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- Pradhan Mantri Jan Dhan Yojana
- Trade Credit
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MISSION

The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

संस्थान का ध्येय मूलत: शिक्षण, प्रशिक्षण, परीक्षा, परामर्शिता और निरंतर विशेषज्ञता को बढाने वाले कार्यक्रमों के द्वारा सुयोग्य और सक्षम बैंकरों तथा वित्त विशेषज्ञों को विकसित करना है ।

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Dr. J. N. Misra
Chief Executive Officer,
IIBF, Mumbai

Every year, the Institute conducts a Micro Research Competition for its members and awards prizes to the selected papers. 'Micro Research' is an essay competition for members of the Institute (bankers) on their areas of interest. Out of the prize winning papers of Micro Research Competition, some papers will be published in one of the issues of Bank Quest. We carry two prize winning micro research papers in this issue. Both these papers focus on "Pradhan Mantri Jan Dhan Yojana"

The first paper is "Pradhan Mantri Jan Dhan Yojana (PMJDY) - a National Mission on Financial Inclusion" by Mr. Deenanath Jha, Chief Manager (Research), State Bank Institute of Information and Communication Management(SBIICM). In this paper, the author explains the salient features of the PMJDY scheme. The second article is "Jan Dhan Scheme" by Ms. Ila Vats, United Bank of India. In this paper, she presents a case study of a Public Sector Bank in implementing the PMJDY scheme.

The third article is "Short Term Trade Credit - A boon for Indian Importers" by Mr. D. Murugesan, Senior Faculty at Southern India Banks' Staff Training College. In this article, the author explains two broad categories of trade credit and their benefits to importers. The fourth article is "NPA - A serious drag on growth" by Dr. C. T. George, former executive of Canara Bank and Principal of the Bank's Staff Training College. The author explains some of the issues of Non Performing Assets in Banks in this article.

The next article is by Ms. Nidhi Choudhari, IAS, Maharashtra on "Housing Finance : Access and Affordability". The author in this article discusses evolution of housing finance and various issues that affect the growth of housing finance in India. The sixth article is by Mr. D. M. Chandgadkar, CEO & Company Secretary, Saraswat Infotech Limited on "Credit Risk Rating & its importance in Banks" In this article, the author explains the concept of credit risk rating, types, uses of credit ratings, various regulatory issues in credit ratings.

The issue also carries an article in Hindi by Mr. Sudhendu Kumar, Manager (Research), State Bank Institute on "नवपरिवेश में सरकारी बैंकों में प्रतिभा प्रबंध की आवश्यकता : क्यों व कैसे ?" *We carry two book reviews in this issue. The first book reviewed in this issue is "Before and After Global Crisis" written by Mr. T. T. Ram Mohan and reviewed by Ms. Nidhi Choudhari, IAS. The second book reviewed is "Corporate Valuation : A Guide for Analysts, Managers and Investors" written by Dr. Prasanna Chandra and reviewed by Dr. A. A. Attarwala & Prof. C. S. Balasubramaniam, Kohinoor Business school.*

We are sure that you will find the coverage and content of this issue interesting. Your suggestions and feedback for improving the contents are welcome.

Dr. J. N. Misra

Corrigendum

In the January-March 2015 issue of 'Bank Quest', we had carried a lead article along with the name of Mr. B. V. Upadhye, General Manager, Bank of India entitled “Global Financial Crisis and Emergence of Basel III : Lessons for Emerging Economies”.

We wish to clarify that the said article, published for educational purpose, is a verbatim reproduction from a paper solely authored by Mr. Dawa Sherpa, Research Student, Centre for Economic Studies, Jawaharlal Nehru University, New Delhi, India (JNU) for the EY International Congress on Economics I - "EUROPE AND GLOBAL ECONOMIC REBALANCING" held at Ankara, October 24-25, 2013 under the title Critical Evaluation of Basel III as Prudential Regulation and Needs. A reference to Mr. Sherpa's original article with his name is shown at the end of the paper published in the Bank Quest, however, inadvertently his name is not published as the sole author of the same which is being clarified through this corrigendum.

We hereby express our deepest regrets to Mr. Dawa Sherpa, his professor Ms. Jayati Ghosh and JNU for the above inadvertence on our part in carrying this article without naming Mr Dawa Sherpa as the sole author and consequential inconvenience caused to all of them. We have since withdrawn the article from the said issue of the 'Bank Quest' and from our website - **www.iibf.org.in**. also.

Honorary Editor,

Bank Quest,

Indian Institute of Banking & Finance

18.6.2015

Pradhan Mantri Jan Dhan Yojana (PMJDY) : A National Mission on Financial Inclusion

Deenanath Jha *

Introduction

The objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is ensuring access to various financial services such as availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This kind of deep penetration at affordable cost is possible only with effective use of technology.

Hon'ble Prime Minister, Shri Narendra Modi launched "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" on 28th August 2014, across the nation simultaneously. PMJDY is a national mission for Financial Inclusion.

The task is gigantic and is a national priority. It has an ambitious objective of equipping all households in the country with banking facilities and having a bank account for each household. The Hon'ble PM has emphasised that it is important to include the people left-out into the mainstream of the financial system. The PMJDY lies at the core of development philosophy of "Sab Ka Sath, Sab Ka Vikas".

The account can be opened in any bank branch or Business Correspondent outlet. PMJDY accounts are being opened with Zero Balance. However, if the account-holder wishes to get a cheque book, he/she will have to fulfil the minimum balance criteria.

Special Benefits under PMJDY Scheme

a. Interest on deposit.

b. Accidental insurance cover of ₹1.00 lac.

c. No minimum balance required.

d. Life insurance cover of ₹30,000/-.

e. Easy transfer of money across India.

f. Beneficiaries of Government schemes will get Direct Benefit Transfer in these accounts.

g. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted.

h. Access to pension, insurance products.

i. Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days.

j. Overdraft facility upto ₹5,000/- is available in only one account per household, preferably in the account that is in the name of the lady of the household.

Financial Inclusion : Current Status - India

- Though the economy has shown impressive growth during post liberalization era of 1991, the impact is yet to percolate to all sections of the society and therefore, India is still home of 1/3rd of world's poor.
- Census 2011 estimates that only 58.7% of the households have access to banking services.
- The banking network of the country (as on 31.03.2014) consists of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2%) and 2,33,34 1 ATMs (14.58%) are in rural areas.
- Despite various measures for financial inclusion, poverty and exclusion continue to dominate the socio-economic and political discourse in India even after six decades of post economic independence era.
- The statistics show that there is substantial progress towards opening of accounts.
- Providing basic banking services has been a priority during the recent years. However, it is essential that all the sections be financially included in order to have financial stability and sustainability of the economic and social order.

* Chief Manager (Research), SBIICM, Hyderabad.

- According to World Bank Findex Survey (2012), only 35% of Indian adults had access to a formal bank account and 8% borrowed from formal financial institutions in last 12 months. The miniscule number suggests an urgent need to further push the financial inclusion agenda to ensure that people at the bottom of the pyramid join the mainstream of the formal financial system.

Important Guidelines on Financial Inclusion

- 2006 : In January, banks were allowed to enlist non-profit Business Correspondents (BCs) as agents for delivery of financial services, acting in the capacity of 'last-mile infrastructure'.
- 2008 : In April, it was decided that BCs should not be located more than 15 kilometres from the nearest bank branch, so as to ensure their adequate supervision. This restrictive rule severely limited the expansion of this model.
- 2008 : RBI issued operative guidelines for mobile banking and amended the same in December 2009 to ease the various transaction limits and security norms.
- 2009 : For the sake of profits, individuals were allowed to participate as BCs, and this category included retail stores, gas stations, PCOs etc. Further, BCs were allowed to operate up to 30 kilometres from the nearest bank branches.
- 2009 : Banks were allowed to apply 'reasonable' service charges on customers to ensure the viability of the BC model. They were also allowed to pay a 'reasonable' commission / fee to the BCs to incentivize them.
- 2010 : In June, RBI and TRAI were able to reach an agreement regarding the rollout of mobile banking, whereby TRAI would deal with all interconnection issues and RBI would handle the banking aspects such as KYC checks, transaction limits etc.
- 2010 : In September, all companies listed under the Companies Act (1956) were allowed to act as BCs, with the exception of Non-Bank Financial Companies (NBFCs).
- 2010 : The same directive determined that the distance rule was open to optional relaxation in certain cases, based on the decision of the State Level Bankers' Committees. However, document verification falls under the domain of the banks, to ensure adherence to KYC norms. This slows down the account opening process.
- 2011 : In January, TRAI announced its intent to fix mobile tariffs for financial services as against their current market pricing, in order to ensure affordability.

  2011 : RBI issued guidelines for opening Aadhaar-enabled bank accounts to facilitate routing of MGNREGA wages and other social benefits in to the accounts using EBT.
- 2012 : RBI permitted Aadhaar number as a proof of both Identity & Address for the purpose of opening of bank accounts.
- 2012 : GoI introduced Sub Service Area (SSA) approach for opening of banking outlets and for Direct Cash Transfer.
- 2012 : Aadhaar Payment Bridge System (APBS) was introduced for centralised credit of Social Benefits.
- Guidelines on Direct Benefit Transfer issued by GoI.
- 2013 : RBI permitted to use e-KYC to ease the account opening process.
- TRAI issued guidelines on USSD-based mobile banking services for Financial Inclusion.
- 2014 : RBI issued guidelines for scaling up of Financial Inclusion.

Six Pillars of PMJDY

PMJDY, to be executed in the Mission Mode, envisages provision of affordable financial services to all citizens within a reasonable distance. It comprises of the following six pillars :

a. *Universal access to banking facilities :* Mapping of each district into Sub Service Area (SSA) catering to 1000-1500 households in a manner that every habitation has access to banking services within a reasonable distance (say 5 km.) by 14th August 2015. Coverage of parts of J&K, Himachal Pradesh, Uttarakhand, North East and the Left Wing Extremism affected districts which have telecom connectivity and infrastructure constraints would spill over to the Phase II of the program (15th August 2015 to 15th August 2018).

b. *Providing basic banking accounts with overdraft facility and RuPay Debit card to all households :* The effort would be to first cover all uncovered households with banking facilities by August 2015, by opening basic bank accounts. Account holder would be provided a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation / credit history of six months.

c. *Financial Literacy Programme :* Financial literacy would be an integral part of the Mission in order to help the beneficiaries make best use of the financial services being made available to them.

d. *Creation of Credit Guarantee Fund :* A Credit Guarantee Fund would be created to cover the defaults in overdraft accounts.

e. *Micro Insurance :* To provide micro-insurance to all willing and eligible persons by 14th August 2018, and then on an ongoing basis.

f. *Unorganized sector Pension schemes like Swavalamban :* By 14th August 2018 and then on an ongoing basis.

Under the mission, the first three pillars would be emphasised upon in the first year.

Timeline for Financial Inclusion Plan

The target is to achieve the Comprehensive Financial Inclusion of the excluded sections by 14th August 2018 in two phases as under :

Phase I (15th August 2014 - 14th August 2015)

- Universal access to banking facilities in all areas except areas with infrastructure and connectivity constrains like parts of North East, Himachal Pradesh, Uttarakhand, J&K and 82 Left Wing Extremism (LWE) districts.
- Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of ₹1 lakh. Aadhaar number will be seeded to make account ready for DBT payment.
- Financial Literacy Programme

Phase II (15th August 2015 - 14th August 2018)

- Overdraft facility up to ₹5,000/- after six months of satisfactory operation / credit history.
- Creation of Credit Guarantee Fund for coverage of defaults in A/Cs with overdraft limit up to ₹5,000/-.
- Micro Insurance.
- Unorganized sector Pension schemes like Swavalamban.

Some of the Phase II activities will also be carried out in Phase I. Additionally, in this phase; households in hilly, tribal and difficult areas would be covered.

Moreover, this phase would focus on coverage of remaining adults in the households and students.

Strategy for achievement of objectives

- In order to achieve the above objectives, a broad collaborative strategy with all stake holders was proposed. It was proposed to encourage public-private partnerships, as also, gainfully utilise inter-department convergence and synergies. The existing rural infrastructure of post offices having Gramin Dak Sewaks would be optimally utilized to become Bank Mitr (Business Correspondent) of the Banks. One of the key strategies will be deployment of online fixed point Bank Mitr (Business Correspondent) to deliver basic banking services near to the customers' doorstep. There are 1.26 lakh Common Service Centres, out of which only 12,000 are BCs of the banks.
- The strategy is to take forward the Bank Mitr (Business Correspondent) model for expansion of banking services by modifying it to ensure both operational flexibility and viability of the Bank Mitr (Business Correspondent). Technological innovations like RuPay Card and mobile banking will be harnessed. Banks will use the RBI's scheme for subsidy on rural ATMs and UIDAI's scheme for

subsidy on micro ATMs to augment their resources at the village level.

- Convergence with the National Rural Livelihood Mission (NRLM) in rural areas and National Urban Livelihood Mission (NULM) in urban areas would be sought for to cover each household with bank accounts. The expansion plans of the Department of Telecom to provide telecom connectivity in difficult areas would be effectively utilized for the provision of banking facilities in these areas. Department of Telecom has been requested to ensure that problems of poor and no connectivity are resolved on priority.

Implementation of Pradhan Mantri Jan-Dhan Yojana (PMJDY)

It is extremely important to expand the banking network of the country to reach out to the financially excluded segments of the population.

Bank Branches & ATMs :

In the year 2013-14, Public Sector Banks (PSBs) set up 7840 branches across the country, of which about 25% were in rural areas. More than 40,000 ATMs were also set up pursuant to the Budget announcement of 2013-14 of providing an ATM at every branch.

The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2%) and 23,334 ATMs (14.58%) are in rural areas and the remaining in semi-urban and metropolitan areas.

In the year 2014-15, PSBs propose to set up 7332 branches and 20,130 new ATMs. However, given the banks' staff constraints and the viability of opening full-fledged branches in rural areas, the demands for branch expansion far exceed the supply. The efficient and cost-effective method to cover rural areas is by way of mapping the entire country through Sub Service Area (SSA) approach and deploying fully enabled online fixed point Bank Mitr (Business Correspondent) outlets. Public Private Partnerships in this area shall expedite the process and promote efficiency of coverage.

Swabhimaan Villages :

In the year 2011-12, banks covered more than 74,000 villages, with a population more than 2,000 (as per 2001 census), with banking facilities under the "Swabhimaan" campaign. Looking at the viability of each centre, banks would strive to set up a brick & mortar branch with minimum staff strength of 1+1 or 1+2 in 74,351 villages having population of 2000 or more which were covered by BCs in the earlier campaign. This can be done in a phased manner in a period of 3-5 years.

Mapping Sub Service Areas (SSAs) :

Under the present plan, all the 6 lakh villages across the entire country are to be mapped according to the Service Area of each bank. Each Service Area will have at least one fixed point banking outlet catering to 1000 to 1500 households. This will be called as Sub Service Area (SSA). Villages with Panchayat Offices can be made the nodal point. This approach was tried in 121 DBT districts and the entire mapping resulted in creation of 30,855 SSAs. Of these, 30,751 SSAs were saturated with banking facilities. It is estimated that there would be about 1.3 lakh SSAs across the country; of which, under the present campaign, about 0.8 lakh would already be covered by banking facilities. Only about 50,000 new SSAs would need to be covered. Moreover, there are more than 1.40 lakh BCs of PSBs and Regional Rural Banks (RRBs) in the rural areas.

PSBs have estimated to set up about 31,846 SSAs in order to cover the entire geography of the country. RRBs have estimated to set up another 14,216 SSAs to complete the SSA coverage. This translates to a target of coverage of 46,162 SSAs. Considering the possibility of some field level data mismatches, a conservative estimate of coverage of 50,000 SSAs is being planned for, under the present campaign.

