which has passed the enabling legislation amending its Co-operative Societies Act, requiring the State Government to vest powers in the

Reserve Bank to order the Registrar of Co-operative Societies to liquidate, amalgamate or reconstruct a co-operative bank and to supersede its Committee of Management and to require the Registrar not to take any action for liquidation, amalgamation or reconstruction without prior sanction in writing of Reserve Bank. As on 31 March 1987, 15 States and 3 Union Territories had enacted the required legislation thereby bringing within the Corporation's fold, 1608 co-operative banks in these States and Union Territories as insured banks.

REGIONAL RURAL BANKS

2.3.3 With the enactment of the Regional Rural Banks Act, 1976, the Scheme is automatically extended to them as and when they are established. The number of Regional Rural Banks (RRBs) registered till 31 March 1987 was 194.

2.3.4 The total number of banks registered as insured banks as on 31 March 1987 was thus 1885, comprising 83 commercial banks, 1608 co-operative banks and 194 RRBs.

2.3.5 The Corporation is required to register every new commercial bank or a new eligible co-operative bank as an insured bank soon after it is granted a licence under Section 22 of the Banking Regulation Act, 1949.

2.4.1. The Scheme provides insurance cover to a depositor's accounts - current, savings and fixed etc. in the aggregate,

INSURANCE upto Rs.30,000/- in each insured bank in
COVER India, in all its domestic branches. Thus

a depositor-be he an individual or a business firm or a company or a trust - is insured upto Rs.30,000/-, in the aggregate, with respect to all deposit accounts he or she holds in the same right and capacity in each insured bank.

(The term "right" and "capacity" relate to the nature of ownership of deposits such as individual, joint, or trust

deposits). [A depositor may obtain more coverage by opening like accounts at different insured banks, but not at different branches of the same bank.] When the Scheme was introduced on 1 January 1962 the coverage was limited to Rs. 1,500/- per depositor.

2.4.2 Deposits of foreign governments, Central/State Governments, inter-bank deposits as also deposits held abroad are not covered by the insurance scheme and hence, they are to be excluded by the insured banks while computing the assessment of insurance premium payable to the Corporation. Consequent on amendment to Section 2 (g)

of the Act empowering the Corporation to exclude any amount due on account of any deposit with any insured bank with the previous approval of Reserve Bank of India, from 1

May 1986, deposits of State land development banks with State co-operative banks are also excluded from the purview of the Scheme.

2.4.3 The total assessable deposits of insured banks have increased from Rs.1694 crores in 1962 to Rs.86,214 crores in 1986 and the insured deposits (i.e. deposits, the repayment of which is insured by the Corporation upto the insured limit per depositor) have increased from Rs. 392 crores to Rs.62,878 crores during the same period. The insured deposits as at the end of 1986 formed 72.9 per cent of the total assessable deposits. Likewise, the number of fully protected accounts (i.e., accounts with balances not exceeding the limit of insurance cover) increased from 55 lakhs in 1962 to 2,320 lakhs in 1986 constituting 98% of the total number of 2359 lakh deposit accounts as on that date.

2.5.1 Each bank registered as ^{an} insured bank is required to pay for the cost of insurance by way of insurance premium through half-yearly assessments based on its deposit volume. The rate of insurance premium was initially fixed at Re.0.05 or 1/20th of 1 per cent per annum. It was reduced to Re. 0.04 or 1/25th of 1 per cent per annum with effect from 1 October 1971 and has remained unchanged

INSURANCE PREMIUM

since then. Section 15 of the Act provides for levy of such premium at a maximum rate of Re.0.15 per cent per annum with the previous approval of Reserve Bank. The premium is assessed on the basis of "Assessable deposits" as on the last Friday of the preceding half-year and is payable in advance within one month from the commencement of that half-year. The premium is payable on the total assessable deposits and not merely on the insured deposits.

2.5.2 In case of delayed payment, the insured bank is required to pay the amount due, together with interest at Bank Rate, if payment is made before the end of the half-year and 2% above the Bank Rate if payment is not made before the end of that half-year from the first-day of the half-year. Sub-section 3 of Section 15 of the Act provides for levy of such penal interest upto a maximum of 8% above Bank Rate.

2.5.3 Section 15A of the Act empowers the Corporation to cancel the registration of an insured bank after giving it one month's notice if it fails to pay the premium for 3 consecutive periods. The registration can be restored on request and after payment of all premium dues together with penal interest.

2.5.4 The premium paid by the insured banks to the Corporation is required to be absorbed by the banks themselves so that the benefit of deposit insurance protection is made available to the depositors free of cost. During 1986, the share in the total premium collected was 90.4% for commercial banks, 8.4% for co-operative banks and 1.2% for RRBs.

2.6 Although in terms of Section 35 of the Act *ibid* the Corporation is empowered to have free access to records of an insured bank and to call for copies of such records, it depends on the Reserve Bank for periodical inspections and investigation of insured commercial banks and urban

SUPERVISION AND INSPECTION OF INSURED BANKS co-operative banks and on National Bank for Agriculture and Rural Development (NABARD) for RRBs and other co-operative banks.

This is done in the interests of administrative and financial expediency and in order to avoid a dual inspection machinery and duplication of staff. On the basis of these periodical inspection reports, the Corporation takes appropriate action, wherever necessary.

2.7.1 When a bank goes into liquidation, the Corporation pays to every depositor, through the liquidator, the amount of deposits upto Rs. 30,000/-. Similarly, INSURANCE CLAIMS when a bank is reconstructed or amalgamated with another bank and the scheme of reconstruction or amalgamation does not entitle the depositor to get credit for the full amount of his deposit, the Corporation pays to each depositor through the reconstructed/transferee bank the difference between the full amount of his deposit (or Rs.30,000/-whichever is less) and the amount actually received by him under the scheme of reconstruction/amalgamation.

CLAIMS PAID AND
RECOVERIES RECEIVED —
COMMERCIAL BANKS

2.7.2 The Corporation has received since inception till the end of 1986 deposit insurance claims from 15 commercial banks of which 12 banks were amalgamated with other banks while the licence was cancelled by the Reserve Bank in respect of 1 bank and a scheme of arrangement was sanctioned in respect of the remaining 2 banks. All these claims were settled within the prescribed time limit of 2 months. The total insured deposits paid in respect of all these banks aggregated Rs. 1,275.80 lakhs. While the Corporation has received repayments in full, in respect of 3 commercial banks, balances aggregating Rs. 6.36 lakhs in respect of the other

four banks have been written off. In the case of the remaining 8 commercial banks, the Corporation has received repayments in part. The repayments received from commercial banks aggregated Rs 88.31 lakhs, leaving a balance of Rs 1,181.13 lakhs still to be received.

2.7.3 In 1985, three commercial banks were amalgamated with nationalised banks. The Corporation settled and paid Rs 11.63 crores in respect of a claim received from one of the transferee banks. Of the remaining two banks provision of Rs 40 crores is made for one bank and the claim from the second bank is still awaited.

CO-OPERATIVE BANKS :

2.7.4 The Corporation has since inception, received claims aggregating Rs 253.57 lakhs in respect of 16 co-operative banks, 9 of which were taken into liquidation and the remaining 7 of which were amalgamated with other banks. All these claims were paid within 2 months of their receipt. The Corporation has received repayments aggregating Rs 29.17 lakhs from 6 co-operative banks leaving a balance of Rs 224.38 lakhs.

2.7.5 The particulars of claims paid and provided for and reimbursement received upto December 1986 are given in Annexure IV. The commercial banks account for 85% of the total claims paid and provided for, the balance of 15% being in respect of co-operative banks.

2.8 Deposit Insurance Schemes are in operation in other countries also viz. U.S.A., Canada, U.K. and Japan. The scheme is administered by the Federal Deposit Insurance Corporation in U.S.A., the Canada Deposit Insurance Corporation in Canada, the Deposit Protection Board in U.K. and the Deposit Insurance Corporation in Japan. The scheme is compulsory for all federal institutions in U.S.A. and Canada and for all recognised banks and licensed institutions in U.K. In U.S.A. the scheme was first introduced in 1934

DEPOSIT INSURANCE IN OTHER COUNTRIES at the end of a period of widespread bank failures and a severe depression. The capital of the Federal Deposit Insurance Corporation was initially subscribed partly by the Federal Government (\$ 150 million) and 12 Federal Reserve Banks (\$ 139 million). In Japan, the capital of the Corporation is 450 million yen subscribed partly by Government (150 million yen), Bank of Japan (150 million yen) and private financial institutions (150 million yen). In U.S.A. the scheme provides protection to individual depositors upto a maximum of \$ 1,00,000 per depositor. The limit for insurance cover is \$ 60,000 in Canada, 75% of each

depositor's deposit subject to a maximum of £ 7,500 in U.K. and a maximum of 3 million yen per depositor in Japan. In U.S.A. the premium is charged at 1/12th of 1% per annum of an insured bank's total assessable deposits. In Canada the rate of premium is 1/30th of one percent per annum of insured deposit liabilities. In U.K., where the rate of premium is 0.3% of the deposit base, there are three types of contributions (Premium): (a) Initial contribution as fixed by the Board, is to be paid to provide cash resources of between £ 5 million to £ 6 million. The minimum amount to be paid by a bank is £ 2,500 and the maximum £ 3,00,000 and the amount due is calculated on the deposit base (b) Further contributions may be called at the end of the Board's financial year to replenish the cash resources of the Deposit Insurance Fund, if payments have reduced them below £ 3 million; maximum amount payable by an institution on any given call is £ 3,00,000. (c) Special contributions may be called where payments from the Fund are expected to exhaust its cash resources

before the end of the financial year. There are no maximum or minimum levels for such contributions, but the overall limit of 0.3% of an institution's deposit base applies to its aggregate net contributions. The premium is paid on half-yearly basis in U.S.A. and on a yearly basis in Canada and Japan. In Canada the Minister of Finance is authorised to make loans to the Corporation out of the consolidated revenue fund upto an aggregate of \$ 1.5 million.

In U.S.A. the Corporation can borrow from the treasury upto a maximum of \$ 3 billion at any one time. In U.K., the Board can borrow from the Treasury upto a maximum of £ 10 million at any time. In Japan, the Corporation can with the approval of the Ministry of Finance borrow from the Bank of Japan for the purpose of meeting claims and the borrowings are restricted to 50,000 million yen at any one time.

CREDIT GUARANTEE SCHEMES

2.9.1 Although small scale industries occupy an important place in the economic structure of our country, considerable difficulties were faced by this sector in securing credit from the financial institutions which were reluctant to extend their operations in this field on account of the comparatively larger risk believed to be attached to making advances to small borrowers. In 1959, a Seminar was held at Hyderabad under the auspices of the Reserve Bank for considering ways and means of enlarging bank lendings to small industries. The Seminar expressed the view that bank lending to small industries could be augmented by enabling credit institutions to share the risks involved with some other agency set up specially for the purpose. With this objective in view, the Government of India, in consultation with the Reserve Bank of India introduced a Credit Guarantee Scheme in July 1960 for guaranteeing the advances granted by banks and other credit institutions to small-scale industries. The Reserve Bank was entrusted with the administration of the Scheme as the agent of the Central Government under Section 17(11A) (a) of the RBI Act and was designated as "Guarantee Organisation" for the purpose. The Scheme was subsidised by Government of India and hence, initially a very low rate of guarantee fee @25 paise % per

annum was fixed. It covered term loans as well as other credit facilities and extended a degree of protection to credit institutions against possible losses in respect of their advances to small-scale industries by providing for the sharing of their losses with Government of India in stipulated proportions. The Scheme also provided an element of refinance which enabled the credit institutions to replenish their locked up resources even before they took any steps to recover their dues from the borrower. Thus, this was in the nature of a default guarantee and the guarantee could be invoked after a default occurred i.e., an advance was recalled without waiting for the enforcement of security or resort to legal remedies by credit institutions against the borrowers for recovery of dues.

2.9.2 As the full impact of the Scheme on the financing of small-scale industries by commercial banks was not still felt several measures were taken during the period 1966-69 such as enhancement in the extent of guarantee cover, reduction in the rate of guarantee fee and provision of refinance to banks at a concessional rate of interest in respect of their advances to small-scale industries covered under the Scheme etc., which resulted in a steep rise in the commercial banks' advances to this sector. The nationalisation of 14 major commercial banks in 1969 gave a further impetus to the growth

of advances to this sector and there was an increase in the volume of guarantee work handled by the Guarantee Organisation. To review the working of the Credit Guarantee Scheme both from the point of view of making it more flexible and attractive to the credit institutions, a Working Group was appointed by Reserve Bank in April 1969 under the Chairmanship of Shri K.N.R. Ramanujam, the then Chief Officer, Industrial Finance Department. The Working Group recommended certain major changes and a modified scheme came into effect from 1 February 1970 under which, inter alia, the system of prior scrutiny of individual applications for guarantee for each eligible advance was dispensed with and guarantee cover was made available on automatic and bulk coverage basis based on principles of diversification of risk and large coverage.

2.9.3 In the wake of social control measures initiated in 1968 and followed by nationalisation of major commercial banks in 1969, the banks were asked to ensure an increased flow of credit to small borrowers who found it difficult to have access to institutional credit. While there was an increasing awareness among the banks about the need to provide more credit to such borrowers certain practical difficulties, largely stemming from hesitation on the part of institutions to venture into new and riskier fields of lending as also certain inhibitions, particularly at the grassroot

level, to lend except against easily realisable security were encountered. With a view to considering the modalities of providing guarantee cover in respect of loans granted by banks to such individual borrowers, a Working Group was appointed under the chairmanship of Shri S.S. Shiralkar, the then Deputy Governor, Reserve Bank of India in November 1969. The Working Group recommended that the responsibility for the administration of the Scheme of credit insurance should be entrusted to the Deposit Insurance Corporation and all existing or future guarantee and insurance schemes excepting export credit guarantee or insurance should be brought under one roof and entrusted to the Corporation. While Government of India accepted the recommendations and entrusted the Reserve Bank with the task of implementing them, the necessary amendment could not be put through due to pressure of legislative business. As there was an urgent need to bring into operation the credit guarantee schemes, the Reserve Bank promoted the Credit Guarantee Corporation of India Ltd. and had it registered in January 1971 as a public limited company under the Companies Act 1956, its shareholdings being held by Reserve Bank of India, State Bank of India and subsidiaries, nationalised banks and other banking companies in proportion to their deposits. This organisation introduced in 1971, three credit guarantee schemes viz., the Small Loans Guarantee Scheme, covering advances by commercial banks, including RRBs, to farmers and agriculturists,

transport operators, retail traders, small business enterprises and professional and self-employed persons; the Small Loans (Financial Corporations) Guarantee Scheme covering advances granted by SFCs to transport operators, hoteliers, business enterprises engaged in generation and distribution of power, in the development and management of an industrial estate and transport undertaking; and the Service Co-operative Societies Guarantee Scheme to cover advances by commercial banks and State and central co-operative banks to service co-operative societies.

2.9.4 The question of merger of deposit insurance and credit guarantee in a single organisation was reconsidered; and it was felt that considering the common objectives of the schemes operated by the two organisations, viz. ensuring easy flow of institutional credit to small borrowers engaged in industrial or non-industrial activities, which have been accorded national priority and also in view of the common base of the schemes in terms of the participating institutions, the operation of the schemes be brought under one organisation. With this end in view, the Deposit Insurance and Credit Guarantee Corporation (Amendment and Miscellaneous Provisions) Act, 1978 was passed. This brought about the merger of the Credit Guarantee Corporation of India with the Deposit Insurance Corporation into the Deposit Insurance and Credit

Guarantee Corporation.

2.9.5 The Lok Sabha Estimates Committee in the 16th Report on the Ministry of Finance, Department of Economic Affairs (Banking Division) submitted in March 1978 recommended that the Credit Guarantee Scheme administered by the Reserve Bank on behalf of Government of India should be also brought within the ambit of the Corporation. A similar view emerged at a meeting of the representatives of the Reserve Bank, the Corporation and the Govt. of India on 18 November 1978. A Working Group was appointed in this regard under the Chairmanship of Shri H.L.Anand, the then Chief Officer, Industrial Finance Department to study integration of Credit Guarantee Schemes for small-scale industries and other small borrowers. The Working Group recommended that it would be advantageous for the credit institutions and the ultimate beneficiaries, besides providing flexibility of operations, if the Credit Guarantee Scheme for SSI is integrated with the credit guarantee schemes of the Corporation. Instead of acting as an agent of the Central Government, it recommended that the Corporation may formulate a scheme of its own effecting necessary improvements. Accordingly the Government of India cancelled its Scheme as at the end of 31 March 1981 and the Corporation introduced a new scheme for the SSI Sector with effect from 1 April 1981. The

Corporation was, however, entrusted with the responsibility of discharging obligations arising from the cancelled Scheme of Government of India as their agent.

2.9.6 The question of extending guarantee cover to co-operative credit institutions was first considered by the Seshadri Working Group appointed by the erstwhile Credit Guarantee Corporation of India Ltd. (CGCI) in 1972 which recommended that the Corporation could offer cover for non-agricultural advances to small borrowers on terms and conditions similar to those applicable to commercial banks. Accordingly, CGCI offered guarantee cover to co-operative banks for their non-agricultural advances. However, it did not evoke satisfactory response at that time. As regards cover for agricultural advances by co-operative credit institutions, the Corporation appointed a Working Group in July, 1979 under the Chairmanship of Dr. M.V. Hote, the then Executive Director, Reserve Bank of India. In its report submitted in November 1980 the Group recommended extension of credit guarantee support to Primary Agricultural Credit Societies (PACS), Primary Land Development Banks (PLDBs) / branches of State Land Development Banks (SLDBs) in respect of their advances for agricultural and allied activities, on a pilot basis. The Working Group also recommended that the Corporation may formulate and introduce a Guarantee Scheme providing guarantee

cover to non-agricultural advances by co-operative urban banks on terms and conditions similar to those incorporated in the Small Loans Guarantee Scheme, 1971 applicable to commercial banks. Accordingly the Corporation formulated and introduced the Small Loans (Co-op. Credit Societies) Guarantee Scheme, 1982 and Small Loans (Co-op. Banks) Guarantee Scheme, 1984.

Government's Credit Guarantee Scheme
for Small-Scale Industries (SSI Sector)
(July 1960 - March 1981)

2.10 The Government Scheme introduced in July, 1960 and cancelled as at 31 March 1981 covered credit for term loans and other credit facilities for small-scale industrial units as defined by the Central Government from time to time and engaged in the manufacture, processing or preservation of goods or servicing and repair workshops in specified lines. Credit institutions eligible to participate in the Scheme were the State Bank of India and its subsidiaries, scheduled commercial banks, all State Financial Corporations and selected State and central co-operative banks. Initially, guarantee certificates used to be issued in respect of each credit facility granted to each SSI unit after prior scrutiny. From 1 February 1970, this procedure was dispensed with and guarantee cover was extended on an automatic and bulk coverage basis. The guarantee fee was first fixed at 1/4th of one per cent per annum which

was later reduced to 1/10th of one per cent per annum and subsequently raised to 3/4th of one per cent per annum (with concessional rate of 1/2 of one per cent per annum in respect of small borrowers with credit limits not exceeding Rs.25,000 in the aggregate) before the Scheme was cancelled as on 31 March 1981. Guarantee cover of 75% of the amount in default or amount guaranteed, whichever was lower, was provided which was subsequently raised to 90% with effect from 1 April 1974 in the case of advances to technician entrepreneurs. The maximum claim liability was initially fixed at Rs.2.00 lakhs per account and was raised to 7.5 lakhs per borrower in respect of working capital advances and to Rs.2.5 lakhs in respect of term loan per borrower, since February 1970. The conditions to be complied with, before a guarantee could be invoked were that (i) the loan was regularly reported to the Guarantee Organisation and fee paid thereon fully, (ii) the loan had not been repaid within the period of notice of demand recalling the entire amount due. No specific time limit was prescribed for the invocation of guarantee and lodging the claim. The 'claim application' was

to be accompanied with full particulars of the account. Where the units in respect of which guarantee is invoked enjoyed credit facilities from more than one credit institution, the Guarantee Organisation used to advise all such credit institutions to lodge a claim in respect of the balances due to them as on a common date and the claim was settled on a pro rata basis. The agreement executed by the credit institutions provided that if a default occurred in any account of a small-scale industrial unit due to negligence on the part of the credit institution's officials or due to decisions taken by them contrary to the instructions issued by the credit institution's management or the Guarantee Organisation, the credit institution was not entitled to make any claim in respect of such an account. After payment of a claim the Guarantee Organisation was discharged of all its obligations under the guarantee. The credit institutions were to continue their efforts for recovery of advances and to share the same with the Guarantee Organisation within 30 days of the date of recovery in the proportion in which loss was shared with the Guarantee Organisation. For writing off of the balance in the claim paid account prior consent of the Guarantee Organisation was necessary. The SSI unit in respect of whose account a claim was paid was not eligible for guarantee so long as the claim amount paid by the Guarantee Organisation

was not fully repaid. After the cancellation of the Government's Scheme, the Corporation has been entrusted with the discharge of residual functions under the cancelled Scheme as their agent and in that capacity, it has been receiving and scrutinising claims in respect of accounts in default as on 31 March 1981 and settling them on behalf of Government of India.

CORPORATION'S CREDIT
GUARANTEE SCHEMES

2.11.1 The Corporation operates six schemes which are reviewed below in brief :

THE SMALL LOANS (SMALL SCALE
INDUSTRIES) GUARANTEE SCHEME, 1981

2.11.2 The Scheme which was introduced from 1 April 1981, covers credit facilities granted by commercial banks, RRBs, co-operative banks, SFCs and state development agencies to small-scale industrial units for acquisition of or repairs to or replacement of fixed assets or equipment and for working capital. At the end of 1986, the total number of participating credit institutions in the scheme was 476 consisting of 69 commercial banks, 149 RRBs, 14 SFCs, 8 other State

Development agencies and 236 co-operative banks. The guaranteed advances under the Scheme have steadily increased from Rs.3716.43 crores in the year 1981 to Rs.7497.46 crores as at the end of the year 1986 as shown in Annexure V. The claims received under the Scheme have steeply increased from 1308 involving Rs.1.74 crores in 1981 to 33,723 involving Rs.104.92 crores in 1986. The total amount of claims received till 1986 under the SSI Scheme were of the order of Rs.274.61 crores forming 3.7% of the total guaranteed advances. The claims disposed of increased almost tenfold from 3105 involving an amount of Rs.2.13 crores in the year 1982 to 30,299 involving Rs.67.07 crores in the year 1986. Of this, the claims paid were 19,695 for an amount of Rs.24.10 crores and 10,261 claims for an amount of Rs.40.30 crores were withdrawn. Such withdrawals mainly constituted claims pending for a long period of time and returned for necessary clarifications. Claims rejected upto 1986 were only 915 for an amount of Rs.5.52 crores. The year-wise data are given in Annexure VI.

2.11.3 Although the scheme has been generally popular with credit institutions, it has not proved attractive to SFCs which are important purveyors of credit for block capital purposes to SSIs. Fixation of a combined ceiling for term loans and other credit facilities including working capital and prorata payment of claims has not

been very beneficial to term lending institutions whose loans are better secured and also constitute a relatively smaller component of total finance. Under the existing procedure, all banks and SFCs availing of refinance facility from Industrial Development Bank of India are required to get their advances covered under the Credit Guarantee Scheme. With a view to exploring how the Scheme could be made more attractive to term lending institutions, a Committee was appointed under the Chairmanship of Dr.P.D. Ojha, the then Executive Director, Reserve Bank which recommended as under:

- i) The monetary ceiling on Corporation's claim liability be raised from Rs.10 lakhs to Rs.20 lakhs and apportioned separately for term loan and working capital finance at Rs.10 lakhs each
- ii) Term loans to SSI be given differential treatment and lower guarantee fee at Re.0.60% per annum be charged as against the normal fee of Re.0.75% per annum in respect of term loans exceeding Rs.25,000/-.
- iii) The extension of guarantee cover to term loans upto Rs.5 lakhs only per SSI borrower would not be desirable because of its wider implications on the financial viability of the other credit guarantee schemes.

These recommendations were considered by the Board of the Corporation and the Reserve Bank. It was finally decided that an Expert Committee may examine the issue in depth.

THE SMALL LOANS GUARANTEE SCHEME, 1971

2.11.4 The Scheme which came into force on 1 April 1971 covers credit facilities granted by commercial banks, including RRBs; to farmers and agriculturists, transport operators, retail traders, small business enterprises and professional and self-employed persons. At the end of the year 1986, the number of participating credit institutions was 258 comprising 71 commercial banks and 187 RRBs. The total guaranteed advances covered by the Scheme which stood at Rs.205.71 crores at the end of June 1972, steadily increased to Rs.10,345.10 crores as at the end of June 1986 indicating a more than fiftyfold increase since inception. This Scheme accounts for the bulk of the total guaranteed advances to small borrowers forming 99.03 per cent thereof. There has been a phenomenal increase in the claim receipts under this Scheme over the years. As against 6,806 claims for Rs.2.23 crores received upto the end of the year 1976, the Corporation received 6,30,303 claims for Rs.170.58 crores in the year 1986. The total amount of claims received under the Scheme till the end of 1986 aggregated Rs.426.86 crores forming 4.13% of the total guaranteed advances at Rs.10,345.10 crores. Claims pertaining to farmers and agriculturists accounted for 54.4% of the total, followed by claims in respect of transport operators at 17.4%. From negligible

claims of 2529 involving an amount of Rs.0.70 crore only disposed of upto the year 1976 the Corporation disposed of as many as 6,44,020 claims for Rs.176.05 crores in the year 1986 alone. Recoveries by way of subrogation rights upto the year 1986 amounted to Rs.28.94 crores and constituted 11.7% of the total amount of claims paid under the Scheme.

