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Organisational Change

Introduction

During the period under reference, globalisation, rapid economic growth, advances in information technology (IT), new responsibilities and increasing public scrutiny of its policies and functions posed enormous challenges to the Reserve Bank's organisational set-up. At the same time, there was a fall in staff size. The Bank addressed new challenges by trying to upgrade the skills, technical expertise and professionalism of its employees, by means of in-house and external training, and strategic changes in placement and recruitment policy. Employee welfare measures received special attention, and efforts were undertaken to make the Bank's compensation package competitive and attract talented individuals to its service. Mechanisation and computerisation, especially in the operational departments, were accorded top priority. A few new regional offices were opened after the formation of new states. And new departments were carved out to address emerging challenges. The system of internal inspection and audit was changed to adopt a risk-based approach of surveillance. Alongside, accounting norms were strengthened, and annual accounts of the Bank became more transparent in terms of dissemination of information relating to the composition of the balance sheet, valuation practices, changes in accounting practices, and different sources of income and expenditure.

The present chapter outlines these changes. The chapter is divided into ten main topics: the boards and committees, central and regional offices, new departments, human resource and staff matters, IT, rationalisation of systems and procedures, audit, inspection, balance sheet and ownership of institutions.

Boards and Committees

The Central Board of Directors carries out the general superintendence and provides direction to the affairs of the Bank. The Board is appointed by the Government of India in keeping with the provisions of Reserve Bank of India (RBI) Act. There are official and non-official Directors. While the former comprises the Governor and the Deputy Governors, the latter consists of Directors nominated by the government. Of these, ten are drawn from various fields, one is a government official and four are nominated from the local boards.[1] There are four local boards – Western, Eastern, Northern and Southern. These boards are set up to advise the Central Board on local matters, to represent territorial and economic interests of local cooperatives and banks, and to perform such other functions as delegated by the Central Board from time to time.

The Central Board holds about seven meetings in a year, the prescribed minimum being six, and at least one in each quarter. In terms of operational significance, two of these meetings are particularly important. One of these is the meeting in August in Mumbai to finalise the annual accounts.[2] The second is held in New Delhi soon after the presentation of the union Budget. In this meeting, the Finance Minister discusses implications of budgetary measures, especially for the Reserve Bank.

Since the Central Board meets about once in two months, the Bank has set up a Committee of the Central Board (CCB) to address administrative issues more frequently. The CCB meets every week (generally on Wednesdays). The members of the CCB are the Deputy Governors and one or two Directors of the Central Board. The Governor chairs both the Central Board and the CCB meetings, while the Executive Directors are invitees to the meetings. Besides the CCB, the Bank has set up two boards – the Board for Financial Supervision (BFS) and the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) – to assist the Central Board.

Three subcommittees provide support to the Central Board on matters internal to the organisation. These are the Staff Subcommittee, dealing with staff related issues; the Building Subcommittee, dealing with building projects; and the Inspection and Audit Subcommittee for monitoring the internal audit and inspection exercises. Directors of the Central Board are made members of these subcommittees. The chairpersons of the subcommittees are generally the non-official Directors. The proceedings of the meetings of the subcommittees were earlier reported only to the CCB. In 2007, for the first time, the Central Board reviewed their work at its meeting held in Ranchi in October. Reports on the working of the BFS are now reviewed by the Central Board at half yearly intervals while that of the BPSS, annually.

The major policy decisions are taken at the level of the Central Board, CCB, the Governor or the Deputy Governors, while decisions relating to other issues are generally taken at the levels of Executive Directors or Chief General Managers in charge of the central office departments. Powers of decision-making are also delegated to lower level officers, depending upon the nature and importance of the matter.

In addition, there are several committees and subcommittees to address the day-to-day administrative and policy issues. For example, the senior management meeting is held frequently, which is attended by the Governor, Deputy Governors, Executive Directors, select Chief General Managers and Regional Directors (RDs) on a rotation basis. The Deputy Governors' Committee meets weekly to address matters related to more than one department. The inspection reports of offices, branches and central office departments of the Bank are discussed in an Executive Directors' Committee for follow up. Committees of select Chief General Managers are also in place to address specific technical matters. Annual Regional Directors' conference is another forum where important issues are deliberated upon and decisions are taken subsequently. Financial powers under the Expenditure Rules, 2005, were exercised by the Executive Directors' Committee. The powers to be exercised are clearly defined in the relevant circulars, manuals, rules and other aiding documents in the case of certain functions, such as passing of bills and making payments as well as the compounding of contraventions in the Foreign Exchange Department. Level jumping is not uncommon in certain work processes where an element of urgency is involved.

During the reference period, the functions of local boards were reviewed. In the past, different views had emerged on the role of local boards; one view was that they were not very significant and should be abolished while others held that they provided useful feedback to the Central Board on local issues and played an advisory role.[3] But the local boards continued to exist. In a Central Board meeting held in Chennai on 15 July 2002, a proposal was made to redefine their role and have uniformity in their working. In the new arrangement, the local boards were relieved of the burden of administrative work, including financial sanctions, and made responsible for the review of the urban cooperative banks (UCBs), non-banking financial companies (NBFCs) and customer service in regulated entities and within the Reserve Bank. It was also decided that detailed inspection reports of UCBs falling in their jurisdiction would be made available to them. By January 2003, the new frame of responsibilities for the local boards was in place.

Central Office and Regional Offices

The central office of the Reserve Bank is in Mumbai, with twenty to twenty-six operational departments during the period of study. There are regional offices and sub-offices in almost all state capitals (except a few in the northeastern states) and more than one office in some states such as Maharashtra, Uttar Pradesh and Kerala.

During the period under reference, the Bank opened sub-offices in Dehradun and Raipur on 30 June 2006 and 2 January 2007 for the states of Uttaranchal (since renamed Uttarakhand) and Chhattisgarh, respectively.[4] The sub-offices were intended to focus on issues relating to rural credit and cooperative banks in the respective states. The sub-offices initially had two departments, the Rural Planning and Credit Department (RPCD) and the Urban Banks Department (UBD). In October 2006, the Lucknow sub-office was granted the status of an independent office of the Bank, with the creation of an independent jurisdiction of the issue circle at Lucknow and clear demarcation of functional jurisdiction between the Kanpur and Lucknow offices. The Bank opened sub-offices in Shimla and Ranchi on 2 July and 15 November 2007 for the states of Himachal Pradesh and Jharkhand, respectively. The sub-offices initially had only one department, the RPCD with a Financial Inclusion Cell.

In the 4th senior management meeting held on 2 June 1998, it was decided that the regional offices of the Bank, instead of acting as branch offices, should act as full-fledged offices of the Bank. That is, there should be a delegation of more powers. The heads of regional offices were, so far, placed at the level of Chief General Managers. It was felt that the posts of heads of these offices should be made more attractive, including the change in names of the heads of regional offices from 'Manager' to 'Regional Director' (RD). During the Chief General Managers' conference of December 1998, participants were asked to suggest what powers could be delegated. At the same time, an internal group was set up within the Department of Administration and Personnel Management (DAPM) to suggest the delegation of powers to RDs with respect to subject matters ranging from leave sanctioning to welfare and medical-related matters.

Although the regional heads oversaw their respective regional offices, some of the departments earlier directly reported to the central office. From April 1998, this system came to an end, and the RDs assumed responsibility for all the departments in their offices. The re-designation of the heads of regional offices as RDs came into effect from January 1999. Monetary and non-monetary benefits to RDs were enhanced so that the posting was accepted willingly.

In mid-2001, a review of the delegation of powers revealed that the process of the delegation did make the functioning of the regional offices more independent and effective and that the decentralisation had strengthened the authority of the RDs in the areas under their jurisdiction and in banking circles.

To improve the interface between heads of the regional offices and the central office departments, the Bank held the Regional Directors' conference every year. From 2005, the conference was organised outside the Bank premises either in Mumbai or other places in an exclusive setting. While brainstorming sessions were held on many internal issues, distinguished speakers and management experts were invited to share their experiences on topics of interest to the Bank. These helped change the approach and attitudes of senior officers. They became more open and more freely exchanged views; all participants wore casual clothing. The informality of the atmosphere and the cultural programmes organised during the events enhanced their sense of belonging to the institution. As the heads of the Bank's central office departments also participated in the conference and the focus of the discussion and debate at the conference was both on the issues of regional offices as well as on central office departments, it was decided to re-designate this annual meet as Senior Management Conference (SMC) from 2007.

The Reserve Bank staff also benefited from the several technical committees that were set up during this period, comprising eminent members from outside, to understand the issues better and refine the Bank's response. In fact, Governor Reddy's initiative of relying more on the contribution of committees, working groups and external experts brought about a discernible organisational shift towards more participative, transparent and collaborative work, which reflected in the Bank's policies as well as in its working and functions.

Organisational Realignment and New Departments

As the economic liberalisation process unfolded in the 1990s, the Bank was in need to restructure its organisation and play a more effective role. Although some efforts were made by the Bank to realign its organisational structure in the mid-1980s, a comprehensive planning exercise was undertaken only in 1992. A consultancy firm was engaged for the purpose. The objective was to set out a roadmap to redefine the role and to review internal organisational structure and improve managerial efficiency.

Several old departments were either wound up or merged with other departments as their functions became redundant. At the same time, many new departments were set up. For example, as the credit authorisation scheme (called Credit Monitoring Arrangement subsequently) was abolished, the Industrial and Export Credit Department was closed (1 July 2004) and its functions were distributed among other departments. Banking supervisory functions became important because of the rise in banking activities, technological advancement and sophistication in financial instruments. Therefore, the Department of Supervision, which was set up in 1993, was converted into the Department of Banking Supervision in July 1997. And the Department of Financial Companies was transformed into the Department of Non-Banking Supervision as statutory provisions governing the NBFCs changed. The Credit Planning Cell, responsible for the formulation of monetary policy and other policy initiatives, was expanded into a Monetary Policy Department on 1 January 1998 in view of the ever-increasing complexity in monetary policy formulation.

The Financial Markets Department was set up in July 2005. The FMD would undertake monetary and liquidity management operations as well as regulation and development of money market instruments and over time would cover the Bank's operations in the domestic foreign exchange market, while the IDMD would largely focus on managing the market borrowing programmes of the central and state governments. The Bank constituted a Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) as a committee of the Central Board in February 2005 in order to strengthen the institutional framework for regulation, and supervision of payment and settlement systems that form the basis of the financial system. It then became necessary to create a separate administrative set-up for carrying out the functions entrusted to the BPSS. A new department – the Department of Payment and Settlement Systems (DPSS) – was constituted with effect from 7 March 2005 for this purpose, taking over the related work from the Department of Information Technology (DIT). Another new department, the Customer Service Department, was created in July 2006 to bring together all activities relating to customer service.[5]

Matters Relating to Human Resources

Recruitment and Staff Size

The Staff Subcommittee generally decided the number of employees to be recruited, with the help of inputs received from the Human Resources

Development Department (HRDD). There were two streams of recruitment of officers – one for operational departments, commonly called the 'general side', and another for specialised departments such as Economic, Legal, Premises, Rajbhasha, Security and Statistics. These streams had their own seniority and promotional avenues. During the latter part of our reference period, there was an effort to explore the possibility of unifying the cadres under a common recruitment and seniority system. The issue was also deliberated in the Regional Directors' conference in 2004. However, the proposal did not find favour. For, the departments dealing with operational aspects and specialised departments were presumed to be in different verticals requiring distinct job skills; combining them, and the consequent unavoidable interdepartmental transfers, would render it difficult for the staff to acquire specialisation, which would eventually impinge on the discharge of their duty effectively.

