Committed to
professional excellence

बैंक क्वेस्ट

Bank Quest

Rs. 40/-

The Journal of Indian Institute of Banking & Finance

खंड. / Vol. 81 ● अंक. / No. 4 ● अक्तूबर - दिसंबर 2010 / October - December 2010

AADHAAR


RECESSION-PROOF COVER FOR EXPORTERS.
Exporters will now get recession-proof cover from Export Credit Guarantee Corporation (ECGC). Economic and political instability are making the world markets more unstable and unpredictable, negatively impacting business across the globe. A known buyer, even your best friend, could default in payments. The risks of a foreign buyer going bankrupt are also aggravated. Insolvency happens. This is when Credit Insurance from ECGC insures business without worrying about payments. Our cover is not just uncertainty-proof, but worry-proof as well, you'll realize.
ECGC
You focus on exports. We cover the risks
ISO 9001: 2000 Certified
ICRA Rating: iAAA
Insurance is the subject matter of solicitation.
Export Credit Guarantee Corporation of India Ltd., (A Government of India Enterprise)
Express Towers, 10th Floor, Nariman Point, Mumbai 400 021, India. Tel: (022) 6659 0500-10 Fax: (022) 6659 0517
Toll-free No. 1800-22-4500 E-mail: marketing@ecgc.in Visit us at: www.ecgc.in

CONTENTS

Bank Quest

Vol. : 81 ◆ No. : 4
October - December 2010
(ISSN 0019 4921)

The views expressed in the articles and other features are the personal opinions of the authors. The Institute does not accept any responsibility for them.

लेखों तथा अन्य रचनाओं में व्यक्त किए गए विचार लेखकों के निजी विचार हैं । लेखकों द्वारा व्यक्त किए गए विचारों के लिए संस्थान किसी प्रकार से उत्तरदायी नहीं होगा ।

INDIAN INSTITUTE OF BANKING & FINANCE
'The Arcade', World Trade Centre, 2nd Floor, East Wing, Cuffe Parade, Mumbai - 400 005.
Tel. : 2218 7003 / 04 / 05 • Fax : 91-22-2218 5147 / 2215 5093
Telegram : INSTIEXAM • E-mail : iibgen@bom5.vsnl.net.in
Website : www.iibf.org.in

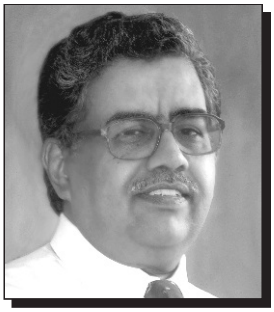
MISSION

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

ध्येय

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

Printed by Shri R. Bhaskaran, **published by** Shri R. Bhaskaran on behalf of Indian Institute of Banking & Finance, and **printed at** Quality Printers (I), 6-B, Mohatta Bhavan, 3rd Floor, Dr. E. Moses Road, Worli, Mumbai-400 018 and **published from** Indian Institute of Banking & Finance, 'The Arcade', World Trade Center, 2nd Floor, East Wing, Cuffe Parade, Mumbai - 400 005. **Editor** Shri R. Bhaskaran.



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

We wish you a very Happy & Prosperous New Year, 2011

The first article in this issue is the speech delivered by Mr. Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI) at the 27th Sir Purshotamdas Memorial Lecture which was organized by IIBF. Mr. Nilekani has expressed a hope that financial inclusion will now happen speedily as the enabling scenario is now ready. Mr. Nilekani said that a significant difference between the efforts in financial inclusion today and what came before, is that now there is not just a growing supply of financial services, but also immense demand for it. In order to make financial inclusion a reality, the RBI has expanded the definition of the Business Correspondents who can serve as the final link between the villagers and a bank and most importantly, the UID and mobile services are ready. While elaborating upon the UID (Aadhaar) project, he mentioned that the Aadhaar number substantially reduces the risks inherent within the BC network as it enables the bank to easily and instantly verify an individual's identity, directly or through the BC using the Aadhaar number, before they open an account, or prior to a transaction.

We carry three articles from the annual 'Micro Research Competition' conducted by the Institute. The members who participate in the competition submit semi research papers covering different facets of banking and related areas. The papers submitted by the participants were judged by the Institute's Research Advisory Committee comprising of eminent bankers and academicians. In this issue, three prize winning articles are featured.

The article which was awarded the first prize is "Impact of technology on Banking in Public Sector Banks" by Dr. F. T. Shroff. This article, elaborates as to how IT can help in Rural Development, Financial Inclusion, role of RBI in IT penetration in rural areas, networking of banks through Banking Information Technology Services (BITeS) besides outlining certain areas for future research. The article which won the second prize is titled "Financial Inclusion -

Banker's Perspective" by Mr. N. D. S. V. Nageswara Rao. Through this article, the author has sought to find out the level of understanding of Financial Inclusion by ground level operating functionaries of banks and whether one should follow the top down or the bottom up approach for going ahead with Financial Inclusion. The next article is on "Financial Literacy - The Key to Financial Deepening" by Dr. Suresh Chandra Bihari. This article has conveyed the message that it is through financial literacy that consumers will not only become aware of the various products and services which are being offered by different institutions but also can make informed decisions.

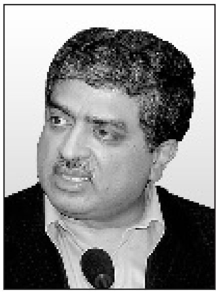
Management of NPAs is on the priority list of any banker and its importance is unlikely to diminish in the future. An article on this subject which is featured in the current issue is titled "Innovations in Recovery Management of NPAs : A Practioner's Perspective" and is written by Mr. L. P. Padhy. An attempt has been in this paper to analyse the developments in recovery / prevention of NPAs besides suggesting reforms / innovations in management of the same.

The issue also carries an article in Hindi by Mr. S. N. Sharma on "Knowledge Management in Banks - An Overview". As usual, we carry a book review. The book reviewed in this issue is "Savings of the Poor - How they do it."

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

(R. Bhaskaran)

Sir Purshotamdas Thakurdas Memorial Lecture, 2010



Financial inclusion - have we reached the tipping point?

