Statement 2: Financial System: Pre-reform and Current Status

Sr. No.	Category	Characteristic/ Activity	Pre-reform	Current Status
1.	**Commercial Banks**			
		Ownership	Nationalised banks were fully owned by the Government, State Bank of India by the RBI and the associates of SBI by SBI.	After amendments to relevant statutes, Public Sector Banks have diversified ownership, not by disinvestment but by expansion in equity. In nationalised banks, government will have a minimum of 51 per cent equity; in SBI, RBI will have 55 per cent equity; and in SBI's subsidiaries, SBI will have 55 per cent equity. So far 8 public sector banks have diversified ownership, viz., State Bank of India, State Bank of Bikaner and Jaipur, Oriental Bank of Commerce, Dena Bank, Bank of Baroda, Bank of India, Corporation Bank and State Bank of Travancore.
		Competition	i) No new private sector commercial bank licensed since 1972.	Reserve Bank of India issued guidelines in January 1993 for establishment of banks in the private sector. So far nine new private sector banks have been set up, viz., IndusInd Bank Ltd., Global Trust Bank Ltd., UTI Bank Ltd., ICICI Banking Corporation Ltd., HDFC Bank Ltd., Times Bank Ltd.,Bank of Punjab Ltd., Centurian Bank Ltd. and IDBI Bank Ltd.
			ii) Entry of foreign banks restrictive.	A number of foreign banks have been allowed entry into the Indian banking sector. The number of foreign banks operating in India increased from 21 in 1990 to 43 in 1998. Existing foreign banks were allowed 36 additional branches.
			iii) Restrictive branch licensing policy.	In terms of provisions of the new licensing policy announced in 1992, inter alia, permission was given to banks to shift their existing branches within same locality, open certain specialised branches and convert non-viable rural branches into satellite offices.
		Lending rates	Lending rate structure consisted of six categories based on the size of advances.	i) Interest rates on advances above Rs.2,00,000 to be linked to Prime Lending Rate (PLR) of each bank. ii) Advances up to Rs.2,00,000 and the advances against the security of fixed deposits not to exceed PLR. iii) Spreads over PLR to be announced. iv) Export credit rates regulated by RBI, currently at concessional rate.

		Deposit rates	Administered interest rates structure was in force on all deposits including term deposits of various maturities.	All deposit rates have been freed barring interest rate on savings bank deposits and NRI deposits.

Statement 2: Financial System: Pre-reform and Current Status (contd.)

Sr. No.	Category	Characteristic/ Activity	Pre-reform	Current Status
		Statutory pre-emptions	There were high pre-emptions in the form of cash reserve ratio (CRR) and statutory liquidity ratio (SLR). Banks were required to maintain 15 per cent CRR on net demand and time liabilities (NDTL) and incremental CRR of 10 per cent on NDTL over the level of NDTL as on May 3, 1991. Banks were also required to maintain 38.5 per cent SLR on domestic liabilities and 30 per cent on non-resident liabilities.	CRR has since been reduced to 11 per cent of NDTL. SLR has also been brought down to 25 per cent of NDTL, which is the minimum prescribed under the Banking Regulations Act. In view of exemption of CRR for certain categories of foreign currency liabilities and inter-bank liabilities, effective CRR is 9.75 per cent.
		Prudential system/ supervision	There was a system of health code system under which advances were categorised into eight categories, of which four categories were deemed as non-performing assets. There was no clear definition of problem loans. There was also a subjectivity in classification of problem loans.	Prudential norms relating to income recognition, asset classification provisioning and capital adequacy standards comparable to international standards were prescribed from 1992. Banks can not recognise income on non-performing assets (NPAs). NPA is a credit facility in respect of which interest and/or instalment of principal has remained past due for a period of any two quarters in a financial year. Assets are required to be classified into four broad groups, viz., standard, sub-standard, doubtful and loss assets depending on the period for which interest and/or instalment of principal income remains unpaid. As regards provisioning, all loss assets are required to be written-off or fully provided for. Hundred per cent provisioning is required for unsecured advances in ‘doubtful assets’ category and from 20-50 per cent on secured portion depending on the period for which the asset has remained doubtful. 10 per cent provisioning is required for sub-standard assets. Recently, it has been prescribed that banks should make a general provision of a minimum of 0.25 per cent in respect of standard assets for the year ending March 31, 2000.

		Capital adequacy standards	Minimum of Rs.5 lakh as paid-up capital and reserves.	New private sectors banks–Rs. 100 crore. Foreign banks – US$ 10 million (one branch). Capital adequacy norms were introduced and initially banks were required to maintain 8 per cent risk-weighted capital adequacy ratio.Recently, the ratio has been increased and banks are required to achieve a minimum ratio CRAR of 9 per cent as on March 31, 2000.

Statement 2: Financial System: Pre-reform and Current Status (contd.)

Sr No..	Category	Characteristic/ Activity	Pre-reform	Current Status
		Risk Management	Focus was entirely on credit risk and to a large extent on the management of foreign exchange risk and operational risk.	Having introduced capital adequacy, income recognition, asset classification and provisioning norms to take care of the credit risk, management attention is now focussed on the market risk management, particularly in the context of deregulation and liberalisation of interest rates. Comprehensive asset liability management systems are being introduced from April 1, 1999 to take care of interest rate, liquidity and currency risks.
		Restrictions on in-house activities	There were restrictions on undertaking certain activities departmentally.	Hire-purchase and leasing activities have been allowed to be undertaken departmentally.
2.	**Co-operative banks (Central and state co-operative banks)**	Interest rates	Interest rates were regulated.	Both deposit and lending rates deregulated from October 1994.
		Prudential norms	There were no objective criteria in respect of asset classification and provisioning requirements.	Prudential norms relating to income recognition, asset classification and provisioning made applicable to State and Central Co-operative Banks from the year ended March 1997.
3.	**Regional Rural Banks (196 RRBs)**	Prudential norms	There were no objective criteria in respect of asset classification and provisioning requirements.	Prudential norms relating to income recognition, asset classification and exposure norms made applicable from 1995-96 and provisioning norms from 1996-97.
		Interest rates	Interest rates were regulated.	Interest rates totally deregulated in August 1996.