The Reserve Bank of India Services Board (RBSB) was responsible for the recruitment of officers for the Bank. Officers were placed in six grades (A–F). Class III and IV employees were recruited at the regional level. The number of vacancies at each regional office, the scheme of the written examination, and other related matters were communicated to the regional offices by the HRDD, after analysing the inputs received from the regional offices.

The Bank experimented with recruiting specialised staff on a contract basis to meet the changing needs. While reviewing the recruitment exercise of officers, Governor Jalan directed (26 June 1998) that the Bank should recruit an adequate number of specialists with professional qualifications, such as chartered accountancy or business management, for performing off-site surveillance-related tasks. In June 1999, the CCB approved a scheme whereby campus recruitment and appointment of specialists on a contract basis was introduced. In November 2002, terms and conditions for engaging the services of experts and specialists on a contract basis were standardised. However, only in 2006 fifteen IT experts were recruited, and no one was appointed under the scheme of campus recruitment during the period under reference.

During the period covered in this book, the practice of recruiting officers only at Grade B level at the entry stage was continued. The yearly average intake of Grade B officers remained around eighty during the period. Grade A positions were filled up by promoting Class III employees. Class III recruitment was in single digits from 2004 to 2006. The recruitment of Class III staff was kept limited to the special recruitments, such as under sports quota and on compassionate grounds. This was partly because of the reduced need for clerical work of posting, checking, computing, typing and manual passing of vouchers with the growing use of computers. Mechanisation received impetus at the beginning of the 2000s, especially in the area of currency note processing, as the declining staff strength of Class III affected the functioning of some departments, such as the Issue Department (Kolkata office in particular), which posed a challenge to the Bank. Also, the Bank was trying to make the institution 'officer oriented', as service conditions of officers provided more flexibility. New entrants under Class IV, too, were lower in tune with the changed work processes. Recruitment of Classes IV and III came down also because the families of the deceased preferred the option of compensation package to employment in the Bank after the monetary benefits were improved significantly. With these changes, the overall staff strength of the Bank declined from around 33,000 in 1997 to 21,000 in 2008, while the size of the officers' category initially decreased but subsequently went up, mainly through internal promotion and fresh recruitment (Table 15.1).

In August 2003, an 'Optional Early Retirement Scheme' was initiated. The scheme was closed by the end of December 2003.[6] The scheme made

Table 15.1 Staff Strength and Staff Recruitment

	Staff Strength at End of December				*Staff Recruitment during Year Ending December*			
	Class I	*Class III*	*Class IV*	*Total*	*Class I*	*Class III*	*Class IV*	*Total*
1997	7,024	16,007	10,053	33,084	62	19	345	426
1998	6,953	15,123	9,550	31,626	60	103	299	462
1999	7,481	14,641	9,615	31,737	128	267	225	620
2000	7,881	13,837	9,557	31,275	80	90	201	371
2001	7,342	13,324	9,256	29,922	40	69	105	214
2002	7,261	12,570	9,053	28,884	76	13	45	134
2003	6,128	10,644	8,222	24,994	68	22	37	127
2004	5,208	9,810	7,709	22,727	88	9	44	141
2005	5,885	8,773	7,534	22,192	106	7	34	147
2006	6,819	7,522	7,569	21,910	140	8	212	360
2007	7,760	6,268	7,466	21,494	29	10	97	136
2008	8,760	4,908	7,284	20,952	91	2	81	174

Source: RBI, *Annual Report*, various years.

the Bank slimmer. At the same time, the number of Grade F officers under the general side (Common Seniority Group) was doubled during 1997–2008 because of the creation of additional posts in the regional offices, and the upgrading of a few Banking Ombudsman positions to Grade F. These measures further increased the ratio of officers to workmen.

Promotion

The responsibility for promotion was shared between the RBSB and the top management. Promotions up to the Grade C level were handled by the RBSB. While the chairman of the RBSB chaired the interview board for promotion to Grade D, others in the interview board included members of the top management. Officers of Grades E and F, as well as Executive Directors, were selected exclusively by the top management. The parameters for selection and the weights assigned to them were not similar across cadres. For promotion to Grade B, supervisory skills, initiative and job-related knowledge were tested. For Grade C, communication skills, decision-making and analytical abilities were added. Grades D and E required additional qualities, such as leadership, skills of interpersonal relations, and good personal etiquette. Promotion to Grade F was based on the candidate's interview before a panel comprising the Governor and the Deputy Governors. In January 2001, the procedure of promotion to the post of Executive Directors was reviewed, and it was decided that the committee of Governor and Deputy Governors would review the contribution and achievements of the eligible Grade F officers in the ratio of 1:2, and call for an interview, if necessary, before selection. In 2007, the minimum residual service of three years became one of the eligibility criteria for promotion to the post of Executive Directors.

The promotion policy for officers in the general departments was broadly based on the recommendations of the Marathe Committee (Expert Committee on Human Resources Development, 1994), which recommended, inter alia, replacing the existing selection process based on 'seniority-cum-suitability' by a system of 'seniority-cum-merit'. Between 1996 – when a promotion policy for officers was framed – and 2007, the policy and associated rules were reviewed and reformed many times to make the process more attuned to the needs of the organisation and profiles of the individuals.

For example, in August 1999 the promotion policy was revised, introducing, inter alia, (*a*) a system of personal promotion (drawing salary of next higher grade with no change in designation and job responsibility) for officers in Grades A and B to Grades B and C, respectively, (*b*) two-stage promotion scheme from Grades D to E, providing for a personal promotion after two years and a merit promotion thereafter, and (*c*) increase in the weight of interview marks. The performance appraisal system or confidential reports were revised several times during 1997–2008, in line with changes in the role of the Bank. In the new system, the staff members were assessed more objectively, informed of adverse remarks, if any, and counselled. The practice of taking into account performance appraisal reviews of three years created distortions in the final selection, as marking and rating systems were not uniform across centres and officers, and caused some discontent with regard to promotion to Grade C in 2001.[7] Therefore, it was decided (2002–03) that the best three reports of the immediately preceding five years in the same grade would be considered for promotion. From 21 November 2005, an assured personal promotion (after five years of service) would replace promotions up to Grade C. In 2006–07, a new performance appraisal review system was introduced for members of staff in the Class III cadre to improve transparency and objectivity of the process of appraisal.

Claims to promotion caused occasional controversy at top-level appointments. A notable episode was the appointment of K. J. Udeshi, the first woman Deputy Governor, on 10 June 2003. On the same date, Executive Director K. L. Khetarpaul sought voluntary retirement. Both had been Executive Directors of the Bank, Khetarpaul being technically senior to Udeshi. A Parliamentary question sought clarification on why the former was superseded.[8] The appointment of Deputy Governor was made by the Government of India at its discretion. It was explained in the response that 'the post of Deputy Governor was outside RBI cadre, and seniority in RBI was not a deciding factor in such appointment'. Another notable episode occurred during the appointment of Usha Thorat as Deputy Governor in 2005. Executive Director P. K. Biswas, who was superseded, filed a writ petition in the High Court of Delhi for setting aside and quashing the government's notification dated 10 November 2005. The writ was dismissed and, subsequently, an appeal before a Division Bench of the High Court was also dismissed. The court explained that 'it is clearly established from the provisions of Section 8 [of RBI Act, 1934] that it is not a promotional post but is an appointment to be made by the Central Government'. There was another instance.

The Bank had introduced a scheme of granting personal promotion to the deserving officers who could not be promoted in the normal course. Under this scheme, the officer would receive the benefits of pay and perquisites applicable to the immediate higher grade, but without any up-gradation of job content and change in functional designation. In November 2005, recognising his contribution, the Bank promoted Executive Director R. B. Barman as Deputy Governor in 'personal capacity'. This led to his becoming the fifth Deputy Governor. The RBI Act, 1934, provides for not more than four Deputy Governors and the power to appoint Deputy Governors in the Reserve Bank is vested with the government. Therefore, the government objected to the elevation of Barman as Deputy Governor. The order of promotion was subsequently modified to state that Barman would continue as Executive Director but draw the emoluments of a Deputy Governor.

The promotion avenues available for Class III employees were (*a*) within the cadre, (*b*) to non-clerical/technical cadres, (*c*) to officers (merit-based fast track) and (*d*) to officers (seniority-cum-merit). However, the waiting period for a Class III employee to become an officer was long. The Bank maintained that its career progression could not be compared with that of banks and companies as promotions and their periodicity were organisation-specific. Following the Bank's decision to confine direct recruitment only to Grade B posts, 10 per cent of the vacancies in Grade A earlier allocated for direct recruitment was distributed between the qualifying and merit channels for promotion to Grade A in September 1998. An internal study group considered the career progression of Class III employees and discussed the matter with the All India Reserve Bank Employees Association (AIRBEA). After this process, the promotion scheme of Class III was modified to make it more liberal and performance oriented. Class IV employees, too, had an opportunity of progressing within the cadre as well as being promoted to Class III and further.

There were several attempts to rationalise and improve promotional chances for employees of the specialised cadre. For example, in 1996–97, a working group was set up to review the career progression of security and protocol, lounge, Rajbhasha, and technical staff. A similar committee was formed in March 2000 to examine and suggest career progression for pharmacists. The avenues for promotions for the specialised cadre of staff were since then gradually expanded by either upgrading some of the positions in the existing stream or allowing them to switch over to the general side.

Transfer and Deputation

The Bank's transfer policy by and large was based on the recommendations of a committee under the chairmanship of M. S. Patwardhan, former Director of the Central Board, which submitted its report in 1996. The aim of the transfer was to fill up vacancies and provide the officers exposure to different work environments and functional areas. Transfers to 'hardship centres' such as Guwahati were incentivised. In August 2000, the policy was revised in an attempt to convert transfer into a policy instrument, minimise dislocation and the associated inconvenience, and dovetail placement with the transfer. A further review was undertaken on 6 June 2002 by Governor Jalan, and Deputy Governors Reddy and Vepa Kamesam, and it was decided that the system be maintained. The policy was again taken up for review in 2005 but no major change was effected.

The policy of deputation underwent a major change during 1997–2008. Earlier, a deputation of officers to outside agencies did not follow a well-defined policy, though the Bank regularly deputed its officers to the government, other financial institutions (FIs), the IMF and other central banks. The Bank also deputed individuals as Chief Vigilance Officers in banks and FIs on requests received from the Ministry of Finance. The scheme remained selective as the provisions under the Reserve Bank of India (Staff) Regulations, 1948, were restrictive. In a departmental review meeting in 1998, Governor Jalan stressed the need for a flexible and 'open-door' policy for its officers to leave the Bank for better prospects elsewhere. Such officers, in his view, could be permitted either to retain lien against their job, or treated as if on deputation, for a period of three to five years. In June 1999, a scheme of exchange of officers between the Reserve Bank and public sector banks was introduced. From 1 March 2000, the scheme for deputation and secondment was streamlined and rationalised by amending the RBI (Staff) Regulations. The revised scheme allowed, in addition to existing schemes of the deputation, self-sought secondment. Many officers made use of the opportunity of serving in foreign central banks and FIs. From 1997 to 2008, sixty-one officers were sent on foreign deputation and secondment.