Shri Nandan Nilekani *

It's quite an honour to be here. I thank the organizers for the opportunity to speak in the memory of Sir Purshotamdas Thakurdas, someone who was among the leading lights of Indian industry, and also played an enormously influential role in the rise of our financial institutions.

Financial inclusion has recently become something of a buzzword, publicized as an explicit goal for governments as well as for our major banks. Nevertheless, this is not a new objective. Providing broad-based financial services in India has been a clear part of our mandate since independence, and the government has since gradually chipped away at the barriers that have constrained access to banking for the ordinary individual, the poor and the marginalized.

There is nevertheless, a real difference between the financial inclusion efforts of the past and what is happening now. Till date, the growth of financial services was largely driven by a push from the government and by banks. Banks responded to expansionary mandates to establish branches across rural India, and provide financial services even in hard to reach parts of the country. Today, however, we are also witnessing an unprecedented burst of demand for financial services. As economic growth has taken off, the demand for a bank account has become much more pervasive across India's income groups and communities.

As demand has surged, we are witnessing innovations within the market and in government policy, that brings us to a tipping point. I believe the resulting transition in the next five years will permanently change the scale, and the shape of financial services in India.

Early years

My friend and marketing consultant Rama Bijapurkar often points out that we Indians are a very money-minded people - 'Lakshmi, the goddess of wealth, ranks high on our pantheon of gods,' she notes, 'We revere her in festivals across the country.' The transaction of money - the depositing of it, the lending of it, and so on through indigenous banks, was familiar throughout India well before the British. In the Laws of Manu, 'lending money' was considered one of only four 'honest callings.' This was culturally very different from say medieval Europe, where the church forbade lending money on interest. While in Europe of the time people who lent money were regarded as disreputable Shylocks, in India the indigenous bankers and lenders - such as Manohardas, Gulabrai and the Jagat Seths - were highly respected.

The arrival of the British however warped many institutional systems in India, and banking was no exception. Just as road-building and rail became largely dedicated to enabling imperial trade and the movement of goods to India's port cities, banks prioritised trading and business transactions, and were concentrated in urban areas. From the establishment of the first banks the Bank of Hindustan and the Bengal Bank - the differences were clear.

This urban, commercial tilt remained true of India's banks well after independence. Banking services availed by the common people were from primarily informal sources such as chit funds and moneylenders. The lack of easy financial access meant the absence of a 'banking habit' among ordinary people, which was obvious in how our parents' generation saved money and accumulated assets - they stored wealth not as

* *Chairman, Unique Identification Authority of India, Government of India, New Delhi.*

money in bank accounts, but as gold jewellery and cash in locked armoires.

Three nationalizations

The state has battled this imbalance in financial access over the last five decades. Post-independence, the state nationalized the Imperial Bank of India in 1955 to form the State Bank of India, with the hope that the state's mandate of universal access would lend banking a more inclusive focus.

In July 1969, then Prime Minister Indira Gandhi made bank nationalization an important part of her strategy to build broad appeal, and expand key services to the poor. 14 banks were nationalized. And in April 1980, India underwent another wave of nationalization, bringing more than 90% of India's banking activity into the public sector.

The RBI has called the 1969 bank nationalization 'the defining economic event of not just the 1960s but of the next few decades.' I wouldn't disagree. The rise of the public sector banks, and the 1:4 expansion policy which mandated four branches in unbanked areas for every new urban bank branch completely transformed India's financial landscape. Over 50,000 new bank branches were opened across India in the ensuing three and a half decades, bringing institutional banking to millions of ordinary people.

Changing attitudes

India's policy efforts have often been criticised as overly slow and cautious. But this approach has had its advantages. India was able to build the institutions that eventually allowed market growth to take off without substantial crisis.

In banking in particular, this caution has had some admirable results. Bank nationalization, and the efforts to spread banking services created an expansive banking infrastructure, which made substantial inroads into rural India. The banking reforms that finally took place built on the foundations of these previous efforts. The state-led policies also had a long-term impact on our attitude towards the role of banks : we embraced the idea that banking must incorporate inclusion as part of its core mandate, and that banking services should be easily available to the poor.

The era of deregulation

The eventual 1993 RBI guidelines encouraged the rise of young, private banks, as well as a new focus on 'modern infrastructure'. With these banks, we saw the emergence of an agile and IT-enabled approach to banking: where banks functioned as automated, networked entities.

The rise of competition also encouraged new private players as well as older public sector banks to experiment with remote service delivery, the use of smart cards and other efforts to reach customers in the most efficient ways possible. In addition, technological advances such as core banking, the use of ATMs and telecom connectivity brought convenience for bank customers, with anytime, anywhere financial access.

Considering the progress and the many innovations we are now witnessing, the continued lack of penetration of bank services especially in rural India, seems baffling. Fully 40% of rural Indians lack bank accounts a number that rises among marginalized communities. This exclusion is debilitating for the poor, whose small, volatile incomes makes financial access all the more important for savings, and to insure themselves against crisis.

In the last decade, we have seen access to basic services become a priority in government policies. Since the 1999 telecom policy opened up the sector, the penetration of mobile phones in India exploded, from less than five million connections in 1997 to over 700 million today. But we have yet to see comparable growth in the similarly essential service of banking.

'Can we reach finance to people in a meaningful way?'

A visit to an Indian village indicates a fundamental challenge we face in expanding banking services - the disconnect that exists between current bank models and the needs of the ordinary, rural Indian. Our Aadhaar team, on rural visits, found that many Indians viewed banking as an alien, difficult experience. Even when they had accounts, they rarely used them. The bank was usually far away, requiring travel in a bus and the foregoing of a day's income if the person was a daily wage earner. There was little the person could do if they needed money immediately, in case of a financial emergency.

And once there, the bank required the often illiterate customer to fill a bewildering number of forms, and also required documentation that the person did not have.

Clearly a banking model which has been tailored for the educated and urban population is now trying to cater to the needs of our vast rural country. In this setting, it quickly reveals its weaknesses. The average bank deposit in rural India is one-tenth that of urban India. When catering to the poor individual, the bank faces a customer who prefers to make numerous, very small transactions, which vastly increases costs for the bank, with little additional benefit in deposit value. The result is that banks don't treat poor, rural market as a priority-every additional customer becomes a source of additional expense rather than profit.