However, actual field experience suggests that many of these are not functional. It is estimated that 75,000 replacements of non-functional BCs would be required. There are around 1.26 lakh network of Common Service Centres (CSC) in the country, out of which 12,284 centres are working as banking BC outlets. All the remaining CSCs are proposed to be enabled as BC outlets, for banks.

Coverage of SSAs :

It is proposed that SSAs shall be covered through a combination of banking outlets i.e. branch banking and branch-less banking. Branch banking means traditional brick & mortar branches. These branches are manned by bank staff and offer complete banking services including third party payments and processing of loan applications. Branchless banking comprises of fixed point Bank Mitr (Business Correspondent), who act as representatives of the bank to provide basic banking services i.e. opening of bank accounts, cash deposit, cash withdrawal, transfer of funds, balance enquiries and mini statement facility.

Besides, they also provide value-added additional services to the bank. Villages without brick & mortar branches would be covered by fixed location Bank Mitr (Business Correspondent) outlets, preferably at the panchayat office / bus station / local market. The Bank Mitr (Business Correspondent) may cater to the neighbouring villages in his area on pre-defined time and days. The working and visit timing would be prominently displayed at his place of working. Every habitation will have access to banking services within 5 km. by August 2015, except parts of J&K, Himachal Pradesh, Uttarakhand, North East and the 82 LWE affected districts which have infrastructure constraints.

RBI had directed banks to cover all villages by March 2016. This task would now need to be pre-paned to August 2015, except the hilly, tribal, desert and difficult areas having problems of telecom connectivity.

Urban Financial Inclusion :

As per Census 2011, there were 7.89 crore urban households; out of which, 5.34 crore households were availing banking services. As on 31 March 2014, the banking network had 71,120 branches and 1,36,721 ATMs in urban, semi-urban and metropolitan areas. In urban areas too, the banks would engage Bank Mitr (Business Correspondent) wherever required. The exact number of uncovered households at present is not available with banks but is estimated to be about 1.5 crore. In the urban centres of the district, the Lead District Managers (LDMs) would be responsible for co-ordinating with all available banks in the centre to cover all households.

Working of Bank Mitr (Business Correspondents) :

The Bank Mitr (Business Correspondent) outlets (in both rural and urban areas) would be fully equipped with the required infrastructure. As Bank Mitr (Business Correspondent) need to carry out online transactions, internet connectivity is imperative.

However, as per the present status, there may be certain connectivity issues particularly in hilly and tribal areas of the country which need to be addressed immediately.

Hence, there would be a committee consisting of various stakeholders including BSNL to sort out these hurdles. Each Bank Mitr (Business Correspondent) would be given proper training on certain essential aspects of banking, insurance, pension and on customer handling.

Adequate compensation to the Bank Mitr (Business Correspondent) would be ensured for enabling him to provide uninterrupted services particularly in the difficult rural and remote areas. The suggested remuneration to reach the last mile Bank Mitr (Business Correspondent) would be at least ₹5,000/- pm comprising of fixed amount and additional transaction / activity based variable component. While deciding upon the remuneration structure, it would be ensured that the costs on rent, electricity, internet, travelling etc. are also accounted for.

Success of Pradhan Mantri Jan Dhan Yojana Scheme :

Banks, primarily the PSBs, have opened 11.5 crore accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY), covering 99.74% households and paving the way for transfer of over ₹65,000 crore of subsidies and other transfers directly into these accounts.

"Most of India today is included in the banking system. Except inaccessible households, bank employees visited every household, and their strike rate was 99.74%," said the Mr. Arun Jaitley (Finance Minister), adding that in the long run the initiative will help people to turn to plastic money and reduce the use of cash in the economy. Among the 21.05 crore households surveyed, 20.99 crore have access to bank accounts.

Of the accounts opened under PMJDY, 51% were held by women, while over 59% were in rural areas. Barring Jammu & Kashmir, Arunachal Pradesh, Chattisgarh, Manipur, Meghalaya, Nagaland and Odisha, all other states have reported 100% coverage for households. Although, a little over ₹9,100 crore has so far been deposited in 28% of the accounts, the government is hopeful of scaling up that number in the coming months as the benefits, such as cooking gas subsidy, are transferred directly. Mr. Hasmukh Adhia, Financial Services Secretary said, once fully rolled out, Mahatma Gandhi Rural Employment Guarantee Scheme (MNREGS) alone will result in the transfer of ₹33,000 crore a year through bank accounts, while another ₹25,000-₹30,000 crore is expected to flow by way of subsidies related to cooking gas. Up to January 14, ₹6,689 crore have already been disbursed to over 8 crore cooking gas customers.

(TOI dated 21.01.2015)

Way forward

By any standard, the Pradhan Mantri Jan Dhan Yojana (PMJDY) is an extraordinary achievement for the government. In just over five months, the scheme has extended banking to almost every single household in the country - with nearly 116 million new accounts and the government claiming that 209 million of the country's 210 million households are now covered by banking.

What then accounts for the gap of 94 million between the 210 million total households and the PMJDY's 116 million, which reportedly covers 99.74% of the eligible households?

The answer is simple: the rest are already covered. According to Reserve Bank of India (RBI) data, as at the end of March 2014, Indian commercial and rural banks had 243 million basic savings bank deposit accounts (BSBDA) - 126 million through bank branches and the rest through BCs. Add 243 million to 116 million (359 million), the number credibly covers all households.

Without a bank account, no subsidy reform is possible; for, the key to monitoring the flow of money to the right pockets depends on authentication. The PMJDY manages to do this with a mix of Aadhaar-enabled IDs and/or other forms of authentication.

The problems with the scheme are obvious and short-term in nature : Of the 116 million accounts, nearly 83 million have zero balance. In short, they are accounts with no possibility of a transaction till money flows to them.

According to statistics now available, LPG subsidy payments - estimated currently in the range of ₹25,000-₹30,000 crore annually - are getting routed compulsorily through bank accounts. Some 50% of the 16 crore LPG consumers are already linked through bank accounts, and by 1 April 2015, 100% coverage is expected. The Economic Times says that “the government has already disbursed ₹6,688.98 crore to 8.03 crore LPG customers up to 14 January 2015, and the figure could go up to ₹25,000-₹30,000 crore annually.”

Once LPG is done, the next obvious target will be kerosene, where current subsidies could be in a similar range of ₹25,000-₹30,000 crore.

The other big scheme to use bank accounts will be the Mahatma Gandhi Rural Employment Guarantee Scheme (MGREGS), which has an outlay of ₹33,000 crore annually. Approximately, ₹15,000 crore already flows through bank accounts. The PMJDY will gradually take the figure closer to 100% over the next year or two.

According to Business Line, funds for three pension schemes (₹9,690 crore), 24 scholarship schemes (₹5,756 crore) and seven other schemes (₹2,583 crore) are also being routed through bank accounts.

The biggest subsidy payments will obviously be towards food and fertiliser subsidies, which this year have outlays of ₹1,15,000 crore and ₹72,970 crore respectively. That's a massive flow of ₹1,87,970 crore currently going to the Food Corporation of India. Nobody knows how much of the subsidised grain actually goes to the poor. PMJDY will ensure that it does once food and fertiliser subsidies are also paid through banks instead of physically through shops.

Putting these numbers together, what you get is a huge potential flow of government subsidies in the range of nearly ₹2,90,000 crore. If even 1/3rd of this flows through the Jan Dhan accounts, that's a sizeable volume of nearly ₹1,00,000 crore. Compare that with the current balance of just ₹9,218 crore in 116 million PMJDY accounts.

Looking at a 2 to 3 year timeframe, PMJDY - even assuming the huge costs of rollout - will probably pay for itself. That's because, elimination of subsidy leakages of even 20% of the total will yield savings of more than ₹58,000 crore. PMJDY is well worth it. (http://www.firstpost.com/)

Conclusion

Hence for nation building, for successful implementation of Direct Benefit Scheme, for checking the pilferage of subsidy, for financial inclusion, for providing a wide range of credit, insurance and pension services to our citizens, we need to replicate our performance of first five months and make the next phase even more successful.

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Jan Dhan Scheme *

Ila Vats *

Introduction

Several efforts have been done in last four-five decades to bring the structured banking services within the reach of common man. The motive behind nationalization of banks was to permit the mass to have access to banking services. However, even after 68 years of independence, a large section is still out of the ambit of our banking sector. The objective of Financial Inclusion is to reach out to the excluded section and to extend financial services to the large hitherto un-served population of the country.

If we study the report of Census 2011, it reveals many facts about availability of banking services to the part of country :

Through the learning of earlier models, government has devised a new mission mode project which was announced on 15th August 2014 by the Hon'ble Prime Minister during his Independence Day speech. Pradhan Mantri Jan Dhan Yojna (PMJDY), as the scheme is named, was officially launched on 28th August 2014 in a mega camp approach. The banking industry went into a tizzy and opened a record 1.8 crore account to mark the day. This achievement has been registered in the Guinness Book of World Records. For the first time, the tabloid of Department of Financial Services was presented on Rajpath during Republic Day parade. This shows the importance of this project.

(No.s in lac)

	As per 2001 Census			As per 2011 Census		
Type of Households	**Total No. of Households**	**No of households availing Banking facilities**	**Percentage of household availing Banking facility**	**Total No. of Households**	**No of households availing Banking facilities**	**Percentage of household availing Banking facility**
Rural	1383	416	30.07	1678	914	54.46
Urban	537	265	49.34	788	534	67.76
Total	1920	681	35.46	2466	1448	58.71

It is quite clear that out of 41% of the total households in the country not having bank accounts, about 46% of them are rural households and 32% of them are urban households who are deprived of any banking facility. This 41% of the total households are to be made associated with the banks for their active participation in the financial system. They are not a liability on the banking industry; rather, they are a huge untapped market who can contribute tremendously to the growth in retail and CASA segment business of the banks. The more such population a bank can capture, more will it enhance the bank's capability to grow further.

Review of Literature

PM Jan Dhan Yojna in a nutshell

Idea of Jan Dhan Scheme is based on six pillars which will drive this project to establish reality in Financial Inclusion

Pillar-I : Universal access to banking facilities

Mapping of each Gram Panchayat is done into Sub Service Area (SSA) catering to 1,000-1,500 households in a manner that every habitation has access to banking services within 5 km. Each SSA must be covered either with a Brick & Mortar Branch or Fixed Location BC aka

* Manager (IT), United Bank of India, Kolkata.

Business Correspondent. The Fixed Location BC means a BC Agent with uniform who should be available 3-4 days in a week at one fixed location. In the remaining days of the week (which must be pre defined), he shall move to other attached villages with that SSA for providing banking services to the villagers. At the Fixed Location, a signboard / banner must be available and the BC Agent must have machine which inter-operable facility.

Pillar-II : Providing Basic Banking Accounts

All the households in the villages / wards allotted to the Bank must have minimum one bank account. Passbook and RuPay Card is to be provided to these customers invariably.

Pillar-III : Financial Literacy Programme

To be extended to the block level from the district level at present.

1. Program is proposed to be implemented through a wider role of Lead District Managers. They should conduct Financial Literacy program at the block level and Panchayat level to educate the people and make them aware of the advantages on access to formal financial system, savings, credit, importance of timely repayments and building up a good credit history. Besides, the people should be educated about why to save, why to save early in life, why save with banks, why borrow from bank, why borrow as far as possible for income generating activities, why repay in time, why insure themselves, why save for retirement etc.
2. BC Agents / Individual BCs / VLEs / Kiosk operators to impart awareness to the villagers in camp mode and make the people aware of their dos' & don'ts while dealing with the Corporate BC Agents / Individual BCs / VLEs / Kiosk operators.

Pillar- IV : Micro Credit availability & Creation of Credit Guarantee Fund for coverage of defaults in such accounts

Facility of an overdraft up to ₹5000/- to accounts opened under PMJDY in each household on completion of financial literacy training.

- The customers enrolled should be provided suitable credit facility and monitored properly.
- Overdraft of maximum ₹5,000 will be sanctioned in one account of the household (preferably in the account of the leading lady of the house).
- Accounts should have satisfactory operation with proper credit balance for last 6 months.
- The base branch should take up with the concerned BC for proper follow up and ensure that the accounts do not slip into becoming a NPA.

Pillar- V : Micro Insurance

The fifth pillar of PMJDY is to provide micro-insurance to the people. Insurance Regulatory and Development Authority of India (IRDAI) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. The IRDAI Micro-insurance Regulations, 2005 defines and enables micro-insurance. A micro-insurance policy can be a general or life insurance policy with a sum assured of ₹50, 000 or less.

Pillar- VI : Unorganized sector Pension schemes like Swavalamban

The sixth and final pillar of PMJDY relates to old age income security. To encourage workers in the unorganized sector to save voluntarily for their old age, an initiative called “Swavalamban Scheme”, a co-contributory pension scheme was launched on 26.09.2010, wherein the Central Government would contribute a sum of ₹1,000 per annum in each National Pension Scheme (NPS) account opened and having a saving of ₹1,000 to ₹12,000 per annum for a period not exceeding five years. The Scheme runs up to FY 2016-17. Under the scheme, Government will contribute ₹1,000 per year to each NPS account of eligible subscribers opened in the year 2009-10, 2010-11, 2011-12 and 2012-13. They will get the benefit of Government co-contribution for five years. Subsequently, the benefit of Swavalamban Scheme reduces to four, three, two and one year to the subscribers enrolled during FY 2013-14 to FY 2016-17.

Key benefits available under Jan Dhan Yojna

1. *Life Insurance Coverage of ₹30,000/- for first time accounts opened in PMJDY.*

Hon'ble Prime Minister announced a life cover of ₹30,000/- during the mega launch of the PMJDY scheme on 28th August 2014 in New Delhi, with the RuPay Card for all those who subscribe to a bank account for the first time during the period 15th August, 2014 to 26th January, 2015.

This life insurance cover will give a life insurance cover on death of the life insured, due to any reason, to the deceased family. The scheme aims to provide security to those families who cannot afford direct insurance, viz. the urban poor and rural poor who are not covered under any social security scheme.

2. *Accidental Insurance Coverage of ₹1,00,000/-*

₹1 lakh accidental insurance coverage is linked with RuPay Card. Each account holder under PMJDY has to be given RuPay Card to get the benefit.

Rupay Debit Card is an indigenous domestic debit card introduced by National Payment Corporation of India (NPCI). This card is accepted at all ATMs (for cash withdrawal) and at most of the PoS machines (for making cashless payment for purchases) in the country.

Accidental Insurance cover is ₹1 lac and no premium is charged to the beneficiary -- NPCI will pay the premium. At present, the premium is ₹0.47 per Card. NPCI has signed a MoU (Memorandum of Understanding) with HDFC Ergo for providing accidental insurance coverage.

3. *Overdraft upto ₹5,000/- in PMJDY Accounts*

It is a general purpose loan to provide hassle-free credit to low income group / underprivileged customers to meet their exigencies without insistence on security, purpose or end use of the credit.

Risk Mitigation under Overdraft scheme

a) BSBD accounts, which are operated satisfactorily for at least six months.

b) OD to be granted to the earning member of family, preferably women of the house.

c) There should be regular credits under DBT / DBTL scheme / other verifiable sources.

d) Account should be seeded with Aadhaar for avoiding duplicate benefit.

e) BSBD account holder should not be maintaining any other SB account with any bank / branch to ensure compliance with RBI directives.

f) Age of applicant should be between 18 years to 60 years.

g) Eligible amount of Overdraft with an upper cap of ₹5,000/- is as follows.