THE SMALL LOANS (FINANCIAL CORPORATIONS)
GUARANTEE SCHEME, 1971

2.11.5 The Scheme was introduced on 1 July 1971 and it covers credit facilities granted by SFCs to transport operators and hoteliers and other business enterprises engaged in generation or distribution of electricity or other power, in the development or management of an industrial estate, or a transport undertaking. Twenty institutions are participating in this Scheme. The total guaranteed advances increased from Rs.2.55 crores at the end of June 1972 to Rs.85.19 crores as at the end of June 1986 indicating a more than thirty-three fold increase since 1972. The amount of claims received under the Scheme till the year 1986 aggregated Rs.1.16 crores forming 1.36% of the total guaranteed advances, while claims disposed of were 203 for Rs.0.64 crore.

THE SERVICE CO-OPERATIVE SOCIETIES
GUARANTEE SCHEME, 1971

2.11.6 The Scheme is in force from 1 October 1971 and it covers credit facilities granted by all scheduled commercial banks (including RRBs) and state and central co-operative banks covered by the Deposit Insurance Scheme to service co-operative societies engaged in providing to their members, facilities like securing of orders, purchase of raw materials, the display and marketing of finished goods or any other similar assistance in connection with the manufacture, display, presentation and processing of goods and marketing of such goods. The number of participating institutions was 175 comprising 57 commercial banks, 81 RRBs and 37 co-operative banks. The total guaranteed advances increased from Rs 0.12 crore at the end of June 1972 to Rs 0.72 crore at the end of June 1986. So far, no claim has been received by the Corporation under this Scheme.

THE SMALL LOANS (CO-OPERATIVE BANKS)
GUARANTEE SCHEME, 1984

2.11.7 The Scheme offers guarantee support to non-agricultural advances granted by primary (urban) co-operative banks, to small borrowers (e.g. single transport operators, retail traders, business enterprises and professional and self-employed persons). All licensed primary (urban) co-operative banks, as also unlicensed primary (urban) co-operative banks recommended by the Reserve Bank for the purpose are eligible to participate in

the Scheme. Out of 729 urban co-operative banks (535 licensed and 194 unlicensed) invited to participate in the Scheme, 196 banks (133 licensed and 63 unlicensed) have, till the end of 1986, expressed their willingness to join the Scheme. Out of these 196 banks, 71 banks had executed the deeds of agreement as at the end of December 1986 with the Corporation, of which 56 banks have completed all the formalities and have been admitted as participants in the Scheme. The remaining 15 banks are in the process of completing the formalities. The total guaranteed advances under this Scheme increased from Rs.5.69 crores at the end of December 1984 to Rs.14.96 crores at the end of June 1986.

THE SMALL LOANS (CO-OPERATIVE CREDIT SOCIETIES) GUARANTEE SCHEME, 1982

2.11.8 The Scheme offers guarantee cover to credit facilities granted by select primary agricultural credit societies (PACS) and primary land development banks (PLDBs)/ branches of state land development banks (SLDBs) to their farmers/agriculturist members (including share croppers and landless labourers) for agriculture and allied activities as also for consumption and housing finance. The agricultural and allied activities covered by the Scheme include seasonal agricultural operations, recla-

mation or improvement of land, construction or deepening of irrigation wells, installation of pumpsets, purchase of cattle or acquisition of other capital assets (e.g. farm houses, cattle sheds, gohar gas plants etc.) or repairs to these assets, sericulture, animal husbandry, poultry farming, dairy farming, pisciculture, housing finance, consumption finance and advances for acquisition of shares of other co-operative societies etc. Although 2476 PACS, 159 PLDBs and 200 branches of SLDBs were found to be eligible for participation in the Scheme, only 14 PACS and 4 PLDBs have so far evinced some interest. However, none of them has executed the necessary agreement and joined the Scheme.

2.12 The following are the key characteristics of

KEY CHARACTERISTICS the Corporation's Scheme :

(i) Participation in the schemes is voluntary and the guarantee cover is available only to those credit institutions which join the Schemes by entering into necessary agreements with the Corporation and pay the fee regularly at the proscribed rates.

(ii) The Schemes are operated on an automatic and bulk coverage basis under which all eligible advances get automatically covered right from the time of their grant without requiring the credit institutions to submit ^{to} the Corporation each loan proposal for prior acceptance.

iii) The guarantee cover is a contract entirely between the Corporation and the credit institution. The borrower is not a party to the contract.

iv) In the schemes, the eligibility conditions for guaranteeing credit risks are related to a particular economic activity of the borrower and the purpose for which credit is extended to him. Hence, the availability or otherwise of security in the account and the extent of liquidity of security have no relevance to the eligibility criteria.

v) The guarantee schemes are meant to provide cover for advances granted to small borrowers, who without such support may find it difficult to have access to institutional credit. To ensure that such benefits do not gravitate to relatively affluent persons, several stipulations have been made in the guarantee schemes, such as ceiling of Rs 4 lakhs on sales turnover as in the case of retail traders and the value of equipment upto Rs 2 lakhs as in the case of business enterprises and of plant and machinery in the case of small-scale industrial units. Besides, absolute limits have been placed on the Corporation's liability.

2.13 One of the major areas of concern has been

CLAIMS-RECEIPT
AND SETTLEMENT

the enormous growth in the claims lodged
by the credit institutions. Over the

years, guarantee claims have been spiralling as may be seen from the

data given in Annexure VI. From a meagre number of 6806 claims for amounts totalling Rs.2.28 crores received from inception of the Small Loans Guarantee Scheme in 1971 upto the end of the year 1976, the claims during 1986 numbering 6,30,365 for amounts of Rs.140.94 crores. The average annual growth rate in the lodgement of claim has been 37.48%. As mentioned earlier, the claims under the Small Loans (SSI) Guarantee Scheme, 1981 increased from 1,308 involving Rs.1.74 crores in 1981 to 33,723 claims involving Rs.104.92 crores in 1986. The high incidence of claims may be attributed to the increasing level of sickness witnessed in small scale industrial units and the increased lendings under various poverty alleviation schemes formulated by Government and relatively high mortality rate for such loans. As on 31 December 1985, the total number of sick SSI units financed by the banking sector was 1,17,783 involving Rs.1070.67 crores or 16.4% of the guaranteed advances of Rs.6,523.53 crores. Advances to priority sectors constituted 43.2% of the bank credit given by public sector banks at Rs.50,567.34 crores at the end of June 1986. The percentage of overdues under priority sector lendings of public sector banks formed 20.4% of total loans outstanding. The percentage of recovery to demand in direct agricultural loaning which account for 42.7% of priority sector lendings was 54.9%. Considering the large number of sick units and the considerable step up in lendings under various special programmes launched by the Government of India for weaker sections, the claims are likely to exhibit a rising trend and may be of an even higher order in future. Ways and means will have to be

devised to enable the Corporation to meet the commitments that are likely to arise. These issues are dealt with in detail in Chapter V on Financial Implications of the Credit Guarantee Schemes.

2.14 A large number of claims have also been pending under the Credit Guarantee Schemes. As will be seen from the data given in Annexure VI, the pendency of claims during the years 1981 to 1986 has been steadily increasing. Out of the SSI claims pending amounting to Rs.153.67 crores as at the close of December 1986 about 52.24% were pending for less than a year and the balance for periods exceeding one year. The claims have been showing a significant increase over the years and one of the major reasons according to the Corporation for pendency of claims is the non-receipt of clarifications from credit institutions for considerably long periods of time. In view of the accumulation of claims for want of clarifications, the Corporation is reported to have taken a decision in early 1985 to return claims whose clarifications were not forthcoming within a period of 60 days. The credit institutions were also required to depute their Liaison Officers for furnishing necessary information/clarification. Although this has apparently been reflected in improved settlement of claims, since several institutions did not respond, a large number of claims were returned. Thus, as many as 2,62,310 claims involving Rs.127.81 crores and 8,790 claims involving Rs.34.22 crores in respect of

non-industrial and industrial schemes respectively were returned during the above period. The Corporation has, however, since revised its decision regarding return of claims and the terms and conditions and scrutiny norms have since been liberalised and it is expected that the settlement of claims will now be speeded up. The position, however, is not very satisfactory and the Corporation's machinery for settlement of claims needs to be sufficiently geared up. Our recommendations for expediting settlement of claims are given in Chapter VI on 'Procedural Aspects and Operational Problems'.

2.15 With a view to streamlining and simplifying procedures and increasing its operational efficiency and speeding up settlement of the claims, a major step taken by the Corporation has been the computerisation of the non-industrial claims under Schemes for small borrowers. In the case of SSI claims a tabular claim format has been proscribed for claims upto Rs.25,000/- and the same are settled on the basis of a certificate furnished by the claimant institution. The disposal of claims has also been accelerated through appointment of Liaison Officers by participating credit institutions, delegation of powers to Branch Managers and frequent discussions with the credit institutions. In the context of increasing claims, ^{the} Corporation may have to consider suitable delegation of powers, computerisation of claims under Small Loans (SSI) Guarantee Scheme, 1981, etc. and certain suggestions are made by us in this behalf in succeeding Chapters.

2.16.1 The resources of the Corporation consist of three Funds
 FUNDS viz., (a) Deposit Insurance Fund, (b) Credit Guarantee Fund and (c) General Fund.

DEPOSIT INSURANCE FUND

2.16.2 Section 23 of the DICGC Act, 1961 provides for the constitution of the Deposit Insurance Fund. This Fund is built up by (a) premium received from insured banks and interest on investments out of the Fund, (b) repayments received by virtue of its subrogation rights in regard to insurance claims paid. Provision also exists for advance being granted by the Reserve Bank upto Rs 5 crores for the purpose of the Deposit Insurance Fund or the Credit Guarantee Fund under Section 26. This Fund is utilised exclusively to meet the deposit insurance claims. The balance in the fund at Rs.284 crores at the end of 1986 constituted 0.45% of the aggregate insured deposits and 0.33% of the total assessable deposits. The year-wise data relating to the Deposit Insurance Fund are given in Annexure IV.

CREDIT GUARANTEE FUND

2.16.3 Section 23A of the Act, ibid, provides for the constitution of the Credit Guarantee Fund, which is built up out of (a) guarantee fees received by the Corporation (b) all amounts received by the Corporation by virtue of its rights of subrogation in regard to guarantee claims, (c) all income arising from the investments made out of that Fund. This Fund is used for meeting the credit guaranteed claims. The balance in this Fund stood at Rs.188 crores at the end of 1986 after making provision for meeting liability of claims upto the end of 1986 under all its 6 credit guarantee schemes. The net surplus of Rs.188 crores which is in the nature of reserves for claims constituted 1.05% of the total advances covered by the guarantee schemes of the Corporation at about Rs.17,943 crores. The year-wise data relating to the Credit Guarantee Fund are given in

Annexure VII.

GENERAL FUND

2.16.4 In addition to share capital all receipts of the Corporation other than those referred to under Section 23(1) (Deposit Insurance Fund) and 23A(Credit Guarantee Fund) of the Act, ibid are credited to a General Fund under Section 24 of the Act. The Corporation meets its staff and establishment expenditure from the income derived by way of interest on investments in Central Government securities made out of its General Fund.

SHARE CAPITAL

2.16.5 In terms of Sub-Section (1) of Section 4 of the DICGC Act, 1961, the authorised capital of the Corporation shall be Rs. 1 crore but the Central Government may in consultation with Reserve Bank of India increase such capital from time to time so that the total authorised capital shall not exceed Rs.50 crores. Sub-Section (2) of the Section ibid, also provides that the fully paid up capital shall stand allotted to the RBI. The Corporation which started its working with an initial paid-up share capital of Rs.1 crore raised the same to Rs.1.50 crores in 1972, Rs.2.00 crores in 1975, Rs.10 crores in 1978, Rs.15 crores in 1981 and to Rs.50 crores in 1984. While the raising of capital in 1978 and in 1981 was considered necessary for meeting the additional staff and establishment expenditure etc., its further raising to Rs.50 crores in 1984 was necessitated consequent on the Corporation's assuming responsibility relating to the credit guarantee for small-scale industries from the erstwhile Credit Guarantee Organisation of the RBI with effect from 1 April, 1981.

2.17 The management of the Corporation is vested in a
MANAGEMENT Board of Directors consisting of 9 members
AND
ORGANISATIONAL viz., a Deputy Governor, of the Reserve Bank of
SET-UP India (who is the Chairman), another
officer (presently an Executive Director of the Reserve
Bank), nominated by the Bank in this behalf, an officer
of the Central Government nominated by the Government,
and 6 non-official Directors nominated by the Central
Government in consultation with the Reserve Bank having
special knowledge of banking, co-operation, finance,
accountancy, law, small-scale industry or allied fields.
The Board is assisted by a Claims Committee consisting
of the Reserve Bank nominee Director, 2 non-official
Directors and an eminent banker.

2.18.1 In the foregoing paragraphs, we have made a
APPROACH TO detailed review of the Deposit Insurance
THE PROBLEM and Credit Guarantee Schemes as operated
by the Corporation. Some of the future trends which can
be discerned from the current banking situation are as
under:

- i) The emphasis on priority sector advances and in particular on poverty alleviation programmes will continue. Thus, the total quantum of priority sector advances to be guaranteed will constantly be on the increase.
- ii) Over a period of years, the size of viable small-scale units is likely to increase, owing to escalation of

costs. Correspondingly, the quantum of advance is also likely to go up and the monetary ceilings on claims may require revision from time to time.

- iii) It may be necessary to continuously streamline procedures and resort to computerisation on a larger scale in order to cope up with the large volume of work and render more efficient service to clients.

2.18.2 In the light of the above, the Committee feels that before making its recommendations for restructuring the Corporation's Schemes, it should formulate its broad approach, keeping in view the objectives on which the schemes have been framed and operated in the past, and the emerging scenario. The approach of the Committee is accordingly spelt out below:

- i) Since the schemes are to be worked on the principle of insurance, where good risks offset the bad ones, the coverage should be as wide as possible to enable a proper diversification of risks. However, coverage may be extended to institutions where a fair degree of control can be exercised over their working. Accordingly, as far as the deposit insurance scheme is concerned, deposits of all deposit accepting institutions under the close supervision and control of the Reserve Bank, including public sector banks, should be covered. Similarly, as regards the credit guarantee schemes, all advances to priority sectors as defined by the Reserve Bank should be covered and accordingly all institutions engaged in financing priority sector including term lending institutions such as SFCs should be covered.
- ii) The Schemes should be so devised that greater benefits accrue to smaller and weaker sections of the society and credit flow is encouraged towards them. Appropriate provisions should be built into the schemes, such as ceiling on deposit insurance cover, ceilings and sub-ceilings on claim liability, differential and lower fees for small borrowers etc., to give effect to this objective.

- iii) The Corporation should not take over the entire onus of risk and there should be a proper apportionment of risk between the Corporation and the credit institutions.
- iv) The Schemes should be operated on the principle of viability. However, since the credit institutions are also required to lend for socio-economic purposes in pursuit of national objectives which entails a higher degree of risk, Government of India and the Reserve Bank should provide necessary financial support.
- v) The Schemes may be restructured in such a manner that their usefulness and attractiveness to their clientele are enhanced.
- vi) The administrative costs of operating the Schemes should be kept as low as possible by constantly reviewing the procedures and use of modern information, technology, wherever necessary.
- vii) The Corporation should render prompt and efficient service to its clientele and ensure prompt settlement of claims.

Based on the approach as outlined above, the Committee has made various recommendations in the succeeding Chapters.

CHAPTER - III

Deposit Insurance Scheme

3.1 Deposit insurance may be broadly defined as the guaranteed repayment of deposits in the event of the inability of an institution accepting such deposits to meet its commitments.

Introduction

The primary objective of deposit insurance is to provide a measure of protection to small depositors from the risk of loss of their deposits arising from the failure of a bank. Thus, the underlying idea is that small depositors who have made banks the repository of their savings should not suffer on account of impairment of the capacity of the banks to repay such deposits. The need for special protection to small depositors assumed importance in the context of the need for promotion of savings habit particularly in the rural areas and mobilisation of resources by banks which could be utilised for purposes of national importance. Deposit insurance is intended to help in safeguarding interests of depositors and in infusing confidence in the soundness, strength and stability of the banking system, comprising not only the bigger public sector banks but also foreign banks, private sector banks, smaller co-operative banks, Regional Rural Banks, all of which play a useful role in the total growth of the national economy.

3.2 The main objectives of the Deposit Insurance Scheme are therefore, (i) to protect within limits the balances of depositors in the event of bank failures;

Objective (ii) to encourage savings and mobilisation of resources through the banking system and (iii) to increase the confidence in and ensure stability and growth of the banking system.

The Committee made an indepth examination of the issue of whether the deposit insurance cover should be extended to all banks and also the scope for increase in the coverage and lowering of insurance premium etc. and accordingly observes as under :

3.3.1 The Committee first took up for consideration one of the basic issues of whether there is need for continuance of the Deposit Insurance Scheme and if so, whether public sector banks which are Govt. owned institutions should continue under the

Deposit Insurance Scheme - Need for continuance - Deposits of public sector banks purview of the Scheme. In 1961 when the Scheme was first introduced, it was decided that since deposits in SBI and its subsidiaries are legally not guaranteed by Government and as these banks have to function as commercial banks, there is no reason why they should be excluded from the scheme of insurance and be given any special status merely on the ground that their capital is owned by Government of India/RBI.

Subsequently, in 1971 after nationalisation of 14 major commercial banks, it was again observed that although it was not likely that any of the public sector banks may go into liquidation, yet considering the various types of risks (like large scale defaults, industrial sickness, frauds etc.) the possibility of any of these banks having to face financial crisis and being merged with stronger units could not be ruled out. Further, the Banking Companies (Acquisition and Transfer of undertakings) Act, 1969 does not provide for any guarantee to the depositors of public sector banks. In the event of failure merely because these are Government owned undertakings protection will not be available to depositors. While we concur with the foregoing, we have further considered the pros and cons of this issue and have to observe as under :

3.3.2 While it may be difficult to establish any direct relationship between the increase in deposits and insurance cover, nevertheless we are of the view that deposit insurance could be said to have played an effective albeit silent role in the mobilisation of resources by banks over the years by infusing the needed confidence in the minds of the depositing public particularly small investors and those in rural areas to retain their savings in the form of deposits within the banking system. The need for continuance of insurance cover assumes added importance to attract deposits to the banking industry in the light of the highly competitive environment and the alternate modes of lucrative investment. e.g., UTI Certificates, National Savings Certificates,

Post Office Savings Certificates, public sector bonds, etc.

Although, no doubt, as per the RBI stipulation, banks have to maintain a fairly high level of CRR/SLR, this does not necessarily amount to insurance against failure of any banks. In fact, some banks do not comply with the prescribed liquidity requirements on many occasions. While the question of discontinuance of the deposit insurance scheme should not, therefore, be contemplated, there are several reasons why we feel public sector banks should continue under the Scheme. In 1986, out of the total insurance premium of Rs. 43 crores, commercial banks accounted for Rs.38.85 crores (90.4%), co-operative banks for Rs.3.62 crores (8.4%) and RRBs Rs.0.53 crore (1.2%). Out of the total insurance premium of Rs.38.85 crores of the commercial banks, 91% was contributed by SBI and other nationalised banks alone. The scheme operates on the principle of insurance, *viz.*, that good risks will pay for bad risks and to operate any insurance scheme, there has to be a proper mix of larger and healthier units together with smaller and less healthy ones. Restricting coverage of the scheme by excluding public sector banks would leave less than 10% of the deposit in the banking system under the Scheme and would thus shake its very foundation. It is to be noted here that the Deposit Insurance Fund formed 0.45% of insured deposits only in 1986 and this percentage cannot be deemed as adequate when viewed against the background of the extension of the scheme to smaller institutions such as RRBs, co-operative banks and the rather weak ratio of owned funds to total deposits in the banking system.

Assuming that public sector banks were to be legally permitted to go outside the scheme, foreign banks operating in India would have to be similarly exempted as the Corporation may not have a justifiable reason to force them to continue. An additional dimension that needs to be taken into account is the fact that insurance of deposits of only banks other than the public sector banks may give an impression that the ~~former~~ institutions are weak banks and deposits with them are not secure. In other countries too, where deposit insurance schemes are in operation, participation in the scheme is compulsory for all recognised banks. Apart from this, the Deposit Insurance Fund has other uses and in times of exigencies, the same could be used to relieve the pressure on the Credit Guarantee Fund which is being operated for the benefit of all banks and which may come under strain owing to the large inflow of guarantee claims arising out of massive lendings under special programmes. Taking into account all the foregoing, we are of the firm view that the Deposit Insurance Scheme in its present form should be continued for all banking institutions and that the deposits of public sector banks should not be excluded from the purview of the scheme.

3.4 The next issue which has been considered by the Committee is whether the existing monetary -
INSURANCE
COVERGE ceiling of Rs.30,000 of insurance cover should be suitably enhanced.

The deposit insurance coverage was limited to Rs.1,500 initially. The coverage was subsequently raised to Rs.5,000, Rs.10,000, Rs.20,000 and Rs.30,000 on 1 January 1968, 1 April 1970, 1 July 1976 and 1 July 1980 respectively. As at the close of December 1986, the insured deposits at the present coverage of Rs.30,000 aggregated Rs.62,878.1 crores forming 72.9% of the aggregate assessable deposits. In case the insurance cover limit is raised from Rs.30,000/- to Rs.50,000/- the deposits that would be insured would rise to Rs.67,728.1 crores forming 78.6% of total assessable deposits. This would raise the extent of insured deposits by 5.7% . To assess the actual impact of an **enhancement** of cover on the finances of the Corporation the incidence in case higher cover were to be provided for banks which have been recently merged could be usefully examined. On application of the upward revision of limit of insurance cover to Rs.50,000 to the actual case of a private sector bank which was recently amalgamated with a public sector bank, the amount of insurance claim admissible would rise marginally from Rs.2.26 crores to Rs.2.58 crores. The higher value deposits do not constitute a significant percentage. The Committee notes that the last revision in

the insurance cover was made in 1980 i.e., seven years ago. Even taking into account the inflation rate, an upward revision of the deposit insurance cover is justifiable. No doubt, an ideal situation would be to cover cent per cent deposits but this may prove impractical and costly. Moreover, the objective of the Scheme is to provide protection to relatively smaller depositors whose number is large and for whom any bank failure would constitute a severe blow. The Committee feels that a revision from Rs.30,000 to Rs.50,000 taking into account the above aspect may not, in real terms, be adequate. At the same time, the financial impact if the ceiling is raised to Rs.1 lakh may be nominal whereas the psychological satisfaction derived by the depositor would be substantial and this may serve as an added attraction for retention of deposits with the banking system. The Committee therefore, recommends that the deposit insurance cover be increased from Rs.30,000 to Rs.1 lakh. This may be made available as hitherto per depositor in the same right and same capacity in each insured bank.

3.5 A registered insured bank is required to pay for

the cost of insurance through half-yearly assessments

INSURANCE	based on its total assessable
PREMIUM	
RATE	deposits, insurance premium at

Rs. 0.04 or 1/25th of one per cent per annum. The Committee examined the matter whether existing insurance premium rate could be reduced further and/or the premium could be charged on insured deposits rather than assessable deposits and is of the view that no change is called for either in the premium rate or the base (assessable and not insured) of such deposits except periodicity of payment. (vide para 6.2.4)

Firstly, while the occurrence of bank failures and the schemes of amalgamation etc., may be far and few between, the incidence of claims thereunder, if and when they arise, would be of a sizeable order and would stand to wipe out a substantial part of the Deposit Insurance Fund at one stroke. The total deposit insurance claims paid since inception till the end of 1986 amounted to Rs 15.29 crores in respect of commercial and co-operative banks. While the Corporation did not receive insurance claims from any commercial bank during 1971-84, the position radically changed in 1985 when 4 commercial banks in the private sector were amalgamated with public sector banks.

Under these schemes of amalgamation, insurance claims estimated to be lodged with the Corporation are of the

order of Rs.72.6 crores or one-fourth the total amount of Rs.283.81 crores to the credit of the Deposit Insurance Fund at the close of 1986 which Fund has been gradually built over the last 25 years since inception of Deposit Insurance Corporation in 1961. Secondly, as the Committee has recommended that the deposit insurance cover be raised to Rs.1 lakh, the claim liability would grow correspondingly, if and when a claim is lodged in the event of bank failure, scheme of amalgamation etc. Thirdly, as discussed earlier, the Deposit Insurance Fund provides an additional cushion for the Credit Guarantee Fund. Fourthly, although the DICGC Act, 1961 authorises levy of premium upto a maximum of 15 paise p.a. per rupees hundred it has been kept very low at 4 paise at present. The Deposit Insurance Fund at Rs.283.81 crores as on 31 December 1986 forms only 0.45% of insured deposits as against 1.19% in U.S.A. The size of the Fund is low particularly in view of the extension of the Scheme to smaller banking institutions and the rather weak ratio of the owned funds to total deposits of the banking system. Finally, as would be seen from the table given overleaf the premium income will fall alarmingly in case the premium rate is brought down and charged only on insured deposits instead of on aggregate assessable deposits.

Insurance premium payable to the Corporation at	(Amount in Rs. crores)	
	Insurance premium on total assessable deposits of Rs.86,213.96 crores	On insured deposits of Rs.62,873.13 crores
(i) 0.04 p.	34.48	25.15
(ii) 0.03 p.	25.86	18.86
(iii) 0.02 p.	17.24	12.57
(iv) 0.01 p.	8.62	6.29

Note : Deposits have been taken as per the figures furnished by reporting registered banks for June 1986.

