4. STATUS IN THE BANKING AND FINANCIAL SECTOR

4.1 Banking and Financial Sector

Banks and financial institutions in India are well aware of the potential problems associated with the Year 2000. Even if a bank is able to ensure that its own systems are Year 2000 ready, it will not be enough since all its businesses partners and service providers (such as telecommunications and electricity suppliers) will also have to be fully Y2K compliant. It is important that all sectors of the community take adequate measures to address the Year 2000 problem and have contingency plans in place to deal with any difficulties that may arise due to non-compliance. In its role as bank supervisor, the Reserve Bank, issued a circular in mid 1996, on the Y2K problem mainly to create awareness among the participants in the financial sector. In September 1997, the Reserve Bank forwarded materials to all chief executives of commercial banks explaining the concerns and seeking feed back on the action initiated / proposed to be initiated at their end. Banks were advised to formulate an appropriate strategy and put in place a timetable to achieve Y2K compliance by the stipulated deadline. Letters were addressed to the head offices and home country supervisors of foreign banks functioning in India emphasising concerns of the Reserve Bank and the need for concerted action. A survey report on the status in the Indian Banking System has been compiled. India is one among the few countries that had responded to the BIS survey to facilitate publication/inclusion in their web site. BIS has included information furnished by the Reserve Bank in their consolidated survey report communicated world wide in April 1998. In July 1998 banks were advised to make an assessment of the state of Y2K readiness of their customers/correspondents particularly where significant disruption or loss could take place due to systems of the latter being non-compliant and take corrective action.

4.2 Non Banking Financial Companies

One of the features of Indian financial sector is the existence of a large number of Non-Banking Financial Companies (NBFC). These companies and large number of co-operative banks present logistic problems in surveillance and supervisory efforts. Our direct surveillance efforts have been restricted only to those NBFCs which are accepting public deposits. The Reserve Bank has advised all Non-Banking Financial Companies (NBFCs) which have a net owned fund of Rs.25.00 lakhs and above for their year 2000 compliance. Major associations of NBFCs were also advised to keep their members apprised of the Y2K issue and the need for an effective strategy to tackle it.

4.3 Co-operative Banks

In respect of co-operative banks, the Reserve Bank would cover all the 1836 banks. The focussed attention is being paid on institutions, which have a larger deposit base (say Rs.50 crores) or are members of a local clearing house. In case of others the Associations of Urban banks have been asked to take lead in coordination with the RBI.

4.4 State Finance Corporations and State Industrial Development Corporations

Of the 18 State Finance Corporations (SFCs) and 28 State Industrial Development Corporations (SIDCs), 11 SFCs and 9 SIDCs are in the process of finalising their action plans for being compliant by March 1999. The Reserve Bank of India is in communication with the Industrial Development Bank of India (IDBI) for intensifying their proactive measure with these institutions.

4.5 Housing Finance Companies

The Reserve Bank of India is following up with the National Bank for Housing to proactively guiding and monitoring the compliance efforts of the Housing Finance and other companies registered and availing refinance from them.

4.6 Institutions Supervised by Securities and Exchange Board of India and Insurance Regulatory Authority

The Reserve Bank of India is sharing information with the Securities and Exchange Board of India (SEBI) and Insurance Regulatory Authority (IRA) regarding supervisory initiatives on Y2K. The intermediaries under the supervision of SEBI have been advised to reach a compliant position by December 1998, so that they are able to implement their systems by June 1999. A task force has been set up by SEBI to co-ordinate efforts and monitor progress by the institutions under their supervision.

4.7 General Post Office

The General Post Office Savings Bank accepts public deposits and participates in the cheque clearing arrangement at several centres. The Reserve Bank has taken up the matter with the Director General (Posts), Ministry of Communication at the apex level to seek his commitment for action.

4.8 Utilities, Customers, etc.

Communications on the Y2K problems have gone from the Reserve Bank of India to the Securities and Exchange Board of India (SEBI), the Insurance Regulatory Authority (IRA), MICR Security Printers, manufacturers of security paper, specialised institutions like the Industrial Development Bank of India, the Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India, the Unit Trust of India, etc. The Indian Banks' Association continues to interact with trade bodies and industry associations since commercial banks are required to ensure compliance of not only their own computer systems but also their interfaces with the customers and trade bodies. The Y2K status of the customer is a critical issue and is therefore to be considered a risk factor in loan sanctioning.

