Narasimhan Committee

India liberalized its economy in 1991, but after that, too, the banks were not performing well. India has a mix of private and public sector banks, and during any economic crisis, the banks must be more competitive and effective. The Narasimhan Committee was consulted twice for banking sector reforms, one in 1991 and the other in 1998. Both times, the committee was under the chairmanship of Maidavolu Narasimham. Maidavolu Narasimham was the 13th Governor of the Reserve Bank of India (RBI) and served from 2 May 1977 to 30 November 1977.

Narasimhan Committee 1

The Narasimhan Committee 1 was established in 1991 by FM Manmohan Singh to examine the functioning of banks. In August 1991, a nine-member committee was appointed to suggest reforms to the financial system. The committee submitted its recommendations and the report in December, 1991 to the Parliament. The Report was titled Narasimham Committee Recommendations on the Financial System (1991).

Narasimhan Committee 2

In 1998, the Narasimhan Committee 2 was formed by the FM P Chidambaram to intimate on the banking sector reforms. The committee submitted its recommendations to the government in April 1998. The government undertook the report and recommendations as it emphasized more human resource development, technological upgradation, and strengthening of the foundation of the banking system by structure, which was the need of the hour.

Recommendations of Narasimhan Committee 1

The Narasimhan Committee 1 report presents the following recommendations on the financial system:

- **Reduction in SLR and CRR-** During 1991, both Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) were extremely high. Due to this, bank resources were not available for government use. The committee recommended reducing the SLR and CRR from 38.5 percent to 25 percent and from 15 percent to 3 to 5 percent, respectively.
- **Reorganization of the Banking sector-** The Narasimhan Committee 1 recommended reduction in the number of public sector banks. The committee suggested mergers and acquisitions to increase the bank’s efficiency. The Committee recommended nationwide the national recognition of 8 to 10 banks.
- **Establishment of the ARF Tribunal-** During the 1991 economic crisis, banks' bad debts and Non-Performing Assets (NPA) were concerning. The committee recommended setting up an Asset Reconstruction Fund (ARF) to take over the proportion of bad and doubtful debts from banks and financial institutions.
- **Removal of Dual Control-** At that point, the banking sector in India was regulated by the RBI and the Ministry of Finance. The committee proposed RBI be the sole primary regulator of banking in India.
- **Stop the Directed Credit Program-** The committee recommended eliminating government interest rate controls as they were not profitable.

- **Interest Rate Determination-** The committee highlighted that the interest rates should be determined based on market forces and not by the Government, which was earlier the case.
- **More Freedom to Banks-** To improve the workings of banks, the Narasimhan Committee 1 recommended that every bank be free and autonomous to carry out its work. Over-regulation and over-administration should be avoided, and the selection of the Chief Executive and board of directors should be made on merit solely.

Narasimhan Committee 2 Recommendations

The Narasimhan Committee 2 was formed in 1998 and suggested banking sector reforms. The recommendations by the Narasimhan Committee 2 are as follows:

- **Robust Banking System-** The Committee recommended merging major public sector banks to boost trade.
- **NPAs and the Concept of Narrow Banking-** High Non-Performing Assets (NPAs) were a problem back in 1998, so the Committee recommended Narrow Banking Concept where the banks could put their funds in short-term and risk-free assets. The recommendations led to the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- **Role of RBI-** The Narasimhan Committee 2 recommended that RBI be the regulator. But. at the same time, they should not have ownership in any bank.
- **Capital Adequacy Ratio-** The committee proposed the government should increase the Capital Adequacy Ratio norms.
- **Foreign Exchange-** The Committee recommended that the foreign exchange open position limits carry 100% risk weight. The Committee also proposed that the minimum start-up capital for foreign banks should be increased to $25 million from $10 million.