3.6.1 Non-banking companies accepting deposits are

EXTENSION OF DEPOSIT INSURANCE SCHEME TO DEPOSITS ACCEPTED BY NON-BANKING COMPANIES

outside the purview of the Scheme. The Committee, therefore, examined the question of extending the insurance

cover to the deposits of non-banking companies as these deposits are substantial in volume and the holders of such deposits are smaller depositors. Our views on the matter are given below :

3.6.2 Out of 1,07,155 non-banking companies as on 31 March 1985, 91,797 companies were non-financial companies and 15,358 were financial companies. However,

only 7,508 non-banking companies have reported their deposit figures to the Reserve Bank. According to the information available with the Reserve Bank aggregate deposits of reporting non-banking companies as on 31 March 1985 amounted to Rs.16,140.4 crores as against Rs.72,571 crores held by all scheduled commercial banks and formed 22.2% of the deposits with all scheduled commercial banks. Of the total deposits of companies at Rs.16,140.4 crores those aggregating Rs.13,325.1 crores were exempted deposits **i.e., borrowings from banks and financial institutions, monies received from Central Government, State Government or foreign Governments, inter-company borrowings, security deposits, advances received against orders etc.**

3.6.3 The Reserve Bank exercises regulatory powers for deposit acceptance activities of non-banking financial companies. The scheme of control by the Reserve Bank which is operative at present envisages regulation of deposit acceptance from the point of view of their tenure and quantum in relation to the net owned funds of the companies. The Reserve Bank, accordingly, undertakes inspections/rapid scrutinies of the books of these companies with a view to verifying compliance with the Bank's directions and the nature of business undertaken by them, their financial position and ability to meet their liability towards deposits as and when they accrue.

In 1987, a new Chapter IIIC was inserted in the RBI Act, 1934, seeking to prohibit acceptance of deposits by unincorporated bodies except from a limited number of depositors depending on the nature of the body (viz., an individual may accept deposits from not more than 25 depositors, while in the case of a partnership firm/unincorporated association of individuals, the number of depositors has been fixed at 25 per partner/individual subject to a maximum of 250 depositors), the intention being to prevent the acceptance of deposits from a large number of unwary and illiterate depositors.

3.6.4 The Reserve Bank is not empowered to take action against the defaulting non-banking, non-financial companies in view of the fact that the control over them is exercised by Government of India and their deposit acceptance activities are regulated by Government under the Companies (Acceptance of Deposits) Rules, 1975 issued in exercise of the powers vested in them under Section 58A and 58B of the Companies Act, 1956. The work of administering these rules has been entrusted to the Registrars of Companies in various States. There is no provision in the Companies Act, for an ongoing process of inspection of companies for looking into the financial position of the companies with a view to determining whether their

affairs are conducted in a manner detrimental to the interests of their members and depositors, if any, and the inspection is undertaken sporadically only when the Central Government is convinced about the need for such inspections.

3.6.5 The main basis for extending the Deposit Insurance Scheme to commercial banks and certain selected co-operative banks was the various controls exercised by the Reserve Bank over the conduct of affairs of these banks, which ensures their satisfactory functioning and consequently minimises exposure to risks by the Corporation. Such supervision also envisages initiating steps to bring about improvement in the working and conduct of affairs of a bank, where necessary. In particular, the Reserve Bank enjoys extensive powers for exercising a fairly rigid control over their management, working and funds through its statutory periodical inspection and information system made applicable to banks and gets the feedback relating to deployment of funds available with them, enabling the Bank to ascertain whether the various instructions given to the banking system relating to credit planning are carried out or not. The Reserve Bank also has authority to give specific directions to the banks and, whenever necessary, officers of Reserve Bank are deputed to observe the bank's affairs. On the contrary,

so far as the Reserve Bank's control over non-banking financial companies is concerned, the Bank is having limited powers in regard to supervision of the conduct of business by these companies. The Reserve Bank has no control over the deployment of funds of these companies and is not in a position to know how these funds are utilised. The Bank mainly oversees compliance with the directives, but does not conduct any in-depth examination of the financial position and working of these institutions.

3.6.6 The Raj Study Group on non-banking companies (1974) which examined the issue did not favour the proposal for insurance cover for the deposits of non-banking companies. It was felt by the Group that the risks to be insured would differ widely as between companies and also it would be conceptually wrong to confer on unsecured company deposits, the same protected status as has been conferred on bank deposits. The Group had added that a degree of risk is an inevitable concomitant of higher interest rates offered on company deposits and insofar as insurance of deposits with financial companies was concerned, before the question of extending insurance cover to non-banking companies was considered, it would have to be ensured that their methods of operations were standardised, weaker units were weeded out by amalgamation or otherwise and their working was generally put on a sound footing. The

Reserve Bank has also opined that the regulation by the Government or RBI of deposit acceptance by these companies touches only a fringe of the problem and deposits with non-banking companies do not serve the same social objectives as bank deposits, which are directed into socially desirable channels and therefore, there is no reason why the former should be treated on par with bank deposits. The High-Powered Expert Committee set up by Government of India in 1977 for reviewing the working of the Companies Act, 1956 and MRIP Act 1969 (Sachhar Committee) had earlier sought the views of the Corporation on the subject. In December 1983, the Government of India, Ministry of Law, Justice and Company Law Affairs (Department of Company Affairs) had approached the Corporation to consider providing insurance cover for deposits accepted by non-banking companies as the Government had been receiving complaints from the public for non-payment of deposits by companies on maturity. The General Insurance Corporation of India was stated to have expressed their inability to provide the insurance cover on the ground that they were prohibited from providing such an insurance cover, which was in the nature of financial guarantee. The Corporation had then advised the Government of India that the working and deposit acceptance activities of the non-banking companies

were not organised systematically in the sense that there was no statutory provision for their inspections with a view to ensuring that their affairs are not conducted in a manner detrimental to the interests of their members and depositors as is being done in the case of banks. It would be necessary for the Corporation to be satisfied about the above aspect since as an insuring organisation, the Corporation has to ensure the health of an insured body. The Corporation would not be in a position financially or otherwise to set up the elaborate inspection machinery necessary for this work.

3.6.7 Protection of insurance is available to non-banking institutions in other countries. Thus in U.K. insurance cover is provided to the deposits accepted by licensed institutions besides bank deposits. The term 'institution' is defined by Section 50 of the Banking Act 1979 of the U.K. as a body corporate, or a partnership or any other association of two or more persons formed under the law of another member state including a recognised bank. A licensed institution in U.K. has to get authorisation from the Bank of England in order to carry on deposit business. The Bank of England has powers under the Banking Act, to inspect the books and papers of the licensed institutions. Inspections are carried out in regard to the institutions'

management information, control systems, adequacy of their credit control procedures and the quality of assets. If the inspection reveals deterioration in the working of the institutions such as (a) failure to maintain adequate capital, liquidity and provisions, (b) lack of effective direction of the business by more than one individual, (c) serious deficiencies in administration, lending procedures and control system, (d) failure to comply with conditions attached to the licence issued by the Bank, and (e) inefficiency of the directors or controllers etc., then the Bank can revoke the institution's licence. The Bank has also powers to give directions to the institutions limiting the scope of its business in the interest of depositors. As at the end of the financial year ended 28 February 1986, the number of licensed institutions, which are generally banks of smaller size with no diversified business, was 304.

3.6.8 The Committee has examined this issue in all its aspects and is of the view that the control of the Reserve Bank over non-banking institutions is restricted and cannot be deemed as adequate. The inspections of the non-banking companies are limited to particular features such as classification, enquiry into complaints by depositors and compliance with directives. Conduct of such

inspections with a limited coverage does not give the Bank the needed insight into the working of the institution and particularly its funds management which is essential prior to any extension of deposit insurance cover to the bank. Insurance of deposits of non-banking companies without proper and adequate control over their overall operations would be fraught with grave risk. The number of non-banking companies is large and apart from the cost involved, it may not be administratively feasible for the Corporation to set up an extensive inspection machinery which would be required for the purpose. Investing public entrust their savings to such institutions mainly lured by the higher returns and being in full awareness of the risks inherent therein. It is, therefore, presumed that they would have carefully weighed the implications of their investment decisions. Protection of such deposits may also lead to a drain of deposits from banks which have

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well established methods of operation and would militate against national objectives. It would not, therefore, be desirable to place non-banking companies on par with banks in this regard. The Committee, therefore, is of the view that extending deposit insurance cover to deposits of non-banking companies or institutions may not be considered, at the present juncture by the Corporation.

CHAPTER IV

CREDIT GUARANTEE SCHEMES

4.1 The idea underlying the introduction of the Credit Guarantee Schemes was to provide incentives to banks and other financial institutions to lend to small-scale industries and small borrowers, particularly those belonging to the weaker and hitherto neglected sectors of the society. The general observation has been that such borrowers either do not have any access to institutional finance or only limited access thereto because, firstly, the administrative costs of lending to them and monitoring of such loans are very high and secondly, the costs due to failure of borrowers to service their debts could be sizeable. These costs may cut into the profitability of banks and hence result into hesitance on the part of credit institutions to venture in such financing. Credit guarantees help in overcoming some of these problems, especially the perceived high risks of lending to such borrowers by providing a degree of protection to lending institutions against possible losses. Credit insurance proceeds on the basis of pooling of risks and the institutions share in agreed proportion the risk arising from non-repayment of the loan.

4.2 The Corporation is operating six credit guarantee schemes - five for small borrowers (financed by commercial

banks including Regional Rural Banks, OBJECTIVES co-operative societies, co-operative banks and State Financial Corporations) and one for small-scale industrial units (financed by all the above credit institutions except the co-operative societies). The following are the major objectives of the Schemes :

i) To offer a degree of protection to the credit institutions against possible risks in respect of their advances to small-scale industries and small borrowers by providing for the sharing of risks between the credit institutions and the Corporation.

ii) To enable credit institutions to replenish locked-up resources.

iii) To give psychological support to the credit institutions for financing the borrower of small means or no means who was neglected hitherto.

iv) To strengthen economic growth by developing the small-scale sector which has got a large employment potential.

4.3 The salient features of the Credit Guarantee Schemes and the progress, etc. have been dealt with in detail in Chapter II. The Committee is required to examine the terms

and conditions on which credit guarantee cover is provided besides examining the rationalisation of the level and structure of guarantee fee and scope of guarantee cover so as to make the schemes viable and also to examine operational problems, if any, experienced by the participating credit institutions. We accordingly examine these aspects in the following paragraphs :

4.4.1 Over 90% of the banking system is now nationalised.

CREDIT GUARANTEE
SCHEMES - NEED FOR
CONTINUANCE

Public sector banks have lent more than 40% of their total net lendings for priority sectors and working of the SFCs has stabilised. Both the banks and SFCs could, therefore, be said to have built up the necessary expertise in financing of priority sector. A point that arises for consideration, therefore, is whether there is a need for continuance of incentives to these institutions by way of credit guarantee to lend to small borrowers and SSI units.

4.4.2 Although it is difficult to quantify the benefits, there has been a substantial ~~step-up~~ in the flow of institutional credit to the weaker sections of the community covered by the guarantee schemes which may not have been feasible without the guarantee cover provided by the Corporation. The total advances covered by the four guarantee schemes relating to small borrowers have risen from Rs 208.39 crores as at the end of June 1972 to Rs 10,445.97 crores as at the end of June 1986. The

guaranteed advances to small-scale industries as on 30 June 1986 amounting to Rs.7,497.46 crores showed an increase of Rs.3,781.03 crores as compared to guaranteed advances of Rs.3,716.43 crores as on 31 March 1981, when the Government's Scheme was cancelled. Credit guarantee schemes were, no doubt, introduced in India at a time when there was not much compulsion on the credit institutions to lend to the small borrowers and small-scale industrial units which were high risk propositions. Banks have now been financing priority sectors for a considerable period of time and have gained the necessary expertise to properly appraise and effectively monitor such lendings. Nevertheless, the SSI Sector is still faced with problems and there is a certain amount of hesitance in regard to financing particularly the smaller segment of the Sector. The less resilient of the SSI sector which comprises tiny industries, village & cottage industries in decentralised sector would still require credit guarantee support. There would appear to be an even greater need for continuance of credit guarantee schemes as far as the poverty alleviation schemes for the non-industrial sector are concerned. The overdues under priority sector lendings have been of a fairly high order, constituting 20.4% of the total loans outstanding. In the case of direct agricultural advances of public sector banks alone, the percentage of overdues to demand was as high as 45.8% for 1985.

4.4.3 One of the benefits of the guarantee schemes is to place the credit institutions in funds pending recovery of loans treated as bad or doubtful of recovery. Even where there are prospects of recovery, institution of legal action for recovery is a time consuming and long drawn out process. In the meantime, credit institutions are enabled to replenish their blocked funds. For all the foregoing reasons the Committee is of the opinion that there is considerable merit in continuing the guarantee schemes, particularly for the smaller of the small scale sector. It may be mentioned in this connection that the general consensus of opinion among credit institutions with whom the Committee had discussions is that while there is need for some liberalisation, the credit guarantee schemes should continue.

4.4.4 Credit guarantee schemes can be operated on a viable basis only when the risk is as widely diversified as possible. The guarantee schemes work on the principle of pooling of risks and hence the success of the scheme depends on as wide a coverage as possible. For this it is essential that all credit institutions involved in financing the priority sectors are required to participate in credit guarantee schemes. We have elsewhere recommended various modifications in the Schemes, including separate ceilings for term loans and other credit facilities, lowering of limits of loans outstanding for collection of guarantee fee etc. and it is hoped that with these measures the Scheme will prove attractive to all the credit institutions.

4.5.1 The Committee considered whether the
INTEGRATION OF SCHEMES existing Schemes should be
merged and only one or two
schemes - one for small-scale industries and the
other for non-industrial sector should be operative.
This suggestion was earlier examined by the Sub-Group
of the Committee under the Chairmanship of Shri B.D.Dikshit
which recommended as under :

"Only the schemes which are being
availed of by credit institutions on
a sizeable scale may be continued and
those schemes which are practically
defunct may either be discontinued or
merged with other Schemes".

4.5.2 Although the Corporation is operating 6 credit
guarantee schemes, the major portion of total guaranteed
advances and claims was accounted for by two schemes,
viz., Small Loans Guarantee Scheme, 1971 and Small
Loans (SSI) Guarantee Scheme, 1981. The Service
Co-operative Societies Guarantee Scheme, 1971
has an extremely limited coverage. The

guaranteed advances under this Scheme as at the end of June 1986 were Rs 0.72 crore forming 0.01% of the total guaranteed advances to small borrowers. Further, no claims have been preferred under the Service Co-operative Societies Guarantee Scheme, 1971. The Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982 which was formulated for extension of guarantee support to the advances to be granted by the co-operative credit institutions at the primary level for agriculture and allied activities was offered on a pilot basis from 1 January 1983 to certain select PACSs and PLDBs/branches of SLDBs. Although 2476 PACSs, 159 PLDBs and 200 branches of SLDBs were found to be eligible for participation in the scheme, only 14 PACSs and 4 PLDBs have so far evinced lukewarm interest. However, none of them has executed the necessary deed of agreement with the Corporation. Thus, even after the lapse of a period of more than 4 years, the scheme has not become operative. There is little purpose in continuing such a scheme. We are, therefore, of the view that both these schemes may be discontinued.

4.5.3 The provisions contained in the undernoted three credit guarantee schemes are almost similar and the sectors are also common.

- (i) Small Loans Guarantee Scheme, 1971
- (ii) Small Loans (Financial Corporations) Guarantee Scheme, 1971
- (iii) Small Loans (Co-operative Banks) Guarantee Scheme, 1984.

The above schemes were introduced at different points of time for different types of credit institutions. With a view to making the schemes compact, all these schemes may be safely merged into one single scheme for all credit institutions. The Small Loans (SSI) Guarantee Scheme, 1981 may, however, continue to remain separate as the coverage is of a different nature and the quantum of finance involved in respect of this Scheme is also high.

4.6.1 The question of adoption of the definition of 'priority sector' as given by the Reserve Bank to bring about a proper alignment between activities eligible under the Corporation's Schemes and those covered by the priority sector has been considered by the Committee.

4.6.2 The Sub-Group has considered this suggestion and has recommended that the definition of priority sector (retail traders, transport operators, etc.) as laid down by the Reserve Bank, including eligibility criteria of borrowers in various categories should be adopted by the Corporation and there should not be separate criteria for deciding eligibility under the Corporation's Schemes. This was considered necessary to obviate any confusion while classifying the activities under the appropriate schemes. The major differences between the RBI 'priority sector' definition and that under the Corporation's Schemes relates to the following:

<u>Activity</u> (1)	<u>Priority Sector</u> (2)	<u>Corporation's Scheme</u> (3)
(a) Agriculture	1) Development Loans (medium and long term to <u>all</u> plantations)	Development loans to plantations of coffee, tea and rubber are not eligible for cover.

However, RBI has advised all scheduled commercial banks that the short-term finance provided by banks for traditional plantations (i.e. tea, coffee, rubber and spices)

(1)

(2)

(3)

to small holders with land holdings of not more than 5 acres and who do not have their own processing unit, should be classified as agricultural advances as part of priority sector lendings with effect from 1 April, 1987. Such advances have, also been reckoned as advances to 'weaker sections' in priority sector.

ii) Indirect finance through PACS, FSS, LAMPS etc. are covered.

(b) Transport Operators

i) Borrowers owning upto 6 vehicles are covered

ii) There is no specification regarding legal status of the borrower.

(c) Retail Trade

i) The credit limit to private retail traders should not exceed Rs.25,000/-

ii) Advances for distribution of fertilisers, pesticides etc. are treated as indirect advances to agriculture.

Indirect finance is not covered.

Borrower should own only one vehicle.

Borrower should be an individual, group or association of not more than 6 persons (a co-operative society or transport operators is not eligible)

There is no ceiling on credit limit to retail traders.

Advances for distribution of fertilisers, pesticides etc. are covered under retail trade.

(1)	(2)	(3)
(d) Professionals & self-employed persons	Borrowings should not exceed Rs.2 lakhs, of which not exceeding Rs.1 lakh should be for working capital requirements	There is no ceiling on credit limits.
(e) Business enterprises	i) Working capital should not exceed Rs.1 lakh ii) Distribution of mineral oils is classified as business enterprise	There is no ceiling on credit limit Distribution of mineral oils is treated as retail trade
(f) Education	Loans granted to individuals for educational purposes and those granted under special schemes	Loans granted to poor and indigent students under DRI Scheme alone are eligible for cover.
(g) Housing loans	i) Loans upto Rs.5000/- for construction of houses granted to SC/ST and weaker sections ii) Loans may be granted in conjunction with production loan, unless the borrowers already have adequate repaying capacity	Loans upto Rs.5000/- granted to any borrower without any distinction of his being SC/ST or weaker section. Housing loans should form an integral part of production loan granted.

<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
(h) Consumption loans	Consumption loans upto Rs.500 granted under the Consumption Credit Scheme.	Consumption loans not exceeding Rs.500 granted in conjunction with production loans.
(i) Sale of lottery tickets	Advances granted to vendors of lottery tickets are covered under the DRI Scheme and therefore they come under priority sector	Advances to vendors of lottery tickets are not covered under the Scheme, even if they are granted under the DRI Scheme.
(j) Industrial estates & SSI activities	Setting up of industrial estates is covered under priority sector. Similarly, hotel industry, manufacture of potable alcohol etc. are treated as SSI activities coming under priority sector.	Commercial banks' advances for setting up of industrial estates are not covered under any of the guarantee schemes. Similarly, hotel industry and manufacture of potable alcohol etc. are not eligible for cover.

The priority sector definition for urban co-operative banks is broadly the same as for public sector banks except for certain minor differences in respect of quantum of loans for housing etc.

4.6.3 The priority sector advances by public sector banks at the end of June 1986 aggregated Rs.21,830 crores while the guaranteed advances of all eligible participating credit institutions as at the end of June 1986 aggregated Rs.17,943.43 crores. The coverage of guaranteed advances will increase by atleast Rs. 4,000 crores in case

the Reserve Bank definition of 'priority sector' is adopted. The adoption of 'priority sector' definition will facilitate calculation of guarantee fee, classification of guaranteed advances activity-wise etc. and it will considerably reduce the work, time and labour. This will also result in considerable saving of time from the Corporation's point of view and avoidable correspondence can be obviated. By adopting the 'priority sector' definition, certain advances which are now being covered by the Corporation will go out of the purview of the ~~scheme~~ because of non-fulfilment of certain norms fixed under priority sector, whereas certain advances which were not earlier covered by the Corporation e.g., transport operators owning six vehicles will now be covered. Advances granted by commercial banks for setting up of industrial estates, hotel industry and manufacture of potable alcohol etc., although classified as 'priority sector' advances are not at present eligible for guarantee cover under Small Loans (SSI) Guarantee Scheme, 1981. The Industrial Development Bank of India

however, does not provide refinance for potable alcohol.

4.6.4 For the reasons stated above we recommend that the 'priority sector' definition as given by the Reserve Bank may be adopted by the Corporation. As regards the exclusion of certain activities from the priority sector definition as discussed above, the matter may be referred to the Reserve Bank for consideration. The impact of adoption of this definition on guarantee fee receipts, claims liability etc., is discussed in Chapter V on Financial Implications of Credit Guarantee Schemes.

4.7 The Committee considered the question whether

GUARANTEE COVER	the present limit on claim liability
	can be raised from the existing

level of 60%. One of the major reasons for a gradual reduction of the percentage of guarantee cover from 90% to 75% and 60% was the need to maintain the viability of the Schemes. Any increase in guarantee

cover would signify an increasing liability on the part of the Corporation. Even as the position now stands, the Corporation is faced with a situation of rising claims and slowly rising guarantee fees. As far back as in 1984, the claim receipts have surpassed the fee receipts. While claims in absolute amounts will increase proportionately with a rise in lendings, the claims percentage has risen at a much faster rate as may be seen from Annexure - VI. This factor assumes even added importance in the context of various poverty alleviation programmes launched by the Government. Also, the guarantee fee may have to be hiked considerably to take care of the rising amount of claims coupled with any proposed enhancement in guarantee cover, which may not be acceptable to credit institutions. Keeping in view the above we have made certain recommendations for a limited enhancement in the guarantee cover. Our recommendations are given in the paragraph 4.9.6.

4.8. The monetary ceilings on claim liability in
MONETARY respect of the non-industrial
CEILING LIMITS Sector were fixed years back.

The Committee considered whether there is any case for

raising these limits in view of the inflationary trend in the Indian economy. Out of the total guaranteed advances aggregating Rs. 10,345.10 crores under the Small Loans Guarantee Scheme, 1971, advances to farmers and agriculturists constituted a major portion (58.2%) followed by credit to transport operators (15.5%), retail traders (11.5%), professional and self-employed persons (6.4%), business enterprises (5.9%) and the residual category of borrowers under the DRI Scheme (2.5%).

Any change in monetary ceiling will have an impact on the Corporation's share of liability. Nevertheless we feel that the existing ceilings are somewhat low and need to be reviewed in the context of our recommendation for adoption of the Reserve Bank definition of 'priority sector'. Accordingly, we recommend that the ceilings as follows be adopted. The impact of these revisions is discussed separately in Chapter V on Financial Implications of Credit Guarantee Schemes.

<u>Category of borrower</u>	<u>Existing ceiling</u> Rs.	<u>Ceiling proposed</u> Rs.
Farmers and Agriculturists		
- Crop loan	2,500	10,000
- Development activities	10,000	20,000
- Conversion loans	7,500	30,000
Overall ceiling for farmers and agriculturists in respect of main as well as subsidiary activities.	37,500	No overall ceiling
Transport operators	75,000	1,50,000
Retail Traders	50,000	25,000*
Small Scale Industry	10,00,000	10,00,000 Term Loan
	Combined for Term loan and Other credit facilities	20,00,000 Other credit facilities

* Under the priority sector, the credit limit for retail trade should not exceed Rs. 25,000/-. However, loans outstanding inclusive of interest will be of a higher order.

4.9.1 In Chapter II, we have referred to the recommendations

STATE
FINANCIAL
CORPORATIONS

of the Ojha Committee regarding

modifications that could be considered

in this behalf. We now examine below the various aspects of the issues and make our recommendations for bringing about a greater equitability between the various participating credit institutions.

4.9.2 Broadly speaking, there are 4 main issues to be considered in this behalf as under:

- (i) Should there be separate monetary ceilings for settlement of claims for term loans and working capital in lieu of the present combined monetary ceiling.
- (ii) Should guarantee be extended only to the smaller SSI units with aggregate credit facilities upto a particular level.
- (iii) Should the guarantee fee be charged on the basis of the entire outstanding balances in the borrower's account or upto a particular level of outstandings only.
- (iv) Should there be a different rate of guarantee fee on term loans and working capital.

4.9.3 Prior to 1 April 1981 when the Government of India's Credit Guarantee Scheme for small-scale industries

SEPARATE CEILING FOR TERM LOANS AND OTHER CREDIT FACILITIES	was in force separate ceilings at Rs 2.5 lakhs and Rs 7.5 lakhs were prescribed for term loans and other credit facilities respectively. These were merged into one flexible combined ceiling of Rs 10 lakhs on the recommendations of the Anand Working Group. The extent of guarantee cover is 60% of the amount in default for borrowers with aggregate
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credit facilities upto Rs 2 lakhs and 50% for other borrowers (60% for SSI units located in backward districts) with credit limits exceeding Rs 2 lakhs subject to the overall ceiling of Rs 10 lakhs per SSI unit. We are of the view that the existing procedure of a combined ceiling and pro rata payment has been somewhat disadvantageous to the term lending institutions. It is true that the term loans are better secured since they are given against mortgage of land and building and plant and machinery. The term loans also form a smaller proportion of the total finance made available to SSI Sector by the credit institutions. Legislative provisions confer on SFCs, which are major term lending institutions, certain powers for summary disposal of properties for the recovery of dues in the event of defaults by borrowers which are not available to banks. In view of the foregoing, there appears to be justification for fixation of separate monetary ceilings for term loans and other credit facilities. We note that the Ojha Committee has also recommended separate ceilings in this behalf. We would, therefore, recommend the fixation of separate monetary ceilings and the limits therefor are further discussed in the following paragraphs.

