

FIFTY-NINTH REPORT
COMMITTEE ON PETITIONS

(SIXTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)

(Presented to Lok Sabha on _____)



LOK SABHA SECRETARIAT
NEW DELHI

December, 2018/Agrahayana 1940 (Saka)

CPB. NO. 1 Vol. LIX

Price: Rs.....

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Fifteenth Edition) and printed by the Manager, Government of India Press, Minto Road, New Delhi - 110002

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**COMPOSITION OF THE COMMITTEE ON PETITIONS
(2018-2019)**

Shri Bhagat Singh Koshyari - *Chairperson*

MEMBERS

2. Shri Suresh C. Angadi
3. Shri Om Birla
4. Shri Jitendra Chaudhury
5. Shri Ram Tahal Choudhary
6. Dr. K. Gopal
7. Shri C.P. Joshi
8. Shri Chhedi Paswan
9. Shri Kamlesh Paswan
10. Shri Arjun Charan Sethi
11. Shri Kodikunnil Suresh
12. Shri Dinesh Trivedi
13. Shri Rajan Vichare
14. Shri Dharmendra Yadav
15. Vacant

SECRETARIAT

1. Shri Shiv Kumar	-	Joint Secretary
2. Shri Raju Srivastava	-	Director
3. Shri G.C. Dobhal	-	Deputy Secretary
4. Shri Harish Kumar Sethi	-	Senior Executive Assistant

FIFTY-NINTH REPORT OF THE COMMITTEE ON PETITIONS
(SIXTEENTH LOK SABHA)

INTRODUCTION

I, the Chairperson, Committee on Petitions, having been authorised by the Committee to present on their behalf, this Fifty-Ninth Report (Sixteenth Lok Sabha) of the Committee to the House on the Representation received from Ms. Nisha Kamath and other office bearers of Nainital Bank Officers' Association regarding proposed sale of Nainital Bank Limited - a subsidiary of the Bank of Baroda, in the guise of Digital Venture.

2. The Committee considered and adopted the draft Fifty-Ninth Report at their sitting held on 12 December, 2018.
3. The observations/recommendations of the Committee on the above matters have been included in the Report.

NEW DELHI;

BHAGAT SINGH KOSHYARI,
Chairperson,
Committee on Petitions

12 December, 2018

21 Agrahayana, 1940 (Saka)

REPORT

REPRESENTATION RECEIVED FROM MS. NISHA KAMATH AND OTHER OFFICE BEARERS OF NAINITAL BANK OFFICERS' ASSOCIATION REGARDING PROPOSED SALE OF NAINITAL BANK LIMITED - A SUBSIDIARY OF THE BANK OF BARODA, IN THE GUISE OF DIGITAL VENTURE.

Ms. Nisha Kamath and other office bearers of Nainital Bank Officers' Association submitted a Representation to the Committee on Petitions regarding proposed sale of Nainital Bank Limited - a subsidiary of the Bank of Baroda, in the guise of Digital Venture.

2. The Representationists, in their Representation, *inter-alia* stated that in the year 1973, the Reserve Bank of India, under a special Notification, asked Bank of Baroda to take up the administration of the Nainital Bank Limited (NBL) and thereafter, the NBL has been recognised as subsidiary of Bank of Baroda. The Representationists further stated that Shri Jaya Kumar, CMD, Bank of Baroda (BoB) went on record to say that Bank of Baroda will be selling many of its non-core assets including the stake in NBL as part of the Government of India's Consolidation and Amalgamation Policy which was reported in the E-Jagran dated 15.1.2018. They have alleged that sensing strong opposition from the Unions and employees of NBL, Bank of Baroda has shifted this idea of disinvestment in to a new kind of Dilution Policy now. The Bank of Baroda has now come up with a new idea of dilution of the stake holding in the name of revamping the NBL by setting up a new Digital Venture. Earlier, to NBL was supposed to spend an initial capital of only Rs.10 crore but the opposition for disinvestment has changed that idea now, and now, it is learnt that setting up of a Digital Venture would require approximately Rs.2850 crore for Regulatory Capital and Rs.360 crore towards setting-up costs. It has further been stated in the Representation that during the Financial Year 2016-17, 'Net Profit' of the NBL was Rs.48.46 crore and therefore, keeping in view such a large setting up expenditure on Digital Venture and Regulatory Capital, it is not feasible at all for the size of NBL, which may ultimately lead the Bank to losses. They have further stated that by burdening such a small Bank with such a risky venture, the top management of Bank of Baroda wants to place this Bank into losses and pave a soft path for their selling out ideas.

3. The Representationists have alleged that in the Nainital Bank Limited the public money is going to be mis-utilised in the interest of some mighty and powerful persons in the name of revamping NBL. The Representationists, therefore, requested the Committee to intervene and investigate the matter and do the needful.

4. The Committee on Petitions took up the Representation for examination under Direction 95 of the Directions by the Speaker, Lok Sabha. Accordingly, the Representation received from Ms. Nisha Kamath and other office bearers of the Nainital Bank Officers'

Association, was forwarded to the Ministry of Finance (Department of Financial Services) for furnishing their initial comments on the issues raised in the Representation. Since the matter pertains to Nainital Bank Limited, a subsidiary of Bank of Baroda, therefore, the examination of the instant Representation by the Committee on Petitions is based on the following aspects:-

- I **Brief introduction of Nainital Bank Limited**
- II **Initial comments received from the Ministry of Finance (Department of Financial Services) on the Representation**
- III **Replies to the List of Points received from the Ministry of Finance (Department of Financial Services)**

5. The examination on the points raised in the Representation is discussed in the succeeding paragraphs:-

I. Brief introduction of Nainital Bank Limited

6.1 The Nainital Bank Limited (NBL) was established in the year 1922 by Pt. Govind Ballabh Pant to cater to the banking needs of the people living in hill region of the then United Province.

6.2 Since NBL started incurring losses since 1971 and as the accumulated losses of the bank went to an alarming situation, Reserve Bank of India in 1973 directed Bank of Baroda (BOB) to manage the affairs of NBL. BOB was then holding 21.64% of the share capital of NBL which with capital infusion gradually increased to 73.02% in 1977. BOB's holding further increased from time to time and became 98.57% in 2011 which is continuing till date.

6.3 The authorized capital of NBL is Rs.150 crore. As per the amendment of sub section (1) of Section 12 of Banking Regulation Act 1949, Reserve Bank of India vide its letter dated 22.06.2015 advised that NBL's subscribed capital should not be less than half of the authorized capital. Thus, in 2017, paid up capital of NBL was further increased from Rs.67.50 crore to Rs.77.50 crore after a Right Issue brought for this purpose. Paid up capital of NBL is Rs 77.50 crore as on date and BOB's share in paid up capital is Rs.76.39 crore (98.57%).

6.4 NBL is operating in 5 states with 134 branches. As per sub-section (2) of Section 19 of Banking Regulation Act 1949, no Banking Company shall hold shares in any company of amount exceeding 30% of the paid up share capital of that company or 30% of its own paid up share capital and reserves whichever is less. Government of India granted exemption to BOB from applicability of the above provision allowing BOB to hold stake/share beyond 30%

of paid up capital of NBL and as per the Government of India notification dated 19.04.2005, provision of the Act shall not apply to BOB for a period up to 15.08.2005.

6.5 Reserve Bank of India on 15.09.2005 permitted to retain the holding subject to the condition that BOB will neither transfer its shareholding nor will its shareholding in the NBL be reduced in any manner without the prior approval of Reserve Bank of India. Reserve Bank of India on 27.03.2008 again permitted BOB to retain holding on continuous basis.

6.6 On 28.05.2014, Reserve Bank of India has recommended Ministry of Finance to extend the validity of exemption to BOB from applicability of above section. On 01.12.2016, BOB also written to Ministry of Finance, Government of India for exempting BOB from applicability of above section with retrospective effect and written again on 25.05.2017. In response, Ministry of Finance, Government of India, vide letter dated 13.10.2017, requested BOB to intimate the time by which BOB will divest its holding in NBL to bring it below 30%. BOB on 03.11.2017 submitted that it will gradually reduce its holding and latest by March, 2020.

II. Initial comments received from the Ministry of Finance (Department of Financial Services) on the Representation

7. The Ministry of Finance (Department of Financial Services) *vide* their communication dated 8 May, 2018 furnished the following comments:-

- a) *Nainital Bank Limited is an 'old generation' private sector bank, 98.57% of which is owned by Bank of Baroda (BoB). Reserve Bank of India guidelines do not permit one bank being owned by another and for this reason BoB had sought a 3-year time-frame, until financial year 2020-21, to bring down its holding to the stipulated, less than 30% limit.*
- b) *In keeping with the rapidly changing environment, the Board of NBL has laid out a plan for building a technology-driven, infrastructure light model for growing NBL. By building a new Digital Venture as a first step, BoB proposes to help Nainital Bank become a leading bank that acquires and services customers seamlessly, digitally and across its growing branch network.*
- c) *Substantial investments will be required to bring in technology, talent and training and for this, external capital is sought to be raised in NBL without BoB divesting its stake, thereby ensuring it remains a majority shareholder. This capital will help NBL increase its branch network and systems to better serve its current customer base and seek to grow to newer markets. BoB has*

informed that despite these investments, NBL will continue to remain profitable year-on-year, eventually growing into a strong, independent bank listed on stock exchanges. Merging NBL into BoB has been ruled out for several reasons, the most important one being to allow NBL to flourish and retain its identity.