Training

The Bank had schemes for higher studies (sabbaticals), including distance education courses, for officers, which was revised. Norms for officers going abroad for training, study visits, seminars, conferences and workshops were liberalised. Foreign training opportunities were earlier few and far between and concentrated in specialised activities of the Bank.

Since 1998, the focus of foreign training was shifted from 'Broad Spectrum Programmes' to 'Functional Programmes'. Governor Jalan directed in June 1999 to expand the scope of foreign training to include some of the elite universities in the United States (US) and the United Kingdom and emphasised that officers in regional offices and women officers should be given preference. As the practice of departments directly dealing with the deputation of officers for foreign training caused multiple nominations, in June 2000, the related work was centralised in the Training Division of the HRDD, which tried to ensure that all officers were given an equal opportunity. A condition was applied that the nominated officer should not have attended a foreign training before. Governor Jalan wrote on a note put up by the Department of Economic Analysis and Policy (DEAP) in September 2000 and nominating an officer for an IMF course 'on the basis of his not having any foreign exposure earlier' that 'the main criterion should be that the training should help the officer in doing his present or future job in RBI', and not whether he or she had been on another foreign training programme before. With these changes, the number of officers sent abroad for training, sabbatical and scholarship gradually rose from around 100 in 1997–98 to 520 in 2007–08. Although the expenditure rose, too, per capita annual spending for training was below ₹7,000, and the proportion of officers trained abroad remained less than 5 per cent of officers in Grade B and above in any year. A number of officers who received training in the Bank training establishments rose from 119 in 1997–98 to 895 in 2007–08.

Special efforts were made to circulate 'Aide Memoirs' of foreign training. On a feedback report submitted by G. S. Bhati, Adviser, MPD, on a course in US monetary policy implementation held in June 1999, Governor Jalan asked, 'How do we make available these papers to a wider audience? Should we think of a shelf in the Library where the background papers can be parked for 3-6 months and then returned to the officer concerned?' This suggestion was implemented immediately. Subsequently, such reports were also made available through the intranet. In November 2004, a new incentive structure was designed whereby employees who acquired professional qualifications relevant to the job became eligible for fee reimbursement up to ₹200,000. In early 2006, the training needs and other related issues were addressed by an 'organisational climate survey' at the instance of Governor Reddy.[9]

As for domestic training, the Bank had three colleges. These were the Bankers' Training College (BTC), Mumbai; the Reserve Bank Staff College

(RBSC), Chennai; and the College of Agricultural Banking (CAB), Pune. The BTC was meant to train personnel of commercial banks and other FIs in India, particularly middle- and senior-level officers. Reserve Bank officers, too, attended programmes relevant to them. The RBSC was established (1963) to impart training to the Bank's own officers in junior and middle management cadres. Specialised programmes were also held for skill development of the senior management cadre. The CAB was originally set up with a focus on training senior- and middle-level officers of rural and cooperative credit sectors. The CAB subsequently diversified into areas relating to NBFCs, human resource management and IT. A committee consisting of the principals of the three training colleges, the Chief General Manager, HRDD, and a faculty member from each college was in place to discuss matters of mutual interest. Besides these institutions, four zonal training centres (ZTCs) conducted training of Class III and IV staff of the Bank.

Officials from foreign countries, including central banks of Bhutan, Bangladesh, Iran, Maldives, Nepal, Nigeria, Philippines, Sri Lanka, Sudan, Tanzania and Uganda, were provided training and study attachment facilities at the Bank's training establishments or central office departments. The Bank played a significant role in holding workshops and seminars for the participants from the South Asian Association for Regional Cooperation, or SAARC, countries.[10] Besides, some departments of the central office organised department-specific training programmes, sometimes inviting foreign speakers.

The Bank was also associated with the promotion of four institutions – Indira Gandhi Institute of Development Research (IGIDR), Mumbai; the National Institute of Bank Management (NIBM), Pune; the Indian Institute of Bank Management, Guwahati; and the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad. The Bank extended financial support to these bodies from time to time. An external review committee under the chairmanship of former Governor Jalan was formed in August 2007 to evaluate the progress made by the IGIDR, and suggest a roadmap for the future. The committee submitted its report in June 2008.

The two major developments in training to take place in 1997–2008 were the start of the Joint India–IMF Training Programme at NIBM in Pune (2006) and the decision to close the BTC. The programme was commissioned with a view to positioning India as a global training provider in banking and finance. The programme was the seventh such facility of the IMF Institute in the world. It was expected to impart policy-oriented training to nominees of governments and central banks of the participating SAARC and East African countries, apart from India, in areas such as macroeconomic management and policies, financial programming, monetary policy, bank supervision, financial sector issues, public finance, exchange rate policy, and foreign exchange operations and statistics. The programme also included in its curriculum seminars on topical issues for senior officers. Faculty support was provided by the IMF Institute, Washington D.C. The inaugural course at the programme was held from 24 July to 4 August 2006.

The BTC was established in 1954. Its mandate was to impart practical training in banking to the supervisory staff of commercial banks. As the financial sector reforms gained momentum, it became necessary to reconsider the role of the BTC. In the meantime, almost all the major banks and FIs in India had set up their own training institutes. A committee of external experts was set up in 2006 to reconsider the role of the BTC. The committee held that the BTC may give up its traditional role of a training provider and become a think tank or policy analysis centre. Following this suggestion, a Centre for Advanced Financial Learning was proposed. The centre was expected to promote the study and dissemination of knowledge on banking and finance and conduct research and training for senior executives of banks and FIs from a multidisciplinary perspective. The centre was inaugurated by Prime Minister Manmohan Singh on 18 March 2006. The BTC was closed down on 1 April 2008.

The Bank provided incentives to staff members to acquire computer skills. The scheme of base level computer training for officers and Class III employees was first introduced in November 1995. The recommendations made by the Working Group on Training Needs/Plans in the Context of Technology, set up in 2001, were accepted and an action plan was drawn up to achieve 100 per cent computer literacy by the end of 2003. All training centres added computer-related training programmes in their curricula. The training scheme was liberalised in 2002 by delegating the power to regional offices and central office departments to depute officers and Class III employees to reputed external computer training institutions. In order to improve their IT skills, several officers were trained in leading external training institutions such as Administrative Staff College of India, Hyderabad; NIBM, Pune; Management Development Institute, Gurgaon; Xavier Labour Relations Institute, Jamshedpur; IDRBT, Hyderabad; and Indian Institute of Management (different centres).

Staff Regulation: A Dispute with the Government

RBI (Staff) Regulations became a contentious issue during the reference period. The regulations were framed by the Bank under the permitted delegation of authority in terms of Section 7(2) of the RBI Act, 1934. The regulations vested the powers of general superintendence and the direction of the affairs and business of the Bank in the Central Board. The Parliamentary Committee on Subordinate Legislation (Rajya Sabha), which visited the Bank in 1989, 1993 and 1995, insisted that these regulations should be framed under Section 58 of the RBI Act, which would allow the Parliament the opportunity to scrutinise the regulations and the amendments thereof. The issue was examined and placed before the Central Board. The Board did not accept the suggestion, maintaining that the Supreme Court upheld the validity of the existing practice in 1982.

The Parliamentary Committee, however, pursued the matter. In the Central Board meeting held in Gangtok on 29 May 1997, Governor Rangarajan said that this had become an unseemly controversy, and as the Parliamentary Committee was due to visit shortly, the Board could consider giving him the freedom to deal with the matter in the 'best possible' manner. A Director observed that the Bank should not give up on the issue. If the staff regulations were to be framed under Section 58 of the Act, the government should first change the law. He suggested that the Bank could refer the case to the Advocate General and obtain his opinion on the matter before taking a stand at the meeting of the next Parliamentary delegation.

The Parliamentary Committee, which visited the Bank on 26 June 1997, insisted the Bank reconsider its stance. The RBI Act and the RBI (Staff) Regulations, according to them, belonged to a time before the Constitution was adopted, and all other public sector FIs had adopted statutory regulations in case of their officers. In the Central Board meeting held at Chennai on 10 July 1997, it was resolved that the issue be referred to the retired Chief Justice of India for a legal opinion. The matter was referred to Y. V. Chandrachud, who concurred with the Board and gave a strong opinion for not framing the regulations under Section 58. Accordingly, the Board decided to retain the existing RBI (Staff) Regulations framed under Section 7(2) of the Act and the government was advised accordingly in the matter.

In reply, the Ministry of Finance in its letter dated 11 June 2001 restated their view. Again, the matter was discussed and the proposal was rejected by the CCB (29 August 2001). The Directors reiterated that the existing staff regulations had stood the test of time and that the administrative, practical and legal advantages of the present arrangement were obvious, but the issue could be referred to the Central Board for a final decision.

The full Board discussed the issue in Lucknow on 18 October 2001. The Board was unanimous in endorsing the views of the CCB; it strongly felt that any change in the existing practice would be prejudicial to the effective management and administration of the Bank, and had a potential for adverse consequences for the efficient functioning of the Bank, which needed to be considered by all concerned. The unanimous view of the Board was communicated to the government. The government (letter dated 28 October 2002) advised that they agreed with the views of the Bank.

Still, the matter did not end there. The government remained unconvinced. When the government was informed in 2007 about the legal opinion offered by senior advocates Dipankar Prasad Gupta and Harish N. Salve (also see the next section titled 'The Pension Updating Debate') that the updating of pension fell within the powers of the Central Board under the RBI (Staff) Regulations, which were framed under Section 7 of the RBI Act, the government was quick to argue that the RBI service regulations were a misnomer as they were never notified by the government and, therefore, the Bank should frame service regulations under Section 58 of the RBI Act as advised earlier.

The Pension Updating Debate

The RBI Pension Regulations, 1990, were framed in terms of Section 58(2)(j) of the RBI Act, with prior approval of the government. Therefore, any amendment thereto required the approval of the government, according to the government. The Central Board of the Bank, however, considered that pension updating for its own employees should follow the government pattern, that is, follow the recommendations of the Pay Commission, and that the Bank had the authority to decide on the matter. This difference led to a dispute between the Bank and the government in the 2000s. The government was reluctant to give permission, fearing that an updating of pension in the Bank would lead other financial institutions to follow suit, with wider implications for the industry.

When pension options were opened in view of wage revisions in 1995 and 2000, the government's permission was obtained. But the government rejected such a proposal in 2002 (letter dated 4 February 2002) saying that 'since RBI has already given four options to the employees after the initial option given in 1990, no fresh option be given in future even after the conclusion of the fresh wage settlement'.

It was perceived that the question of updating pension did not require an amendment and, therefore, the government's approval was not required. The approval of the CCB was enough to effect the update. On an earlier occasion in November 1990 when the revised pay scales were introduced (November 1987), the pensions of employees who had retired between 1 January 1986 and 31 October 1987 were updated by the Bank without recourse to an amendment of pension regulations and, therefore, no government approval was obtained.