4.9.4 With the revision of the definition of SSI unit from time to time, the SSI sector has come to encompass a

large and heterogeneous group of industries. Over the years the credit institutions have acquired the needed expertise and confidence in financing of SSI units. It is, therefore, necessary to consider whether the guarantee cover needs to be extended only to the smaller segment of the SSI sector, which is less resilient, comprising tiny industries, village and cottage industries in the decentralised sector. On the other hand, there is considerable merit in not excluding SSI units as defined by the Government and for which various concessions are given. The Committee deliberated on this issue and recommends that while all SSI units may be brought under the purview of the Scheme, guarantee fee may be levied on the loans outstanding upto a particular level only.

4.9.5 As per the present procedure the guarantee fee is
LOAN LIMIT to be paid on the entire loans
FOR LEVY
OF GUARANTEE outstanding against a SSI unit,
FEE

whereas a combined monetary ceiling of Rs.10 lakhs only has been prescribed for claims settlement. The Committee considered whether instead of charging of guarantee fee on the entire amount outstanding, the fee should be levied on the Corporation's maximum claim liability. As mentioned earlier, credit guarantee

schemes are operated on the principle of insurance, diversification of risks and larger coverage. If the guarantee fee is charged on the basis of maximum claim liability, there will be a considerable fall in the guarantee fee receipts which will have to be made good by steeply increasing the rate of guarantee fee. The scope for raising guarantee fee is essentially limited and any substantial increase will not be acceptable. Having regard to all these factors we feel that the guarantee fee should be paid upto a specific level of loans outstanding as a multiple of the Corporation's maximum claim liability. The proportion of term loans to other credit facilities is roughly 1 : 3 and we feel that this position should be borne in mind in fixing separate monetary ceilings for term loans and other credit facilities. We would, therefore, recommend that the monetary ceilings for claim liability may be fixed at Rs.10 lakhs for term loans and Rs.20 lakhs for other credit facilities and correspondingly the guarantee fee may be levied upto a maximum of Rs.20 lakhs for term loans and upto a maximum of Rs.40 lakhs for other credit facilities. In this connection it may be observed that normally it is envisaged that a borrower should avail of the same type of credit facilities only from one credit institution. In cases where the borrower gets multiple finance from several credit institutions, there may be no other

alternative but for each of the credit institutions to pay guarantee fee upto the prescribed level on such lendings. Such cases of multiple finance are likely to be few.

4.9.6 We, therefore, recommend that ceilings on claims as indicated below may be adopted:

<u>EXISTING</u>	<u>PROPOSED</u>
a) 60% of the amount in default in respect of borrowers to whom credit facilities not exceeding Rs.2 lakhs in the aggregate have been granted.	i) 70% of the amount in default in respect of borrowers to whom credit facilities not exceeding Rs.25,000/- in the aggregate have been granted.
b) 50% of the amount in default in regard to borrowers for whom credit facilities exceeding Rs.2 lakhs in the aggregate have been granted.	ii) 70% of the amount in default in respect of borrowers located in the backward districts who have been granted aggregate credit facilities not exceeding Rs.2 lakhs.
c) 60% of the amount in default in respect of credit facilities exceeding Rs.2 lakhs in the aggregate granted to SSI units located in the backward districts as specified by Government of India and such other areas as may be specified by the Corporation in this behalf.	iii) 60% of the amount in default in respect of borrowers to whom aggregate credit facilities over Rs.25,000 and upto Rs.2 lakhs have been granted.
	iv) 60% of the amount in default in respect of borrowers located in backward districts who have been granted aggregate credit facilities over Rs.2 lakhs and upto Rs.5 lakhs

Provided that the maximum amount payable by the Corporation in each

of the above categories does not exceed Rs.10 lakhs per borrower.

v) 50% of the amount in default in respect of borrowers to whom aggregate credit facilities over Rs.5 lakhs (backward areas) and Rs.2 lakhs (other areas) have been granted.

Provided that the maximum ceiling on claim liability in each of the above categories in respect of Term Loan and other credit facilities does not exceed Rs.10 lakhs and Rs.20 lakhs respectively per borrower.

4.10.1 A two-tier system is in vogue at present - 0.50 GUARANTEE FEE per cent for amounts upto Rs.25,000/-

(which is the present ceiling on advances to a 'small borrower' as defined by the Reserve Bank) and 0.75 per cent for others. Any reduction in the rate of guarantee fee will directly reduce the receipts under guarantee fee thereby adversely affecting the financial viability of the various Credit Guarantee Schemes in operation. Even under the existing two-tier structure of guarantee fee the guarantee fee receipts are falling short of claim receipts since 1984 thereby affecting the viability of the Schemes. In the context of our recommendations regarding enlarging guarantee cover, levy of guarantee fee only upto specific limits and raising the monetary ceilings under various schemes, it may not be feasible to also reduce the guarantee fee to 0.50 percent from the existing level of 0.75 percent

4.10.2 In view of the liberalisations effected in guarantee liabilities for SSI units, as discussed earlier, the guarantee fee for advances above Rs 5 lakhs will have to be enhanced to 1% per annum.

4.10.3 The Committee also considered whether for term loans which are generally well secured against mortgage (DIFFERENTIAL RATE OF GUARANTEE FEE of fixed assets, a lower rate of guarantee fee may be charged, taking into account the recommendations made by the Ojha Committee in this regard. We have already suggested substantial liberalisations by way of separate ceilings for term loans and the levy of guarantee fee upto a particular level. Any further concessions have to be viewed against the question of viability of the Scheme. The Committee, therefore, feels that a distinction may not be made and that a uniform rate of guarantee fee may be fixed regardless of whether the cover is for term loans or other credit facilities.

4.10.4 As per instructions issued by the Reserve Bank, GUARANTEE FEE TO BE BORNE BY LENDING INSTITUTIONS the banks are required to bear the guarantee fee on advances not exceeding Rs 25,000. For advances above this level, the banks may at their discretion pass on the guarantee fee to the borrowers. Ordinarily, therefore, borrowers having advances above

Rs.25,000 are required to pay the rate of interest and also the guarantee fee on the loans. In the case of some banks, the entire guarantee fee is being absorbed by the credit institution itself. The Reserve Bank guidelines stipulate that the interest rates charged by the banks together with the guarantee fee should not exceed the ceiling prescribed in the Reserve Bank directive. In the case of SFCs, it is understood that while the guarantee fee in the case of small borrower is absorbed, it is passed on to the borrowers in the case of bigger advances. There is no uniformity in the practice as between the banks and SFCs and among the various banks and SFCs themselves. The guarantee fee which a credit institution has to pay for protection that it receives from the Corporation for possible defaults by the borrower is passed on to them. It is inequitable for the credit institutions to pass on this burden to the borrowers. The Committee, therefore, recommends that the guarantee fee should, in future, be absorbed by the credit institutions themselves. In other words, the guarantee fee should form part of the interest rates, lending institutions charge and be covered within the margin available to the credit institution between their borrowing and lending rates. This aspect will have to be taken note of by the Reserve Bank in fixing lending rates.

4.10.5 In the case of certain segments of SSI units, the

INTEREST RATES
FOR SSI UNITS

incidence of interest rates and guarantee fee exceeds the rate charged even for medium and large-scale industries. This problem arises mainly for loans above Rs.25 lakhs. We have already suggested that the

guarantee fee should be henceforth borne by the credit institutions. It will be necessary, however, for the institutions such as Reserve Bank and refinancing institutions like IDBI to ensure the needed differentiation in the rate of interest charged to the SSI units so that the ultimate rate to the SSI borrower does not at any time exceed the rates charged to other borrowers.

4.10.6 In the case of RRBs in view of their present stage of development and special role they are required to play in regard to extension of credit to the weaker sections of the community, guarantee fee is collected at a concessional rate of 1/4% for the initial period of 5 years in respect of their advances to non-industrial sector. Thus, RRBs are allowed to pay a concessional rate of 1/4% p.a. for a maximum period of 5 years from 1 July 1979 or from the date of their joining the Small Loans Guarantee Scheme, 1971 whichever is later, after which they are required to pay fee at the normal rates. The concessional rate is not, however, available in respect of advances of RRBs to SSI Sector.

4.10.7 The Committee considered whether RRBs should be, regardless of period, charged only a reduced rate of guarantee fee. The data in respect of guaranteed advances, guarantee fee receipts and claims receipts of RRBs during the period 1984-1986 are given below:

Year	Guaranteed advances	Guarantee fee	(Rs. in lakhs)
			Claims receipts
1984	70,445.00	176.00	202.68
1985	104,891.00	262.00	653.16
1986	134,857.00	337.00	1267.33

4.10.8 It will be seen from the above data that claims have started outstripping the fee receipts from 1984. In the circumstances and since the working of RRBS is expected to be stabilised over a period of 5 years, it is felt that the present concession of 5 years may not be further liberalised. On the other hand, as the Corporation's liability is the same in respect of advances made by RRBS as in the case of commercial banks and SFCs there is a case, in the interest of viability of operations of the Corporation, to charge the full guarantee fee, with Government and NABARD subsidising the RRBS towards the relevant part of the guarantee fees. This suggestion may be actively explored.

4.10.9 The Committee examined whether the guarantee fee in respect of advances to weaker sections should be waived.

WAIVER OF GUARANTEE FEE IN RESPECT OF ADVANCES TO WEAKER SECTION	fee in respect of advances to weaker sections should be waived.
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The consideration for extension of guarantee cover is payment of guarantee fee at the stipulated rate. The guarantee fee is the only source of income for the Corporation to meet the claims. The largest number of claims lodged with the Corporation are in the case of weaker sections. Against this background the question of any waiver by the Corporation of the

guarantee fee can hardly be considered. As at the end of June 1986, the outstanding advances of public sector banks to weaker sections stood at Rs. 5,382 crores which constituted 10.6% of the net bank credit. The Reserve Bank has already issued instructions that the guarantee fee charged in respect of advances not exceeding Rs. 25,000 should be borne by the banks themselves. The Corporation has, at present, prescribed a lower rate of guarantee fee at 0.50 per cent p.a. in respect of advances granted to borrowers for amounts not exceeding Rs.25,000. Taking into account the total finance involved in this category and as the fee presently charged is at a concessional rate we do not consider it appropriate to waive the guarantee fee altogether.

4.10.10 . An allied issue considered by the Committee was whether the guarantee fee in respect

WAIVER OF	of credit facilities granted
GUARANTEE FEE	
ON ADVANCES	to a unit which has been declared
TO SICK UNITS	sick may be waived from the date
	of its declaration as sick and the credit
	institution allowed to invoke the guarantee

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in respect of the unit in the event of advance turning bad or doubtful of recovery without being required to pay further guarantee fee from the date the unit is declared sick till the date of invocation of guarantee. The data regarding sickness of SSI units during the period 1982 to 1985 is given below :

	(Rs in crores)	
<u>Year ended December</u>	<u>No. of sick SSI units</u>	<u>Bank credit out- standing against sick SSI units</u>
1982	58,551	568.66
1983	78,363	728.99
1984	91,450	879.69
1985	1,17,783	1,070.67

4.10.11 It will be seen from the above data that the number of sick units and the amount outstanding against such units shows a rising trend. If the Corporation waives guarantee fee on the advances to sick units, it will further cut into the viability of the scheme, which is already under strain. The loss in guarantee fee will be considerable as would be seen from the following data:

Year	(Rs.in crores)	
	Outstanding balance in respect of Sick SSI units	Amount of guarantee fee loss (at the average rate of 0.63% p.a.)
1982	568.66	3.58
1983	728.99	4.59
1984	879.69	5.54
1985	1,070.67	6.75

4.10.12 As the loss to the Corporation by way of guarantee fee would be substantial and as in the event of failure of nursing programmes, if implemented by banks, the claim liability will also devolve on the Corporation it may not be feasible for the Corporation to forgo the guarantee fee in respect of sick units. In this connection it may be stated that the Committee on rehabilitation of sick units set up by the Reserve Bank in February 1986 under the Chairmanship of Shri A.Hasib, the then Executive Director of the Reserve Bank, to consider various aspects of rehabilitation of sick small-scale industrial units and make suitable recommendations for their rehabilitation, has recommended that the guarantee fee payable to the Corporation in respect of guarantee cover for

advances to sick SSI units should be borne by the banks/financial institutions themselves during the period of the rehabilitation programme. Some of the credit institutions are even now bearing the guarantee fee themselves in respect of sick units. We have elsewhere already recommended that the guarantee fees whether for sick units or otherwise should be borne by the banks themselves. The Corporation as explained cannot be expected to forgo the fees till the invocation of guarantee.

4.10.13 In the light of all the foregoing, we recommend that the following rates of guarantee fee may be adopted :

<u>EXISTING</u> (1)	<u>PROPOSED</u> (2)
(a) 0.50% p.a. for aggregate credit facilities upto Rs 25,000/-	i) 0.50% p.a. for aggregate credit facilities upto Rs 25,000/-
(b) 0.75% p.a. for aggregate credit facilities over Rs 25,000/-	ii) 0.75% p.a. for aggregate credit facilities over Rs 25,000/- and upto Rs 5 lakhs.
	iii) 1.00% p.a. for aggregate credit facilities over Rs 5 lakhs subject to a ceiling of Rs 20 lakhs in the case of term loans and Rs 40 lakhs in the case of all other credit facilities.
(c) 0.25% p.a. for RRBs upto a period of 5 years from 1 July 1979 or from the date of RRB joining the Scheme, whichever is later. This concessional rate of fee is not, however, applicable for SSI Scheme.	iv) 0.25% p.a. for RRBs upto a period of 5 years from the date of their joining the Scheme. This concessional rate of guarantee fee may not be applicable to SSI Scheme as hitherto

4.11.1. The number and amount of claims lodged varies widely as SURCHARGE/REBATE IN GUARANTEE FEE between credit institutions. It may not be equitable to equate credit institutions with a good record and low number of claims with banks which lodge a large number of claims.

In this context the Committee examined whether a surcharge can be prescribed by the Corporation depending on its experience regarding lodgement of claims. It will be observed from paragraph 5.5.4 of chapter V that while the normal guarantee fee payable by the credit institution is 0.75%, there are a few credit institutions whose claims to guaranteed advances percentage exceeds even 1.50. At present banks which are lax stand to gain at the cost of banks which have tightened their machinery. On the other hand, levy of a penalty may act as an effective lever to goad the banks to improve their credit appraisal techniques and more closely monitor the lendings, besides making allout efforts for recoveries.

4.11.2 We have considered all these aspects but feel that at the present juncture, it will not be deisrable to consider any specific cut-off point for levying a penal fee. It is expected that credit institutions will make maximum efforts for recovery of dues and will keep down their claims to the Corporation to the minimum. however, it is understood that there are some banks which have a good record of low submission of claims. We feel that banks whose lodgement of claims is less than half the guarantee fee paid over a continuous period of 3 years may be given a rebate by way of reduction of 20% of the guarantee fees payable in the following year (i.e. 4th year).

4.12.1 The erstwhile Credit Guarantee Corporation of India Ltd.

TIME LIMIT FOR GUARANTEE
COVER AND INVOCATION OF
GUARANTEE

under its Small Loans Guarantee
Scheme, 1971, had prescribed
that on the expiry of not more
than eight financial years

following the year in which the credit facility was first
availed of by the borrower the Corporation's liability
on account of the credit facility should be terminated

absolutely and unconditionally. As the stipulation of maximum period of 8 years for availability of Corporation's guarantee cover was restrictive, the provision was deleted as a measure of liberalisation so that the credit institution could avail themselves of the benefit of the Corporation's guarantee, without any limitation as to the period for which it will be in force. Further, it was also expected that the credit institutions would avail of the facility to either nurse the sick units where possible or make maximum efforts for recovery of loans. The objective of the Corporation's scheme is not that a guarantee be available only during the gestation period of an unit, but that of replenishing funds as and when the dues are locked up in defaulted loans. Such defaults may occur at any time and not necessarily within the first 8 years. We are of the view, therefore, that the existing provision is salutary and no change should be made thereon.

4.12.2 Regarding the question of fixation of a minimum period within which the Corporation's guarantee cannot be invoked, however, it is understood that, in quite a few cases, particularly in respect of advances granted to small-scale industries, the guarantee is being invoked soon after the grant of loans. Various reasons are adduced for such invocation.

such as personal differences among the partners, non-availability of raw materials, non-obtention of power connection, etc. There are complaints, on the other hand, from borrowers that the credit institutions are quick to foreclose the loans and do not give any opportunity to the units, which are faced with innumerable difficulties, to stabilise their working. The general feeling is that credit institutions should exhibit a more sympathetic attitude and should not take precipitate action, but instead make special efforts to nurture units which require a minimum gestation period before their working is brought on an even keel.

4.12.3 Similarly, in the case of small loans, it is observed that claims are being lodged within a span of time ranging from 1 to 2 years of grant of the advance. This is not a healthy feature and defeats the entire objective of grant of loans to small borrowers, viz., providing them with funds for productive endeavour so as to generate income and employment.

4.12.4 In the circumstances stated above it is desirable to fix a lock-in period for invoking guarantee. We feel that such a lock-in period could be fixed at, say 3 years, and no credit institution should be allowed to invoke the guarantee within this period.

4.13.1 As per the provisions of the Small Loans (Small Scale Industries) Guarantee Scheme, 1981, if a borrower is financed by more than one credit institution and a claim is lodged by one of them, the Corporation has to notify all the eligible credit institutions about the invocation of guarantee by the first credit institution. The credit institutions in response to the notification have to prefer the claim within a period of six months from the date of notification failing which the claim will not be entertained by the Corporation till the claim of the first claimant institution is repaid in full to the Corporation.

4.13.2 It has been brought to our notice that it is very difficult for certain credit institutions to comply with the basic requirements for invocation of guarantee such as (a) account should be recalled (b) dues should be treated as bad or doubtful of recovery etc., on account of the following reasons:

- 1) The account is running satisfactorily and as such cannot be recalled.
- ii) Nursing programme is under consideration and chances of revival are bright.

iii) Relevant papers are not available due to prolonged litigation etc.

4.13.3 While SFCs grant term loans, banks grant both term loans and other credit facilities. There are cases where a SFC has invoked the guarantee but the commercial bank does not invoke the guarantee on the ground that it is contemplating ^a nursing programme. As per the recommendations of the Bhide Committee both SFCs and banks should come together and decide about the nursing programme. The signals of an account going bad are mostly received in working capital finance and the bank in the above circumstances should normally advise the SFCs/other banks concerned about the above irregularity and caution them.

4.13.4 The Hasib Committee on rehabilitation of sick SSI units has recommended that the potentiality of the sick unit to become viable has to be decided by the concerned bank where it is the sole financing agency and where a financial institution is also involved, by both of them, and that the rehabilitation package has also to be drawn up by the financing agency/agencies.

4.13.5 While we endorse the recommendations of the above two Committees and are of the view that the closest possible co-ordination should exist between the SFCs and the banks in not only financing of the borrower, but in supervision and also in recovery of dues, we feel that in view of the administrative difficulties involved in the joint settlement of claims, this may not be insisted upon. We have elsewhere recommended that there should be separate monetary ceilings for term loan and other credit facilities. The concerned institutions may be permitted to separately invoke the claims for term loans and other credit facilities but the Corporation may suitably notify the other credit institutions as and when they do so. However, in case of grant of term loan by more than one credit institution, the claim, if preferred, may be paid on a pro rata basis if the ceiling of Rs.10 lakhs is attracted. Similarly if other credit facilities are provided by more than one bank, the claim may be paid on a pro rata basis if the amount exceeds Rs.20 lakhs.

CHAPTER V

FINANCIAL IMPLICATIONS OF CREDIT GUARANTEE SCHEMES

5.1 The need for continuance of the Credit Guarantee Schemes, and rationalisation of the level and structure of guarantee fee and scope of guarantee cover and other inter-related issues have been discussed in Chapter IV. The Committee examines in this Chapter, the financial implications of various recommendations and in the context of the constraints on any steep increase in guarantee fee rates, suggests various measures for augmenting the resources of the Corporation.

5.2 The Corporation is at present operating 6 credit SCHEMES relating to IN OPERATION non-industrial sector (5 schemes) and SSI Sector (1 Scheme). The position with regard to guaranteed advances of all the schemes referred to above as on 30 June 1986 is given overleaf:

(Rs. in crores)

Name of the Scheme	Total Guaranteed advances	% to total guaranteed advances in respect of non-SSI	% to total guaranteed advances (SSI and non-SSI)
1	2	3	4
1. Small Loans Guarantee Scheme, 1971	10,345.10	99.03	57.65
2. Small Loans(Financial Corporations) Guarantee Scheme, 1971	85.19	0.82	0.47
3. Service Co-operative Societies Guarantee Scheme, 1971	0.72	0.01	0.01
4. Small Loans(Co-op. Banks) Guarantee Scheme, 1984	14.96	0.14	0.08
5. Small Loans(Co-op. Credit Societies) Guarantee Scheme, 1982	-	-	-
Total ..	10,445.97	100.00	58.21
6. Small Loans(SSI) Guarantee Scheme, 1981	7,497.46	-	41.79
Grand Total ..	17,943.43		100.00

Although the Scheme relating to the co-operative sector was introduced from 1 January 1983, so far no eligible PACS/PLDB has joined it.

5.3 The consideration for extension of the Corporation's

GUARANTEE FEE guarantee (which is on automatic bulk coverage basis) for these advances is the payment of guarantee fee by participating credit institutions at the undernoted rates calculated on the balance outstanding in the guaranteed accounts and paid half-yearly in advance:

	<u>Rate of fee</u>	<u>Remarks</u>
(a) <u>Non-industrial sector schemes</u>		
(1) for credit institutions other than Regional Rural Banks, PACSs, PLDBs/branches of SLDBs	$\frac{1}{2}$ % p.a. for advances upto Rs.25,000/- (in the aggregate per borrower) $\frac{2}{4}$ % p.a. for others.	This two-tier rate has been introduced from 1 July 1980. Prior to this date, the rate of fee was $\frac{1}{2}$ % p.a. for all advances.

	<u>Rate of Fee</u>	<u>Remarks</u>
(ii) for Regional Rural Banks	1/4% p.a.	For first 5 years from 1 July 1979 or the date of Regional Rural Bank's joining the Scheme whichever date is later; thereafter at normal rates as above
(iii) Co-operative Credit Guarantee Scheme, PACS, PLDB /branches of SLDBs.	0.65% p.a.	Not yet joined by any eligible PACS/ PLDB.
(b) <u>Small Scale Industries Scheme</u>	4/2% p.a. for advances upto Rs.25,000 (in the aggregate per borrower) 3/4% p.a. for others	These rates are prescribed from the date the scheme has been introduced viz., 1 April 1981. They remain unchanged.

The fees so collected are credited to the Credit Guarantee Fund which is utilised solely for meeting credit guarantee claims lodged under the Schemes.

5.4.1 The Corporation has, from time to time, been reviewing

VIABILITY - A the viability of its schemes and has been
PERSPECTIVE modifying the scope of its guarantee cover
and level of guarantee fees. Thus, following the review of
the viability of its schemes (viz., 3 non-industrial schemes)
during the year 1979, it was observed that the amount of fees
received fell short of the amounts of claims lodged with it.
The following measures were then taken to improve the
viability of the Schemes:

(a) Fixing of overall monetary ceilings on the Corporation's

Claim liability in respect of the advances to transport operators upto a maximum ceiling of Rs.75,000 and professionals and self-employed persons upto Rs.50,000/-. This was made effective from 1 July, 1980.

(b) Replacement of the then existing one-tier fee rate by a two-tier one i.e., 42% p.a. on advances upto Rs.25,000 and 3/4% p.a. for others with effect from 1 July 1980. As a result of these measures, the total guarantee fee receipts were enough to cover the claims receipt till the end of December 1983 only.

(c) A similar position was obtaining in respect of the SSI Scheme 1981 which was introduced by the Corporation from 1 April 1981. In 1985, therefore, the extent of guarantee cover was reduced from 75% to 60% in respect of advances granted by the credit institutions to small borrowers and SSI borrowers enjoying credit limits upto Rs. 2 lakhs.

5.4.2 Lately, the claims lodged with the Corporation have shown a phenomenal increase both under the industrial and non-industrial sector schemes. A statement showing total claims received, disposed, paid, withdrawn, rejected and pending for the last 5 years ending 1986 is given

below :

(Rs. in crores)

During period	Claims received	Claims disposed of	Of the claims disposed of			Claims pending	Recoveries in claims paid A/c.
			Claims paid	Claims with-drawn	Claims rejected		
2.	3.	4.	5.	6.	7.	8.	

SMALL BORROWERS

1982	24.71 (150926)	14.50 (105513)	12.49 (102141)	0.53 (1369)	1.43 (2003)	36.19 (143454)	1.89
1983	27.84 (147474)	19.54 (127714)	17.94 (125202)	0.52 (1643)	1.18 (2869)	44.39 (163214)	2.55
1984	61.71 (254692)	32.02 (236625)	30.99 (228419)	0.22 (741)	0.88 (7465)	74.01 (181281)	3.71
1985	114.91 (453722)	114.45 (466611)	71.80 (336663)	41.97* (119770)	0.68 (10178)	74.47 (168392)	5.93
1986	140.94 (630365)	176.39 (644090)	86.86 (484852)	87.18* (147419)	2.35 (11819)	39.02 (154667)	11.69

SMALL SCALE INDUSTRIES

1982	9.40 (4013)	2.13 (3105)	0.37 (1542)	1.72 (1557)	0.04 (26)	9.01 (2216)	-
1983	32.58 (9325)	12.93 (7523)	3.43 (5154)	9.00 (2055)	0.50 (73)	28.66 (4213)	0.08
1984	53.98 (10300)	13.75 (9522)	9.91 (7855)	2.92 (1610)	0.90 (57)	68.91 (12991)	0.43
1985	71.99 (22048)	25.09 (22791)	12.06 (18264)	11.61* (4116)	1.41 (411)	115.82 (12248)	0.81
1986	104.92 (33723)	67.07 (30299)	24.10 (19695)	40.30* (10261)	2.61 (343)	153.67 (15672)	1.58

Note : Bracketed figures denote number of claims.

