Banking Sector Reforms in India Since 1991, Complete Details

Banking Sector Reforms in India aimed to modernize & strengthen the banking system through liberalization, improved regulations & increased financial inclusion. Know all about Banking Sector Reforms.

sakshi Last updated on June 30th, 2023 12:22 pm

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Banking Sector Reforms in India

Banking sector reforms in India refer to the various policy measures and initiatives undertaken to enhance the efficiency, stability, and competitiveness of the banking industry in the country. These reforms aim to strengthen the financial system, improve governance and risk management practices, promote financial inclusion, and facilitate economic growth.

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Banking Sector Reforms Since 1991

The banking sector reforms in India after 1991 aimed to liberalize and modernize the banking system, enhance efficiency, and promote financial stability. Several committees were formed to recommend measures and suggest reforms. Let's discuss the key committees and their recommendations:

Narsimham Committee I (1991)

- Headed by M. Narasimham, former RBI Governor.
- The committee suggested measures to strengthen the banking system, including reducing government interference, increasing the role of the RBI in supervising banks, and enhancing transparency.

- It recommended the reduction of statutory liquidity ratio (SLR) and cash reserve ratio (CRR), which were high reserve requirements for banks, to improve their liquidity.
- The committee also recommended the recapitalization of weak banks, the strengthening of bank management, and the introduction of prudential norms.

R. H. Khan Committee (1997)

- Headed by R. H. Khan, former Deputy Governor of the Reserve Bank of India (RBI), this committee examined the financial system's effectiveness for the small-scale sector and the role of primary dealers.
- The committee made recommendations to improve credit delivery to the small-scale sector and enhance the functioning of primary dealers.

Narsimham Committee II (1998)

- This committee was a follow-up to Narsimham Committee I and aimed to review the progress of reforms.
- The committee emphasized the need for structural reforms, consolidation of the banking sector, and the establishment of strong and autonomous regulatory bodies.
- It recommended reducing the government's stake in public sector banks (PSBs) to less than 33% and enhancing corporate governance standards in PSBs.
- The committee also suggested the adoption of international accounting standards and the introduction of risk-based supervision.

Raghuram Rajan Committee (2008)

- Chaired by Raghuram Rajan, former Chief Economist of the International Monetary Fund (IMF), this committee was appointed to examine the financial sector reforms in India.
- The committee provided recommendations to strengthen the banking system, enhance financial inclusion, and promote financial stability.

Financial Sector Legislative Reforms Commission (FSLRC) (2011)

- The FSLRC was headed by Justice B. N. Srikrishna and tasked with reviewing and restructuring the legal and regulatory framework of the financial sector in India.
- It aimed to consolidate and streamline the laws governing the financial sector, including banking, insurance, securities, and pensions.

PJ Nayak Committee (2014)

- Led by P. J. Nayak, this committee was constituted to examine the governance of PSBs.
- The committee highlighted the need for reforms in the governance structure, such as strengthening the board's role, empowering bank management, and professionalizing the appointment process of top executives.
- It suggested reducing government interference and advocated for a greater role of the board in key decisions, including appointments and capital allocation.

Nachiket Mor Committee (2014)

- This committee, headed by Nachiket Mor, was formed to examine the Comprehensive Financial Services for Small Businesses and Low-Income Households.
- The committee recommended measures to increase financial inclusion, such as the establishment of payment banks, small finance banks, and the creation of a universal electronic bank account (Jan Dhan Yojana).
- It proposed the concept of "payment banks" to provide basic banking services, including payments and remittances, to underserved sections of society.

Indradhanush Framework

- The Indradhanush framework was introduced in 2015 by the Government of India to revitalize and reform public sector banks (PSBs) in the country. The Indradhanush framework aimed to improve the efficiency, transparency, and governance of PSBs and strengthen their ability to support economic growth.
- The framework aimed to address key areas of banking sector reforms, encapsulated by the seven pillars of Indradhanush, which are:
  - **Appointments:** Enhancing the selection process of top management positions in PSBs to attract skilled professionals.

- **Bank Board Bureau (BBB):** Setting up the BBB as an autonomous body to provide guidance and enhance governance in PSBs.
- **Capitalization**: Injecting capital into PSBs to strengthen their balance sheets and enable them to meet Basel III capital adequacy norms.
- **De-stressing**: Implementing measures to address the issue of non-performing assets (NPAs) and stressed assets in PSBs.
- **Empowerment**: Granting more autonomy to bank boards and empowering them with greater decision-making authority.
- **Framework of Accountability**: Introducing a framework to hold the management of PSBs accountable for their performance.
- **Governance reforms**: Enhancing transparency, risk management, and governance practices in PSBs.

HR Khan Committee (2015)

- Led by H. R. Khan, former Deputy Governor of RBI, this committee was formed to examine the existing framework for monetary policy in India.
- The committee made recommendations on issues such as inflation targeting, monetary policy transmission, and improving the decision-making process of the RBI's Monetary Policy Committee (MPC).

4R Framework (Recognition, Recapitalization, Resolution, and Reforms)

- The 4R framework was introduced in 2017 as part of the government's strategy to address the issue of mounting bad loans in the banking system.
- The framework focused on four key elements:
  - **Recognition**: Prompt identification and classification of stressed assets as NPAs to accurately assess the extent of the problem.
  - **Recapitalization**: Injecting capital into banks to improve their financial health and enhance their lending capacity.
  - **Resolution**: Establishing mechanisms for the timely resolution of stressed assets through processes like the Insolvency and Bankruptcy Code (IBC) and other resolution frameworks.
  - **Reforms**: Undertaking structural reforms to improve the governance, risk management, and operational efficiency of banks.

- The 4R framework aimed to address the issue of stressed assets, promote transparency and accountability, and strengthen the resilience of the banking sector.

EASE (Enhanced Access and Service Excellence) Framework

EASE is an initiative launched in 2018 to improve public sector banks (PSBs) in India. Key features of the EASE framework include:

Governance Reforms

- Strengthening the governance structure of public sector banks (PSBs).
- Enhancing the effectiveness of boards and improving transparency.
- Bolstering risk management practices.

Responsible Banking

- Encouraging PSBs to align their activities with national development goals.
- Promoting social objectives and environmental sustainability.

Credit Offtake

- Improving credit processes and streamlining lending procedures.
- Promoting digital lending platforms.
- Enhancing credit access for small and medium-sized enterprises (SMEs), agriculture, and retail borrowers.

Deepening Financial Inclusion

- Expanding banking services in unbanked and underbanked areas.
- Leveraging technology for greater reach and accessibility.
- Providing affordable banking services to all sections of society.