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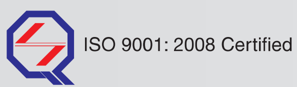

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CONTENTS

From the Editor

Special Features

Inaugural Speech at 'Bank Executives Programme' 05
-- S. S. Mundra

AMP Convocation address 08
-- R. K. Dubey

NACH creating strides by elevating Payment Systems Landscape in India to Global Standards 11
-- Sumit Kohli

New face of frauds and fraud management in India 15
-- Bharat Panchal

NPCI's initiative towards electronification of Payments in Rural Space 19
-- Ruchir Asthana

Immediate Payment System (IMPS) as a catalyst for Financial Deepening in Rural India 21
-- Deepak Satpathy

New Payment Initiatives : Way to bank's Profitability 25
-- N. S. N. Reddy

MSMEs - Relevance of Regular Handholding 30
-- Dr. T. C. G. Namboodiri

Housing Credit Led Growth in India during the Period 2000-2012 37
-- Dr. S. S. Sangwan

Book Review

Central Banking for Emerging Market Economies - A relook in the context of the global financial crisis 45
-- Dr. Rupa Rege Nitsure

Reinventing Development Economics - Explorations from the Indian Experiment 48
-- Dr. A. Vasudevan

SUBSCRIPTION FORM FOR BANK QUEST / IIBF VISION 52

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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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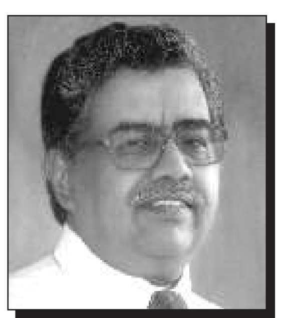

Dr. R. Bhaskaran
Chief Executive Officer,
IIBF, Mumbai

The theme for the current issue of Bank Quest is 'Payment & Settlement System in India', for which, at the Institute's request, the officials of National Payment Corporation of India have contributed 4 articles on different areas of its working. We place on record our grateful thanks to Mr. A. P. Hota, Managing Director & CEO and his team at NPCI more particularly Mr. Bharat Panchal for his help and co-operation in getting these articles in time. We also thank all the authors from NPCI and senior officers within NPCI for vetting these articles.

In December, 2013, the Institute has organized second Bank Executive Programme (BEP) for senior executives of Banks. Mr. S. S. Mundra, Chairman and Managing Director, Bank of Baroda inaugurated the BEP and delivered the key note address. His talk captures the pressures and the flavors of current banking environment. He has also indicated the areas in which modern banker should be well prepared. We carry the excerpts of his address as the first article in this issue.

The Institute has been offering an Advanced Management Programme (AMP) in Banking and Finance since 2006 for middle / senior level bank officer/executives in association with leading B-schools. The 11th Advanced Management Programme (AMP) in Banking and Finance was organized at the Institute's Leadership Centre in Mumbai for the first time, for which the sessions commenced in November, 2012 and the batch successfully completed the course in December, 2013. The convocation ceremony for the same was held at the Institute's Leadership Centre in Mumbai on 10th March, 2014. Mr. R. K. Dubey, Chairman and Managing Director, Canara Bank, Chief Guest delivered the convocation address and handed over certificates to successful candidates. We carry the excerpts of Mr. R. K. Dubey's convocation speech as the second article in this issue.

The third article in this issue is 'NACH creating strides by elevating Payment Systems Landscape in India to Global Standards' by Mr. Sumit Kohli. 'What is NACH? Who are involved in this system? How it is working for bulk transactions?' are explained in the article. The author provides insights into the role NACH plays in making Indian Payment System to reach upto the global standards.

In the next article 'New face of frauds and fraud management in India', the author Mr. Bharat Panchal explains different modes of frauds in electronic payment system and suggests measures

such as adhering to RBI guidelines on timeout sessions for ATM transactions, second factor authentication etc. to minimize such frauds. He also underlines that customer education is very important to prevent such frauds.

The fifth article 'NPCI's initiative towards electronification of Payments in Rural Space' is by Mr. Ruchir Asthana. The author explains various initiatives of NPCI in achieving financial inclusion and reaching rural people.

The next article is 'Immediate Payment System (IMPS) as a catalyst for Financial Deepening in Rural India'. Mr. Deepak Satpathy, the author explains about Immediate Payment Service offered by NPCI, its features, various products and its working (transaction flow). He also explains NPCI's projects for rural customers and lists out learning points extracted from the project implementation.

In addition to above articles, this issue includes an article on 'New Payment Initiatives : Way to Bank's Profitability" by Mr. N. S. N. Reddy. The article analyses trends in transactions under the new payment systems viz., RTGS, NEFT and ECS over the years and also market share of different banks in India and explores the use of these products to attract customers to increase banks' profitability.

Apart from the above articles pertaining to the theme of this issue, we carry an article on 'MSMEs - Relevance of Regular Handholding' by Dr. T. C. G. Namboodiri. The author has given the definition of MSME and listed out various initiatives of Government for MSMEs including CGTMSE scheme. In addition to explaining RBI guidelines on MSME finance, the author describes various issues facing MSME sector and suggests measures to support the sector.

The last article in this issue is 'Housing Credit Led Growth in India during the Period 2000-12.' by Dr. S. S. Sangwan. The author explains various policy measures initiated to encourage investment in housing, analyses its impact on flow of funds to the sector and in turn its contribution to GDP of the country.

This issue also carries two book reviews: 'Central Banking for Emerging Market Economies - A relook in the context of global financial crisis' written by Dr. A. Vasudevan and 'Reinventing Development Economics-Explorations from the Indian Experiment' written by (Late) Dr. N. A. Mujumdar. The first book is reviewed by Dr. Rupa Nitsure and the second book is reviewed by Dr. A. Vasudevan.

We solicit your suggestions and feedback for improvement.

(Dr. R. Bhaskaran)

Inaugural Speech at Bank Executives Programme (BEP)**

S. S. Mundra *

"Have a bird's eye view but also a worm's eye view"

Mr Bhaskaran, ladies and gentlemen. I am happy to be here and talking to the participants of the BEP. I thank Bhaskaran for inviting me to inaugurate the training programme. Before I came here I pondered about what I should talk. I understand this is an executive development program. Let me therefore list some things that will hopefully provoke your thinking as all of you are going to be the leaders of tomorrow's banking.

What should be the view point of the top management? Today's banking is somewhat complicated. Today's banking is much more than mere operations. To be successful, Bankers should have both macro and micro outlook while discharging their duties. Unlike the past, today a number of new issues are being faced by banks. In the past the focus was on routine and process oriented. Now it is much larger. For example today there is the need to understand issues like the GDP growth and flow of foreign direct investment and how such flows will impact the bank. This has to be supplemented by a good understanding of issues like IIPs, HSBC-PM Index etc. and how the economy behaves in inflationary growth situations both in terms of Wholesale price (WPI) and Consumer price (CPI) inflation. Today the economy is facing problems in the infrastructure front. Also banks are highly stressed in terms of managing high value assets.

Even as the banks are stressed there are many opportunities. I am sure that in the days to come, retail and SME sectors shall be important for banks. SME is a big opportunity for banks. There are a large number of SMEs waiting for bank finance. Another opportunity is the rising middle class. Reports say that another 267 million will join the middle class by 2016. A changed demography will make a lot of difference. This will result in the emergence of many entrepreneurs. I feel that Banks should give more attention to the retail customers. Analytics will help understand the customer behaviour and retail business - both assets and liabilities. As such banks should be driven by what the customers want. If this is done there will be more customised products in the retail front and banks can leverage this for growth.

Many of the tier III centres of today will become tier II centres and this will be a big opportunity for banks. Today we see that many of the places which had no all-weather roads 15 years ago have all become good business centres with improved infrastructure. This is because, factors such as road, electricity, television and mobile have improved connectivity and thus changed the face of semi urban and rural areas. Banks can do a lot in this background. One of the private sector banks has put in efforts for implementing sustainable livelihood project. It has shown that it is possible to do things differently and still focus on priority sector. Needless to say banks must innovate.

The payment and settlement space has been completely transformed due to constant improvements / innovations in technology and due to the arrival of many new players in the scene. For the first time banks are facing competition in payment domain. Already telecom companies have started offering products akin to bank products. It seems that shortly this may no more be the exclusive domain of bankers. There is also the much talked rise in the virtual currency. Will virtual currency replace the local currency? Bitcoin is like a commodity and the recent rise in the value of Bitcoins cannot be sustained. Virtual currency will have to be tackled carefully lest it become a menace for the regulators.

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* Chairman & Managing Director, Bank of Baroda.

** Key Note address delivered while inaugurating the 'Bank Executives Programme' held at Leadership Centre, Indian Institute of Banking & Finance, Mumbai on 9th December 2013.

Another issue is the emergence of the third world. Till now the trade flows were mostly happening between developed countries and developing world. But the picture is gradually changing. Inevitably the trade flows will increase between Regional economies. Recently Chinese Yuan has overtaken Euro as the second popular currency of trade settlements. Emerging economies of today will be developed countries of the future. The new emerging economies of tomorrow could perhaps be from the African continent.

I have talked about issues that could be important for the future. Let me say a few words about the general issues faced by today's Bank management. To me the most important challenge of the day is managing the human resources. Recruitment, retention, compensation and attrition are big issues. Banks have to make the youngsters job ready, groom them and retain them. 55% of staff will retire between 2012 and 2020 and most of them will vacate very senior positions. So the biggest challenge for PSBs is how to make the new entrants job-ready and retain them and make them capable of taking up higher responsibilities in a short time. Earlier people used to take great pride in telling that they worked for an employer for 3 or 4 decades and then retired. Now the situation is different. If one continues for 5 years with an employer, peers may exert pressure on him to seek better opportunities elsewhere. With this kind of change in value system, it is a great challenge for PSBs to retain talent and to prevent attrition. HRM and HRD are to be seen separately. HRM can be done by the back office. HRD is important, as the new generation thinks differently. They have to be groomed, encouraged and given right placements.

It is here that mentoring plays a great role. I was working as an officer in the credit department of the Regional Office of my bank. Initially I used to dictate notes to my clerk. After some days I just told him the points and asked him to prepare the note. I will thereafter edit the same but showed him the same and kept encouraging him. After a few months, I only briefed the contents of a note and asked him to prepare the note. In this process the clerk became confident to prepare notes and in fact a very good officer in due course. Of course this helped me to attend some other important areas of work. Mentoring is very important.

Another issue is vision. In Bank of Baroda some of the former CMDs believed that the bank should have a good training system and made efforts in that direction. In view of this, today, the bank has a very well established efficient training system. Similarly sixty years ago, a CMD desired that the bank should have branches abroad. Today, the bank has several branches in many foreign countries. And rightfully the bank is a MNC Bank. Vision is important for attaining leadership positions.

Implementation is another important issue. Today we have all the literature on management and also consultants are available. However the Key issue is implementation. When starting a new project in any organisation it should be matched with your tenure of office. If your tenure is too short to implement the project, better avoid it. One should be in a position to complete a project or at least to take it to a reasonable logical distance during one's tenure in office.

Let me share some quick points on working with passion and some eternal Issues of leadership.

- Be attentive, be what you are and be sincere. You should not only have a bird's eye view of issues but you should also have a worm's eye view when it comes to details.
- Team building is an essential trait of leadership. While building the team certain compromises and flexible approaches are required. One should have an open mind to appreciate others point of view. Individual players cannot do well in the area where team effort is the need. Everybody is a leader in his own limited way. When one is in charge of a small section of say two employees, he is the leader of the group and when one is the Branch manager of small branch of say 10 employees, he is a leader of the 10 people. Banks need leaders as almost all the work of a bank is performed by teams.

- Delegation is the secret of success in team work. Learn to delegate.
- What to do may be known to us but how to do is the issue. Execution is important.
- Plan your goals having regard to your term in the particular office. If you have a short term, aim at short term goals and in doing so be sincere to yourself.
- There must be clear demarcation between personal and official life. Do not carry official work home and domestic worries to office. This is difficult and the sooner you do this the better is your work life balance.
- Develop ability to train your eyes to stop at critical / pivotal points / issues of importance. If you are looking at a file on IT project, instead of going through the entire file from top to bottom, learn to look at important / relevant aspects like scalability, obsolescence etc. If you learn to look at such critical aspects, you would have created ample time to spend on aspects that require your time.
- HRD has largely become HRM. There is no development and only management. In most banks HRM people are busy doing scrutiny of TA bills, medical bills, transfers and other postings etc. In my Bank, this function has been computerised and taken away from HRM and for the remaining issues such as talent management and HR policies a HR Department has been created which has started looking at real and effective development of Human Resources. The L&D is also given exclusive attention. As such the bank is well poised to meet the talent crisis that the banking sector is facing.
- In HR matters one must keep one's mind widely open. I just said that you go through only important points in the file / note and need not go through the whole file. This is not applicable to HR issues. In HR it is important to study the whole file because here human beings with their myriad facets are involved
- HR Policies and the way we look at HR problems need change. This will yield good dividends. Staff accountability is a thorny issue. Instead of calling 'Staff Accountability' file, we can call it 'Reasons for an asset turning NPA' and incidentally the staff accountability, if any, can be also discussed. This change of emphasis will go a long way in improving the morale of the staff and accelerate decision making process.

Bankers and most importantly senior bankers should meet people, socialise, interact with the customers and be a professional. In the past a bank was working in a regulated environment where banker was doing mostly administrative work. But today, banker has to do marketing and therefore each has to be an innovator. New ideas are to be encouraged. “When our children give new suggestion in the house we appreciate and say how capable she/he is. When a junior officer gives some suggestions, we get annoyed. When your colleagues ask questions you are unhappy.” There should be no difference in parent and boss behaviour in such cases. Change yourselves and you will enjoy work.

I wish you all the best in the course and am sure you will make good leaders in future.

AMP Convocation address**

R. K. Dubey *

I am delighted to be here in IIBF and be a part of the convocation function for the 11th AMP batch of IIBF. I am thankful to Dr. Bhaskaran for inviting me to deliver the convocation address.

I understand that by now nearly 250 middle level executives have gone through this well structured Advanced Management Programme (AMP) and the participants have expressed great satisfaction about the outcome from the programme.

I would like to congratulate all those getting the AMP certificate today for your dedication, commitment and desire to acquire additional qualifications and competence even by sacrificing almost all the Sundays for nearly a year. Needless to add that nothing is gained without sacrifice, yet your efforts are praiseworthy more so due to the pressures of day to day work at bank level. Congratulations once again to all the successful persons.

I will take this opportunity to briefly present my views on the state of banking and the challenges ahead. All of you who are in the banking sector are well aware of the sea changes witnessed in all facets of banking during the last two decades and more particularly during the last few years. The phenomenal changes in the delivery models have thrown open new vistas of both challenges / opportunities and threats.

Banks, world over, are beset with more or less common problems and issues like -

- Capital Infusion under Basel III
- Liquidity management
- Credit Risk management
- Cyber crimes
- Terrorist financing / AML / KYC
- Human Capital Management
- Compliance issues

Studies have shown that the customer profile and preferences are undergoing sea changes in the country and banks are endeavouring to meet the customer expectations especially the Gen Y. Multiple opportunities and options are before the banks to reach out to the customers calling for new skill sets among employees to tap the new technology / channels successfully. This is where courses like this will help the bankers to get insights into emerging areas affecting the sector.

In my view, the following areas deserve attention of the bankers in the years ahead.

- **Credit expansion :** All the banks need to expand the credit portfolio in the country from the larger interest of improving the production activities that can contribute to GDP growth, employment generation, export growth, profitability etc. There is a paramount need to improve the lending skills among the bankers.
- **Risk management :** Risk management has taken central stage in the country and elsewhere. The BASEL guidelines have given teeth to the risk architecture in banks and hopefully the risk management system will improve to global standards in the years to come. Here also, the skill set gaps are considerable in the banking sector.
- **I T Management :** IT area is becoming an area of deep concern to one and all on account of the increasing incidence of cyber crimes reported from different quarters. Whilst IT has helped to take banking to remote corners through ever widening channels, it has also opened up new areas for fraud and losses to banks. So here also, the skill sets need sharpening.

* Chairman & Managing Director, Canara Bank.

** Excerpts from the speech delivered on 10/03/2014 at Leadership Centre, IIBF, Mumbai.

- **NPA management :** The problem of NPA is now well known. The disturbing aspect is that the problem is not showing any signs of abatement. The FM had mentioned last week that the NPA of PSBs have become a big burden to the government and even hinted that the new government may re-look into the ownership pattern of PSBs in the future. People handling credit portfolio and monitoring need to be extra vigilant to stem the growing incidence of defaults.
- **Compliance :** Globally the compliance function has assumed importance and India is no exception. Adherence to rules and regulations needs to be emphasised repeatedly so that the banks are not put to compliance risk. Areas like AML / KYC, foreign remittances and credit are potential areas of problem going by the past instances. Hence the need for the bank staff to be current in their knowledge and skills.
- **Talent management :** It is a fact that banks are facing the problem of talent crunch on account of mass retirement and induction of a large number of new staff. The new staff will take time to assimilate with the culture and practices and also to acquire needed skills in specialized activities. This being the reality, the only option before the banks is to be pro-active in talent management on the one side and retention of the existing staff on the other. The opportunities elsewhere are prompting large level attrition from banks. How to stop this and retain the talents is a big challenge to banks.

Having cited some areas of immediate concern, I would like to cite the global perspective from a study by E&Y. The study points out that : The credit crisis has placed liquidity risk management at the fore front in the global banking industry, presenting some weighty challenges that global banks must address. Liquidity risk management is now a major focus for regulators and global banks must navigate a range of regulatory requirements and guidance that is not always clear or well-aligned.

What is clear is that liquidity risk must be owned from the top of the organization down. Without maintaining a constant pulse on their liquidity position, banks can quickly face serious reputational damage or, worse, insolvency.

The above issue assumes importance on account of the current growth in stressed assets and some recent experiences in the country.

Some areas of concern, I wish to flag, which you must keep track of in your day to day dealings, wherever found necessary.