* Include claims returned for non-receipt of clarifications from credit institution as under :

1985 : Small Borrowers : 40.73(155311), SSI 4.41(1911)

1986 : Small Borrowers : 87.08(146999), SSI-29.81(6889)

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It will be seen from the above statement that the claims receipts under Non-SSI and SSI schemes increased from 1.55 lakhs involving Rs.34.11 crores in the year 1982 to 6.64 lakhs involving Rs.245.85 crores in the year 1986. During this period, the Corporation has been able to process a large number of these claims as would be seen from the figures of claims disposed. However, the total claims that were paid were of a lower order because a large number of these claims required clarifications. In view of the considerable delay in submission of clarifications by the banks, early in the year 1985 a decision was taken by the Corporation to return claims where clarifications were not received within a reasonable period of time. These claims have not been included in the pending claims at the end of the year but these claims will be relogged shortly and the Corporation will have to take cognisance of the same.

5.4.3 The statement given below indicates details of guarantee fee receipts, other accruals to the Credit Guarantee Fund by way of interest on investments and recoveries in claims paid accounts during the last five years vis-a-vis the claims lodged and paid under the Credit Guarantee Scheme.

(In crores of rupees)

Year	Guarantee	Other accruals		Total	Total	Claims	
	fee receipts	Income from investment of Credit Guarantee Fund	Amount recovered in respect of paid claims	other accruals to Credit Guarantee Fund(3+4)		(2+5)	Received
1	2	3	4	5	6	7	8
1982	57.67	7.93	1.89	9.82	67.49	34.11	12.87
1983	71.17	13.60	2.64	16.24	87.41	60.42	21.28
1984	87.91	20.85	4.14	24.99	112.90	115.69	40.46
1985	105.66	29.55	6.73	36.28	141.94	186.90	81.55
1986	127.25	36.17	13.27	49.44	176.69	245.86	108.69

As the claims paid have been less than the guarantee fee receipts in the respective years, the Corporation has been able to appropriate substantial amounts to the Credit Guarantee Fund every year. The Corporation earns some amount by way of income on the investments from the Credit Guarantee Fund. As a result of these accruals, the Corporation has been able to build up the Credit Guarantee Fund from Rs 88.76 crores in 1982 to Rs 187.76 crores in 1986. A decision has now been taken by the Corporation not to return claims as far as possible for want of clarifications but to await the same. Simultaneously, various measures are being taken by the Corporation and have been recommended in the Report to further expedite settlement of claims. As a result thereof, it is expected that all claims lodged less those withdrawn by the credit institutions themselves will be paid by the Corporation with the exception of certain claims which may necessarily have to be rejected.

In the circumstances, any assessment of viability will have to be worked out with reference to the 'claims lodged' making due adjustments for the average amount of claims withdrawn by credit institutions themselves, 'claims rejected' and 'recoveries received in claims settled accounts by the Corporation.

5.5.1 The fee receipts and claim receipts as percentages

NON-INDUSTRIAL SECTOR
SCHEMES - AN ANALYSIS

of guaranteed advances are
worked out hereunder :

SMALL BORROWERS

(Rs in crores)

Year	Guaranteed Advances	Guarantee fee receipts and recoveries in claims settled A/c.	% of col. 3 to guaranteed advances	Guarantee Claims lodged less withdrawn and rejected	% of Col. 5 to guaranteed advances
1	2	3	4	5	6
1977	1322.80	6.71	0.51	4.19	0.32
1978	1706.29	6.75	0.40	8.45	0.50
1979	2154.45	11.31	0.52	10.04	0.47
1980	2789.13	15.89	0.57	14.20	0.51
1981	3558.45	26.02	0.73	14.20	0.40
1982	4839.88	32.47	0.67	22.69	0.47
1983	5773.83	38.40	0.66	26.14	0.45
1984	7104.25	51.77	0.73	60.61	0.85
1985	8923.01	65.07	0.73	112.99	1.27
1986	10445.97	72.03	0.69	138.49	1.33

5.5.2 It will be seen that during 1978 the percentage of fee receipts together with recoveries to guaranteed advances fell short of the percentage of claim receipts excluding withdrawals and rejections to guaranteed advances for that year thereby necessitating a relook at the financial viability of the Schemes. As stated above certain remedial measures were introduced in 1980 as a result of which fee receipts during 1980, 1981, 1982 and 1983 improved and had been higher than the corresponding percentages of claim receipts. Substantial increases in claim receipts have again jeopardised the viability of the schemes from 1984 onwards as may be seen from the relative percentages for the corresponding years necessitating an in-depth review of schemes.

NON-VIABLE CATEGORIES -
SECTOR-WISE ANALYSIS

5.5.3 As at the end of 1986, 86.3% of the total amount of claims at Rs.140.87 crores were accounted for by farmers and agriculturists (55.5%), transport operators (15.0%), and retail traders (15.8%) under Small Loans Guarantee Scheme, 1971. A wide disparity between the percentages of guarantee fee (GF) to guaranteed advances (GA) and claims lodged (CL) to guaranteed advances (GA) has been noticed since 1984 in the case of categories as indicated below :

Year/ percentages	Farmers & Agriculturists	Transport operators	Retail traders
1978 GF to GA	0.33	0.62	0.40
CL to GA	0.46	0.84	0.55
1979 GF to GA	0.37	1.12	0.52
CL to GA	0.39	1.18	0.55
1980 GF to GA	0.45	0.86	0.72
CL to GA	0.44	0.86	0.72
1981 GF to GA	0.59	0.87	0.99
CL to GA	0.39	0.57	0.65
1982 GF to GA	0.58	0.66	0.84
CL to GA	0.47	0.54	0.68
1983 GF to GA	0.60	0.57	0.61
CL to GA	0.43	0.48	0.77
1984 GF to GA	0.64	0.65	0.65
CL to GA	0.81	0.78	1.46
1985 GF to GA	0.65	0.65	0.65
CL to GA	1.19	1.47	1.91
1986 GF to GA	0.65	0.65	0.65
CL to GA	1.30	1.31	1.88

Claims lodged under the residual category of DRI Scheme till 1984 were within the guarantee fee receipts but these claims have been rising at a fast rate and far exceeded the guarantee fees in 1985 and 1986. The relative percentages are given below:

Residual category under
DRI Scheme

<u>Year</u>	<u>GF to GA</u>	<u>CL to GA</u>
1985	0.65	1.01
1986	0.65	2.32

The Corporation does not maintain any separate record of claims under various poverty alleviation programmes launched by the Government but if the increase in the receipt of claims for amounts below Rs.10,000/- is any indicator, it would appear that such claims have accelerated in the last few years. It is pertinent to mention here that as against claims totalling 14,832 involving amounts of Rs.4.42 crores received during the year 1977, the Corporation received as many as 6,30,303 claims for Rs. 140.87 crores in the year 1986 under the Small Loans Guarantee Scheme, 1971.

Institution-wise lodgement
of claims

5.5.4 An analysis by broad groups of banks showed the position as under :

Group of Banks	No of banks falling within claims to guaranteed advances range of				
		0. to .75	0.76 to 1	1.01 to 1.50	Above 1.51
SBI and Associate banks	1984	5	-	2	1
	1985	-	2	2	4
	1986	1	1	3	3
Nationalised banks	1984	9	5	4	6
	1985	7	1	5	7
	1986	7	2	3	8
Other Scheduled banks	1984	22	1	1	2
	1985	24	-	1	4
	1986	12	4	6	5
Non-scheduled banks	1984	-	-	-	-
	1985	-	-	-	-
	1986	1	-	-	-
Regional Rural Banks	1984	24	1	5	2
	1985	41	3	3	16
	1986	30	5	12	21

Bank Group-wise Ratio Analysis¹

5.5.5 The percentages of $\frac{\text{claims receipt}}{\text{guarantee fee}}$ to guaranteed advances in respect of broad groups of banks for the years 1984-1986 were as under :

Group	Claim receipt to Guaranteed advances			Guarantee fee to guaranteed advances		
	1984	1985	1986	1984	1985	1986
State Bank of India & Associate Banks	0.73	1.19	1.49	0.68	0.64	0.65
Nationalised Banks	1.16	1.29	1.34	0.74	0.72	0.75
Other scheduled banks	0.07	0.93	1.02	0.08	0.64	0.59
Non-scheduled banks	-	-	0.16	-	-	0.71
Regional Rural Banks	0.33	0.76	0.98	0.22	0.46	0.50
Foreign banks	-	-	No Claim	-	-	0.83

It may be seen from the foregoing that the percentages of claims to guaranteed advances are significantly high in respect of State Bank of India and Associate banks and nationalised banks.

Region-wise percentage analysis

5.5.6 For the year 1985, the region-wise analysis of small loans discloses a position as under :

R A T I O	R E G I O N			
	Bombay	Calcutta	New Delhi	Madras
Guarantee fee to guaranteed advances	0.65	0.65	0.65	0.65
Claims lodged to guaranteed advances	1.94	1.86	0.99	1.61

5.6 From 1984 onwards as may be seen from Annexure VI.

SSI SECTOR SCHEME - claims excluding withdrawal and AN ANALYSIS rejection under this Scheme also have exceeded the guarantee fee receipts plus recoveries thereby indicating the increasing sickness and higher mortality rate for such loans. The experience of the Government of India in respect of their scheme for SSI sector (which was in operation from 1960 to 1981) had been equally unsatisfactory. As against the total fee receipts aggregating Rs 46.50 crores during this period, the amount of claims received was of the order of Rs 124.93 crores. Fee receipts together with recoveries and claim receipts minus withdrawals and rejections as a percentage of guaranteed advances for the Corporation's SSI Scheme are given ~~overleaf~~ below.

(Rupees in crores)

Year	Guaranteed advances	Guarantee fee receipts plus recoveries in claims settled accounts	% of Col.3 to guaranteed advances	Claims lodged minus with-drawn and rejected	% of Col.5 to guaranteed advances
1	2	3	4	5	6
1981	3716.43	21.61	0.58	1.74	0.05
1982	3822.13	26.94	0.70	7.64	0.20
1983	4153.73	35.28	0.85	23.08	0.56
1984	4890.86	40.11	0.82	50.16	1.03
1985	5843.69	47.16	0.81	63.38	1.08
1986	7497.46	58.41	0.78	91.82	1.22

5.7 In Chapter IV on Credit Guarantee Scheme, the Committee

RATIONALISATION OF TERMS AND CONDITIONS UNDER THE CORPORATION'S SCHEMES has made various recommendations for rationalisation of the terms and conditions under the Corporation's Schemes. As

pointed out there, the scope for raising the guarantee fee is limited and credit institutions may not be amenable to any substantial increase thereof. To suit the requirements of the credit institutions

and particularly the SFCs the Committee has recommended that the guarantee fee may be levied not on the total loans outstanding against SSI units but only upto a particular level of outstandings, viz., Rs 20 lakhs for term loan and Rs 40 lakhs for other credit facilities. Keeping in view the existing disparity between term loan and working capital loans, we have suggested that the monetary ceiling may be fixed at Rs 10 lakhs for term loan and Rs 20 lakhs for other credit facilities. This is against the present combined ceiling of Rs 10 lakhs per borrower. Further, for loans upto Rs 25,000, the Committee has recommended a guarantee cover of 70% as against the existing cover of 60%. In the case of backward districts, 70% coverage will now be available upto Rs 2 lakhs and 60% coverage for loans between Rs 2 lakhs and Rs 5 lakhs. Besides, the Committee has agreed to enhance the monetary ceilings from Rs 2,500 to Rs 10,000 in the case of crop loans to farmers and agriculturists, from Rs 10,000 to Rs 20,000 for developmental activities for agriculture and from Rs 75,000 to Rs 1,50,000 for transport operators.

5.8.1 The financial implications of the various

FINANCIAL
IMPLICATIONS

recommendations for rationalising
the terms and conditions of the

Schemes are examined below: The projections of

priority sector advances, claims to be paid, withdrawals/rejections, guarantee fee receipts, recoveries and the surplus/deficit are given in the statement below for the years 1987 to 1990 separately for Non-SSI and SSI Schemes. While working out projections in respect of claims to be paid, time-discipline for settlement of claims as recommended in paragraph 6.7.4 has been duly taken into account. Priority sector advances of the banking sector at 40% of bank credit are based on 18% growth in bank deposits and 62% credit-deposit ratio. The SSI advances comprise advances granted by the banking sector as well as those of SFCs.

(Rs in crores)

Year	Priority sector advances	Claims to be paid during the year		Guarantee fee plus recoveries in claims settled accounts		Deficit		Difference between col. (8) and (7)
		Exist- ing	Revised	Exist- ing	Revised	Exist- ing	Revised	
1	2	3	4	5	6	7	8	9
<u>NON-SSI</u>								
1987	18708.90	244.46	288.46	150.24	155.39	94.22	133.07	38.85
1988	22076.51	290.18	342.41	177.48	183.60	112.70	158.81	46.11
1989	26050.27	362.98	428.32	211.84	219.49	151.14	208.83	57.69
1990	30739.32	449.09	529.93	252.40	261.86	196.69	268.07	71.38
<u>SSI</u>								
1987	12380.89	225.00	258.01	103.48	103.54	121.52	154.47	32.95
1988	14609.45	183.92	210.90	117.35	116.73	66.57	94.17	27.60
1989	17239.15	228.24	261.72	139.13	138.49	89.11	123.23	34.12
1990	20342.20	279.69	320.72	164.78	164.12	114.91	156.60	41.69

Total (Non-SSI + SSI)

1987	31089.79	469.46	546.47	253.72	258.93	215.74	287.54	71.80
1988	36685.96	474.10	553.31	294.83	300.33	179.27	252.96	73.71
1989	43289.42	591.22	690.04	350.97	357.98	240.25	332.06	91.81
1990	51081.52	728.78	850.65	417.18	425.98	311.60	424.67	113.07

As shown in the statement given in paragraph 5.4.3 the total accruals to the Credit Guarantee Fund other than the guarantee fee receipts in the year 1986 amounted to Rs 49.44 crores. Even if this amount were to be adjusted against the deficit, there would still be a shortfall of Rs 238.10 crores in 1987 and Rs 375.23 crores in 1990.

5.8.2 As the Funds will be under great pressure, it will be necessary to consider ways and means of augmenting the resources of the Corporation and the Committee would suggest that the following measures may be taken.

- a(i) The authorised share capital of Rs 50 crores has been fully subscribed and paid up by the Reserve AUGMENTATION OF SHARE CAPITAL Bank. In view of the increasing liabilities devolving on the Corporation, it will be necessary now to further

strengthen the capital base. In this context, the Committee considered the question of broadbasing the membership of the Corporation by allocating share capital to promotional agencies such as IDBI/NABARD and participating credit institutions but decided that the Corporation may continue to be a wholly-owned subsidiary of the Reserve Bank for the present. The Committee recommends that the Corporation's authorised share capital may be raised to an amount of atleast Rs 200 crores and the additional share capital be contributed by the Reserve Bank.

(ii) Augmentation of share capital would strengthen the General Fund which could be temporarily drawn upon to meet the deficit in the Credit Guarantee Fund in times of need. Provision already exists in the DICGC Act for transfers among the Funds with the approval of Reserve Bank. Strengthening of the capital and thereby the General Fund will, therefore, enable the Corporation to meet contingencies and impart a certain degree of manoeuvrability.

b(i) The total amount to the credit of the Deposit Insurance Fund at the end of the 1986 was Rs 284 crores. While the incidence of

DEPOSIT
INSURANCE
FUND

failures of banks have, no doubt, been few and far between, as has been seen in the recent past,

the drain on the Fund has been and could be sudden and substantial in the event of merger/amalgamation. The Fund constitutes 0.45% of insured deposits as at the close of December 1986.

(ii) The Committee is of the view that the Fund should constitute atleast 0.5% of the total insured

deposits. In other words, the Fund would require to be augmented by an amount of Rs 40 crores. We recommend that the Reserve Bank and the Government of India may make outright grants to this extent to strengthen the Fund. It is further necessary that the amount to the credit of the Fund should not be allowed to fall below a particular level of say, Rs. 250 crores. If at any time, due to heavy claim payments, the Fund is reduced to an amount below Rs.225 crores, the participating institutions may be required to contribute toward the gap by way of a special premium in proportion to the insurance premium paid by them. A figure of Rs.225 crores has been suggested so that calls from the participant institutions need be made only in the event of sizeable deficits exceeding Rs.25 crores so that they need not be required to contribute small amounts at frequent intervals.

(C)(i) As discussed earlier, there are likely to be sizeable shortfalls in the guarantee fee receipts as

CREDIT GUARANTEE FUND	compared with the number and amount of claims to be settled. Ways and means will have to be explored as to how these deficits could be made good. In this connection, we would make the following recommendations:
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(ii) The Committee notes that the Corporation has been entrusted with the work of settlement of claims under the cancelled Scheme on behalf of Government of India. The Government has been making budgetary provision every year for payment of claims and the Corporation is being reimbursed the amount of claims actually paid every year. During the Seventh Plan period, the Government have made a provision of Rs 150 crores for payment of claims on its behalf. Till the end of March 1987, a sum of Rs 30 crores out of the above budgetary allocation has been utilised. As on 31 March 1987 claims amounting to Rs 24.17 crores were pending under the Government Scheme. Accounts in default amounted to Rs 232.02 crores as on 31 March 1981 besides pending claims of Rs 98.18 crores. As against this, the Corporation disposed of Rs 124.17 crores worth of claims (either paid or rejected) upto March 1987. This leaves a balance claim liability of Rs 148.02 crores. There is no time limit for invocation of guarantee and as such annual budgetary provisions are required to be made for this purpose by the Government. The aforesaid procedure of obtaining reimbursement from time to time from the Government of India could be done away with

once and for all if the Corporation takes over the discharge of the liabilities under the Government's Scheme and the Government makes available to the Corporation the balance amount of Rs 120 crores in one lumpsum as a one-time measure in full settlement of the existing and future liabilities thereunder. We recommend accordingly. The Government may also allow the Corporation to retain the recoveries in claims paid accounts. This measure will enable the Corporation to immediately strengthen the Credit Guarantee Fund. The Government may, thus, be totally absolved of its liabilities in respect of the Government Scheme (since cancelled).

(iii) If, however, despite strengthening of the Fund by the abovementioned measure, at any time in future, the Fund is depleted to a level below Rs 150 crores and the Corporation faces difficulties in meeting ongoing ~~commitments, the participating~~ ~~credit institutions may be obliged to bring it~~ ~~upto the minimum level of Rs 150 crores~~ ~~by making contributions on a pro rata~~

commitments, the participating credit institutions may be obliged to bring it upto the minimum level of Rs.150 crores by making contributions on pro rata basis by way of an additional guarantee fee.

(iv) In view of the drain on the Credit Guarantee Fund owing to the rising claims, the Committee is of the view that the financial position of the Corporation should be reviewed at periodical intervals say once every 2 or 3 years and necessary measures considered to maintain the viability of the Schemes.

(d) Section 25 of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 requires that all monies belonging

CHANGES IN
INVESTMENT
POLICY

to Deposit Insurance Fund or
Credit Guarantee Fund or the

General Fund which may not for the time being be required by the Corporation shall be invested in promissory notes, stocks or securities of the Central Government. In order to meet its ever increasing claim liability, the Corporation has been exploring various means to raise resources which includes the changing of the existing investment pattern. As

per the guidelines issued by the Government of India, the investment pattern of the GIC, LIC and NABARD provides for investments at about 25% of profits/controlled funds in shares/debentures, etc. to obtain a better yield, while the remaining amount has to be invested in socially-oriented sectors including Central/State Government securities. In case the Corporation is allowed the latitude to invest 25% of surplus funds in the form of safe investments other than Central Government securities, the Corporation could earn an additional income. The Committee is concerned about the financial strains on the Corporation and the need to augment its resources from all possible avenues. The Committee, therefore, recommends that the Corporation may be permitted to invest a certain portion of its Funds in good high-yielding securities. The Government of India may have to be moved for amending Section 25 of the DICGC Act to enable the Corporation to invest in forms of investments other than Central Government securities.

- (e) In terms of Section 27 of the Act *ibid*, provision
- | | |
|--|---|
| LOANS FROM
RESERVE BANK OF
INDIA | exists for advances upto
an amount of Rs 5 crores by |
|--|---|
- the Reserve Bank to the Corporation for the purpose of Deposit Insurance Fund or Credit Guarantee

Fund. As mentioned, the deficits in fee receipts are expected to be of a sizeable order and the ability of the Corporation to meet its liabilities may be impaired. Pending the raising of resources through alternate means such as contributions by participating credit institutions, contingencies may, therefore, arise when the Corporation may require **sizeable** funds for meeting its commitments. We would, therefore, recommend that a provision for making of advances upto an amount of **Rs 100 crores** may be made to meet any eventualities. Keeping in view the laudable objectives of the Corporation, such loans should be interest-free. The Deposit Insurance and Credit Guarantee Corporation Act may be amended accordingly.

(f) The Corporation has been continuously pursuing the

EXEMPTION
FROM INCOME-
TAX

question of grant of a
permanent exemption from

income-tax with the Government of India.

Instead of acceding to this demand, the Corporation has now been advised that it will no longer be exempted from tax from the year 1987. On a notional basis, the Corporation's tax liability on the income for 1986 would work out to a colossal sum of **Rs 51.29 crores**.

The Corporation is essentially a service institution which operates on a 'no-profit' basis. Any income which the Corporation earns is 'notional' in as much as the entire surpluses are appropriated towards building up of the Deposit Insurance Fund and the Credit Guarantee Fund. Even the establishment expenditure is being met from the income on the share capital of Rs 50 crores contributed by the Reserve Bank. The Corporation does not declare any dividend on such share capital. The Deposit Insurance Corporation set up as far back as in 1961 was conceived with the idea of infusing confidence and mobilising savings of small depositors with a view to channelising the resources in avenues which could be deemed as national priorities. Similarly, the Credit Guarantee Organisation was thought of in the wake of nationalisation of banks and the need for providing incentives to commercial banks to lend to the hitherto neglected sectors which were higher risk propositions. In other words, the Corporation has been working solely for attainment of national objectives. Judged by the increase in deposits over the years and the steady increase in lendings to priority sectors, the objectives with which the Corporation was established have been fulfilled in good measure. In the context of

merger of weak banks and also the launching of various special programmes of financing for weaker sections there is a need for continuance of the Corporation's activities. As past experience has shown, it is difficult to anticipate as to when demands may be made on the Deposit Insurance Fund for meeting claims of depositors in the case of merger/liquidation of banks. Further, claims have been steadily rising from year to year under the credit guarantee schemes and as discussed earlier, since the year 1984, the guarantee fee receipts have fallen far short of the claim amounts. As discussed earlier, there is likely to be a huge deficit in the guarantee fee receipts vis-a-vis claim receipts and we have suggested various measures to meet the shortfall. This envisages, among others, augmentation of share capital by the Reserve Bank and the grant of funds by Government of India to strengthen the Credit Guarantee Fund. In the face of this, levy of a tax on the Corporation's income will be totally counter-productive. The Government of India may be moved to immediately grant permanent exemption to the Corporation from payment of tax.

CHAPTER VI

PROCEDURAL ASPECTS AND OPERATIONAL PROBLEMS

6.1 With a view to ~~simplifying~~ and streamlining the **INTRODUCTORY** procedures adopted by the Corporation and for ensuring prompt payment of insurance premium/guarantee fee by credit institutions and expeditious settlement of claims received by the Corporation, a Sub-Group under the Chairmanship of Shri B.D.Dikshit, Deputy Managing Director, State Bank of India was appointed. The Committee also received suggestions on these aspects from participating credit institutions. The recommendations made by the Sub-Group are at Annexure II. The main issues that arise for consideration relate to the following :

Deposit Insurance Scheme

- (i) Insurance premium - Computation, payment
- (ii) Periodical returns

Credit Guarantee Schemes

- (i) Guarantee fee - Calculation and payment of
- (ii) Guaranteed advances - Exclusion of certain categories of advances from the purview of the Scheme
- (iii) Invocation of guarantee

- (iv) Settlement of claims procedure
- (v) Remittance of recoveries in claims paid accounts
- (vi) Delegation of powers for waiver of legal action, Write off etc.

These issues are discussed in the following

paragraphs :

6.2.1 All amounts which are in the nature of deposits, COMPUTATION OF PREMIUM - SIMPLIFICATION whether reflected in deposit accounts or not, are to be treated as deposits for the purpose of payment of insurance premium viz.

- (a) Credit balance in cash credit accounts
- (b) Margins held against L/Cs guarantees, bills purchased etc, if these amounts are held in an account of the depositor marking merely a lien or instructions as to disposal.
- (c) Interest on fixed and other term deposits, if it has accrued and become payable to the depositors.
- (d) Mail/telegraphic transfers from one deposit account to another.
- (e) Amount received for credit of a deposit account but held in suspense, pending receipt of particulars or compliance with some formalities.

As per the accounting procedure followed by banks the above items which, though in the nature of deposits, are not categorised as such in the books and the amount pertaining to these items is not readily available. Data pertaining

to these items are compiled for the specific purpose of the Deposit Insurance Scheme at present. The compilation of assessable deposits is, therefore, delayed. This amount compared with the total deposits of the banks is negligible and the expenditure and labour involved in compilation of the amount is not commensurate with the additional premium income of the Corporation.

6.2.2 As per the existing procedure, every insured bank has to pay a premium on the assessable deposits as on the last Friday of the preceding half-year in advance within one month of the commencement of the half-year. If the insured bank is not able, on account of circumstances beyond its control, to determine the figures of its total deposits, it has to provisionally calculate the amount of premium payable by it and subsequently make an adjustment in the figure of deposits. The existing procedures appear to be unnecessarily complicated involving a large number of calculations which result in considerable waste of time and labour at the level of both the Corporation and the banks.