The Fifth Central Pay Commission report submitted in January 1997 provided for the updating of pension for pre-1996 government pensioners besides revision of commutation factor and family pension.[11] While the latter required the government's approval, in its meeting held on 21 March 2001, the CCB approved certain amendments to the pension regulations to effect a revision of family pension and improvement in commutation factor, which were forwarded to the government for final approval. Some of them were not acceptable to the government. Deputy Governor Kamesam, in a letter dated 5 February 2003 to the Finance Secretary, explained that the Bank's pension scheme was drawn on the lines of the government's pension scheme. However, in its reply (by Vineeta Rai, Secretary, Banking and Insurance) dated 10 March 2003, the government stated that since the negotiations for the next wage settlement were in progress it was not desirable for the Bank to make any change in the pension regulations that had a financial impact. The Central Board was apprised of the matter on 10 July 2003, in its meeting held in Chennai.

The Bank took up the updating of pension of pre-1997 retirees in late 2003, on the lines of the updating of pension by the government of their pre-1996 pensioners, as recommended by the Fifth Pay Commission. After consultation with its Legal Department, it was decided to introduce the updating of pension with the final approval of the CCB. The offices and departments re-fixed the pension from 1 November 2002 and arrears were paid to those who had retired before 1 November 1997.

In the meantime, after the revision of pension of government employees based on the Fifth Pay Commission, a few retired employees of the National Bank for Agriculture and Rural Development (NABARD) filed a writ petition in the late 1990s before the Lucknow Bench of the Allahabad High Court demanding updating of pension, as their pension regulations were also based on the Government Pension Rule, 1972. The government, a respondent in the case, maintained that the NABARD pension rules were based on those of public sector banks and not the government. The management of NABARD had decided that the updating of pension would be done only if it was done in the Reserve Bank. In the meeting held between the government and the Reserve Bank subsequently, on 6 April 2005, G. C. Chaturvedi, Joint Secretary (Banking and Finance), mentioned that it was difficult for the government to accede to the updating of pension for the Bank pensioners as other FIs, notably NABARD, were asking for parity with the Bank.

The government, in its letter to the Bank dated 8 August 2005, termed the Bank updating as 'not in conformity' with the RBI Pension Regulations and demanded the withdrawal of the circular by which pension was updated. The matter was examined by the Legal Department of the Bank. Independent legal opinions were also sought separately from Dipankar Prasad Gupta and Harish N. Salve, both being senior advocates and former Solicitor Generals. The legal opinions concurred with the Bank's views that the updating was justified in law.

The matter was brought before the CCB at its meeting held on 21 December 2005. Governor Reddy explained that the government's views appear to have been based on the premise that initially the Bank's superannuation facility had remained on a standalone basis but after the nationalisation of banks in 1969, the Bank could not be de-linked from the national wage policy. Governor Reddy further stated that a recent survey done by the Bank for International Settlements (BIS) found that central banks the world over received the tacit approval of their governments while making changes in the pay and allowances and other benefits of their staff. Governor Reddy, in the CCB meeting held on 12 January 2006, noted that while the legal position was clear, the key issue was the intent of the government from the public policy angle. Deputy Governor V. Leeladhar stated that there were systemic implications in the implementation of the updating policy in the Bank since insurance and commercial banks were expected to follow suit, which would result in a rise in the wage bill. Therefore, though legally in order, it was advisable not to go ahead with the updating of pension. In the end, Governor Reddy deferred the decision.

The CCB in its meeting of 1 February 2006 resolved that while there would be no future updating of pension as and when the pay scales of serving employees were revised, there was no need to withdraw the pension update circular of 1 September 2003. However, the government reiterated its stance and insisted that the said circular be withdrawn. Vinod Rai, Secretary, Department of Financial Services, Ministry of Finance, wrote a strongly worded letter to Governor Reddy (8 January 2007) to this effect. In the CCB meeting held on 12 July 2007, Governor Reddy suggested that the Bank write to the government again explaining the position, rationale and recommendations of the Central Board based on the practical ramifications as well as the legal position. Secretary Rai wrote (20 August 2007) that the

> FM [Finance Minister P. Chidambaram] directed that the decision of the Government stands…. Government is unable to comprehend the intent and reasons for placing the matter before the Central Board for deliberations, especially, on account of the fact that the Central Board of the Bank is not within its competence to carry out the amendments in RBI Pension Regulations, 1990 without the previous sanction of the Government. (See Appendix 15A.1)

The legal opinion that the pay of the Bank's employees was governed by the RBI (Staff) Regulations, and the Board acted within its powers under Section 7 of the RBI Act, was turned down on grounds that RBI service regulations were a misnomer as they were not notified and the administrative orders could not override the provisions of the statutory regulations.

After a further exchange on the subject, the matter was finally discussed by the Central Board in its meeting held on 14 August 2008 in Mumbai. Before the meeting, the government nominee, Finance Secretary D. Subbarao, spoke directly to a few Directors at the behest of the Finance Minister impressing on them the stance of the government. In the meeting, he reiterated the government's stance on the lines of the letter dated 8 August 2005 addressed by Ashok Jha, Secretary, Department of Economic Affairs, Ministry of Finance, to Governor Reddy, which mainly stated that (*a*) to follow the procedure for enhancement of pension on the pattern of central government by the Bank for its employees was not legally correct and that (*b*) the Bank is a statutory body and its employees cannot be equated with the employees of the central government. The Finance Secretary further stated that pension of the Bank's employees is governed by the Pension Regulations, 1990, framed under section 58(2)(j) of the RBI Act, 1934, with the prior approval of the Government of India. Therefore, any amendment thereto requires the consent of the Government of India. Eventually, the Board decided to rescind the scheme, and the circular was withdrawn on 10 October 2008. This deprived the retired employees of the benefit of the update. Subsequent to this step, the government agreed to a proposal of not recovering the excess pension already paid to retired employees between October 2003 and September 2008. However, the Bank did not give up its efforts and continued the pension dialogue with the government. Why this tussle? Why did the government not agree to the legal opinion provided by Gupta and Salve? Why was the government so insistent if the issue was not substantive but one of procedural concern? There are no clear answers. As such, the issue of updating pension remained unresolved until the end of the reference period.

The Issue of Service Tax

On 16 July 2001, the government imposed service tax on banking and other financial services. In September the same year, the Bank was informed that financial services rendered by the Bank were liable to be taxed. The Bank replied that it did not render taxable services as it was neither a banking company nor a financial institution. However, as the scope of the service tax expanded in 2004–05, different centres of the Bank started receiving notices from the Customs and Central Excise. In 2005, in response to a letter from the Directorate General of Service Tax demanding that the Bank pay service tax on charges collected from member banks for its clearing house functions, Deputy Governor Shyamala Gopinath requested exemption on the ground that 'services' rendered by the Bank were statutory in nature and a kind of public goods. Besides, a tax on the Bank amounted to taxing the government since the balance of the Bank's profits was transferred to the government. The government, however, did not agree. Further exchanges followed, and finally Governor Reddy met the Finance Minister Chidambaram. Following this meeting, the government indicated that a self-assessment by the Bank would be acceptable. The Bank, however, pursued the matter. Eventually, on 1 March 2006, the government agreed that the Bank was exempted from the whole of service tax leviable, but that the exemption was only prospective. Accordingly, an amount of ₹273 million payable towards service tax by the Bank on account of service charges recovered from member banks at five magnetic ink character recognition, or MICR, centres, Mumbai (BKC and Nariman point), Chennai, Kolkata and Delhi, for the period from 16 July 2001 to 28 February 2006 was paid to the government on 13 June 2006.

As the government insisted, interest on delayed payment of ₹64 million was paid on 8 December 2006.

Meanwhile, in 2003, the CAB, Pune, had received notices for payment of service tax on the fees collected from the non–Reserve Bank participants of certain training programmes. The Reserve Bank argued that the CAB is an integral part of the Reserve Bank and not a 'commercial training or coaching centre'. At the end of a protracted correspondence, exemption (termed as 'ad hoc') was granted on 1 January 2008.

Miscellaneous Staff Matters

Five-Day Week

In February 1991, the government had sought the Bank's views on the introduction of a five-day week in government departments, public sector undertakings (PSUs) and other related departments and institutions. The Bank replied that the move would require consultation with unions and the Indian Banks' Association (IBA), besides amendment of, among other laws, the Industrial Dispute Act and the Negotiable Instruments Act. Even as the government introduced a five-day week in their departments, the IBA was not in favour of the proposal as it apprehended adverse criticism from the public, as noted by S. P. Talwar, Deputy Governor, who ordered on 31 October 1995 that the matter need not be pursued.

Ten years later, the issue was reopened in March 2005 by Sandip Ghose, Chief General Manager, HRDD. After internal processing, the proposal was submitted to the Deputy Governors' Committee, which on 19 July 2005 agreed in principle to the proposal, citing the practice of many central banks around the world. There followed extensive consultations within the Bank, with the Legal Department and with trade unions and associations on the operational issues that may arise in the working of money, securities and foreign exchange markets. A small group of interdepartmental officers, called the Implementation Group, went into the modalities of implementation. The consensus was that the front offices should remain open while the middle and back offices could be closed on Saturdays. Among the front offices, the National Clearing Centre and clearing houses and real time gross settlement may function with the full complement of staff, and the Deposit Accounts Department (DAD), the Public Accounts Department (PAD), the Public Debt Office (PDO) and the Cash Department may require only skeletal staff.

A single officer was sufficient in the Internal Debt Management Department (IDMD) on Saturdays. Governor Reddy approved the proposal on 19 September 2005, subject to no reduction in the total number of working hours in a week.

Facilities to Employees

The facilities for employees, both monetary and non-monetary, improved during the reference period, especially after Governor Jalan took office. In May 1998, housing loan limits were raised by 50 per cent in line with revisions in other public sector undertakings and the ever-increasing cost of real estate; unavailed casual leave could be credited to a special sick leave account, subject to certain conditions; deputation allowances were enhanced wherever necessary; medical reimbursements were streamlined; and professional qualification allowances were introduced. The facilities were reviewed in subsequent years. There were three wage settlements (1997, 2002 and 2007). The residential accommodation scheme was regularly reviewed and improved. At the same time, stricter rules were introduced in enforcing discipline. For example, on a note put up by the DAPM in November 1998 regarding unauthorised absence and overstaying of an employee deputed abroad, Governor Jalan indicated that persons who were absent for more than six months would be considered for dismissal. Similarly, there was a case of missing gold weighing 1,050 grams at the New Delhi office under the National Defense Gold Bond Scheme, 1980. Several rounds of investigation and reconciliation exercises were attempted for more than twenty years to match the records but in vain. The Executive Director's Committee suggested that the transaction may be regularised, stating that the difference had arisen due to an 'accounting error', as surmised by inspection reports. Consequently, the Inspection and Audit Subcommittee of the Central Board was inclined to consider the option of a write-off. However, as insisted by Deputy Governor Udeshi, the subcommittee directed in its meeting held in June 2004 to fix staff accountability and to take disciplinary action against those who were involved, which finally led to the recovery of the missing gold.

Retirees received attention. Medical facilities for retirees and the process of settlement of dues improved. These reforms eventually led to revised medical and hospitalisation facilities for retirees and their spouses wherein third-party administrators provided medical cover under a group mediclaim policy.

While the retirees were required to pay a one-time premium on retirement, the Bank made financial contributions to the scheme periodically.