Reworking our approaches

D. Subbarao, the RBI governor, has pointed out the need for us to build additional bridges between the ordinary villager and the banks as they now exist. There have been some interesting experiments in this direction to make banking services more accessible to the poor through business correspondents located within the village, and by enabling people to make remote transactions.

The objective of these steps is to shift our banking approach from a low-volume, high-cost model, to a high volume, low cost model, where large numbers of small transactions become profitable to banks, mirroring the pattern of growth in telecom. However, this goal remains straitjacketed by basic weaknesses. Fulfilling Know Your Customer norms remain a hard-to-surmount challenge for banks. Many of the poor lack the basic documentation they need to open a bank account, including a proof of identity and proof of address.

The lack of easily verifiable identity also limits the online and mobile banking services that can be delivered to the poor. Banks have tried to address this through remote authentication devices employed by village-based agents and BCs, who use smart cards to remotely verify their customers before allowing transactions. These verification systems however have remained proprietary to particular banks, limiting large-scale expansion. If such an approach existed in telecom, it would have been akin to allowing phone calls only say, between BSNL subscribers!

The pieces of financial inclusion are now in place

Much of what is necessary to enable financial inclusion in India is already in place, with technological advances coming powerfully together with policy efforts. The RBI for example, recently expanded the definition of the business correspondents who can serve as the final link between the villagers and a bank. Now, self-help groups, kirana stores, post-offices as well as for-profit entities can function as BCs, creating the potential for a denser and more accessible bank network. The spread of core banking systems means the technology for anywhere banking is in place. The no-frills bank account, with limited KYC norms and which allows a zero balance has become a widely accepted service solution for the poor.

In addition, the large, expanding base of mobile phone connections has put in place the infrastructure necessary for delivering financial services remotely and through BCs to the poor. There are also multiple mobile end-devices now in use by banks that can verify bank customers through smart-cards or fingerprinting. And finally with the NPCI, we have since 2008 what is an umbrella payment authority.

Urgency in enabling access

The infrastructure for financial inclusion has come of age at the right time. India's growth has come with a radical transformation in what people aspire to achieve across income groups and communities. Previous generations had little opportunity to change the circumstances they were born into, as access to education and jobs was difficult. But in the last two decades, economic and social mobility has become a real possibility in India, and hundreds are moving across the country, to our cities and towns every day in search of opportunities for city lights and fighting chances.

These changes mean that filling in the missing pieces that limit access to services such as finance is even more urgent. This is where the unique identity number comes in.

Connecting the dots : the unique identity number

The power of the number stems from how it serves as a universal identity infrastructure. The Aadhaar number substantially reduces the risks inherent within the BC network - it enables the bank to easily and instantly verify an individual's identity, directly or through the BC using the Aadhaar number, before they open an account, or prior to a transaction. The person can verify their identity through a number of means - through biometrics for maximum security, as well as through their demographic information, or using a PIN number.

Such verification can take place anywhere in India and through any device since the Aadhaar number and individual details are stored in a central database. The mobility it offers is unsurpassed, and it gives the poor same financial portability which urban India has long had with ATMs and core banking services.

In addition, Aadhaar number verification opens up the possibility of self-service in banking transactions through a mobile phone. We can realistically consider a near-cashless economy in our villages, where individuals electronically transfer money to bank accounts with the help of mobile phones and BCs.

The open architecture the Aadhaar number offers enabling transactions through any device, any BC, anywhere in the country brings down the remaining barriers towards building highly scalable financial services for the poor.

The number thus serves as the glue that ties our various efforts in financial inclusion together. It enables a financial inclusion strategy that is low-cost, easily scaled, and adapted to the behaviour of the poor. It enables banks to earn transaction fees on remote and BC-enabled transactions, making high-volume micro-transactions viable. It helps even the poorest to build a credit history, lowering the risk for banks in this market. And it gives millions more the opportunity to save, make investments, and use products such as micro-insurance.

Building towards growth

A significant difference between the efforts in financial inclusion today and what came before, is that now there is not just a growing supply of financial services, but also immense demand for it. Over the last decade, policy shifts as well as market trends have created widespread awareness of how valuable a bank account can be.

A new generation of welfare initiatives such as the NREGA and the JSY are offering the poor cash benefits and incentives, which are paid to them through bank accounts and post office savings accounts. Another factor driving demand for bank accounts is the millions of people who have left villages and now remit money back home. Unofficial estimates put the cash travelling through informal remittance corridors, from towns to rural hutments, at thousands of crores.

Changes in the local rural economy have also increased the cash circulating within villages, and the consequent demand for bank accounts. Many agricultural labourers who were once paid in kind for their work in the form of food and clothes are now paid in daily wages.

Perhaps nothing exemplifies the change in attitude towards investments and savings in rural India better than the change in status for the buffalo. Across north India in particular, the buffalo has been a prized asset, and the rich indicated their status through the number of the animals they owned. In recent years however, the regard for the buffalo has fallen it is increasingly seen as an expensive investment, one with low returns, illiquid compared to money and houses, and difficult to sell when an immediate need arises.

The untapped potential

India's financial depth today is substantially lower than other Asian countries including Thailand, Korea, China and Malaysia. I believe that a pro-poor approach towards financial inclusion will consequently trigger a growth curve similar to what we witnessed in the telecom sector. The Aadhaar number would bring to our financial inclusion approach the same features that drove rapid telecom expansion - geographical mobility in services, the dominance of low-cost, high volume micro-transactions, negligible upfront costs, and a dense, easily accessible network of agents retailing the service.

Within the UIDAI, we are already seeing massive demand for bank accounts among people enrolling for Aadhaar numbers - fully 80% of people enrolling for the number want bank accounts. If we are able to provide every such person with a bank account, financial access will simply explode in India. Considering the pace of enrolments for the Aadhaar number, it is a very real possibility that the number of bank accounts we issue in the next four years will exceed the number of accounts banks have issued since India's independence.

The great transformation

In the last decade, we have witnessed a decisive breaking away from what economists used to call the 'culture of poverty' in India - the beaten-down, no-way-out circumstances of India's marginalized and its poor.