1. The country is truly at the crossroads in regard to many of the banking innovations. Even though the banks have been sitting on a huge pile of customer information, they have not been to make much use of the same due to variety of reasons. This needs quick attention.
2. Similarly the IT sector and mobile explosion have thrown open unlimited challenges and opportunities. Despite the strides taken in these fields, its utilization has been limited to urban centre that too to a miniscule population. Studies have shown that even educated people and even those working in certain banks are not comfortable to go in for mobile banking.
3. Financial inclusion is the immediate challenge; hence the country has to meet simultaneously the aspirations of the Gen Y customer and also the clientele under the financial inclusion fold. The problem is going to only go up considering the fact that still over 40% of the people is to be brought under the banking fold within a short period of time.
4. Human capital management is a serious issue over the years. The challenge of educating the employees / customers therefore takes the centre stage. Retaining the Gen Y will be a huge task for banks.
5. Most of the banks are giving more or less similar products and services. The challenge is to understand the needs of the customers and come out with innovative products. Whoever is able to do that is having first mover advantage and they corner the biggest pile of business.
6. The potentiality of social media for bank marketing is yet to take root in many banks, while some of the private sector banks have already entered this

space. The challenge is to understand the needs of the customers and come out with innovative products fast.

7. Compliance risk is on the rise. Many banks were penalized this year for AML / KYC violations. This throws up the challenge of educating and sensitizing the work force on the compliance front.
8. The country is expected to witness the entry of few more banks in the New Year. This will bring about new competition for business and talents.

These challenges are discussed in different fora and hence may not be found to be new. The issue is how to tackle them.

I feel that the work force of banks needs to upgrade their knowledge and skill continuously to cope with the new challenges. It is in this context that the course you have undergone assumes great importance. Let your academic pursuits continue - as Dr. Stephen Covey said, sharpen the saw continuously, as the need to learn is much more now than ever. Wish you the best in your career and family. I thank IIBF for giving me this opportunity to interact with the AMP batch.

Wish you all the best in career, family and life.

Thank you.

Discussion Paper on 'Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders : Framework for Revitalising Distressed Assets in the Economy'

In order to ensure that the banking system recognizes financial distress early, takes prompt steps to resolve it and ensures fair recovery for lenders and investors, the Reserve Bank has come up with a discussion paper which outlines a corrective action plan that will incentivize early Identification of problem cases, timely restructuring of accounts which are considered to be viable and prompt steps by banks for recovery or sale of unviable accounts. The major proposal in the discussion papers are as follows :

- Early formation of a lenders' committee with timelines to agree to a plan for resolution: When principal or interest payment overdue between 61-91 days, all lenders, including NBFC-SIs, should form a lenders' committee to be called Joint Lenders' Forum (JLF) under a convener and formulate a joint Corrective Action Plan (CAP) for early resolution of the stress in the account. JLF formation and subsequent corrective actions will be mandatory in accounts having aggregate fund-based and non-fund based exposures of ₹1,000 million and above. Even in other cases lenders have to monitor the asset quality and take corrective actions for effective resolution as deemed appropriate, under our extant guidelines. The option under CAP by the JLF would generally include; rectification, restructuring and recovery.
- Incentives for lenders to agree collectively and quickly to a plan - better regulatory treatment of stressed assets if a resolution plan is underway, accelerated provisioning if no agreement can be reached.
- Improvement in current restructuring process : Independent evaluation of large value restructurings mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors.
- More expensive future borrowing for borrowers who do not co-operate with lenders in resolution,
- Lenders should carry out their independent and objective credit appraisal in all cases and must not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrower company. Lenders should ascertain the source and quality of equity capital brought in by the promoters / shareholders. While carrying out the credit appraisal, banks should verity as to whether the names or any or the directors of the companies appear in the list of defaulters / willful defaulters. Further, with a view to ensuring proper end-use of funds and preventing diversion / siphoning of funds by the borrowers, lenders could consider engaging auditors for specific certification purpose without relying on certification given by borrower's auditors.
- More liberal regulatory treatment of asset sales :
  - Lenders can spread loss on sale over two years provided loss is fully disclosed.
  - Takeout financing / refinancing possible over a longer period and will not be construed as restructuring.
  - Leveraged buyouts will be allowed for specialized entities for acquisition of 'stressed companies'.
  - Steps to enable better functioning of Asset Reconstruction Companies mooted.
  - Sector-specific companies / private equity firms encouraged to play active role in stressed assets market.

Source : Financial Stability Report, Issue No. 8, RBI.

NACH** creating strides by elevating Payment Systems Landscape in India to Global Standards

Sumit Kohli *

India's economy has undergone rapid growth in recent years resulting in the need for a more sophisticated payment infrastructure. With the increase in Internet penetration and awareness about the benefits, retail electronic transactions in our country have been growing at a scorching pace at 30% year-on-year in the last three years. This trend is expected to continue in the years to come provided the retail payment infrastructure continues to evolve by enhancing reach and customising products that offer choice to the end users in terms of interoperability, choice of payment platforms and ease of convenience and above all control and visibility.

The development of the advanced Indian national payment platform is an illustration of the significant strides that many emerging economies are making in the development of their financial infrastructure, leap-frogging many western countries where traditional legacy systems still sometimes dominate.

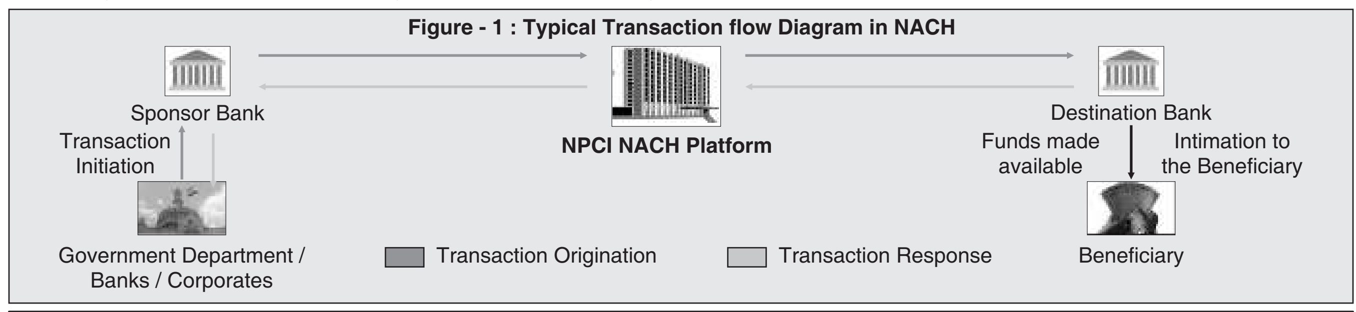
The creation of NACH payment system, complemented by other innovations in its service offerings operated by the National Payments Corporation of India (NPCI) means that India now has the robust payment platforms it needs to continue to grow.

In line with the RBI Payments System Vision Document 2012-15 which envisages ways and means of ensuring that “payment and settlement systems in the country are safe, efficient, interoperable, authorized, accessible, inclusive and compliant with international standards” The RBI is also for interoperability and portability in all payment systems including mobile payments. It has suggested Aadhaar-based payments in consultation with stakeholders which is again enabled through NACH platform & so far it has crossed a landmark of 1 crore in number of transactions for the LPG subsidy being received by the end-consumers in the country.

The overall regulatory policy stance, RBI document said, is towards promoting a less cash / less paper society, the "green" initiative, and hence the increased emphasis on the "use of electronic payment products and services" that can be accessed anywhere and anytime by all at affordable prices.According to a report 'Road To Less Cash', by India Development Fund (IDF) and Internet and Mobile Association of India (IAMAI), a moderate growth of cashless transactions by 5 percent a year will save the country more than ₹500 crores annually. As these online payment mechanisms become more omnipresent they will provide both convenience for the consumer while reducing the cost inefficiencies of cash for merchants. Thus, adding to the likelihood of a less-cash society.

What is NACH? what does it do? and how NACH is playing a crucial role in making the less cash society?

Figure - 1 : Typical Transaction flow Diagram in NACH



* Manager, Business Development, NACH, NPCI.

** National Automatic Clearing House (NACH) for Banks, Financial Institutions, Corporates and Government implemented by NPCI. It is a web based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature.

A typical financial transaction involves mainly 5 entities *viz.* entity who wants to transfer money (called the sponsor), its bank (called the sponsor bank), the intended recipient (called the beneficiary), the beneficiary bank (called the destination bank), and last but the most important, the entity behind the screen which facilitates the transfer. NPCI's NACH system plays this behind the screen role to facilitate bulk interbank transactions involving either one debit - multiple credits or one credit - multiple debits.

Consider a mobile phone, without a network connection; it is of no use as it cannot facilitate a call from one person to the other. In the similar fashion, funds transfer from one bank to another also requires a connecting platform and this is where NACH system comes into picture.

These developments enable companies in India to maximise their efficiency, cash-flow and adopt international practices that many organisations expect. The primary motive of NACH is to handle low value, high volume transactions based on electronic files. Also, to add, this system is location & bank agnostic which basically means any bank using NACH platform across length & breadth of the country can use this solution for its Corporate & Retail clientele. There is an assured payment & collection in reduced and near real time transaction.

In simple terms NACH Payments can be used to transfer money into a Bank account (a credit), such as when a business sends payroll deposits to its employees' bank accounts. But like cheques, the Automated Clearing House (ACH) can also be used to withdraw money from a bank account (a debit), such as when a utility company like an Electricity company which initiates an ACH debit transaction to make payment for a customer's monthly bill. After initiation the payments are combined into electronic file with payment information such as bank routing numbers, customer account numbers and INR value of the payments.

The system allows banks to help corporates both big, small & SMEs as well as individuals looking to do business in India to manage their cash effectively in-line with a broader cash management strategy. This system marks a shift in India's cash management capabilities, as the country now has a payments system that makes it profoundly easier for businesses to compete.

As we move towards a less cash society there are multiple benefits in usage of this product like One time registration, Convenience, Control in hands of user, Safety, Assured & accepted method of payment, can be used both for Pushing funds as well as Pulling funds. The use cases could be any one right from an Individuals to Mutual Fund Company (for its SIP collections as well as Dividend payments), A Corporate (for salary payments), An Insurance Company (for Premium collections as well as Pay-outs), and Government institutions to make tax collections or to remit money to beneficiaries. Credit card issuers (for their bill payments), Telecom companies, Educational Institutes, Broking Houses, Utility companies, NBFCs, etc.

According to a recently published report by Accenture named 'India in 2014' RBI has decided to implement a national Government Internal Revenue Order (GIRO) - based Indian Bill Payment System such that households will be able to use their bank accounts to pay school fees, utilities and medical bills as well as make remittances electronically. RBI has also assembled a GIRO advisory group to implement this national bill payment system. If we look at the same aspect from NACH viewpoint where with a One-time Mandate, a Customer can initiate a payment towards its intended Biller safely, simply through any channel which could be integrated on GIRO platform and which would enable transactions at low cost, across geographies and with convenience thereby driving value addition to end consumer where the payments could be initiated both by the Institution or the end Customer. Besides, Indian financial services firms will look to upgrade their technology systems in 2014. Banks want to upgrade to modern tools that can help them analyse real-time data to predict fraud or illegal activities.

This goes on to show how futuristic this payment mode is and how the Industry gets benefited by adopting this mode. In matured markets like US & Europe where the ACH payments was introduced back in 2000s a large part of volumes are accounted by Consumer-initiated transactions. The Consumers have the control and visibility. Compound this with the fact that corporate

accounts are given this option and financial institutions can experience new levels of engagement with their account holders, opening new opportunities for other levels of growth.

With this we can vision a complete payment eco-system which enables Person to Person, Person to Business, Person to Government, Business to Government or vice versa. The beauty of this is that once this payment mode gets streamlined and gets in the main stream it has the potential to become an interoperable payment mode to benefit the consumers and can be tailored to suit requirements of the Industry.

Given its benefits, it is up to the banks to offer products that ride on the NACH platform and take its offering to industry verticals which have been using the traditional modes of payments i.e. cash, cheques. It creates a complete win-win situation for Banks, Corporates & the end user as it reduces Cash / Cheque component, provides Assurance, Easy, Convenient, Quicker, Standardized, Low-cost, Compliant & Increases pan India reach.

For a payment system to succeed there has to be compelling business case for the banks to adopt it and bundle it as an offering to its customers. There is a distinct paradigm shift from float based income to fee based income, with 'pay per use' becoming a norm. NACH being a centralised and location agnostic platform creates a level playing field for all the banks of all sizes irrespective of their geographical reach and branch presence. What will matter is the level of adoption and their ability to tailor the offering to create efficiencies to their customers.

Banks with large customer base must lead the way by a two pronged approach first putting in necessary infrastructure in terms of (technology and people) in place to handle NACH transactions. Second, account holders must be encouraged to switch from expensive and cumbersome paper based transactions to electronic ones where branches will have a key role to play.

Government on its part must use legislative means to bring certain categories of transactions under the electronic mode and incentivise electronic transactions. This will bring about efficiencies, increase transparency, curb tax evasion and above all increase financial inclusion.

According to RBI data, cash still accounts for 90 per cent of all monetary transactions in India. Even as growing numbers in cities are using electronic payment systems, these made up a paltry 3.2 per cent of total payments across the country in 2012-13. A recent McKinsey report predicted that the number of digital banking customers in India will rise from 100 million in 2012 to 450 million by 2020.This just goes to show the immense potential of growth in Online transactions in coming years.

The electronic payments tide is turning. The younger generation already shows disdain for writing cheques which bodes well for the future of electronic payments. However, the greatest opportunity for moving away from cheques is in business-to-business payments; companies can reduce cost and accelerate cash flow if the accounts payable and accounts receivable functions are automated for electronic payment initiation and receipt with automated reconciliation. Other large opportunities exist for consumer bill payment, direct deposit, and person-to-person payments. Low-value electronic payments can benefit all stakeholders in the near future.

To conclude, let me quote Shri H. R. Khan, Deputy Governor, Reserve Bank of India at the FICCI-IBA conference on Global Banking who coined 5A's of Payment System

1. **Availability** combines the notion of a level playing field for the service providers along with the availability of choice of products for the customers.
2. **Accessibility** as a concept should be the cornerstone to expand the reach of the banking systems and the various payment products to all the sections of the society including the 'aam aadmi' as part of the financial inclusion plan and efforts.
3. **Acceptability** is the thought process which enables the customers to embrace the newer products and technology such that these become ubiquitous in nature just as mobile telephony has become in the country.

4. **Affordability** is a key corner stone which should guide the product offering as being value for money for the customers with technology and innovation being the important drivers for providing cost effective and quality services by the service providers.

5. **Awareness** Creating awareness through financial literacy campaigns is necessary to increase the volumes in the payments business and to generate the necessary network effects for the successful operationalization and implementation of newer technologically cost effective sound payment products.

NPCI along with all participating Banks is continuously working towards these goals as Consumer payments continue to rapidly move from cheques to electronic channels. This is evident in the recent statistics which show cheque conversion volumes are steadily dropping while native electronic payment applications have been showing consistent growth. Person-to-person payments will move from cheque to electronic payments and become a new growth opportunity for the Banking Industry!

External Sector Stabilisation Measures

Delay in tapering by the Fed following its initial announcement in May 2013, offered time for India and other EMDEs to undertake measures to improve the resilience of their economies to withstand the effects of inevitable tapering. India took a series of co-ordinated measures which seem to have worked well. Some of these are outlined below :

Measures to Augment Flows :

(i) Exemption of incremental FCNR(B) / NRE deposits with a maturity of three years and above from CRR / SLR requirements,

(ii) Exclusion of the incremental FCNR(B) / NRE deposits from adjusted net bank credit for computation of priority sector lending targets,

(iii) Liberalisation of FDI norms through review of limits and (or) shifting of selected sectors to the automatic route for FDI,

(vi) Offering a window to banks to swap the fresh FCNR(B) dollar funds with the Reserve Bank (up to November 30,2013),

(v) Increase in the overseas borrowing limit of banks from 50 to 100 per cent of the unimpaired Tier I capital (with the option of swap with the Reserve Bank),

(vi) Permission given to eligible borrowers to avail External Commercial Borrowings (ECB) under the approval route from their foreign equity holder company for general corporate purposes,

Measures to address pressure on the Exchange Rate

(i) Foreign exchange swap for public Oil Marketing Companies (OMCs),

(ii) Expansion of bi-lateral currency swap arrangement with Japan.

Other Measures :

(i) Measures to rationalise gold imports

(ii) Increase in import duty on gold

A sum of USD 34 billion has been received under both the schemes (swap facility for FCNR (B) deposits and bank overseas borrowings) till closure of the scheme at end November 2013. Introduction of the foreign exchange swap for public OMCs contributed to the stability of the exchange rate. With volatility diminishing in the foreign exchange market, OMCs have been meeting all their daily dollar requirements through the market from the last week of November 2013. However, as indicated in the previous FSR, the need for augmenting long term capital inflows, particularly equity flows, remains important.

Source : Financial Stability Report, Issue No. 8, RBI.

New face of frauds and fraud management in India

Bharat Panchal *

As the society matures towards cashless society, cards become increasingly pervasive. When cards proliferate, there is increased attention to media reports about card frauds. It is just like building of new road and happening of accidents. As a result, regulators and banking industry become active to reduce the menace of card frauds. While methods are developed to reduce the incidents of frauds, fraudsters use novel methods to entice customers to frauds. Payment card issuers report three forms of compromised security account for most fraudulent transactions : lost or stolen cards, card counterfeiting and fraudulent purchases made by Internet, Mail Order and Telephone Order (IMOTO). Our study looks into the various dimensions of card frauds.

The Mission Statement accordingly reflected the public policy objectives of Reserve Bankof India "to ensure that all the payment and settlement systems operating in the country are safe, secure, sound, efficient, accessible and authorised". The number of non-cash transaction per citizen is very low in India when compared to other emerging markets. The presence of a well-established network of treasuries / currency chests and over 1100 clearing houses across the country may have contributed to the slow turn around to and adoption of modern payment products. The payment system initiatives taken by Reserve Bank of India have resulted in deeper acceptance and penetration of non-cash payment modes. Cheque continues to be a dominant mode in retail payments constituting 54 percent in terms of volume and 82 percent in terms of value (2011-12), with retail electronic payments lagging behind.