- 4 times of Average monthly balance.
- or, 50% of credit summations in account during the preceding 6 months.
- or, ₹5,000/- whichever is lower.

Provision of Credit Guarantee Fund

- Guarantee cover upto 60% of default amount in PMJDY.
- Banks will pay Guarantee Fee @ 1% on loan outstanding at the end of each year.

(PMJDY document provides creation of a corpus of ₹1,000 crore for default in PMJDY OD scheme. DFS guidelines are awaited on this account and also on the entity managing such fund and claim process).

Methodology of the study

Broadly the micro research was carried out through the case study of a nationalized bank by studying its performance review as per reports available in public domain.

Case Study of a Bank : In order to closely monitor the strategy adopted by public sector banks (PSBs), their achievements, and the challenges to see the real picture from ground zero, it was required to focus on a sizable bank which would have adopted various methodologies and gained some commendable feathers in its cap. UCO Bank, a leading PSB was selected for carrying out this case study.

For the purpose of this case study, secondary source of data was collected from the data available in public domain.

The results of this study, thus done, are presented below :

CASE STUDY : Study of Strategy, Challenges and Achievements of UCO Bank

Name of the Case Organization : UCO Bank

Introduction :

UCO Bank, a body corporate, established under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970, having its Head Office at 10, B. T. M. Sarani, Kolkata - 700 001, India, hereinafter called "The Bank", is one of the leading PSBs in India having more than 2900 branches and 2100 ATM along with 1165 Ultra Small Branches, spread all over the country.

The Bank has extended the banking services in un-banked / under-banked areas under the Financial Inclusion Solution (FIS) initiative. The objective is to provide financial services to the excluded segment through financial inclusion. In view of achieving the said objective, Bank has adopted various models including Brick & Mortar / Mobile Van and Information and Communication Technology (ICT) model coupled with Business Correspondent model. Business Correspondent (outsourced third-party) would render banking and financial services within the norms stipulated by RBI.

Financial Inclusion Solution is offered for service areas of different branches / villages / blocks / districts / cities / zones / states to be implemented in phases over three years. Most of the branches are located in rural / semi urban areas. Bank proposes to open accounts and provide basic banking services including credit linkage to the excluded population.

Initiatives of UCO Bank in Financial Inclusion

Although Financial Inclusion (FI) was taken up as a social responsibility amongst the banking sector; very soon the Bank envisaged the future of this project and started implementation through various models. With its untiring efforts, the Bank has been able to provide banking services in more than 17000 villages so far and has been able to bring more than 65 lac excluded people from the remotest villages under the banking umbrella.

Performance Review of UCO Bank in Jan Dhan Scheme

Summary of Accounts opened by UCO Bank and its sponsored RRBs under PM Jan Dhan Yojna

[Figures are in lakh]

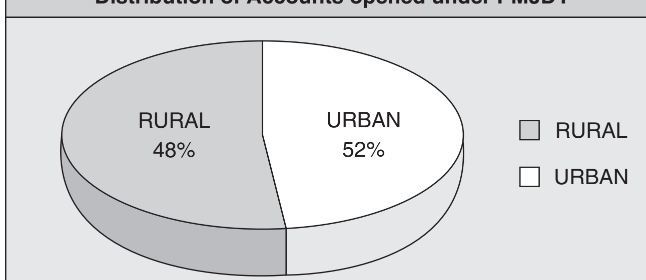
Name of the Bank	Rural	Urban	Accounts	RuPay debit cards	Balance in accounts	No. of accounts with zero balance
UCO Bank	18.3	19.15	37.45	33.68	37935	22.13
Sponsored RRBs	4.46	0.09	4.55	3.29	4420	2.84
Total	22.76	19.24	42	36.97	42355	24.97

Other figures about Jan Dhan Scheme

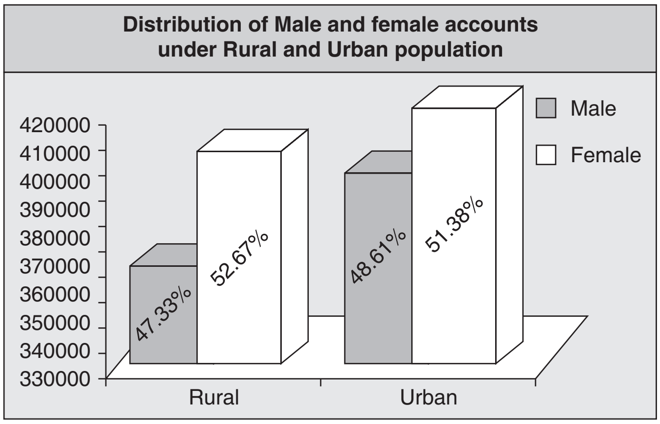
- Out of 210606498 households, 210565975 i.e. 99.98% have been covered by all the Banks till 26th January 2015.
- 54.13% accounts have been seeded by UCO Bank with Aadhaar Number against the industry average of 35.01%
- Maximum Aadhaar seeding in 74% in Sikkim, while minimum Aadhaar Seeding is 3.27% in Meghalaya.
- Private Sector Banks have opened 4.19% accounts against 78.35% by Public Sector Banks.
- While 59% accounts opened by Private Sector Banks are with zero balance, Public Sector Banks have taken a lead with 66% accounts with zero balance.
- Average balance per account in Public Sector Bank is ₹833/- while in Private Sector Banks it is ₹1,252/-
- Number of BC Agents deployed by UCO Bank is 4317 *vis-à-vis* 1.23 lakh industry wise.
- Direct Benefit Transfer in LPG is rolled out country wide from 01.01.2015 wherein 52.32 lakh accounts have been credited with subsidy.

Performance Analysis under PMJDY :

Distribution of Accounts opened under PMJDY

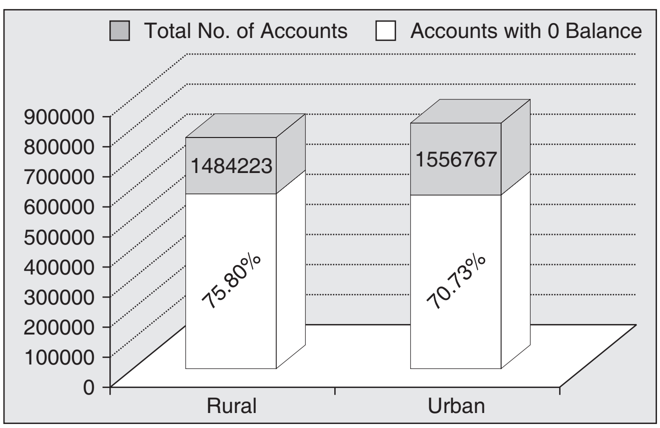


- Gender based Share

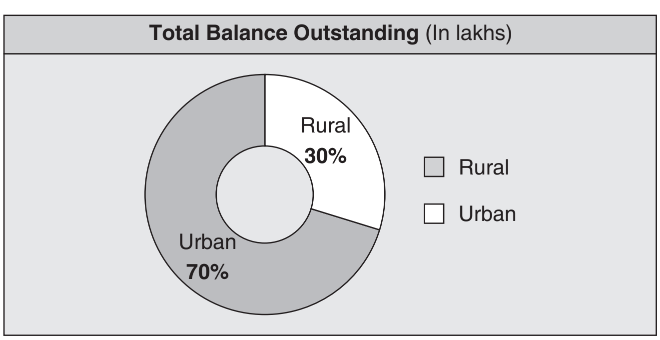


- About 450691 accounts of minors (above10 years of age) have been opened under this scheme from 16th August 2014 till date.

Ramganj Branch, Suri Zone has opened highest number of female accounts (7413 accounts) under PMJDY followed by Bandikui Branch, Jaipur Zone (6839 accounts) and Babai Branch, Bhopal Zone (5942 accounts).



In Rural area, about 76% accounts opened under PMJDY are with zero balance; whereas it is about 71% in urban area.



30% of total balance outstanding in the accounts opened under PMJDY is from Rural area whereas 70% is from Urban area.

Conclusion

The study done for Jan Dhan Scheme has resulted in following conclusions :

Prime Minister Jan Dhan Scheme - Myths and Fact

Like any great plan with Prime Minister Jan Dhan Scheme also there are various myths associated at ground level. In last few days, various media have been flooded with analysis questioning the promised delivery of this scheme. There are various concerns raised under the scheme, like:

Multiplicity of Accounts : Bound to the association of various public funding schemes and in keeping with the many inherent benefits accruable to the accounts opened under Jan Dhan, there has been a fiasco of opening new account under Jan Dhan even by those who are already having account/s. No doubt, at some of the places these events have indeed happened but through the awareness of banks, they can be prevented. The applicant should be told that the desired facilities can even be availed in the present accounts through RuPay Cards. Thus a person will avoid signing up for multiple accounts.

Plurality of Dormant Accounts : Past experiences of financial inclusion have shown the opening of a large number of dormant accounts. But, this scheme has been designed in a way which may lead to lower number of dormant accounts. For Accidental insurance coverage, there should be at least one transaction in last 45 days from date of loss and for Overdraft facility there should be successful operation in the account for 6 months. Additionally, DBT / DBTL plan, to transfer subsidy directly to the account. The above measures may ensure adequate operations in the accounts.

Opportunities for Banks under PM Jan Dhan Yojna

Financial Inclusion project has run through a long journey from obligation to opportunity. Initially looked at as a social responsibility, the project has started showing its power gained from "economy of scale". So far banking industry was involved in the banking of class; but is now successfully shifting towards banking for mass.

This shift in paradigm is clearly visible through the mass CASA drive run by banking industry to gain low cost deposit and secure advances. In line with the trend in industry, our bank has 40-50% of Saving Account demand deposit which comes through accounts opened under the financial inclusion drive. This has further accelerated during the campaign under PM Jan Dhan Yojna.

A. Business opportunity lies in the Financial Inclusion Accounts in following forms :

1. *Low cost deposit :* Bank is paying 4% interest on the saving accounts including those opened under financial inclusion. In comparison to the average cost of fund which is 6.9% this fund is even cheaper for the bank. The average balance per account stands at ₹1317 which is a standard balance for the saving account.

   Further, these accounts are being served mainly through business correspondents which reduce the transaction cost on such account. Thus the operational cost is even lesser on the FI Accounts. These account holders are prone to use alternate delivery channel from day one which reduces foot fall in the branch and increases operational viability.

2. *Stickiness :* One of the major attribute of the financial inclusion account is the nature of stickiness. As the account holders are novice account holders and the service area is distributed among the banks on exclusive basis; there is fair opportunity of monopolistic business. Further, the bank will able to maintain a long term relationship with such customers.

3. *Cross Selling of Products :* Another business opportunity attached with the Financial Inclusion customers is the presence of a huge untapped market. There is greater scope of cross selling of products which further increases due to demand-side pull due to PM Jan Dhan Yojna. In the said scheme, the customer will be entitled for following benefits through his/her account.

   a. Life Insurance / Micro Insurance.

   b. Social Security Pension.

   c. Direct Benefit Transfer for various government schemes including monthly remittance for LPG / Kerosene subsidy.

   d. Overdraft : Small overdraft upto ₹5,000/- is to be given on 12% rate of interest. This advance is secured through credit guarantee fund and the limit will be sanctioned after satisfactory operations of 6 months in the account.

4. *Operational Accounts :* One of the major change brought into the Financial Inclusion project is issuance of RuPay card wherein ₹1,00,000/- accidental insurance is inbuilt. While this additional benefit creates demand for the account, it further ensures balance as well as regular transactions in the account (in order to be entitled for the accidental insurance there should be at least one transaction in last 45 days of the accident).

This feature will not only bring in stable funds in the account but also drastically reduce the in-operational accounts which were a prime concern over the years.

Thus, Financial Inclusion is a major project for entire banking industry which is providing an opportunity to expand the customer base of the bank, acquire first time customers for longer relationship, harness the opportunity with higher account-to-product ratio and increase profit with lower operational cost by bringing about a perfect mix of risk and business expansion.

B. Projection of Business Growth (for UCO Bank)

Parameter	As of FY 2014-15	As of FY 2019-20	Remarks
Deposit			
Estimated No of Account	6500000	7500000	
Average Balance per A/c	1500	4000	
Estimated Gross Balance (In lakh)	97500	300000	
Advances			
Estimated No of Account	5000	1500000	
Total amount (in lakh) (₹5,000/- each starting with ₹1,000/-)	50	75000	Categorized as Priority Sector
Advance to BC Agent (In lakh) (Rs.75,000/- each)	**0**	**1875**	Categorized as Priority Sector @ Base Rate. Installment will be recovered through monthly remittance of BC Agent.
Total Business (In lakh)	**97550**	**376875**	
Fee Based Income			
Micro Insurance	Yet to be decided by Govt. of India		
Social Security / Micro Pension	Yet to be decided by Govt. of India		
Remittance (Interbank transfer)	Bank may charge up to ₹20/- per transaction which estimate up to ₹6-9 crore per year.		
Commission towards DBT / DBTL	Minimum 1% to Maximum ₹10 per transaction Daily transaction = 40000 Thus Daily Commission = ₹4.00 lakh Annual Income = ₹12.80 Crore		

Contribution of Jan Dhan Scheme to the Indian Economy

Implementation of Financial Inclusion Project has contributed to the Indian Economy in a productive way. Following are the major contributions of Financial Inclusion initiatives :

1. Regulation of unbanked and under banked sectors of the country.
2. Reduction in unorganized financial sectors like money lenders.
3. Help in reduction of Poverty.
4. Generate employment opportunity.
5. Tapping leakage of government fund by removing ghost beneficiaries.

Financial Inclusion has broken the barrier between a plethora of financial services offered by organized financial institutions at the bottom of the pyramid. Concept of inclusive growth is no longer just policy choices, but are policy imperatives, which would determine the long-term financial stability and sustainability of the economic and social order, going forward. However, it is definitely required to ensure that the entire eco-system is collectively willing to walk that extra mile to ensure that our fellow countrymen get easy access to the financial system and are able to leverage this access to improve their economic and social well-being.

Thus, this study concludes that banking fraternity on a whole is extensively and religiously implementing the Jan Dhan Scheme; however the model of implementation needs to be reviewed. "One Size doesn't fit for all" is true in case of implementation. A cluster based model may perhaps need to be developed.

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- www. indianbank.in
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Short Term Trade Credit - A boon for Indian Importers

D. Murugesan *

Background

Importers in India have long felt the need to contain the cost of imports by way of cost effective short term trade credit. Now, under the liberalized FEMA regime, they have access to LIBOR linked, internationally competitive trade credit from abroad. Indian Importers need to remain competitive in the present day environment and these liberalized measures will surely help them contain the cost of imports; thereby enhancing their competitive capacity in the current global environment. The imports into India will be normally under any of the two payment terms; viz. cash terms or on credit terms. While cash rich importers can only afford to import on cash terms, most of the Indian importers prefer sourcing the capital goods or non-capital goods on credit terms. This general tendency on the part of importers to get the supplies now and pay later led to the genesis of Trade Credit in International Trade. Trade Credit from abroad broadly comes under two sub-segments popularly known as 1. Supplier's Credit 2. Buyer's Credit. These two forms of credit have become increasingly popular in the recent years and this article aims at giving a broad outline of the same.

What is a Supplier's Credit?

Supplier's Credit is a financing arrangement under which an exporter extends credit to a foreign buyer to enable the latter pay on credit terms. In other words, here the sales are on credit terms after accepting a portion of the amount due in cash. The exporter accepts a pre-structured deferred payment offer from the importer and agrees to effect the shipment. However the seller may be able to obtain cash payment from his bank (though the goods have been sold to the Buyer on credit terms) by discounting the draft or promissory notes drawn on the buyer or on the strength of the Letter of Credit opened by the Buyer's bank.