- d) NBL Board approved a comprehensive plan in this connection in its meeting held on 30.3.2017 and the business plan was approved in its Board meeting held on 26.3.2018. NBL has since appointed project team for the Digital Venture and also M/s Accenture Solutions Pvt. Ltd. as a consulting partner for design, build, launch, and post launch services for an end to end Digital Venture set up.
- e) The project aims to benefit bank's various stakeholders as under :-
 - i) Helping the Government of Uttarakhand leap ahead in using technology for the benefit of its citizens offering to partner with various Government schemes-e.g., the bank is partnering with the Garhwal Mandal Vikas Nigam for a Cashless Char Dham Yatra—with an initial pilot to start in May 2018 at Kedarnath.
 - ii) Adding jobs to the Home State of Uttarakhand for example, an enhanced and centralised operations centre would add jobs in the home State..
 - iii) Large-scale benefits to employees by allowing NBL to become a forward-looking bank. Faster growth will also allow for accelerated compensation and enhanced roles.
 - iv) Servicing a much larger number of customers in Uttarakhand and newer markets with a more complete set of product offerings.
- f) Bank of Baroda has further stated that it is taking every step necessary to ensure robust, technology- led transformation of Nainital Bank for the benefit of all stakeholders involved, especially its customers and employees.

8. On being asked by the Committee as to whether it is a fact that most of the Members of the Board including the Chairman of NBL are from BOB and as such, the decisions taken by the Board of NBL are *per se* decisions of the Bank of Baroda. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has apprised that Board of NBL comprises of 6 Board Members with the Chairman of the Board being approved by Reserve Bank of India. While there are BOB representatives on the Board there are two independent directors as well who also participate in the Board meetings. Directors of banks are duty-bound under Companies Act, 2013 to act in good faith to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees and the shareholders. They are further bound to exercise their duties with due and reasonable care, skill and diligence, and exercise independent judgement."

9. The Committee desired to know the details of performance related parameters in regard to Nainital Bank Limited as on 31.3.2016, 31.3.2017 and 31.3.2018 along with annualized growth. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

Percentage stake of Bank of Baroda in Nainital Bank:-

- a) As on 31.03.2016 – 98.57%
- b) As on 31.03.2017 – 98.57%
- c) As on 31.03.2018 – 98.57%

	As on 31.3.16	Growth w.r.t 2015 [%]	As on 31.03.17	Growth w.r.t 2016 [%]	As on 31.3.18 (unaudited)	Growth w.r.t 2017 [%]
<i>Total business</i>	8049.22	1.38	10132.8	25.89	10771.2 3	6.30
<i>Increase in the total deposits</i>	-33.45	-0.63	1542.2	29.04	479.08	6.99
<i>Total operating profit</i>	83.48	-25.42	109.78	31.50	97.68	-11.02
<i>Net profit earned</i>	46.97	-30.08	48.46	3.17	48.89	0.89
<i>Gross NPA's to Gross Advances</i>	4.36%		5.01%		4.73%	
<i>Increase in per-employee business</i>	0.89	9.01	1.93	17.92	-1.01	-7.95
<i>Book value per share</i>	76.68	-2.13	84.33	9.98	77.65	-7.92
<i>Earnings per share</i>	6.96	-47.55	7.17	3.02	6.31	-11.99

10. The Committee further desired to know as to whether the decision of NBL to take on board, the investor(s) in order to raise funds for the setting up of Digital Bank is a far-fetched and unrealistic proposition, when the Book Value per share of NBL is hovering around Rs.76-77 during 2016-18. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"As per BOB inputs, the decision to raise external capital from investors is based on market insights. Other old private sector banks which have implemented

transformational processes or have improved their efficiencies are valued more than book value (BV), e.g., RBL Bank (3.3xBV) Federal Bank (1.39xBV), City Union Bank (2.98xBV) and DCB Bank (2.20xBV)."

11. The Committee, thereafter, specifically desired to know as to whether there has been any contemplation on the part of BoB in regard to selling of its 'Non-core Assets' including their stake in NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

The Bank has initiated disposal of "Non-Core Assets" in financial year 2017-18. Till date the position of Non-Core Assets contemplated to be sold is as under:-

- ✓ 15 Domestic Immoveable Properties disposed off and Rs.58.59 crore realised till date.
- ✓ 5 Overseas Immoveable Properties disposed off and Rs.23.92 crore realised till date.
- ✓ 1 Investment sold off and Rs.3.01 crore realised.
- ✓ Apart from above process for sale of another 6 Domestic Immoveable Properties is in process.
- ✓ Process for sale off another 7 Investments is approved by the Board.

However, there is no proposal for selling the stake of Bank of Baroda in The Nainital Bank Limited. However, Ministry of Finance vide its letter dated 13.10.2017 requested BOB to intimate the time by which BOB will divest its holding in NBL to bring it below 30%. On 03.11.2017, BOB advised as under:-

- We propose to enhance digital capabilities of Bank (NBL) to maximize the value and intend divesture in stages with final divesture at the time of listing.
- First round of fund raising/divesture is under process and is expected to be completed by March 2018.
- The shareholding of BOB shall gradually come down and latest by March, 2020 shareholding shall be below 30%.

12. On being enquired by the Committee as to whether approving of the Digital Venture Project for Nainital Bank Limited on 26.3.2018, involving exorbitant expenditure, i.e., after, in principle, agreeing to divestment of stake of Bank of Baroda, tantamount to exceeding the

scope of decision making powers and also would it not, in the overall long term interests of the Nainital Bank Limited to desist from taking such decisions having long terms financials/personnel repercussions on NBL ever after March 2020. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has informed that in order to grow and transform NBL, the Board of NBL had taken a decision to launch a transformation project which was the Digital Venture (DV-NBL). The cost envisaged in this project is Rs.56 crore only. As per the strategy and operational plan prepared under DV-NBL, project was to build and implement a transformation plan over a 18-24 month period, which would then be implemented across the NBL infrastructure. This would transform NBL as a whole and make NBL competitive and dynamic in a challenging banking environment. Further, BOB has apprised that NBL would be at risk of losing market share in case it does not transform itself, which would mean loss of value for BOB as a shareholder and also employees and other stakeholders. BOB has stated that prior to the approval of the Digital Venture plan by NBL Board in its meeting held on 26.3.2018, several rounds of presentations on this venture were made to the NBL Board, starting in March 2017. BOB has also stated that the launch of the DV-NBL would benefit BOB as follows –

- (a) *The transformation could lead to increase in the overall value of NBL.*
- (b) *Even after March 2020, BOB would hold a significant percentage of NBL."*

13. On one hand, the BOB had committed before the Ministry of Finance to gradually reduce their holding in NBL latest by March, 2020 and on the other hand, BOB had contended that since NBL is an Independent Entity, all the costs involved in the setting up of the Digital Venture shall be borne by them. In this regard, the Committee desired to know the comments of the Ministry of Finance (Department of Financial Services) in regard to shelving the Digital Venture Project till the time the holding of BOB in NBL is reduced in compliance with Section 19(2) of the Banking Regulation Act, 1949 and a new Board in the NBL is in place to take a conscious call on the implementation of Digital Venture or otherwise. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has stated that the transformation plan – DV-NBL would benefit NBL in the long term. BOB has assured that large expenses like that of appointing Accenture Solutions (Accenture) as a systems implementation partner have not been committed until the availability of capital without putting the bank at risk is clear. As apprised, BOB is not selling its stake in NBL, but NBL will be raising capital for the Digital Venture Project, which will gradually reduce the shareholding of BOB in NBL and ensure compliance of Section 19(2) of Banking Regulation Act, 1949."

14. The Committee further desired to know as to whether it is a fact that merger of NBL with BoB could be a better proposition vis-a-vis selling of stake in NBL by BoB, as it would eventually be a step towards the privatisation of NBL and consideration, deliberation and weighing of another option available with BoB. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"The Nainital Bank Limited enjoys special reputation, heritage as well as culture and it has played important role for banking development in Uttrakhand and western part of Uttar Pradesh. Its customers, shareholders, staff in particular, local corporations, institutions office bearers of various social and other organizations, pensioners, retired employees and other well-wishers etc. do not want to lose its local name, brand and they are sentimentally attached to it. In view of the above mentioned facts, we intend:-

- *To maintain the Independent Identity of the Nainital Bank Limited.*
- *To maintain and improve the special reputation, local name, brand of NBL*
- *To support growth/development of the area of operation.*
- *To ensure the growth and expansion of NBL in the current challenging and competitive scenario and to become one of the best private sector banks.*
- *To leverage the Digital platform for expansion of its business, enhancing the value of stakeholders.*
- *Opportunity to the employees to enhance their talent for career growth.*

Merger Proposition

As regards merger proposition it is submitted as under:-

- a. *Reserve Bank of India had made a reference to Ministry of Finance who in turn vide their letter dated 07.04.2006 advised BoB to explore the possibility of merging NBL with itself. Accordingly, vide Resolution No.M-12 dated 06.07.2006, Board of BoB had approved the merger of NBL with BoB in principle and authorized the Bank to initiate the merger process.*
- b. *The proposed merger could not succeed due to opposition from the shareholders, one of the directors and one Member of Parliament citing this as a sentimental issue for the local people, against which a number of representations were received. The political scenario of Uttarakhand, where majority of the Bank's branches are located, is not conducive and the resistance of merger at this juncture may disrupt the banking*

activities which may adversely affect the economic conditions of the Region.