RBI's vision document on payment system has very clear objectives to ensure that all the payment and settlement systems operating in the country are safe, secure, sound, efficient, accessible and authorized. Electronification of payment system has made banking easy, speedy and secure. Along with rapid change of technology and subsequent adoption of it among users has made today's banking almost on their fingertips. Mobile banking is a last entrant in the banking system of India. IMPS (Immediate Payment Service) is not only a technology innovation, but indeed a revolutionary product in the payment system.

While payment system in India is undergoing into a revolutionary era, various frauds mainly exploiting loopholes in the technology or security have caught headline stories in newspapers recently. There are growing concerns about frauds either through internet or at ATM / PoS. Even, there were weird cases of social engineering which came into light, which are unique but equally worrisome especially when customer education and awareness about security in payment system is farely low.

In last 6 months, we have seen an increasing trend in ATM related incidents. Based on data we collected at NPCI, Mumbai is emerging as a major target and contributing to 68% and 37% of such incidents in calendar year 2013 and year 2014 till date respectively. Modus operandi of these incidents have been same as observed during last year in July-August in which Bulgarian nationals were involved in compromise of ATMs and withdrawals on those compromise cards were registered from countries like Greece and Dominican Republic. This indicates that skimming kit used by those culprits has since been sold in Indian market and it is being used by locals in Mumbai currently. This trend may migrate to other parts of the country as well.

* Head-Risk Management and Chief Information Security Officer(CISO), NPCI.

Skimming at ATM is not new. However, an interesting trend is seen very recently in which fraudsters have used glue to disable the "Clear," "Enter," and "Cancel" buttons on ATM machine keyboards.

Apparently, this new type of fraud works like this :

1. A bank customer visits an ATM as they normally would. After entering their PIN on the keyboard, the customer realizes that certain keys don't work.
2. While customer gets frustrated as transaction doesn't go through, a fraudster standing in or around ATM may come near to customer and advise that the ATM is not working as he was also trying few minutes back.
3. Trusting that person, the customer abandons the ATM machine without canceling the "live" transaction session, and goes out of ATM and may go to another nearest ATM.
4. While the customer leaves from ATM, the thief walks up to the ATM machine and uses the "live" transaction session to drain the victim's bank account of cash.

In this scam, fraudsters didn't have to steal your debit card and PIN. They just used a "live" ATM transaction session that the customer could not cancel appropriately since the cancel button itself was made defunct using glue.

Second interesting trend seen mainly in semi urban areas; where social engineering trick is being used by the fraudsters. They are targeting senior citizens and uneducated customers struggling to carry out a transaction at ATM.

Not all customers using ATM are completely familiar or educated on how to use the ATM. So many times, especially senior citizens and uneducated customer visits an ATM, often they struggle to complete the transaction. Taking advantage of their inability, fraudster offers the customer to help him pretending himself as another genuine customer waiting to carry out transaction at the ATM. Customer without asking much, handovers the card to the fraudster. While inserting a card into ATM, fraudster quickly changes the card with almost similar card which is nothing but a dump plastic or blocked card and ask customer to enter the PIN. While customer is entering a PIN, fraudster memorizes the PIN no. using shoulder surfing technique.Since the card inserted in the ATM is dump card, transaction does not get through. While fraudster returns the card back to customer, he or she does not check about the card as it is almost similar in color and make as of original card. The customer has now left the ATM and may try at some other ATM. But the fraudster now possesses a genuine card and PIN number who starts withdrawing money within no time. Unless the customer reports about the misuse of card, it's not possible to detect such frauds by any real time system as the transaction is happening through a genuine card and PIN.

How to mitigate such fraud / minimize such incidents?

NPCI had called for a risk council meeting in July 2013 and recommended that acquiring banks in co-ordination with ATM manufacturers should introduce anti skimming solutions available in the market. ATM security best practices guidelines issued by NPCI in 2012 is guide for acquiring bank recommending certain mandatory controls and good to have controls to mitigate such attacks.

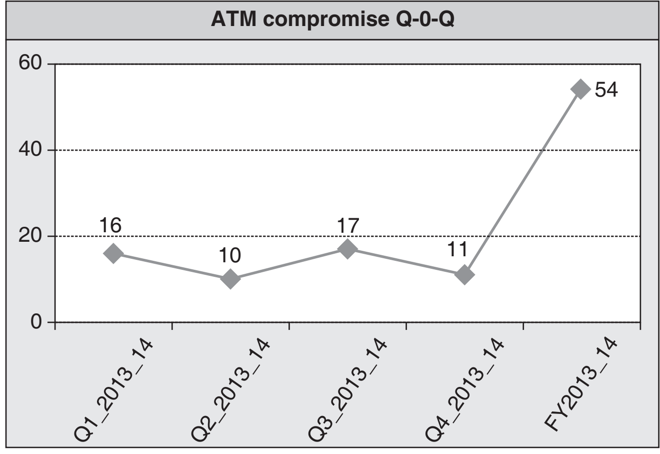
While above mentioned controls are preventive measures which will help in reducing such incidents, acquiring banks and issuing banks should immediately report such fraud incidents to NPCI so that immediate steps can be taken to minimize the exposure through timely intimation to issuing banks about the incident as well as list of cards belonging to those banks which are suspected to be compromised for re-carding.

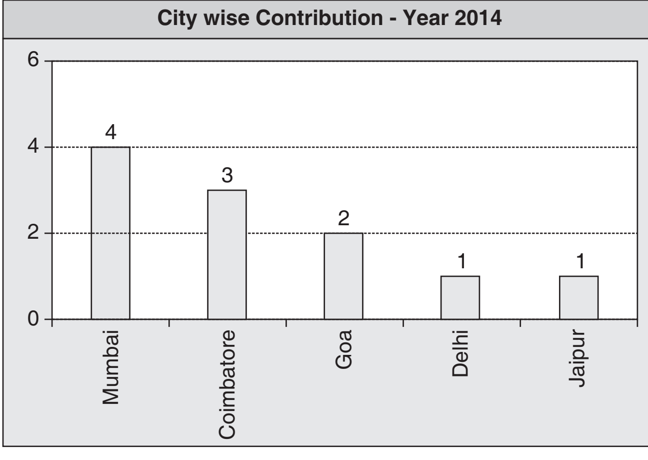
NPCI recently rolled out ATM fraud recovery guidelines in which it has clearly categorized liabilities and responsibilities of each stakeholders i.e., acquiring bank, Issuing Bank and NPCI whenever a compromise incident identified.

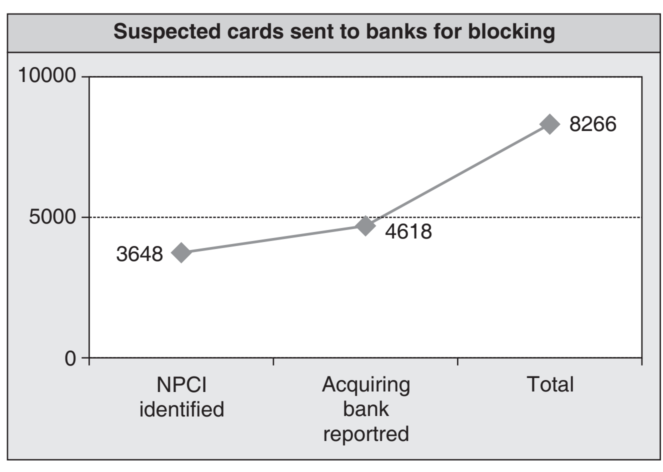
Importantly timely intimation by all stakeholders will help in reducing the impact as well as additional information as required to be reported by acquirer will help in analyzing the modus operandi so that NPCI can guide other acquiring banks to implement controls to mitigate such incidents in future. NPCI requests acquiring bank to share the CCTV / DSSV

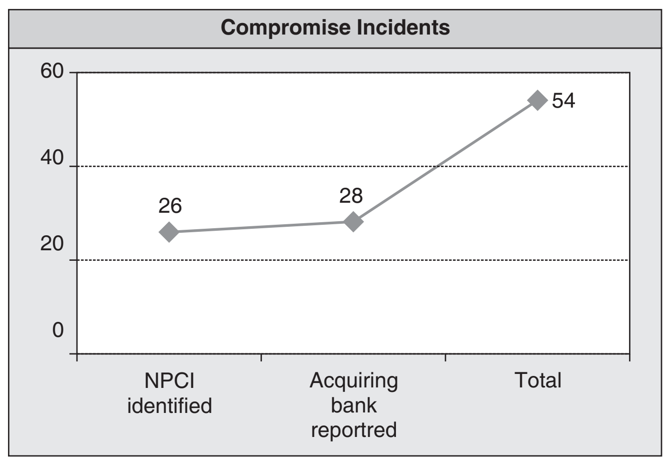
footages, investigation reports, type and make of the ATM machine, guarded / unguarded etc., which can help to analyse and suggest mitigating measures.

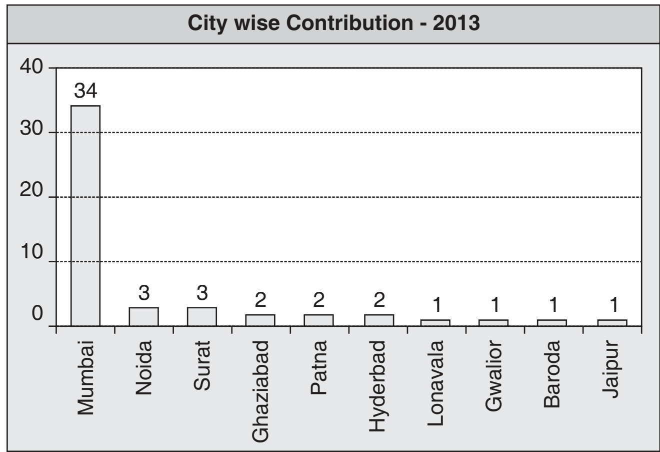
Statistics on Compromise incidents identified by NPCI / reported by member banks











As a part of the guidelines, NPCI has suggested series of actions from all member banks which can be useful for investigation of ATM compromise. This includes ATM security assessment, CCTV footage quality, immediate report of any ATM fraud etc.

a) Increasing fraud instances of ATM keypad jamming.

As mentioned earlier, recently some of our member banks reported frauds using this technique on their debit cards.

One of the possible actions to curb this kind of fraud is to review timeout for each session by member banks and reduce to a level which is based on average time taken by customers for PIN entry.

In Indian Payment Risk council meeting held by NPCI in July 2013 the above was one of the recommendations from the group, that banks should look at reducing

the current timeout of sessions which the banks are reviewing with their risk teams.

RBI has also mentioned about session timeout in one of its circular. RBI circular titled "ATM transactions - Enhancement of customer service" has mandated banks to initiate action in this regard. Para 2 (f) of the circular states to prevent fraudulent withdrawal at ATMs, RBI had mandated PIN entry for each and every transaction including balance enquiry transactions. Banks already have in place time limits for completion of transactions at ATMs. However, as an additional safety measure, it is advised that the time out sessions should be enabled for all screens / stages of ATM transaction keeping in view the time required for such functions in normal course. Bank may ensure that no time extensions are allowed beyond a reasonable limit at any stage of the transaction.

Banks may consider to review the timeout for each session and adhere to RBI guidelines of timeout for each session. Also time out for sessions should be reviewed and revised keeping in view the time required for such functions in normal course. It is necessary that no time extensions be allowed beyond a reasonable limit at any stage of transaction.

In recent months, RBI has made it mandatory to use ATM pin as a second factor authentication when the card is used at PoS. Though it is good move in terms of fraud prevention, there are concerns about PIN security at PoS. ATM is considered as secured place compared to PoS. PoS installed at the billing counters at shops are open without any cover or shield which cannot protect shoulder surfing. Further, there are some instances where either customer is asked to reveal the PIN no or customer voluntarily reveals the PIN to the cashier at the counter. Banks may need to revisit their security guidelines for PoS / merchant education.

Customer Education is a key :

Be it skimming, glue, social engineering etc. tricks to commit a fraud, customer is ultimately victim but he can be turned as a savior if appropriate education is imparted on how to use cards at ATM, POS or at online transaction. RBI has issued a circular on 28th February, 2013 with series of actions to be taken by Banks to overcome frauds. As per this circular, bank should frame rules based on the transaction pattern of the usage of cards by the customers in coordination with the authorized card payment networks for arresting fraud. This would act as a fraud prevention measure. NPCI being largest ATM network in the country is already supporting its member banks to combat with frauds. There are 58 banks using NPCI's real time fraud monitoring system at present.

However, technology and advanced tool cannot prevent all frauds especially when card data or online login password are genuine though it is stolen using social engineering techniques. Therefore, the last resource to prevent the fraud is only and only the customer himself.

It's time for banks to give priority to educate the customers on fraud prevention. Customer education campaign may be initiated through email notification / SMS / other means to intimate customer about such fraud instances. At the same time, customer must be advised to call up helpline of the acquiring bank (which will be available at the ATM) to intimate such issue / malfunction of the machine.

Customer may be advised that if any other person enters ATM during the period when customer is carrying out his transaction, the coustomer should not allow that and call the security guard or others for support if the person does not listen to the customer.

NPCI's initiative towards electronification of Payments in Rural Space

Ruchir Asthana *

In last twenty years, India has undergone a transformation in its economic and regulatory structures. Policy reforms in this period have led to the increasing maturity of our markets, as well as healthy regulation. The emphasis on de-licensing, entrepreneurship, the use of technology and decentralisation of governance to the State and Local levels have in particular, shifted India from a restrictive, limited access society to a more empowered, open access economy, where people are able to access resources and services more easily and effectively.

Despite these efforts, access to finance has remained scarce for the poorest residents of the country. The Government operates a number of social safety net schemes, disbursing money to the poorest and vulnerable sections of society. However, last-mile payment issues are observed in a number of schemes - Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) wages, National Social Assistance Programme (NSAP) pensions, Janani Suraksha Yojana (JSY) payments, Indira Awaas Yojana (IAY) payments, scholarships, etc. The frontline development workers such as school teachers, Anganwadi workers, Accredited Social Health Activist (ASHA) workers, etc. often do not receive their salaries on time.

Technological advances have been made with trends towards growing number of ATMs, Co-operative Banks and RRBs enabling core banking solutions, growing number of mobile and internet subscribers and ever increasing tele-density in the rural areas. However, it is a fact that more than 40% of the population remains unbanked despite thrust on Business Correspondent (BC) models being adopted by banks. Various innovations have taken place in the rural space, but almost every effort has been limited by interoperability thereby limiting inclusivity.

Though less-cash payment eco-system has been the thrust for quite some time now and despite some commendable efforts by Banks and respective technology service providers, the progress has been very limited and fraught with many challenges. This article is an attempt to understand some of the progresses being made towards the goal of achieving, incrementally, an inclusive and equitable growth through access of financial services to the unbanked.

Government and Regulatory Initiatives

The advent of UIDAI (Unique Identification Authority of India) and its centralized biometric data base, has thrown open a vast opportunity for unbanked masses. A common interface linking Banks and a common centralized authentication mechanism could address the issues of Know Your Customer (KYC) process and lack of interoperability across Banks. National Payments Corporation of India (NPCI)'s Aadhaar Payment Bridge System (APBS)[1] & Aadhaar Enabled Payment System (AEPS)[2] tries to address these issues by creating a common

* Assistant Manager, AEPS, NPCI.

1. It is a unique payment system implemented by NPCI, which uses Aadhaar number as a central key for electronically channelizing the Government subsidies and benefits in the Aadhaar Enabled Bank Accounts (AEBA) of the intended beneficiaries.
2. It is a payment service offered by NPCI to banks, financial institutions using Aadhaar number and online UIDAI authentication through their respective Business Correspondent service centres.

platform for banks to plug in and route all government benefits through Aadhaar - a unique number seamlessly. It also builds the scope for authenticating financial and non-financial transactions using the centralized biometric database and authorizes the transactions at their local CBS with the help of Aadhaar.

Aadhaar Enabled Payment System is a bank led model which allows online interoperable financial inclusion transaction at PoS (MicroATM) through the Business Correspondent of any bank using the Aadhaar authentication. It offers four basic types of banking transactions, Balance Enquiry, Cash Withdrawal, Cash Deposit and Aadhaar to Aadhaar Funds Transfer. The only inputs required for a customer to do a transaction under this scenario are :

- Institution Identification No (IIN)[3] / Bank name (Identifying the bank to which the customer is associated)
- Aadhaar Number along with his/her biometrics

Besides this, e-KYC is another value added service to ascertain the identity of the customer while opening a bank account and at the same time offering any financial products. It gives an opportunity to industry striving towards electronification of payment and/or payment linked products in one or the other way. This innovative product is committed towards building a paperless society with less time and cost.

Milestone So far

Today, 26 Banks are live on the AEPS platform recording over 40,00,000 successful transactions since its inception. e-KYC service which started recently, has also attracted keen interest both among banks and non-banking entities. Already some banks have gone live through NPCI platform and many more are at different stages of integration process.

Over 2,00,000 RuPay Aadhaar debit cards have also been issued and these offer a means of cash withdrawal accrued through Electronic Benefit Transfers (EBT) to the customers across ATMs, PoS, micro-ATMs and also offers transactions through the e-commerce channel.

Conclusion

A changing environment in terms of eagerness of the government for Direct Benefit Transfers, emergence of interoperable technology platforms from NPCI like Aadhaar Enabled Payment System (AEPS), e-KYC, Aadhaar Payment Bridge (APB) and availability of large biometric database of UIDAI promises to bring in focussed approach and sustained efforts for a cohesive payment ecosystem for the country in general and Financial Inclusion, in particular. This would also usher in a realisation of less-cash society thereby bringing sustainable growth for the economy.

3. Institution Identification number (IIN) is an unique 6 digit number issued by NPCI to every APB system participating bank and is used to uniquely identify a bank to which the APB transaction has to be routed in the Aadhaar Payment Bridge (APB) system.