While we still have hundreds of millions in poverty, their environment and the tools available to them are changing fast. We are building services and products to cater to the poor - accessible consumer goods, decentralized governance infrastructure, low-cost solutions in lighting, water supply, transportation, and so on. At the same time expanded information services as well as telecom and financial access are connecting the poor more closely to our markets.

They say fortune is all about timing, and India has been incredibly fortunate that our growth is happening at a time when we have the technological tools to transform service access - in welfare, telecom, and increasingly, finance. We now have the chance to build services that are efficient and truly innovative - 'made in India' solutions. Our success in building these solutions will enable us to not just meet the expectations for India's growth, but substantially surpass them.

Recent Developments in Basel Committee on Banking Supervision - Liquidity Risk

A key characteristic of the financial crisis was the inadequate / ineffective management of liquidity risk. In recognition of the need for banks to improve their liquidity risk management and control their liquidity risk exposures. The Basel Committee has developed two internationally consistent regulatory standards for liquidity risk supervision as a corner stone of a global framework to strengthen liquidity risk management and supervision. The work of the Basel Committee on these two standards is contained in the Consultative Paper issued by the Committee in December 2009 on "International framework for liquidity risk measurement, standards and monitoring". These two standards are explained briefly below:

Liquidity Coverage Ratio (LCR)

The ratio aims to ensure that a bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario specified by supervisors. At a minimum, the stock of liquid assets should enable the bank to survive until day 30 of the proposed stress scenario, by which time it is assumed that appropriate actions can be taken by the management and / or supervisors.

$$\text{Liquidity Coverage Ratio} = \frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflow over a 30 day period}}$$

The specified scenario entails both institution-specific and systemic shocks built upon actual circumstances experienced in the global financial crisis. The scenario entails : (i) a significant downgrade of the institution's public credit rating; (ii) a partial loss of deposits; (iii) a loss of unsecured wholesale funding; (iv) a significant increase in secured funding haircuts; and (v) increases in derivative collateral calls and substantial calls on contractual and non-contractual off-balance sheet exposures, including committed credit and liquidity facilities.

Net Stable Funding Ratio (NSFR)

To promote more medium and long-term funding of the assets and activities of banks, the Net Stable Funding Ratio (NSFR) hag been developed. Thls ratio establishes a minimum acceptable amount of stable funding based on the liquidily characteristics of an institution's assets and activities over a one year time horizon. This standard is designed to act as a minimum enforcement mechanism to complement the liquidity coverage ratio standard and reinforce other supervisory efforts by incenting structural changes in the liquidity risk profiles of institutions away from short-term funding mismatches and toward more stable, longer-term funding of assets and business activities.

$$\text{Net Stabie Funding Ratio} = \frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}}$$

Available Stable Funding (ASF) is defined as the total amount of an institution's: (i) capital; (ii) preferred stock with maturity of equal to or greater than one year; (iii) liabilities with effective maturities of one year or greater; and (iv) that portion of "stable" non-maturity deposits and / or term deposits with maturities of less than one year that would be expected to stay with the institution for an extended period in an idiosyncratic stress event.

The required amount of stable funding is calculated as the sum of the value of the assets held and funded by the institution, multiplied by a specific required stable funding (RSF) factor assigned to each particular asset type, added to the amount of OBS (off-balance sheet) activity (or potential liquidity exposure) multiplied by its associated RSF factor. The RSF factor applied to the reported values of each asset or OBS exposure is the amount of that item that supervisors believe should be supported with stable funding.

The finer details relating to these two standards viz., the definition of liquid assets, the run-off and roll-over factors, etc. to arrive at net cash outflows under LCR and the ASF and RSF factors under NSFR are being calibrated.

Source : Report on Trend & Progress of Banking in India 2009-10, RBI

Micro Research Prize Winning Article (2010) Impact of Technology on Banking in Public Sector Banks

Dr. Firdos T. Shroff *

- 1st Prize

Technology as competitive edge - IT challenges & opportunities for rural development / financial inclusion initiatives by RBI :

One of the most important challenges facing India now is the need for matching the urban development with rural development. It is in this context, that the role of Information Technology needs to be viewed. Just as technology is important for effecting a quantum improvement in farming techniques and in increased agricultural production, Information Technology or IT in Banking is vital for sharp progress in financial intermediation and efficient payment system.

At the outset, it must be understood that the mere usage of computers would not by itself herald IT revolution in the rural sector. There are many other tools of IT which need to be introduced to act as catalysts in the process of transformation. With the geographical spread of banking having penetrated to most parts of the country, it is vital that Automated Teller Machines (ATMs) are widely used. ATMs would provide the rural masses with the conveniences associated with retail payment systems. At present, ATMs are city-oriented. ATMs with the rural customer as focal points may have to be introduced. ATMs could provide cash withdrawals and also deposit facilities to the rural common man. Introduction of e-KIOSKs & Business Correspondents & Business Facilitators Model is suggested to take the entire rural populace in the growth of financial inclusion.

The introduction of ATMs will not be necessary as of now, or even in the medium term of say, the next 3-5 years. There is, on the contrary, evidence of rise in dependence on NRI inflows by rural families. These would be one of the target groups besides the rich farming-trading families which would benefit from deployment of IT in rural areas.

IT as facilitator for rural growth :

To illustrate this point further, multi-purpose cards could be a facility that IT could usher in for rural population. Of specific importance is the potential that SMART cards have in this area. SMART cards - which are basically cards using computer circuits in them thereby making them 'intelligent' - would serve as multipurpose cards. SMART cards are essentially a technologically improved version of credit and debit cards and could be used also as ATM cards. They could be used for credit facilities at different locations by the holders. SMART cards could be used for personal identification and for monitoring credit usage by small farmers. Importantly from the point of view of a rural entity, they could be used for availing of facilities such as subsidised seeds, fertilisers, aid in marketing the produce, in availing of medical facilities for both human beings as well as livestock and also in various requirements of cooperative functions that are characteristic of rural areas.

The data from all the SMART card usage points could well form the repository of information for national and economic indicators, which would be more scientific, updated and provide information for quick strategy formulation by the Government.

As affluence spreads in rural areas, there could be several schemes to tap savings. For instance, Gold deposit or Gold bond scheme for the rural folk could be actively promoted. The proliferation of IT essentially triggered by the awareness brought about by the advent of television, radio, etc., could ensure participation of rural masses as investors in other instruments, such as, mutual funds schemes, equities, preference shares, etc.