The Supplier's Credit may be on two modes :

1. Without being backed by the Buyer's bank (entirely based on the financial standing of the Buyer and the strength of the business relationship).
2. With the Financial backing by the Buyers' bank in the form of Letter of Credit or Bank Guarantee / SBLC (Standby Letter of Credit) or co accepted bill of exchange.

Why Supplier's credit is preferred against working capital limits in INR?

Supplier's credit enables local importers gain access to cheaper foreign funds at internationally competitive rates linked to LIBOR rates as against local sources of funding which may be costlier (as they are linked to base rates of respective banks). For example, currently the 6 months LIBOR for USD is around 0.40% and even with a spread of 3.5% (maximum under FEMA guidelines) the maximum rate of interest for a trade credit up to 3 years is 3.9%; whereas, the minimum domestic lending rates for INR is around 11% (at the best rates linked to base rate). Thus, there is a clear interest rate advantage of more than 7.1%.

Maximum Period of Supplier's Credit

As per the existing FEMA guidelines, the importer for the purpose of importing capital goods, can avail Supplier's Credit for a maximum period of 3 years and for consumable goods (non-capital goods like raw materials, spares, consumable and services) the importer can avail Supplier's Credit for a maximum period of 360 days. The total period shall not exceed 3 years or 360 days reckoned from the date of shipment of goods into India, respectively.

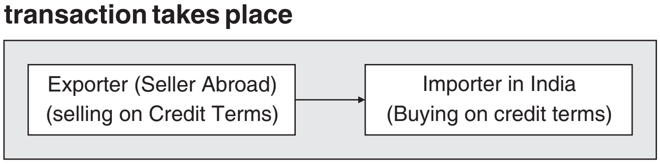
* Senior Faculty, Southern India Banks' Staff Training College, Bangalore.

The Supplier's Credit is quoted in “LIBOR + Spread” format where LIBOR is London Inter- Bank Offered Rate plus Spread which should not exceed 350 points as per the current FEMA guidelines. 6 months LIBOR becomes the benchmark rate for Supplier's Credit / Buyer's Credit. However, the importers of good standing in India may be able to get Supplier's Credit at lower rates, thus making the Trade Credit very attractive in terms of interest rate.

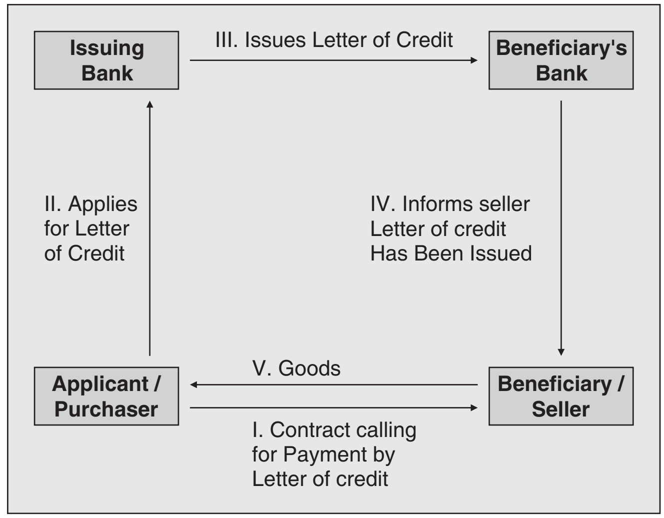
Availing Supplier's Credit-Benefits to importers

- The importer can avail funds at a lower cost compared to INR denominated short term loan or cash credit limits which are linked to Base Rate of the lending bank in India.
- When the importer establishes a LC in favor of his seller, the transaction becomes so safe and attractive from the seller's point of view that he can get immediate cash flows (as if sold on cash terms from his bank on the security of a LC). Hence the buyer can demand a better price from the seller.
- The importer can generate cash flows within this credit period to make settlement to the seller. The trade credit thus eases the financial pressure on the Indian Importer.
- Importer can take a view on the exchange rates to keep the retirement (repayment) commitment un-hedged. Importer gains in the event of INR gaining. He also retains the interest rate advantage.
- Even with the cost of hedging being added, the Importer can retain the interest rate advantage while using the Trade Credit route.

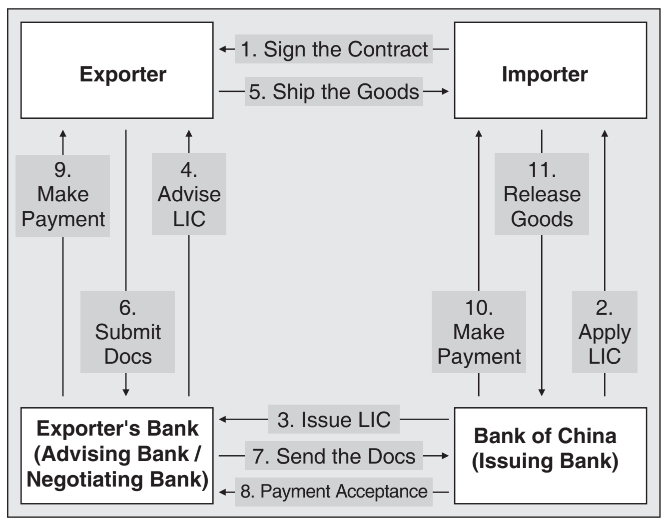
A basic flow chart showing how a Supplier's Credit transaction takes place



When the Supplier's Credit is backed by an LC (issued by the Buyer's bank in favour of the Seller) the Buyer becomes the applicant and the seller becomes the beneficiary, as seen below :



Also see the chart below showing how the transaction finally comes to an end when the seller gets the payment and the buyer gets the goods.



Buyer's Credit-What does it mean?

Assume that the Buyer who got the supplies on credit terms from the seller (under Supplier's Credit route) does not have adequate cash flows at the end of the credit period. Now the buyer has two choices :

1. Request the seller to extend the credit period (within FEMA permitted tenure of 1 year / 3 years for non-capital goods / capital goods respectively).
2. If the Seller is not agreeable for extension of the credit period, the Buyer can approach his bank

for arranging a Buyer's Credit from a bank abroad (in the same currency of the Invoice / LC) subject to FEMA provisions.

Buyer's Credit is therefore another short term credit for the Buyer (Importer) again at LIBOR linked rates (relatively cheaper than rates for INR). The Buyer's Credit extending bank shall demand either an LOC (Letter of Comfort in SWIFT Format MT799) or SBLC (Standby Letter of Credit in SWIFT Format MT760). The Buyers bank earmarking the credit limits fixed for the Buyer (Importer) arranges the Buyer's Credit and gives a financial commitment to the Buyer's Credit extending Foreign Bank (can be bank incorporated in India and having branches abroad, or can be a Foreign Bank). On the due date, if the Importer customer fails to meet the commitment it becomes the funded exposure for the bank in India as the Buyer's bank (in India) is obliged to settle to the Foreign Bank.

Buyer's Credit may sometimes succeed a Supplier's Credit; or, the importer importing on sight terms can also go for Buyer's Credit in isolation. But the total tenure under any of the three options should not exceed FEMA permitted tenures for Capital Goods / Non-capital Goods as the case may be.

Option-1 : Avail only Supplier's Credit up to the full tenure

Option-2 : Avail Supplier's Credit and then subsequently go for Buyer's Credit in case the Seller does not extend the credit period.

Option-3 : Get the goods on sight terms (without Supplier's Credit) and then go for Buyer's Credit within the permitted tenures

The steps involved in a Buyer's Credit Transaction are as under :

1. The customer will import the goods either against LC, DA / DP terms or on open sales.
2. Customer sends the required details to his bank for arrangement of buyer's credit quote.
3. The Buyer's bank approaches and negotiates with Foreign Banks / Branches (Under an arrangement) for the best quotation of buyers credit within FEMA rules.
4. After confirmation of the quotation from client, the Buyer's bank arranges Quote acceptances Letter and LOU (Letter of Undertaking / Comfort) in SWIFT Format.
5. Client's banker needs to send the LOU / SBLC through SWIFT in the format acceptable to the financing bank.
6. On the receipt of LOU / LOC, financing bank will credit the funds either in the NOSTRO account of LOU / LOC issuing bank or directly to the supplier's bank.
7. Once funds come in the NOSTRO account, client's banker will then make import bill payment.
8. On maturity date, Importer's bank will recover the required amount from the importer and remit the same to the overseas financing bank. A cross currency contract is utilised for the import payment in case the borrower's country is different as compared to the currency of imports.
9. If the importer fails to meet the financial commitment, then it becomes funded exposure for the Buyer's bank.

Why Supplier's Credit / Buyer's Credit have become so popular nowadays

1. In order to make the importers gain access to cost effective funds from abroad to fund Imports, RBI has vastly liberalized its norms. The basic intention is to make imports cost effective so as to help importers remain competitive in International Trade.
2. Banks abroad having huge foreign exchange resources find it very attractive to lend to Indian Importers at interest rates permitted by FEMA LIBOR plus 350 points. Moreover, the Buyer Credit extended to Indian Importers are backed by either a SBLC (MT760 format) or MT 799 (LOC / LTU Free format) and the foreign Banks find this avenue for lending quite safe and secure.
3. Even if the exchange rates remain stable, the importers can safely retain the interest arbitrage.
4. Even if the exchange rates become volatile, then too, the importer can safely hedge their payables.

The rate of interest together with the cost of hedging will still remain cheaper compared to domestic credit.

5. Importers having natural hedge in the form of export earnings can take the full benefit of interest rate differential. Such importers can afford to leave the Trade Credit un-hedged and thereby save the hedging cost.
6. Importer's banks in India liberally organize either Supplier's Credit or Buyer's Credit within the pre-fixed credit limits duly taking advantage of the liberalized FEMA provisions as these measures enhance the Bank-clientele relationship.
7. Importer's banks in India may generate substantial fee based income and exchange income by being associated with the trade credit in a big way.

Trade Credit for Infrastructure and other projects beyond 3 years

As per the extant FEMA guidelines, AD Category - I banks may approve availing of trade credit not exceeding USD 20 million up to a maximum period of five years (from the date of shipment) for companies in the infrastructure sector, subject to certain terms and conditions stipulated therein. It is also stipulated that AD Category - I banks are not permitted to issue Letters of Credit / Guarantees / Letter of Undertaking (LoU) / Letter of Comfort (LoC) in favour of overseas supplier, bank and financial institution for the extended period beyond three years. No roll-over / extension is permitted beyond the permissible period.

On a review, it has been decided by RBI to allow companies in all sectors to avail of Trade Credit not exceeding USD 20 million up to a maximum period of five years for import of capital goods as classified by Director General of Foreign Trade (DGFT). It has also been decided to relax the ab-initio contract period of 15 (fifteen) months for all trade credits to 6 (six) months.

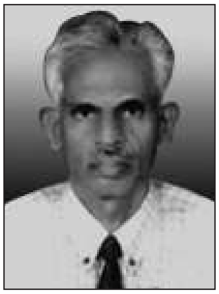
AD Category - I banks are, however, not permitted to issue Letters of Credit / Guarantees / Letter of Undertaking (LoU) / Letter of Comfort (LoC) in favour of overseas supplier, bank and financial institution for the extended period beyond three years.

However there is a word of caution for the banks. Trade Credit should not be organized as a matter of routine without really taking into account the working capital cycle of the Importer. The genuine financial difficulty of the customer in generating cash flows to meet the commitments towards imports (made on credit terms) can be a justifiable ground for dependence on Trade Credit.

Sources : RBI Website www.rbi.org.in.

Social Media Channels

The Institute has always followed an innovative approach and has kept pace with the changes which are happening in the economy in general and in the banking and finance space in particular. Recognising that the social media has brought about a paradigm shift in the way banking operations are being conducted today and its phenomenal reach, the Institute has taken an important decision of making a foray in the social media space. The Institute is now live on Facebook and YouTube. Members are requested to visit the page through **www.iibf.org.in** and share their views.



NPA - A serious drag on growth

Dr. C. T. George *

In terms of Banking Regulation Act, 1949, Section 5(b) "Banking means accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise". This definition establishes the fact that if the purpose of accepting of deposits is not to lend or invest, then it is not banking business. The Section 5(b) is applicable to all scheduled banks operating in India. In general, commercial banks are scheduled banks which are operating throughout this great nation. Money deposited with a bank is always repayable with interest accrued and due. Similarly, money received from a bank by way of a loan is also repayable with interest accrued and due. Both these functions go hand-in-hand and are the two dimensions of banking viz. deposits and advances. Legally, money deposited by a customer with a bank is money lent by a customer to a banker. Bank uses this money according to its discretion in compliance with the directions of Reserve Bank of India (RBI) and the directives of the Government of India. A customer who has deposited money with a bank is a creditor who has the right to demand back his money. The banker, who is the debtor, is under an unavoidable obligation to repay the debt when it is called upon to do so or face the risk of a run on the bank. In the similar pattern, the person who has taken a loan from a bank becomes a debtor and a debtor is expected to pay the loan amount with interest and other charges of the bank in compliance to the terms of agreement executed in favor of the bank by the borrower. Hence, the failure by a borrower to pay the loan amount in time and making it a Non Performing Asset (NPA) is virtually endangering the safety and the survival of the creditor i.e. the bank. When a bank accepts money it gives a valid discharge by issuing a receipt to the depositor. A borrower receives a loan for a specific reason or purpose and it is intended that the borrower uses this money strictly in obedience to the stipulations of the agreement. Any violation (intentionally or unintentionally) by a borrower is a breach of trust and a breach of agreement executed in writing by the borrower. It is suggested that a portion of the loan amount, say 40% should be always repayable on demand by the bank for which bank should be in a position of holding enough immediately realizable securities. A loan should be always supported by adequate stake of the borrower because a loan without any stake or with a very less stake is sure to be an NPA at the earliest. A reasonable amount of capital should be always the contribution as the stake of the borrower. The higher amount of stake determines the sincere interest of the borrower that the borrower understands and stands to know that he is going to lose his money too in case the venture turns out to be a mis-venture. Losing one's own money is but bearable but losing someone else's money is not only bad but also an offence. When one is dealing with other people's money, the person concerned has to be exceptionally shrewd because he is acting as a trustee; thus, he is bound to repay as agreed without delay and demur. There is no resale value for second hand deals; therefore, the vehicle under hypothecation to the bank does not realize any worth mentioning value when listed for a sale by the bank. The outstanding loan amount becomes unrealizable. So, it is prudent from the bank's point of view that personal liability must also be included to recover the entire dues besides hypothecation of the vehicle. The fault of the present banking system is that it does not insist on a reasonable and sustainable amount of stake from the borrower. It is necessary to raise the margin to a minimum of 50% of the cost of

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vehicle / equipment / machinery and the like. Personal stake alone takes care of the loan compared to other financial and technical considerations. For e.g., for a vehicle loan, the borrower should be able to provide a margin of 50%. Where the margin is less than 50% the chances of the loan becoming NPA is certainly very high. Thus, the bank digs its own grave in the swift business of advancing without a reliable safety cushion. Stake means a financial share or interest in an enterprise. The higher the stake, higher is the commitment towards repayment. With stake the bank wins; without the borrower's stake, the bank loses. The most important reason for an asset to turn into a NPA is that the asset is in possession of a person who has no stake in it. If you lose your money, you weep and when you lose someone else's money, you make that someone else weep. If a bank provides finance for outdated technology, it is financing an already NPA unit. Bank expertise has to be updated in its own assessment in order to avoid immediate casualty.