The commercial banks have been advised to gear up their efforts to assess, convert and thoroughly validate all systems and applications by December 31, 1998. Commencing October 1, 1998 the commercial banks have been advised to continuously validate their renovated systems through testing and identify alternative approaches if need be. They have been advised to validate interfaces/linkages with customers/ correspondents. Testing is required to be done with reference to minimum number of dates relevant for Year 2000 testing. Similar monitoring and compliance is extended to non-banking subsidiaries of commercial banks, financial institutions, primary co-operative banks. Each commercial bank has been advised to constitute an internal Core Group and the progress is to be monitored regularly by their top management and their boards. The Indian Banks' Association is conducting periodic reviews for the Y2K problem for the industry and co-ordinating with infrastructure agencies, trade bodies, etc.

A public awareness campaign has been initiated by the Indian Banks' Association (IBA) by inserting an advertisement in various newspapers highlighting the millennium problem and the need to resolve it well in time. It is stressed therein that trade, industry, commerce, government sector organisations and communication networks need to gear themselves up to meet the Y2K challenge. Posters are being placed at appropriate places to draw attention of banks' customers and general public. Y2K compliance issues are made an essential input in in-house training programmes of banks. The RBI is monitoring the compliance in the banking industry through periodic reviews. The Working Group set up in RBI conducts bi-monthly reviews of the progress attained by the banking industry.

The Reserve Bank of India and the IBA have arranged several presentations on Y2K by Indian and other reputed cross border software organisations. Up-to-date information on Y2K related issues on internet available from BIS, FEDRESERVE and other countries including Bank of England is shared by the RBI with the banks. The cross border issues relating to upgrading of the systems for interface with SWIFT are being addressed. The banks permitted to maintain data abroad have been asked to ensure Y2K compliance vis-a-vis the foreign banks/entities. Branches of Indian banks are ensuring Y2K compliance keeping in view the requirements of those countries.

The following strategies are adopted for attaining the full compliance of year 2000 in the financial sector.

- Unaudited certification of compliance by commercial banks
- Verification of compliance efforts through onsite supervisory examination
- Statutory auditors to comment on the process followed by commercial banks for Y2K compliance
- Validation of contingency plans by commercial banks
- Commercial banks to give their compliance position on their web sites

The full compliance can be attained only after undertaking a comprehensive testing of all the systems, whether upgraded or replaced. The testing exercise is to be integrated in the action plan for Y2K compliance. An important precautionary step has been taken to see that the supervisory departments of the Reserve Bank would exercise pro-active supervisory pressures to address the problem whenever the supervisory teams visit banks. It has also been decided by the Working Group on Y2K issues that suitable penal measures akin to the idea given by the Bank of England would be considered with respect to those banks, which do not adhere to the Y2K compliance by March 1999.

4.9 Information Sharing

There has been a high level of co-operation among banks on Year 2000 issues. However, only few banks have made substantial efforts to help raise their customers' awareness on Y2K issues. This is disappointing because banks can influence their customers in this regard and this, in turn, would help reduce the potential for widespread Year 2000 problems. Banks are therefore urged to share information with their customers and to try to ensure that customers and counterparties are taking adequate measures to address Year 2000. This is especially important for the small and medium-sized business sector. Banks will need to consider the likely efforts of the century date change on their customers and counter parties when evaluating future business transactions with these entities. The Reserve Bank of India in fact encourages banks, and all major financial organisations to share their progress towards achieving Year 2000 readiness.

The latest status of compliance of Y2K by banks, their subsidiaries and financial institutions, etc., is given in the Annexure-II.

ANNEXURE - II

COMPLIANCE IN BANKS AND FINANCIAL SECTOR

Compliance in Banks and Non-banking Subsidiaries of Commercial Banks

Most of the banks in India use standalone PCs or Novell NetWare/UNIX LAN for computerisation. Some banks do have a few mainframe computers, which are used for computing purposes. These computer resources would have to be either upgraded or replaced to meet Y2K requirements. The existing computers not found to be Y2K compliant could be used for non-date sensitive applications. The computers in computing environment and sensitive to date have to be Y2K compliant. Mainframes in all cases are in the process of replacement as they have become quite old. These initiatives would mean additional cost to the banks but such investments are unavoidable.