- c. The Nainital Bank is an old-generation well organized private sector bank and has been functioning along the lines of a public sector banks. There is consistent growth in Bank's business and it has been successfully catering banking needs of the customer at par with PSBs.
- d. It is noteworthy that The Nainital Bank Limited is having healthy CRAR ratio well above the statutory requirement and has also implemented successfully remittance / settlement system and succeeded in creating robust IT infrastructure which is equivalent to any other Public Sector Bank and continuously engaged in improving/upgrading/updating other customer centric systems and procedure with the help of IT platform. Presently Nainital Bank is operating in -5- States viz, UP, Uttarakhand, Rajasthan, Delhi & Haryana which have vast scope of expansion and tapping resources and their deployment. The HR policies of the Bank are in line with market driven practices and have enough provisions/cushion to retain the professional talent/skill as per Bank's requirement.

In view of above, the merger of The Nainital Bank Limited with Bank of Baroda is not a better proposition at this juncture.

Selling of stake by BOB

There is no proposal for selling the stake of Bank of Baroda in The Nainital Bank Limited. However, Ministry of Finance, Government of India vide their letter dated 13th October 2017 has advised BOB to intimate the time by which it will divest their shareholding in NBL so that their shareholding in NBL will be below 30%.

Accordingly BOB has advised Ministry of Finance, Government of India about enhancing the digital capabilities in NBL and divesture in stages with final divesture at the time of listing. The shareholding of BOB shall gradually come down and latest by March 2020, shareholding of BOB shall be below 30%.

Privatisation of NBL

The Nainital Bank Limited has been categorised as "Old Generation Private Sector Bank", hence the status of the Bank will remain as a private sector Bank. There is no question of privatising the NBL which already is a private sector bank.

Other Options

Since, Digital Venture was considered as the most suitable option in view of the growth of The Nainital Bank Limited, to comply with the Ministry of Finance, Government of India instructions as regards to compliance of Section 19(2) of the Banking Regulation Act regarding shareholding of BOB in NBL.

Digital Initiative by NBL

Since the Banking industry is in the midst of an advanced technological revolutions, which has led to automation of various banks in the Indian Banking industry, BOB intended to leverage technology to build an entirely new digital enabled venture in NBL. In a strategic move to revamp the existing structure of NBL with introduction of advance technology for wider and nationwide presence through digitization, a comprehensive plan has been noted by NBL in its Board meeting on 30.03.2017 and the Business Plan was approved in NBL in its Board meeting dated 26.03.2018. The NBL has decided to take on board, investor/s in order to raise funds for setting up Digital Bank to support the growth, render better customer experience."

15. On being asked by the Committee about the objectives of introducing Digital Venture in such a small bank like NBL, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

- "The Banking Industry is growing and a large number of banks are augmenting their servicing capabilities through leveraging technology. The industry is not only growing but also consolidating rapidly with stronger banks which are investing in technology, products, servicing capabilities are gaining market share from other banks.
- As more and more population is brought under the formal banking economy and thereby growing the banking pool available, these banks are able to garner a disproportionate share of the growth putting at risk the future of banks (both public and private) that fall behind.
- Taking a cue from the rapidly changing environment, the Board of Directors of NBL in consultation with its largest Shareholder – Bank of Baroda (BOB) laid out a plan for building a technology driven, infrastructure light model for growing The Nainital Bank Limited.
- The Board recognized that NBL would need to grow to compete with the dynamic competition and accordingly put in process a transformation process

driven by technology (hereinafter referred to as the Project), which as a process would lead the transformation of NBL and add significant value to the stakeholders.

- A detailed transformation plan has been put in place which would allow NBL to evolve into a bank with digitised processes and unparalleled customer service.
- With a combination of brick and mortar branches and digital capability, NBL will be well positioned to serve customers in the hilly terrain of Uttarakhand and a more contemporary offering and service standard will help NBL to build its franchise in markets outside of its home state.
- The Project was set about with the following key objectives –
 - a. Build on the Government's thrust towards a more cashless economy bringing more people into the formal economy by helping them create a digital footprint for themselves.
 - b. NBL's operations will get transformed as a result and this will enable them to better serve their geographies that are often very challenging given the hilly terrain in Uttarakhand, the bank's primary market where digital access to banking services will be even more of an advantage than it is in metro markets. If this effort is successful, the bank will seek permission to grow their footprint and offer their banking services in a larger geographic spread over and above the five current states of operation - Uttarakhand, Uttar Pradesh, Delhi, Rajasthan and Haryana.
- Benefits of this project would accrue to all stakeholders as provided below –
 - a) Helping the Government of Uttarakhand leap ahead in using technology for the benefit of its citizens offering to partner with various Government schemes – e.g. the Bank is partnering with the Garhwal Mandal Vikas Nigam for a Cashless Char Dham Yatra – with an initial pilot to start in May 2018 at Kedarnath.
 - b) Adding jobs to the Home State of Uttarakhand - for example, an enhanced and centralized operations centre would add jobs in the home state.
 - c) Large scale benefits to employees by allowing them to become a forward looking bank. Faster growth will also allow for accelerated compensation and enhanced roles.

d) *Servicing a much larger number of customers in Uttarakhand and newer markets with a more complete set of product offerings.*

Summarizing the above, the Digital Venture is a transformational project to make a small bank like NBL a relevant player in home markets and increase its size, scale, reach and product portfolio. This would benefit all stake holders including employees, customers, shareholders. The transformation exercise, seeks to enhance the value accruing to all stakeholders and would largely benefit the Bank. It would also largely enhance the main Charter of the Bank to service the small businesses of the erstwhile United Provinces and would truly fulfil the vision of the Bank's illustrious founder Hon. G B Pant."

16. The Committee then asked about the reasons for not implementing this Digital Venture Model in BOB itself, in the very first instance, in case the Digital Venture is considered to be a Technology driven, Infrastructure light model of growth and could garner Unparalleled Customer Service. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has stated that it has put in place its own digital banking and retail banking processes / policies and BOB being a much larger PSB having legacy systems, a more complex system continue to be implemented. DV-NBL was specifically prepared for the kind of customers NBL deals with, the markets NBL operates in, etc. e.g. NBL's focus will be much more on smaller ticket loan products that cater to industries such as tourism that are seasonal in nature while being less focused in areas such as foreign trade. BOB has stated that given these differences and the stage of technological development in the two banks, the DV-NBL is specifically being envisaged for NBL and is not suited to BOB."

17. The Committee further asked about the status and details of existing digital banking system in NBL. The Ministry of Finance (Department of Financial Services), in a written reply, provided the following details:-

Digital Services	Remark
CBS-Fincraft 2.08	CBS Application.
ADF (Automated Data Flow)	MIS for RBI and Regulatory Reporting
Data Collector	Automated extraction of Data by RBI from our Server. Data is pushed from our CBS Server and is being pulled by RBI. Presently data pertaining to Priority Sector is being extracted by RBI
HO Module	Salary, Investment, Legal, HR, Asset, Cash Module
NPCI's NACH	National Automated Clearing House
CTS	Cheque Truncation System
	CTS Outward Module
CHI Setup	Clearing House Interface

FI C-KYC	Financial Inclusion
	Central KYC
GST	Taxation
ALM	Asset Liability Management
AML	Anti Money Laundering
APY/PMSBY/PMJJBY	Government of India Schemes
Debit Card	RuPay EMV Chip Enabled card from NPCI
SMS Banking	Push/Pull SMS
CrisMac	Credit monitoring software from D2K Technologies
RTGS / NEFT / SFMS	Payment Gateway System
POS	Merchant Establishment at 590 sites
Cobranded-WLATM	23 onsite (TCPSSL) + 1 offsite (Hitachi)
Aadhaar Enrollment Centres	14 Centres are running as per UIDAI target
Aadhaar Authentication	Customer's Aadhaar authentication from UIDAI

18. The Committee, thereafter, also asked about the status and details of existing digital banking system in BOB. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"Bank of Baroda is having a major vertical "Digital Banking" Department to implement, monitor and promote Digital Products & Services. Digital Banking department is presently having following Major Digital Projects & Services –

- *Cash Dispenser (ATM)*
- *Cash Recycler*
- *Mobile Banking*
- *Online Internet Banking*
- *Self Service Lobbies i.e. Baroda Non-stop Lobbies, Baroda Express Lobbies, ME lobby*
- *Universal, Multilingual, Omni Channel Contact Centre*
- *BHIM Baroda Pay (Bank's UPI App)*
- *Internet Payment Gateway*
- *Self Service Passbook Printers (SSPBP)*
- *Multi-Function Kiosk (MFK)*
- *Account Opening Kiosk (AOK)*
- *Digital Signage System*
- *Pre-paid Card / Travel Card*
- *Hi-tech Digital Branch to migrate customer from Counter to Self Service Digital Kiosks*
- *National Automated Clearing House (NACH)*
- *Cashless Village*
- *Digital Portable Branches*
- *Bharat Bill Payment Services (BBPS)*

- Baroda BHIM Aadhaar Pay

In addition to introduce more functionalities / features in the above Digital Products & Services, Digital Banking Department is also in process to launch following new Digital Products & Services in near future –

- *National E Toll Collection Module (NETC)*
- *Inter Operable Mass Transit National Common Mobility Card (qSPARC implementation)"*

19. The Committee, thereafter, categorically desired to know the difference in the digital banking system of Bank of Baroda and to that of NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"The proposed digital banking system being prepared for Nainital Bank would be based on the technology that takes a 'mobile first' approach, especially suitable for delivering financial services in remote areas where more physical presence is not a viable solution. The table below provides a brief summary of the offerings of the BOB digital banking systems, those present in Nainital Bank at present and the proposed enhancements to be carried out under the Digital venture of the Nainital Bank.