Grievance Redressal Cell

In 1997, a Grievance Redressal Cell (GRC) was set up within the framework of the RBSB. Redress of grievances of individual officers against the decision of the Bank on service matters as defined by the Bank was attended to by the RBSB. There were about 141 individual grievance cases received in the cell from 1997 to 2008, with the cases dropping to single digits after 2001–02 when the Bank issued instructions to all its offices in February 2000 that no application can be entertained by the GRC regarding performance appraisal reports. The Bank also sought the views of the GRC in the individual disciplinary cases involving officers. The Bank's vigilance unit had a two-tier arrangement, where the Central Vigilance Cell functioned in the DAPM in the central office, and small cells in the regional offices, including the Deposit Insurance and Credit Guarantee Corporation (DICGC). The basic framework of preventive vigilance in the Bank was provided in Chapter IV of the RBI (Staff) Regulations. The cells investigated all the complaints received from within and outside the Bank with regard to the employees, including complaints made by persons who preferred not to reveal their identities.

Prevention of Sexual Harassment

Complying with the guidelines laid down in the Supreme Court judgment (*Vishaka and Others vs. State of Rajasthan* (1997) SCC 241), a complaints redressal mechanism for prevention of sexual harassment of women at workplaces was put in place in 1998. A Central Complaints Committee (CCC) headed by a woman officer in Grade F was created in the central office. In offices located in other places, additional complaints committees were subsequently formed. These committees were also headed by senior women officers. The CCC and the regional complaints committees (RCCs), besides having a member each from a non-governmental organisation, had more than 50 per cent women members. The CCC acted as the focal point for all the complaints committees. Several seminars were conducted within the Bank to enhance awareness among women employees about the redressal system. The CCB in its meeting held on 13 February 2002 decided to insert a new sub-section, 41C, in the RBI (Staff) Regulations defining and prohibiting sexual harassment. From 1998 to 2008, twenty-nine cases were dealt with.

Cooperative Guarantee Fund

A Cooperative Guarantee Fund was formed in 1935 on the establishment of the Bank. The objective of the fund was to inculcate a sense of collective responsibility among the staff of the Cash Department. Whenever the amount of loss caused by an employee was large and beyond his or her capacity to meet from own resources, the loss was borne by the fund to the extent of the guarantee cover available. Over the years, the fund had outlived its utility. For, the recovery of cash losses from the resources of employees for their negligence or dishonesty was found to be a better deterrent than claiming from the Guarantee Fund. Further, the maximum amount available from the fund was simply inadequate for the purpose. After obtaining the approval of the government, the Central Board in its meeting held on 27 October 2005 in Bhopal issued the order to close the fund. The balances in the fund were distributed among the eligible serving employees.

Organisational Climate Survey

The Bank conducted its first 'organisational climate survey' in 1996. The objective was to find out staff satisfaction levels. There were three subsequent surveys conducted between 1997 and 2008 (in 1998, 2003 and 2006). Surveys were canvassed amongst the staff in Classes I and III and the aim was to gauge the impact of policy initiatives and welfare measures undertaken by the Bank. The survey conducted in January 2006 received a response level of approximately 44 per cent against a response of 40 per cent to the survey conducted in 2003 and 17 per cent in 1998. The survey results showed general improvement in different indicators of job satisfaction level. In 2006, the satisfaction level of Class III employees was lowest at just 23 per cent because of slow career progression path but Grade F officers showed a satisfaction level of above 66 per cent. The Bank tried to boost the morale of the staff through better financial packages, improved working conditions, and efforts to ensure proper work–life balance.

Information Technology Capability

The DIT dealt with the computerisation and development of IT in the Bank. With the formation of the DPSS in 2005, the work relating to payments and settlements were taken from the DIT, which then focused on IT implementation in the Bank and related issues in the banking sector at large. The IDRBT funded by the Bank also lent support.

The computerisation strategy in the Bank had four elements – standardisation of hardware, operating systems, system software, NetWare platforms and databases; development of human resources; outsourcing of development and maintenance of software and facilities management; and establishment of a disaster recovery management system and business continuity plan.

In February 1998, after the start of the VSAT (very small aperture terminal)-based wide area network, the recommendations of a Sub-group on Networking Products[12] helped to ensure the effective functioning of the VSAT communication network. The electronic clearing service (ECS), which facilitated the settlement of bulk small-value transactions without exchange of paper-based instruments, was introduced to ensure better customer service, efficient housekeeping by banks, corporate bodies and FIs. The ECS, which in 1998 covered Mumbai, Kolkata, Chennai, New Delhi, Bengaluru, Hyderabad, Ahmedabad and Pune, was extended to other centres such as Guwahati, Patna, Kanpur, Nagpur, Jaipur and Thiruvananthapuram.

The DIT attempted modification of several software packages for the RPCD, the Central Accounts Section, Nagpur, and the DAD. Computerisation was extended in the Department of Government and Bank Accounts (DGBA) in 1999–2000. Computerisation of the PDO started with the development of software for subsidiary general ledger transactions, the operationalisation of the delivery versus payment (DvP) system of settlement, and providing connectivity with the DAD for funds transfer. A software package for the full computerisation of the activities of the PAD in COBOL was installed in several large cities. Under the interactive voice response system (IVRS), which was in operation since 1998–99, a new value-added product, called 'easy term', helped account holders obtain transaction details in electronic form and communicate short messages between account holders and the Bank. This was installed in the DAD, Chennai, to begin with (3 June 2000), and subsequently in other centres. The software was developed for operationalising the recently introduced liquidity adjustment facility (LAF), which was installed in the Mumbai office.

The year 2000 was expected to bring problems to all older computerised systems, where the 'system date' was of significance or whose applications used calendar date in their calculation. As a large part of transactions in the financial sector was computerised, the Year 2000, or Y2K, problem assumed significance as it could seriously impair operations. The Bank adopted a two-pronged approach to Y2K. First, it took steps to ensure that the Bank's own computers and IT systems were millennium-compliant. Second, it monitored and guided banks and other FIs on Y2K compliance. As early as 1998, a working group,[13] which had representatives from banks, the IBA, the NIBM, and heads of the regulatory and supervisory departments of the Bank, addressed Y2K compliance for hardware, operating systems and application systems' software. The group guided users and provided information on the solutions that were available in the market. Monthly progress reports were introduced and actual compliance was checked in the regional offices and in the departments of the Bank by deputing inspection teams from the central office. Regional offices and the departments concerned were asked to keep a record of tests conducted. With respect to commercial banks, not only banks but also corporate borrowers were ensured to be Y2K compliant. In the end, Y2K did not pose any problem.

In 2001, a sophisticated human resources information system (HRIS) application package was developed in-house. The ORACLE-based HRIS, with a client–server architecture, was introduced in the Bank's central office and installed subsequently at the regional offices and other central office departments. In 2002, the creation of a data centre, a back-up support for all processing capabilities of the Bank, was prioritised as part of disaster recovery systems (DRS) and business continuity plans. The back-up project became important after the event of 11 September 2001. With the help of relational data base management system (RDBMS)–based solutions, the central office departments were integrated. The off-site monitoring and surveillance system (OSMOS) and the computerised-OSMOS (COSMOS) were strengthened.

The Bank constituted a Committee on Information Systems Audit and Information Systems Security[14] in 2001. The committee gave guidelines on standards and procedures, which eventually led to obtaining BS7799 Certification in 2003, confirming that the Bank's information security policies conformed to international standards. Subsequently, Certification of Quality Management System (QMS):ISO 9001-2000 and Standards Information Security Management System (ISMS): ISO 27001:2005 Standards were acquired as recommended by the Committee on Procedures and Performance Audit on Public Services. Some departments were required to obtain the certification on a regular basis.

For the PDOs and the internal debt management system, a centralised system encompassing the PDO, the negotiated dealing system (NDS) and the securities settlement systems was implemented during 2002–03. The centralised database management system (CDBMS), a data warehouse, was also implemented in 2003. Its first phase involved key functional areas such as external investments and operations, regulation and supervision of urban banks, human resource development, and general administration; and subsequently included the areas of monetary policy operations, exchange control, and currency management, including issue offices. In terms of hardware, the installation of common shared, high-end and high-availability servers at each Regional Office were completed by 2003.

Local area networks were made operational in each building of the Bank in all centres. Communication across different buildings of the Bank took place through the wide area network facilities provided by the Indian Financial Network (INFINET). A corporate mail system was provided to all functional units, different functionaries and various offices. A system of Indian Financial System Codes (IFSC) was designed during 2003. Under the Information Technology Act, 2000, the Bank became the registration authority to assist the certification authority, the IDRBT, thereby associating itself with public key infrastructure. An intranet of the UBD acted as a common platform for communication between the regional offices and the central office from 2003. The centralised PDO module was implemented in fourteen PDOs of the Bank. Live operations on the Primary Market Operations Module commenced from 20 October 2003.

In its Central Board meeting held on 12 August 2004 at Mumbai, the Bank decided to set up a committee to review the overall status of IT in the Bank, including e-security issues. Accordingly, an Information Technology Advisory Committee was constituted under the chairmanship of R. H. Patil to provide guidance and steer the IT drive in the Bank. A 'strategic information technology plan', a vision document, was prepared to provide the framework for the management of IT resources in the Bank. To provide for increased availability of telecommunication capabilities and accessing internet on desktops, the bandwidth of the inter-city telecommunication links, which were part of INFINET, was upgraded in 2005. The year 2005 also witnessed the commencement of parallel runs using the new integrated account system (IAS) for the DAD at Mumbai, which was fully operationalised in all DADs subsequently. To bridge the gap in communication across various offices of the Bank, a video conferencing facility was implemented from 2 January 2006. The Governor's New Year address was broadcast using this facility.

To track the movement of cases, letters and notings within and across departments, an in-house document management, and inward–outward system were made operational during 2005–06. A multi-application smart card-based access control system for the Bank staff was also introduced during the year in the central office. The Banking Ombudsmen software system, which provided for a web-based complaint tracking system, was implemented in September 2005. The process of unified procurement of hardware and software, localised at the DIT, was strengthened. The mechanisation of the cash processing activity and disposal of soiled banknotes was one of the major thrust areas of the Bank in currency management. With a view to augmenting the banknote processing capacity, and to equip all the offices with mechanised processing capabilities, currency verification and processing systems and the shredding and briquetting system, introduced as pilot projects in 1998–99 and 1999–2000, respectively, were installed in almost all offices. Towards the end of our reference period, there were fifty-four currency verification and processing systems and twenty-eight shredding and briquetting systems in operation in nineteen issue offices. A knowledge box was started from 1 January 2006. This was an intranet site where materials of common sharable value for the employees of the Bank were published.

During 2006–07, all offices of the Bank commenced a 'live-run' on the currency chest reporting system (CCRS) and the chest accounting module (CAM) of the integrated computerised currency operations and management system–Issue Department (see later). The DAD at Mumbai migrated to the use of the new IAS, by applying the package to annual closing of accounts for the financial year ended June 30, 2006. The new centralised PAD system was made operational at Chennai, Thiruvananthapuram, New Delhi and Hyderabad, and extended to all the offices in 2007. The centralised PDO system was in use for more than three years and then upgraded.

In 2007, in tune with developments in the field of network-based computing, the move from the closed user group network of INFINET to multi-protocol label switching was initiated by the IDRBT. The smart-card-based access control system at the central office was extended to all locations of the Bank as well as to all its employees. Specific guidelines on information systems and security policy, to be followed by all IT users in the Bank, were issued and widely disseminated. Disaster recovery drills were done regularly. Corporate mail, which functioned in a network-based system, migrated to a centralised system called 'single forest-based mail messaging system' in 2008.

