

BANKING-FINANCE

Nationalised Banks India's example cause for concern

Concern over problems caused by India's nationalised banks in recent years is now being discussed openly by India's banking interests the Auditor General and Parliamentary bodies. In an in-depth examination of these problems a widely read Indian journal has quoted as an example, of how the nationalised banks are likely to be defrauded of Rs 40 crore, this year, up from Rs 13 crore in 1969; while the number of bank frauds has risen alarmingly to an estimated 2,600 in 1983 from 1,639 in 1979. This same study raises many a poser as for the future of nationalised banks in India; and among the problems or failings enumerated are:

- (a) Mammoth frauds,
- (b) Moral turpitude of bankers,
- (c) Delinquent advances,
- (d) Profitability on the decline, bolstered only by international operations,
- (e) Bad housekeeping — unreconciled accounts, etc.
- (f) Poor customer servicing, basic problems with staff, trade unions, archaic procedures, increasing political interference.

Though the present is not that bleak, the dangerous slide in the direction of "frauds and failings" have to be arrested it is suggested.

A home truth has been expressed in simple terms by the Chairman of the State Bank of India (SBI) as "In any case of fraud you will find that there is either some internal involvement or some laxity in observing the rules and procedures.

Sensational news of frauds have created images often buttressed by political findings but Banking circles are still confident and feel that the problem of frauds is 'over-blown'. They do not however, dispute the fact that "accounts" are "major problems that banks have to sort out"

One of the major reasons for the state of affairs especially in regards to "house keeping" is found to be that both the growth in absolute numbers and the new orientation to banking have marked the transition from 'class' banking to 'mass' banking.

The phenomenal success in the turn-over of these banks has created numerous

new problems. Bankers confess that roughly half the sum due for repayment from farmers and small scale industries do not get repaid. In the case of large amounts where credit is given on a more or less permanent basis, 'problem' accounts, are concealed and loans that would be declared 'sick' in other countries are merely termed "sticky" and therefore kept artificially alive. Provision for bad and doubtful debts is not done on a systematic basis, so is the treatment of interest recoverable on such loans. Development of social banking too has perforce led to substitution of lower standards of credit assessment. Lending is done more as a government policy rather than those dictated by norms of banking lending.

The introduction of "social banking" on an unprecedented scale has also meant, inevitably, that some of the standards of judgement used by bankers have been diluted. Says Talwar of Oriental Bank of Commerce (OBC): "You have to compromise to some extent if you are trying to improve the state of the poor, and involving yourself in the country's problems".

This is understandable, and even justifiable, especially as many bankers see the investment in rural banking and new customers as a long-term decision aimed at ultimately creating new centres of profitable banking. Says B.V. Sonalkur, chairman of the Central Bank of India: "I am quite confident that over the years our rural branches are going to be very profitable centres of the bank's business"

But the spread of social banking has also brought about the politicisation of banking in several unfortunate ways. Lending targets are frequently set, not by the banks or the Reserve Bank of India (RBI) but by the Government. This phenomenon of social banking has brought about the "politicisation" of banking. There is interference as to the type of person, projects, amounts and even the date of release.

Effective control has apparently shifted from the Reserve Bank of India (RBI) to the Banking Division in the Ministry of Finance. From appointment to boards, by the ruling party, there is tremendous and continuing pressure on everything from granting loans, to appointing or transferring staff. So much so that banks

are saddled with men "who do not know how to handle the work or are not equipped to tackle a complete situation where fine judgement is called for." The massive recruitment programme has also meant that there is no proper check on new employees antecedents which is found as another reason for the increasing involvement of bank staff in frauds".

Rapid expansion puts adverse pressure on profits, for it takes a few years to build up a new branch and for it to start making profits. Moreover, a straight forward assessment of bank profitability may not be possible in view of secrecy being the byword in bank financing. However, recorded results are favourable in spite of dampening factors such as impounding of bank funds at lower rates of interest by the Government.

Religiously observing the directives, manuals and circulars is advocated more and more in view of the evil consequences of laxity that has crept in with politisation. Strict adherence reinforced by control and supervision by the government auditors and ultimately by the legislators is advocated.

Though our situation is not of that magnitude there is increasing realization for the necessity to concentrate on good "housekeeping" which includes posting, balancing, reconciling and preparation of relevant statements and returns in time, in addition to giving priority for recovery of regular, delinquent and even bad and doubtful loans. There is also a positive move to move towards the rural sector not only by direct banking services but also through integrated rural credit schemes. It is also felt that until such time as sophisticated software replaces normal operations we should provide more mechanical aid which would help in expediting manual operations. This has to be done by providing more accounting, and adding machines and even calculators in addition to other modern office equipment ranging from shredders, addressograph machines, photocopiers and so on. Mechanisation here is to add more power at the elbow to reduce the strain that exists due to increase in volume of operations. Mechanisation calls for ensuring uninterrupted, even supply of power by providing standby generators and even volt minders. Machinery breakdown as an excuse for non-maintenance of books has to be eliminated.

These comments are based mainly on the article on "Frauds and Failings" by T.T. Nian, Chander Uday Singh and Prabhu Chawla appearing in a recent issue of "India Today"

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