* *Director, Chetna's R. K. Institute of Management & Research*

IT infrastructural facilities in Rural Areas :

All these would, however, require certain minimum infrastructural requirements in the rural areas. The most essential pre-requisite is the availability of electric power, which is an area of concern at present. The entry of solar based power possibly for small computers and for utilities such as SMART card reader outlets, however, provides some relief in this regard.

Coverage of telecommunications is yet another area of concern, but recent experience shows that there is room for optimism in the availability of uninterrupted means of communication between and across villages and cities. The approach towards IT infrastructure in the rural areas is different from the one being adopted for cities. Conglomeration of facilities, such as, computers, SMART card facilities at kiosks possibly at telephone kiosks / Kirana Shops / e_Choupal, etc. are the best feasible options with the participation of the educated unemployed rural youth in the setting up of such facilities and covering the areas which are financially excluded.

Impact of IT on improved customer service in rural / urban centres :

Banking functions have undergone a significant change. Large scale usage of IT by banks has resulted in computerisation of many branches and their inter-connectivity by means of safe and reliable networks. While the new private sector banks have all commenced as entities with fully computerised operations, the older banks too have embraced IT in a large way.

Today, all the public sector banks have completed 100 per cent computerisation of their business with Core Banking Solution put in place. This has meant three major benefits to the customer, viz.,

First, the customer is now treated as a customer of the bank as a whole, which means that he is now capable of enjoying facilities such as 'anywhere banking' as also 'anytime banking' from his residence by a 'click of a mouse'.

Second, costs have come down. With hair thin margins being the order of the day, banks have to look for ways and means to reduce their operating costs and IT has come as a saviour in this area.

Third and most important is the impact on improved customer service and overall efficiency of the bank as a whole.

All the above have positioned customers of banks as the most important source of attention by banks, thereby conforming to Mahatma Gandhi's oft-told adage of the customer being the 'King'. In present context, customer is treated as an 'Emperor'.

In terms of developing a state-of-the art IT infrastructure for the banking sector, the issue needs to be considered in terms of serving the two major sectors in India that have slightly different priorities, viz., urban and rural.

The rural segment, at least as of today, is less mobile and the focus is more on 'fairness' of the system and adequacy of credit. In urban areas, on the other hand, there is a greater mobility of consumers and a relatively higher frequency of use. Thus, access, convenience and time are of the essence. To sum up :

- **Rural :**
  - Quick Credit
  - On an objective basis
  - At reasonable rates
  - Sensitive to the vagaries of nature
  - A friendly supporting system for encouraging savings and attracting them into the financial mainstream
- **Urban :**
  - The urban sector has all the needs of the rural sector plus the following :
  - Easy to access
  - To a wide range of banking and payment services
  - Of high quality
  - Customised to as narrow a segment of customers as possible

This should not be taken to mean that the two sectors have divergent needs. In fact, the ultimate infrastructural needs for both the sectors are the same. However, the priorities for the two sectors differ somewhat and it would be advisable to keep this in mind in our technological solutions to address their needs.

Role of Reserve Bank of India for IT penetration in rural areas :

The Reserve Bank of India plays a pivotal role as far as urban and rural area growth is concerned. The RBI too, has provided many tools as part of improving systemic efficiency of the Banking sector. The first major feat has been the setting up an exclusive, safe and secure communication network for the use of the banking sector - the INFINET (for the INdian FInancial NETwork), this network has been in operation for long. The Institute for Development and Research in Banking Technology (IDRBT), at Hyderabad has also brought about innovation in inventing National Financial Switch (NFS) for ATMs, thus becoming the leader hosting this network for carrying out effective banking business across India (including rural population at large) in particular and across the globe in general.

Recognising that the best impact of technology would be felt only if it ultimately improves the efficiency of funds settlement, the Reserve Bank has also provided for many new products all of which are aimed at reforms in the existing payment and settlement systems, and providing for risk reduction, which is a major concern for Central Banks world wide.

Commencing from the introduction of MICR-based Cheque Clearing in the late eighties (with four metropolitan centres being part of the chain), today, there are many cities / centres where Cheque Clearing is performed using mechanised technology of Reader Sorters which process cheques at more than 2,000 per minute. On similar lines, the Currency Verification and Processing Systems have been made operational at various offices of the Reserve Bank which has resulted in the implementation of the 'Clean Note Policy', as far as currency notes are concerned. This facility requires to be extended to urban and rural areas in the course of time.

Benefits of IT :

The benefits of technology in the banking sector have been extended to cover transactions undertaken in respect of Government securities transactions; the Negotiated Dealing System (NDS) has provided for an electronic platform for trading in Government securities which has stabilised well in its two years of operation. Further, the proliferation of IT has also set the stage for improving and managing risks in payment systems, in the form of the following :

- Electronic Trading Systems
- Delivery versus Payment (DVP) / Payment versus Payment (PVP)
- Real Time Gross Settlement (RTGS)
- Secured Netting Systems
- The growth of the Central Counterparty (CCP) as in the case of the Clearing Corporation of India Ltd. (CCIL) and movement to Continuous Linked Settlement.

Nature of hi-tech banking technology services in the Indian banking industry :

The nature of hi-tech IT Services in the Banking Industry have been addressed as under :

- Automated Clearing House Operations
- A network of Regional Datawarehouses - Credit Information Bureau
- Electronic Funds Transfer (EFT)
- Electronic Clearing Service (ECS) - Credit Clearing and Debit Clearing
- RBInet
- COmputerised MEssage Transfer (COMET)
- Very Small Aperture Terminal (VSAT) for BANKNET
- Regional Grid Clearing Collection of Outstation Cheques
- Credit / Debit Cards and Electronic Funds Transfer (Point-of-Sale Terminal)
- Smart Cards
- Terrestrial Microwave Radio Transmission
- Satellite Microwave (Geo-Stationary Satellite)
- Transponder
- Communication through use of Optical Fibre Technology
- INET (Packet Switched Public Data Network)

- HVNET (High Speed VSAT Network)
- Teleconferencing
- Videophone
- NICNET (District based Information System)
- Internet / Mobile / Tele Banking
- Internet Chat Relay (ICR) System
- Electronic Mail (e-mail)
- Facsimile (FAX)
- Society for Worldwide Inter-bank Financial Telecommunication (SWIFT)
- Virtual / Digital / e-Sign Signatures in banking
- Real Time Gross Settlement (RTGS) - Payment & Settlement System
- Cheque Truncation process
- 'Smartquill' Computer pen

Networking of banks through banking information technology services (BITeS) :

Over the past few years, the Banking & Finance Sector in India is transforming and integrating itself into a global scenario. The key drivers of this change are technological innovation, deregulation and introduction of new products and services.