6.2.3 One solution would be in adopting the figures as reported under item 2(a)(i) and (ii) of format 'A' submitted to the Reserve Bank under Section 42 of Reserve Bank of India Act for maintenance of CRR and SLR. These items

pertain to the aggregate demand and time deposits of banks (other than from banks) in India. However, demand deposits include current deposits, demand portion of savings bank deposits, margins held against LCs/guarantees, balances in overdue fixed deposits, cash certificates, cumulative/recurring deposits, outstanding telegraphic/mail transfers, demand drafts, credit balances in the cash credit accounts. Time deposits, on the other hand, include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities, portion of savings bank deposits, staff security deposits, margins held against L/Cs if not payable on demand, etc. These items also include items like outstanding mail/telegraphic transfers and demand drafts which may not necessarily pertain to deposit accounts. Although the items exclude deposits from banks, the other exempted category of deposits i.e. deposits of Central/State, Foreign Governments are not excluded from the liabilities shown under the return and the banks may have to work them out separately.

6.2.4 A better alternative would be to compute insurance premium on the basis of the deposit figure appearing in the balance sheet of the credit institution and remitting the premium to the Corporation once on an annual basis. Although it may entail some loss to the Corporation we suggest that the Corporation may henceforth charge premium on

the basis of the deposits figure as appearing in the audited balance sheet of the credit institution excluding deposits representing Foreign/Central/State Governments and inter-bank deposits. Both the Corporation and banks would be benefited as there would be a similarity in the base for calculating premium instead of the present system of paying advance premium and then making subsequent adjustments. There may not also be any need for verification of returns by the Corporation as the base data is audited by statutory auditors. While the inter-bank deposit figure should be readily available in the balance sheet the figures of other deposits may not be separately available. A certificate may be obtained from the auditors regarding the quantum of these deposits and a copy of this may be sent along with the format. Such premium amount may be collected only once in a year instead of twice in a year as at present. Regulation 19 of the Corporation's General Regulations may have to be amended to give effect to this recommendation.

6.3 In view of our recommendation contained in paragraph

GRACE PERIOD 6.2.4 regarding computation of premium
 FOR PAYMENT
 OF PREMIUM liability of an insured bank on the basis of
 the audited annual balance sheet, we recommend that insured banks
 may be required to pay insurance premium as heretofore
 within 30 days of the receipt of the audited balance sheet.

Under the Banking Regulation Act, 1949 and the Regional Rural Banks Act, 1976 the audited balance sheet is required to be placed before and approved by the Board of Directors within 3 months of the close of accounting year. The commercial banks and RRBs observe the calendar year as their accounting year while co-operative banks observe July-June as their accounting year. Thus the commercial banks and RRBs will be required to remit the insurance premium before 30 April of the following year and co-operative banks by 31 October of that year. It is possible that there may be a delay in submission of the audited balance sheet. In that event, on a provisional basis, remittance may be made of insurance premium within 4 months of the close of the accounting year. The further remittance together with interest at Bank Rate may be made within 30 days of receipt of the audited balance sheet. A penal rate of 2% over Bank Rate may be charged to dissuade and discourage the insured banks from delayed submission of returns and remittance of premium. The rate of penal interest may also continue unchanged.

CREDIT GUARANTEE SCHEMES

6.4.1 One of the other points for consideration is

CALCULATION AND PAYMENT OF GUARANTEE FEE	whether periodicity
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of payment of guarantee fee also should be

changed from half-yearly basis to yearly basis. At present, the guarantee fee is calculated on the outstanding balances in the borrower's account as on the last Friday of the preceding half year at the rates stipulated in the schemes. The guarantee fee so calculated is required to be paid right from the time the facility becomes eligible for the guarantee and upto the half-year in which the claim has been received in the Corporation. If the periodicity for submission of returns of guaranteed advances and payment of guarantee fee is changed from half-yearly basis to yearly basis it may result in considerable saving of time at the level of the credit institution as also reduce their workload. The Sub-Group which considered the question has suggested in para 5(v) of their report that the guarantee fee should be collected preferably once in a year on the basis of figures readily available in the annual audited balance sheet of the credit institution. It is also suggested that the loans and advances in respect of which claims have already been lodged should be excluded from the balance sheet figures for calculation of guarantee fee.

6.4.2 We also endorse the suggestion for calculation of the guarantee fee on the basis of loans outstanding of a credit institution on an annual basis. We have in Chapter IV recommended that all priority sector lendings may be brought under the purview of the credit guarantee cover

of the Corporation. In the case of SSI units, we have recommended that the guarantee fee may be charged upto a particular level of the loans outstanding against the unit. At present, any guarantee other than a performance guarantee granted or issued in India by a credit institution is covered by the Corporation's Scheme and guarantee fee is collected thereon. Such guarantee may continue to be covered under the Scheme. Data relating to the total priority sector lendings is given in the Annual Report submitted alongwith the audited balance sheet of the banks. Since the priority sector lendings are to form the basis for levy of guarantee fee, it will be necessary to place submission of the relative data on a formal basis and stipulate a specific time limit for its submission. A statement regarding guaranteed advances (including outstanding financial guarantees) may be submitted within the time proscribed for submission of the audited balance sheets. In the event of any delay, provisional payment of guaranteed fees may be made by the credit institutions within 4 months from the close of the accounting year. Further remittances together with the interest at the Bank Rate may be made within 30 days of receipt of audited balance sheet. Where banks fail to make provisional remittances or remit the differences thereafter the Corporation would be justified in levying penal interest at 2% above the Bank Rate.

6.4.3 Further the Sub-Group has recommended that while calculating the guarantee fee, advances in respect of which the claims have already been preferred on the Corporation may be excluded from the figures. We have given thought to this issue. The entire idea is that the existing procedures should be streamlined. We have accordingly suggested that even at loss to the Corporation the insurance premium and guarantee fee may be calculated with reference to the balance sheet figures or the annual data relating to priority sector lendings. Deduction of claims lodged would again entail considerable administrative work of consolidation of data by each bank regarding claims invoked, withdrawn, paid etc. by its offices. On balance, in the interest of simplification, it is felt that the banks may pay the guarantee fee on the basis of the annual figures without making any detailed calculations for exclusion of certain claims. The difference in the guarantee fees paid on these accounts will in any case be of a nominal order.

6.5.1 Another issue to be considered is whether the

GUARANTEED ADVANCES -
EXCLUSION OF CERTAIN
ADVANCES FROM THE PURVIEW
OF THE GUARANTEED SCHEME

following types of advances
may be excluded from the
purview of the Scheme :

- (a) Advances which have become eligible for cover consequent on redefinition of SSI by raising the limits on investment in plant and machinery by Government of India.
- (b) Advances which are fully secured against gold ornaments, fixed deposit receipts, government securities etc.

6.5.2 Consequent on redefinition of SSI units with regard to the investment in plant and machinery by Government of India all units which are satisfying the criterion are automatically covered under the Scheme and the credit institutions have to report these units in the statement of guaranteed advances and remit guarantee fee thereon.

PROVIDED -

- (a) dues in respect of these units have not already become bad or doubtful of recovery;
- (b) unit has not ceased its business activity or the activity has not been suspended;
- (c) credit facility has not partly or wholly been utilised for adjustment of any bad or doubtful debt.

One view that could be held is that advances which have been granted only after the date on which the definition of SSI unit is altered should be covered. The Scheme of the Corporation provides continuing guarantee cover on an

automatic basis to all eligible credit facilities. As such, it will not be desirable to make any distinction and include advances granted only after upward revision of the SSI definition under the Scheme. While units satisfying the definition of the Scheme will come under its purview, units where investment in plant and machinery exceeds the specified amount owing to additions etc. will have to be excluded from the benefits of the scheme.

6.5.3 We have given a thought to the question of whether loans which are secured against gold ornaments, fixed deposit receipts etc. should be excluded from the purview of the Scheme. When credit insurance was introduced in 1960 for SSI units, participating credit institutions had the option to cover under guarantee scheme or exclude therefrom any particular credit facility depending upon the degree of risk involved. The Guarantee Organisation then extended guarantee cover only after satisfying itself about the soundness of the project.

This procedure has undergone a complete revision. The Corporation is at present operating all its schemes on an automatic and bulk coverage basis under which the Corporation offers its guarantee cover for all the credit facilities sanctioned for the particular economic activities and purposes eligible for cover under the scheme irrespective of the degree of risk involved in regard to any particular credit facility or facilities or absence of such risk. In consideration of such bulk coverage which comprises a package of both good and bad risks and on the basis of the insurance concept that good risks pay for the bad ones, the Corporation waives its right to pre-examine the individual credit proposal and the credit institutions are not also permitted to exclude any credit facility from the coverage of the scheme on the ground that there is no risk involved.

The Committee is of the view that taking into consideration the nature of the scheme it would not be proper to exclude advances which are fully secured or in respect of which there is no risk involved from the purview of the guarantee cover and, therefore, we are of the opinion that the existing procedure regarding coverage of advances need not be changed and all eligible advances covered thereunder.

6.6.1 The Committee has also considered

CONDITIONS FOR INVOCATION OF GUARANTEE	the issue of whether treating the advances as bad or doubtful of recovery and/or making a provision in the books of credit institutions should be a precondition for invoking guarantee and realisation of security should not be insisted upon before invocation of guarantee.
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6.6.2 At present the following conditions are required to be fulfilled before invoking a guarantee of the Corporation :

- i) The advance under the guarantee has not been repaid within one month from the date on which a notice of demand for repayment of the entire dues has been served on the borrower;
- ii) The advance has been treated as bad or doubtful of recovery; and
- iii) It has been provided or accounted for as such in the books of credit institution.

6.6.3 Recalling of an advance and subsequently treating it as bad or doubtful of recovery is the basic requirement for any claim to be preferred on the Corporation. The Sub-Group has, in paragraph 5(ix) of its report, observed that providing for dues and their accounting in the books of the credit institution as bad and doubtful is not always possible/practicable. State Financial Corporations in particular find it difficult to comply with the conditions

due to their shifting to the cash system of accounting. The Sub-Group has suggested that the Corporation should accept a certificate furnished by either internal or external auditors in the case of SFCs without insisting on provision or accounting as prescribed in the schemes. In the case of banks which have a large network of branches, a certificate of the Regional Manager/Zonal Manager, it is suggested, may be accepted. While the Committee agrees with the recommendation of the Sub-Group, it should be ensured that either the statutory or internal auditor or a fairly responsible official at a sufficiently high level should certify that a particular loan is bad or doubtful prior to invocation of the guarantee and that it has been provided or accounted for as such in the books of the bank as the case may be. This may be the responsibility of the officer-in-charge of the controlling office through which the claim is routed. In the case of SFCs which follow the cash system of accounting the bad and doubtful nature of the debt should be suitably certified.

6.6.4 Unlike Government's Scheme (since cancelled) which had an element of refinance and was more in the nature of a guarantee against default, the new scheme is a loss insurance scheme. It is, therefore, expected that credit institutions will make necessary efforts to realise whatever amounts possible from the borrowers/sureties and will not have recourse to the Corporation immediately a loan is defaulted. However, institution of legal action is not a condition precedent to lodgement of claim and

where prolonged litigation is involved, the Corporation is settling claims on their invocation with a view to placing the banks in liquid funds. While the present procedure may be reviewed, we would exhort that credit institutions should make timely and vigorous efforts to recover the overdues and keep down their claims on the Corporation to the minimum possible levels.

6.7.1 We have also considered the following :

- SETTLEMENT OF CLAIMS (a) Simplification of the procedure for settlement of claims and in this context, discontinuance of data relating to brief history, ledger extract, guarantee fee particulars, etc. for amounts exceeding Rs 10,000 under Small Loans Guarantee Scheme, 1971.
- b) Whether claims upto Rs 25,000 may be computerised to avoid delay in settlement
- c) Whether a time schedule may be prescribed for settlement of claims
- d) Whether there should be an Appellate authority in the case of rejection of claims.

6.7.2 The Sub-Group has, in paragraph 5(xi) of its report, observed that the credit institutions have to send along with the claim application forms (a) auditor's certificate treating the dues as bad or doubtful of recovery (b) transcript of borrower's account for last

two years and (c) details of legal expenses, etc. The information does not serve any purpose for settlement of claims. Further, the claims settlement is also not held up for non-submission of auditor's certificate as an undertaking to this effect has to be furnished. The certificate is to be verified by the inspecting officer at the time of inspection but since such inspections are not taken up for long periods of time, these records have to be preserved. In the case of ledger extracts, it would appear that debits on account of interest/other charges alone would be recorded and such extracts have limited utility. The Sub-Group has recommended that a review may be made of the position and a decision taken regarding the essentiality of such data. The Committee endorses these suggestions and would recommend that the Corporation may dispense with the same if it is not strictly necessary in consultation with their auditors.

6.7.3 As for the suggestion that all claims upto Rs.25,000 should be computerised to avoid delay in settlement, it is observed that the Corporation has computerised all claims under Small Loans Guarantee Scheme, 1971, irrespective of amount. However, to ensure that the programming on computer is free from any omission about the provisions/conditions of the scheme, it was initially decided that in addition to computer processing certain claims may be subjected to manual scrutiny also. For this purpose the

cut-off point was initially fixed at Rs 2,500/- per claim; which was relaxed to Rs 5,000/- per claim from January, 1986. This limit has further been raised to Rs 10,000/-. The claims upto Rs 10,000 account for about 98.70% of claims received. The Sub-Group of Expert Committee has also recommended in paragraph 5(vi) that the existing ceiling is adequate. We have reviewed the position and are of the view that the Corporation should consider computerisation of settlement of claims upto an amount of even Rs 25,000 so that any delay arising from manual scrutiny can be obviated.

6.7.4 We note that the Corporation has taken adequate steps to expedite the settlement of claims which include computerisation of claims settlement procedures under Small Loans Guarantee Scheme, 1971 due to which time gap between lodgement of claim and its disposal has now been reduced to a period of 8 to 10 weeks. Similarly, under SSI Scheme, the settlement of claims upto Rs 25,000 is now done on the basis of certificates furnished by the credit institution. While, no doubt, the claims settlement has definitely improved, as may be seen from the data given in Annexure VI there are a large number of claims particularly under SSI Scheme which are pending for fairly long periods of time.

The Corporation has since liberalised procedures and scrutiny norms and claims are now being settled more expeditiously. The Sub-Group of the Expert Committee has made specific proposals to facilitate speedier disposal of claims. These include (i) limit for settlement of claims on the basis of certificates issued by credit institutions should be raised from Rs 25,000 to Rs 1 lakh and (ii) increasing the delegation of powers to officials at various levels in the Head Office/Regional Office of the Corporation. The Board of the Corporation, it is understood, has already approved the proposal to delegate powers to Managers at the branch offices to settle claims upto Rs 3 lakhs and to the Deputy General Manager and General Manager at Head Office to sanction claims upto Rs 5 lakhs. We feel that computerisation of all claims upto Rs 1 lakh would further expedite settlement and we would suggest that the Corporation should actively consider this. The Corporation should have, moreover, a time-bound programme for disposal of claims and claims should be settled within the periods stipulated by us hereunder :

<u>Amount</u>	<u>Period</u>
Upto Rs 25,000	1 month
Upto Rs 1 lakh	3 months
Above Rs 1 lakh	6 months

The Corporation should suitably gear up its machinery and effect whatever changes it deems necessary to ensure prompt settlement of claims within the periods recommended above. At the same time, the credit institutions should furnish whatever clarifications are required by the Corporation as quickly as possible and within a period of not more than three months.

6.7.5 Yet another question that has been considered by us is that of whether any appeal should lie to a higher authority in the case of claims rejected by the Corporation. In this connection it is observed that the Corporation has already issued instructions to the branches to be liberal in their approach. It has also instructed that claims need not be rejected on mere technical grounds and that only gross negligence or connivance by branch officials should be taken note of. In its lending operations credit institutions are expected to exercise the same care and diligence, normal precautions and safeguards, etc. as if there was no guarantee. If due to negligence on the part of credit institutions, the interests of the Corporation are adversely affected it will be justified in rejecting such claims. We also note that higher value claims under SSI scheme are now referred to the Claims Committee comprising of representatives drawn from

public sector banks, Industrial Development Bank of India, Chartered Accountants, etc. This is a sufficiently high powered Committee composed of representatives from credit institutions themselves. There is no need for any further body to consider rejected claims. In any case the rejections are now small in number.

RECOVERIES IN CLAIM PAID ACCOUNTS -
WAIVER OF LEGAL ACTION - WRITE OFF ETC.

6.6. At present, the participating credit institutions

REMITTANCE OF
RECOVERIES ONCE
IN A YEAR IN
TABULATED FORM

are required to remit recoveries
received/effectuated in claim
paid accounts after deducting

therefrom, expenses incurred therefor, if any, within three months from the actual date of recovery under Small Loans Guarantee Scheme, 1971 and within one month under the Small Loans (SSI) Guarantee Scheme, 1981. The banks are required to remit all recoveries as and when effectuated which results in receipt of innumerable cheques for small amounts in dribblets from each credit institution in the Corporation increasing its workload. The Sub-Group has already recommended in paragraph 5(ii) that a uniform streamlined procedure might be evolved for all the schemes. Accordingly to simplify the procedure we are of the view that the credit institutions may be

allowed to remit the recoveries effected in the claim paid account during a quarter in a consolidated form within a period of one month from the date of expiry of the quarter. The statement should be submitted by the controlling office/Zonal/Regional Office. For delay in remitting the recoveries beyond the prescribed period penal interest as per the existing provisions may be charged.

6.9.1 A question considered by us is whether waiver of

DELEGATION OF POWERS FOR
WAIVER OF LEGAL ACTION
AGAINST THE BORROWERS,
SCALING DOWN OF DEBTS, WRITE
OFF OF DUES, RELEASE OF
SECURITY/SURETY

legal action against the
borrowers, write-off of dues
and scaling down of dues
on compromise proposals may

be enhanced or power delegated in full and the Corporation should not insist on prior approval in respect of the above cases. At present in order to reduce the workload at credit institutions as well as at Corporation's level delegations of powers have been given to credit institutions upto certain limits as under :

Purpose	Delegation under	
	SSI - Upto	Non-SSI - Upto
Waiver of legal action	Rs 25,000	Rs 10,000
Scaling down of debts	Rs 10,000	Rs 2,500
Write off of dues	Rs 10,000	Rs 5,000
Release of Security/Surety	No limit if the security is not affected.	

The cases falling under the above category are not required to be approved in advance by the Corporation. However,

credit institutions are required to report to the Corporation all such cases in the half-yearly statement/computerised formats.

6.9.2 The above limits are in operation since 1981 and there was no occasion to call back the claim amounts or to reject any of the proposals referred to by the credit institutions. These proposals are duly approved by the competent authorities of the credit institutions. In the context of large number of branches of banks and phenomenal increase in number of accounts and amount of advances to eligible borrowers there will be an increasing number of cases where legal action may have to be waived or the dues scaled down or written-off. Sickness in industrial units is also increasing and it may become necessary to nurse the units under a rehabilitation programme involving a compromise or scaling down of the dues. For such nursing programme, Corporation's prior approval is not necessary. Since the credit institutions also have a financial stake, there is no reason to believe that they will indiscriminately resort to write-off, scaling down etc. Since the credit institution is the best judge of the circumstances it will be proper to leave it to the credit institution to decide such cases and take action at their discretion.

6.9.3 In view of the above, we are of the opinion that credit institutions may be allowed to use their discretion in matters relating to waiver of legal action, scaling down of debts, writing-off of dues etc. irrespective of the amount involved and no prior approval of the Corporation should be taken. However, they should report such cases in the half-yearly statement as presently done in cases where the discretion has been allowed to the credit institution. The Corporation will have the right to inspect/verify the accounts and ensure that bank is acting in a proper manner.

GENERAL

6.10.1 We have also considered the following :

- (i) All advances upto Rs 25,000 or Rs 50,000 may be covered under Small Loans Guarantee Scheme, 1971
- (ii) Repayment period for crop loans for pineapple, banana etc. may be raised upwards.
- (iii) Fresh advances granted to a borrower in respect of whom a claim has already been paid by the Corporation but the same has not been repaid in full to the Corporation, should be made eligible for guarantee cover, since it is difficult to keep record of such defaulting borrowers either by the credit institution or Corporation.

6.10.2 Activities covered under the Small Loans Guarantee Scheme, 1971 are non-industrial in nature while those covered under SSI Scheme are those relating to manufacturing, processing or preservation of goods or units functioning as servicing or repair workshops on specified lines or as custom service units and which are small-scale industrial units. However, some of the activities such as those of self-employed persons, business enterprises etc. are such that they could be classified under both non-industrial or industrial categories. Credit institutions, therefore, find it difficult to cover such types of advances under the appropriate scheme and a lot of avoidable correspondence is exchanged between credit institutions and the Corporation on the subject.

6.10.3 Taking into consideration the difficulties experienced by the credit institutions and to rule out any ambiguity or overlap and make the position abundantly clear we recommend that all advances granted upto Rs 25,000 may be covered under Small Loans Guarantee Scheme, 1971 irrespective of the nature of activity in which the borrower is engaged.

6.10.4 At present the Corporation has prescribed the

REPAYMENT PERIOD	maximum repayment periods in respect of credit facilities granted by participating credit institutions to farmers and
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agriculturists for their seasonal agricultural operations and development activities. If the repayment period prescribed by the Corporation is exceeded by the credit institution the claims are liable for rejection. Under the Scheme, the repayment period for pineapples is 48 months, for sugarcane 24 months and for all other crops 15 months. For developmental activities the repayment period is 15 years. We suggest that the Corporation may so amend the above clause of Small Loans Guarantee Scheme, 1971 so that the repayment period for any kind of credit facilities granted to farmers and agriculturists should be in alignment with the maximum period prescribed, if any, by NABARD/RBI in this regard. The Corporation need not **separately** stipulate these. Where NABARD/RBI has not prescribed any repayment period, the period prescribed by the Corporation should be accepted.

6.10.5 As regards eligibility of cover for fresh finance to a borrower whose claim has been paid by the Corporation as per the present provisions of the Scheme a borrower who has defaulted with one credit institution will not be eligible for fresh facilities till the amount of claim paid by the Corporation is repaid in full. This position will be known to the credit institution only when information regarding payment of claims to credit

institutions and whether claim amount is recovered in full borrower-wise, is made available to them. Such type of list was earlier circulated by erstwhile Credit Guarantee Organisation and Credit Guarantee Corporation of India Ltd. However, due to emphasis laid on speedy disposal of claims as also increase in the number of claims lodged with the Corporation it is understood it became difficult to circulate such a list and, therefore, this practice was discontinued. Even if such a list is published by the Corporation the credit institutions may find it difficult to circulate the same to all its branches.

6.10.6 It is found that defaulting borrowers have recourse to other credit institutions and are able to secure fresh finance. While it may not be possible for the Corporation to circulate details of all claims settled, the financing institutions should make further enquiries before granting finance. It will not be appropriate for the Corporation to entertain fresh claims in respect of borrowers against whom claims paid are outstanding. If such a borrower is financed, the financing institution will have to do so without the benefits of the Corporation's cover.

6.11 The Sub-Group has recommended that the Corporation
 CHANGES IN SCHEMES, should review and make
 FORMATS, PROCEDURES ETC. appropriate changes in
 the schemes, procedures, formats, etc. once in a year

and that these changes should be notified well in advance to enable the credit institutions to gear up their machinery and adapt to the new change. We endorse these recommendations.

6.12 There is a need for simplification of
SIMPLIFICATION OF FORMATS formats. We feel that several of our
OF FORMATS recommendations will go a long way in
streamlining the procedures and reducing delays. The
Sub-Group has also made several recommendations. The
Corporation may make a detailed review of all the formats
etc. in the light of these recommendations.