At the beginning of new millennium, the Bank introduced an integrated computerised currency operations and management system (ICCOMS) to facilitate its note issue function, which was stabilised by 2007–08. The ICCOMS had three components, currency chest reporting system, ICCOMS–Issue Department (ICCOMS-ID) and currency management information system in the central office, Issue Departments in regional offices, and currency chests maintained by various banks, respectively.[15] The project included computerisation and networking of over 4,300 currency chests with the Reserve Bank's issue offices to facilitate efficient reporting and accounting of currency chest transactions. The system provided a uniform computing platform across all the regional offices for transaction processing, accounting, and management information system (MIS) relating to currency.

Rationalisation of Systems, Rules and Procedures

On 19 February 1998, a steering committee was constituted under the chairmanship of B.S. Sharma, Executive Director, to examine rules and procedures governing administrative, establishment and housekeeping matters, and to recommend measures for their rationalisation and simplification. The recommendations of the committee covered wide ground, including transparency and decentralisation. To overcome staff shortage posed by the Optional Employees Retirement Scheme (2003), a Committee on Job Realignment and Job Consolidation was formed under the chairmanship of A. V. Sardesai, Executive Director, which again made a set of recommendations on a reorganisation of work, which were accepted.

Customer service received special focus during the period under reference. The HRDD suggested in 1998 that it was necessary to have one 'meeting-less' day in a week to attend to the public and hear their grievances. Wednesday, it was decided, would be observed as such a day. Subsequently, the Committee on Procedures and Performance Audit on Public Services (2003),[16] was assigned, inter alia, the job of assessing customer service. Its report (May 2004) made several recommendations on procedures, rules and work processes which were implemented.

While travelling in a train from New Delhi to Chandigarh in February 1999 for a board meeting, Deputy Governor Reddy read a book on regulatory practices in Mexico, which induced him to suggest to Governor Jalan that the Bank's rules and procedures required reviewing. Governor Jalan, who did not react at that moment, announced next day in the meeting of the Central Board (18 February 1999) that it was decided that a Regulatory Review Authority (RRA) would be set up under the chairmanship of Deputy Governor Reddy within the Bank. Through it, any person or organisation inside or outside the Bank could suggest changes in rules. The RRA was independent of any department in the Bank and was the sole authority to take a final view on the suggestion.

The RRA, as a one-time exercise, started working from 1 April 1999 with Deputy Governor Reddy as the authority for a year. The term of the RRA was extended by one more year and was wound up on 31 March 2001. Though the RRA ceased to exist, the Bank decided to make the review exercise an integral part of its internal system and put in place an alternate mechanism under the charge of an Executive Director for dealing with such applications from 1 April 2001.

During the two years it worked, the RRA received 254 applications with substance, containing more than 500 suggestions. Of these, 47 per cent of the suggestions were accepted for implementation. The implementation of the suggestions helped in reducing duplication of work, simplification of rules and better customer service. The RRA took several initiatives on compliance and reporting, based on recommendations from other committees. The most important achievement of the RRA was a consolidation of circulars issued by the Bank into master circulars with a view to facilitating easy reference. Another important decision was decentralisation of the arrangement for working out benchmark service charges, which were earlier attended to by the IBA and the Foreign Exchange Dealers Association of India.

In the wake of the IMF's working paper on 'Central Bank Governance: A Survey of Board and Management' and deliberations in the BIS on the subject, the Bank set up an internal working group to examine the structure and practices of central bank governance in India vis-à-vis best international practices. The group reviewed existing practices and, though found many of the best practices being followed, made several suggestions to enhance the quality of governance. Some suggestions required changes in statutes. For example, the Governor and Deputy Governors should not be on the boards of other institutions regulated or supervised by the Bank as it could lead to conflict of interest; Board members should have staggered terms to ensure continuity; need for a risk assessment structure for the Bank, including well-defined procedure for recapitalisation; and requirement of legal protection against arbitrary dismissal of members of boards to ensure central bank autonomy. Other suggestions, which did not require changes in statutes, were on the need for comprehensive strategic planning, and strengthening the financial stability report and setting up a financial stability unit. After deliberations in the Central Board in its meeting held on 15 December 2005 at Kolkata, the Bank decided to take up the issue with the government. Subsequently, some of the recommendations were implemented.

The Reserve Bank is a public authority as defined in the Right to Information Act, 2005. As such, the Bank is obliged to provide information to members of the public. Procedures to facilitate this service were initiated and implemented in 2005. From 2005 to 2008,[17] the total number of requests for information received was 5414.

Other Initiatives

Reserve Bank grants funded several professorships in universities. In the CCB meeting held on 30 December 1998, Governor Jalan proposed to phase out these grants and replace these with capital support, where appropriate. As part of its capacity building and knowledge management initiatives, the Bank signed a memorandum of understanding (MoU) with the London School of Economics and Political Science (LSE) for creating an LSE India Observatory and the I. G. Patel Chair to be based at the Asia Research Centre at the LSE. The Chair – which was set up in honour of the late I. G. Patel, a former Governor of the Reserve Bank, and who later held the post of Director at the LSE – was a fully endowed permanent professorship and its holder led the LSE India Observatory. The Bank, as part of a sponsoring consortium, provided £100,000 per annum to the LSE for a period of ten years beginning January 2007. The MoU was signed on 7 December 2006 in New Delhi in the presence of Prime Minister Manmohan Singh.

Like other major central banks, the Reserve Bank developed its own research capabilities, particularly on matters relating to central banking. Two departments, namely the DEAP and the Department of Statistical Analysis and Computer Services, provided analytical inputs for the formulation of monetary, regulatory and other policies of the Bank. To strengthen research, the Bank commissioned in March 2003 a study under Raghuram Rajan, University of Chicago, and T. N. Srinivasan, Yale University. Some of the recommendations made in their study, titled 'Research at RBI: An Assessment and Suggestions for Strengthening the Process', such as creating working paper series, holding annual retreat and research conferences, facilitating greater staff mobility across divisions, and assigning a weight for research work in performance appraisal were implemented over the years.

An Advisory Board on Bank Frauds (ABBF) was established on 1 March 1997, with S. S. Tarapore as chairman, to address the issues relating to bank frauds. As bank lending involved risks, a distinction was required to be made between bona fide commercial judgement leading to loss and acts of criminal negligence with the intention to misappropriate money. With a view to ensuring that cases were examined from their proper perspective, and bank officers at the appropriate decision-making level were able to function objectively and fearlessly, it was decided that it should be made incumbent upon the investigative agencies, including the Central Bureau of Investigation (CBI), to first obtain the concurrence or approval of the relevant authority. The Bank, in consultation with the Ministry of Finance, decided to set up an ABBF to deal with the cases referred by the CBI for investigation against accused bank officers of the rank of General Manager and above, and no such CBI investigation was possible without the approval of the board.[18] Based on the merit of each case, the ABBF, after due deliberations, decided on the cases to be further investigated by the CBI. While the majority of the cases were recommended for CBI investigation, departmental actions were proposed in a few and the others were dismissed.

The Bank strived to promote the use of Hindi as the required language under the provisions of the Official Languages Act, 1963, and the Official Language Rules, 1976. During 1997 and 1998, efforts were made to implement the annual programme circulated by the government. The use of bilingual publications, such as *Monthly Bulletin*, *Annual Report* and the *Report on Trend and Progress of Banking in India*, and other publications, including *Chintan-Anuchintan* brought out by the Bankers' Training College, continued. The Bank conducted essay competitions in Hindi besides organising symposiums on Rajbhasha for senior officers. A Committee on Bilingualisation of Computers, headed by R. P. Pathak, was formed in 1997–98. In 1997, a *Computer Paribhasha Kosh*, an explanatory English–Hindi dictionary on computer terms, was published. These and other initiatives took the project forward.

In 2000–01, the Golden Jubilee Year of Rajbhasha in the Bank, three publications containing major achievements of the Bank in various fields were brought out, including the compilation of important decisions of the Official Language Implementation Committee. The Bank launched its website in Hindi. The first issue of *Hindi Interface*, a quarterly newsletter on computer bilingualisation, was also brought out. The use of Hindi through computers was the focus during 2001–02. For bilingual computerisation, a computer lab was set up. In 2003–04, the recommendations of the Hindi Salahakar Samiti of the Ministry of Finance were implemented. In 2004–05, in pursuance of the recommendations of the Committee on Style and Usage, Hindi templates were prepared and forwarded to all regional offices.

In 2005–06, the BTC brought out a few books in Hindi, which included useful articles on current topics on banking. Other training colleges also promoted the use of Hindi through their magazines. Regional offices published regular magazines; Chandigarh and Bengaluru offices published *Pravahini* and *Pradipti*, respectively. During 2006–07, the Bank prepared a three-year action plan for effective use of Hindi. An Expert Group on Bilingualisation of Computers was set up in order to advance bilingualisation. A translation workshop was conducted, and a Translation Review Committee was constituted.

Guidelines regarding the use of Hindi in Banking Ombudsman offices were issued in November 2006. Many programmes were conducted at the time of the Hindi fortnight observed from 14 September 2007. The Bank's central office published the bilingual in-house journal *Without Reserve*. The Rajbhasha Department started the publication of a quarterly journal, *Rajbhasha Samachar*, from January 2007. The journal dealt with developments in the area of implementation of the Official Language policy. Understanding new banking concepts was also a part of its aim. During the year, the Bank decided to implement the use of Hindi Unicode fonts for Bank's correspondence in Hindi. The revised sixth edition of the Bank's *Glossary* (English–Hindi) was published, and an 'Online Banking Glossary' was launched in April 2008.

Inspection, Audit, Balance Sheet and Accounting

Inspection and Audit

In discharge of its obligation, and exercise of its powers under Section 50(1) and (2) of the RBI Act, the government appointed six chartered accountant firms as statutory auditors of the Bank every year who carried out a comprehensive audit, and, thereupon, submitted a report to the President. The report of the statutory auditors formed part of the published Reserve Bank balance sheet. Internally, inspection and audit functions were carried out by the Inspection Department, Regional Audit Cells, Central Audit Cells and through the concurrent audit, control self-assessment audit (CSAA) and information systems audit. In 2004, the Committee on Job Realignment and Job consolidation suggested that the Regional Audit Cells and Central Audit Cells be wound up and the respective functions taken over by the control self-assessment and concurrent audit. The recommendation was implemented on 1 July 2004.

The documentation, rules, procedures and processes were streamlined during this period. For example, a revised and updated version of the Issue Department manual was brought out during 2004. The manual was first documented in 1937 and subsequently revised and updated in 1952 and 1972.

As per the directions of Inspection and Audit Subcommittee of the Central Board, a Working Group to Review the Organisational Set-up of the Inspection Department and Methodology of Inspections was set up in October 1995 which submitted its report in October 1998. The group made several recommendations to improve the monitoring of banking operations and strengthen internal control mechanism. From April 2000, management audit was introduced. Subsequently, CSAA was started, and activity-wise risk analysis was introduced. Eventually, risk-based inspection replaced the conventional inspection system. The Bank initiated the International Organization for Standardization (ISO) certification process in 2004. Initially, operational departments such as Currency Management, PDO, PAD, DAD and DAPM were taken up for certification. Gradually all departments were covered.

