IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 14, Issue 2 Ser. I (Mar. – Apr. 2023), PP 61-64
www.iosrjournals.org

Narashiman Committee of Banking System in India

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Abstract- *after the nationalization of 14 banks in 1969 has witnessed a phenomenal Expansion in the geographical coverage and functional spread of our banking and financial system. The development of the financial sector is a major achievement and it has contributed significantly to the increase in our saving rate particularly of the household sector. Despite impressive quantitative achievements in recourse mobilization and in extending the credit reach, several distortions have over the years crept into the banking and financial system.*

The Government of India setup a high level committee Mr. Narasimhan a former Governor of the RBI as chairman to examine all aspects relating to the structure, organisation functions and procedure of the financial system. The committee submitted its report in November 1991 and many of its recommendations have become controversial.

Keywords- *Banking System, Narasimahn Committee, Reformation, Development*

Approach of the Committee

According to the committee the poor financial shape and low efficiency of public sector banks and financial institutions are due to certain basic causes:

Extensive degree of Central direction of their operation in terms of investment, credit allocation, branch expansion and even internal management aspects of business and:

The system has been subjected to the political interference as a result this institutions have failed to operate on the basis of their commercial judgement and in the framework of internal autonomy.

The Narsimha committee was primarily interested in improving the financial health of public sector banks and development financial institution (DFIS).So as to make them Viable and efficient and meet fully the emerging needs of the real economy. The basic assumptions and approach of the committee is that greater market orientation would strengthen the financial system at the improve its efficiency. "The solvency health and efficiency of the institution should be Central to effective financial reforms". The major recommendations of the Narsimha committee centre round the banking system, the development Finance institution and the money and capital markets.

The Narsimha commity has acknowledged the specular success of the public sector banks since the tip banks were nationalised in July 1969 as follows:

Massive branch expansion, particularly in rural areas.

Expansion in the volume of deposited Bank deposited now constitute two fifth of financial assets of the household sector;

Rural penetration of the banking system rural deposits as a proportion of total deposits has increased from 3 percent to 15 percent;

Diversion of an increasing portion of the bank credit to priority sectors, viz, agricultural, small industry, transport, etc. the priority sector credit has gone up from 14 percent to 41 percent during the last two decades;

Increase in deposit and borrower accounts at per present there are over 300 million deposit accounts in the country and over 35 million borrower accounts.

More involvement in the relatively under Bank States the expansion of priority sector lending and the emphasis of area approach has almost evened out reasonal disparities and the concentration of banking business is relatively less now.

The Government of India constituted a 9 member committee under the chairmanship of Mr M. Narasimha, retired RBI Governor on August 14, 1991 for making recommendations on existing financial system and to give suggestions for improving the existing structure. The committee submitted its report to the Finance Minister in November, 1991 which was placed on the table of Parliament on December 17, 1991. The Narsimha committee's recommendations are based on the fundamental assumption that the resources of the banks come from the general public and held by the banks in trust and that they have to be deployed for maximum benefits of their owners, viz. the depositors. This assumptions automatically implies that even the government has no business to endangered the solvency of the nationalized banks under the protest of resources for economic planning social banking poverty eradication etc. At the same time, the government has no right to get hold of the finds of the banks at low rates of interest and use them for financing its conjunction expenditure paying the salary of the employees for the example and the fraud that depositors.

The committee's recommendations were aimed at:
1-ensuring a degree of operational fixability,
2- Internal autonomy for the public sector banks,
3-greater degree of professionalism in banking operations.

The recommendations are as follows:
(A) On Directed Investment

1- Statutory Liquidity Requirements (SLR) should be reduced from 38.5 percent to 25 percent over the next 5 years.
2-The government borrowing rates should be market oriented.
3- Cash Reserve Ratio (CRR) should be progressively reduced from the present high level of 15 per cent to 3 to 5 per cent.

(B) On Directed Credit Programmes

1-The system of directed credit programme should be gradually faced out it should not be a regular programme, rather it may be a case of extraordinary to vehicle section of the economy.
2-The concept of priority sector should be referred it should include only the biggest section of the rural economy.

(C) On the Structure of Interest Rates
1-The level and structure rate in the country should be broadly determined by market forces. All controls and regulations in this report should be removed, consentional rates of interest should be faced out and subsidies on IRDP loan should be withdrawn.
2-The RBI should be the sole authority to simplify the structure of interest rate.

(D) On Structural Re- organization of the Banking Structure
1-The committee proposed a substantial reduction in the number of public sector banks through mergers and acquisitions.
2-The present system of licensing of branches with the objective of spreading banking habits should be discontinued.
3-The government should allow foreign banks to allow offices in India either as branches or as subsidiaries.

Other Recommendations
1-Assets Recommendation Fund (ARF) should be set up to take over from the nationalized bank and financial institution, of their bad and doubtful debates at a discount.
2-The present system of dual control over the banking system between RBI and the banking division of the Ministry of Finance should be abolished immediately and the RBI should be the primary agency for the regulation of the banking system.
3-The public sector bank should be free and autonomous.

