

CHAPTER 3

DELEGATION OF LENDING POWERS IN COMMERCIAL BANKS

Branch Managers. These powers are uniform for the public sector banks and are contained in a booklet. A slight difference in the delegation of powers between two banks may arise due to their specific operational procedures.

A distinction is usually made between the discretionary powers and the sanctioning powers. Discretionary powers are vested for all types of advances. The bank's rules lay down that these powers are to be exercised only for urgent, occasional and purely temporary business requirements of the borrowers and that should not be used for granting any advance on a permanent basis. The regulations pertaining to the discretionary powers are so strict that any accommodation granted to a customer under it stands liquidated within three months. Sanctioning powers enable the officials to grant limits of various types of advances on a regular basis. In some banks, the lending powers are sub-divided into two parts viz., lending powers of new limits and renewal of limit. The power to sanction new proposals is vested with all the officials from the branch to the Head Office. On the other hand, the power to renew advances are granted to the executives in the Zonal and Head Offices only. It has been reported elsewhere that in other banks, the power to sanction a fresh advance also included the power to renew it upto the limits of delegated powers.

For the illustration of the lending powers, only one table was obtained for the powers delegated to the senior bank officers. The Zonal, Regional and branch managers did not give their collaboration because of the confidential character of the system of

delegation of powers. But with the help of the schedule of powers of Senior Officers to sanction advances to any one party contained in Table 3.1, an analysis can be made in order to see the degree of concentration of lending powers at the Head Office and consequently deduce that of the Zonal/Regional and branch offices. This Table 3.1 contains only the lending powers of the Chairman/Managing Director, the Executive Director, the General Manager and the Deputy General Manager.

In Table 3.1, the advances are classified into 11 types viz., (1) clean overdrafts, (2) personal/consumer loans, (3) advances against approved Government Securities, (4) advances against bank's fixed deposits and cash certificate, (5) advances against pledge and approved shares and debentures, (6) advances against pledge of highly marketable commodities, (7) advances against pledge of silver bars, (8) advances against surrender value of life insurance policies, (9) advances against mortgage of immovable property, (10) clean bill purchased limit and usance documents against acceptance or clean bills limit, and (11) documentary bills.

It is also stated that if any advance has to be made on hypothecation basis, the officer concerned will exercise upto a maximum of 50 % of his powers on pledge basis.

Looking at the side of General and Deputy General Managers' lending powers, it can be deduced that those of the Zonal, Regional and Branch Managers must be very low and particularly in the former case. The personal/consumer loan is the most illustrative example. For a proposal of only Rs. 5,000, the case is to be sent to

TABLE 3.1 : Schedule of Powers of Senior Officers to sanction Advances to any one party..

Sr. No.	Types of advance	Chairman/ Mg. Director Rs. in Lakh	Executive Director Rs.	General Manager Rs.	Deputy General Manager Rs.
1.	Clean Overdrafts	1 lakh	75,000	30,000	20,000
2.	Personal/Consumer loans	1/2 lakh	25,000	10,000	5,000
3.	Advances against approved Government securities with margin of 10% or more	20 lakhs	15 lakhs	5 lakhs	2 lakhs
4.	Advances against bank's F/D and Cash certificate etc. with 10% or more margin	10 lakhs	5 lakhs	4 lakhs	2 lakhs
5.	Advances against pledge of approved shares and debentures with 40% or more margin or as directed by the bank from time to time	15 lakhs	10 lakhs	2 lakhs	1 lakh
6.	Advances against pledge of highly marketable commodities generally acceptable to the bank with proper margin	40 lakhs	20 lakhs	10 lakhs	3 lakhs

Table 3.1 contd...

Sr. No.	Types of advance	Chairman/ Mg/Director Rs. in Lakh	Executive Director Rs.	General Manager Rs.	Deputy General Manager Rs.
7	Advances against pledge of silver bars with 20% or more margin	5 lakhs	3 lakhs	2 lakhs	1 lakh
8	Advances against surrender value of life insurance policies with 10% or more margin	5 lakhs	3 lakhs	2 lakhs	1 lakh
9	Advances against mortgage of immovable property with 40 % 2 lakhs or more margin	1 lakhs	1 lakh	50,000	20,000
10	Clean B.P. limit and usance D.A. or Clean Bills limits	2 lakhs	1 lakh	50,000	20,000
11	Documentary B/P limit accompanied by Railway receipts bills of lading or lorry receipts of approved transport companies	10 lakhs	7 lakhs	2 lakhs	50,000

Note : If any advance has to be made on hypothecation basis, the Officer concerned will exercise up to maximum of 50 % of his powers of pledge basis.

the Head Office for sanctioning.

In actual practice, delegation of lending powers poses some serious problems.

Section II

Problems in Delegating Lending Powers in Commercial Banks.

An analysis of the Schedule of powers of Senior Officers to sanction credit, as illustrated in Table 3.1, shows that the lending powers are still concentrated at the Head Office - This is synonymous of late sanction of advances and loans. Because of this, many borrowers who have submitted their proposals feel discouraged and frustrated. The delay in sanctioning advances is worse in the case of a unit in financial difficulties which approaches the banker for additional finance. If the limit was renewed in time, may be the concerned industrial unit could have not gone chronically sick.

This delay in the sanction of the sick units' demand for additional credit has a negative effect of multiplying the number of sick units. Borrowers from the priority sectors also complain about the late sanction of their credit needs. It seems that no distinction is made in delegating powers between the priority sectors and the traditional sectors.

In agriculture where the operations are on a seasonal basis, any delay in sanctioning credit can make the borrower's demand for credit useless since the season for which he was asking for a credit will be over.