C H A P T E R VII

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

7.1 The Deposit Insurance Scheme has contributed to the growth of the banking system over the years. Availability of insurance cover has provided an inducement to the depositing public to retain their savings with the banking system. In the highly competitive environment with lucrative alternate avenues of investment such as post office savings, National Saving Certificates, public sector bonds, etc. there is a need for continuing such incentive. Considering the low percentage of the Deposit Insurance Fund to the insured deposits, need for strengthening the same and eschewing discrimination between banks the Scheme in its existing form should be continued for all banking institutions including public sector banks.
(paragraph 3.3.2) ✓

7.2 The Scheme is designed to provide protection primarily to relatively smaller depositors whose number is very large and to whom a bank failure would constitute a severe blow. Coverage to the extent of 100% of the deposits may be impractical and costly. However, taking into account the inflation rate and the fact that the last revision was made in the year 1980, the insurance cover may be raised from Rs 30,000 to Rs 1 lakh. This coverage would be for all deposits in the same right and capacity of a depositor in each insured bank. (paragraph 3.4) ✓

7.3 The premium income will fall sharply in case the premium rate is brought down and charged only on insured deposits instead of on aggregate assessable deposits. In view of the need for building up the Deposit Insurance Fund to meet unforeseen contingencies, no change is called for either in the premium rate or the base (assessable and not insured) for charging premium. (paragraph 3.5) ✓

7.4 The control of the Reserve Bank over non-banking institutions which are sizeable in number can hardly be deemed as adequate. In the case of non-banking non-financial companies, the power of regulation and control is vested with the Registrar of Companies. Conduct of inspections of non-banking financial companies by the Reserve Bank does not give it the needed insight into the working of the institution, particularly its funds management which is essential for any extension of deposit insurance cover. Insurance of deposits of non-banking companies without adequate control over their overall operations would, therefore, be fraught with grave risk and may not be feasible at present. (paragraph 3.6.8) ✓

7.5 Credit Guarantee Schemes of the Corporation were introduced to induce banks to take up priority sector lending.

Though there has been a marked change in the functioning of the banking system over the years there is still a certain amount of hesitance in regard to financing of the smaller segment of the SSI sector. There would appear to be an even greater need for continuance of credit guarantee schemes as an inducement to credit institutions to take up financing of various poverty alleviation programmes which carry a high element of risk and blocking of funds. The Corporation not only shares the risks but also places banks in possession of funds pending recovery. Taking the foregoing into consideration the credit guarantee schemes may be continued. (paragraph 4.4.2) ✓

7.6 Credit Guarantee schemes can be viable only when the risk is spread and diversified as much as possible and all credit institutions should participate in the Schemes. (paragraph 4.4.4) ✓

7.7 The Corporation is operating 6 credit guarantee schemes. The bulk of the total guaranteed advances are accounted for by the two schemes viz., (a) Small Loans Guarantee Scheme, 1971 and (b) Small Loans (SSI) Guarantee Scheme, 1981. The Service Co-operative Societies Guarantee Scheme, 1971 has limited applicability. The Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982 has not attracted any credit institutions. These two schemes may be discontinued. (paragraph 4.5.2) ✓

The provisions contained in the other three non-industrial credit guarantee schemes viz., Small Loans Guarantee Scheme, 1971, Small Loans (Financial Corporations) Guarantee Scheme, 1971 and Small Loans (Co-operative Banks) Guarantee Scheme, 1984 are similar and hence they may be merged into one scheme. The Small Loans (SSI) Guarantee Scheme, 1981 may be continued as a separate scheme. (paragraph 4.5.3) ✓

7.8 The priority sector definition as given by the Reserve Bank including eligibility criteria of borrowers under the categories may be adopted by the Corporation. Exclusion of certain activities from the priority sector, may be considered after referring the matter to Reserve Bank. (paragraph 4.6.4)

7.9 The existing monetary ceilings on claim liability in respect of advances to small borrowers are somewhat low and these may be revised, as under, in the context of the recommendation for adoption of the Reserve Bank definition of 'priority sector'.

Activity -----	Present monetary ceiling ----- Rs	Revised monetary ceiling ----- Rs
1) Farmers and agriculturists		
- Crop loan	2,500	10,000
- Development activities	10,000	20,000
- Conversion loans	7,500	30,000
Overall ceiling for farmers and agriculturists in respect of main as well as subsidiary activities	37,500	No overall ceiling

Activity -----	Present monetary ceiling ----- Rs.	Revised monetary ceiling ----- Rs.
Transport Operators	75,000	1,50,000
Retail Traders	50,000	25,000*
Small Scale Industry	10,00,000 Combined for Term Loan and other credit facilities	10,00,000 Term Loan 20,00,000 Other credit facilities

(paragraph 4.8)

* Under the priority sector, the credit limit for retail trade should not exceed Rs.25,000/- However, loans outstanding inclusive of interest will be of a higher order.

7.10 As the existing procedure of a combined ceiling and pro rata payment has been somewhat disadvantageous to SFCs and since the loans of the SFCs are better secured, separate monetary ceilings may be fixed for term loans and other credit facilities (Paragraph 4.9.3)

7.11 All SSI units may be brought under the provision of the Scheme as it would not be in order to exclude SSI units which have been defined as such by the Government of India (paragraph 4.9.4)

7.12 Guarantee fee may be paid upto a specific level of loans outstanding as a multiple of the Corporation's maximum claim liability. It may be levied upto a maximum of Rs.20 lakhs for term loans and upto a maximum of Rs.40 lakhs for other credit facilities. (paragraph 4.9.5) ✓

7.13 The following changes in the terms and conditions of the Corporation's Schemes are recommended:

Guarantee cover may be raised from the existing level as under:

- i) 60% of the amount in default to 70% of the amount in default in respect of credit facilities not exceeding Rs.25,000/- (Rs.2 lakhs in respect of units located in the backward districts).
- ii) 60% of the amount in default in respect of borrowers who have been granted credit facilities above Rs.25,000 and upto Rs.2 lakhs (above Rs.2 lakhs and upto Rs.5 lakhs in respect of units located in the backward districts).
- iii) 50% of the amount in default in respect of credit facilities above Rs.2 lakhs (above Rs.5 lakhs in respect of units in backward areas).

Provided that the maximum ceiling on claim liability in each of the above categories in respect of term loan and other credit facilities does not exceed Rs.10 lakhs and Rs.20 lakhs respectively per borrower (paragraph 4.9.6) ✓

7.14 In the context of recommendations for enlarging of guarantee cover, levy of guarantee fee only upto specific limits and raising the monetary ceilings under various schemes, it may not be feasible to reduce the guarantee fee to 0.50% from the existing level of 0.75%. In view of the liberalisations effected in guarantee liabilities for SSI units, the guarantee fee for advances above Rs.5 lakhs may be enhanced to 1% p.a. (paragraph 4.10.1 and 4.10.2). ✓

7.15 In view of substantial liberalisations proposed by way of separate ceiling for term loans and levy of guarantee fee upto a particular level, any further concession for charging a lower guarantee fee on term loans on the grounds that these are better secured, may not be considered (paragraph 4.10.3) ✓

7.16 It is inequitable for the credit institutions which are the beneficiaries to pass on guarantee fee burden to borrowers. Guarantee fee should in future be absorbed by the credit institutions themselves.

Interest rates may be so structured by the Reserve Bank/ IDBI taking into account the incidence of guarantee fee on credit institutions. (paragraph 4.10.4 and 4.10.5).

7.17 Since the claims lodged by RRBs have started outstripping the guarantee fee paid by them and since the working of the RRBs is expected to be stabilized over a period of 5 years, the concessional rate of $\frac{1}{4}\%$ p.a. payable by them in respect of advances to small borrowers may not be extended beyond the existing period of 5 years. Furthermore, in the interest of the viability of the schemes, the question of charging full guarantee fee to RRBs by the Corporation and the grant of a subsidy by Government and NABARD towards the difference between existing and full rates for guarantee fee may be actively explored (paragraph 4.10.8) ✓

7.18 Taking into account the quantum of finance to weaker sections and as the fee presently charged is at a concessional rate, it is not considered appropriate to waive guarantee fee altogether in respect of these advances (paragraph 4.10.9) ✓

7.19 The suggestion for waiving the guarantee fee by the Corporation in respect of credit facilities granted to sick SSI units cannot be acceded to as the loss to the Corporation would be substantial. However, the question of passing on of guarantee fee to sick units will not arise as the guarantee fee is to be borne by the credit institutions henceforth. (paragraph 4.10.12) ✓

7.20 The following rates of guarantee fee are recommended keeping in view the various liberalisations proposed earlier and the viability of the schemes.

- i) 0.50% p.a. for aggregate credit facilities upto Rs.25,000/-
- ii) 0.75% p.a. for aggregate credit facilities over Rs.25,000/- and upto Rs.5 lakhs.
- iii) 1.00% p.a. for aggregate credit facilities over Rs.5 lakhs, subject to a ceiling of Rs.20 lakhs in the case of term loans and Rs.40 lakhs in the case of all other credit facilities.
- iv) 0.25% p.a. for RRBs upto a period of 5 years from the date of their joining the Scheme. This concessional rate of guarantee fee is not applicable to SSI Scheme as hitherto. (paragraph 4.10.13). ✓

7.21 The charging of a ponal guarantee fee in the form of surcharge to the credit institutions whose

claims to guaranteed advances ratio exceeds a stipulated level is not considered desirable at the present stage. However, such credit institutions as have a good record of low submission of claims may be given a rebate in guarantee fee. Thus, credit institutions whose lodgement of claims is less than half the guarantee fee paid over a continuous period of 3 years may be given a bonus by way of reduction of 20% of the guarantee fees payable in the following year i.e. 4th year (paragraph 4.11.2). ✓

7.22 It is not desirable to stipulate any maximum period on the expiry of which the Corporation's liability on account of the credit facility should be terminated (paragraph 4.12.1) ✓

7.23 In view of the tendency on the part of credit institutions to invoke the guarantee prematurely and as

credit institutions are quick to foreclose loans and do not make any efforts for nursing of units and as lodgement of claims in respect of small loans within 1 or 2 years defeats the very objective of such loans, a lock-in period of 3 years may be fixed for invocation of guarantee. (paragraph 4.12.4)

7.24 There is a need for close coordination between the SFCs and banks, not only in credit appraisal but also in monitoring and recovery of loans. However, in view of administrative difficulties in joint settlement of claims and our recommendation for fixation of separate monetary ceilings for term loan and working capital, the concerned institutions may be permitted to separately invoke the claims but the Corporation may suitably notify the other concerned credit institutions. In case of grant of term loan finance by more than one credit institution, the claim if preferred may be paid on a pro rata basis if a ceiling of Rs 10 lakhs is attracted. Similarly if working capital finance is provided by more than one bank, the claim may be paid on a pro rata basis upto the ceiling of Rs.20-lakhs. (paragrap 4.13.5)

7.25 Lately, the claims lodged with the Corporation have shown a phenomenal increase both under the industrial and non-industrial schemes. The recoveries in respect of claims settled accounts as also the claims rejected have been nominal. Various measures have been taken by the Corporation to expedite settlement of claims. As a result thereof, it is expected that all claims lodged except for those withdrawn by the credit institutions themselves and rejected will be paid by the Corporation. In the circumstances, any assessment of viability will have to be worked out with reference to the claims lodged making due adjustments for the average amounts of claims withdrawn by credit institution themselves, claims rejected and recoveries received in claims settled accounts by the Corporation. (paragraph 5.4.3)

7.26 On the basis of projections made with reference to past performance, it is expected that there would be a deficit of Rs 133.07 crores between guarantee fees and recoveries vis-a-vis claims to be paid in respect of Non-SSI loans in the year 1987 rising to Rs 268.07 crores in the year 1990. Similarly, there would be a deficit of Rs 154.47 crores in 1987 in respect of SSI loans increasing to Rs 156.60 crores in 1990 and making an aggregate deficit

of Rs 287.54 crores in 1987 and Rs 424.67 crores in 1990 in respect of both Non-SSI and SSI loans. Even after adjustment of other accruals to the Credit Guarantee Fund their would still be a shortfall of Rs 238.10 crores in 1987 and Rs 375.23 crores in the year 1990. (paragraph 5.8.1)

7.27 The following measures for augmenting the resources of the Corporation to meet the deficits are suggested :

(a) Augmentation of share capital

The Corporation may continue to remain a wholly-owned subsidiary of the Reserve Bank. The authorised capital of Rs 50 crores of the Corporation may be raised to an amount of atleast Rs 200 crores. Strengthening of the capital will enable the Corporation to meet contingencies such as deficits in the Credit Guarantee Fund and will impact manoeuvrability. (paragraph 5.8.2a)

(b) Deposit Insurance Fund

The Deposit Insurance Fund at Rs 284 crores constitutes 0.45% of insured deposits. It is necessary to maintain the Fund at a minimum level at 0.50% of insured deposits which would involve augmenting the Fund by Rs 40 crores. For this purpose both the Government of India and Reserve Bank may provide adequate grants to the Corporation.

The Fund should not be allowed to fall below Rs 250 crores. If the balance goes below Rs 225 crores, the participating institutions may be required to

contribute towards the gap by way of a special premium in proportion to the insurance premium paid by them (paragraph 5.8.2b).

(c) Credit Guarantee Fund

(i) The Corporation's claim liability under the Government's SSI scheme amounted to Rs 148.02 crores. There is no time limit for invocation of guarantee. The existing procedure requires obtaining reimbursement from Government of India through annual budgetary provisions. This procedure could be done away with if the Government makes available to the Corporation the balance amount of provision in the Seventh Plan of Rs 120 crores in one lumpsum as a one-time measure in full settlement of the existing and future liabilities thereunder. The Government may also allow the Corporation to retain the recoveries in claim paid accounts. This measure will enable the Corporation to immediately strengthen the Credit Guarantee Fund. The Government may thus be totally absolved of its liabilities in respect of the Government Scheme (since cancelled). (paragraph 5.8.2 c ii).

S. D. 200/10

(ii) The Credit Guarantee Fund should be maintained at a level of not less than Rs 150 crores. If at any time the Fund falls below Rs 125 crores, the participating credit institutions should be obliged to make contributions on a pro rata basis by way of an additional guarantee fee. (Paragraph 5.8.2c iii)

(iii) The financial position of the Corporation should be reviewed at periodical intervals say, once every 2 or 3 years, and necessary measures considered to maintain viability of the Schemes. (paragraph 5.8.2c iv)

(d) Changes in Investment Policy

On the lines of provisions in the IDBI/NABARD Acts, Section 25 of the DICGC Act may be amended enabling the Corporation to invest 25% of surplus funds in the form of investment other than Central Government securities to obtain a better yield. (paragraph 5.8.2d)

(e) Loans from RBI

Section 27 of the DICGC Act provides for advances upto an amount of Rs 5 crores from Reserve Bank to the Corporation for the purpose of augmenting the Deposit Insurance Fund or Credit Guarantee Fund in times of need. The Corporation may require sizeable funds for meeting its on-going commitments. Pending the raising of

resources through other means, to enable the Corporation to meet such eventualities, the Act may be amended to provide for interest free borrowings upto an amount of Rs 100 crores from the Reserve Bank. (paragraph 5.8.2e)

(f) Exemption from
Income-Tax

The Corporation has been advised that it will no longer be exempted from income-tax from the year 1987. The Corporation is essentially a service institution which operates on a 'no profit' basis and declares no dividend. Any income which the Corporation earns is notional inasmuch as the entire surpluses are appropriated towards building up of the Deposit Insurance Fund and Credit Guarantee Fund. The Corporation is working solely for attainment of national objectives. Government of India may, therefore, consider granting permanent exemption to the Corporation from payment of income-tax. (paragraph 5.8.2f)

2.28 The Corporation may henceforth charge premium on the basis of the deposits figure as appearing in the audited balance sheet excluding deposits representing foreign/ Central/State Government and inter-bank deposits. Premium may be collected once in a year instead of half-yearly as at present (paragraph 6.2.4)

2
7.29 The banks will be required to remit the insurance premium within one month of the submission of the audited balance sheet i.e. by 30 April for commercial banks and RRBs, and by 31 October for co-operative banks. In case of delay in finalisation and submission of the audited balance sheet within the proscribed period, remittance of insurance premium may be made on a provisional basis within four months of the close of accounting year. The further remittance together with interest at Bank Rate may be made within 30 days of receipt of the audited balance sheet. A penal rate of 2% over Bank Rate may continue to be charged to dissuade and discourage the insured banks from delayed remittance of premium. (Paragraph 6.3) ✓

7.30(1) Guarantee fee should be collected once in a year.

Since the priority sector lendings are to form the basis for levy of guarantee fee, it will be necessary to place submission of the relative data on a formal basis. The data regarding guaranteed advances should be sent alongwith the Annual Report and balance sheet within the stipulated period of 4 months from the close of the accounting year.

In case the data is not compiled within this period a provisional payment of guarantee fee may be made. Final remittances together with interest at Bank Rate may be made within 30 days of receipt of audited balance sheet. Where banks fail to make provisional remittances or remit the difference thereafter penal interest at 2% above Bank Rate may be levied. (Paragraph 6.4.2) ✓

(ii) In the interest of simplification of payment of guarantee fee banks may pay the guarantee fee on the basis of annual figures without making any detailed calculations by exclusion of claims lodged, withdrawn, paid etc., as the difference in the guarantee fees paid on these accounts will in any case be of a nominal order. (paragraph 6.4.3) ✓

7.31 The Corporation's scheme provides continuing guarantee cover on an automatic basis to all eligible credit facilities. Hence, all units satisfying the definition will come under its purview and units where investment in plant and machinery exceeds the specified amount owing to subsequent additions etc. will have to be excluded from the benefit of the Scheme. (paragraph 6.5.2) ✓

7.32 The Corporation operates all its schemes on an automatic and bulk coverage basis irrespective of the degree of risk involved in regard to any particular credit facility or facilities or absence of such risk. Therefore, the exclusion of advances which are fully secured or in respect of which there is no risk involved from the purview of the scheme may not be considered. (paragraph 6.5.3) ✓

7.33 Recalling of an advance and subsequently treating it as bad and doubtful of recovery is the basic requirement for any claim to be preferred on the Corporation. The Corporation should accept the certificate furnished by either internal or external auditors or a fairly responsible official at a sufficiently high level to the effect that a particular loan is bad or doubtful and has been provided or accounted for as such as the case may be. In the case of SFCs which are following a cash system of accounting, the bad or doubtful nature of loan should be suitably certified. (paragraph 6.6.3)

7.34 Credit institutions should not have recourse to the Corporation in a facile manner immediately on default of the loan without making adequate efforts to realise the dues from the borrower. Though filing of a suit is not a condition precedent to lodgement of claim the credit institutions should make timely and vigorous efforts to recover the overdues and keep down their claims on the Corporation to the minimum possible level. (paragraph 6.6.4)

7.35 The procedure for settlement of claims may be reviewed as indicated by the Sub-Group in paragraph 5(xi) of its report and it may be considered whether the submission of various documents with claim applications could be dispensed with. (paragraph 6.7.2)

7.36 The Corporation has computerised all claims under the Small Loans Guarantee Scheme, 1971 irrespective of the amount. Presently, the claims upto Rs 10,000 are processed and settled without manual scrutiny. To obviate delay in settlement of claims due to manual scrutiny claims upto an amount of Rs 25,000/- may be processed and settled on the computer. (paragraph 6.7.3)

7.37 To facilitate speedier disposal of claims, the Corporation should raise the present limit for settlement of claims on the basis of certificates issued by credit institution from Rs 25,000 to Rs 1.00 lakh and also consider computerisation of all the claims upto Rs 1.00 lakh. Moreover, a time bound programme for quick disposal of claims may be drawn up as recommended in paragraph 6.7.4 of the Report. To enable the Corporation to adhere to the time schedule the credit institutions should furnish to the Corporation the required clarifications within a period of not more than three months. (paragraph 6.7.4)

7.38 Higher value claims under SSI scheme are referred to a Claims Committee consisting of representatives drawn from public sector banks, IDBI, Chartered Accountants, etc. which is a sufficiently High Powered Committee. There is no need for any Appellate authority to consider the rejected claims. (paragraph 6.7.5)

7.39 At present, the credit institutions are required to remit all recoveries as and when effected. The credit institutions may be allowed to remit recoveries effected in the claims paid accounts during a quarter in a consolidated form within a period of one month from the date of expiry of the quarter. The statement

may be submitted by the Controlling/Zonal/Regional Office. For delay in remitting recoveries within the prescribed period, penal interest as per the existing provisions may be charged. (paragraph 6.8) ✓

7.40 Credit institutions may be allowed to use their discretion in matters relating to waiver of legal action, scaling down of debts, writing-off of dues, etc. irrespective of the amount involved and no prior approval of the Corporation need be taken. However, they should report such cases in the half-yearly statement as presently done. (paragraph 6.9.3) ✓

7.41 In view of the difficulties experienced by the credit institutions and to rule out any ambiguity or overlap and make the position abundantly clear, it is suggested that all advances granted upto Rs 25,000/- may be covered under Small Loans Guarantee Scheme, 1971 irrespective of the nature of activity in which the borrower is engaged. (paragraph 6.10.3) ✓

7.42 The Corporation may so amend the clause stipulating repayment period under the Small Loans Guarantee Scheme, 1971 in respect of agricultural loans so that it is in alignment with the maximum period prescribed, if any, by NABARD/ Reserve Bank in this regard. (paragraph 6.10.4)

7.43 Since it will not be possible for the Corporation to circulate details of all claims settled by it, the financing bank should make adequate enquiries before granting finance to defaulting borrowers. It will not be appropriate for the Corporation to entertain fresh claims in respect of borrowers against whom claims paid are outstanding. If such a borrower is financed, the benefit of the Corporation's cover will not be available to the credit institution. (paragraph 6.10.6)

7.44 The Corporation may make changes in the scheme, procedures, formats, etc. once in a year and these changes should be notified well in advance to enable the credit institutions to gear up their machinery and adapt to the new change. (paragraph 6.11)

7.45 The Corporation may make a detailed review of all the formats etc. in the light of the foregoing recommendations. (paragraph 6.12)

Sd/-

M.N. Goiporia
(Chairman)

sd/-
U.K. Sarma
(Member)

sd/-
B.D. Dikshit
(Member)

sd/-
A.K. Agarwal
(Member)

sd/-
Dr.S.A. Dave
(Member)

sd/-
Ashok Goenka
(Member)

sd/-
L.P. Bhargava
(Member)

sd/-
P.N. Shah
(Member)

sd/-
R.C. Suneja
(Member)

sd/-
I.T. Vaz
(Member-Secretary)

BOMBAY
11 JULY 1987

ANNEXURE I.

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

HEAD OFFICE, BOMBAY

14 July 1986

MEMORANDUM

It has been decided to constitute an Expert Committee to review the Deposit Insurance Scheme and the various Credit Guarantee Schemes operated by the Corporation and keeping the overall objectives of the Schemes in mind to make recommendations wherever necessary to improve the operational efficiency in this respect. The composition of the Committee and its terms of reference are :

- | | |
|--|----------|
| 1. Shri M.N. Goiporia,
Chairman,
Indian Banks'
Association,
Bombay. | Chairman |
| 2. Shri U.K. Sarma,
Executive Director,
Reserve Bank of India,
Bombay. | Member |
| 3. Shri B.D. Dikshit,
Dy. Managing Director,
State Bank of India,
Bombay. | Member |
| 4. Shri A.K. Agarwal,
Joint Secretary,
Government of India,
Ministry of Finance,
Department of
Economic Affairs,
(Banking Division),
New Delhi. | Member |
| 5. Dr. S.A. Dave,
Executive Director,
Industrial Development
Bank of India,
Bombay. | Member |

- | | | |
|-----|--|------------------------|
| 6. | Shri Ashok Goenka,
Chairman,
General Insurance
Corporation of India,
Bombay. | Member |
| 7. | Shri L.P. Bhargava,
Advocate,
Ujjain. | Member |
| 8. | Shri P.N. Shah,
Chartered Accountant,
Bombay. | Member |
| 9. | Shri R.C. Suneja,
Chairman,
New Bank of India,
New Delhi. | Member |
| 10. | General Manager,
Deposit Insurance and
Credit Guarantee
Corporation,
Bombay. | Member -
Secretary. |

2. The terms of reference of the Committee are as follows :-

- 1) to examine the terms and conditions on which deposit insurance/credit guarantee cover is provided by the Corporation under its various schemes and to make suggestions for rationalising the same;
- ii) to examine the existing procedures and to suggest simplifications, if necessary, for ensuring prompt payment of insurance premium/guarantee fee by credit institutions and expeditious disposal of claims by the Corporation;
- iii) to examine, in the light of the growing claim liabilities, the adequacy of the Corporation's Funds and to make suggestions, if necessary, for rationalising the level and structure of guarantee fee

and the scope of guarantee cover so as to make the schemes viable;

- iv) to examine the operational problems, if any, experienced by the participating credit institutions and make suggestions for improving the same; and
- v) to examine any other related matter and to make recommendations in respect thereof.

3. The Committee is expected to submit its report within a period of six months.

4. The Secretariat of the Expert Committee will be provided by the Deposit Insurance and Credit Guarantee Corporation.

Sd/-

(P.D. Ojha)
Chairman.

ANNEXURE II

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

Head Office : BOMBAY

Report of the Sub-Group of the
Expert Committee to review the
procedures of the Corporation

In accordance with the decision taken at the first meeting of the Expert Committee held on September 25, 1986, it was decided to constitute a Sub-Group under the Chairmanship of Shri B.D. Dikshit, Deputy Managing Director, State Bank of India, Bombay (also a member of the Expert Committee) to examine the procedures followed by the Corporation for operating its various schemes and recommend modifications, if any, for streamlining them. The other members of the Sub-Group were :

- | | | |
|-------|---|------------------------------------|
| (i) | Shri S.H. Khan
Executive Director
Industrial Development
Bank of India
Bombay | Member |
| (ii) | Shri N.S.S. Rao
General Manager
(Priority Sector Advances)
Central Bank of India
Bombay | Member |
| (iii) | Shri A.B. Chakravarty
Chief Officer
(SI & SB Banking)
State Bank of India
Bombay | Member
(co-opted on 20-11-1986) |
| (iv) | Shri M.L. Seth
Deputy General Manager
Deposit Insurance and Credit
Guarantee Corporation
Bombay | Member-Secretary |

-: 2 :-

2. The terms of reference of the Sub-Group were as under :
 - (i) to examine the procedures and suggest simplifications for ensuring prompt payment of insurance premia/guarantee fee by credit institutions and expeditious disposal of claims by the Corporation,
 - (ii) to examine the operational problems, if any, experienced by the participating credit institutions and make suggestions for improving the same and
 - (iii) to examine any other related matter and to make recommendations in respect thereof.
3. While reviewing the procedures and making recommendations the Sub-Group was required to keep in mind the following aspects
 - (i) The Expert Committee may make recommendations for structural changes in the Corporation's Scheme, as a result of which it may be necessary to evolve a completely new procedure/ set of formats.
 - (ii) Changes to be suggested should be compatible with the computerised system presently in vogue in the Corporation.
4. The Group held two meetings at Bombay on 21 November and 5 December 1986. The minutes of the meetings are appended.
5. The Sub-Group reviewed the existing credit guarantee schemes of the Corporation and their utility in the present context. The Corporation is, at present, operating the six credit guarantee schemes in the industrial and non-industrial

sectors as mentioned below:

- (i) Small Loans Guarantee Scheme, 1971
- (ii) Small Loans (Financial Corporations) Guarantee Scheme, 1971
- (iii) Service Co-operative Societies Guarantee Scheme, 1971
- (iv) Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982
- (v) Small Loans (SSI) Guarantee Scheme, 1981
- (vi) Small Loans (Co-operative Banks) Guarantee Scheme, 1984

After detailed deliberations, the Sub-Group recommends as under:

(i) Only the schemes which are being availed of by credit institutions on a sizeable scale may be continued and those schemes which are practically defunct may either be discontinued or merged with other schemes. The major portion of total guaranteed advances and claims was accounted for by two schemes, viz., Small Loans Guarantee Scheme, 1971 and Small Loans (SSI) Guarantee Scheme, 1981, as may be seen from Appendix-I. As such, the question of discontinuance/merging of other schemes may be considered.