NPA : Non Performing Assets (NPAs) are the resultant product of non-performing acts by borrowers. Error in vital operational fronts attribute to the failure. Performers are good assets, non-performers are bad assets. NPA makers are working against the progressive economic growth and prosperity of the nation as a whole. NPAs can collapse the whole spectrum because the cancer of NPA can spread fast and suffocate the banking system. It is not that Bank A has less NPA, or Bank B has more NPA. The problem starts with banks having NPA per se. It is a sign of bad health and increasing NPA means entering into the financial ICU. NPA in the books of a bank is not a healthy sign. It can lead to public trust disappearing and it can put an urgent end to the function of a bank or banks. An increase in NPA means the lender is nearing bankruptcy and puts the depositor at the risk of not getting one's deposit amount back from the bank. Such situations are becoming alarmingly common nowadays.

An NPA is defined as a credit facility in respect of which the interest and/or installment of principal has remained past “due” for a specified period of time. NPA is a classification used by banks that refers to loans that are in jeopardy or in default. Once the borrower has failed to make interest or principal payments for 90 days, the loan is considered to be a NPA. Increase in NPA decreases public confidence in the banking system. Troublesome economic situations such as soaring inflation, unemployment, instability in the policies & plans and such other economic diseases can lead to sharp increase in NPA and put banks in a distress mode.

Quick realization of securities : A lender banker must be able to dispose of the assets provided as security without delay. This also includes the mortgaged property. Delay in selling the securities increases the defaulted loan amount. This is against the interests of the borrowers as well as the interest of the bank since more amounts have to be written off due to unnecessary delay in clearing the securities. Law of limitation is not in favor of the creditor. The original agreements executed by the borrower must stand till the loan is fully cleared by the borrower. There is no need to renew the loan agreement. The procedure of acquiring Acknowledgement of debt, Acknowledgement of Security and Acknowledgement of Liability has to be abolished forthwith. Normally, a borrower consults his lawyer before executing agreements. An agreement executed by the borrower stands till the loan is fully cleared irrespective of time. There is no need to have any further documents with regard to the loan outstanding in the books of banks. The original document stands absolutely valid, enforceable till the loan is cleared by the borrower. It means, the bank has a right to proceed against the borrower as long as the debt is outstanding in the books of the bank in the name of the borrower. The bank can also proceed against the Co-obligant and guarantor (surety) as long as the liability is not cleared by any one of them or jointly. At the time of granting the loan, no court of law is involved. Permission of the court is not required to grant a loan by a bank. Therefore, it is logical that court's permission is not required to recover the loan. An agreement is binding on the debtor; if there is any breach of contract by the debtor, debtor is responsible for the offence committed by him. Bank's money is public money; therefore, the debt is a public debt. Hence, the debtor is liable up to the last paisa due to the bank. When a loan is not cleared as per the agreement, there is provision for charging overdue and penal interest; the bank is entitled to receive it at all times. Nobody gives anything free in this world except God, and the banker is no exception to this general maxim. Bank on its own can proceed against the borrower and no court order can stop the banker from exercising its rights under any circumstance. While the documents of agreements with the bank rest in the custody of the bank, the ledger containing debt transactions go on increasing in an unstoppable manner. The interest-meter will stop only when the loan is fully cleared and the balance in the account is zero. These facts are known to the borrower at the time of availing of the loan, hence there is no room for any rethinking on these normal events. There is no abnormality or instance of surprise by any count on the actions taken by the bank. Bank is doing just the right things expected of the banker in the interests of the public.

Commercial banks in India, specifically nationalized banks and significantly State Bank of India (SBI) and its associate banks are doing a great job in promoting a steady growth in the economic front of the nation as a whole. But, it is a sad state of affairs that for reasons beyond the control of banking system, the financial growth vis-à-vis development could not be realized as expected in the last ten years. The prevalent situation strongly displays a diminishing indicator of the economic progress of the country. Thus, there is a need to urgently attend to the ills with far-reaching remedial measures.

Nationalized banks are the undertakings of the Central Government of India. They work in a disciplined atmosphere and collect reasonable interest and other charges. If there is any disagreement on the interest rates or charges levied by the bank, a borrower should bring it to the notice of the bank before availing of the loan. Once the loan agreement is executed and the loan is duly availed of, then terms of agreement stand valid till the loan is cleared. Banks are not in the habit of writing off. It is the last act resorted, if there is no other way left out. Even if a loan amount is written off under pressing circumstances, the amount can still be followed up because bank lends public money with the sole intent and purpose of recovering the whole amount along with interest and other incidental but essential charges. There is no second thought on this established, solid, age-old principle. Write-off is an accounting term, not to be used by a bank as a routine procedure. But unfortunately it has become the easiest thing to do for banks. Bank's promptness should not be treated as its weakness. Banks follow up seriously because unrecovered amounts are a signal of further deterioration. A loan can be cleared from the books of the bank by payment by the debtor, by the co-obligant, or by the guarantor (surety). Guarantee is a contract whereby a person undertakes to answer for the debt, default or miscarriage of another. The loan liability can also be cleared by way of subsidy, grant or by sale of the security in the possession of the bank. Unless this process is honored, banks cannot recover its loans and NPA keep souring, resulting in making the banks bankrupt.

A creditor has to be a shrewd person. A bank being a creditor works under unalterable rules, regulations, customs and practices. A defaulter may be given more time for repayment but there is no provision for writing off the loan. Money lent by a bank must be received back with interest because bank has to pay interest to the depositors till the deposit remains with the bank. If a borrower fails a banker, he actually fails the depositors of the bank. As the depositor has to receive interest, the borrower has to pay interest. This is a simple logic to be followed. No confusion needs to arise in this regard. Solvency of the borrower is the responsibility of the borrower. Insolvency of the borrower is not the responsibility of the creditor although the creditor stands to lose his money. Forcing a write off is cheating the bank. Such undesirable persons are to be blacklisted. A record of such blacklisted people is to be maintained by the bank and if necessary it has to be circulated amongst other banks. Before granting any loan, this list must be closely checked and banks should ensure that the person asking for a loan is not in the list of the undesirable persons. Out of 100 loans sanctioned 99 are ok and if one loan account goes bad, the manager is taken to task. This is unfair to the core of any discipline because commercial banks are expected to advance money and loans carry greater risk. Risk acceptance is a required quality for a banker. If this aspect is not appreciated, risk-aversion becomes a necessity to avoid burning one's fingers. Therefore, a loan should be sanctioned with great care; then, it has to be monitored closely and followed up timely. Extra time and effort has to be spent in maintaining the loan portfolio up to the mark. Basic defects if any, have to be totally avoided before sanctioning the loan. Yet, incidental defaults are to be anticipated, and remedial measures are to be in hand and initiated because any loan can suddenly become a bad loan. Managers need fortune and God's mercy to avoid the occurrence of bad loans. Recurrence of bad loans elsewhere is a good lesson to be taken note of and such mistakes should not be repeated because such incidents can be treated as intentionally accommodating a bad borrower knowing well that it can become a bad loan quickly.

Risk takers : Amongst managers of a bank there can be 4 types of risk takers : (1) High risk takers, (2) Normal risk takers, (3) Low risk takers and (4) No risk takers. Although these 4 types co-exist in the banking organization, the high risk takers take the bank to amazing heights because without adequate business and profit, a bank cannot compete or even exist. Every bank is a macro organization and it should be a healthy, growing enterprise. Bank expects each employee to do his best.

Law of Limitation : The law of limitation of three years validity for bank agreements is to be abolished. Bank grants loans for a period of 5 years to 30 years or so for different types of credit facilities. Therefore, the agreements, promissory notes, undertakings and the like must be binding on the borrower till the debt is fully cleared to the satisfaction of the lender. A debtor has to pay the creditor the amount due to the latter. A debtor continues to be a debtor till the entire debt amount is paid. Debt includes principal amount, interest and all other related charges. Bank agreements are money agreements which are to be honored in letter, in spirit, and in figures. Dues to Income Tax Department, Revenue Department, Sales Tax Department; in fact, any dues to the Government and quasi Government are payable without any limitation period. So bank loans also should be treated at par with dues to the Government because banks deal with public money and dues to the banks are public debts. Government Departments have powers to confiscate, prosecute and take punitive steps against persons who have not paid the dues to the Government. The same facilities should be made available to banks so as to gain the confidence of customers and discipline the borrowers at large. Bank as a bonafide, approved, authorized creditor can take all steps to recover its dues from the erring debtors. Laws and practices of this land must be a source of help, guidance, safety and security for banks since the functions of banks are in dealing with money and its related business. Banks are not meant to engage themselves in court matters and squander their time for court procedures. Entering into deal with courts by engaging advocates is spending good money after bad money because the lawyer has to be paid and bank has to wait indefinitely to get any tangible result through the process of law in operation. Banks should not be dragged into the court net as the business of bank is not entertaining the courts under pressure from the borrowers who have betrayed banks by breaching the trust deposited with the bank through agreements executed in favor of the bank.

The extent of responsibility of the bank : Officers and managers of banks spend their maximum precious time in keeping the loan documents intact from the time of execution of the documents till the end of the world. Thousands of documents are to be preserved, maintained, accounted, verified and its availability periodically confirmed. It is a matter of spending time, engaging scarce space and expending money. Besides, abundant responsibility is cast on the officials of the bank under whose custody the entire stock of documents remain as valuable assets. Once the loan is availed of by the borrower, what is left with the bank is the loan documents as dependable securities. The books of accounts of the bank stand evidence to the ongoing transactions. Therefore, preservation of the loan agreements and concerned books are the key responsibility, accountability and also a self-defense mechanism for banks.

Preferential treatment for banks : If banks are to remain as the basic structured organizations for the economic growth and swift development of the country, interests of the banking system have to be safeguarded. On one side, the Government directs banks to give educational loans to everyone who asks for it and on the other side, there is strong criticism of banks that NPAs are increasing at a faster rate. This is an unfair treatment meted out to the banks. There is no wonder that when a country guarantees rights to its citizens while their responsibilities are disregarded, loans will remain unpaid. There is nothing wrong about one's rights. Any amount of rights is welcome in the world but every right must be a derivative of a duty, responsibility and accountability. An entitlement is the reward for hard work and expected result. Bank loans are not gifts. Commercial banks should not be held responsible for giving educational loans or any other loans as rights of the beneficiaries.

Housing Finance : Access and Affordability

Nidhi Choudhari *

Housing is one of the most basic needs of human beings along with food and clothing and therefore, it becomes very important that every welfare state ensures “a roof for all citizens” through facilitating policies. In India, the government policy has set the mandate of providing a roof for all by 2026. The Ministry of Housing and Urban Poverty Alleviation (MHUPA) defines affordable housing for the middle-income group and below as one where the equated monthly instalment (EMI) or rent does not exceed 30%-40% of a resident's gross monthly household income. It is high time that some concrete significant steps are taken by the government and other regulatory bodies to ensure safe, secure and affordable housing to every citizen because housing not only contributes to the overall well-being of an individual but also contributes immensely to economic activity being a labour intensive industry.

Evolution of Housing Finance in India

Housing finance had largely remained unorganized in India because people used to resort to previous savings, retirement benefits, or loans from family and relatives while constructing houses. They rarely approached banks for borrowing money to build a house. In other words, the housing finance sector had suffered due to absence of competition, no recovery laws, excessive regulation and complicated legal proceedings in civil suits.

It is only in late 1970s when Housing Development and Finance Corporation (HDFC) came into being, that this sector got some boost. Even during this time, housing finance remained largely un-utilized due to reasons like a real estate market which was largely unorganised, development disparities, a compartmentalized development approach etc. Later on, other public sector entities set up SBI Home Finance, Canfin Home Finance, GIC Housing Finance and Gruh Finance. These measures helped to deepen the market. With the entry of foreign banks like Citibank in the 1980s, housing finance moved from branch concept to doorstep delivery. Under this, bank officials visited the customer and introduced the concept of loan against property.

Housing finance took a big boost when ICICI introduced floating rate loans in early 2000. Later, SBI rose to the occasion and came up with teaser loans which changed the very game of housing loans. SBI could provide lower interest rates due to its high CASA deposit base. This was, however, was not possible for many other banks. These banks attempted, to attract customers by giving a higher LTV (loan-to-value) by also sanctioning loans for home improvement or other kinds of loans.

Issues in Housing Finance

It is often said that the housing finance sector always has demand-supply mismatch as the supply of housing finance can never cope with its need. Many consider housing as a “Bottomless Pit”. This imbalanced situation is prevalent even in rich countries and it is perhaps the most perturbing factor in developing countries like India. Thus, there are some unique issues that affect the growth of housing finance in India, which are discussed in the following pointers :

- *Regulatory concerns :* India has been going through a phase of low growth and high inflation in past few years which has led to an increase in interest rates by RBI. This has, in turn, made housing loans dearer. After the global financial crisis which erupted on account of sub-prime lending in USA, Indian regulators, particularly RBI, have taken a serious note of housing finance activity. Therefore, the provisioning

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and exposure norms for commercial real estate have been made stringent and in general, a lull in housing sector is observed all through the country.

- *Real Estate Inflation :* High interest rates on account of high repo rates make housing loans expensive. Besides, high rates increase the cost of construction, ultimately increasing the purchase cost for the buyers. The real estate industry is also facing labour shortages. Labour wages have increased manifold on account of MGNREGS everywhere in the country which has made construction more expensive. The situation may worsen in the coming years when the demand is expected to increase threefold.
- *Sub-Prime Crisis :* The recent global crisis which erupted in USA due to sub-prime mortgages in housing finance has created a lull in the sector even in India. Housing loans have become expensive since then and the extent of regulation has also increased. It is very important that a balance between regulation and healthy growth of the sector is met and we do not blindly impose regulations of the West because there is difference in the level of economic development and complexity of markets.
- *Teaser Loans :* In a rising interest rate scenario, the borrowers are less enthused to avail a housing loan fearing higher monthly outflows that could drain their savings. To grab the attention of the customers and entice them to avail loans, most banks in India, particularly since early 2010, introduced teaser loans. Under the 'teaser loan' offer, a bank charges lower interest rates for the first two or three years and later on from the fourth year the interest rate will automatically get reset to the then-prevailing base rates.

Risks in Housing Finance

Housing finance bristles with several risks viz. credit risk, liquidity risk, legal risk etc. which became evident in the recent American sub-prime crisis and Dubai debt crisis. As a result of these crises, even the Indian housing market faced fluctuations and observed recessionary trends. From the lender's point of view the following points makes housing finance a risky venture :

- The immovability of house on land may give rise to certain external factors such as increase in crime in the area, formation of slums in near vicinity, distance from day-to-day services etc. which may adversely affect its value.
- Housing finance has a long term character because the product involved is not readily saleable and does not yield monetary return as in agriculture or industry.
- There is risk in the affirmation of the borrower's legal position. Possession does not indicate ownership. In certain cases, the creditor, in case of default, finds it difficult to establish the debtor's ability to provide security.
- Housing finance is mortgage-oriented and analysis of house as a security is beset with problems, complexities and risks. The prevalence of inheritance and other laws makes it difficult to ascertain whether the full ownership of the house is with the borrower and to make sure that no other claims to the property are outstanding.
- In India, land administration is not only replete with colonial laws, archaic practices, low assessment rates and old survey techniques but also is a source of massive corruption in revenue department which increases the cost of housing.
- Land records in India are mostly kept in regional languages with differences in terminology within the state, while banking mostly works on English language. Thus, it becomes difficult for bank staff to understand the underlying land and property records.