The second problem observed is that of certain higher authorities. Instead of following the normal channels, they prefer to instruct orally or by phone the lower authority to sanction a proposal. Once the proposal is sanctioned in this way, they keep silent and in case of inspection, the sanctioning authority is found guilty of sanctioning a proposal beyond his powers. It has been reported in some banks that the lower authority and the higher authority agree sometimes to sanction, some proposals for which, there does not exist a genuine borrower. Everything is done through manipulation of documents. That is why the RBI has instructed that no advance should be granted beyond the discretionary powers vested in the authorities or, by oral/telephonic instructions.¹⁸

The third problem in delegation of lending powers is political interferences in the bankers' decisions. Some borrowers, because of their political influences have to be granted an advance. They gain the sympathy of the higher authorities who instruct the lower ones to sanction the proposals and sometimes even if their projects are not really viable. The lower authorities, after sanctioning the proposals, forget these accounts completely since they were forced to sanction them. The accounts go on being irregular and in case of renewal, the borrowers go to the same higher authorities to renew the limits. However, the higher authorities are not always free of their decisions; they are often pressed by a Member of Parliament (M.P.) or another political V.I.P. to sanction the proposals of some borrowers. An article¹⁹ published in the Magazine 'SUNDAY' illustrates well how

18. Reserve Bank of India, Credit Information Review, May, 1983.

19. 'Investigation-Congress(I) M.P. in Bank Fraud'-, 'SUNDAY' Magazine, 14-20 July, 1985, p.32-33.

bankers are being manipulated by big politicians. The case of 'Progressive Constructions' could have not happened unless they got the co-operation of an M.P. and act in complicity with senior bank officers. The mistakes do not relate only to the sanctioning powers but also to the appraisal of the proposal, the evaluation of the securities, and the follow-up and supervision of bank credit which was completely neglected.

With the case of 'Progressive Construction', fraud due mainly to unauthorised and illegal exercise of authority, the public banking sector is running today the risk of a loss of Rs. 18.4 crores in that business.

After enumerating some problems relating to the delegation of lending powers in commercial banks, a conclusion and some suggestions can be drawn.

Section III

Conclusion and Suggestions

What is needed now in Indian Commercial banks is not a decentralisation of lending powers but its deconcentration. In fact, the system is really decentralised right from the branch, Regional Zonal to the Head Office.

At the Head Office, the powers are concentrated on the Board and the Chairman/Managing Director. If these powers were deconcentrated this would release both the Board and the Chairman/Managing Director. This can be done by sub-delegating some of their actual powers to the next authority. These next authorities, receiving more powers from the Board and Chairman should also deconcentrate their powers to the

next authorities and so on up to the branch manager level.

In other words, starting from the grass-roots which are the branches, whatever powers cannot be entrusted to the branches for certain valid reasons should be entrusted to the next higher authority. Whatever powers cannot be entrusted to this authority should be entrusted to the next higher authority and so on until the Head Office is really left with less powers.

It has been observed that in some commercial banks, the power to sanction a fresh advance also includes the power to renew it up to the limits of delegated powers. The reasons given are that the official who sanctions an advance initially and has observed its operation is likely to be in a better position to renew it also.

In the actual situation where bank frauds are very common and particularly in the area of lending, this practice does not seem to be advisable. The limit should be renewed by the next higher authority but accompanied by a report of the official who sanctions it initially. This will avoid up to a certain extent frauds and corruption at the renewal stage. Any how the delegation of powers should be revised and reviewed periodically.

On the side of priority sectors, special care is needed. The Government of India has given special instructions for the development of these sectors because of the job opportunities they create and their contribution to the National Income. They constitute in fact the mirror of the social objectives

of banks. Because of their important position in the Indian Economy and the moderate financial means of the Priority Sectors borrowers special attention should be given to them in the area of lending powers of the Officials in commercial banks.

Now a differentiation between traditional sectors and priority sectors should be made for delegating lending powers. This distinction will help the bank to discourage lending to traditional sectors (trade and large and medium industries) to the profit of priority sectors until the target of 40 % of total bank credit is allocated to these sectors. This is also another way of decentralising lending powers.

This division of lending powers into two parts, will help also the priority sectors' borrowers to get their proposals sanctioned within a reasonable time.

For political interferences in bankers' decisions, the Government should discourage big politicians from being members of the Board of Directors of Commercial banks. In fact, this is quite difficult since the banks are nationalised and it is the Government in a way or another which appoints the Board and nominates senior bank executives (directly or indirectly). These bank Officers will not certainly be politically neutral. The non political neutrality of senior banks officers leads to the interferences of the MPs and other political V.I.Ps. since they belong to the same political party sometimes, say the ruling party. Unless politically neutral top managers are appointed, the political interferences in the bankers' decision will not be easily avoided. What is surprising in the case of 'Progressive Constructions' mentioned earlier

is that one of the top executives of a bank was a big shareholder of the Company and naturally was involved in the fraud.

The last observation concerns the delegation of powers in the Regional Office. In fact, being nearer the operation scene, the Regional Office between the branches on the one hand and the Zonal Office on the other hand, is well situated to perform much enlarged lending powers that the ones presently assigned to it. That is to say more lending powers should be given to the Regional Offices so as to release the Zonal and Head Offices. It is also reported somewhere else that the control over the branches exercised by delegated powers is weak mainly because of the concentration of this function in the Zonal Office and Head Office.

The study of the delegation of powers in commercial banks helps in understanding the critical problem of delegation of lending powers in commercial banks and the problems arising from their executions. Some specific problems have been identified and solutions proposed accordingly.

Once the right man at the right level of the commercial banks' structure is entrusted lending powers upto a certain limit, the next investigation consists in working out the credit - worthiness of borrowers. This introduces the next chapter dealing with credit appraisal.