The proposed Digital Venture would build out a far superior experience for the customer, reduce manual system work for employees so as to allow them to undertake more productive tasks and provide various services that are not available presently within Nainital Bank and to a fair extent, not covered within the BOB systems. Implementation of these features and technology would also act as a way to acquire additional customers, a key requirement in light of the increasing competition in the market.

Feature/Capability	Bank of Baroda	Nainital Bank	Proposed Digital Venture
Customer centered user experience design	No	No	Yes
Multi device Responsive website	Yes (Medium)	No	Yes (Superior Experience)
Mobile Apps / tablet banking	Yes	No	Yes (Superior Experience)
Integration with largest BC networks	Yes	No	Yes (Superior Experience)
Cloud based / local hosted omnichannel customer relationship management	Partial	No	Yes
Regional language Call centre and chat systems	Partial	No	Yes

Omnichannel cloud based / local hosted Loan origination systems for ease of workflow	Partial	No	Yes
ETL analytics and reporting for data collection across channels	Yes	No	Yes
Omnichannel analytics for digital marketing, lead management, onboarding	Partial	No	Yes
Application programming interface(API) for ease of interface to make it easier for fintech partnerships and scalability	Partial	No	Yes
Integration with aggregators for credit scoring, multiple Government databases	Partial	No	Yes
Ecosystem integration with accounting and invoicing package software	No	No	Yes
Cashless Ecosystem including Point of sale, settlement and cards	Yes	No	Yes (Superior Experience)
Artificial intelligence for customer service, support and communications	No	No	Yes"

20. The Committee then desired to know the details of Digital Products and Services of BOB extended or proposed to be extended to NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has apprised that as per the current plan, the Core Banking Software- Finacle 10 and the Oracle Database would be the major products that would be provided by BOB to NBL at no cost, with savings of approximately Rs.20 crore and Rs.15 crore respectively for NBL. Further, any upgrades to these products whenever made for BoB, will be extended to NBL, which can't be quantified. In addition, NBL would use BOB's existing payment gateway and payment switch, avoiding incurring of any of these costs by NBL."

21. The Committee further desired to know about the regulatory capital, set up costs etc., involved for implementing the Digital Venture in NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"Detailed analysis of the capital required for set up of the venture and then going forward for the growth of the Bank has been detailed below:

Capital required to be raised in the Financial Year 2019 – Rs 400 crore -

	Capital raised in Rs. crore	Total in crore
Set up Capital	Capital required for investment for set up of the Digital Venture –	156

	For financial year 2019 & 2020	
Growth Capital	Capital required for loan book growth financial year 2019 & 2020	244
	Total Capital required to be raised in financial year 2019	400

In addition to the above, additional capital in the following form would be raised to support the loan book growth according to the plan for the period Financial Year 2020 – Financial Year 2025 :-

Capital raised in Rs. crore	Total in crore
In Tier 1 form (starting in financial year 2021)	2,100
In Tier 2 form (starting in financial year 2022)	700
Total capital raised for supporting loan book growth (Regulatory Capital)	2,800

Apart from the initial capital expense of Rs.156 crore, all capital is to support growth in advances. If advances growth is slower, lesser capital will be required. All of the abovementioned capital is to be raised as primary issues with Nainital bank issuing new shares to the proposed investor(s)."

22. The Committee also undertook an on-the-spot Study Visit to Nainital on 21.5.2018 to have a realistic assessment of the issues raised in the Representation. During the informal discussion with the representative of Ministry of Finance (Department of Financial Services) Bank of Baroda/NBL a Nainital, the Executive Director, Bank of Baroda had submitted before the Committee that the total expenditure on this count would not be more than Rs.156 crore. Contrary to earlier submission made by the representatives of the Ministry of Finance (Department of Financial Services), the total expenditure of around Rs.3200 crore for setting up of Digital Venture in the Nainital Bank Limited.

23. The Committee when asked to clarify, in unequivocal terms- without the use of any Technical Terminologies/ Accounting break ups- the total expenditure required for introducing/ setting up of Digital venture in the Nainital Bank Limited, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"As per Bank of Baroda (BOB) inputs, the total investment in the Digital Venture is Rs.156 crore, spread across 18-24 months approximately. This amount is the planned expenditure to build out the new systems and capabilities."

24. On being asked by the Committee about the procedure for licensing of the Digital Products & Services of BOB along with the expenditure involved for extending the same to NBL, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has apprised that all the above mentioned products and services are covered in BOB's licensing agreements."

25. The Committee then enquired as to whether the cost involved for introducing the Digital Venture would be borne by BOB, the Ministry of Finance (Department of Financial Services), in a written reply, submitted that *"BOB will not bear any cost for introducing the Digital Venture in NBL. Initial Costs up to Rs.10.00 crore would be borne by NBL. Any costs above Rs.10 crore in the setting up of the Digital Venture would be borne out of the additional capital being raised by NBL. Since, NBL is an independent entity, all the costs involved shall be borne by the NBL. However, BOB would be providing guidance and expertise for setting up Digital Venture in NBL."*

26. On the issue, the Committee further enquired as to whether any pragmatic assessment has been made, if the costs for introducing the Digital Venture would be borne by NBL, especially considering the inability of a small bank like NBL to absorb the same and still remain financially viable. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"The cost for implementing the Digital Venture would be borne by The Nainital Bank Limited. However, the business plan has been prepared in a manner that the investment towards the Digital Venture are only commencing after the capital has been raised, insulating the bank from the risk such as meeting outflows from existing capital.

A detailed and very thorough plan has been prepared for the launch and set up of the Digital Venture. This plan was presented to the Board of the NBL. The plan has been stress tested across various scenarios such as:

- a) increase in expenses without commensurate increase in revenues
- b) increase in credit losses while revenues do not increase
- c) decrease in revenues expected while revenues remain the same and also
- d) if all such scenarios were to happen at the same time without commensurate increase in revenues

The strategy has been prepared in a manner that across all such scenarios the bank remains profitable and does not go into losses and will therefore remain financially viable at all times."

27. The Committee, then, categorically desired to know upto what extent the aspects/ground realities of an un-interrupted and affordable availability of internet, as the entire region of Uttarakhand, in particular and various small cities, in general, still face the problem of low/poor internet connectivity due to which the Digital Banking Operation may not produce the intended results in commensuration with the heavy cost involved in the Project have been taken into account, prior to engaging M/s. Accenture Solutions Pvt Ltd on a hefty compensation of around Rs.4 crore and 50 lakh, on yearly basis, with effect from January-October, 2017. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has apprised that DV-NBL is not considered as a strictly digital or mobile project. It uses best of both technology and physical infrastructure. DV-NBL as a project envisages a digital + physical customer outreach and experience. It takes into account that every customer may not be internet or mobile friendly or may not have access. One of the products that was envisaged under DV-NBL was to assist the Government of Uttarakhand to go cashless. One example of such innovation is the Cashless Card launched in partnership with the Garhwal Mandal Vikas Nigam (GMVN). Starting with a pilot in Kedarnath, the card aims to make the Char Dham Yatra, which attracts over a million tourists every year a completely cashless experience. The card can be used even in offline mode or in places where mobile connectivity is poor including the peak point where the temple is located. In relation to Accenture, BOB has stated that NBL is yet to award a contract to Accenture for its appointment as a consulting and systems implementation partner following due RFP process. As per the plan approved by the Board, no material cost for DV-NBL would be committed till such time the capital is raised or in final stages thereof."

28. The Committee, thereafter, desired to know as to whether the digital banking format presently being used in BoB could be conveniently made available to its subsidiary viz. Nainital Bank Limited without incurring any expenditure, instead of introducing Digital Venture in NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"Digital Banking Department of the Bank of Baroda is presently catering to the Digital Products & Services for Bank of Baroda customers. Decision related to deployment of Digital Products and Services by Bank of Baroda for its Subsidiaries is taken care on selective basis and presently most of Digital Products & Services are handled by the Subsidiaries at their local level based on the requirement of their customers."