The progress of the Y2K compliance of commercial banks and non-banking subsidiaries of commercial banks are given in Table – 1 and Table – 2 respectively.

Table – 1
Commercial Banks

Description	**Percentage of compliance by targeted banks**
Banks compliant	21.16
Banks expected to be compliant by 31-12-1998	56.74
Banks expected to be compliant by 31-03-1999	18.26
Banks whose compliance is expected by 30-06-1999	3.84
Total	100.00

Table – 2

Non-Banking Subsidiaries of Commercial Banks

Description	**Percentage of compliance by targeted institutions**
Institutions compliant	47.50
Institutions expected to be compliant by 31-12-1998	22.50

Institutions expected to be compliant by 31-03-1999	10.00
Institutions where compliance is being pursued	20.00
Total	100.00

Financial Institutions

The Y2K compliance efforts of the General Insurance Corporation of India, the Industrial Development Bank of India, the Life Insurance Corporation of India, the Industrial Credit and Investment Corporation of India and the National Bank for Agriculture and Rural Development are expected to spill over to 1999. The Y2K compliance position of Financial Institutions is given in Table – 3.

Table – 3

Financial Institutions

Description	**Percentage of compliance by targeted institutions**
Institutions compliant	41.67
Institutions expected to be compliant by 31-12-1998	16.66
Institutions where compliance is being pursued	41.67
Total	100.00

Primary Urban Co-operative Banks

Rigorous follow up measures were initiated with the co-operative banks. Table – 4 gives status of the Primary Co-operative Banks.

Table – 4

Primary Co-operative Banks

Description	**Percentage of compliance by targeted institutions**
Primary Co-operative banks not computerised	21.80
Primary Co-operative banks compliant	2.30
Primary Co-operative banks where compliance is being pursued	75.90
Total	100.00

Primary and Satellite Dealers in Government Securities

The Discount and Finance House of India, Securities Trading Corporation of India, Kotak Mahindra, CEAT Finance, Hoare Govett and Tower Capital are the dealers who have yet to report status to the Reserve Bank of India. The position of Primary and Satellite Dealers are given in Table – 5 and Table – 6.

Table – 5

Primary Dealers in Government Securities

Description	**Percentage of compliance by targeted institutions**
Institutions compliant	50.00
Institutions expected to be compliant by 31-12-1998	16.70
Institutions where compliance is being pursued	33.30
Total	100.00

Table – 6

Satellite Dealers in Government Securities

Description	**Percentage of compliance by targeted institutions**
Institutions compliant	22.20
Institutions expected to be compliant by 31-12-1998	22.20
Institutions where compliance is being pursued	55.60
Total	100.00

State Co-operative Apex Rural Development Bank, State Co-operative Banks, Central Co-operative Banks, Regional Rural Banks

Several institutions particularly in Punjab and Kerala are yet to put in place concrete action plans for renovation/replacement of non-compliant packages. The status in respect of above institutions are given in Table – 7 through Table – 10.

Table – 7

SCARDB

Description	**Percentage of compliance by targeted institutions**
Number of non-computerised banks	21.00
Number of banks compliant	26.30
Number of banks where compliance is being pursued	52.70
Total	100.00

Table – 8

State Co-operative Banks

Description	**Percentage of compliance by targeted institutions**
Number of non-computerised banks	13.80
Number of banks compliant	20.70
Number of banks where compliance is being pursued	65.50
Total	100.00

Table – 9

Central Co-operative Banks

Description	**Percentage of compliance by targeted institutions**
Number of non-computerised banks	25.10
Number of banks compliant	15.30
Number of banks where compliance is being pursued	59.60
Total	100.00

Table – 10

Regional Rural Banks

Description	**Percentage of compliance by targeted institutions**
Number of non-computerised banks	25.00
Number of banks compliant	12.80
Number of banks where compliance is being pursued	62.20
Total	100.00