			-	Greater operational freedom has been extended in respect of investment of surplus funds, non-fund business, relocation of loss making branches, opening of extension counters, etc.
			-	Greater role to sponsor banks has been assigned in the management of RRBs since December 1997.

Statement 2: Financial System: Pre-reform and Current Status (contd.)

Sr. No.	**Category**	**Characteristic/ Activity**	**Pre-reform**	**Current Status**
4.	**Urban Co-operative Banks**	Competition	Entry point norms for new banks were highly restrictive.	Entry point norms liberalised based on need and potential.
		Interest rates	Interest rates on term deposits were administered.	Interest rates deregulated.
			Interest rates on loans and advances were administered.	Lending interest rates deregulated subject to the minimum lending rate of 13.0 per cent per annum.
		Prudential norms	There were no objective criteria in respect of asset classification and provisioning requirements.	Prudential norms relating to income recognition, asset classification and provisioning have been prescribed.
		Exposure norms	Quantitative exposure norms based on total DTL (demand and time liabilities) were in force.	Exposure norms were prescribed whereby exposure of a bank to a single borrower is restricted to 25 per cent of capital funds and 50 per cent of capital funds to a group of borrowers.
		Competition	Banks/branch licensing norms were restrictive.	Banks/branch licensing norms have been liberalised.
5.	**Financial Institutions (FIs)**			
	IDBI	Restructuring	IDBI was wholly owned by the Government of India under the Industrial Development Bank of India Act, 1964.	IDBI Act was amended to enable IDBI to access the capital market. IDBI came out with a first ever public issue in July 1995 as a result of which the government shareholding has came down to 74.6 per cent as against 100 per cent earlier.
	IFCI	Restructuring	IFCI was a statutory body under the Industrial Finance Corporation of India Act, 1948.	IFCI was restructured in 1993 by converting it into a public limited company. After becoming a public limited company, IFCI made a public issue of equity shares resulting in dilution of equity of government owned institutions from 100 per cent to about 50 per cent.

Statement 2: Financial System: Pre-reform and Current Status (contd.)

Sr. No.	Category	Characteristic/ Activity	Pre-reform	Current Status
	Financial Institutions (FIs) (contd.)			
	IRBI	Restructuring	IRBI was a statutory body set up under Industrial Reconstruction Bank of India Act with specific mandate to act as a reconstruction agency for aiding rehabilitation of sick units.	IRBI was converted into a company under the Companies Act and it was re-christened as Industrial Investment Bank of India Limited (IIBI). It has been permitted to act as a full-fledged development financial institution like IDBI, etc. However, the Government still holds entire equity in IIBI.
	IDBI	Sources of funds	It had access to LTO Fund facility whereby the Reserve Bank granted long-term loans at concessional terms. It was also provided with the facility of Government guaranteed bonds.	Both these facilities have since been withdrawn.
	ICICI	Sources of funds	Government guaranteed bond facility was available.	This facility has been withdrawn.
	IFCI	Sources of funds	Government guaranteed bond facility was available.	This facility has been withdrawn.
	EXIM Bank	Sources of funds	It had access to LTO Fund facility of the Reserve Bank. It was also provided with the facility of Government guaranteed bonds.	Both these facilities have since been withdrawn.
	IIBI	Sources of funds	It had access to LTO Fund facility of the Reserve Bank. It was also provided with the facility of Government guaranteed bonds.	Both these facilities have been by and large withdrawn.
	TFCI	Sources of funds	Government guaranteed bond facility was available.	This facility has been withdrawn.

Sr. No.	Category	Characteristic/ Activity	Pre-reform	Current Status

	NABARD	Sources of funds	It had access to LTO Fund facility of the Reserve Bank. It was also provided with the facility of Government guaranteed bonds.	LTO fund facility has virtually been withdrawn. The Reserve Bank now makes only a token contribution of Rs.1 crore to each of the two LTO Funds of NABARD. Government guaranteed bond facility has been phased out. NABARD, however, has the facility of two lines of credit from RBI. During 1997-98, the Reserve Bank also contributed Rs.400 crore to the capital of NABARD.
	SIDBI	Sources of funds	It had access to LTO Fund facility of the Reserve Bank. It was also provided with the facility of Government guaranteed bonds.	SIDBI receives small allocation out of repayments being made by IDBI to the LTO Fund. SIDBI continues to receive allocation of Government guarnteed bonds, but the amount has been scaled down.
	NHB	Sources of funds	It had access to LTO Fund facility of the Reserve Bank. It was also provided with the facility of Government guaranteed bonds.	Both these facilities have since been withdrawn.
6.	**Non-Banking Financial Companies**	Regulatory changes	The Reserve Bank regulated mainly deposit taking activities of NBFCs.	Registration of NBFCs with the RBI has been made mandatory. The asset side of the NBFCs has also been subjected to regulation as the RBI has prescribed norms for income recognition, asset classification and provisioning and concentration of credit/investments. In January 1997, the RBI Act was amended which gave extensive powers to RBI for regulating NBFCs.