Immediate Payment System (IMPS) as a catalyst for Financial Deepening in Rural India

Deepak Satpathy *

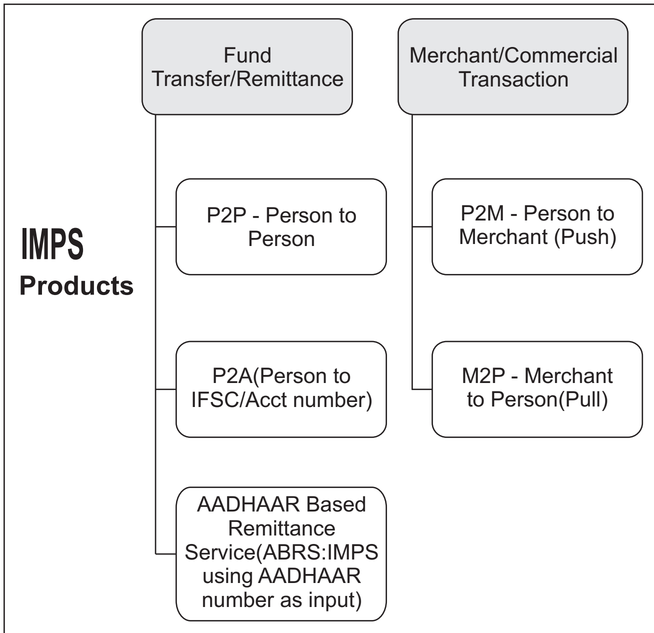
It's a new beginning and could be a small step towards a big revolution. For spreading awareness about mobile banking and IMPS in rural area, National Payments Corporation of India conducted a project for rural customers where by the team visited some rural blocks in Nuapada district of Western Odisha. The project was aimed at spreading financial literacy and awareness on IMPS & other NPCI initiatives.

National Payments Corporation of India (NPCI) is the umbrella organization of all retail payment systems in India and is set up by the banks in India with the support and guidance from Reserve Bank of India and Indian Banks' Association. The organization has been mandated to build central infrastructure for payment systems like ATM Switching, Mobile Payments, Cheque Truncation System, PoS Switching, 24*7 remittance system and Financial Inclusion transactions. The organization has also a mandate to build a domestic card payment scheme.

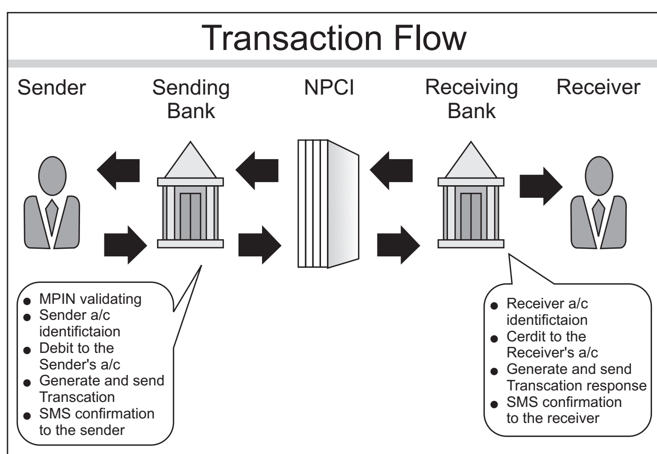
NPCI provides a service called Immediate Payment Service (IMPS) which offers instant, 24X7, interbank electronic fund transfer mobile and other channels (internet or ATM). Today, there are 59 Banks integrated to this service and IMPS is considered to be one of latest technologies in a/c to a/c remittance and mobile payment space, which is enabled across almost all Public Sector and Private Sector Banks.

Immediate Payment Service (IMPS) is an instant money transfer service, which provides Account to Account fund transfer facility 24*7 across India.

- Instant inter-bank funds transfer
- 24 X 7 X 365 availability
- Credit & Debit confirmations to sender and receiver
- Simple & Easy to use
- Fast, Inexpensive, Safe & secure, Accessible
- Adaptable for Merchant payments
- Channel Independent



* Assistant Manager-IMPS Team, National Payments Corporation of India.



Service	Fund transfer (Using)			Merchant/Utility service payment	
Products	Mobile No. & MMID[1]	Account No. & IFS Code	Aadhaar No.	Push	PULL
Inputs Needed	Receiver's mobile no. & MMID	Receiver's Bank A/C no. & IFS Code	Receiver's Aadhaar number	Merchant mobile no./MMID/ payment ref.	Remitter's mobile no./MMID/OTP/ payment ref.
Initating Channels	Mobile/Internet/ATM				
Access Mechanism	SMS/Mobile APP/USSD/WAP/PoS/IVR[2]				
IMPS enabling process	Remitter : Mobile banking registered, no registration for initating transaction using internet Beneficary : No need for registration, needs MMID or bank account details or Aadhaar number				

The project involved interaction, educating & hand-holding the rural customers on mobile banking and IMPS, building eco-system by enabling merchants on IMPS. NPCI team conducted workshops at various bank locations where the rural customers were invited. They were trained and enabled on mobile banking and IMPS. These customers can avail the benefits of mobile banking such as fund transfer, balance enquiry, bill payment, mobile top-up, cheque book request etc., anytime / anywhere. The project was done in association with one of the partner banks *viz.,* State Bank of India. The project also included training sessions for Prepaid Payments Instrument Issuer (PPI) partners, i.e. Oxigen & GI technology. PPIs, who are an important part of IMPS ecosystem, are slowly becoming significant contributors in spreading the financial inclusion reach. PPIs are making a big impact on this front. They have been able to bring even non banked customers to the retail payment space. Their assisted model ensures high adoption rate and the key features of IMPS i.e. being 24X7, instant etc., complement their overall offerings a lot.

NPCI also conducted workshop for Utkal Gramin Bank at some of their branches of Nuapada district of Odisha where the bank's staff were provided training on RuPay card as a new payment instrument and its benefits. The project generated immense interest in local media, both English as well as vernacular language.

It is quite evident that mobile banking is the best option for getting under-banked or un-banked into mainstream banking services. However, customer education remains a critical area, where all the stakeholders will have to work on. Projects like this do make an impact but for creating a deeper impact on financial inclusion, a more sustained & integrated effort is required.

Spreading financial literacy amongst rural masses is a complex task. Considering that majority of Indians are using mobile phones, it is expected that Mobile Banking will cover a large share of banking transactions in near future. Mobile Banking is the cheapest, fastest and secured mode of banking for both Bankers as well as for Account holders.

Since this service has already been experimented amongst the urban customers, NPCI conducted this project for the rural masses. This project gave the rural customers maximum benefit of modern banking technology.

There are various learning points that can be extracted from the experience of the project like :

- Mobile Banking, if properly pitched has got a huge potential in rural areas.
- It requires a dedicated effort for changing the mind-set of rural people to accept modern banking technology and IMPS.
- Convincing rural folks on mobile banking remains a challenge because of concerns such as safety &

1. MMID : Mobile Money Identifier
2. USSD : Unstructured Supplementary Service Data, WAP : Wireless Application Protocal, PoS : Point of Sale, IVR : Interactive Voice Response

security. To overcome this challenge a sustained & an integrated approach involving all the stakeholders is required.

- Mobile banking using SMS is the most preferred way in rural areas, considering access to GPRS is limited. Considering this, a service like NUUP[3] - if promoted well and if widely available across service providers- can be a very good option in spreading mobile banking.
- Each customer is unique. So while designing a product or while conceiving a new service, it is important to understand & appreciate the uniqueness of the customers. Rural customers are very different from urban customers because of various economical as well as social factors, so due importance is given to their unique requirements & the constraints that they have while designing the product / service or for developing marketing strategies. For e.g. infrastructure availability, economic condition or access to knowledge is not comparable between rural as well as urban customers.
- Operators need to offer local language options in mobile banking as we cannot expect any inclusion without having systems in local languages.
- There is also the need to simplify the process of downloading mobile phone applications.

Looking at the challenges and the opportunities, which rural markets can offer for a payment system like mobile banking and IMPS, it can be said that the future is very promising for those who can understand the dynamics of mobile banking and make use of them to their best advantage. A radical change in attitudes of rural people for modern banking can help in creating a successful impression on the 750 million rural consumers spread over approximately six hundred thousand villages in rural India. There is immense potential for a product like IMPS to dramatically improve the payment system in the country. NPCI along with its partner banks has just kick-started a revolution. It's a small step right now but let's not forget all revolutions begin with baby steps.

Snapshots of the IMPS Rural Initiatives

IMPS Workshop in Rural places of Nuapada District of Odisha

IMPS Workshop in Rural places of Nuapada District of Odisha

IMPS Stall at Khariar Mohotsav, Nuapada Odisha

3. *National Unified USSD Platform (NUUP) : This platform offered the service that would allow every banking customer to access banking services with a single number across all banks irrespective of the telecom service provider, mobile handset make or the region.*

IMPS Workshop in Rural places of Nuapada District of Odisha

Interaction with customers at PPI outlets

Plastic Banknotes

To increase the circulation life of banknotes, particularly in small denominations, the Reserve Bank, in consultation with Government of India, considered various options, including printing banknotes on plastic substrate. Accordingly, it has decided to introduce one billion pieces of ₹10 banknotes on plastic substrate for field trials in five cities, *viz.,* Jaipur, Bhubaneswar, Kochi, Shimla and Mysore, which have been identified because of their geographic and climatic diversity.

Australia was the first country to introduce polymer notes in 1988. Since then, over 30 countries have introduced polymer banknotes, of which several have completely switched from paper to polymer. The latest entrant is Canada, where notes for denominations of CAD 20, 50 and 100 are already in circulation and notes for denominations of 5 and 10 will be put into circulation in November 2013.

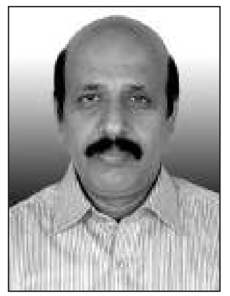
Advantages of Plastic

Some of the advantages of plastic over paper are its properties of less soilage due to the smoother surface and hence they are more hygienic; they are cost-effective because they last longer; they create minimal dust and no fibres during printing and handling; and they can contain certain security features that are difficult and expensive to counterfeit.

Carbon Footprint

The Reserve Bank engaged the services of The Energy and Resources Institute (TERI) to conduct a study on the carbon footprint of cotton-based banknote paper substrate vis-à-vis plastic-based substrate and to estimate their overall environmental impact, taking into account their complete life-cycles. The Life Cycle Impact Assessment results for the two types of notes indicate that replacing cotton-based notes with plastic-based notes would have significant environmental benefits. Polymer / plastic banknotes (and the waste from production) can be granulated and recycled into useful plastic products such as compost bins, plumbing fittings and other household and industrial products. The base material of polymer is a non-renewable resource, but due to its recyclability, it has more than one life.

Source : RBI Annual Report, 2012-13.



New Payment Initiatives : Way to Bank's Profitability

✍ **Dr. N. S. N. Reddy ***

Profit is the buzz word and banks have been focusing attention on enhancement of Net Interest Income (NII) i.e. Interest Earned minus Interest Expended, and reduction of Burden i.e. Non Interest Expenditure minus Non Interest Income. Normally, the Burden is negative since Non Interest Expenditure, the major component, is likely to increase year on year on account of market driven rates and inflation. To offset the Burden, banks are required to improve NII with proper management of interest rates on Deposits and Advances. In the deregulated environment, although banks are free to fix their own interest rates on Deposits and Advances, in reality the interest rates are almost similar across banks with a minor variance. In a way, Regulated interest rate regime is in vogue in the deregulated environment. Thus, there is only a little scope to play with interest rates to improve Net Interest Income.

The alternative left to the banks is to have a closer look on deposit mix and initiate steps to augment the composition of low cost deposits. The most striking aspect in the recent years is that all banks are paying focused attention on low cost deposits to stay ahead in the present competitive market. The ownership of deposits throws some important thoughts with regard to composition of deposits across various population groups is furnished in Table - 1.

Institutions are contributing the major share i.e. 51.10%, of which the share of Corporate sector is 24% followed by Government sector with 14.60% and other Institutions at 12.50%. The major chunk of these deposits (79.40%) is under Current Deposits. This segment uses the new payment systems *viz.,* RTGS, NEFT and ECS extensively for their day-to-day operations (instant transfer of funds across the locations / banks) and it is an opportunity to the banks to penetrate in to the market to retain the existing high value clientele besides targeting new customers to improve NIM, which is the need of the hour.

Table 1 - Indian Banking Industry - Ownership of Deposits

No	Sector	Current (%)	Savings (%)	Term (%)	Total (%)
I	**Institutions**				
	i) Government	16.20	10.70	15.90	14.60
	ii) Corporate / Finance	40.40	2.20	30.00	24.00
	iii)Trusts/Associations/Clubs Other Institutions	22.80	10.90	12.50	12.50
	Sub total	79.40	23.80	58.40	51.10
II	Individuals	18.70	72.00	38.50	45.60
III	NRIs	1.90	4.20	3.10	3.30
	Total	100.00	100.00	100.00	100.00

Source: RBI report on Ownership of deposits - 2012

Reserve Bank of India has been initiating various new payment initiatives since 2005 with an aim to process large value and time critical payments through electronic mode to provide online, hassle-free, cost effective value added services to the bank customers. RBI intended to achieve twin objectives *viz.,* Customer Convenience and Paperless Banking by introducing RTGS / NEFT / ECS products.

RTGS / NEFT transactions comprises of two types *viz.,* Inward and Outward. Outward is the one which originates at bank branch by the remitter (account holder), where as Inward is the one which takes place at beneficiary bank branch. Outward transaction of one bank becomes Inward transaction of other bank. Normally, NEFT inward transactions do not require any additional efforts on the part of the banks except providing reliable connectivity where as for outward transactions; banks have to undertake extensive marketing efforts. Now these products have become

* **Assistant General Manager, Andhra Bank.**

customer driven and majority of funds transfers are taking place through this route, which is evident from Table no. 2

Table 2 - Trends in RTGS/NEFT

Month/Year	RTGS (Customer)		NEFT	
	Volume (Million)	Value (Billion)	Volume (Million)	Value (Billion)
Sep'08	0.78	18561	2.5	151.78
Sep'09	2.22	26390	4.9	257.02
Sep'10	3.83	30700	9.83	616.20
Sep'11	4.02	34319	17.55	1365.51
Sep'12	4.74	45356	29.43	2272.94
Sep'13	5.85	49130	51.25	3434.45

Source : RBI Reports

It is observed that RTGS transactions (customer) for the month of September 2013 were 5.85 million as against 4.74 million in September 2012. This segment has registered a growth rate of 23.42% during the last year and is likely to grow further in the ensuing years. Similarly, NEFT transaction volume increased from 29.43 million to 51.25 million, and registered a growth rate of 74.14% in 2012-13.

To encourage the usage of RTGS/NEFT further, RBI has regulated the service charges with a cap of Rs. 50/- and Rs.25/- on outward RTGS and NEFT transactions respectively. The initiatives taken by RBI in the recent years have resulted in deeper acceptance and penetration of modern electronic payment systems in the country. Though, cheque is still one of the dominant modes of payments, its share has come down from 65 percent to 52 percent in volume terms and from 12 percent to 9 percent in value terms. The share of electronic payments in non-cash payments have shown an upward trend with electronic payments by the end of the year 2011-12 constituting 91 percent in terms of value and 48 percent in terms of volume.

RTGS - Market Share

The RTGS (customer) transactions are on the rise on account of adoption of Core Banking Solution by all banks coupled with increased demand from customers and regulatory guidelines. The performance of various banks (group-wise) as well as PSBs in this segment for the month of September 2013 is furnished in Table no. 3 & 4.

Table 3 - RTGS Market Share Analysis (Bank Group-wise)

No	Bank	Inward		Outward	
		Txns (lakh)	Market Share	Txns (lakh)	Market Share
1	SBI & Associates	11.27	19.24	9.66	16.50
2	Public Sector Banks	17.46	29.82	22.29	38.06
3	Old Private Sector	3.48	5.95	4.74	8.10
4	New Private Sector	18.52	31.64	17.01	29.06
5	Foreign Banks	6.80	11.61	3.38	5.77
6	Others	1.02	1.84	1.47	2.51
	Total	**58.55**	**100.00**	**58.55**	**100.00**

Source: RBI Monthly Report - September 2013

Table 4 - PSBs – RTGS Market Share Analysis (%)

Bank	Inward		Outward	
	Txns Share	Market Share	Txns Share	Market Share
IDBI Bank	2.83	5.75	2.47	4.84
Punjab National Bank	3.86	1.29	4.91	1.90
Bank of India	2.47	1.22	3.59	1.56
Bank of Baroda	3.23	0.99	3.97	1.29
Union Bank of India	2.73	1.17	3.53	1.21
Canara Bank	1.94	0.95	2.31	1.11
Corporation Bank	1.42	0.95	1.73	1.02
Central Bank of India	1.14	0.77	1.78	0.83
Allahabad Bank	0.88	0.64	1.41	0.67
Oriental Bank of Commerce	1.85	0.60	2.34	0.65
Indian Overseas Bank	1.43	0.61	1.53	0.63
Syndicate Bank	0.90	0.37	1.09	0.59
UCO Bank	0.62	0.57	1.13	0.51
Bank of Maharastra	0.77	0.46	1.11	0.47
Vijaya Bank	0.63	0.39	0.79	0.47
Indian Bank	1.01	0.42	1.42	0.46
United Bank of India	0.46	0.49	0.89	0.43
Dena Bank	0.61	0.25	0.76	0.33
Andhra Bank	0.79	0.32	0.94	0.24
Punjab & Sindh Bank	0.27	0.25	0.37	0.20

Source: RBI Monthly Reports

- The New Generation Private Sector banks are the dominant players in this segment with market share of 31.64% in RTGS inward and 29.06% in RTGS outward remittances. HDFC Bank has been in forefront with 21% market share followed by Axis and ICICI banks with 7% and 6% respectively.
- Banks receiving more inward transactions will have an edge in increasing low cost deposits since these are high value transactions.

- Although the Public Sector Bank's share in RTGS inward transactions is high at 29.82%, in terms of value it is very low.
- The Foreign Banks with their insignificant presence in terms of branch network are still able to acquire noteworthy market share of 11.61% in RTGS (inward) business.
- The high presence of market share of New Generation Private Sector Banks / Foreign Banks in RTGS business is an indication of their improved performance in garnering the high value accounts especially under Current Deposits which has positive bearing on NIM.

RTGS transactions denote the presence of high-value accounts with substantial float funds. The active banks in this segment will have an edge over other banks to improve low cost deposits since the targeted clients maintain reasonably good balances in the accounts to meet the funds transfer commitments.