(ii) As the procedure in matters relating to payment of fees, submission of claims, sharing of recoveries, write-off etc. adopted by the Corporation in respect of all the schemes is broadly the same, it is suggested that one uniform streamlined procedure should be evolved for all the schemes.

(iii) The definition of priority sector (retail trade, transport operators etc.) as laid down by the Reserve Bank of India, including eligibility criteria of borrowers in various categories, should be adopted by the Corporation and there should not be separate criteria for deciding the eligibility under the Corporation's Schemes. This is necessary to obviate any confusion while classifying the activities under the appropriate Scheme.

(iv) The Corporation should not effect changes in the claim formats frequently. Review of schemes and changes in the formats etc. should be made only once a year and notified well in advance in September so that the same could be brought into effect by all the branches of the credit institutions from the month of January next.

(v) At present, the guarantee fee is calculated and paid every half year on the balances outstanding on account of eligible credit facilities provided by the credit institution as on the last Friday of the preceding half year. The rate of guarantee fee and the time limit for its payment are as under :

Sr. No.	Scheme	Rate of guarantee fee	Time limit for payment of guarantee fee				
1.	Small Loans Guarantee Scheme, 1971	For a borrower who has in the aggregate been granted eligible credit facilities not exceeding Rs.25,000/- chargeable on the outstanding balance for a borrower who has in the aggregate been granted eligible credit facilities exceeding Rs.25,000/- - chargeable on the outstanding balance	<table border="0"> <tr> <td data-bbox="1135 541 1177 575" rowspan="2">1/2%</td> <td data-bbox="1197 497 1491 732">Within a period of 30 days (from the commencement of the half-year for which it is payable)</td> </tr> <tr> <td data-bbox="1135 741 1177 774">3/4%</td> <td></td> </tr> </table>	1/2%	Within a period of 30 days (from the commencement of the half-year for which it is payable)	3/4%	
1/2%	Within a period of 30 days (from the commencement of the half-year for which it is payable)						
	3/4%						
2.	Small Loans (Financial Corporations) Guarantee Scheme, 1971	-do-	-do- -do-				
3.	Service Co-operative Societies Guarantee Scheme 1971	-do-	-do- -do-				
4.	Small Loans (Co-operative Banks) Guarantee Scheme, 1984	-do-	-do- Within a period of 2 months.				
5.	Small Loans (Small Scale Industries) Guarantee Scheme, 1981	-do-	-do- -do-				
6.	Small Loans (Co-operative Credit Societies) Guarantee Scheme, 1982	Fee is chargeable on the outstanding balance	0.65% -do-				

The Sub-Group feels that the guarantee fee should be collected preferably once a year on the basis of figures readily available in the annual audited balance sheet. While calculating guarantee fee, the loans and advances in respect of which a claim has already been lodged should be excluded. An uniform rate of fee should be charged in respect of all advances to facilitate easy calculation. Similarly, the time limit prescribed for remittance of the guarantee fee should be uniform in all the schemes.

(vi) Since the Corporation has now decided to dispose of claims upto Rs.10,000/- for non-industrial sector on the basis of computerised output which accounts for 98.70% of claims received, no further enhancement in this limit is considered necessary at the present juncture but the position may be reviewed, if necessary, at a later date.

(vii) The present ceilings prescribed under non-industrial Credit Guarantee Scheme (as given in the Appendix II) should be suitably raised in view of the fact that these were fixed several years back, to take care of the escalation in amount of loans.

(viii) At present, provisions contained in the SSI scheme regarding issuance of notification in cases where multiple finance is involved, requires reconsideration as it delays settlement of claims. To overcome the delay, the following two alternative procedures may be considered for adoption :

-: 7 :-

- (a) The Corporation may prescribe separate ceilings for working capital and term loans and the ceiling on claim liability should be per institution instead of per borrower as at present.
- (b) The first claimant credit institution while preferring the claim should obtain a certificate from other financing institutions regarding their outstanding balance and furnish the same to DICGC. The Corporation should examine whether the ceiling on claim liability is attracted and if not, the claim should be settled immediately.

(ix) One of the conditions laid down for invocation of guarantee is that the dues have been treated as bad or doubtful of recovery and have been provided for as such in the books of credit institution. State Financial Corporations find it difficult to comply with the latter portion of the provision as they have shifted to the cash system of accounting. In view of this, the Corporation should accept the certificate furnished by either internal or external auditor without insisting on provision or accounting as prescribed and make necessary changes in the form of the certificate. Furthermore, in the case of banks which have a large branch network, instead of auditor's certificate, a certificate given by the Regional/Zonal Manager (i.e. by an authority higher in rank and not directly connected with the sanction/conduct of the accounts) may be accepted.

..8/-

(x) There are a large number of pending claims under SSI and there is, therefore, a need for devising measures to settle these claims within the shortest time possible. A maximum time limit of one year should be prescribed for settlement of claims. In this connection, it is felt that to facilitate speedier disposal of claims, it should suffice if credit institutions were to certify, at least for lower value claims, that the claims preferred were in conformity with the rules of DICGC. Accordingly, the present ceiling for settlement of claims upto Rs.25,000/- on the basis of certificates issued by the credit institutions should be raised to Rs. 1 lakh.

Further, the powers delegated to officials at various levels of the Corporation for settlement of claims were somewhat low (as given below).

Staff Officer Grade 'B' Upto Rs.25,000/-
i.e. certificate cases.

Staff Officer Grade 'C' Upto Rs.50,000/-

Staff Officer Grade 'D' Upto Rs.2,00,000/-
i.e. Manager of Branch

Claims above Rs.2,00,000/- are settled by the Claims Committee.

Further delegation of powers at Regional Office/Head Office, as under, may be considered by the Corporation.

Claims upto

Delegation of powers

(i) Rs.1 lakh

Regional Offices should settle the claims on the basis of certificates furnished by credit institutions and no detailed scrutiny should be made.

(ii) Over Rs.1 lakh
and upto Rs.4
lakhs

Regional Office at Manager's level.

....9/-

<u>Claims upto</u>	<u>Delegation of powers</u>
(iii) Above Rs. 4 lakhs and upto Rs. 5 lakhs	Deputy General Manager at Head Office.
(iv) Above Rs. 5 lakhs and upto Rs. 7½ lakhs	General Manager
(v) Above Rs. 7½ lakhs	Claims Committee

(No inspection to be carried out for claims upto Rs. 4 lakhs) Regional Offices may be given discretionary powers to inspect claims between Rs. 4 and 5 lakhs, wherever necessary, and for claims over Rs. 5 lakhs, inspections should be compulsory.

(xi) The credit institutions have to send along with the claim application formats (a) Auditor's certificate treating the dues as bad or doubtful of recovery, (b) transcript of borrower's account for last two years, (c) details of legal expenses etc. This information does not serve any purpose in settlement of claims. The claim settlement is not held up because of non-submission of auditor's certificate as the bank, in any case, gives an undertaking to the effect that the same would be furnished after the inspection/audit. This certificate is to be verified by the Inspecting Officer at the time of inspection. DICGC is not in a position to undertake inspections at regular intervals and it becomes difficult for the credit institutions to preserve these records for a long time. Taking into account its limited use, submission of audit certificates may be discontinued. As regards furnishing of ledger extracts for the last two years, it may be stated that this information does not also serve any purpose as generally only debits on account of

interest/other charges would be recorded. Thus, utility of obtaining such ledger extracts may be reconsidered by conducting a sample check during inspections and a decision be taken regarding obtention of this information. A similar view may be taken in respect of details of legal expenses etc. which are required to be furnished along with the claim application, in the context of computerisation of claims.

(xii) The format prescribed by DICGC for invocation of guarantee in respect of claims over Rs.25,000/- under SSI Scheme (SSI CL-1 format) contains a lot of unnecessary information. Only essential items of information made use of by the Corporation may be called for as considerable time and labour is expended by credit institutions in filling up the detailed formats. Wherever considered necessary, the Officers of the Corporation when they go for inspection may look into extra items warranting such attention.

(xiii) The procedure followed under Non-SSI Scheme with regard to payment of settled claims through a designated branch of the credit institution by a consolidated cheque in respect of all its branches may be followed in respect of the SSI Scheme also.

(xiv) As credit institutions are resorting to greater decentralisation and delegation, the Corporation may deal in all matters with Regional Offices directly instead of only through Head Office or a limited number of "authorised" Offices.

Sd/-
(B.D. Dikshit)
Chairman

Sd/-
(S.H.Khan)
Member

Sd/-
(N.S.S.Rao)
Member

Sd/-
(A.B. Chakravarty)
Member

Sd/-
(M.L. Seth)
Member-Secretary

Bombay, dated: January 31, 1987.

dkb.

Appendix - I

Statement showing the position of guaranteed advances and
claims received under credit guarantee schemes

(In crores of rupees)

Sr. No.	Scheme	Guaranteed Advances (As on 30-6-1986)		Claims received during 1985			
		Amount	%	No.	%	Amount	%
1.	Small Loans Guarantee Scheme, 1971	10,048.79	56.94	4,53,622	95.34	114.39	61.20
2.	Small Loans (Financial Corporations) Guarantee Scheme, 1971	85.19	0.48	100	0.02	0.53	0.28
3.	Service Co-operative Societies Guarantee Scheme, 1971	0.72	0.01	-	-	-	-
4.	Small Loans (Co-operative Credit Societies) G.S. 1982	-	-	-	-	-	-
5.	Small Loans (Co-operative Banks) Guarantee Scheme, 1984	16.32	0.09	-	-	-	-
6.	Small Loans (Small Scale Industries) Guarantee Scheme, 1981	7,497.46	42.48	22,048	4.64	71.99	38.52
Grand Total:		17,648.48	100.00	4,75,770	100.00	186.91	100.00

<u>Activity</u>	<u>Ceiling on Claim</u> Rs.
<u>Farmers & Agriculturists</u>	
<u>Para 15(1) (a) (i)</u>	
1) Seasonal agricultural operations	2,500
<u>Para 15(1) (a) (ii)</u>	
Reclamation or improvement of land, construction or deepening of irrigation wells, installation of pumpsets for drawing water, purchase of cattle, machinery or equipment or the acquisition of any other capital assets (or for repairs to these assets)	10,000
<u>Para 15(1) (a) (iii)</u>	
Conversion of facility granted for financing of seasonal agricultural operations due to famine, flood etc. into a term or instalment credit	7,500
<u>Para 15(1) (a) (iv)</u>	
(a) Pisciculture ..	37,500
(b) Sericulture ..	18,750
(c) Animal husbandry ..	15,000
(d) Poultry farming ..	22,500
(e) Dairy farming ..	15,000
<u>Para 15(1) (a) (v)</u>	
For acquiring shares in any co-operative society or in any other body corporate engaged in the manufacture of sugar or in any processing activity	1,000
<u>Para 15(1) (a) and one more of sub-clauses b, c, d & e</u>	37,500
<u>Para 15(A) - Borrowers under Differential Rate of Interest Scheme</u>	60% of the amount in default

Para 15(B)

<u>Credit facilities for consumption needs</u>)	
Medical expenses)	
Education expenses)	
Expenses on marriages)	60% of the amount
Expenses on funerals & births)	in default
Expenses on other religious ceremonies)	
General consumption)	

Paragraph 10

Transport Operators 75,000

Paragraph 11

Retail traders 50,000

Paragraph 13

Professional & Self-employed Persons 50,000

Paragraph 14

Business Enterprises 50,000

dks.

ANNEXURE III

QUESTIONNAIRE

PART - I

Deposit Insurance Scheme

1. Is there justification for continuing the Deposit Insurance Scheme? If so, please furnish the reasons.
2. Is there any case for exempting the deposits of Public Sector banks from Deposit Insurance?
3. Is there a case for increasing the present limit of insurance cover from Rs.30,000/- ? If so, what is the limit you consider appropriate?
4. Should premium be charged on the entire deposit or only upto the ceiling of insurance cover provided?
5. Do you have any other suggestion/s regarding the Scheme/procedures?

PART II

Credit Guarantee Schemes

6. Do you think that Credit Guarantee Schemes should continue? Please support your reply with reasons.
7. Do you think that various Credit Guaranteed Schemes now in operation should be merged into one or two Schemes? If so, please give details.

8. Credit institutions experience difficulties in classifying advances under the appropriate schemes, as a result of which they often misclassify advances. Please furnish suggestions for avoiding this difficulty.
9. Do you have any suggestion for extending the scheme for covering finance to activities, types of borrowers, etc. not presently covered? Similarly, do you have any suggestion for excluding activities etc. presently covered? If so, please give details.

GUARANTEE FEE

10. Should the time limit prescribed for remittance of guarantee fee under various schemes be standardised?
11. Do you have any suggestion regarding rate of guarantee fee currently charged?
12. Should guarantee fee be charged on the outstanding balances as at present or on the basis of the maximum claim ceiling?
13. Do you feel that the concessional rate of guarantee fee should be charged in certain cases? If so, give details.
14. Do you think differential rate of guarantee fee should be charged for different credit institutions/ types of credit facilities/areas etc. depending on the claim experience?

15. What penalties would you suggest for non-payment of guarantee fee in time, apart from penal interest?

INVOCATION & CLAIM SETTLEMENT

16. Please indicate what should be the point of invocation viz., whether date of recall, date of treating the advance as bad or doubtful, date of approval by competent authority in the credit institution of write off or any other date (to be specified).
17. What changes would you like to suggest in the extent of guarantee cover and claim ceilings?
18. What changes would you like to suggest in the claim format and the procedures for ensuring speedy settlement of claims?
19. Would you like any changes in the present procedure for settlement of claims where multiple financing by several credit institutions is involved? If so, furnish details.

POST-CLAIMS SETTLEMENT PROCEDURES

20. Should the time limit prescribed for remittance of recoveries be standardised?
21. Would you like to suggest any changes in the existing procedures for the grant of Corporation's permission for waiver of legal action, waiver of security, etc?
22. If you have any suggestion regarding any aspect of any of the Credit Guarantee Schemes or the procedures followed thereunder, please furnish full details thereof.

ANNEXURE IV

DEPOSIT INSURANCE FUND - PREMIUM RECEIVED, INCOME FROM INVESTMENTS,
RECOVERIES RECEIVED IN RESPECT OF CLAIMS, CLAIM PAID AND BALANCE

(Amounts in lakhs of rupees)

I N C O M E

Year	Premium received from				Income from Investments	Repayments received in respect of claims of			Total income	Claims paid in respect of		Provision* made in respect of claims received not admitted		Total of claims paid & provision made	Provision for Depreciation in investments	Surplus transferred to DI Fund	Balance in DI Fund
	Commercial banks	Cooperative banks	Regional Rural Banks	Total		Commercial banks	Cooperative banks	Total		Commercial banks	Cooperative banks	Commercial banks	Cooperative banks				
1962	93.78	-	-	93.78	2.05	-	-	95.83	-	-	-	-	-	-	92.84	92.84	
1963	103.19	-	-	103.19	5.47	0.83	-	109.49	12.06	-	-	-	12.06	-	109.86	202.70	
1964	117.63	-	-	117.63	10.53	9.76	-	137.92	26.40	-	-	-	26.40	-	117.97	320.67	
1965	135.71	-	-	135.71	10.24	3.35	-	149.30	0.12	-	-	-	0.72	-	145.96	466.63	
1966	158.30	-	-	158.30	23.36	13.92	-	195.58	18.25	-	-	-	18.25	-	181.66	648.29	
1967	178.41	-	-	178.41	32.66	5.12	-	216.19	-	-	-	-	-	-	211.08	859.37	
1968	199.87	-	-	199.87	55.76	2.69	-	258.32	-	-	-	-	-	-	254.12	1113.49	
1969	230.73	-	-	230.73	71.75	-	-	302.48	0.18	-	-	-	0.18	-	300.98	1414.47	
1970	266.70	-	-	266.70	82.30	1.82	-	350.82	56.01	-	-	-	56.01	-	316.80	1731.27	
1971	296.29	6.63	-	302.92	59.05	0.48	-	362.45	-	-	-	-	-	-	365.57	2096.84	
1972	301.64	13.37	-	315.01	126.10	12.20	-	453.31	-	-	-	-	-	-	444.51	2541.35	
1973	366.26	16.64	-	382.90	154.16	2.85	-	539.91	-	-	-	-	-	20.00	521.97	3063.32	
1974	436.19	19.30	-	455.49	188.75	7.40	-	651.64	-	-	-	-	-	245.00	398.44	3461.76	
1975	502.36	23.73	-	526.09	227.77	7.40	-	761.26	-	-	-	-	-	-	749.46	4211.22	
1976	611.97	30.00	0.07	642.04	274.42	2.58	-	919.04	-	5.73	-	-	5.73	-	915.53	5126.75	
1977	760.45	43.69	0.64	804.78	341.94	2.28	-	1149.00	-	4.62	-	-	4.62	-	1146.38	6273.13	
1978	933.07	52.04	1.89	987.00	422.33	-	-	1409.33	-	57.75	-	-	57.75	-	1314.51	7587.64	
1979	1149.71	81.47	3.66	1234.84	520.04	1.22	-	1756.10	-	28.95	-	-	28.95	-	1668.73	9356.37	
1980	1361.61	119.50	6.82	1487.93	588.93	1.98	9.05	2087.89	-	-	-	-	-	99.00	1706.19	10962.56	
1981	1658.59	154.47	9.99	1823.05	853.3	1.70	2.08	2680.26	-	2.30	-	-	2.30	340.00	2338.06	13300.62	
1982	1868.81	182.56	15.08	2066.45	1096.70	2.28	2.29	3167.72	-	91.31	-	-	91.31	340.60	2103.06	15403.68	
1983	2251.51	214.62	19.77	2485.90	1482.66	8.27	4.11	3980.94	-	-	-	-	-	958.27	2295.83	17699.51	
1984	2615.97	253.73	27.55	2897.25	1916.08	-	2.62	4815.95	-	18.51	-	-	18.51	608.29	4189.17	21888.68	
1985	3052.79	295.76	38.46	3387.01	2471.39	0.18	0.97	5859.55	-	16.70	1274.85	-	1291.55	1625.19	2965.51	24845.19	
1986	3884.98	362.00	53.00	4299.98	3155.68	-	8.05	7463.71	1162.78	22.85	2730.00	-	3915.63	12.12	3535.96	28381.15	
	23536.52	1569.51	176.93	25582.96	14173.55	88.31	29.17	39873.99	1275.80	248.72	4004.85	-	5529.97	4248.47			

* claim/s received have been provided for in full since 1984.

ANNEXURE - V

**Category-wise Guaranteed Advances, Guarantee Fee and Claims received during the years 1977-86
Small Loans Guarantee Scheme, 1971 and
Small Loans (SSI) Guarantee Scheme, 1981**

(In crores of rupees)

CATEGORY	ITEMS	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. Farmers and Agriculturists	(a) Guaranteed Advances	845.64	1057.04	1345.80	1796.10	2267.52	3041.59	3594.84	4181.98	5057.75	6020.34
	(b) Guarantee Fee	4.23	3.53	4.96	8.02	13.30	17.59	21.72	26.97	32.88	39.13
	(c) Claims Received	*	4.81	5.20	7.97	8.73	14.22	15.53	33.89	59.98	78.16
2. Transport Operators	(a) Guaranteed Advances	202.25	282.66	310.54	368.50	477.56	731.31	937.68	1239.58	1510.21	1606.00
	(b) Guarantee Fee	1.01	1.74	3.48	3.18	4.17	4.84	5.33	8.06	9.82	10.44
	(c) Claims Received	*	2.38	3.65	3.16	2.74	3.92	4.50	9.61	22.14	21.07
3. Retail Traders	(a) Guaranteed Advances	138.00	178.92	257.39	316.65	390.06	511.83	574.80	709.84	972.45	1191.85
	(b) Guarantee Fee	0.69	0.72	1.34	2.28	3.94	4.30	3.51	4.61	6.32	7.75
	(c) Claims Received	*	0.98	1.41	2.27	2.59	3.47	4.40	10.34	18.62	22.38
4. Professionals & Self-employed	(a) Guaranteed Advances	69.72	87.96	108.11	127.09	165.66	199.12	240.76	326.94	484.88	656.56
	(b) Guarantee Fee	0.35	0.33	0.61	1.00	1.90	1.96	1.50	2.12	3.15	4.27
	(c) Claims Received	*	0.45	0.64	1.00	1.31	1.58	1.79	3.28	6.12	8.38
5. Business Enterprises	(a) Guaranteed Advances	46.83	68.07	92.18	116.64	150.09	209.70	239.62	322.51	473.42	609.51
	(b) Guarantee Fee	0.23	0.11	0.34	0.40	1.09	1.10	1.46	2.10	3.08	3.96
	(c) Claims Received	*	0.14	0.36	0.40	0.72	0.89	0.98	2.84	4.45	4.84
6. Residual Category under DRI Scheme	(a) Guaranteed Advances	20.36	31.64	40.43	64.15	86.56	126.22	148.74	264.53	343.58	260.84
	(b) Guarantee Fee	0.10	..	0.03	0.10	0.24	0.79	0.94	1.72	2.23	1.70
	(c) Claims Received	*	..	0.04	0.10	0.16	0.63	0.63	1.72	3.48	6.05
7. T O T A L (1 to 6)	(a) Guaranteed Advances	1322.00	1706.29	2154.45	2709.13	3546.24	4819.77	5736.44	7045.30	8842.29	10345.10
	(b) Guarantee Fee	6.61	6.43	10.76	14.98	24.73	30.58	34.46	45.58	57.48	67.25
	(c) Claims Received	4.42	8.76	11.30	14.90	16.25	24.71	27.83	61.68	114.79	140.87
8. SSI Borrowers Small Loans (SSI) Guarantee Scheme 1981	(a) Guaranteed Advances	-	-	-	-	3716.43	3822.13	4153.73	4890.86	5843.69	7497.46
	(b) Guarantee Fee	-	-	-	-	21.61	26.94	35.20	39.68	46.35	56.83
	(c) Claims Received	-	-	-	-	1.74	9.40	32.58	53.98	71.99	104.92

* Figures are not available

.. means negligible.

Figures against SSI Borrowers for 1981 pertain to the period from April to December 1981.

ANNEXURE - VII

CREDIT GUARANTEE FUND - GUARANTEE FEE RECEIPTS, INCOME FROM INVESTMENTS,
RECOVERIES IN CLAIMS PAID ACCOUNTS, GUARANTEE CLAIMS PAID, PROVISIONS AND
BALANCE

(Rupees in Crores)

Year	Guarantee Fee Receipt			Income from investment of Credit Guarantee Fund	Amount recovered in respect of paid claims	Total accruals to Credit Guarantee Fund (4+5+6)	Guarantee Claims paid			Estimated liability in respect of claims lodged but not settled-non-SSI @ + SSI	Total Claims paid and provided for (10+11)	Provision for Depreciation in investments in Credit Guarantee Fund	Net accretions transferred to Credit Guarantee Fund	Balance in Credit Guarantee Fund
	Small Borrowers	SSI	Total				Small Borrowers	SSI	Total					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1971	0.04	-	0.04	0.11	-	0.15	-	-	-	-	-	-	0.04*	-
1972	0.95	-	0.95	0.11	-	1.06	-	-	-	-	-	-	0.37*	-
1973	1.56	-	1.56	0.22	-	1.78	-£	-	-£	-	-	-	1.72*	-
1974	2.47	-	2.47	0.35	-£	2.82	0.01	-	0.01	-	0.01	0.52	2.22*	-
1975	3.25	-	3.25	0.52	0.01	3.78	0.04	-	0.04	-	0.04	-	3.64*	-
1976	4.98	-	4.98	0.78	0.02	5.78	0.52	-	0.52	-	0.52	0.08	5.09*	-
1977	6.77	-	6.77	1.22	0.10	8.09	2.36	-	2.36	-	2.36	-	5.58*	-
1978	6.43	-	6.43	1.07	0.18	7.68	1.61	-	1.61	-	1.61	0.10	5.96	26.66
1979	10.76	-	10.76	2.01	0.55	13.32	5.69	-	5.69	-	5.69	0.50	7.13	33.79
1980	14.98	-	14.98	2.70	0.91	18.59	6.50	-	6.50	-	6.50	1.70	10.39	44.18
1981	24.73	16.87	41.60	4.13	1.29	47.02	9.08	-	9.08	-	9.08	1.22	36.72	80.90
1982	30.58	27.09	57.67	7.93	1.89	67.49	12.49	0.38	12.87	40.92	53.79	5.84	7.86	88.76
1983	35.85	35.32	71.17	13.60	2.64	87.41	17.94	3.34	21.28	25.90	47.18	11.94	28.29	117.05
1984	48.06	39.85	87.91	20.85	4.14	112.90	30.99	9.47	40.46	64.24	104.70	7.21	0.99	118.04
1985	59.14	46.52	105.66	29.55	6.73	141.94	71.80	9.75	81.55	39.67	121.22	13.42	7.30	125.34
1986	70.42	56.83	127.25	36.17	13.27	176.69	86.86	21.83	108.69	5.50	114.27	-	62.42	187.76
TOTAL:	320.97	222.48	543.45	121.32	31.73	696.50	245.89	44.77	290.66	176.31	466.97	42.53	185.72	

@ Provision for estimated liability for claims has been made from the accounting year 1982 onwards

* Transferred to Reserve for Unexpired Guarantee Risks after adjustments like provision for taxation etc.
£ negligible