Reforms in Housing Finance

The housing sector is unique in the sense that several factors provide finance for housing viz. the Central Government, The State Governments, banks, NBFCs, HFCs, MFIs, private capital - formal or informal, or individuals. Yet, it is insufficient on account of the massive magnitude of the needs for housing in the country. Even today, housing loan as a percentage of GDP stands at only 9% which is much lower than the levels achieved in most developed countries. Some reforms to increase flow of credit in housing sector have been discussed in the following heads :

- *Reducing Stamp Duty :* In most Indian states, stamp duty ranges between 10-20%. Markets across Singapore and Europe levy a maximum of 1-2% as compared to the above. The National Housing and Habitat Policy 1998 has also recommended a stamp duty of 2-3%. Therefore, the state governments may have to look into the matter seriously and reduce or remove stamp duty at the earliest.
- *Legal Support :* Housing finance systems need to be supported by explicit legal arrangements and instruments. Legal arrangements may also have to take into account the additional layers of complexity raised by the mobilization of collateral in the secondary mortgage market.
- *Financial Innovation :* There is a need for financial innovation in regard to loan products. One such product could be a savings-induced home loan or a home loan deposit. Prospective customers could make periodic deposit. Once the customer reaches a threshold balance, the financial institutions can consider sanctioning of a housing loan. The balance in the account could act as collateral or the margin.
- *Hedging Credit Risk :* There should be a well defined hedging arrangement to account for credit risk. This could be in the form of insurance.
- *Mortgage Guarantee Companies (MGCs) :* The concept of MGC was mooted in the Union Budget for the financial year 2007-2008 with an objective to give greater comfort to banks and housing finance companies that lend against mortgages. According to RBI, which is regulator for MGC, only one MGC has been registered as of August 2014. The government and the RBI must work towards promotion of MGCs on a large scale as this can reduce credit risk in housing sector and thereby reduce the interest rates on home loans.
- *Facilitating Foreign Investment :* The government of India has permitted 100% Foreign Direct Investment (FDI) in the development of integrated townships from the year 2001. It is expected that FDI will increase to $25 billion by 2020 in the housing sector. However, investments may not materialise unless the conditions relating to land acquisition and development are made simple, physical infrastructure is developed properly and State acts as a facilitator rather than a controller of the housing sector.
- *Independent Regulator :* Today, housing is vaguely regulated by both RBI and NHB in addition to several other organizations like Municipal Bodies, state and Central Governments etc. It is important that the vagueness of regulation is done away with, by mooting NHB as the sole regulator of housing sector in India. There should be concerted efforts by NHB to promote Private Equity (PE) in real estate sector. It should also issue city-wise Housing Index every year so that citizens can get information about housing prices. In addition, a housing sector education series can also be introduced on the lines of financial education of RBI.
- *Housing Ombudsman :* In India, housing market is fraught with uncertainty and ambiguity creating problems for both buyers and developers. As end users may not be sure of delivery of a house by builders on time, they may not want to risk a purchase by taking a loan from the bank. Therefore, the government can set up a Housing Ombudsman on the lines of Banking Ombudsman to ensure speedy grievance redressal which may facilitate greater customer satisfaction resulting into the growth of housing sector.
- *Priority Status :* The RBI should raise the home loan lending ceiling to ₹50 lakh under the Priority Sector Lending (PSL) scheme. Even government should give emphasis on providing residential quarters to all its employees as the utmost priority. Schemes for providing land and houses to government employees can also be thought about in this regard.
- *CSR Funding :* The Ministry of Corporate Affairs should revise its rules relating to Corporate Social Responsibility (CSR) and include funding to community housing or shelter homes in CSR.

Conclusion

To sum up, we can say that housing is integral to the holistic development of individual, community and the country as a whole. Beyond rules, rubrics and rupees required in housing sector, we must recognize that housing has a very important role in psychological and social outcomes. It is therefore, very important to re-orient housing finance towards a comprehensive package of land + services + finance + technology. I would conclude with words of Millard Fuller, founder of Habitat for Humanity International, "Everyone-all of us, every last person on God's earth-deserves decent shelter. It speaks to the most basic of human needs-our home-the soil from which all of us… either blossom or wither. We each have need of food, clothing, education, medical care, and companionship; but first, we must have a place to live and grow."

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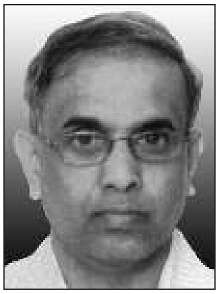

Credit Risk Rating & its importance in Banks

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Meaning of Credit risk rating : Credit risk rating indicates the likelihood of default associated with a given borrower or the given instrument floated by an issuer for raising the funds. Credit risk rating if carried out for a given credit portfolio of a bank, represents how the risk is distributed or is concentrated. It is likely that in the given portfolio, bank may have loan assets with low risk, medium risk or high risk or mix of all. Each grade is assigned either in alphabetic form or numeric form in the rating exercise and denotes the degree of risk or probability of default associated with it. It is worth mentioning that the given default depends on economic situation, market conditions and political conditions prevailing in the economy and cannot be assumed to be static in nature.

Many banks have highly calibrated rating frameworks where marginal differences between the rating grades are denoted by adding positive or negative signs after the rating grade, such as AAA+, AAA–, and AAA. The principle of rating implies that the higher the rating grade (signifying lower risk or greater safety), the lower is the probability of default.[2]

A credit rating is technically an opinion on the relative degree of risk associated with timely payment of interest and principal on a debt instrument. It is an informed indication of the likelihood of default of an issuer on a debt instrument, relative to the respective likelihoods of default of other issuers in the market. It is therefore an independent, easy-to-use measure of relative credit risk. Given the universal reliance on rating during the yesteryears, and hence the power of opinion, credit rating was expected to increase the efficiency of the market by reducing information asymmetry and lowering costs for both borrowers and lenders.

Types of ratings

1. *Country ratings by S&P, Moody's or Fitch :* These agencies carry out the rating of the overall creditworthiness of the country as well as the sovereign instruments floated by them in the international market. While rating the overall creditworthiness of the country, the focus is on political and economic risks elaborated with quantitative and qualitative details.
2. *Entity rating (NBFCs / SMEs) :* Rating of the SME or NBFC which is carried out, is of importance to these entities for seeking private equity, favorable trade terms, credit exposures from the banks & financial institutions and for generating export business. In case of NBFCs, the rating is useful for garnering deposits from the public as well.
3. *Product rating (Individual exposures) :* Bonds or commercial papers floated by the corporates or long term bonds raised by banks for Tier II capital are rated by the rating agencies.

Uses of Credit Rating : Credit rating exercise is considered as a risk measurement exercise in banks. It is therefore useful for the following purposes :

1. *Approval at the entry level :* At the entry point itself, based on the rating exercise, banks can decide to approve/reject a credit proposal. Credit rating involves different notches; each notch is indicative of the level of risk from low risk to high risk of default. In the credit policy document, banks can decide to approve loan proposals falling within a given range of credit notches. If a deviation from the policy is to be allowed for accepting a proposal below the given notch, the policy document prescribes ways and means of mitigating additional risk assumed.

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2. *Deciding about exit from the exposure :* Credit rating can be a base for banks to take proactive decisions about exiting from exposures where rating reveals degradation and the likelihood of loss if the exposure is continued. In fact, banks can decide about the exit from the industry as a whole, based on the rating exercise and its macro level review.
3. *Concentration of Risk :* The risk rating exercise helps in ascertaining if the risk is concentrated in a given rating or is dispersed over the different rating class. The concentration of low risk portfolio in a given segment can be considered to be a mitigating factor if the exposure to the given sector is very high in relation to the total exposure of the bank. For instance, it is likely that the bank may have an exposure to the diamond industry. But within that, if the concentration of exposure is with AAA credit rating, it can be considered a mitigating factor.
4. *Change in risk level :* Credit rating exercise is carried out by banks at the time of entry and also at periodic intervals (say once in a year) when the financial statements are submitted. Re-rating exercise helps banks in ascertaining the dispersion of risk over different grades of rating vis-à-vis the rating existent before the re-rating exercise. Banks can therefore take corrective steps of intensive monitoring in case of accounts where rating has degraded from the earlier rating.
5. *Fixing exposure limit :* In the credit policy of the bank, prudential limits are defined per individual borrower and per group borrower. These limits are well within the limits of RBI guidelines. Credit Rating grades can be used as a base to stipulate exposure limits. Banks can use credit rating to stipulate overriding requirement for the exposure limit. It means, banks can specify that exposure limit guidelines would be applicable provided the borrower or the group has AAA rating. In cases where rating is below the level prescribed, exposure limits on the lower side can be stipulated.
6. *Review of portfolio :* Banks can review the portfolio exposure for a particular industry or region on a periodic basis. Such macro level review is essential to assess the quality of portfolio. In such an exercise, banks can track migration of rating within the portfolio and for the portfolio as a whole. The review on this basis can be useful for deciding the industries or geographies with positive outlook or the negative outlook for taking additional exposure in the subsequent years.
7. *Pricing of Loans :* Credit rating is useful for determining the interest rate at which advance is to be given by the banks. Normally, the risk reward principle is followed. While advances with low risk are given funds at prime rate or sub-prime rate, borrowers with moderate or high risk are offered credit facilities at rates above the PLR.

Credit rating -- Regulatory requirement :

As per RBI guidelines, it is imperative for NBFCs to have a minimum investment grade credit rating in order to raise funds by way of public deposits. RBI requires corporates to get their commercial paper rated from the rating agencies and issue it only if rating is above a specific grade.

SEBI has stipulated rating for debentures having maturity above 18 months floated by public limited companies in India. After consulting the Government and by issuing a notification, the credit rating agencies were brought under the regulatory ambit of SEBI in exercise of the powers conferred on it under the SEBI Act 1992.

Credit Rating by whom :

Credit rating exercise can be carried out by banks internally. Banks can also avail the services of external rating agencies. Thus, rating can be internal as well as external.

1. Internal Rating : Banks undertake internal rating of individual loans as well as of the total portfolio. Banks adopt and follow different internal rating models based on the (1) type of advance: industry, trading, service, (2) on the basis of size: exposure above a particular limit and exposure below the threshold limit; (3) type of borrowers: existing borrowers and new borrowers. Banks review the models so set by carrying out back testing and stress testing to factor in the changes in macro level environment as well as regulatory changes if any. In case of retail loans given to individuals, banks follow the credit scoring models to assess the creditworthiness of the borrower.

2. *External rating :* In India, rating exercise is carried out by following rating agencies : a) CRISIL, b) CARE, c) ICRA, d) SMERA, e) ONICRA and f) FITCH. The peculiar and healthy factor amongst all the rating agencies is the ownership which is not vested with any single business house. These agencies are promoted by banks and/or financial institutions who are the beneficiaries of the rating exercise. Two types of ratings are generally provided by rating agencies namely, an issue-specific credit rating and an issuer credit rating.

   An issue-specific credit rating indicates current view of the creditworthiness of an issuer for a specific financial commitment. The recovery prospects connected with the specific debt is also considered. An issuer credit rating gives an opinion of an obligor's overall capacity to meet financial commitments

Products offered by rating agencies : While rating exercise carried out by the bank or the financial institution is limited to rating the borrower who has approached for availing credit limits, rating agencies not only conduct the rating of issuers as well as products issued by them, but also rate the banks and financial institutions apart from conducting sovereign rating. In the following paragraphs, a review of the products offered by these rating agencies is detailed :

1. *Issuer (Counterparty) Ratings :* Rating of the corporate is carried out by the rating agency. In this exercise, corporate is evaluated on a long term basis in terms of financial strength as well as its technical, managerial and marketing capabilities. Issuer rating considers the expected performance of the company over a medium term time horizon of 3-5 years. Such rating is useful to the company for floating financial products and or raising funds from the bank or the capital market. Credit rating is a reflection of the creditworthiness of the company, It enhances its image in the eyes of investors, banks and the general public.

2. *Financial strength rating :* In India, rating agencies carry out ratings of Banks, Financial Institutions, Mutual Funds and Micro Finance Institutions. The rating is carried out about the instruments issued by the banks or financial institutions. Ratings offer rating agency's opinion on the relative safety of timely repayment of the principal and interest on the financial obligations which have been rated; the said financial obligations having an originally / contracted maturity of more than one year. In case of insurance company ratings, rating is done to assess its ability to meet policyholder obligations.

3. *Bond ratings :* The corporate float bonds for raising long term debt funds from the market. Rating agencies do the rating of such bonds. Rating represents an evaluation of the ability of a company to meet the payment commitments in future, in respect of principal and interest. It analyses the cash flows of the company and likelihood of changes therein due to adverse changes in market conditions and consequent business plans of the company.

4. *SME and Small Scale industry rating :* In view of the important role that SMEs play in the growth of the Indian economy and the boost it would get given the rating being done, in India, rating for Small Scale and Micro Industries has been subsidized by the Government of India to the extent of 75% of the fees. SMEs, though not subsidized, too can be benefitted in as much as the organization is recognized as the credit organization to partner with. CRISIL has been giving a certified ID which can be displayed on the website of such companies and in all its communications which help firms garner international customers.

5. *Sovereign Ratings :* Sovereign credit ratings gives investors an insight into the level of risk involved (including political risk) in investing in a particular country. In the rating exercise of such kind, economic and political environment is analyzed to determine the credit rating. Better Sovereign Rating would help

developing nations in accessing the international markets for garnering funds for the bonds floated by it. India's sovereign rating is carried out by international agencies such as Standard & Poor, Moody's and Fitch and its effects after announcements are seen in the indices of stock markets.

Importance of Credit Rating for Basel norms implementation

In Basel I Accord, for all the loans & advances, equal risk weight of 100% was given for determining the capital requirements for banks by following the 'one rule fits all' approach. It therefore neither provided any incentive for improving credit quality nor did it reflect the quality of credit that a bank held in its portfolio. Basel II Accord acknowledged this limitation by introducing three different approaches for evaluating the credit risk in banks. While in standardized approach, banks can rely on the rating given by the external rating agencies, in case of other two approaches, banks were incentivized by developing internal rating based approach duly validated by the regulator.

In terms of RBI instructions on the 'New Capital Adequacy Framework (Basel II)' issued in April 2007, banks were required to initially assign a risk weight of 100% in respect of unrated claims on corporates with the caveat that such claims would be assigned higher risk weights over time.

To begin with, for the financial year 2008-09, all fresh sanctions or renewals in respect of unrated claims on corporates in excess of ₹50 crore were to attract a risk weight of 150%, and w.e.f. April 1 2009, all fresh sanctions or renewals in respect of unrated claims on corporates in excess of ₹10 crore were to attract a risk weight of 150%. This higher risk weight of 150% for unrated corporate claims was equivalent to the risk weight to be assigned to exposures rated - BB and below.

However, in November 2008, as a counter cyclical measure, RBI relaxed the regulatory prescription of 150% risk weight for unrated claims. Accordingly, all unrated claims on corporates, irrespective of the amount, currently attract a uniform risk weight of 100%. This relaxation is temporary and will be reviewed at an appropriate time.

