Inspection of Financial Institutions

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24 January 2001

All Term Lending and Refinancing Institutions

Dear Sirs,

Inspection of Financial Institutions

As you are aware, the Reserve Bank had constituted an Informal Advisory Group under the Chairmanship of Shri Y.H.Malegam, Director, Central Board of RBI, to look into the various aspects of regulation and supervision of Financial Institutions (FIs). The Group has since submitted its Report and its recommendations have, in principle, been accepted for implementation by the Board for Financial Supervision (BFS) of RBI.

2. As per the recommendations of the Group, we have advised our Regional Offices to introduce certain changes in the practices/ procedures followed by them at present in conducting the financial inspection of the FIs. The modified procedure, inter alia, includes the following :

(a) The information requirement of the inspection team would be advised to the FIs at least a month before the commencement of inspection to ensure better time management and efficiency of the examination process.

(b) Before the commencement of inspection, the management of the FI would be requested to make a presentation to the inspection team on the FI's perspective of its own risk exposures, and the manner in which these risks were addressed in the past and the future strategy of the FI in this regard.

(c) During the course of inspection, the inspection team would meet the internal and external auditors to appreciate the scope of their work and the results of their audit. On conclusion of the inspection, the Principal Inspecting Officer, alongwith his team members, as considered necessary, would meet the Audit Committee as also the CEO of the FI to discuss the major findings of the inspection.

(d) A system of discussing the provisioning-shortfall, owing to the objective as well as subjective factors, by the inspection team with the statutory/ external auditors in the presence of the management of the FIs, would also be followed to enhance transparency and minimise the element of subjectivity.

3. We would, therefore, appreciate if full assistance and cooperation in respect of the above changes is extended to the RBI inspection team so as to make the inspection process a more meaningful exercise.

4. Please acknowledge receipt.

Yours faithfully,

Sd/-

(K.C.Bandyopadhyay)

Chief General Manager