Narasimha committe, Mark II

It is a pity that an important report like that of Narasimha committee second has been released only in summary forms, especially in these days of transparency. The latest report of Mr. Narasimha can be read at different levels. It is first and foremost a continuation of Narasimha committee 1. The second committee is naturally peeved that progress has been in arithmetical only and that in substantive areas, little progress is there on the ground, secondly, the report ranges from the philosophical to the operational side of Banking. Sometimes one gets confused as to whether the committee is laying down new guidelines on how to operationally reform. At the times, it is content to lay down general principles and leave it to other bodies to workout for the steps, as well it suggest merger of various banks. Overall one can see Narasimha and for getting a bit frustrated.

Emphasize on facing out directed credit (or what is known as priority sector lending) watch politically UN acceptable even the days of Dr Manmohan Singh. The Narasimha committee first was hitting out at an established privilege and assignment office specific portion of credit of dispressed and disadvantages sectors. It is not however as the is no case for a directed credit programmed. So long as it is properly handled and has no special subsidy on interest, it may be useful in the present political climate of condemning the South East Asian model, are reformers tried to press directed credit.

Mandated lending in essential to makeup for market failure in the absence of special credit institutions of Finance sectors, such as agriculture or small industries, directed credit could not be totally avoided. Even Narsimha commity second has suggested that the special institution such as SIDBI has to continue. Narsimha committee first had itself gone into some of the regions by NPAs by high in the Indian system. Our week legal fabric itself is responsible for a default culture. There is no use criticizing only the banker for not recovering his dues when the legal system is almost designed to prevent recovery. Financial reform, which prescribes harder and harder targets of NPAs, but ignores legal change, is whistling in the dark.

The Narsimha arsima committee second seems to be include to try the concept of narrow banks. However, the committee does not pursue suggestions, to refer to it in a passing way narrow banks bio definition will be investing their funds only in "no" or "low" risk loan preferably government securities. When a bank with high and NPAs is converted to a narrow Bank, it it's margins will contract. It cannot invest funds with Or land to other banks. Nursing back a narrow bank to health will we extremely difficult if it is staff cannot be retrenched or its branches closed down. If are better alternative would be the Assets Reconstruction Fund, suggested by Narsimha committee first and reiterated in the latest report.

The committee on banking sector reforms with Mr.M. Narasimham as chairman, popularly known as the second one by the same chairman on the same related subject what constituted on December 26, 1997 to review the record of financial sector reforms of the Narsimha committee on financial system 1991, and to suggest remedial measures for strengthening the banking system, covering areas of Banking policy, institutional structure, supervisory system, legislative and technology changes.

The major recommendations of the committee are summarized below:

To straighten the banking system the committee recommended an increase in the minimum capital adequacy ratio (CRAR) to 10% by 2002. Besides, entire portfolio of government securities should be marked to market in 3 years. Also, if 5% weight is to be assigned for government and other approved securities should be marked to market in 3 years.

To bring about efficiency in banks, the committee recommended a number of measures. These include, revision of operational manual and its regular updation, simplification of documentation system, introduction of computer audit, and evolving of a filtering mechanism to reduce concentration of exposures in landing and drawing geographical industrial factorial exposures norms with the boards concurrence.

The committee recommended that the convergence of activities between DFIs and banks over a period of time, they should get converted into banks, resulting in the existence of only two intermediaries viz., Banks and non banks. While mergers between strong Financial institutions would make sense, big banks in the system will have to be gives a revival package subject to a set of criteria.

The committee recommended that banks and primary dealers alone should be allowed in the interbank call and notice money markets. Non banks Financial institutions would get access to other forms of instruments in money market like hill discounting.

The committee proposed review and strengthening of the operation of rural financial institution in terms of appraisal, supervision and follow up, long recovery strategies and development of bank client relationships. In regard to capital adequacy requirements, RRBs and on operative banks should reach a minimum of 8% capital to risk British assets ratio overy period of 5 years.

It also proposed that all regulatory and supervisory functions over rural credit institution should rest with the board of financial regulation and supervision.

The committee made a suggestion that the Basel Core Principles of Effective Bank Supervision should be regarded as the minimum to be attained. It should be made obligatory for banks to take into account risk weights for market risk to facilate soundness and stability of the system. For effective conduct of monetary policy by the Reserve Bank delineation of supervision, regulation from monetary policy is required implying that the executive associated with Monetary authority should not be in the supervisory board so as to avoid weakening of monetary policy or Banking regulation and supervision.

The committee recommended the amendment to RBI act and Banking Regulation Act with regard to the formation of BFRS. It also give some more autonomy and powers to public sector banks. As by ranking changes in the legal framework affecting the working of the financial sector are sought by the committee, an expert committee could be constitute comprising representative from the Ministry of law.

Evaluation of Narsimham Committee Reports

The committee was first set up in 1991 under the chairmanship of Mr. Narsimha who was 13th governor of RBI. Only a few of its recommendations become banking reforms of India and others were not at all considered because of this is second committee was again set up in 1998.

As for as recommendations regarding Bank restructuring, management freedom, strengthening the regulation are concerned, the RBI has to reply a major role. If the major Recommendation of this committee are accepted it will prove to be fruitful in making Indian banks more profitable and efficient.

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