On the other hand, by getting loans rated, a bank can save capital on loans in the better rated categories, as shown in the illustration below.[1]

Table-1 : Illustration of capital-saving potential by banks on a loan of ₹1000 Million Rating

	Basel I		Basel II (Standardised Approach for credit risk)		
	Risk weight	Capital required (₹ mn)	Risk weight	Capital required (₹ mn)	Capital saved (₹ mn)
AAA	100%	90	20%	18	72
AA	100%	90	30%	27	63
A	100%	90	50%	45	45
BBB	100%	90	100%	90	0
BB and below	100%	90	150%	135	(45)

LIMITATIONS OF RATING EXERCISE :

Markets react stronger to downgrades than to upgrades (Gonzales et al. (2004)[2] Credit rating agencies had came under heavy criticism following financial crisis due to sub-prime lending in the USA in 2008. They have been responsible for understating the risks involved in all kinds of innovative products such as Structured Credit, Collateralized Debt Obligations (CDO) and Mortgage Backed Securities (MBS). After the crisis, these securities involving $1.9 trillion from Q3 of 2007 to Q2 of 2008 of financial institutions and banks were downgraded to junk categories. One of the factors that is considered responsible for partial ratings by the rating agencies is the conflict of interest. It means that rating agencies work on the issuer pay model. These companies receive revenue from the companies whose issues are rated. In order to ensure regular business from the issuer companies, rating agencies are said to oblige by giving a favourable rating. In addition, it is also seen that rating agencies carry out the non-rating related work for the issuer companies. While rating agencies are paid by the issuer companies, rating is used by the investors for taking investment decisions. Most of the rating agencies have put on their website, the policy adopted for managing the conflict of interest issue wherein emphasis is on highest transparency in its operations through the corporate governance. Regulators too have stipulated norms to guard against the failure of rating agencies on account of conflict of interest. It is worth mentioning that investor pay model in preference to issuer pay model has not been considered feasible in view of the disadvantages it has which outweigh the advantages.

CONCLUSIONS :

Banks can use internal rating models for assessment of regulatory capital, generation of risk-grade-wise loss characteristics, quantification of risk-grade-wise potential losses, and tracking the rating migration of borrowers. Banks should treat ratings derived through the internal models as an additional tool for credit decisions and not as a substitute for due diligence. Banks need to resolve certain conceptual, developmental, and implementation issues in preparing the design of the rating framework.[3]

It would be appropriate to conclude by highlighting the findings from the survey undertaken by The Models Task Force of Basel committee on Banking Supervision. It is difficult to design a credit risk rating framework that will apply equally to all types of borrowers and all types of banks. Practices vary among banking institutions in framing the design of credit risk rating models. The Model Task Force of the Basel Committee on Banking Supervision carried out a survey of around 30 institutions in G-10 countries in 1999 to gather information about the "best practice" and the "sound practice" in the internal rating systems design. The committee found that "there is no single standard for the design and operation of an internal rating system." There were "both similarities and differences in the structure, methodology and application of internal rating systems at banking institutions." Broadly, the commonality among the banking institutions in the credit risk rating system related to (1) the types of risk factors taken into account for risk compilation, (2) the assignment of ratings based on the assessment of the counterparty, and (3) the use of ratings for different facets of risk management. The major area of dissimilarity was found in the methods followed by banks for compilation of loss characteristics data for each risk grade. The survey revealed that banks generally considered similar types of risk factors in assigning a rating, though there were some variations in the relative importance and mix of the quantitative and qualitative risk factors. Banks made an overall assessment of the counterparty for assignment of rating, irrespective of whether the rating was to be assigned to the borrower or the facility. Ratings were used largely for the same purposes, viz. limit setting, loan pricing, and management reporting.

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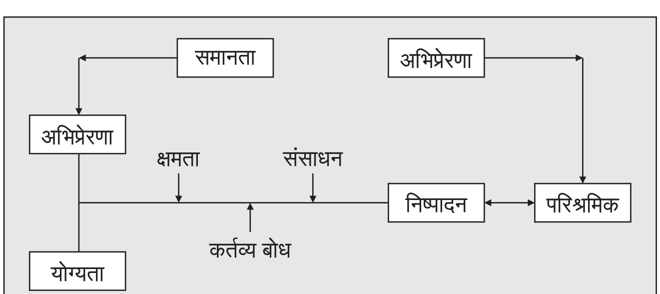
नवपरिवेश में सरकारी बैंकों में प्रतिभा प्रबंध की आवश्यकता : क्यों व कैसे?

सुधेन्दु कुमार *

सेवा प्रदाता संगठनों में उनके बड़े संसाधन होते हैं। बैंकिंग जैसे सेवा उद्योग जहां सेवाएं एक ही समय पर दी जाती हैं और प्राप्त की जाती हैं, में उपलब्ध कर्मचारियों की क्षमता का उपयोग करना उत्पादकता बढ़ाने की सबसे उत्तम कार्यविधि होती है। साथ ही उत्पादकता जितनी अधिक होती है, उतना ही मजबूत होता है संगठन।

जब उत्पादकता अधिक होगी तो कंपनी अपने हितधारकों को उनके पूंजी पर अधिक लाभांश दे पाने में सक्षम होगी, अपने व्यापार की तीव्र व धरणीय विस्तार कर पाएगी साथ ही कर्मचारियों को अधिक मेहताना दे पाएगी जिससे संगठन के विकास में वे अपना योगदान देने के लिए प्रेरित होंगे। इससे न केवल कर्मचारियों का मनोबल बढ़ेगा, साथ ही संगठन की उत्पादकता बढाने के लिए चक्रीय पणाली विकसित होगी।

किसी विचारक ने ठीक ही कहा है कोई संगठन ऊँची ऊँची इमारतों व बड़े दावों से महान नहीं होता, उसे महान बनाते हैं वहाँ काम करने वाले कर्मचारी। अभिप्रेरित एवं संतुष्ट स्टाफ कठिन परिस्थितियों में भी संगठन की वृद्धि सुनिश्चित करता है। बैंकों को अपने कर्मचारियों के बीच उच्च स्तरीय नैतिकता बनाए रखने पर ध्यान देने की आवश्यकता है, क्योंकि किसी कर्मचारी का निष्पादन उसके अभिप्रेरण के स्तर के अनुरुप होता है। किसी कर्मचारी के निष्पादन एवं अभिप्रेरणा के बीच के संबंध को सेकरन मॉडल के माध्यम से समझा जा सकता है:



- **निष्पादन एवं अभिप्रेरणा संबंध (सेकरन मॉडल)**

निचले स्तर के कर्मचारियों को दिशानिर्देश देने के लिए बैंकों के पास दूरद्रष्टा प्रबंधन तंत्र होने चाहिए। प्रत्येक स्तर के स्टाफ एवं अधिकारियों की कैरियर संवृद्धि सुनिश्चित करने के लिए बैंकों को उचित श्रमशक्ति नियोजन एवं उत्तराधिकार कार्यनीति अपनाना नितांत आवश्यक है।

कार्य मूल्यांकन

"उत्पादकता के मामले में कार्य मूल्यांकन प्रणाली (पी.ए.एस.) की तुलना में प्रबंधन का कोई अन्य साधन महत्वपूर्ण नहीं है। यह कर्मचारियों के कार्यनिष्पति को सुधार सकता है।"

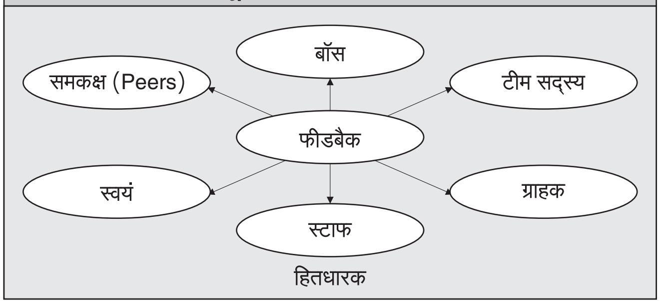
गेरी इंग्लिश

कार्य मूल्यांकन किसी कर्मचारी के कैरियर का एक अभिन्न अंग होता है। यद्यपि बैंकों में कार्य मूल्यांकन प्रणाली विद्यमान है, परंतु यह काफी पुरानी है जिसमें समय एवं ज्ञान में प्रगति के अनुरुप परिवर्तन की आवश्यकता है। इस समय एक अकेला व्यक्ति अपने कनिष्ठों के समग्र निष्पादन पर निर्णय लेता है। मूल्यांकनकर्ता पूर्वाग्रह से ग्रस्त हो सकता है अथवा वार्षिक मूल्यांकन रिपार्ट में अच्छे अंक देने के नाम पर वह अपने कनिष्ठों का अनावश्यक शोषण कर सकता है अथवा उन्हें धमकी दे सकता है, जिससे स्टाफ में निराशा एवं हतोस्ताह की भावना जाग सकती है। इससे परिणामस्वरुप कर्मचारी एसी कारवाई कर सकता है, जो अनपेक्षित हो एवं सिद्धांतों के अनुरुप नहीं हो साथ है वह कार्य प्रबंधन के बजाय तथाकथित बॉस प्रबंधन में ही ना लगा रहे जिससे संगठन को नुकसान पहुंचे। अतः किसी के निष्पादन के मूल्यांकन के संक्षेत्र को एक व्यक्ति से बहुविध व्यक्तियों में बदलने की सख्त जरुरत है, जो मूल्यांकन किए जाने वाले व्यक्ति के हितधारक होते हैं। अपने कर्मचारियों के समग्र निष्पादन का निर्धारण करने

* प्रबंधक (शोध), स्टेट बैंक ग्रामीण विकास संस्थान.

और उत्पादकता बढ़ाने के लिए बैंक 360 डिग्री मूल्यांकन प्रणाली अपना सकते हैं और जिसके आधार पर पदोन्नतियां दी जा सकती है।

360° मूल्यांकन तंत्र, पीटर वार्ड, 1999



प्रशिक्षण एवं कुशलता विकास

स्टाफ प्रशिक्षित करने तथा ज्ञान एवं कुशलता प्रदान करने के लिए बैंकों के पास जबर्दस्त प्रशिक्षण प्रणाली होनी चाहिए। बैंक के भीतर और बाहर दिखने योग्य प्रभाव बनाने के लिए बैंकों को विशेष कार्यक्रम आयोजित करने का प्रयास करना होगा। स्टाफ के लाभ के लिए ई-पाठ्यक्रमों एवं इंटरएक्टिव सत्रों के विकास को बढ़ावा देना प्रभाशाली होगा। उचित प्रशिक्षण जरुरतों का निर्धारण करना, जरुरतमंदों को प्रशिक्षण देना एवं विशिष्ट भूमिकाओं में सभी कर्मचारियों को शामिल करना ये प्रशिक्षण प्रणाली के समक्ष कुछ एसी चुनौतियां हैं, जिनसे उसे चलायमान बनाया जा सके। प्रशिक्षण प्रणाली में खुलापन लाना समय की माँग है जिसके लिए बाहरी विशेषज्ञों को जोड़ना और आंतरिक प्रशिक्षकों व मध्यम स्तर के अधिकारियों को बाह्य प्रतिनियुक्ति या अध्ययन अवकाश के लिए प्रोत्साहित करना एक अच्छा विकल्प हो सकता है ताकि बैंकों के कार्य प्रणाली में बैंकिंग तंत्र के बाहर हो रहे नवपरिवर्तनों, वैकल्पिक पाराडाईम, बाजार और बदलते सामाजिक सरोकारों का समन्वय व एकीकरण अकादमिक और व्यावहारिक व्यावसाय के सम्मिश्रण से किया जा सके। गांधीजी के अनुसार हमें अपनी संस्कृति की खिड़कियां खुली रखनी चाहिए ताकि दूसरी संस्कृतियों की अच्छाइयाँ हमारे संस्कृति रुपी घर से अबाध रुप से बह सके और हम अपनी अच्छाइयों को बिना भूले उससे सीख सकें।

पुरस्कार एवं सन्मान

भूमिका के प्रकार के आधार पर विभिन्न स्तरो पर सार्वजनिक क्षेत्र के बैंकों द्वारा कई पुरस्कार एवं सन्मान संबंधी योजनाएं लागू की जा रही है। पर कई योजनाओं को सच्चे अर्थो में लागू नहीं किया जा सका है। ऐसी सभी योजनाओं पर नए सिरे से विचार किया जाना चाहिए, जिससे व्यवसाय विकास हेतु कर्मचारियों को अभिप्रेरित किया जा सके। किसी अभियान से साथ आने वाला प्रोत्साहन आम अथवा शाखा उन्मुख होने की अपेक्षा भूमिका विशिष्ट (Role Specific) हो अर्थात पूरी शाखा अथवा क्षेत्र को प्रोत्साहन देने के बजाय किसी ऐसे कर्मचारी अथवा कर्मचारियों के समूह को देना चाहिए जो उस कार्य से मुख्यतः जुडे हैं जैसे वसूली का इन्सेंटिव वसूली व ऋण अधिकारी और उनसे जुडे सहायक को मिलना जाहिए। क्योंकि ऐसा न करने से काम नहीं करने वाला अथवा खाली बैठने वाला और दूसरों का ध्यान भंग करने वाला कर्मचारी प्रोत्साहन प्राप्त करता है और वास्तव में काम करने वाले को उसका अंश मात्र मिलता है।

पदोन्नतिरुपेण प्रोत्साहन

आजकल देखने व सुनने को मिलता है की बैंकों द्वारा नियमित रुप से पदोन्नति की प्रक्रिया पूरी किए जाने पर भी कई अच्छे व काबिल कर्मचारी उसमें सहभाग करने के इच्छुक नहीं हैं। पदोन्नति की निति इतनी प्रेरणात्मक हो कि स्टाफ पदोन्नति को स्वीकार कर सके। बैंकों के शीर्ष प्रबंधन को इस मसले पर बहुत बारीकी से ध्यान देना चाहिए तथा पदोन्नति नीति बनाते समय तृणमूल स्तर के अधिकारी व कर्मचारियों से विमर्श किया जाना चाहिए।

स्थानांतरण व तैनाती

शाखाएं व्यवसाय अर्जन केंद्र होती हैं, जबकि अन्य इकाइयां एवं कार्यालय सहायता प्रदान करने वाले केंद्र होते हैं। कोर बैंकिंग समाधान एवं व्यवसाय प्रक्रिया पुनर्विन्यास पहल शुरु किए जाने के बाद सार्वजनिक क्षेत्र बैंकों को यह गणना करने की जरुरत है कि प्रत्येक शाखा एवं अन्य इकाइयों में वास्तव में कितने कर्मचारियों की आवश्यकता है। उन्हें शाखाओं एवं अन्य स्थानों पर अलग-अलग भूमिकाओं के लिए अपेक्षित अधिकारियों, एवोर्ड स्टाफ एवं अधीनस्थ स्टाफ की संख्या जानने का प्रयास करना होगा।

स्टाफ का उचित नियोजन बहुत ही आवश्यक है। नियोजन किए जाने के बाद भी नियमित कार्य परिवर्तन, एकरसता के बचने तथा बैंकिंग के विभिन्न पहलुओं से संबंधित कुशलताएं बढ़ाने के लिए नियमित स्थानांतरण आदि के जरिए उनकी उत्पादकता सुनिश्चित करनी होगी। यह एवार्ड स्टाफ एवं अधीनस्थ स्टाफ सहित सभी स्टाफ पर लागू होना चाहिए। स्टाफ सदस्यों में टीम भावना, विश्वास एवं स्वामित्व की भावना जागृत करने के लिए अपेक्षित प्रशिक्षण एवं अभिप्रेरणा संबंधी उपकरण विकसित किए जाने चाहिए।

".. जिस प्रकार गन्ने का तना / पौधा स्वस्थ, खिला हुआ और तंदरुस्त नहीं रहने पर ज्यादा रस नहीं देता, ठीक उसी प्रकार अगर कोई कर्मचारी खुश व संतुष्ट नहीं है तो वह अपनी संभावनाओं का संम्पूर्ण उपयोग संस्था के विकास में नहीं कर पाएगा"।

