CHAPTER XVI

Brief notes on Committees in the name of Financial Sector Reforms and Reconstruction

Since the advent of so-called New Economic Policy introduced by Dr. Manmohan Singh in 1991 at the behest of US dominated international agencies like IMF/World Bank/WTO, successive Governments at the Centre led by whether Congress or BJP have been relentlessly trying to liberalise the financial sector to make it a favourable hunting ground for Private Indian and Foreign Monopoly Capital. Banking and Insurance Sectors are the major targets of the policy managers in its wake. In the name of banking sector reforms and global integration they have been making desperate bids to open this vital sector to private capital by denationalization of Public Sector Banks and giving licences for opening new private sector banks. Simultaneously they have started major exercises for massive computerization for jobless growth downsizing the staff strength, introduction of contractual labour in a big way for performance of routine bank work at much lower wages without fixed working hours. To facilitate this, so called expert Committee after Committee have been formed from time to time by Government of India, Reserve Bank of India, Indian Banks' Association, Planning Commission and others who have, most interestingly, more or less have followed the charted part of tailor-made recommendations with some additions and alterations - major objective being the denationalization of the Public Sector Banks and pumping foreign capital into Indian Banking System at any cost. Let us have some cursory view of the recommendations of some of the important Committees formed so far :

Narasimham Committee -1 (1991)

This Committee on Financial System was formed by the

Government of India on 14th August 1991 under the Chairmanship of Sri. M. Narasimham, Ex-Governor of Reserve Bank of India in order to examine all aspects relating to the structure, organization and functioning of the financial system. The Committee submitted its detailed Report on November 1991. While showering profuse praise on public sector banking for unprecedented growth and spread in the shortest possible time unparalleled in the world, he took a U-turn, recommending dismantling of the nationalized banking structure and gave a long prescriptions as under to do away with social banking and replace it by class banking and put the huge resources of the banks at the disposal of private capital to fatten themselves at the cost of millions of the countrymen.

- Restructuring of Banking Pattern by creating 3/4 large Banks for international operations, 8 to 10 national Banks for universal banking in the country. Local Area Banks for operation in a specific region and Rural Banks including RRBs predominantly for rural sector, etc.
- The priority sector to be redefined and priority sector lending to be reduced to 10% instead of 40%.
- Directed credit programmes and concessional interest rates should be phased out.
- Interest rates to be market driven based on profitability consideration.
- No further nationalization of Banks.
- Set up more new banks in Private Sector and scrap branch licensing policy. Allow joint ventures with foreign banks.
- Banking Service Recruitment Board to be dismantled.
- Flexibility in personal policies of the Banks.
- Whittle down RBI detailed inspection.

- No need for Reserve Bank to have a representative on Banks' Boards.
- Creation of Assets Reconstruction Fund (ARF) which could take over a portion of bad and doubtful debts at a discount.
- For expansion of capital base, allow Banks to issue additional shares in open market and wide open mutual fund operations.
- Massive computerization.
- Reduction of SLR and CRR.
- Provisioning against doubtful debts.

Narasimham Committee - II (1998)

The Second Narasimham Committee, which was entrusted with making suggestions in the context of changes that took place in the domestic economic and institutional scene since 1991 submitted its detailed report in April 1998. The Committee made the following recommendations :

- Government ownership in Public Sector Banks to be brought down to 33%.
- Priority Sector - to be redefined.
- Interest subsidy element in credit for priority sector to be eliminated and interest rates on loans under Rs. 2 lakhs to be deregulated.
- Bank-wise negotiation instead of industry-wise wage negotiation.
- Mergers of Banks.
- Banking Services Recruitment Boards to be scrapped.
- Introduction of Voluntary Retirement Scheme and winding up of branches on the basis of their non performing advances.

- Public Sector Banks are permitted to have access in capital market (Home and Abroad) for meeting its capital requirements to raise capital.
- Facilitate evolution and growth of Micro Credit Institutions.
- Set up Board for Financial Regulation and Supervision (BFRS) for regulation and supervision of the activities of banks, financial institutions and NBFCs (with statutory power).
- Amendment of Banking Regulation Act and RBI Act to suit the agenda.