Extension of Bank's Digital Products and Services to Bank's Subsidiaries required licensing of the Product, extension of the support of the Vendor / Service Provider and integration with their systems, which has financial implication and not possible without incurring any expenditure."

29. Thereafter, the Committee desired to know the plausible reasons for not considering a comparative inexpensive viable of extending the Digital Products & Services of BOB to NBL by the Board(s) of BOB/NBL and/or the Consulting Partner and instead approving an untested Business Plan in the form of Digital Venture for NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"In relation to the implementation of BOB technology, BOB has informed that the products and systems from BOB cannot be implemented on an "as is" basis in NBL. These may require changes in order to be available for NBL. This would mean additional cost in terms of implementation, additional manpower, etc. Any technology or product which is taken from BOB would also require significant reconfiguration in order to suit the needs of NBL. This would be equal, if not more, in terms of time and effort required to implement DV-NBL. Further, the DV-NBL does not contain any untested element. The technology components being implemented through DV-NBL are now being adopted by other banks including the smaller and more comparable banks. These are only being used effectively, along with a well-developed strategy and operational plan, an experienced team and turned into a customised suite for NBL."

30. The Committee further desired to know whether BOB has ever consulted with the Department of Financial Services, the Ministry of Finance, in regard to "Alternate & Easy Plan" for extending BOB's digital products and services to NBL, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"Department of Financial Services has not been consulted on this subject. This is an operational issue and decisions on such issues are taken at Board level."

31. On being specifically enquired by the Committee whether the objective of raising Capital for the NBL for setting up of Digital Venture could be easily achievable in the present competitive business environment in the Country, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"According to BOB in the present scenario, raising capital for NBL would be possible considering the fact that being a developing market, and with the specific initiatives of the Government, a significant portion of the unbanked population is entering into the formal economy. Given this large market opportunity, there are investors who would

be keen to participate and partner with NBL. BOB has had some preliminary / informal discussions with investors and the feedback has been positive. However, it has been reiterated by BOB that if for any reason, fundraising is not benefitting NBL for reasons such as poor terms, for example, it will not be done."

32. The Committee then desired to know about the mechanism which would be put in place by BOB to offset the expenditure incurred on hiring the M/s Accenture, which comes to around Rs.4 crore and 50 lakh annually with effect from January-October, 2017, in case, NBL/BOB are not able to raise Capital for the setting up of Digital Venture, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has submitted that it may be noted that NBL is yet to award a contract to Accenture. However the Board of NBL has decided that the contract to Accenture would only be awarded once the capital raise is done. Hence NBL would not incur any cost on account of Accenture. The only cost that NBL is presently incurring is on account of hiring a small team to lead the DV-NBL. This cost would be Rs. 2.2 crore for the last 12-14 months, which is well within the initial budget of Rs. 10 crore allocated by the Board of NBL as the maximum permitted investment by NBL in the venture."

33. The Committee, thereupon, asked about the impact on the financial condition of NBL, if the proposed Digital Venture of NBL goes into losses and also asked as to whether BOB would be going to compensate all such losses to NBL. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"A detailed and very thorough plan has been prepared for the launch and set up of the Digital Venture. This plan was presented to the Board of the NBL. The plan has been stress tested across various scenarios such as :-

- a) *increase in expenses without commensurate increase in revenues*
- b) *increase in credit losses while revenues do not increase*
- c) *decrease in revenues expected while revenues remain the same and also*
- d) *if all such scenarios were to happen at the same time without commensurate increase in revenues*

The strategy has been prepared in a manner that across all such scenarios the bank remains profitable and does not go into losses. In the untoward incident that the plan does go into losses the capital raised would ensure that the Bank has no material financial impact. Further to the above, in case the outcome is not according to plan

adequate measures would be taken and course correction would be carried out by mid-term reviews to ensure that the results meet the business plan approved by the Board.

Since NBL is an independent entity, all the profits & losses are borne by the NBL. Hence, BOB would not be compensating any losses of NBL."

34. The Committee then desired to know about the strategy drawn up in the direction of launching and setting of Digital Venture in such a manner that in all eventualities, the NBL remains profitable, in case, the NBL shows signs of distress/losses due to enormous expenses on account of Digital Venture without commensurate increase in revenues, increase in credit losses while revenues do not increase, etc. In this regard, the Committee also desired to know as to whether the BOB, being a Major Stakeholder and/or the consulting partner i.e., M/s Accenture Solutions Pvt. Ltd. are willing to furnish a solemn Undertaking to the effect that all losses accrued by NBL on account of Digital Venture would be borne by them. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has apprised that DV-NBL was planned in a manner that NBL would not incur losses even in stressed environment. The plan and strategy have been stress-tested across multiple scenarios to ensure that NBL is not at risk of making a loss. BOB has stated that in case there is any loss in NBL, the value of investment of BOB in NBL would automatically come down and would not be in the interest of BOB. Performance will be reviewed in detail every quarter and subsequent investments will be subject to these reviews. BOB at present does not undertake to fulfil any losses that may occur in NBL due to Digital Venture. Further, BOB has stated that since Accenture, once appointed, would only be a system implementer and consultant, as per market practice it would not be providing any undertaking against losses incurred by NBL."

35. The Committee further categorically asked whether it is a viable plan to introduce a costly Business Plan of Digital Venture for a small Bank like NBL, which is neither been implemented in any PSB before nor the M/s. Accenture possesses any prior experience of developing such ventures in other Banks, keeping in view the fact that NBL has been categorised as "Old General Pvt Sector Bank" and the BOB being its major shareholder. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has stated that Accenture have significant experience in transformation, technology, operations and strategy of various banks, including Public Sector Banks (PSBs) such as State Bank of India (SBI). Although, the lack of experience reflected only due to the fact that no other PSB has implemented a similar transformation project, Accenture has been the lead systems and consulting partner to SBI for its

large projects like SBI In-touch and SBI Buddy, besides having worked with Singapore's DBS Bank for its launch of Digi Bank in India. Further BOB has apprised that the team has significant relevant experience in their allocated roles that Accenture has global experience in consulting and technology for various banks across the world in addition to what they have done in India."

36. The Committee then asked about the details along with total duration of all High Ranking serving Officials, upto the level of General Manager, in BOB and NBL, who earlier worked in Citibank. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"As per BOB inputs, in relation to NBL, the following team members have past experience with Citibank –

- i) **Manish Shah** – Head Digital Venture – Worked with Citibank from 1998 to 2008.
- ii) **Harpreet Singh** – Business Head Digital Venture – Worked with Citibank from 2001 to 2014"

37. The Committee when asked to furnish the details of all the technical personnel along with the remuneration being paid to them for developing Digital Venture of NBL, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"All-inclusive annual compensation (fixed pay) paid on monthly basis equivalent to 1/12th of annual compensation subject to deductions and taxes as applicable plus Performance Linked Bonus paid on half yearly basis on attainment of performance parameters/ half yearly milestones. The performance linked bonus is due for review every year.

Sl. No.	Name	Designation	Annual compensation (fixed pay) Rs.	Bonus per annum Rs.	Date of Joining
1	Mr. Manish A Shah	Head- Digital	1,20,00,000	10,00,000	09.01.2017
2	Mr. Hemant Adarkar	Technology Head	65,00,000	6,50,000	06.07.2017
3	Mr. Parag Khachane	Project Head	36,00,000	3,60,000	14.08.2017
4	Mr. Ganesh Pai	Technology Architect	30,00,000	3,00,000	13.09.2017
5	Mr. Kunal S Karnani	Finance Head	80,00,000	8,00,000	22.09.2017
6	Mr. Harpreet Singh	Head of Sales	75,00,000	7,50,000	06.10.2017"

38. The Committee when enquired as to whether the technical personnel engaged in Digital Venture had developed the digital banking platform in any of the Public Sector banks in the country also with the reasons for co-opting these technical personnel for developing the

Digital Venture in NBL, the Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"No such project has been implemented in any Public Sector Bank before. This project is a unique transformation project that has been sanctioned by the Board of The Nainital Bank Limited to grow and transform The Nainital Bank Limited into a nationwide technologically advanced customer centric Bank. One of the important requirements of a successful financial service provider is the people that will deliver on the Plan. NBL is cognizant of the same and hence carried out the following –

- a. *The team tasked with the delivery of the project was carefully selected from outside the Bank.*
- b. *A study was undertaken with regards the remuneration to be paid to such employees along with taking into considerations, compensation benchmarks provided by placement consultants and accordingly decided.*
- c. *In order to ensure perfect neutrality, an advertisement for the positions was made in newspaper with large circulation and website of the bank with strict requirement on specific experience.*
- d. *As has been the case in other transformation exercises witnessed within the banking space – for example – in case of Ratnakar Bank – the transformation was led by first bringing in talent from the outside with the necessary skill set and wherewithal to carry out the transformation exercise.*

The Team which has been hired has experience in launching banking including building and implementing core banking systems, lending businesses and other retail platforms both digitally and physically. The team does not carry prior experience of developing such ventures in other public sector banks. However the team selected has relevant experience as mentioned above. The same is highlighted in following table:-