NEFT - Market Share :

Normally, NEFT Inward transactions do not require any additional efforts on the part of banks except providing reliable connectivity whereas banks to undertake extensive marketing efforts for outward transactions. However, RTGS Inward transactions denote the presence of high-value accounts with substantial float funds. The active banks in this segment will have an edge over other banks to improve low cost deposits since the targeted clients maintain reasonably good balances in the accounts to meet the funds transfer commitments.

Table 5 - NEFT Market Share Analysis (Bank Group-wise)

No	Bank	Inward		Outward	
		Txns (lakh)	Market Share	Txns (lakh)	Market Share
1	SBI & Associates	115	22.33	125	24.46
2	Public Sector Banks	225	43.90	108	21.13
3	Old Private Sector	22	4.38	23	4.49
4	New Private Sector	120	23.44	185	36.09
5	Foreign Banks	22	4.43	67	13.14
6	Others	8	1.52	04	0.69
	Total	**512**	**100**	**512**	**100**

Source: RBI Monthly Report - September 2013

- In terms of branch network as well as deposits, the major share belongs to Public Sector Banks and SBI & Associates followed by Private Sector Banks and Foreign Banks. Contrary to this, New Generation Private Sector Banks are playing leading role in NEFT outward transactions with a market share of 36.09% followed by Public Sector Banks (21.13%), SBI & Associates (21.13%) and Foreign Banks (13.14%).
- With regard to NEFT Inward transactions, reversal trend is observed by Public Sector Banks i.e. Inward transactions (225 lakh) are outnumbered to Outward transactions (108 lakh).
- It clearly indicates that PSBs are receiving small value credits triggered by Private Sector / Foreign Banks on behalf of their high value clientele. With the proactive approach these banks are able to reduce the cost of deposits substantially by improving the low cost deposit base especially under current accounts.

Table 6 - NEFT Market Share Analysis (PSBs)

Bank	Inward		Outward	
	Txns Share	Value Share	Txns Share	Value Share
Punjab National Bank	2.21	0.35	5.61	3.69
IDBI Bank	2.96	0.74	1.88	3.06
Bank of Baroda	1.37	0.77	4.26	2.82
Union Bank of India	1.42	1.43	3.76	2.43
Bank of India	1.30	0.56	4.13	2.30
Canara Bank	1.67	1.05	3.93	2.18
Corporation Bank	1.02	1.41	1.46	1.74
Central Bank of India	1.22	0.66	2.64	1.61
Indian Overseas Bank	1.45	1.23	2.27	1.55
Oriental Bank of Commerce	0.67	0.69	1.34	1.34
Syndicate Bank	0.68	0.22	1.96	1.32
Allahabad Bank	0.83	1.73	2.15	1.29
Indian Bank	1.69	0.85	2.13	1.28
Andhra Bank	0.52	0.95	1.57	1.08
Bank of Maharastra	0.50	0.68	1.03	0.87
UCO Bank	0.43	0.55	1.18	0.79
Vijaya Bank	0.34	0.88	0.86	0.72
United Bank of India	0.53	0.88	0.92	0.71
Dena Bank	0.24	0.67	0.64	0.53
Punjab National Bank	0.08	17.16	0.20	0.17

Source : RBI Monthly Reports

Though, the branch network of IDBI is relatively low compared to other PSBs, they got respectable position in RTGS / NEFT market share, probably that could be one of the reasons for improved CASA ratio i.e. 14% in 2010 to 25.12% in 2013. The strong technology platform and early entry in CBS has enabled new generation private sector banks such as HDFC, ICICI and Axis banks to take the advantage of the new payment initiatives, which is evident from the market share figures as on 30th September 2013

Table 7 - RTGS/NEFT Market Share Analysis

No	Category	RTGS		NEFT		CASA
		Volume	Value	Volume	Value	Ratio
1	HDFC Bank	15.79	20.35	12.87	10.71	47.43
2	ICICI Bank	5.84	6.00	9.22	6.16	41.89
3	Axis Bank	6.10	6.85	7.72	5.81	44.38

Source: RBI Reports - March & Sep'13

HDFC, ICICI and Axis Banks are playing a dominant role and have acquired a considerable market share in the area of RTGS/NEFT operations. The proactive approach adopted by these banks enabled them to improve their CASA deposits beyond 40% as against the industry average of 33.20%. The CASA deposits of HDFC Bank stood at 47.43% which is the highest in the industry.

Electronic Clearing Services :

Hitherto, Interest / Dividend warrants and cheques drawn on Banks / Utility organizations for payment of loan installments / utility bills constitute major components of clearing operations. Now, the trend is reversed and the repetitive nature of transactions is being routed through Electronic Clearing System (ECS) mode, which is evident from the below table :

Table 8 - Trends in ECS

Month/Year	ECS - Credit		ECS - Debit	
	Volume (Million)	Value (Billion)	Volume (Million)	Value (Billion)
Sep'08	9.63	91.21	13.16	56.27
Sep'09	11.41	114.20	11.61	60.69
Sep'10	10.79	127.90	12.67	59.60
Sep'11	12.70	130.10	13.30	66.15
Sep'12	14.73	136.37	14.37	85.48
Sep'13	15.35	210.16	16.13	107.13

Source : RBI Reports

As per RBI reports, as on 30th September 2013, the number of institutions availing ECS Credit and Debit facility across the country are 9389 and 5781 respectively. Around 70% of ECS transactions are being triggered by high-value institutions through New Generation Private Sector Banks.

In the gamut of new payment initiatives, the PSBs are on the receiving end and their large branch network is being used as conduit by New Generation Private Sector Banks / Foreign Banks for their business development. In the process, PSBs are facing rough weather to retain their CASA market share.

The reasons for sub optimal performance of PSBs could be on account of delayed implementation of Core Banking and poor connectivity. Absence of 15 digit account number also caused delay in crediting the amounts to the beneficiary accounts, which forced the customers to avail these services from Foreign / Private Sector Banks.

The other contributing factor for the low market share of PSBs is lack of awareness of the product features and its importance among the staff members. Further, some bank branches are not evincing interest to popularize e-payments as they are under impression that it is a losing proposition since the charges on these products are low. In the process, these accounts are being targeted by other banks, thereby losing other income as well as high-value current account base with float funds, which is the need of the hour in the present downward NIM scenario.

Way forward

Technology is no longer a differentiator in business growth as the banks are now functioning under technology neutral environment. Identifying the niche segment and offering appropriate products with proper positioning will definitely make a difference and pave the way to improve the profitability of the banks.

The vast presence of branch network and huge clientele base will definitely place the PSBs in advantage position to market new payment initiatives to institutional clientele compared to Foreign / Private Sector Banks.

There is an imperative need for PSBs to draw an action plan to cover all corporate / institutional clients to avail RTGS / NEFT / ECS services for transfer of funds to their employees, suppliers, agents, agencies and investors. To make the products more attractive, PSBs may revisit the service charges and explore the feasibility to offer these services free of cost to select corporate / institutional customers, who maintain substantial balances in the accounts. Metro and Urban Branches need to play a proactive role to popularizing the new payment initiatives as it provides ample scope to mobilize high-value low cost institutional accounts.

In the initial stage, there was an apprehension in the minds of the bankers that these initiatives may adversely impact the non-interest income of banks since the charges on RTGS / NEFT / ECS are much lower compared to the traditional products hitherto used for transfer of funds. The current decade is known as "Decade of New Payment initiatives" which really has brought sea-changes in the remittance landscape and paved the way to move towards paperless banking.

Measurement of Inflation Expectations

Inflation expectations are difficult to measure as they cannot be observed in time. Hence most central banks have in their armoury a range of approaches for gauging inflation expectations, ranging from survey-based methods to extracting them from financial, markets-based indicators.

Among the widely used market-based measures of inflation expectations are 'break-even' expectations based on inflation- indexed bonds or 'links' as they are popularly called. The basic premise is that these bonds provide protection to investors against inflation. Unlike traditional bonds which pay coupon on a fixed principal, inflation-indexed bonds pay coupons and/or principal that is adjusted for inflation. The difference in the yields on inflation-indexed bonds and those on conventional bonds of same maturity is an indicator of inflation expectations.

In India, capital-indexed bonds of five years maturity were issued in December 1997. However, these bonds provided inflation protection only to the principal by indexing the principal repayments at the time of redemption to inflation. As interest payments were not protected against inflation, there was tepid response to them and no subsequent issuances were made.

The Reserve Bank once again issued inflation-indexed bonds in June 2013. These bonds provide protection to both principal and interest against wholesale price inflation. Inflation protection is offered on the principal by adjusting it by the ratio of the price index on the settlement date to price index on the issue date. Since a real coupon will be paid on the inflation-adjusted principal, interest receipt will also be protected against inflation. Further, the bond will also offer capital protection as on redemption, the higher of the inflation- adjusted principal or face value will be paid to the investor.

The initial tranche of issuances will be for bonds of ten years maturity. The investors have to bid for real yields as against nominal yield in the case of conventional government securities. Based on two issuances, back-of-the envelope calculations suggest that 10-year inflation expectations are close to 5.5 per cent. As and when more issuances take place for various maturities, the bonds will provide more benchmarks.

Another way is to have survey-based measures of inflation expectations of households, corporates and professional forecasters. The survey-based measures of inflation expectations in India are summarised below. All these surveys have a quarterly frequency and form inputs for the quarterly reviews of the monetary policy.

Currently, the survey-based methods have proved useful in guiding the conduct of monetary policy in India. These surveys are being constantly refined in order to boost their usefulness as measures of inflation expectations thereby gleaning vital inputs for monetary policy formulation. Inflation-indexed bonds are just testing the waters, in due course they should emerge as an important toolkit in the measurement of inflation expectations.

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Survey-based Measures of Inflation Expectations in India

Name of the Survey	Commenced in	Coverage	Period for which Expectations Assessed
1	2	3	4
Industrial Outlook Survey	1998	2,000 manufacturing companies approached in each round (response rate is around 70 per cent)	3-month ahead
Inflation Expectations Survey of Households	2005	4,000 urban households across12 cities (recently increased to 5,000 households across 16 cities)	3-month ahead and 1-year ahead
Survey of Professional Forecasters	2007	About 30 professional forecasters	Quarterly for next 4 quarters; next 5 years and next 10 years
Consumer Confidence Survey	2010	5,400 households across 6 metro cities	1-year ahead

Source : RBI Annual Report, 2012-13.

MSMEs - Relevance of Regular Handholding

Dr. T. C. G. Namboodiri *

Introduction

The history of micro small units is as old as the history of human beings. The manufacturing of clay pots, a micro unit activity, is considered as the symbol of ancient civilization. Cottage and village industries including handlooms and handicrafts were part and parcel of primary sector from time immemorial as it supplemented the farmer's income and agriculture, needless to say, is still the culture of rural India.

MSME (Micro, Small and Medium Enterprises) sector plays a crucial role in providing large employment opportunities in the country at a comparatively lower capital cost. It also contributes substantially to manufacturing output. MSME has emerged as a vital sector of the Indian economy. MSME sector contributes 8 percent of the country's GDP, about 45 per cent of manufacturing output and 40 per cent of total exports of the country. It is the largest employer in India after the primary sector. The labour and capital ratio and the overall growth in MSMEs are much higher than in the larger industries. MSMEs are better dispersed supporting balanced growth. In view of these factors, MSMEs are important for achieving national objectives of inclusive growth with equity.

Definition

The practice of defining the small scale industry is relatively a recent practice. In India the first such definition was attempted in 1950s when a small industry unit was considered as one employing less than 50 persons without power and less than 100 with power use. In 1960, value of the fixed assets was considered as the criterion and units with fixed assets not more than ₹50,000 was considered as Small Scale Industry (SSI). Later, the criterion for the definition was shifted to the investment in plant and machinery. From 1966 onwards, the concepts of tiny unit and ancillary unit were followed apart from the SSI unit definition. SSIs were those units engaged in mining, manufacturing and processing activities. The various thresholds followed since 1966 are given in the Table-1.

Table-1 : Definition of Tiny, Small Scale Industries / Ancillary units

Year	Tiny unit	SSI unit	Ancillary unit
	Investment in plant & machinery (P&M) not exceeding (Amount ₹ in lacs)		
1966		7.50	10.00
1975	1.00	10.00	20.00
1980	2.00	20.00	25.00
1985	7.50	35.00	45.00
1990	5.00	60.00	75.00
1997	25.00	300.00	300.00
1999		100.00	100.00

With the enactment of MSME Act 2006, three changes were affected.

1. Global pattern in defining the micro, small and medium activity was followed.
2. The concepts of tiny and ancillary unit were done away with.
3. Service activities were included in the ambit of MSME apart from the manufacturing activities.

The definition of the various MSME segments as per the Act is summarized in Table-2.

Table-2 : MSME Definition (₹ in lacs)

Segment	Manufacturing	Services
	Investment in plant and machinery (P&M)	Investment in equipment
Micro enterprise	Not exceed 25.00	Not exceed 10.00
Small enterprise	More than 25.00 but not exceed 500.00	More than 10.00 but not exceed 200.00
Medium enterprise	More than 500.00 but not exceed 1000.00	More than 200.00 but not exceed 500.00

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Government Initiatives for MSMEs

Government of India (GoI) has been providing various incentives to the MSME units considering its crucial role in the country's economy. Some of the incentives available to the MSME units are listed below.

- Fiscal incentives in the form of excise exemption / concession for MSEs
- Price and Purchase preference for products manufactured by MSEs in Government Purchase Programme (Procurement Policy)
- Credit Policies providing priority lending status to MSEs.
- Guidelines to tackle the problem of settlement of MSMEs dues from large Scale units. Delayed payment to MSME not to exceed more than 45 days.
- Integrated Infrastructure Development (IID) Centre to provide basic infrastructure facilities.
- National Equity Fund Scheme and Technology Development and Modernisation Fund Schemes.
- Market Development Assistance to MSE Exporters.
- Credit Linked Capital Subsidy Scheme for Technology Up gradation.
- Reimbursement of 75 percent of charges or INR 75,000 for acquiring ISO 9000, ISO-14000 & Hazard Analysis Critical Control Points (HACCP) certification.
- MSME Cluster Development Programme
- National Manufacturing Competitiveness Programme Schemes.
- Reservation of certain products for exclusive manufacture in MSE Sector.
- Prime Minister's Employment Generation Programme to facilitate growth of Self-Employment
- Sourcing minimum 30 percent from MSMEs is mandatory for foreign direct investment in multi-brand retail.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

In order to encourage MSE entrepreneurs who have no collateral security to provide for availing bank credit to set units, GoI launched CGTMSE scheme in 2000 in association with SIDBI to strengthen and facilitate flow of credit to the MSE sector.

A viable unit should not be denied credit facilities because the promoter has no collateral security to offer. CGTMSE reassure the lender to make good the loss in case an MSE borrower, who availed collateral free credit facilities, fails to repay the loan. For micro units, up to INR 5.00 lacs loan amount the guarantee cover is 85% of the amount in default and above ₹5.00 lacs and up to ₹50.00 lacs, the cover is 75% of the amount in default.

Budgetary support

GoI has been providing various supports to the MSME sector through the budget. In the last budget, Government announced the following measures for MSME sector.

1. To provide greater support to MSMEs, the refinancing capability of SIDBI has been enhanced from the current level of ₹5,000 crore to ₹10,000 crore per year.
2. A corpus of ₹500 crore has provided to SIDBI to set up a Credit Guarantee Fund for factoring.
3. A sum of ₹2,200 crore during the 12th Plan period to set up 15 additional Tool Rooms and Technology Development Centres to extend technology / design support to Small units.
4. Funds provided by large corporate to technology incubators located within academic institutions and approved by the Ministry of Science and Technology or Ministry of MSME will qualify as CSR (Corporate Social responsibility) expenditure.

RBI guidelines on MSME finance

i. Lending Targets for Commercial Banks

As per RBI guidelines, priority sector advance (PSA) which include micro and small enterprises (MSEs) sector should constitute 40 per cent of banks' Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, as on 31st March of the preceding year (for domestic commercial banks / Foreign banks with 20 and above branches). Credit extended to medium sector is not falling under priority sector lending. Unlike agriculture,

no specific sub-target is given for the MSE sector lending. However, banks are advised to have a target for the Micro units within the MSE financing as below.

i) 40% of total advances to MSE sector should go to Micro (Mfg.) enterprises having investment in P&M up to ₹10 Lakh and Micro (service) enterprises having investment in equipment up to ₹4 Lakh.

ii) 20% of total advances to MSE should go to Micro (Mfg.) enterprises having investment in P&M above ₹10 Lakh and up to ₹25 Lakh and Micro (service) having investment in equipment above ₹4 Lakh and up to ₹10 Lakh.

In line with the above guidelines, 60% of MSE advances should go to Micro Enterprises and of this 40% should go to the smaller micro units. Further, banks are advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises and a 10 per cent annual growth in the number of micro enterprise accounts.

ii. Common Guidelines / Instructions to banks for MSME Lending

a. MSE loan applications up to ₹25,000/- should be disposed of within 2 weeks and up to ₹5 lakh within 4 weeks if the application is complete in all respects.

b. Acknowledgement to be given for all loan applications submitted manually or online and a running serial number is to be recorded on the application form / acknowledgement.

c. Banks are encouraged to start centralised loan processing centers.

d. Banks should not insist for collateral security for SME loans up to ₹10.00 lakh and to units financed under Prime Minister Employment Generation Programme of KVIC. On the basis of good track record and financial position of the MSE units, Banks can increase the limit of dispensation of collateral requirement for loans up to ₹25 lakh. Banks to avail of CGTMSE cover in such advances.

e. A composite loan limit up to ₹1.00 crore can be sanctioned to enable working capital and term loan through Single Window.

f. Further, banks have been permitted to categorise their branches having 60% or more of MSME advances as MSME branches in order to encourage them to open more specialised MSME branches for providing better service to this sector as a whole.

g. The public sector banks will ensure specialized MSME branches in identified clusters / centres with concentration of small enterprises to enable the entrepreneurs to have easy access to bank credit. Banks should equip personnel to develop requisite expertise.

iii. Debt Restructuring Mechanism for MSMEs

a. A debt restructuring mechanism for MSME units has been formulated by RBI in 2005 to ensure restructuring of debt of all eligible MSMEs that are viable or potentially viable.

b. In the light of the Chakrabarty Working Group recommendations, RBI advised all commercial banks in May, 2009 to formulate a policy duly approved by their Board for restructuring / rehabilitation of potentially viable sick units / enterprises at the appropriate time - the hand holding stage. A non-discretionary one time settlement scheme for recovery of non-performing MSE loans was also advised.