Verma Committee (1999)

A six member committee headed by Sri. M.S. Verma, ex-Chairman of State Bank of India and the then adviser to Reserve Bank of India was set up by Reserve Bank of India in consultation with the Government of India on February 06, 1999. Specific purpose was to prepare a report on "restructuring of weak banks" viz., UCO, UBI and Indian Bank. The agenda was to (1) determine criteria for identification of weak Public Sector Banks, (2) study and examine problems of weak banks, (3) identify potentially revivable Public Sector Banks, (4) suggest strategic plan of financial, organizational and operational restructuring for weak Public Sector Banks. The Committee submitted report within 2 months (4th October 1999).

The Verma panel suggested :

- 25% reduction in staff strength within coming 6 months, through VRS or
- 25% wage reduction for entire staff
- Wage freeze for at least five years
- Non-implementation of pending wage revision

- Drastic curtailment of number of branches and
- Withdrawal from several areas of operation.

The Committee also suggested to set up Asset Reconstruction Fund (ARF) which will be capitalized by the Government and would purchase the banks outstanding (NPAs) at a discount. The ARF will be statutorily empowered with recovery of loan for which the law has to be made stringent. The Committee earmarked, on certain parameters decided by them, another 6 banks as "banks in distress" which should be subjected to above measures. They were Allahabad Bank, Central Bank of India, Indian Overseas Bank, Punjab & Sind Bank, Union Bank of India and Vijaya Bank.

NOTE : The main target of the Verma Committee was the employees of the banks, not the big defaulters who were mainly responsible for weakening the financial health of the Banks. Even at that point of time. Corporate Houses under different banners, may it be under FICCI or Cll conducted so-called surveys, constituted Task Force of their own. The FICCI team declared that there were about 1,77,405 redundant employees accounting for 22% of staff in 16 nationalised banks. Cll went a step further and suggested as per their Task Force Report to wind up UCO Bank, United Bank of India and Indian Bank at a single stroke.

In that situation Com. Jyoti Basu, the then Chief Minister of West Bengal wrote a letter to Sri. Yashwant Sinha, the then Union Finance Minister on 22.12.99, which is reproduced below:

"Dear Shri Sinha,

It has been brought to my notice that a Task Force of Confederation of Indian Industries (Cll) has recommended closure of 3 banks, namely United Bank of India, UCO Bank and Indian Bank, the first two of which have their Head Offices

in Calcutta and the other in Chennai. But, I understand that the condition of the three banks has steadily improved over the last two years in as much as United Bank of India has booked increasing net profits. UCO Bank's operating profits have been on the increase and there has been marked improvement in the performance of Indian Bank.

In view of the turn-around being achieved by these banks, I feel that the upward trend should not be allowed to be interpreted like CII. A public statement by you indicating categorical rejection of the Cll recommendations will go a long way in maintaining the initiative of the concerned banks to restore themselves to good health and in assuring the common depositors about their sustained confidence in these banks.

With regards,
Yours sincerely,
Sd/-JYOTI BASU

S.C. Gupta Committee (Vision 2010) - 2003

In 2003, Indian Banks' Association (IBA) formed a high level committee under Chairmanship of Sri. S.C. Gupta to "evolve a strong, sound and globally competitive financial system" etc. The broad action plan towards the directed goal as prescribed by the Committee is :

- Abolition of nationalized character.
- Replacement of mass banking ("Relationship Banking") by Class Banking ("Convenience Banking").
- Profit and commercialization to be sole objective, all services to be free-based and market driven.
- Merger and acquisitions of Banks.
- Staff reduction.
- Foreignisation of Indian Banks.

- Tremendous outsourcing of banking jobs for cost effectiveness.
- Banking Sector to be kept away from the purview of the Vigilance Authority.