Name	Brief Background
Manish A Shah Head of Venture	IIM Ahmedabad Alumnus with over 20 years of experience in financial services at Citibank (Unsecured lending, including a 6 year personal loans stint across different parts of north India, Wealth management - Led Citigold acquisition in India and the US mortgage business through the 2007-08 housing crisis) and AEGON Life (Agency branch network set-up across 20+ states in India involving 600 employees and over 5000 advisors & strategic initiatives expanding distribution). Last Stint – Founded a Robo Advisory firm

	<p>which, at its peak had over 1 million users across India, of financial literacy information and data – and it was acquired by NewsCorp making it one of the earliest exits in the Indian fintech space</p>
	<p>Relevant experience in starting businesses from scratch at large and small organizations, fundraising with large investors, working with investment banks, consultants, and large employee teams. More importantly, significant experience with large, retail customer focused businesses in sales, risk, collections, digital product development & marketing and customer service. Was head of unsecured loans for all of North India, the same geography for Nainital Bank, at a time when there were no credit bureaus in India.</p>
Dr.HemantAdarkar Head Technology	<p>PHD from TIFR with over 25 years of experience across stints at Infosys (where he worked on the Finacle team), Datamatics & JP Morgan. Last Stint – Founder C-Fence Tech.</p> <p>Created the Core Banking Systems, from scratch, for the largest Urban Cooperative Bank in Asia (Saraswat Bank). Also played an important role in the development of Finacle, the core banking system built by Infosys – this is also the same system that will be adopted at Nainital Bank. Has significant and relevant experience in cloud computing and related cybersecurity requirements that come with it. Significant experience with managing large scale, turnkey projects is believed to be very highly relevant to this transformation at Nainital Bank. Well versed with global best practices in system architecture and business continuity planning.</p>
Kunal S Karnani Head – Finance	<p>CA, CISA, PG-Securities Law, over 17 years of financial services experience in industry and consulting. Part of team setting up Sharekhan. Set up retail lending operations for BNP Paribas in India. Last Stint – Group CFO – Sharekhan Group / CEO – Sharekhan BNP Paribas Financial (NBFC)</p> <p>Appointed by various regulators as advisor viz – Part of the team representing retail financial services – appointed by FIU India – in the inspection carried out by Financial Action Task Force FATF for India's inclusion as a full FATF member.</p> <p>Part of the committee set up by SEBI for revamp of Stock Broker regulations – Provided a report to the SEBI on "Enhanced Supervision of Stock Brokers" – most of the recommendations have been accepted by SEBI and implemented presently.</p> <p>Significant experience in end to end capital management – raising capital from investors, regulatory compliance around capital management, deployment of capital in treasury operations. Experienced in capital management and budgeting in turnaround operations. Successfully managed operations of financial services entities in downturn across financial year 2008 to financial year 2011. Led transformation and growth</p>

	<p>across market cycles. Led key strategic transactions including capital raise and optimization. Very relevant experience for a new venture that will have significant regulatory interface, compliance & reporting, investor management and business performance tracking.</p>
Harpreet Singh Head – Business	<p>MBA from XLRI, B.Tech from PEC, with over 17 years of financial services experience across payments, cards, lending with Citibank and Mashreq Bank. Substantial stints in sales, product and portfolio management across India. Last Stint – Business Head - Intellect Payments Ltd.</p> <p>Relevant experience in forging partnerships to enhance new customer origination and sales. Sales experience combined with portfolio management background is believed to be a significant plus in growing the bank cautiously especially with consumer lending being a key part of our future strategy.</p>
Parag Khachane, Project Head	<p>BE and MBA with over 11 years of experience of which 8+ years in Digital product management (web, mobile) in FinTech / E-commerce and prior software development stints in Infosys, oracle. Last Stint – Product Lead - NWS Digital (A NewsCorp company).</p> <p>Significant experience in the consumer internet space where customer journeys and digital experience will be important differentiators if Nainital Bank is going to succeed in a market that is very competitive and customers have increasing number of choices with each passing year.</p>
Ganesh Pai Technology Architect	<p>BE from VJTI with over 17 years of software development experience across India & Europe with VocalLink, JP Morgan, CIBIL.</p> <p>Last Stint – CTO for NGSB Bank.</p>

39. The Committee then desired to know as to whether any concrete measures have been taken by the Management of BOB/NBL to dispel the apprehensions of the NBOA in regard to the setting up of Digital Venture, merger of NBL with BOB etc. The Ministry of Finance (Department of Financial Services), in a written reply, submitted:-

"BOB has apprised as follows:-

- To eliminate the doubts of staff, for addressing the issues being raised by employees the Chairman of NBL has met many times the representatives of all the -3- unions in the bank on various dates, addressed 'Town Hall' meetings, connected to employees of the bank at various platforms and addressed the General Body Meeting of Clerical Union and explained them benefits to NBL and its employees from proposed Digital Venture.

- *The meetings have also been organised by NBL with Regional Heads, Branch Heads and members of core team of Senior Executives at H.O. and branches of the Bank.*
- *It was explained that Digital Venture is the need of the hour looking to the very competitive banking scenario and for boosting the business figures and if the bank will not make changes to keep itself abreast with technologies being adopted by other banks the survival of our bank will be in danger in time to come.*
- *The negative consequences of the mergers which took place in the past from the angle of the employees have been communicated to the employees during such meetings."*

40. The Ministry of Finance (Department of Financial Services), in a written reply, also informed the Committee:-

"BOB has informed that DV-NBL is a project which may transform NBL and would be beneficial to all stakeholders. The transformation exercise undertaken may benefit all the stakeholders as provided below:

1. *To the home state of Uttarakhand by-*
 - Helping enhance existing ecosystems like tourism*
 - Generating additional employment in the state as NBL grows*
2. *To the employees:-*
 - More employment and growth opportunities especially in better paid, specialised functional areas such as treasury, analytics, business development and overall, enjoy the benefits of being part of a growing organization.*
3. *To customers:-*
 - Existing customers benefit from enhanced technology, services and newer products - for example mobile banking and UPI, to name a few.*
 - The middle class customer segment is the most under-banked and underserviced despite representing approximately 70% of the economy. BOB aims to bring "middle class" customers into mainstream economy*

BOB has apprised that the DV-NBL envisages growth in the infrastructure of NBL including team, branches and other aspects. It does not envisage closure of branches. It is not a project but a process that will be ongoing, and even though it starts off with a

few people from a project office in Mumbai, it will spread post the initial 18 months to include the entire organisation."

41. In connection with examination of the instant representation, the Committee took oral evidence of the representatives of the Ministry of Finance (Department of Financial Services) on 6.7.2018.

42. During the sitting of the Committee, the main points that were put forth by the representatives of the Ministry of Finance (Department of Financial Services) in relation to the matter under examination before the Committee, in brief, were as follows:-

- (i) Banks are 'Board Driven Entity' and works as per the Regulatory Frame fixed by the Reserve Bank of India. The Banks take their commercial decision on their own and the Government never favours any of the decision taken by them. If the decision taken by the Bank is not right, then of course, the process is in place to look into the matter.
- (ii) As long as the matter of Bank of Baroda shareholding in the Nainital Bank Limited is concerned, two things are very important to be maintained i.e. digitalisation and identity of the Nainital Bank Limited. In this regard, the Government has already issued a 'Blue Print' to all the banks to implement the same.
- (iii) The apprehensions of the employees, the overall health of the Nainital Bank Limited and the interest of all the stakeholders must always be factored in before taking any decision.
- (iv) The Board must re-visit the entire matter of Digital Venture of the Nainital Bank Limited and come to a specific conclusion, keeping in view as to how other Banks had implemented the same, how much money would be required and what would be the modalities of implementing the Digital Venture project in the Nainital Bank Limited.
- (v) Rs.3,000 crore would be the total expenses for the investment technology to be spent in the coming ten years. Rs.156 crore will be spent during the first two years that too, in two parts. The Digitization Programme would be further extended only when it is successful in the preceding year(s).
- (vi) No contract has been signed with M/s Accenture for digitization of the Nainital Bank Limited.

43. During the sitting, the Committee observed that the replies furnished by the Ministry of Finance (Department of Financial Services) were not illustrative and the replies given by the representatives of Bank of Baroda during the oral evidence were also not in congruity with the earlier written replies furnished to the Committee on Petitions. Pursuant to this, the Committee urged the representatives of the Ministry of Finance (Department of Financial Services) to review the entire matter and furnish comprehensive written replies on various aspects raised in the representation along with clarifications on the queries raised by the Members of the Committee.

44. In response, the Ministry of Finance (Department of Financial Services) vide their communication dated 4.10.2018 informed the Committee as follows:-

"As follow up, the Department of Financial Services requested Bank of Baroda to verify the replies, keeping in view the various concerns flagged and intimate the course of action arrived at after deliberations in the bank's Board. The bank has informed that the Board of the bank was apprised about the replies sent by the bank to the Committee on Petitions, Lok Sabha and after deliberation in its meeting held on 10.9.2018, the bank's Board decided to shelve the proposed Digital Venture and divestment of stake to maintain status quo in Nainital Bank Limited."