"IT is a powerful tool with diverse applications. Our challenge is to put that power at the service of all humankind" - Kofi Annan, UN Secretary General. The United Nations Information Technology Service (UNITeS) is a new global volunteer initiative that allows volunteers from any country to give their skills and time to extend the opportunities of the digital revolution to developing countries. It was announced by the United Nations Secretary - General, Kofi Annan, in his Millennium Report.

Banking information technology services (BITeS) : a tool for rural / urban growth :

For BITeS to be successful, all bankers should come together and plan out the strategy on the lines of UNITeS, so as to build their own team of Net Volunteers ONLINE, which will go a long way in building the image of the Indian banking system across the globe.

Online Volunteers on the banking front will be part of the BITeS community as well, often working directly with their onsite counterpart Volunteers.

Specific requirements to become a volunteer under the BITeS programme depend on the nature of each assignment, but will always include :

- Experience with computers and the Internet at an average user level, plus technical requirements for each particular assignment, which could involve thematic experience, higher level ICT skills or language abilities; and
- A sense of solidarity and service, plus commitment to share knowledge and expertise with others (the volunteering "ethos" or spirit).

BITeS should be supported by an open and growing network of collaborating Organisations, from Governments, non-governmental organsiations (NGOs), private sector, academia, development and volunteer-sending agencies. Some BITeS partners may have expertise in the use of ICT to find practical solutions to developmental problems, like some NGO networks and ICT companies. Others should have expertise in managing volunteers, like Volunteer Sending Agencies (VSAs) or NGOs that operate mainly through volunteers. In time, a Coalition of partner organisations may formally be established around BITeS. The Banking-based Information Technology Programme, should function as the volunteer arm of the banking fraternity, in co-ordinating this innovative volunteer initiative to help bridge the digital divide, one banker at a time.

The benefit for bankers from the opportunities emerging from the digital revolution are immense and cannot be adequately stressed. Creation of a global volunteer programme should be aimed at bridging the digital divide between industrialisation and the banking system. BITeS will be an initiative that will channel the creative energies, skills and solidarity of volunteers around the world to collaborate with people to improve their capacity to make practical use of information and communications technologies (ICT) and thus help rural / urban banking growth. In key fields like NPA, deposit mobilisation, priority sector lending, exports, foreign exchange, treasury management, etc., volunteers working under the BITeS programme will be able to bridge the digital divide, one bank at a time.

Role of institutions (IIBF / IBA, others) for formation / partners of network for bites activities :

The following institutions can play a major role in initiation of the project of networking amongst bankers and take up other activities for formation of BITeS and thus take it globally.

- Indian Institute of Banking & Finance (IIBF), Mumbai
- Indian Banks' Association (IBA), Mumbai
- National Institute of Bank Management (NIBM), Pune
- Institute for Development and Research in Banking Technology (IDRBT), Hyderabad
- Institute of Banking Personnel Selection (IBPS), Mumbai

At the initial stage, Indian Institute of Banking & Finance and Indian Banks' Association can take the lead and act as a catalyst, in formation and implementation of BITes, which in turn, will not only change the banking environment in the rural / urban growth in India but will also be able to spread its wings across the globe. BITes should be voluntary arm of the Banking community, fielding and managing thousands of skilled, motivated volunteers for development and banking purposes all over the world, ONSITE.

BITeS should extend its services to embrace the power of the Internet, partnering with prominent Institutes such as, National Institute of Bank Management (NIBM), Institute for Development and Research in Banking Technology (IDRBT), Institute of Banking Personnel Selection (IBPS). With involvement of Banks, etc., it can come out with solutions to provide BANKAID.ORG Online Volunteering services to its member banks.

Volunteers may participate in projects that are more directly focussed on ICTs per se, while maintaining developmental relevance; for instance by installing a wireless computer network for institutions in the rural / urban areas.

In all cases, the Volunteers will be encouraged to promote volunteering during their assignments to multiply their impact (for example, providing tools and motivating trainers / bankers who have been trained in creating web pages and then to voluntarily train others).

In the near future, online volunteers whose assignments require a substantially stronger commitment (in terms of length of period and hours per week) should be specially recognised as ONLINE BITeS VOLUNTEERS. IBA may look into the various issues on a common platform. Much of leg work needs to be done for tapping into the art of voluntary service. It seems to be difficult but not impossible for the bankers to begin with. But once the ball is set rolling, automatically the team of volunteers will join the band wagon of BITeS.

Why volunteer for bites online ?

- The great advantage of volunteering online in contrast to onsite is simply that bankers can help a development organisation go ahead with their projects without having to physically move to where the organisation is located.
- This saves accommodation and travel expenses as well as workspace and materials expenses for the host organisation. By collaborating from the place of residence, one can set his / her own schedule and work at a time convenient to him / her.
- The result is that many more necessary tasks can be done and many more interested people can have the opportunity to contribute to development issues.
- There are plenty of bankers, who have availed Voluntary Retirement. This work force directly or indirectly can help.

Why should volunteer serve at all?

- We can only give some suggestions. One needs to decide for himself. If one really has the time and skills to spare and share, and if interested in upliftment & effective growth of banking segment, especially, rural / urban as well as global development, there is no reason for not getting involved and making one's skills available for creative purpose.