Tarapore Committee (August 2006)

The Government of India formed a Committee on Full Capital Account Convertibility in March 2006 under the Chairmanship of Sri. S.S. Tarapore, former Deputy Governor of Reserve Bank of India. Some of the recommendations of the Committee are given below:

- The Share Capital of the Government in Public Sector Banks should be reduced from 51 to 33%. Private share holding should be increased to 67%.
- Public Sector Banks should be incorporated under Companies Act and delinked from Bank Nationalization Act.
- Voting rights in the Banks should be as per Companies Act.
- There should be market-driven consolidation of banking system and there should be 4 or 5 Banks after such mergers. The Government should bring necessary legislative amendments to the statutes to enable above mergers.
- RBI's share holding in State Bank of India should not be transferred to the Government.
- More private banks should be encouraged.
- Industrial houses should be given more stakes in Banks and are allowed to promote new banks.
- Non-Banking Financial Companies to be converted into Banks.

- Foreign Banks / Investment Companies to be allowed to enhance their presence in Indian Banking system.
- Giving up the majority ownership of Public Sector Bank both for nationalized Banks as well as for State Bank of India should be worked out.

Reghuram Rajan Committee - (2007)

In August 2007 the Planning Commission set up a High Level Committee on financial sector reforms with Reghuram G. Rajan, Professor, Graduate School of Business, University of Chicago and presently Governor, Reserve Bank of India, as Chairman. The Committee, among others, was to identify the emerging challenges in meeting the financing needs of the Indian Economy in the coming decade and to identify real sector reforms that would allow those needs to be easily met by the financial sector. Some of the recommendations made by the Committee are mentioned below:

- Allow more entry of private banks.
- More foreign investments to be allowed into India.
- Open up Government bond market to foreign investors.
- Liberalise banking correspondents.
- Privatise priority sector advances.
- Liberalise interest rates on loans.
- Small Public Sector Banks to be sold or to allow strategic investor in these banks.
- More powers to outside share holders and strategic investors in the Bank Boards.
- Delink the Banks from Government oversight like Parliament, Vigilance Commission.

- Be more liberal in allowing takeovers and mergers.
- Freedom for banks to open branches and ATM wherever they want.
- Encourage more Asset Reconstruction Companies.
- Reduce Government stake in Banks to less than 50%.
- Reduce RBI's supervisory / controlling role.

Anwarul Hoda Committee - (April 2008) :

The Planning Commission had constituted a High Level Group on Services Sector under the Chairmanship of Shri Anwarul Hoda, Member (International Economics), Planning Commission for comprehensively examining the different aspects influencing the performance of the services sector and suggest short-term and long-term policy measures to improve and sustain its competitiveness in the coming years. Some of the recommendations made by the Committee are mentioned below :

- Phase out Priority Sector lending.
- Reduction of SLR.
- Abolition of branch licensing.
- Consolidation of banks.
- Reduction in Government's capital in Banks to less than 51%.
- More foreign investment to be allowed in Insurance sector.
- Removal of FDI restrictions in re-insurance companies.
- Banks, Insurance and Pension Funds to invest in private equity.
- P.F. and Pension Fund should be permitted to invest in equity shares.

Committee on Financial Sector Assessment - (CFSA 2009):

The Committee was formed by Reserve Bank at the dictate of IMF and World Bank. The Committee had lauded the Banking Sector in India for having withstood the terrible tsunami of global melt-down. But the Committee made the following recommendations which are but the extension of the prescriptions of its predecessors. Just See :

- The Government's stake should be brought down below 51%.
- Merger of nationalized banks.
- More liberal entry of foreign banks in India.
- Share of FDI in Indian private banks to be raised up to 74%.
- Proportionate voting rights to private shareholders.
- Dilution of Government control / regulatory & supervisory control of RBI over the Banks.
- Full independence of bank in matter of recruitment.
- Suitable amendment of relevant legislations for the purpose.

Khandelwal Committee (October. 2009) :

The Government of India constituted a Committee under Chairmanship of Dr. A.K. Khandelwal in October 2009 for conducting study on Human Resources issues of Public Sector Banks. Out of 105 recommendations, Government of India has accepted 56 recommendations of the Khandelwal Committee and Banks have been advised to get them implemented. Some of the recommendations are given below:

- No further industry level Bipartite Settlements - introduce Bank-wise wage revision based on capacity of pay, profitability, productivity etc. instead of industry level agreements.