The government and RBI have initiated various policy measures to support the MSME sector based on the recommendations of various committees appointed from time to time. These committees include Kapur Committee, Nayak Committee, Ganguly Committee, Prime Minister's Task Force on MSMEs and Sharma working Group.

Bank finance and MSME growth

Banks have been following a positive attitude to MSME ever since the 1st Five Year Plan (1951-56) All India Rural Credit Survey Committee envisaged flow of credit to agriculture and rural industries while recommended formation of State Bank of India (SBI) from the erstwhile Imperial Bank of India. The priority sector lending implemented as per the recommendations of the National Credit Council in July 1968 included small scale industries as an important component of Priority Sector Advances (PSA) along with agriculture.

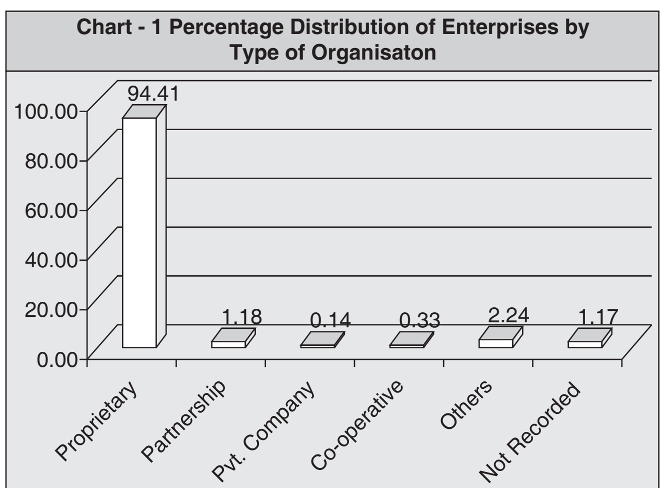
Banks have been implementing various guidelines of the RBI and GoI to support the MSME sector. The total bank credit to MSME sector is ₹5,20,900[1] crores as on 31/03/2012. All banks have separate MSME policies MSME Branches and treat MSMEs as the thrust area of their lending policy. Most of the PSBs have separate MSME vertical headed by a General Manger. Banks follow the MSME customer care policy as envisaged by the Banking Codes and Standard Board of India. Many banks are having special schemes for MSME financing, MSME hubs, and specialized MSME branches which are known names like SME Saral, SME factory MSME Centers etc.

Issues in MSME finance

Despite all these initiatives, there are miles to go to give a real hand holding for the SMEs. According to a CRISIL study (June, 2012), major part of small unit funding needs (53%) in the country are met by the promoters themselves. While 29% are brought by the promoter 24% are raised through friends and relatives as easy accessibility to bank fund are difficult. This is indeed a puzzle point for the bankers, public authorities, Regulators and researchers as well. The following are some of the major well known issues MSMEs especially MSEs

i. Weak Organizational structure :

MSME units are having a weak organizational structure. About 95% of the MSMEs are proprietorships or partnerships[2]. (Chart-1)



Many units do not have any formal organizational structure. These units are a one man show. The promoter is the owner, manager, chief financial / purchasing / marketing officer. The promoters do not have much knowledge about the external development. Their financial literacy is very limited; leave alone the basics of financial management. They have no idea about the various initiatives and incentives extended by the government. Of the 26 million MSMEs in the country, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the un registered segment[3].

ii. Inadequate Finance

MSMEs are very often under financed. Even though Nayak Committee norms are popular, in practice many MSMEs do not get timely and adequate finance. They face the 20-12 situation. If they ask 20 lacs banks will give 12 and if they ask 12 lacs banks will give 8. The result is MSMEs resort to outside borrowing and finally fall in debt trap due to liquidity crisis.

iii. Poor Financial management

Many MSM entrepreneurs do not have the financial standing capacity. They do not get any professional financial advice as they cannot afford it nor they understand its utility. They sell often at less prices and to bad clients. Sometimes they sell without analyzing the cost benefit analysis just to show the turnover. Their working capital cycle gets elongated when sales proceeds are not realized in time. Cash flow is not framed, credit flow is not envisaged and basics of liquidity and leverage are not learned. This makes the MSE units accounts falling to the non performing category in the books of the banks.

Sanctioned working capital is also not prudently utilized. Short term funds are utilized for long term purpose resulting in internal diversion causing liquidity problem. Plough back is less or nil and MSME unit is always a borrower. Entity concept is not followed; statutory payments such as PF, income tax and sales tax are not paid in time.

MSMEs do not have qualified professionals to plan and prepare their finance, leaving the role to less

qualified accountants. Half doctor kills the patient. They often fall in the grip of speculative trading, false promise and so on.

iv. Lack of technology

MSEs seldom care technology improvement an value addition. They could not spent for research and development. Many of them are first generation entrepreneurs and do not have either technical knowhow or practical do how. Their cost of production is higher due to poor plant and machinery. Rationalization and modernization of plant and machinery are not in their purview. Quality is not taken care of and rules and regulation are not known. Exports are carried out without adhering to the paper formalities with the result payment is delayed or often denied and goods are returned adding fuel to fire.

v. Labour shortage

Many SME units are having shortage of skilled labour. When alternative opportunities like including rural employment guarantee scheme are available, workers prefer it to strenuous MSME job. Traditional activities are at the verge of exit like the proverbial lion tailed monkeys.

vi. Industrial Sickness

High hike in prices of raw materials, declining market and stiff competition from the major players in the market make the MSMEs sick. This is particularly true with regard to many traditional activities which were earlier classified as cottage and tiny industries like handicrafts and handlooms. Units like mat weaving, safety match manufacturing etc are example. When factory made mechanized plastic mats are available in attractive colours and designs at cheaper price people prefer it to korai mat.

As per an estimate, 79 MSMEs fall sick in a day, that is about three units in an hour[4]. There are about 1.33 crore sick units in the country and 29,000 units are being added every year. These units are estimated as having more than ₹7,000 crore outstanding loans. They work without proper working capital and working knowledge and finally collapse. Unit running is tight rope walking balancing among liquidity, profitability, receipts and payments which require effective management and regular monitoring.

vii. Manufacturing units are not properly supported.

As per the MSME Act definition, apart from manufacturing units, various service oriented units are also eligible for the various support measures and incentives. Accordingly, Road transport operators, self employed persons including doctors, chartered accountants, contractors and even educational institutions comes under MSME class. There are no bench mark guidelines for the manufacturing MSEs and this put them in difficulties as their dues are shared by service MSEs. Lenders also normally prefer the service units to manufacturing units.

Suggestions

The various suggestions to support MSMEs can be framed pondering how their issues can be solved. MSMEs need adequate timely finance, professional advice and infrastructural facilities for purchase, production and marketing enabling to enjoy economies of scale. Their problems have to be addressed with relationship beyond banking and an analysis beyond balance sheet. They need coaching in business fundamentals.

The real economic growth has to be measured among others based on the performance of the secondary sector. Our GDP growth has largely backed by the services sector. The concern is that India's manufacturing sector has stagnated at about 16 per cent of GDP, with India's share in global manufacturing at only 1.8 per cent. This is in contrast to the experience of other emerging economies. In China manufacturing constitutes 34 per cent of GDP and 13.7 per cent of world manufacturing. It is here we find the relevance of MSME manufacturing sector[5].

Balanced growth of MSMEs is a precondition for the balanced growth of the economy. The state-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. More geographical spread developing effective clusters for growth of SMEs is required. Further,

only about 7% of MSMEs are owned by women. The proposed Bharathiya Mahila Bank has a positive role in this sphere.

One school feel that MSMEs are always NPA oriented. The fact is otherwise. Again, the share of SME restructured accounts and loan amounts are less in the total restructured loan portfolio including big borrowal accounts as is evident from Table-3.

machinery / equipment as decided in 2006. There is move to revise upward the thresholds for the MSMEs in view of the inflation and to encourage the MSME units to further invest and expand. SME units are not inclined to invest more as they feel that outgrowing above the MSME sector will deprive the various incentives they receive at present. Indications are that the new thresholds based on investment in plant and machinery will stand at 35 lakh, 7 crore and 14 crore for micro, small and medium enterprises respectively. The government feels raising the thresholds will encourage the MSMEs to invest more in plant and machinery and grow bigger and contributes to the manufacturing sector. There is nothing wrong in these initiatives. In the past also we have revised the ceiling amount in investment. Micro should grow to small, small to medium, medium to large and large to very large and MNCs. However, the tiny entrepreneur should not be discouraged. It is to be noted that the present limit for investment in P&M at ₹25.00 lakhs is not a small amount for a micro entrepreneur in the rural areas. The enhanced definition should not put the tiny / micro units backward.

Table-3 : Details of loan restructured by selected banks as on 31.3.2013* (Amt ₹ in Crores)

Bank	SME Accounts		Total restructured accounts including CDR cases		% of A to B	
	A		B			
	No. of Accts	Amount	No. of Accts	Amount	No. of Accts	Amount
Bank of Baroda	2,209	2,791.20	29,345	22,617.35	7.52	12.34
Canara Bank	5,293	532	20,180	18,113	26.22	2.93
Corp. Bank	596	175.17	3,040	7,541.39	19.60	2.32
SBI	583	3,634.15	7,001	43,110.85	8.32	8.42
IOB	253	501.73	1,443	15,220.89	17.53	3.29
PNB	502	778.60	2,975	32,143	16.87	2.42

*(*Source : data from Annual reports of these Banks)*

If MSMEs are provided timely assistance with amount and advice it will be a promising sector. Many MSEs are not approaching the banks thinking that it is not meant for them. They are not getting favorable response and many of their man days are wasted. They feel the private money lenders are better even though cost is little high. There is a view that MSMEs should be bank friendly. It is necessary that banks are MSME friendly.

It is essential to develop effective clusters for growth of SMEs. Public sector banks have been advised to open at least one specialized branch in each district. However, the banks should be permitted to treat a branch as specialized MSME branch only if the branch has at least 80 percent MSME business instead of the present ceiling of 60 percent business so that there will be more focused attention to the MSME borrowers. Each such branch should have an MSME counselor to provide technical and financial advice including financial literacy to the MSME entrepreneurs.

Changes in the definition of MSME units

The current definitions of MSMEs are based on the ceiling in the amount of investment in plant and machinery / equipment as decided in 2006.

MSEs to get Maximum Support and Encouragement

Micro and small units have a vital role in improving the economics of rural poor. Out of MSMEs, medium industries have accessibility to different facilities. They have Stock Exchanges with separate platform for listing and trading of shares, chamber of commerce and merchant banking service. Whereas, micro and small units do not have these facilities and many are in rural and semi urban centers. Micro units need care

which is rare. They should be brought to the main stream by getting registered and bringing to source formal credit. Smaller SMEs, perhaps due to their lower bargaining power, are in a more disadvantageous position with weaker receivables positions. The CRISIL study estimates that SMEs can enhance profits by at least 15 percent if they receive payments on time from their large corporate customers. Banks have to advise and urge their corporate customers to settle on the MSME bills on priority basis.

Addressing the bicentennial ceremony of the country's largest bank at New Delhi, in May, 2006, the then Hon'be president Dr. A. P. J. Abdul Kalam asked SBI, interalia, to adopt and innovatively fund at least one lakh sick units in the small-scale sector to infuse the latest technology and turn them into profitable ventures.[6] Rehabilitating a sick MSME is not a pure banking but is also to be counted in the CSR index.

Conclusion

The National Manufacturing Policy (NMP) aims increasing the share of secondary (manufacturing) in GDP to 25% over the next decade and generating additional 100 million jobs in manufacturing sector through an annual average growth rate of 12-14% in manufacturing sector. For this, MSME sector has to be nursed, nurtured and supported and a continuous hand holding is required in the strict sense of the term. Handholding is needed not only for a weak or sick unit but for new units as well. We have too many schemes but too little empathy. MSE units need Mentoring, Sympathy and Empathy. The issue lies in spotting the needy supporting them and successfully nurturing them. Otherwise the targets of NMP will be another mile stone seldom chased.

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Collateral Asset Terms

What determines whether an asset is considered to be a collateral asset and how is its quality established? Although, in principle, any asset can be employed to collateralise a claim, market participants, regulators and academics typically take different views of collateral assets.[1] This article considers three - clearly overlapping - definitions:

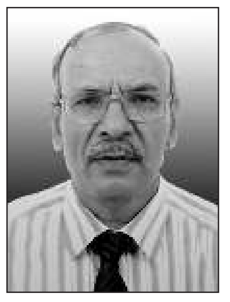
High-Quality Liquid Assets (HQLA) : This relatively narrow definition is based on regulatory considerations. HQLA include only those assets that qualify in meeting the LCR requirement. Key characteristics of these assets are their low credit and market risk. They are also expected to be easy to value, exchange-listed, traded in active markets, unencumbered, liquid during times of stress and, ideally, central bank-eligible.

High-Quality Assets (HQA) : This term includes all assets that market participants can use to meet collateral requirements in derivative transactions. Notwithstanding regulatory guidance on eligibility criteria (e.g. BCBS-IOSCO (2013) for non-centrally cleared derivatives), the boundaries of the HQA set are largely determined by market practice and may, for example, be subject to cyclical developments or competitive pressures to broaden eligibility criteria among CCPs. This is the relevant definition for assessing the impact of OTC derivatives reforms.

Collateral Assets : The broadest definition refers to all assets on which market participants rely in collateralised funding transactions. This definition extends well beyond HQLA and HQA, including assets such as mortgages or other credit claims that are pooled to collateralise covered bonds, agency and private-label mortgage-backed and asset-backed securities.

1. See CGFS (2013).

Source : BIS Quaterly Review, September 2013, BIS.



Housing Credit Led Growth in India during the Period 2000-2012

Dr. S. S. Sangwan *

An Abstract

The contribution of housing & construction sector in the GDP of India has almost doubled during 2000-2011 with synchronisation in growth rates of the two. The modern housing in India has mainly been confined to urban areas as revealed by census. The policy changes since 1998 with rebate on interest and repayment of principal of housing loans. As a result, the share of credit for housing in GDP increased from 2% as on March in 2000 to about 8% as on 2008 and thereafter. The comparison between the annual growth rates of housing loans from SCBs and GDP clearly depicts the former as a pull factor for the growth of the economy during the study period.

But this impressive growth of housing sector through housing loans has excluded Economically Weaker Sections (EWS) and those working in unorganised sectors due to lack of security with them while the upper and middle classes are taking undue advantage of loans and purchasing houses for speculative purpose. This process has increased the prices of housing in view expected high prices and it has made the houses inaccessible to weaker sections. That may be reason that in the requirement of 18.7 million housing units in urban areas during 2012-17, 18. 5 million is for EWS / Low Income group (LIG) and 40 million units are required in rural areas. The Provision of Urban Amenities in Rural Areas (PURA) model with some modifications on the lines of some international experience is suggested as an approach to make houses affordable and accessible to EWS.

Housing is the second largest generator of employment in India, next only to agriculture. Recognising housing as one of the basic necessities, United Nations General Assembly adopted a resolution in May 1987 “calls upon all States and international organizations concerned to pay special attention to the realization of the right to adequate housing in carrying out measures to develop national shelter strategies and settlement improvement programmes within the framework of the global strategy for shelter”. Government of India (GoI) had announced its first National Housing Policy (NHP) in 1988 with goal of “Eradicating houselessness by 2001”. Prior to this, the main focus of housing development in India was on construction of houses for government employees with funds from governments and government owned companies. The Indira Awaas Yojana was only scheme since 1985 for families below poverty line which involved a little subsidy and small loan amount from the banks. The NHP of India was revised in 1992, 1994, 1998, 2005 and 2007. The initial three housing policies were just statement of objectives and it was in 1994 when Government's role was adopted from builder to facilitator of housing activities and this approach was further specified in National Housing and Habitat Policy (NHHP) 1998 by announcing construction of two million additional housing units, annually in the public private participation mode. As a follow up to NHHP 1998, GOI has offered fiscal and monetary concessions to involve the private sector and encourage individuals for investment in housing.

Contribution Housing in GDP

Since 1998, the housing sector has attracted huge investment especially through bank credit and consequently, the contribution of real estate, dwellings & business services and construction activity in the

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Gross Domestic Product (GDP) has increased from 9.6 per cent in 1999-2000 to 19.0 per cent in 2011-12 as given in Table-1. This paper attempts to analyse the impact of policy changes since NHHP 1998 which gave a boost to flow of bank credit for housing and construction activities. The analysis aims to establish that the unprecedented bank credit was main driver of housing sector development in India and the later in turn, was the main push factor for the overall higher growth rate of its GDP.

Table -1 : Contribution of Housing, Real Estate and Construction Industry in Gross Domestic Product (per cent)

Year - Sector	1993-1994	1999-2000	2001-2002	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
1. Housing, Real Estate & Business Services	5.64 (2.8)	4.54 (2.9)	8.7 (7.5)	9.1 (10.6)	9.3 (9.5)	9.6 (8.4)	10.3 (10.4)	10.4 (8.3)	10.4 (6.0)	10.8 (10.3)
2. Construction	5.2 (5.5)	5.1 (8.1)	6.0 (6.4)	7.9 (12.8)	8.2 (10.3)	8.5 (10.8)	8.5 (5.3)	8.2 (6.7)	8.2 (10.2)	8.2 (5.6)
Total (1 + 2)	10.8 (4.1)	9.6 (4.5)	14.7 (5.2)	17.0 (8.7)	17.5 (12.8)	18.1 (13.1)	18.8 (10.8)	18.6 (7.2)	18.6 (8.3)	19.0 (8.7)
GDP Growth Rate	5.7	7.6	4.3	9.5	9.6	9.3	6.7	8.4	8.4	6.2

Notes :

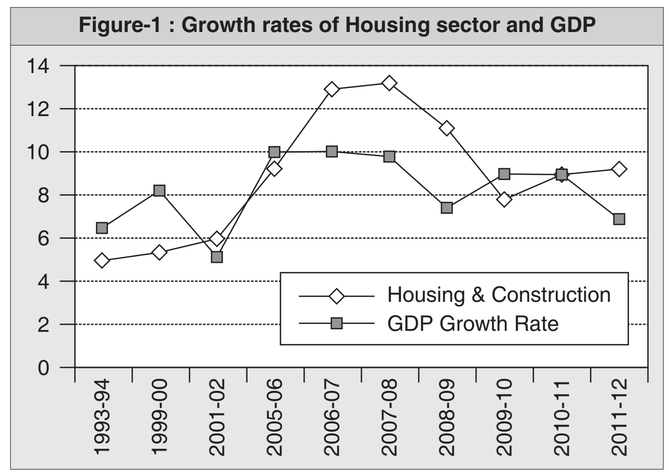
1. Shares in current prices and growth rates in brackets are in constant prices.