OBSERVATIONS/RECOMMENDATIONS

PERMANENTLY SCRAPPING OF DIGITAL VENTURE PROJECT IN THE NAINITAL BANK LIMITED

45. The Committee note from the submissions made by the Ministry of Finance (Department of Financial Services) that the Banking Industry in the country has been growing at a fast pace and a large number of Banks are augmenting their service capabilities through leveraging technology. The Industry is not only growing but also consolidating rapidly with the stronger Banks which are investing in technology, products, servicing capabilities are gaining market share from other Banks. Taking a cue from the rapidly changing environment, the Board of Directors of the Nainital Bank Limited in consultation with its largest Shareholder, viz., Bank of Baroda, laid out a Plan for building a technology driven, infrastructure light model for Nainital Bank Limited. For attaining the intended objective, the external Capital was sought to be raised in the Nainital Bank Limited which would help them to increase its Branch Network and systems to better serve its current customer base and seek to grow to newer markets. Accordingly, a detailed Transformation Plan was put in place purportedly for allowing Nainital Bank Limited to evolve into a Bank with digitised processes and unparalleled customer service.

46. The Committee also note that a Plan was prepared for the launch and set up of the Digital Venture in the Nainital Bank Limited and presented to the Board of the Nainital Bank Limited. During the entire process, the Management of Bank of Baroda/Nainital Bank Limited had not informed/consulted the Ministry of Finance (Department of Financial Services) on the plea that this is an operational issue and decisions on such issues could be taken at the Board level.

47. During the oral evidence of the representatives of the Ministry of Finance (Department of Financial Services), the Bank of Baroda and the Nainital Bank Limited, the Committee observed that the replies furnished by the Ministry of Finance (Department of Financial Services) were not illustrative and broadly opaque in nature. The submissions made by the representatives of the Bank of Baroda during the oral evidence were also not in congruity with their earlier written replies furnished by them to the Committee on Petitions. The Committee, therefore, urged the representatives of the Ministry of Finance (Department of Financial Services) to review the entire matter and furnish comprehensive written replies on various aspects raised in the Representation along with detailed clarifications on the queries raised by the Committee on Petitions. In pursuance thereof, the Ministry of Finance (Department of Financial Services) *vide* their communication dated 4.10.2018 informed the Committee that as a follow up, the Department of Financial Services requested the Bank of Baroda to verify the replies, keeping in view the various concerns flagged in and intimate the course of action arrived at after deliberations in the Bank's Board. The Ministry of Finance (Department of Financial Services) further submitted before the Committee that the Bank of Baroda has informed that the Board was apprised of the replies sent by Bank of Baroda to the Committee on Petitions, Lok Sabha and after deliberations in its meeting held on 10.9.2018, the Bank's Board decided to shelve the proposed Digital Venture and divestment of stake to maintain *status quo* in the Nainital Bank Limited.

48. The Committee are satisfied to note that keeping in view the huge financial implications *vis-a-vis* low annual profit of the Nainital Bank Limited, the proposed implementation of the Digital Venture Project has been shelved. The Committee also wish to applaud the result-oriented approach of the Ministry of Finance (Department of Financial Services) by not only comprehending the niceties of the entire Digital Venture Project but also the concerns raised by the Office Bearers of the Nainital Bank

Officers' Association, on the basis of which a conscious decision has been arrived at by them. However since the Digital Venture Project has not been able to outweigh the overall business model of the Nainital Bank Limited, the Committee wish to urge the Ministry of Finance (Department of Financial Services) that the Digital Venture Project should be permanently scrapped and at the same time, efforts should also be made to extend the existing Digital Banking Project of Bank of Baroda in the Nainital Bank Limited. The Committee would like to be apprised of the concrete action taken in this regard within three months after the presentation of this Report to the House.

MERGER OF NAINITAL BANK LIMITED WITH BANK OF BARODA

49. As regards the aspect of merger of the Nainital Bank Limited with the Bank of Baroda, the Committee note from the submissions made by the Ministry of Finance (Department of Financial Services) that the Reserve Bank of India had made a reference to the Ministry of Finance which, in turn, *vide* their letter dated 07.04.2006 advised the Bank of Baroda to explore the possibility of merger of Nainital Bank Limited with them. Accordingly, the Board of Bank of Baroda *vide* Resolution No. M-12 dated 06.07.2006, in principle, approved the merger of Nainital Bank Limited with Bank of Baroda and authorized the Bank of Baroda to initiate the merger process. However, the proposed merger could not succeed due to opposition from the shareholders, one of the Directors and a Member of Parliament, broadly, citing the merger of the Nainital Bank Limited with the Bank of Baroda as a sentimental issue for the local people.

50. The Committee are not convinced with the reasoning given by the Ministry of Finance (Department of Financial Services) for not implementing the merger proposition owing to opposition from the shareholders, one of the Directors and a Member of Parliament. The Committee are, in fact, astonished to note that despite the in-principle approval of the Board of Directors authorizing the Bank of Baroda to

initiate the merger process, the same was not implemented. On this issue, the Committee are of the considered view that consolidation of Banking System through merger has now become the need of the hour in view of the fact that creation of a stronger entity and developing the capability to withstand the market volatility, thereby, protecting the interests of depositors, especially the smaller Banks such as Nainital Bank could only be possible when the mechanism of merger is widely resorted to.

51. Nonetheless, the merger in the Banking Sector should be driven by market-related parameters such as size and scale; geographical-cum-distribution synergies coupled with skills and capacity. As a matter of fact, the emerging market dynamics like falling interest rate(s) regime; increasing focus on Retail Banking; enhanced quest for Rural Credit; quest for increasing profits especially from operations; reduction of NPA's in absolute terms; need for more Capital to augment the technology needs, etc., have become the major drivers for mergers and acquisitions in the Banking Sector. While the merger process is certainly a change initiative, the human element appears to be more vital for its success. Without a positive mindset of human resources, no initiative for change could be a successful venture. In order to achieve the desired results of the merger exercise, especially in the Public Sector Banks, it is necessary to recognize the complexities and to draw and implement a viable Plan for change in the collective behaviours, attitude and mindset of the work force which translates such Merger Plans into workable solutions. With increasing globalization, attaining size advantages would become critical for the Indian Banks and in such a scenario small number of large Banks of global size should be developed in place of large number of smaller Banks. Recently, the Government of India have initiated the amalgamation process in respect of three Public Sector Banks, namely, Bank of Baroda, Vijaya Bank and Dena Bank making it the 'Third Largest Public Sector Bank' of the Country.

52. Keeping in view the above circumstances, in its entirety, the Committee strongly recommend the Ministry of Finance (Department of Financial Services) to advise the Bank of Baroda to re-visit the merger proposition of the Nainital Bank Limited with their Bank; taking into account the overall interest of all the stakeholders, particularly, the shareholders, employees of the Nainital Bank Limited and ensure its implementation at the earliest. The Committee would like to be apprised of the concrete action taken in this regard within three months after the presentation of this Report to the House.

DELIBERATION BEFORE INTRODUCING A PROJECT INVOLVING HUGE FINANCIAL EXPENDITURE

53. The Committee note from the submissions made by the Ministry of Finance (Department of Financial Services) that the Board of Nainital Bank Limited approved a Comprehensive Plan of Digital Venture in its meeting held on 30.3.2017 and the Business Plan, in this regard, was approved in its Board meeting held on 26.3.2018. NBL appointed a Project Team for the Digital Venture and also appointed M/s. Accenture Solutions Pvt. Ltd., as a Consulting Partner for Design, Build, Launch, and post-Launch Services for an end-to-end Digital Venture set up. BOB has also assured the Ministry of Finance (Department of Financial Services) that the huge expenditure in to be incurred in appointing M/s. Accenture Solutions Pvt. Ltd., as a Systems Implementation Partner has not been committed until the availability of Capital without putting the Bank at risk is ensured. In relation to M/s. Accenture Solutions Pvt. Ltd., BOB has further stated that NBL is yet to award the Contract to M/s. Accenture Solutions Pvt. Ltd., except that the Board of NBL has decided that the Contract would be awarded once the Capital to meet the expenditure is raised. Hence, NBL would not going to incur any cost on account of appointing M/s. Accenture Solutions Pvt. Ltd.

The only cost that NBL is presently incurring is on account of hiring a small Project Team to lead the Digital Venture of Nainital Bank Limited. This cost has been Rs. 2.2 crore for during the last 12-14 months, which is well within the initial budget of Rs.10 crore allocated by the Board of NBL as the maximum permitted investment by NBL in the said Venture.

54. The Committee further note that M/s. Accenture Solutions Pvt. Ltd., has significant experience in transformation, technology, operations and strategy of various Banks, including Public Sector Banks such as State Bank of India. Although, the lack of experience of M/s. Accenture Solutions Pvt. Ltd., was reflected due to the fact that no other Public Sector Bank has implemented a similar Transformation Project. Since introduction of Digital Venture is an operational issue and decisions on such issues are taken at the Board level, the Ministry of Finance (Department of Financial Services) has not been consulted on this subject.

55. In this context, the Committee are unable to understand as to why the Bank of Baroda had exhibited a high degree of alacrity in appointing M/s. Accenture Solutions Pvt. Ltd., as a Consulting Partner for the Digital Venture Project for the Nainital Bank Limited and that too for a Private Company who has no previous experience of formulating a Transformation Project in any other Public Sector Bank except the State Bank of India. The fact that the Ministry of Finance (Department of Financial Services) was not consulted also raises serious questions on the existing work-ethics and overall conduct of decision-making functionaries of the Bank of Baroda/ Nainital Bank Limited.