The 20th meeting of the Inspection and Audit Subcommittee of the Central Board (6 April 1998) in New Delhi decided to set up a committee for an in-depth study of surplus space available in various offices and the departments that could be considered for relocation of offices outside Mumbai. The committee, with Executive Directors V. Subrahmanyam and C. Harikumar, and Chief General Manager–Premises, B. S. Sharma, as members, submitted its report in October 1998, recommending that the DGBA be shifted to Nagpur, the Inspection Department and the UBD to Bhopal, the Department of Currency Management to Bangalore and the DIT to Hyderabad. After deliberations, only the operations of the Byculla office (Issue and Banking Departments) were terminated and transferred to Belapur office on 14 January 2001

RBI Balance Sheet

A distinctive feature of the Bank's financials since its inception was the preparation of two separate balance sheets – one for the Issue Department and the other for the Banking Department. The practice originated in the recommendations of the Royal Commission on Indian Currency and Finance 1925–26 following the practice of Bank of England. The Bank, however, prepared a single consolidated profit and loss account. Another unique practice was the preparation of unaudited accounts separately for these two departments every week and their transmission to the government. The annual audited accounts, again in bifurcated fashion, were prepared at the end of June followed by transfer of profit to the government.[19]

The backing of high-quality assets with an independent balance sheet was felt necessary for the issue function. The specified eligible assets were mainly gold coins and bullion, certain types of foreign securities, government securities and rupee coins. Internal bills of exchange and commercial papers, though prescribed as eligible assets, were not held. The balance sheet of the Bank underwent changes in line with shifts in its functional focus. There was a structural transformation during 1997–2008 when foreign assets replaced government rupee securities as the major source of money creation.

Both the Issue Department and the Banking Department balance sheets held foreign currency reserves. Transfers of foreign exchange assets were made from one to the other when required. Foreign securities were one of the eligible assets for backing the note issue. However, all types of foreign exchange assets were not eligible to be held in the Issue Department. For example, agency placements, certain foreign currency deposits held with foreign banks, and BIS and Society for Worldwide Interbank Financial Telecommunication (SWIFT) shares were not eligible. Some varieties of foreign currency investments, which were high yielding but ineligible for the Issue Department, were held under the Banking Department. To maximise the return, an amount of foreign exchange reserves was maintained under the Issue Department and the rest held in the balance sheet of the Banking Department, and deployed in relatively high-yielding instruments. The former had the smaller share before 1990, as rupee securities of the government accounted for the major share.

The dominance of rupee securities in the assets of the Issue Department declined due to the combined effects of the elimination of ad hoc treasury bills, the reduced stock of government securities held by the Bank on account of sterilisation exercises and the swelling of foreign currency assets (Table 15.2; also see Chapter 3). Thus, maintenance of a critical minimum balance of foreign securities in the Issue Department on a day-to-day basis assumed special importance not only from the standpoint of the fulfilment of the statutory requirement of maintaining minimum reserves for the note issue backing but also from the angle of foreign exchange management.

Operationally, the DGBA generally advised the Department of External Investments and Operations (DEIO) on the rupee equivalent of foreign securities to be maintained in the Issue Department, based on the level of other eligible assets available, such as gold and rupee securities. The DEIO, in turn, maintained the amount with an additional cushion, which was revised periodically. The cushion was ₹450–500 billion in the early 2000s, which was brought down to ₹200 billion in 2005, following an internal Investment Committee meeting on 15 December 2005. The DEIO began monitoring the cushion on a daily basis from 20 January 2006, entrusting the job to its foreign exchange dealers.

The practice of maintaining two balance sheets by the Bank was debated both within the Bank and outside.[20] Internal reviews in the past could not

Table 15.2 Issue Department – Balance Sheet

(₹ billion)

Liabilities	*1990–91*	*1996–97*	*2001–02*	*2005–06*	*2007–08*
Notes Issued	579	1,434	2,591	4,410	6,123
Total Liabilities	579	1,434	2,591	4,410	6,123
Assets					
Gold Coins and Bullion	74	117	133	233	323
Foreign Securities	2	452	1,690	4,165	5,789
Rupee Coins and Notes	1	1	2	2	1
Govt. Rupee Securities	502	864	766	10	10
Total Assets	579	1,434	2,591	4,410	6,123

Source: RBI, *Annual Report*, various years.

conclusively recommend the unification of two balance sheets. In early 2001, a group of chartered accountants (M/S Lodha & Co., Kolkata, Brahmayya & Co., Chennai, M. Anandam & Co., Secunderabad, and Chhajed & Doshi, Mumbai), appointed to review the accounting policies and procedures of the Bank to align them with international standards, recommended that the balance sheets be combined. The Inspection and Audit Subcommittee at its meeting held on 17 October 2001 approved the merger. The matter was submitted for the approval of the Central Board at its meeting held on 20 December 2001 in Panaji. After further deliberations, the existing practice of preparing two different balance sheets was continued as it separately presented the picture of assets and liabilities of the Issue and Banking Departments, accounting for the issue of currency and other central banking functions distinctly, in conformity with the RBI Act. The merger, with no value addition, would go against the disclosure and transparency of the note issue function of the Bank.

The accounts of the Bank conformed to the prescribed standards of income recognition on an accrual basis, periodic revaluation of the investment portfolio, and annual external audit as prescribed by the international accounting standards. The Bank followed more stringent norms. For instance, the Bank marked its investments at the lower of book or market value, thereby adjusting unrealised losses against income without recognising unrealised gains. In case of foreign currency assets, revaluation arising out of exchange rate changes was symmetrically transferred to an adjustment account, denominated as the currency and gold revaluation account. Thus, the Bank followed conservative principles of bookkeeping but less transparent dissemination of details, particularly prior to the 1990s. Former Deputy Governor Tarapore noted, 'The levels of internal reserves were not clearly revealed and clubbed under other liabilities.'[21]

After 1996, there were changes in accounting practices as well as balance sheet disclosures. The disclosure of details of accounting was gradually made more liberal. Annual accounts of the Bank disseminated information on the composition of the balance sheet, valuation practices, changes in accounting practices and different sources of income and expenditure. The *Annual Reports* carried 'notes to accounts' incorporating details of accounting policies and procedures, besides information relating to components of 'other liabilities' and 'other assets'. Joining the special data dissemination standards and general data dissemination system of the IMF in the latter part of the 1990s brought in a discernible improvement in the release of data.

Reserve Adequacy and Profit Transfer

The Bank created several reserves and strengthened them over the years. There were three types of reserves: Contingency Reserve (CR), to meet unforeseen losses and contingencies that could arise on account of foreign exchange, revaluation of foreign currency assets, depreciation of domestic and foreign securities, exchange guarantees, monetary and exchange rate operations, systemic risk or internal frauds; Asset Development Reserve (ADR), created in 1997–98 to meet internal capital expenditure requirements of the Bank and to make investments in its subsidiaries and associate institutions; and the Currency and Gold Revaluation Account (CGRA), carrying the adjustment for all revaluation gains or losses on account of changes in the exchange rates and gold prices.[22]

There was no regular allocation of resources to the CR before the crisis of 1991. The significant withdrawals under the 'exchange rate guaranteed' foreign currency non-resident account, or FCNR (A), scheme resulted in drawdown of a huge amount (₹48 billion) under the CR to meet the commitment on exchange loss under the scheme. Therefore, to hedge against risk, the Bank decided to strengthen the CR. During the period under reference, with the shift in the Bank's balance sheet towards foreign currency assets that yielded a lower rate of return, the concern over reserve adequacy assumed greater significance. The Bank initiated several measures to ensure revaluation of both domestic and foreign assets and to build up adequate contingency reserves. Consequently, the issue of adequacy of internal reserves and the policy for transfer of surplus to the government was regularly reviewed.

Based on the suggestion of the statutory auditors in 1994–95, the Central Board had fixed an immediate target of the CR at 5 per cent of the size of the Bank's assets. The adequacy of reserves was examined subsequently by two internal working groups, under V. Subrahmanyam (Executive Director) in 1997 and Usha Thorat (Executive Director) in 2004. The Subrahmanyam group recommended that the CR should be built up to 12 per cent of the total assets (5 per cent each for risks in the foreign exchange market and the domestic market, and 2 per cent for systemic risks and development outlays). The recommendations were approved by the Central Board and implemented.

The Central Board observed in July 2003 that the composition of assets held in the Bank's balance sheet had undergone a significant change and, therefore, the earlier target of 12 per cent may be revised. Accordingly, an internal working group was set up with Usha Thorat as chairperson. The group, which submitted its report in 2004, recommended that the reserves maintained under CGRA, CR and ADR should be at 18 per cent. Meanwhile, an informal note to the Central Board (meeting held on 11 August 2005 at Mumbai) stated that the indicative target of 12 per cent could not be achieved by the given deadline (end of June 2005), and had in fact declined from 11.7 per cent in 2001–02 to 10.1 per cent at the end of June 2005 even after transferring a major share of net income to these reserve accounts (Table 15.3). It became clear that reaching 18 per cent would be even more difficult. Furthermore, the CGRA, considered as one of the reserve accounts in the Thorat group report in addition to the CR and ADR, was an adjustment account and not a 'reserve' in a real sense. Therefore, it was decided not to accept the 18 per cent target but to continue with the 12 per cent norm.

There was a debate about whether the balances in the 'reserve accounts' could be transferred to the government. The argument was that since any loss to a central bank has to be made good by the state, central banks need not build internal reserves. But in practice, though there are no standard international norms on the right level of reserves, most central banks do transfer a part of

Table 15.3 Balances in Contingency Reserve and Asset Development Reserve

(₹ billion)

As on June 30	*Balance in CR**	*Balance in ADR†*	*Total (2 + 3)*	*Percentage to Total Assets*
1	2	3	4	5
1997	112	-	112	4.5
1998	138	12	150	5.1
1999	230	25	255	7.6
2000	299	32	331	9.2
2001	365	39	404	9.9
2002	484	47	531	11.7
2003	552	56	608	11.7
2004	562	58	620	10.2
2005	623	65	688	10.1
2006	733	76	809	10.0
2007	938	95	1,033	10.3
2008	1,272	128	1,400	9.6

Source: RBI, *Annual Report*, various years.

Note: *Contingency Reserve, †Asset Development Reserve.

their income to the reserves, the Reserve Bank being no exception. Section 47 of the RBI Act provides for such transfers. Internal reserves act as a cushion for possible losses arising out of exchange and interest rate movements and other factors including systemic issues. The Bank had used internal reserves in the past to meet unexpected losses and payments. For example, exchange loss liabilities under the FCNR(A) and loss on account of revaluation of gold and foreign currency assets in the early 1990s; and extending a loan of ₹7 billion to the National Housing Bank (NHB) in 1996–97. It was argued that since rise and fall in the reserve accounts are obvious and no separate provision is made for known risks such as market, exchange and interest rate in the Bank's balance sheet, the balances under reserve accounts cannot be transferred to the government. Furthermore, balances under CGRA, which carries the adjustment for all revaluation gains or losses on account of changes in exchange rates and gold prices, cannot be considered for transfer as these do not represent realised gains or losses and are notional.