अपने घर से दूर अथवा ग्रामीण क्षेत्रों में काम करने वाले स्टाफ को प्रोत्साहन देने का प्रयास किया जाना चाहिए, जिससे वे उन क्षेत्रों में काम करने के लिए अभिप्रेरित हो जाए जहां मौलिक सुविधाओं का अभाव है। कई निजी कंपनियां अपने स्टाफ को गृह-राज्य भत्ता एवं वार्षिक / अर्धवार्षिक गृह यात्रा सुविधाएं दे रही हैं, जिनसे कुछ हद तक अपने निकटस्थ स्थान पर स्थानांतरण प्राप्त करने के लिए स्टाफ द्वारा किए जाने वाले अविराम प्रयास पर रोक लगता है।

मानव संसाधन मामलों के प्रबंधन की जिम्मेदारी एसे लोगों को दी जानी चाहिए, जिन्हे कार्मिक प्रबंधन एवं औदयोहिक संबंध का विशेष ज्ञान है।

प्रतिभा खोज एवं प्रतिभा धारण

बदलते व्यावसायिक परिवेश में विफलताओं के साथ संगठनों के स्वभाव, डाउनसाइजिंग, विलयन एवं अधिग्रहण, संगठनात्मक उत्पादकता बनाए रखने के लिए सार्वजनिक क्षेत्र बैंकों के मानव संसाधन विभाग द्वारा बेहतर कार्यनीतिक योजना तैयार करना जरुरी है।

बाजार में किसी भी संगठन की प्रभावशाली उपस्थिति के लिए वहाँ प्रतिभाशाली व युवा कर्मचारियों का होना आवश्यक है। और भी तब, जब देश की आधी से ज्यादा आबादी 25 वर्ष के कम की हो और संपूर्ण देश जनांकिकीय लाभांश का फायदा उठाना चाहता हो। हाल के वर्षो में यह देखा गया है कि सरकारी बैंक से युवा प्रतिभाओं का तीव्र गति से या तो दूसरे बैंकों में संगर्षण हो रहा है या वे दूसरे मकहमे की और पलायन कर रहे हैं। संघर्षण या प्रतिभा पलायन को रोकना सार्वजनिक क्षेत्र के सभी बैंकों के लिए एक बहुत बड़ी चुनौती है। कुछ बैंक निश्चित अवधि तक अनिवार्य रुप से उनके साथ काम करने के लिए कर्मचारियों से संविदा कर रहे हैं, जो कि प्रतिगामी है। अतः उन्हें युवा मानसिकता को समझने, अधिक लचीलापन अपनाने, अधिकारों का प्रत्यायोजन करने, अच्छा कार्य परिवेश प्रदान करने, विवेकाधिकार के दायरे में स्वायतता देने और कार्य संतुष्टि के साथ आगे बढ़ने के अवसर देने आदि पर विचार करना होगा।

पर्याप्त संख्या में कर्मचारियों की उपलब्धता व तैनाती का आधार एवं तर्कसंगतता

चूंकि बैंकिंग पूर्णतया सेवा आधारित है जो कि समय सापेक्ष होती है जिसके कर्मचारियों कि उपलब्धता अनिवार्य है यहाँ पर्याप्त संख्या में कर्मचारियों का होना अत्यंत्यावश्यक होता है अन्यथा बैंकों को ससमय सेवा प्रदान करने में व ग्राहकों को संतुष्ठ करने में कई प्रकार कि खामियाँ रह जाती हैं। कई समाचार माध्यों से ज्ञात हुआ है कि कई सरकारी बैंक अपने शाखाओं में कर्मचारियों कि संख्या वहाँ वाउचर खपत के आधार पर करते हैं न कि सेवा की गुणवत्ता, ग्राहकों की प्रत्यक्ष प्रतिपुष्टि / फीडबैक आधारित अपेक्षा व वहाँ तैनात अधिकारियों के सुझाव के आधार पर। जो की निहायत तौर पर भ्रांतिपूर्ण व गैर-तर्कसंगत आधार जान पड़ता है क्योंकि जैसा हम उपर बता चुके हैं कि सेवा क्षेत्र के लिए पर्याप्त कर्मचारियों कि उपलब्धता जरुरी है अन्यथा ग्राहकों के प्रश्न तथा अनुरोध अनुतरित ही रह जाते हैं साथ ही थोडे उपलब्ध कार्यकर्मी अन्य अत्यधिक कार्य दबाव में ग्राहकों को संतोषजनक सेवा नहीं दे पाते हैं जो कि अंततः शिकायतों में तब्दील हो जाते हैं। फलस्वरुप ग्राहक दुखी होकर निजी व अन्य सेवा प्रदाता तथा वैकल्पिक माध्यम की ओर रुख कर लेते हैं। गूढ़ समस्याओं का सीधा व सपाट हल निकालने का प्रयास और भी बड़ी समस्या को जन्म दे सकता है। सार्वजनिक क्षेत्रों के बैंकों को उपर्युक्त तर्कों को ध्यान में रखते हुए

कर्मचारियों की बहाली व तैनाती करनी चाहिए। इसके लिए वे अनुबंध आधारित मॉडल अपना सकते हैं जैसा की निजी क्षेत्र के बैंक, विदेशी बैंक व सूक्ष्म वित कंपनियां करती हैं।

निष्कर्ष

उत्पादकता बढ़ाने के मामले में कर्मचारी संगठन की धुरी होते हैं। व्यवसाय स्तर एवं लाभप्रदता का विनिश्चय कर्मचारी ही कर सकते हैं। उचित श्रमशक्ति नियोजन एवं अभिप्रेरित कार्यबल के सहारे ग्राहकों की संख्या बढ़ाने तथा कई प्रकार की सेवाएं प्रदान करने से व्यवसाय की मात्रा को बढ़ाया जा सकता है। व्यवसाय एवं अन्य आय बढ़ाकर तथा नियंत्रणयोग्य खर्चों को कम करने से लाभप्रदता बढ़ सकती है। आज सरकारी बैंक जिसके पास बहुत बड़ा नेटवर्क एवं करीब दस लाख कर्मचारी है, कई प्रकार के वित्तीय उत्पाद प्रदान कर रहे हैं। उन्होंने दूर दराज के क्षेत्र से लेकर महानगरों बडी कंपनियों के ग्राहकों की जरुरतों की पूर्ति के लिए व्यवसाय प्रक्रिया पुनर्विन्यास पहल लागू किया है। दूरद्रष्टा नेतृत्व एवं समर्पित स्टाफ के साथ बैंको को उत्पादकता बढ़ाने के मामले में अपनी गति बढ़ाने तथा वित्तीय क्षेत्रों में सर्वउपलब्ध रहने का प्रयास करना होगा। हालांकि किसी भी सार्वजनिक क्षेत्र के उपक्रम की उत्पादकता केवल लाभप्रदता के नजरिए से नहीं देखी जानी चाहिए वरन् उनके द्वारा सामाजिक दायित्वों के पूर्ति के स्तर को भी उत्पादकता के माप में सम्मिलित किया जाना चाहिये । इस दिशा में सार्वजनिक क्षेत्र के बैंकों ने काफी लंबी दूरी तय की है तथा उन्हें अभी मिलों आगे चलना है ताकि भारतीय संविधान निर्माताओं द्वारा परिकल्पित लोक कल्याणकारी भारतीय समाज की अवधारणा को साकार किया जा सके।

संदर्भ

1.पटनायक विश्वजीत: मानव संसाधन प्रबंध

2.गाँदी करमचन्द मोहनदास, यंग इंडिया, 1-6-1921, p. 170

3.पीटर वार्ड, 1999

4.उमा सेकरण

BOOK REVIEW

Book Review : Before and After the Global Crisis

Author : T. T. Ram Mohan

Year of Publication : 2013

Publisher : Gyan Publishing House, New Delhi

Price : Rs. 990/-

Genre : Non-Fiction

Reviewed by : Nidhi Choudhari, IAS

About the Author

T. T. Ram Mohan, Professor of Finance and Economics at IIM Ahmedabad, has been a New York Correspondent for 'The Economic Times'. For the past 15 years, he has been writing a fortnightly column for the paper. Prof. Ram Mohan specialises in the financial sector and the subject of privatisation. He has authored four books: The Big Picture : Reflections On Our Economic Times; Privatisation in India : Challenging Economic Orthodoxy; Regulation of Financial Intermediaries In Emerging Markets (co-edited with Rupa Rege Nitsure); Brick by Red Brick: Ravi Matthai; and the Making of IIM Ahmedabad. He has served on several committees of the RBI and is currently on the boards of several companies.

About the Book

The book brings together a selection of the author's articles written for The Economic Times and the Economic and Political Weekly during the period 2004-12. The volume contains five parts relating to Indian Economy; Indian Banking; World Economy; Management and Governance; and Indian Polity respectively. This collection therefore, throws light on pre- and post-crisis economy, governance and polity in India and the world. Written in a readable and hard-hitting style for which the author is well-known, the book is at once a chronicle and a critique of a turbulent period for the India as well as the world.

Review of the Book

The first part of the book deals with Indian Economy which is further divided into four sub-parts viz. Macro Economy, Reform, Fiscal Consolidation and Disinvestment. In his article on Investment Commission set up by Government in 2004 under the chairmanship of Ratan Tata, Prof. Mohan writes, "Having a businessman on the Commission is a recipe for controversy and precisely the sort of paralysis in implementation the Government is keen to avoid.[1]" The author writes that the answer to bureaucratic delays is administrative reform and not bypassing administrative processes. The author discusses RBI's concerns about credit growth in Indian economy and writes that it is easy to be carried away by aggregate figures on credit growth. Yet, we need to take into account the composition of credit-corporate versus retail, domestic versus foreign currency, sensitive versus non-sensitive in judging whether there is unsustainable boom. We must also look for imbalances in macro economy. In his article on "A New Normal for Inflation", Prof. Mohan supports RBI's tough stand on rising inflation in the year 2011. He quotes RBI Governor, "We need to bring inflation down in order to sustain medium term growth even if that means sacrificing some growth in the short term.[2]" The author recognizes the role of political representatives in economic reforms when he writes, "Politicians tend to be reviled rather than revered. The better lot, however, are capable of the sort of creativity that, while defying the conventional economic wisdom, produces impressive results.[3]" Chapter 13 on Political Class gives a good insight about Indian political class. His writing on "Don't Demonise the Politician" gives a fresh perspective about people's representatives who are mostly criticized for all ills of the economy.

In brief, Prof. Ram Mohan's new book is worth reading not just because the book contains articles written during the periods before and after the global crisis which make it provides reader good understanding of events in Indian and global economy but also for the sheer simplicity in explaining subjects as complex as recession, reforms, disinvestment, MFIs, bank mergers, impossible trinity etc. In the fourteen chapters of the volume, the author has brought together many small articles which are brief yet comprehensive and gives a fairly good idea of the subject. The reader can establish linkages between various articles which appear as if they were written for a series and thus, some topics are very well covered like economic reforms, fiscal reforms, banking reforms, global crisis etc. However, Part IV and Part V where the author attempts to write on management and governance; and Indian polity respectively; he goes off the track. These parts not only distract the reader from the central theme but they also lack depth of understanding. Although, I like his writings on Indian politicians particularly when he writes, "There is little substance to the notion that politicians lack the ability or the character to respond to national problems, including corruption, and that social activists or other professional groups are better placed to do so. To demonise the politician is not only to betray ignorance of the Indian political system, it devalues one of the most precious assets, our democratic process itself.[4]" Yet, as a book, it would have been much more concise and crisp in its idea and had greater impact if Part IV and V were not included in this volume. The Gyan Publishing House has taken care to publish the book and the paper quality is also very good. It has a nice hard cover but its price is relatively on higher side because we have writings on global crisis from eminent persons like Y. V. Reddy, Kaushik Basu at affordable rates. Due to high price, the book is unlikely to get mass readers.

1. Page 24
2. Page 47
3. Page 57
4. Page 332

BOOK REVIEW

Title : Corporate Valuation : A Guide for Analysts, Managers and Investors

Author : Dr. Prasanna Chandra

Published by : Mc Graw Hill Education (India) Private Limited New Delhi-110 016

Reviewed by : Dr. A. A. Attarwala* & Prof. C. S. Balasubramaniam**

In the wake of revival in the economy, companies and investors are relying more on private equity and capital markets. Mergers, acquisitions and other forms of restructuring are becoming commonplace among corporate enterprises. Strategic alliances, buyouts, disinvestments among public enterprises, employee stock options are gaining popularity. Valuing a business is not worth the same to all corporate, investors, bankers and the regulatory bodies/Government. The primary objective of all business activities should be to maximize shareholder value. Owners of Corporate securities would hold the corporate management responsible if it fails to enhance shareholder value.

The Corporate valuation is undertaken while raising new capital, mergers & acquisitions and other forms of corporate restructuring and in investment management. Various bodies and prospective buyers are likely to assign different values to the same company, depending on how the proposition fits in their scheme of emerging perspectives and strategies. Valuation is the central theme of all these decisions. Valuation outcomes in business are neither easy nor exact. Several methods hve been developed and the purpose of all these is basically to estimate a fair market value of company. All these concepts and methods need a thorough discussion that seeks to bridge the real world of Corporate / investment analysts, bankers and regulatory bodies with academic finance.

Dr. Prasanna an expert and distinguished academician has brought out a new book "Corporate Valuation - A Guide for Analysts, Managers and Investors". This treatise discusses the techniques of Corporate Valuation with ease and comfort to all kinds of readers. The case studies dealing with the leading business organizations are reflecting the corporate reality. To enhance the understanding, a large number of solved examples have been included. It also involves the use of advanced financial calculus to explain the complex concepts and providing numerical examples that illustrate them comprehensively. With a view to help the corporate analysts, spreadsheet templates in excel have been developed. This book fulfils the needs of the students who are pursuing CA / Cost & management Accountants, MBA and other professional courses. It would serve as a guide to corporate executives, bankers / investment analysts who wish to relate the finance logic with contemporary practice.

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** Senior Faculty in Finance/Management Consultant.

Books Added to the IIBF Corporate Library

No.	Title	Author	Publisher & Year of Publication
1.	Boards that Lead : When to Take Charge, When to Partner and When to Stay out of the Way	Ram Charan & Others	Harvard Business, 2014
2.	Cases in Corporate Financial Management	K. Ravichandran & Others	Himalaya Publishing, 2010
3.	Contemporary Issues in Mergers & Acquisitions	Manju Gupta	Himalaya Publishing, 2010
4.	Corporate Governance in the Indian Banking & Financial Sector	M. Sakthivel Murugan	Himalaya Publishing, 2011
5.	Disrupt or be Disrupted : A Blue Print for Change in Management Education	Graduate Management Admission Council	Jossey - Bass, 2013
6.	Economic Environment of Business, 3rd Edition	Veena Keshav Paliwar	Prentice Hall (India), 2013
7.	Foreign Exchange	P. G. Gopalakrishnan & Nandini Jagannarayan	Himalaya Publishing, 2011
8.	Fundamentals of Investment Management	Preeti Singh	Himalaya Publishing, 2010
9.	Fundamentals of Retail Banking	O. P. Agarwal	Himalaya Publishing, 2012
10.	How to Read Balance Sheet & Other Financial Statements	Arjun Saini	Himalaya Publishing, 2013
11.	How to Succeed with People : Remarkably Easy Ways to Engage, Influence & Motivate Almost Anyone	Paul McGee	Wiley India, 2013
12.	International Financial Reporting Standards (in 2 parts) Part A - the Conceptual Framework & Requirements Part B - the Accompanying Documents	International Financial Reporting Standards	Taxmann, 2013
13.	Investment Banking : Text & Cases	Naliniprava Tripathy	Himalaya Publishing, 2012
14.	Learning to Lead : A Workbook on becoming a Leader, 4th edition	Warren Bennis & Joan Goldsmith	Basic Books, 2010
15.	Light Footprint Management : Leadership in Times of Change	Charles - Edourd Bouee	Bloomsbury, 2013
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