56. The Committee are further perplexed to note that the Board of Nainital Bank Limited approved the Comprehensive Plan of Digital Venture in its meeting held on

30.3.2017, whereas, the name of Digital Head of M/s. Accenture Solutions Pvt. Ltd., was shown on the rolls of Nainital Bank Limited on 9.1.2017; which is astonishingly three months in advance from the date of approval of Plan by the Board of Nainital Bank Limited. Further, the Project Team of the Digital Venture Project of Nainital Bank Limited consisting of five other Professionals were hired between January, 2017 to October, 2017, thereby, incurring a hefty expenditure of approximately Rs. 4.45 crore including Annual Compensation and Bonus. The Committee, after having detailed deliberations with the representatives of the Ministry of Finance (Department of Financial Services) and the office bearers of Nainital Bank Officers' Association are sure that the Digital Venture Project conceived by the Management of Bank of Baroda for a small Bank like Nainital Bank was based on wrong calculation and wrong assumption. The Committee, therefore, recommend the Ministry of Finance (Department of Financial Services) to ensure that whenever any such big Project like Digital Venture involving a huge financial expenditure is conceived and implemented by any Public Sector Bank or its Subsidiary having majority stake, the Management/Board of Public Sector Banks should invariably consult them by furnishing a Detailed Project Report. For attaining this objective, the Ministry of Finance (Department of Financial Services) should also formulate explicit Guidelines/Regulations, etc., so that public money could be utilised in a purposive and gainful manner. The Committee would, in particular, like to be apprised of the action taken by the Ministry of Finance (Department of Financial Services) in this regard.

New Delhi ;
12 December, 2018
21 Agrahayana, 1940 (Saka)

Bhagat Singh Koshyari,
Chairperson,
Committee on Petitions.

**MINUTES OF THE FORTY-EIGHTH SITTING OF THE COMMITTEE ON PETITIONS
(SIXTEENTH LOK SABHA)**

The Committee met on Friday, 6 July, 2018 from 1100 hrs. to 1245 hrs. in Committee Room 'C', Parliament House Annex, New Delhi.

PRESENT

Shri Bhagat Singh Koshyari - Chairperson

MEMBERS

2. Shri Jitendra Chaudhury
3. Shri Ram Tahal Choudhary
4. Shri Chhedi Paswan
5. Shri Rajan Vichare

WITNESSES

**MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)**

1. Shri Rajiv Kumar - Secretary
2. Shri Ravi Mittal - Addl. Secretary
3. Shri Amit Agrawal - Joint Secretary
4. Shri P.S. Jayakumar - MD & CEO, Bank of Baroda
5. Shri Radha Kant Mathur - GM, Bank of Baroda

Nainital Bank Officers' Association

1. Piyush Payal - General Secretary
2. Chandra Shekhar Kanyal - President
3. Rakesh Tiwari - Deputy General Secretary
4. Deepak Sanwal - Assistant General Secretary
5. Sumit Tiwari Assistant - General Secretary
6. Raj Vaibhav Malasoni - Assistant General Secretary
7. Nisha Kamath - Assistant General Secretary
8. Ambuj Duvet - Member

SECRETARIAT

1.	Shri Shiv Kumar	-	Joint Secretary
2.	Shri Raju Srivastava	-	Additional Director
3.	Shri G. C. Dobhal	-	Deputy Secretary

2. At the outset, the Hon'ble Chairperson welcomed the Members to the sitting of the Committee.

[The representatives of the Nainital Bank Officers' Association were ushered in]

3. After welcoming the witnesses, the Chairperson drew their attention to Direction 55(1) of the Directions by Speaker, Lok Sabha regarding the confidentiality of the proceedings of the Committee. Thereafter, the Committee heard the representatives of the Nainital Bank Officers' Association on their Representations regarding proposed Sale of Nainital Bank Limited - a Subsidiary of the Bank of Baroda, in the guise of Digital Venture. The main points that were put forth by the representatives of the Nainital Bank Officers' Association in relation to the matter under examination before the Committee, in detail, were as follows:-

- (i) The operational cost of the Digital Venture of Nainital Bank would be Rs.159 crore.
- (ii) The operation cost has been revised 3-4 times which has been submitted to RBI.
- (iii) Rs.2,850 crore has to be raised from the market.
- (iv) The contract work for the Digital Venture Project has not yet been allotted.
- (v) For the purpose of starting the Digital Venture Project, the Bank has already recruited seven personnel and already paid Rs.10 crore approx. in the last two years, out of which Rs.4 crore had been paid during the last financial year.
- (vi) Out of seven personnel recruited for the Digital Venture Project, two personnel have already resigned.
- (vii) 'RBI has no information about it', this reply has also been sought through an RTI Application forwarded to the RBI, PMO and the Ministry of Finance.
- (viii) Keeping in view the present competitive market scenario, it is the best solution to merge the Nainital Bank into Bank of Baroda.

(The witnesses, then, withdrew)

[The representatives of the Ministry of Finance (Department of Financial Services) were ushered in]

4. After welcoming the witnesses, the Chairperson drew their attention to Direction 55(1) of the Directions by Speaker, Lok Sabha regarding the confidentiality of the proceedings of the Committee. Thereafter, the Committee heard the representatives of the Ministry of Finance (Department of Financial Services) on the Representations of Ms. Nisha Kamath and the Office Bearers of the Nainital Bank Officers' Association regarding proposed Sale of Nainital Bank Limited - a Subsidiary of the Bank of Baroda, in the guise of Digital Venture. The main points that were put forth by the representatives of the Ministry of Finance (Department of Financial Services) in relation to the matter under examination before the Committee, in detail, were as follows:-

- (i) Banks are 'Board Driven Entity' and works as per the Regulatory Frame fixed by the RBI. The Banks take their commercial decisions on their own and the Government never favours any of the decision taken by them. If the decision taken by the Bank is not right, then of course, the process is in place to look into the matter.
- (ii) As long as the matter of Bank of Baroda shareholding in the Nainital Bank is concerned, two things are very important to be maintained, i.e., digitalization and identity of the Nainital Bank. In this regard, the Government has already issued a 'Blue Print' to all the Banks to implement the same.
- (iii) The apprehensions of the employees, the overall financial health of the Nainital Bank Limited and the interests of all the stakeholders must always be factored in before taking any decision.
- (iv) The Board must re-visit the entire matter of Digital Venture of the Nainital Bank Limited and come to a specific conclusion keeping in view as to how other Banks had implemented the same, how much money would be required and what would be the modalities of implementing the Project in the Nainital Bank Limited.
- (v) Rs.3,000 crore would be the total expenses for the investment technology to be spent in the coming ten years. Rs.156 crore will be spent during the first two years that too, in Two Parts. The Digitization Programme would be further extended only when it is successful in the preceding year(s).

(vi) No contract has been signed with M/s. Accenture for digitization of the Nainital Bank Limited.

5. The Committee, thereafter, observed that the replies given by the Ministry of Finance (Department of Financial Services/Bank of Baroda) were not illustrative and the replies given by the representatives of the Bank of Baroda during the oral evidence were also not in congruity with the earlier written replies furnished to the Committee on Petitions. Pursuant to this, the Committee urged the representatives of the Ministry of Finance (Department of Financial Services) to review the entire matter and furnish comprehensive written replies on various aspects raised in the Representations along with clarifications on the queries raised by the Members of the Committee.

(The witnesses, then, withdrew)

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9. A copy of the verbatim proceedings of the sitting has been kept separately.

The Committee, then, adjourned.

**MINUTES OF THE FIFTY-THIRD SITTING OF THE COMMITTEE ON PETITIONS
(SIXTEENTH LOK SABHA)**

The Committee met on Wednesday, 12 December, 2018 from 1530 hrs. to 1630 hrs. in Committee Room No.139, First Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhagat Singh Koshyari - Chairperson
MEMBERS

2. Shri Suresh C. Angadi
3. Shri Jitendra Chaudhury
4. Shri Ram Tahal Choudhary
5. Shri C. P. Joshi
6. Shri Chhedi Paswan
7. Shri Rajan Vichare

SECRETARIAT

1. Shri Shiv Kumar - Joint Secretary
2. Shri Raju Srivastava - Director
3. Shri G. C. Dobhal - Deputy Secretary

2. At the outset, the Hon'ble Chairperson welcomed the Members to the sitting of the Committee.

3. The Committee, thereafter, took up for consideration the following Draft Reports :-

(i) XXX XXX XXX
(ii) XXX XXX XXX
(iii) Report on the Representation received from Ms. Nisha Kamath and other office bearers of Nainital Bank Offices' Association regarding proposed sale of Nainital Bank Limited - a subsidiary of the Bank of Baroda, in the guise of Digital Venture.

4. After discussing the above mentioned Draft Reports in detail, the Committee adopted all the three Reports without any modification(s). The Committee also authorised the Chairperson to finalize the Draft Reports and present the same to the House in the current Winter Session.

5. XXX XXX XXX;

The Committee, then, adjourned.

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