Another issue addressed during the period was the possibility of paying an interim dividend or transfer of profit to the government. The Bank transfers the surplus to the government annually after the closure of accounts in June. The government desired that such transfers could be made more than once. The issue of whether the Bank could transfer the profit on the date of the transaction itself was examined by the Legal Department of the Bank. The Department noted that a reading of the provisions of Sections 47, 52 and 53 of the RBI Act, together with the Expenditure Rules, would indicate that the Bank would be able to determine the 'balance of profit' at the end of the accounting year after making provisions for the items listed out in Section 47, and the same items forming part of the annual accounts had to be verified and certified by the auditors before being considered as final and transferred to the government. Although Section 47 did not indicate any period within which profits had to be transferred, in effect profits could be transferred only on an annual basis at the end of the accounting year of the Bank.

Profit and Loss Account

The RBI Act states that after meeting all the expenses and making provisions for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, the balance of the profits may be transferred to the government.

Details of income, expenditure and transfers are given in Table 15.4. The major sources of income were interest earned on domestic and foreign securities and foreign deposits, discount and rediscount charges, and commission on the management of public debt. During the latter part of the reference period, while the total expenditure of the Bank was rising due to agency charges and security printing expenses, the establishment expenditure showed a fall as a percentage of total expenses because of compression in staff strength.

Table 15.4 Reserve Bank Accounts

(₹ billion)

Year	*Income*	*Expenditure*	*Net Income (2 – 3)*	*Transfer to CR*‡	*Transfer to ADR*†	*Total Transfers (5 + 6)*	*Surplus Paid to Govt*
1	2	3	4	5	6	7	8
1997–98	140.8	47.6	93.2	21.6	11.8	33.4	59.8
				(23.2)	(12.6)	(35.8)	(64.2)
1998–99	192.2	45.5	146.7	89.2	12.7	101.9	44.8
				(60.8)	(8.7)'	(69.5)	(30.5)
1999–2000	219.6	53.4	166.2	65.5	7.1	72.6	93.5
				(39.4)	(4.3)	(43.7)	(56.3)
2000–01	218.5	55.9	162.6	62.0	7.0	69.0	93.5
				(38.1)	(4.3)	(42.4)	(57.6)
2001–02	246.9	65.4	181.5	70.0	8.3	78.3	103.2
				(38.6)	(4.5)	(43.1)	(56.9)
2002–03	231.8	67.2	164.6	67.3	8.9	76.2	88.3
				(40.9)	(5.4)	(46.3)	(53.7)
2003–04	143.2	77.6	65.6	9.7	1.9	11.6	54.0
				(14.8)	(2.9)	(17.7)	(82.3)
2004–05	190.3	68.1	122.2	61.3	6.9	68.2	54.0
				(50.2)	(5.6)	(55.8)	(44.2)
2005–06	263.2	58.5	204.7	109.4	11.3	120.7	84.0
				(53.4)	(5.5)	(59.0)	(41.0)
2006–07	410.4	71.6	338.8	204.9	19.7	224.6	114.1*
				(60.5)	(5.8)	(66.3)	(33.7)
2007–08	577.5	61.0	516.5	334.3	32.1	366.4	150.1
				(64.7)	(6.2)	(70.9)	(29.1)

Source: RBI, *Annual Report*, various years.

Notes: ‡Contingency Reserve, †Asset Development Reserve. *Excluding profit on account of sale of shares of SBI.
Figures in brackets indicate the percentage of net income (column no. 4).

In mid-2001, one of the Directors of the Central Board desired that functional classification of expenditure be made for the past year to show the cost structure of the working and functions of the Bank more clearly. Accordingly, Deputy Governor Reddy constituted an informal working group, drawing officers from various departments, to examine the activity-wise and function-wise cost and employee structure of various functions of the Bank. The group identified the following major functions: currency management; banker to the government; banker to banks; management of public debt and foreign exchange reserves; monetary management; exchange control; development functions; and regulation and supervision of financial sector. In terms of functions, currency management took away around 26 per cent, banker to the government 22 per cent, monetary policy operations 29 per cent, support functions 14 per cent, and others 9 per cent of total expenditure. The study showed that currency management and in-house support functions engaged the services of the most significant proportion of the total available workforce. While currency management pre-empted around one-third, the support functions required 28.5 per cent of the total staff. The group also concluded that the total expenditure of the Bank could be divided into three categories: direct staff cost, exogenous cost and other costs, with exogenous cost constituting over 68 per cent of the total cost.

Ownership of Institutions

The Bank held shares in State Bank of India (SBI), the NHB, the Infrastructure Development Finance Company (IDFC), the DICGC, NABARD, the Bharatiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL), the Discount and Finance House of India (DFHI) and the Securities Trading Corporation of India (STCI).

Narasimham Committee II (1998) observed that the regulator and owner cannot be the same entity and, therefore, the Bank should divest its holding in banks and FIs to avoid conflicts of interest. The Advisory Group on Banking Supervision headed by M. S. Verma held a similar view. A discussion paper prepared by the Bank in January 1999 on harmonising the role and operations of development financial institutions and banks suggested that the Bank could transfer the ownership to the government. The Bank had already started the process of disinvestment in the DFHI in September 1994, and the STCI in 1997. The Bank had held 51 per cent of the share capital of the DFHI, which was brought down by disinvestment to 37 per cent at the end of March 1995, 12 per cent at the end of March 1996 and 10.5 per cent at the end of March 1997. Similarly, it had held 50.18 per cent of the share capital of the STCI since its inception in May 1994, which was diluted to 14.4 per cent in 1997 after a CCB decision in its meeting held on 29 October 1997.

The Bank in its Annual Monetary and Credit Policy statement for the year 2001–02 dated 19 April 2001, announced its intention to (*a*) divest its remaining holding in the DFHI and the STCI during that year, (*b*) initiate the process of transfer of shares in respect of the IDFC at an appropriate time, (*c*) pursue with the government the issue of the transfer of the Bank's shareholdings in SBI, NABARD and the NHB to the government, (*d*) not divest its holdings in the BRBNMPL as there was no regulatory implication and (*e*) follow up with the government on the proposal of a new Act on the DICGC. Accordingly, the Reserve Bank completed the divestment of its stake in the DFHI and the STCI to other existing shareholders before March 2002 and sold its stake of 15 per cent in the IDFC in January 2005 to the Government of India. With regard to the transfer of the Bank's shareholding in SBI to the government, the Reserve Bank had in fact written to the government in May 1999 on a proposal of transferring the Bank's shareholding in SBI, for which the government had replied in April 2000 that these transfers would be considered later. After the announcement of the monetary policy statement in April 2001, the Reserve Bank set up an internal working group under the chairmanship of P. B. Mathur, Executive Director, to finalise the modalities of such transfers. Based on the recommendations of the report, the proposal for amendments to the SBI Act, the NHB Act and the NABARD Act for disinvestment of the Bank's holdings in these institutions was sent to the government in 2002. As there was no development on the issue, the Reserve Bank again requested the government in 2005 to take over the Reserve Bank's shareholding in SBI. Eventually, after sorting out procedural issues, the government promulgated an ordinance on 21 June 2007 carrying out certain amendments to the SBI Act to enable the transfer of shares. The Reserve Bank sold its stake of 59.73 per cent of paid-up capital of SBI on 29 June 2007 to the government. The stake sale in NABARD was effected subsequently. The accounting of the SBI transaction came in for criticism. The former Deputy Governor S. S. Tarapore called the transaction a 'fiscal fudge' and the worst kind of financial engineering. The government showed the purchase of SBI shares from the Reserve Bank as a capital expenditure, but the Bank's capital gain transferred to the government along with the Bank's profit was recorded under the government's revenue receipt. As a result, the gross fiscal deficit remained unchanged while the revenue deficit shrank.

Conclusion

This chapter is about the journey of the Reserve Bank, not a smooth journey, to become a leaner, dynamic and resilient organisation capable of handling a more diverse and challenging range of tasks with a smaller workforce. The keys to this process were human capital formation, incentivising training and professionalism, equality of opportunities at the workplace, and a restructuring of the workforce. At the same time, the Bank reduced its commitment to ownership of subsidiaries. The outcome was a more skill-oriented organisation than before. Many corporate groups needed to become more efficient after the economic reforms of the 1990s began. But whereas companies did so because they were subject to competitive market forces, the Bank took this road thanks to proactive leadership.

Notes

1. The number of government officials was increased to two with effect from 1 February 2012, as amended in the RBI Act.
2. This was during the reference period. Also see note 19.
3. Reserve Bank of India (RBI), *The Reserve Bank of India, Vol. 3: 1967–1981* (Mumbai: Reserve Bank of India, 2005), pp. 467–70.
4. The units operating in the four metros – Mumbai, Kolkata, Delhi and Chennai – are known as offices, while the units located at other cities and towns are called branches. Sub-offices are those working under the overall charge of one of the offices.
5. The reorganisation of the departments is discussed in related chapters.
6. Employees who had completed twenty-five years of full-time regular service and were fifty years of age as on 1 August 2003 were eligible. The scheme was closed on 31 December 2003. About 4,468 employees opted for voluntary retirement. Of which, Class I staff (officers) comprised 2,058, accounting for a major share of 46 per cent.
7. Ramesh Chander, Regional Director, Jaipur, 'Letter to Central Office', 2001.
8. Rajya Sabha Question Dy. No. 631 for answer on 22 July 2003, tabled by Raj Kumar Dhoot.

9. See the section titled 'Organisational Climate Survey'.
10. Under the staff exchange programme of SAARCFINANCE, a network of central bank governors and finance secretaries.
11. See http://www.cgspublicationindia.com/5th_Pay_Commission.aspx.
12. Chairman: D. B. Phatak.
13. Chairman: S. P. Talwar, Deputy Governor.
14. Chairman: R. B. Barman, Executive Director.
15. See Chapter 9.
16. Chairman S. S. Tarapore.
17. End of June.
18. In the light of observations made by the Supreme Court in one of its judgments, after the term of the board was over in February 1999, the board was renamed as the Central Advisory Board on Bank Frauds (CABBF) and brought under the Central Vigilance Commission (CVC), in order to advise the CBI on bank frauds. In August 2000, the board was renamed the Advisory Board for Bank, Commercial and Financial Frauds (ABBCFF) to cover central PSUs and FIs. There were twenty-four cases referred for advice by the Bank to the ABBF, fifteen cases by the CBI to the CABBF, and ninet-two cases (up to March 2008) by the CBI/CVC to the ABBCF, including nine Unit Trust of India cases referred by the CVC in 2002–03.
19. The Bank's accounts were maintained on the basis of financial years that ran from 1 July to 30 June, while the government's financial year ran from 1 April to 31 March. The Bank's financial year was changed to 1 April to 31 March with effect from 2021–22, with the previous financial year, that is, 2020–21 running from 1 July to 31 March, as a transitional arrangement. The Central Board meeting to finalise the Bank's accounts for 2020–21 was held on 21 May 2021.
20. Narendra Jadhav, Partha Ray, Dhritidyuti Bose and Indranil Sen Gupta, 'Financial Sector Reforms and the Balance Sheet of RBI', *Economic and Political Weekly* 40, no. 12 (2005): 1142–43 and 1145–50.
21. S. S. Tarapore, 'Strengthening the Reserve Bank of India Balance Sheet', First Seminar on RBI Balance Sheet Management, Bankers' Training College, Mumbai, 1997.
22. The 'Exchange Fluctuation Reserve' was renamed 'Currency and Gold Revaluation Account' in 2001–02.