- To outsource non-core jobs (which are actually main banking functions).
- Direct recruitment of officers up to 50%.
- Fresh recruitment to be only in Rural and Semi-Urban areas and not in Metro / Urban branches.
- Introduction of variable pay.
- Full freedom on transfer policy.
- Reduction of clerical strength to 50% of the strength of the officers.
- Pay huge sum of incentives ranging from 18 lakhs to 35 lakhs for CMDs of PSBs.

Srikrishna Commission (Financial Sector Legislative Reforms Commission- 2013)

FSLRC, set up by Government of India with a mandate to evolve the new regulatory architecture for the financial sector as a whole, submitted its recommendations which have many dangerous implications for RBI. The Recommendations, if implemented, will take away many functions of RBI and dilute its authority vastly. Some of the recommendations are :

- Public Debt management should be taken away from RBI.
- Non-Banking Financial Companies should be outside the purview of RBI.
- RBI should be stripped of its role in financial markets.
- RBI will have nothing to do with Forex Market.
- Capital controls should be rested with the Ministry of Finance.
- Banking Regulation and Supervision and the Payment & Settlement System may be left with RBI but only for a temporary period.

- A statutory Monetary Policy Committee to be set up to take executive decisions on monetary policy. There would be only 2 RBI members and 5 external members appointed by the Government - each member having a vote. Chairperson can give veto to the decision only by explaining with a public statement.

P. J. NAYAK Committee - 2014

Reserve Bank of India formed a committee on 20th January 2014 under the Chairmanship of P. J. Nayak, former Chairman & CEO of AXIS Bank and former country head of Morgan Stanly India in order to review governance of Bank's Boards in India. Though the Committee's report was not limited to PSBs, the focus of the Report happens to be on these Banks in actuality.

As per the observation of the Committee :

- The financial position of Public Sector Banks is fragile.
- The Board of the Public Sector Banks are dysfunctional and lack professionals.
- The Public Sector Banks lack in sense of direction and focus on issues of strategy and Risk Management.
- These have arisen due to poor governance.
- Government Ownership comes in the way of the board of public sector banks being professionalized and empowered.
- Government ownership renders PSBs performance inferior to that of private sector banks.

While diagnosing, the Committee has prescribed Standard Remedies for all ills and suggested three phases of transition within two and three years.

- The Bank Nationalisation Acts, formally the Banking Companies (Acquisition and Transfer of Undertakings) Act of 1970 and 1980, the State Bank of India Act 1955 and State Bank of India (subsidiary banks) Act 1959 must be repealed and all banks converted into companies under Companies Act. The Banks would be renamed under this Act as UCO Bank Ltd., Punjab National Bank Ltd. so on and so forth.
- Government should transfer its shareholdings to newly envisaged Bank Investment Company (BIC).
- In phase-l transition process, until the BIC becomes operational, a Bank Board Bureau would be formed. The Board will comprise three senior bankers like serving and retired Chairmen, Executive Directors etc.
- In phase-ll when BIC becomes operational, the governance functions will be exercised by BIC.
- In Phase III, the BIC will transfer the governance functions to the respective Bank Boards. There will be no Reserve Bank nominee.
- The BIC will gradually lower its stake in PSBs below 50%.
- The dilution of BIC's stake in PSBs below 50% will pave the way for adequate financial compensation (pay etc.) of the professionals.
- As a result of this off loading, the PSBs would be freed from the purview of Central Vigilance Commission and the Right to Information Act. They will carry forward their programmes unchecked, unhindered.

- The Committee also suggests "Cases of vigilance enforcement against whole time directors and other bank employees for decisions taken by them must be based on evidence that the director and employee personally made a wrongful gain. For leveling criminal charges, fraud must manifest itself through evidence of self-benefit. In loan and expenditure cases, deviations from procedure must not constitute the sole basis of initiating criminal action.