Future Information Technology (IT) Advancements :

- The banking industry today faces the challenge of rapidly changing customer expectations against a backdrop of liberalisation, privatisation and globalisation, volatile economies and information technology (IT).
- Retail banking clients today demand more interactive access to their accounts, mobility of investments, better segmentation of products and services, all to be accessed and delivered at their convenience.
- Commercial Banks are diversifying into financial services sector, insurance sector and fee based earnings are gaining prominence over fund based earnings.
- The mushrooming of multi function, self-service electronic delivery channels are fast replacing the brick and mortar branches in urban / rural areas.
- Conventional methods of signature are being taken over by digital e-signature. These changes necessitate commercial banks to redefine the business model in a bid to optimize its resources and deliver world class customer service.

Core Banking Solutions(CBS) - the mantra of the millennium :

- Core Banking Solution envisages a common banking software application across all branches connected to a common server or a mainframe system. The data of all the customers and accounts of these branches resides at a common place - the Data Centre. All the branches under CBS are linked to the Data Centre. Every time a transaction is to be carried out at any of the branches, the customer's account at the Data Centre is accessed and transaction is executed. Through robust communication links between the branch, the Data Centre and the high end server, the entire transaction takes only a few seconds for its completion. Thus, a branch located at hundreds of miles away from the Data Centre do not even feel that the entry which was keyed in by the CTO through a branch terminal has travelled all the way to Data Centre, carried out the posting of the transaction in customer's account and travelled back to computer terminal at the branch all in a matter of seconds. CBS branches and ATMs are inter-connected to enable internet banking, mobile / tele-banking and a host of IT enabled products and delivery channels to be effective.
- With the implementation of Core Banking Solution (CBS) by all banks, more staff can be deployed in marketing various products of banks, address customers complaints so as to increase banks business / customer service as well as to effect recoveries of NPA accounts to boost profit. Proper and effective deployment of the staff definitely gives good results. It is imperative to ensure right people for the right job and that 'round pegs are not placed in square holes'.

Project on Unique Identification Number (UDI) by the Government of India :

Banks can take advantage of one more delivery channel regarding maintaining KYC Norms for identification of customers through Unique Indentification Number (UDI), the project by Government of India, where biometric identification captured on CARD is to be issued to ALL INDIAN CITIZENS. This would act as a safeguard to banks to identify and monitor proper usage of funds and delivery of funds by the government to the individuals at large.

Suggestions for healthy growth of banking industry :

- Banks should adapt to state-of-the-art technology to compete in global market - “Life is Change. Growth is Optional. Choose wisely” - Karen Kaiser Clark
- With increasing pressure on spreads, the focus on fund-based income be shifted to fee-based income as banks try to optimize this important source of revenue
- The role of technology should become all-pervasive
- The one-size-fits-all approach to be replaced with an approach based on customisation and innovation.
- Employees need to be trained and re-deployed as per business requirements. - “It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change” - Charles Darwin.

- Banks need to maintain high levels of operational efficiency in order to be competitive.
- In the words of Sir John Bond, Chairman of HSBC :

  "In the past, industry has tended to be overly focused on product innovation. Product innovation, at best, gives a bank a three-month head start over competition. Process innovation can put a bank more than a year ahead of competition. Continued success, therefore, comes from process innovation. The ability of the bank to build ongoing process innovation is determined by the flexbility and adaptability of its core banking systems".
- To quote from the Economist : "As competition remains fierce in lackluster markets, customers hold the balance of power". In this context, banks have to become more customer-centric.
- Today, banks are in a position to capture a large amount of data about customers. This should be used to enhance business intelligence in order to deepen relationships with customers. This would enable the banks to become more responsible to customer needs.
- There is a pressing need to leverage technology in the area of customer management. Technology enables banks to increase productivity and to rapidly respond to changing expectations of customers.
- Customer management is not a front office function; it should be a bank-wise obsession. In this context, banks must continuously learn from their interactions with the customers.
- Customer preferences within the electronic delivery channels have increased. ATMs and Customer Call Centres expanded. In this rapidly changing scenario, it is important that banks devise a robust channel strategy. They need to ask themselves :
  - What are the constituents of our channel strategy?
  - How do we determine channel profitability?
  - Does the role of the branch need to change?
  - Who will drive this change within the bank?

  In short, banks have to decide on what role each channel will play, and on which customers to reach out to.
- Productivity and efficiency will be watchwords in the banking industry in the years to come.
- Change in the mindset of the employees is imperative with the changing times.
- The customer-facing team should be sensitive to customer expectations at multiple touch points of the bank. This will help deliver a unified and consistent experience across all these touch points. Banks need to impart continuous training to the staff, call center agents, Direct Sales Agents and other customer facing employees. The front-line team should also be empowered to take informed decisions to support customer service and to gear up to handle sudden spurts in transaction volumes.
- Product management should be focused on enabling rapid time-to-market and on ensuring profitability. Banks must leverage technology to customise, and to improve the quality and range of products. Further, banks should identify profitable products and corresponding customer segments.
- Subsequent to interest rate deregulation, banks have a lot of flexibility in product pricing. In fact, there are many instances of banks changing their products pricing to derive advantages.
- Consideration of the point as to how we can leverage technology to offer innovative and hybrid products to customers is required. For instance, mutual funds and insurance products are very much integral part of a bank's product offering today. Further, product positioning is another key challenge. Banks positioning strategy enables them to differentiate in a cluttered market. The objective is to obtain top-of-the-mind recall among the customers.
- Organisational effectiveness and operational efficiency will govern the survival and growth of profits
- Continuous quest for skill upgradation at all levels, development of vision and mission and commitment are some of the aspects which require to be addressed by the banking industry in the years to come.
- A classic dilemma in a banking-wide technology plan is to differentiate and map the role of business

versus the role of IT. Further, there might be a conflict between the IT Department and other business groups regarding the ownership of the project. That needs to be tackled at individual bank level.