2. From 2001-02 business services related to housing are included in Housing itself.

Source : National Accounts Statistics and Economic Surveys of various years, GOI.

Table-1 shows that the share of housing, real estate and business services increased from 2.9% in 1999-2000 to 10.3% in 2011-12. Besides, the construction industry has also increased its share from 5.1% to 8.2% during the above period. Their combined share in GDP was hovering around 10% during decade of 1990s but after 1999-2000, the share continuously increased to a level of 19% in 2011-12. Housing activities have both forward and backward linkages with a large number of sub-sectors such as steel, cement, builders' hardware, paints, electrical, transport, electricity, gas, water supply, etc which contribute to capital formation, income opportunities, and generation of employment (Economic Survey, GOI, 2012-13). Hence, construction with the maximum income multiplier can activate the economy as a whole. The figure-1 indicates broad synchronisation between growth rate of housing and growth rate of GDP. During the boom period 2005-2008 of housing development, the GDP growth rate was between 9 to 10 per cent which is the highest growth rate in the history of India.

Figure-1 : Growth rates of Housing sector and GDP



Policies Changes for Housing since 2000

As a follow up to NHHP 1998, GOI has announced the following fiscal, monetary and other measures to encourage investment in housing and flow of funds from banks and Housing Finance Companies (HFCs).

a. The Act of National Housing Bank (NHB) which was providing refinance for housing since 1987 was amended in 1999-2000 to simplify the existing provisions regarding foreclosure and transfer of property. It has resulted in registration of 251 institutions, including 46 Commercial Banks, 64 Regional Rural Banks (RRBs), 24 Foreign Banks, 58 Co-Operative Banks and 59 Housing Development Companies with NHB as on as on 30th June 2012.

b. The income by way of interest on bad & doubtful debts of HFCs registered with NHB was made chargeable to tax in the year in which it is actually received by the HFC.

c. The interest on borrowed capital after April 1999 for acquisition or construction of residential unit was allowed to be deducted from income tax to a certain limit since 1998 and it is ₹1,50,000 per annum per individual since 2002. Besides, the principal repayment of home loan upto ₹1,00,000 lakh can also be deducted from income.

d. Repeal of the Urban Land (Ceiling and Regulation) Act in as many as 9 states of India. The earlier rent control laws were repealed in 12 states with enactment of more balanced rent laws to encourage more investment in housing and construction.

e. The depreciation rate on new dwelling units purchased by the corporate sector for its employees was increased from 20% to 40% since 1999.

f. A provision was made to accord tax-free status in respect of limited amount of bonds issued by Municipal bodies every year.

g. The Two Million Housing Programme was launched in 1998-99 which was a loan based Scheme and seeks to facilitate the construction of two million additional houses per annum of which 0.7 million are targeted in urban areas and 1.3 mn in rural areas.

h. In order to enhance the flow of credit to the housing sector, Reserve Bank of India (RBI) advised the Scheduled Commercial Banks (SCBs) to lend up to 3% of their incremental deposits for housing finance in 2002-03 as against 1.5% in the previous year and this condition was further relaxed to the wisdom of banks after 2002-03.

i. The refinance norms for housing loans were liberalized by NHB, resulting in increase of its refinance from ₹10,030 million during 2000-01 to ₹1,43,910 million in 2011-12. Even the National Bank for Agriculture and Rural Development (NABARD) which was not refinancing Housing loans till 1998-99, has given refinance of ₹3,45,450 million under NFS and out of which about 1/3rd is for housing sector in rural areas.

j. With a view to generate economic activity, create new employment opportunities; GOI decided to allow FDI up to 100% in 2005 under the automatic route in housing and construction development projects (Press Note No. 2, 2005 Series and Indian FDI).

k. The limit of housing loan under priority sector was enhanced frequently since 2000 which is ₹2.5 million at present.

l. Interest rate was decontrolled by RBI which slipped to as low as 6% in 2006-07 and the limit to financing housing were also increased over time.

m. The policy of Special Economic Zones (SEZs) since 2000 resulted in purchase of big chunks of land by the Corporate for commercial and real estate developers around SEZs.

n. To improve the affordability of housing loans by Economically Weaker Sections (EWS) in urban areas, GOI introduced 'Interest Subsidy' for Housing the Urban Poor (ISHUP) since December, 2008 with interest subsidy of 5 per cent per annum for whole duration of the loan (15-20 years) for loans up to ₹0.1 million extended by Banks and select HFCs.

o. To stimulate demand for credit for housing in the middle & lower income segments, 1 per cent Interest subsidy for Individual housing loans up to ₹1.5 million and cost of the unit upto ₹2.5 million was introduced by GOI from 1st October, 2009.

p. Recently, GOI has set up the Credit Risk Guarantee Fund Trust for Low Income Housing on 1st May, 2012. The fund will provide credit risk guarantee to the lending institutions against their housing loans up to ₹5 lakh for new borrowers in the EWS categories to do away with requirement of any collateral security and/or third party guarantee.

q. Provision of deduction of 30% of the rent from rental income for income tax purpose to encourage house construction for rent.

Drivers of Housing Development

a. Foreign Direct Investment

The permission of 100% FDI in reality sector in June 2005 resulted in inflow of total US $21,860 millions in this sector during the period 2004-05 to 2011-12 which is almost 22% of total FDI (Table-2). Within the sector, the FDI in construction has recorded much high increase than real sector. After the policy decision, the flow for FDI for real estate and construction has more than doubled in 2006-07 itself with a peak of US $5,706 in 2009-10.

b. Housing loans

The availability of loans from banks and the Housing Development Companies (HDCs) may be main deriver for the unprecedented growth during 2000-2012. The structure of credit for housing loans in India consists of apex level refinance institutes like NHB and NABARD as mentioned earlier. The primary lending agencies for Housing loans are SCBs including RRBs and co-operative banks. Besides, the public sector HFCs like Housing and Urban Development Corporation (HUDCO) & Life Insurance Corporation (LIC) of India are financing for housing since 1970s. After 1990, the Bank sponsored & private housing companies are also financing for housing loans. These agencies are financing to individuals, housing boards, and other public and private housing intermediary agencies for construction of houses and acquiring of land / plots for constructing houses (RBI, 2012). The share of HFCs was more in the housing loans till 2000 but SCB share start increasing thereafter due to fiscal incentives as stated earlier. The shares of these two main agencies in the outstanding housing loans are shown in Table-3 at four points of time since 2000.

The Table-3 shows the share of SCBs in the outstanding housing loans was 36.75% as on March 2000 which increased to 63.58% as on March 2012 while the share of

Table-2 : FDI Inflow in Real Estate & Construction (in US $ Million)

Year / Period	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Cumulative 2005-06 to 2011-12
1. Real Estate & business Services	363	452	431	1,336	1,856	2,191	444	340	7,776
2. Construction	209	191	968	2,521	2,237	3,516	1,599	2,634	14,084
Total (1+2)	572	643	1,399	3,857	4,093	5,707	2,043	2,974	21,860
Total FDI	2,320	3,359	9,307	19,425	22,697	22,461	14,939	23,473	99,901

Source : RBI Annual Reports of Various years.

However, the FDI started declining after 2010 which reflect the slowdown in this sector in India. The trend in the flow of FDI in housing is also depicted in Figure-2.

Figure-2 : FDI Inflow in India in US $ milliom

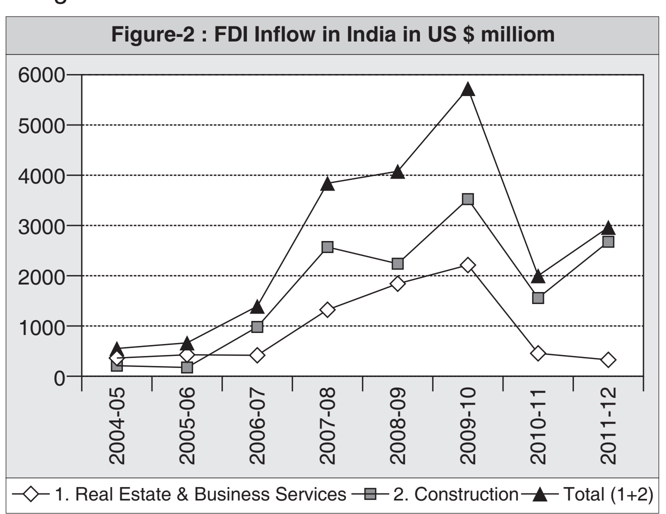


Table-3 : Outstanding Housing Loans of SCBs and HFCs as on March 31								
(Amount in ₹ Billion)								
Lending Institutions	**2000**	**% age share**	**2005**	**% age share**	**2008**	**% age share**	**2012**	**% age share**
Scheduled Commercial banks	147	36.75	1287 (155.10)	72.55	2557 (32.89)	70.07	3880 (12.94)	63.58
Housing finance companies	253	63.25	705 (35.73)	27.44	1092 (18.30)	29.92	2222 (25.87)	36.41
Total	400	100	1992 (79.60)	100.00	3649 (27.73)	100.00	6102 (16.81)	100.00
Housing loan as % to GDP	2.17		6.70		7.96		7.30	—

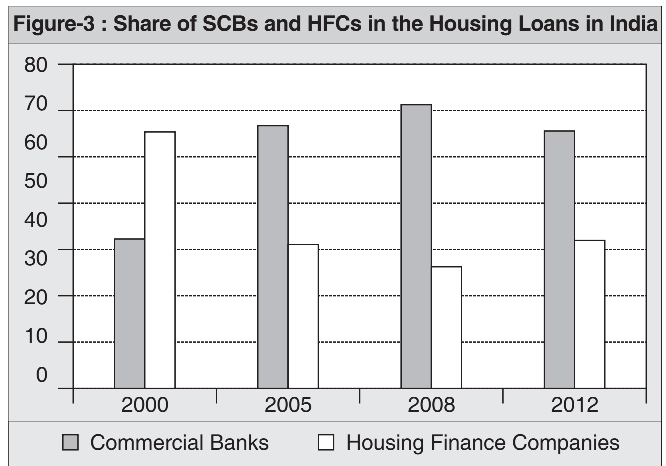
Source : RBI- Report on Trend and Progress of Housing in India and Annual Reports of RBI.

Notes : 1. Figures in brackets are annual percentage change during the above periods.

2. The GDP has been taken at current prices.

HFCs declined from 63.25% to 36.41% during this period due to liberal financing for housing by banks. During the above sub-periods, the maximum growth was during 2000 to 2005 due to immediate impact of fiscal and monetary incentives given since 1998-99. The incentives were favourable to housing loans from both SCBs and HFCs but the growth rate housing loans from CBs was much higher which may be due to convenience of bank loans and lower interest rate. The shares of SCB and HFC in housing loans are also depicted in Figure-3.

Figure-3 : Share of SCBs and HFCs in the Housing Loans in India



The share of housing loans in GDP of the country increased from 2.17% in 2000 to the maximum 7.96% in 2008 which moderated to 7.30% in 2012. It is to be noted that these housing loans do not include the loans given by cooperatives and employers to their employees which may further increase the share of housing finance in GDP. This four to five times increase in housing loans not only gave a big push to housing development but may act as engine of growth for the economy as a whole.

c. Trend in Housing loans of Scheduled Commercial Banks

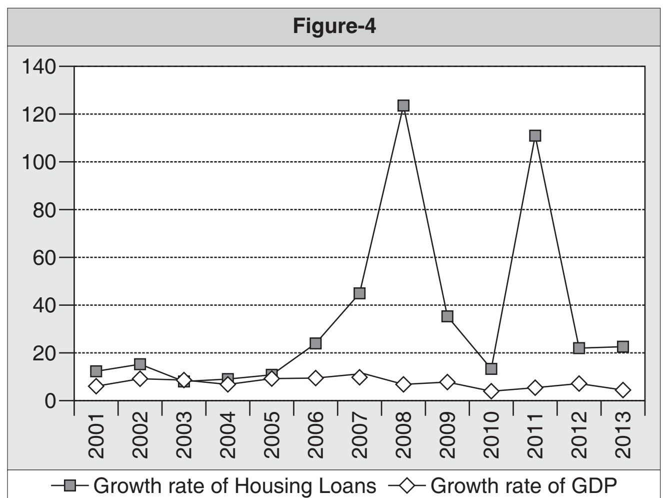
The year-wise outstanding housing loans since 1999-2000 along with their share in total bank credit and in priority sector is given in Table-4. The share of housing loans in total outstanding bank credit has increased from 3.37% in 2000 to the maximum 12.89% as on March 2006 when the rate of interest on housing loans was also at its lowest level and cumulative effect of policies was in full swing. The housing loans in Priority Sector (PS) were also made liberal by increasing the limit from time to time. The share of PS housing loans in total PS loans increased from 10.7% in 1999-2000 (column 7 of table-4) to the maximum 26.1% as on March 2006 and but it also declined to 18.0% as March 2012. The share of PS housing loans in the total housing loans was 96% in 1999-2000 but its share got reduced after to 65% as on March 2012 (column 5). The absolute amount of PS housing loans was increasing continuously but it could not keep pace with much higher increase in the housing loans outside the PS. It means the decontrol of interest rate and tax incentives induced higher increase in housing loan outside the PS housing loans. If loans for construction are also included then the share of housing sector increases to about 14% as on March 2006 (column 9) which moderated to 12% in 2008-09 and declined to 10% as on March 2012.

Table-4 : Share of Housing Loans in Total Bank credit and in PS loans by SCBs								
Year	Housing Including PS Housing	Housing as % of Total Loan	Growth rate of Housing loan (%)	PS Housing loan as % of total H. Loans	Housing loans as % of total PS Loans	Construction loans	HL+ construction as % of total	Annual growth rate of GDP at 2004-05 prices.
1	2	3	4	5	7	8	9	10
2011-12	3880	8.88	12.11	65.08	18.04	567	10.17	6.2
2010-11	3461	9.28	15.02	66.66	18.61	501	10.62	9.3
2009-10	3009	9.74	7.70	72.42	19.95	442	11.17	8.6
2008-09	2794	10.55	9.27	70.54	21.14	385	12.01	6.7
2007-08	2557	11.38	10.69	71.41	24.72	279	12.62	9.3
2006-07	2,310	12.50	23.93	69.39	25.28	200	13.58	9.6
2005-06	1864	12.89	44.83	71.46	26.08	133	13.81	9.5
2004-05	1287	12.36	123.44	70.16	23.67	83	13.16	7.0
2003-04	576	7.54	35.21	90.28	19.71	60	8.32	8.1
2002-03	426	6.36	13.00	85.68	17.25	49	7.09	4.0
2001-02	377	7.02	110.61	70.29	13.00	40	7.77	5.5
2000-01	179	3.82	21.77	89.94	10.46	32	4.50	7.3
1999-00	147	3.67	22.50	95.92	10.70	28	4.37	4.6
Average	1759	8.92	34.62	76.10	19.12	215.31	9.94	7.36

Source : Annual Report of RBI, Various years, Data are provisional and relate to select banks which cover 95% of total direct credit extended by all SCBs ; Note: Hl= Housing Loan, PS= Priority sector

The annual growth rate of housing loan in column 10 of Table-5 has taken an inverted U shape and it is still positive. The line graph (in figure-4) between the growth rates of housing loans and the GDP also shows that the former may be one of the pull factors in the growth rate of total economy during 2000-2012. However, there may be time lag in the impact of housing loan on GDP as the correlation was positive to the extent of 0.4% when one year lagged growth rate of housing loan was taken with the current year GDP.

Figure-4



Status of Households, Census Houses and Population

There has been gap between demand and supply of houses (Census 1991, NHB 1999 and Working Groups for 11th & 12th FYPs) but there were certain path breaking policies favourable to housing development after 1998 NHHP which have brought a boom like situation especially in urban housing. The decadal growth during the Census 2001 and 2011 of number of households, the census houses and population in India is given in Table-5.

Table-5 : Population, Census Houses and Households in India (No. in million)						
Segment	Population		Census Houses		No. of Households	
	2001	2011	2001	2011	2001	2011
Rural	742 (18.0)	833 (12.26)	177.54 (24.2)	220.70 (24.31)	138.27 (20.7)	167.83 (21.38)
Urban	285 (31.0)	377 (32.28)	71.56 (37.5)	110.14 (53.91)	53.69 (36.0)	78.86 (46.90)
Total	1027 (21.4)	1210 (19.01)	249.10 (27.7)	330.84 (42.57)	191.96 (27.1)	246.69 (28.51)

Source : Census of India 2011 - Household Amenities and Assets. Census Houses include other than residential houses too. Figures in Brackets are percentage decadal growth.

The growth of all households (HHs) during 2001-2011 is about 29% as compared to 27% during 1991-2001 as shown in last cells of Table- 5. There was addition of total about 55 million HHs during the decade and out of them increase was 25 million in urban areas with growth of about 47% as against 30 million in rural areas with growth rate of 21%. The growth rate of urban HHs is about 11 percentage point higher during 2001-11 compared to during 1991-2001 while growth rate was almost same of rural HHs.

The census houses, including other than residential house have also recorded the maximum growth of about 54% in urban areras as compared to 24% in rural areas which are much more than earlier decade, thus confirming the impact of fiscal incentives since 2002. It clearly brings out that housing development is mainly in urban areas. It may be noted that urban houses are mainly of burnt bricks and cement which have much higher income multiplier which lends support to our hypothesis that housing development may have been pulled up the growth rate of overall GDP.

In spite of the unprecedented increase in houses especially in urban areas during 2001-2011, the technical committee on urban housing for 12th Five Year Plan (2012-17) has estimated requirement of 18.8 million units of which 18.5 million for EWS. In Table-5 too, the residential houses are about 60% of total 110 mn i.e. 66 mn and there is a continuous addition to urban HHs due to migration especially the left out Low income families, hence, it lends support to the estimate. Besides, the working group on rural housing (2011) has estimated shortage of 40 mn houses in rural area which are also largely lower income families.

The future challenge in housing are; firstly, how to make the houses affordable to EWS when cost of construction is kept high by private developers especially with brand stone / tile flooring, fittings, fixers, etc. on the skyrocketing prices of urban land. Secondly, the challenge is how to make the houses accessible to the EWS without routing through the speculators in real estate. It is widely held view that a large number of houses constructed in recent years are either unsold or lying unused with the speculators. Housing, being a basic necessity, government has to abolish speculation with use of the PAN / Aadhaar card with every exiting ownership and new purchase of house. If, we recollect the PURA (Providing Urban facilities in Rural Areas) model of ex-President APJ Kalam (which was left to die its own death) then its slightly modified form can be much relevant in making house affordable and accessible to EWS. A model of housing similar to PURA is being implemented by the Republic of Uzbekistan is developing housing colonies near their bigger rural settlements with affordable cost of construction and providing a community centre, a good play ground, transport and internet facilities within the colony and ensuring educational and health facilities in nearby areas. The cost was almost half as compared to comparable houses of India. As discussed by author during his recent visit, the houses are allotted to the families of that area especially teachers, para-medical employees, drivers, army, police etc. Allotment is made to those who can give 30% down payment and the remaining part is arranged as bank loan @ 7% repayable in 15 years. The allottees are not allowed to sell their houses for 15 years. This model is not only ensuring affordable houses to the actual users but also checking influx of rural population to urban areas.

Conclusions

The contribution of housing & construction sector in the GDP of India has almost doubled during 2000-2011 with synchronisation in growth rates of the two to a large extent. The modern housing in India has mainly been confined to urban areas due to much higher growth rate of urban population especially singular families. The policy changes since 1998 especially rebate in income tax on the interest & principal repayment, liberal terms & conditions of housing loan, enhanced depreciation rate to corporate for employees houses have given a big boost to

bank finance during 2000-12. The comparison between the annual growth rates of housing loans from SCBs and GDP clearly depicts the former may be one of the pull factors for the growth of the economy during the period 2000 to 2012.

But this impressive growth of housing sector through housing loans has excluded EWS and those working in unorganised sectors due to lack of security with them while the upper and middle classes are taking undue advantage of loans and purchasing houses for speculative purpose. This process has increased the prices of housing in view of expected high prices and it has made the houses inaccessible to weaker sections. That may be reason that in the requirement of 18.7 million house during 2012-17, 18. 5 million is for EWS / LIG. The PURA model with some modifications on-lines international experience is suggested as an approach to make houses affordable and accessible to EWS.

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Highlights of Vision Document 2012-15 on Payment and Settlement Systems

The growth of electronic payments has been impressive in recent years. However, the benefits of modern electronic payment systems are not spread evenly among all sections of society and across the different regions of the country. Despite multiple electronic modes of payment being available, cash is still the preferred and dominant mode of payment in large parts of the country. Against this backdrop, Vision Document 2012-15 aims to promote a less cash / less paper society, with increased emphasis on the use of electronic payment products and services, especially by the populace which is still not covered by these products. Achieving the goal of a less cash economy and inclusiveness will require infrastructure for an underlying robust payment system. Therefore, there is a need for transforming the "fit for current purpose" payment system infrastructure into a state of "ready for future challenges" infrastructure.

The Vision Document focuses on promoting electronic modes of payment and reducing usage of cash in society by :

(i) proactively promoting electronic payments,

(ii) developing policy guidelines which are equitable, uniform and risk-based,

(iii) increasing efficiency of payments through standardisation and capacity building in terms of systems and human resources and implementing giro payments,

(iv) setting up a body for setting standards,

(v) addressing the risks in payment systems and strengthening risk management through continuous interaction with stakeholders,

(vi) promoting access and inclusion through payment system literacy initiatives,

(vii) facilitating migration of government payments and receipts to electronic mode,

(viii) promoting use of pre-paid payment instruments, Electronic Benefit Transfer (EBT), Direct Transfer of Subsidies (DTS) and e-commerce,

(ix) ensuring smooth operations of payment systems through focus on off-site surveillance, need based inspection of retail payments and annual inspections of Financial Market Infrastructures (FMIs); and

(x) ensuring compliance with new international standards.

The Vision Statement sets out the road map for ensuring the benefits of a structured modern payment and settlement system, including innovative products, to reach out beyond the currently served target groups thereby facilitating greater financial inclusion. This is to be achieved by nurturing a payment system that adequately serves the national and international transaction needs of the nation.

Source : Trends & Progress of Banking in India 2012-13, RBI.

BOOK REVIEW

Name of the Book : Central Banking for Emerging Market Economies - A relook in the context of the global financial crisis

Author : Dr. A. Vasudevan

Publishers : Academic Foundation, 2014

Pages : 276

Price : ₹995/-

Reviewed by : Dr. Rupa Rege Nitsure, Chief Economist, Bank of Baroda

Global financial crisis of 2007-08 has created several new challenges for the disguisedly stable pre-crisis central banking world. Many questions were raised about the correctness of the set of objectives and operating procedures of central banks that have evolved from the 17th century. While central banks of both advanced and emerging economies responded to the crisis by marrying micro- and macro- prudential measures of financial stability, the emerging markets' central banks had to face an additional challenge of controlling undue volatility in their financial sectors and ensuring consumer / investor protection. It is also observed that "price stability" as an objective is not a serious problem in advanced economies but it remains so in emerging economies. It is against this backdrop, the author felt a need to thoroughly revise and update his book Central Banking for Emerging Market Economies that first appeared in 2003.

In this version, he has tried to explain how the fiscal and monetary policies and institutional aspects of financial regulation and supervision can be pursued in emerging economies without creating perverse incentives. The focus of analysis remains on India and the RBI, even if it is relevant for other developing countries from Asia, Latin America and Africa, where both government and central bank work jointly in furthering reforms. The update is not a mere extension of the original edition but gives a detailed analysis of the developments and implications of the global financial crisis and accordingly, the narrative in the original edition has been checked and edited in many places.

Dr. Vasudevan is a highly distinguished Monetary Economist and former Executive Director of RBI. During his stint at RBI, he headed several important functions like economic research and monetary policy. Post-retirement, he was Adviser on Monetary Operations to IMF (2006-09) and then Special Adviser to the Governor of Central Bank of Nigeria (2010-12). Besides having worked on several task forces / assignments for IMF, World Bank and Financial Stability Forum, Basle, he was also G-20 Central Bank Deputy in 1999 and 2000. With this background, he has made the book an indispensable bridge between the theory and practice of central banking.

The book has four sections. While Section I gives the contextual update, Section II deals with the traditional areas of central banking relating to currency and payment systems and to being banker to the government and to banks. Each topic in this section is exposited with academic rigor and policy insight. The depth and the breadth of this section make the book an essential reference for students of monetary economics, central banking professionals and commercial bankers. The key message here is that as emerging economies are getting increasingly globalised, the rules of payment and settlement systems in these countries will have to be consistent with the best international practices. Central banks in emerging economies will have to continually monitor the developments in payment systems across countries, take part in reviews of the core principles of the payment systems, to stay aware of changing technological applications, market procedures and practices, to develop a robust information sharing system with other central banks, etc. to curb possibilities of money laundering.

Section III covers comprehensively the issues relating to the monetary policy making - one of the critical areas of economic policy. Besides addressing some of the core concepts and terminology, this sections pays special attention to controversial technical issues at the heart of monetary policy. The author clearly supports the multiple objectives framework of monetary policy given the sharply increased economic uncertainties in recent times. In his words, "economic uncertainties have contributed to lack of consensus as to which of the objectives could be worked out operationally and on a priority basis". So far as the debate on rules versus discretion is concerned, the author has supported a pragmatic approach of rules and discretion rather than rules versus discretion, as discretion does not mean total freedom and rules should not be interpreted as rigid.

However, in this section, the author does not attempt to analyse the efficacy of multiple indicators and discretion-based approach in the Indian context and why India witnessed a persistent and highest inflation amongst G-20 countries since 2009-10, despite a widening negative output gap. In the light of recent Indian experience, there should have been more focused discussion in the book on whether the multiple indicator approach has served our country well.

The concluding section of the book - Section IV deals with the issues pertaining to Basle II and Basle III, macro prudential policies for systemic stability and international dimensions of financial stability issues. Here, early warning signals and hedging mechanisms are discussed in depth and techniques of liquidity forecasting used by central banks are lucidly elucidated. There is a thorough discussion on the initiatives taken by various advanced countries with the help of IMF, World Bank and BIS, etc., to develop standards and codes to promote financial stability.

There is also an interesting chapter in this section that is dedicated to issues of autonomy and independence of central banks. The most interesting point made here is that while legislation can be the easy way to make a central bank independent, in practice there can be nothing

like absolute independence. The legislative aspects in most of the countries need to be looked into afresh for making the governing boards of central banks more independent and accountable. Central banks could be considered as independent if governments do not exercise control on matters relating to central banks' personnel and management; financial budgets and their management; and policy pursuit. While these three aspects are not mutually exclusive, it is the area of policy pursuit that needs to be emphasized maximum in the discussions on central bank's autonomy.

The book concludes that the broader economic and financial landscape in which central banks have to operate has changed significantly during the past 20-25 years. As a result, most central banks had to reorient their traditional functions, re-engineer their procedures and processes and infrastructure in order to maximize their objective functions. While payment and settlement systems have experienced significant transformation, the “supervision and surveillance” of the payment systems continues to be a major function of central banks. As emerging economies will be increasingly contributing to and participating in the internationalization of financial markets, their rules of payment and settlement systems will have to be consistent with the best international practices. Hence, compliance with the international core principles of payment system has to be the top priority for these central banks. They will also have to ensure that the financial sector is sufficiently liquid and that severe illiquidity and insolvency issues are resolved promptly in the interest of financial stability. As regards the conduct of monetary policy, the author has concluded that “jury is still not out as to whether a superior social welfare outcome would emerge by pursuing only one policy objective, say price-stability”. Hence, the monetary policies of central banks of emerging economies should focus on multiple objectives like growth, inflation control and financial stability. This is consistent with monetary governance in a broad sense, a point that is strongly made in the author's companion book - Monetary Governance in Search of New Space (2012).

This book is a catalyst for all major debates surrounding central banking post the global financial crisis and needs to be welcomed enthusiastically.

BOOK REVIEW

Name of the Book : Reinventing Development Economics - Explorations from the Indian Experiment

Author : (Late) Dr. N. A. Mujumdar

Publishers : Foundation, New Delhi, 2014

Pages : 268

Price : ₹995/-

Reviewed by : Dr. A. Vasudevan, Former Executive Director, Reserve Bank of India

This book by Dr. N. A. Mujumdar is an interesting amalgam of pithily written 54 pieces in the areas of growth and development, monetary policy, banking policy, fiscal policy, food security and global environment. The pieces throw up a number of policy makers' dilemmas and policy errors and suggest perspectives that need to be borne while formulating and implementing policies. The book offers in a non-technical language what the public policy students, bankers and policy makers seek in these critical times.

This review is intended to bring to fore the major points that emerge from the book. The introduction to the book is provocative: development economics is now 'a failed God' in terms of theoretical constructs and policy inputs. The author's classification of India's development into (a) the Milton Friedman phase of 1991-2004 and (b) the Gandhian phase of 2004 - 2011 is interestingly unique for, it rendered it possible to give vent to his strong opposition to market theology especially of the American kind. In the first phase, Mujumdar, in his defence,pointed out that development was vitiated by five factors. They are : (i) the food grains management policy that helped subsidize exports of food grains on the back of the targeted public distribution system; (ii) indifferent pursuit of watershed development for enhancing the fruits of green revolution; (iii) biased interest rate regime against agricultural and small borrowers pampering in the process the organized private corporate sector; (iv) allowing MicroFinance Institutions (MFIs) to charge usurious interest rates and agreeing to Public Sector Banks (PSBs) to lend only to not-for-profit MFIs; and (v) giving tax exemptions of long term capital gains and dividend income without realizing its implications for fiscal equity.

The second phase, Mujumdar felt, was saved by the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) of 2005 that helped poor rural households to earn living and to feed themselves. It was all for food and employment security. He was, however, not happy with the National Food Security Bill of 2011 because it ignored the need for public and private sector participation for any well designed food security model. The author cited several instances of success stories of rural resurgence. He argued that the World Bank sponsored Growth and Development Commission of 2008 clearly demonstrated that GDP growth could be as high as 7 per cent provided there are five essential ingredients in place,

viz., full exploitation of the world economy, maintenance of macroeconomic stability, high rates of saving and investment, optimal market allocation of resources, and committed, credible and capable governments. In his view, India should eschew the Washington Consensus and follow the growth model of China but within a democratic framework. He was not in favor of FDI in retail and of gold imports. Reduction of demand for gold is critical and it is here he was happy with the proposals made by RBI working group on the subject. He also felt that the corporate sector lobby of growth-inflation trade off was misplaced and that interest rates could be increased when inflation control was imperative. While lauding some of the initiatives of RBI towards accelerating financial inclusion, he deplored the bankers' attitude that hindered the cause. He strongly believed in raising the domestic saving and investment rates for furthering growth prospects along with policies for fostering financial inclusion and financial stability.

Monetary and banking policies were the forte of Mujumdar's specialization. He felt that price targeting alone would be inadvisable and that it is best to follow multiple objectives. He was concerned over the recommendations of the Financial Sector Legislative Reforms Commission about the setting up a separate debt management office, distancing of RBI from any regulation and oversight of the forex market and non-banking financial companies. He was not in sympathy with those who believe that inflation control was possible without addressing the marketing and credit problems that are associated with the dynamics of food production and consumer articles. He favored management of food inflation through build-up of market intelligence, active intervention in the market by public sector agencies at the Centre and States, and futures trading in agricultural commodities. He was all for raising the interest rates when inflation is high because it is one way of reducing demand for credit. The debate on the trade off with growth, he considered, has been highly exaggerated. He was of the view that growth deceleration was due to sharp fall in investment, some moderation in private consumption and a fall in external demand. He was appreciative of the efforts of RBI in promoting financial stability though he did concede that systemic risk management has not yet been fully evolved. He was deeply worried about the microfinance mess because it represented subprime lending and could well lead to promotion of the Darling syndrome, *viz.*, the 'Indian peasant is born in debt, lives in debt and dies in debt'.

Mujumdar placed emphasis on financial inclusion, charging reasonable rate of interest for agriculture and small borrowers and observing Basle III norms with due attention to the Indian realities. He favored the strengthening of the capital base of Public Sector Banks (PSBs), their credit appraisal systems and post-sanction loan monitoring mechanisms. He strongly pleaded for rejuvenating cooperative credit institutions. He was for opening of no-frills accounts in PSBs and for observance of Know Your Customer (KYC) norms with sensitivity. He was in favor of use of new technologies but here the small borrowers may not know how to operate them to their satisfaction even though they may have mobile phones. He pointed out that the international best

practices are much hyped about despite the fact that the main participants abroad did not play the game by the rules and caused the global financial crisis in 2008. Foreign consultants did not foresee the crisis. They also may not understand the Indian realities of which the fact that PSBs have in a major way, contributed to the welfare of small borrowers and agriculturists, is a major one that should not be given amiss. He favored strict implementation of priority sector lending of 40 per cent of total credit without taking into account loans to large corporates like dairying or fertilizer distributing companies. He was also highly skeptical of those who question the continuance of government ownership of financial institutions including the Raghuram Rajan Committee on financial sector reforms because such a development would oppose 'small borrower-friendly banking culture'.

Regarding food security, his view was that while the State should provide food security to vulnerable sections, it should only create enabling environment to the rest of the population. The State will have to also ensure that food prices in the open market are steady or near steady. The Food Corporation of India (FCI) has been a go-down keeper, and its volume of procurement has been on the rise while the public distribution system suffered from leakages due to corruption, transport losses and losses due to spoilage. When viewed against the food security framework, these facts led to rise in food subsidy and fiscal deficit. Large stocks of foodgrains rot due to bad management of go-downs and theft. The irony is that during periods of bumper crops, the go-down space also acts as a constraint to any initiative to universalize food security. Mujumdar, however, believed that it is best to be realistic in identifying the vulnerable sections. More importantly, it is essential to provide employment, to moderate prices of food grains and to streamline marketing arrangements.

The book ends rightly with the lessons from the global financial crisis that central banks could reflect. The role, objectives and responsibilities of central banks, the framework for monetary policy, independence of central banks, prevention of asset price bubbles, and inclusive finance have all become major subjects for debate on which the jury is still not out, as Mujumdar correctly pointed out.

All said, this book questions many of the misconceptions that prevail in the current portrayal of policy discussions. The worth of the book lies in the fact that it points out where the fundamentals of policy thinking lie. This is what all those who care for economic development with equity and international fairness seek to know and benefit. What is also important to note from the researchers' viewpoint is that each of the ideas expressed in the book would present scope for further research and empiricism.

BOOK REVIEW

Books Added to the IIBF Corporate Library			
No.	**Title**	**Author**	**Publisher & Year of Publication**
1.	Breaking Barriers	Janaki Krishnan	Jaico Publishing House, 2013
2.	Breakout Nations : In Search of the Next Economic Miracles	Ruchir Sharma	Penguin (India), 2012
3.	Buck Stops Here : My Journey from Manager to Entrepreneur	Ashutosh Garg	Viking, 2010
4.	Case Studies in Organisation Structure & Behaviour	S. K. Bhatia	Deep & Deep Publications, 2010
5.	Conflict Management	B. L. Gupta	Mahamaya Publishing House, 2010
6.	Crafting & Executing Strategy : The Quest for Competitive Advantage - Concepts & Cases, 18th edition	A. Thompson & others	Tata McGraw Hill, 2012
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