Let us conclude by quoting Roger Enrico, CEO of Pepsico -

"When you are faced with a decision,

the best thing is to do the right thing,

the next best is to do the wrong thing, and

the worst is to do nothing"

(A) Suggestions for banking industry and technological change :

1. The demands on the financial system in the years ahead would be greater and more diversified. New skills need to be fashioned and new areas of expertise developed. The financial system is getting more complex and sophisticated, which calls for new concepts of management, more professional decision making and modernisation of work systems. The focus should be on improvement of quality of services in the banking industry, and restoring the health, productivity and competitive efficiency of the system, to develop Information Technology capabilities to meet the challenges of the future.
2. Considering the execution of new technology at bank level, its organisation and structure and the regulatory framework should be seen as an integrated package aimed at improving portfolio quality, providing greater operational flexibility and ensuring compliance with prudential norms, while, at the same time, improving the financial strength of the system through measures aimed at enhancing productivity, efficiency and profitability.
3. Giving full autonomy for decision making process with respect to internal operations of banks and financial institutions will go a long way in technology development at large. Management of banks and the institutions must be given freedom to manage their institutions subject to their accountability for performance and compliance with well laid down prudential norms and guidelines and macro credit policies which could be rule-bound and not discretionary and be equally applicable to all the constituents of the particular financial sector.
4. At branch level, autonomy in decision-making and operational flexibility can only be ensured if there are no extraneous administrative and political pressures, along with induction of new Technology. Otherwise, the system may be responsible to a great extent for the problems now facing the financial sector services industry.
5. It is observed that generally the major concerns of the banks are vendor support, inadequacy of trained staff, power and space and unions' resistance.
6. Benefits of computerisation have generally been mentioned as -

(a) To the Bank :

- Better housekeeping and control
- Prompt and improved customer service
- Optimum utilisation of staff and increased productivity
- Interest calculation made easy
- Speedy compilation of statements
- Better information system

(b) To the Staff :

- Relief from drudgery
- Exposure to new technology
- Job satisfaction
- Better work environment
- Upgradation of skills

(c) To the Customers :

- Prompt, neat and correct statements of accounts
- Faster customer service
- Accurate and timely payment of interest
- Prompt reply to customers' queries, etc.

7. Bilingualisation (Hindi Official Language)

- Educating customer groups
- Using pre-printed bilingual stationery

- Selective / phased implementation
- Bilingual software to be implemented after thorough testing
- Bilingualisation of only new ALPMs
- Bilingualisation only in Region 'A', etc.

(B) Future Areas of Research :

Research work can still be done in the following banking-based Information Technology areas :

- Computer Information and Systems Audit (CISA)
- IT related risk management
- Prevention of financial frauds and crimes
- Use of digital signature as security
- Major revisions in Information Technology (IT) Act 2000 & its amendments 2008
- Authentication and security measures in cyber space
- Various constraints, such as, pc penetration and lack of bandwith for effective usage of networking / communications amongst banks and its rural branches
- Use of mobile for banking business and business correspondent / business facilitator model for financial inclusion

References

1) Various Reports of the Committees / Working Group on IT / Mechanisation / Electronic Legislation / Payment & Settlement Sytems / Cheque Truncation set up by the Reserve Bank of India
2) RBI Report on Trend and Progress of Banking in India 2006-07 / 2007-08 / 2008-09
3) Booklets "Performance Highlights of Banks" & "Indian Banking at a Glance Indian Banks' Association (IBA)
4) Compendium of Bank Economists' Conference (BECON)
5) Annual Reports of Public Sector Banks
6) Lucas(Jr.) C.Henry Oxford University Press, New York (Class No. 658.4038 / Luc) 1999 pp ix-225 Information Technology and the Productivity paradox : assessing the value of investing in IT
7) Curtin, Dennis & Others Tata McGraw Hill, New Delhi (Class No. 004.6 / Cur) 1999 pp xx-300 Information Technology : the breaking news
8) Cats-Baris, William; Thompson, Ronald Chicago, Irwin Class No. 658.4038 / Cat / Tho 1997 pp xvi 512 Information Technology and Management
9) Shroff, F. T., (2007 - Reprint 2010) - Modern B@nking Technology, Foreword by Dr. R. B. Barman, ED, RBI & Message & blessing from H. E. Shri S. C. Jamir, Governor of Maharashtra, Published by Northern Book Centre, 4221/1, Ansari Road, Daryaganj, New Delhi-110 002 (www.northernbook.com).

The Capital and Liquidity Reform Package, July 2010 - Major Features

(1) Definition of Capital
- (i) Prudent recognition of the minority interest
- (ii) Elimination of counterparty credit restriction on hedging of financial institutions investments.
- (iii) Limited recognition of investments in the common shares, mortgage servicing rights, and deferred tax assets for calculating common equity component of Tier-I capital.

(2) Counterparty Credit Risk
- (i) Modification of bond equivalent approach to address hedging.
- (ii) Elimination of excessive calibration of credit valuation adjustment.
- (iii) To subject banks' mark to market and collateral exposures to central counterparties (CCPs) to modest risk weights in the range of 1-3 per cent.

(3) Leverage Ratio
- (i) Uniform credit conversion factors (CCF) for off-balance sheet exposures.
- (ii) Basel-II netting plus a simple measure of potential future exposure based on the standardised factors of the current exposure method.
- (iii) Testing the proposal of minimum Tier-I leverage ratio of 3 per cent during the parallel run.

(4) Regulatory Buffers, Cyclicality of the Minimum and Provisioning
- (i) Capital conservation and countercyclical buffers to be finalised by end 2010.
- (ii) Findings on cyclicality of the minimum requirement to be dovetailed with those from quantitative impact study to develop a set of supervisory tools to assess the adequacy of banks' capital buffers.
- (iii) Dialogue with. International Accounting Standards Board (IASB) to develop expected loss approach to provisioning.

(5) Global Liquidity Standard
- (i) Revision of definition of liquid assets so that they remain liquid in periods of stress.
- (ii) Introduction of 25.0 per cent outflow bucket for custody of clearing and settlement activities, as well as selected cash management activities.
- (iii) Treatment of all sovereigns, central banks and PSEs on par with corporates with 100 per cent roll-off rate for unsecured funding.

Source : Report on Trend & Progress of Banking in India 2009-10, RBI

Micro Research Prize Winning Article (2010) Financial Inclusion - Banker's Perspective

N. D. S. V. Nageswara Rao *

- 2nd Prize

The objective before present day economy is to ensure growth with distributive justice, in tune with the democratic principle of the greatest happiness of the greatest number. Growth cannot be considered as an end in itself until it translates into income generation and empowerment of the whole population, irrespective of areas, and sectors. In other words, growth has to be an 'inclusive' phenomenon and not confined to a few pockets of area and people, which makes it 'exclusive'.

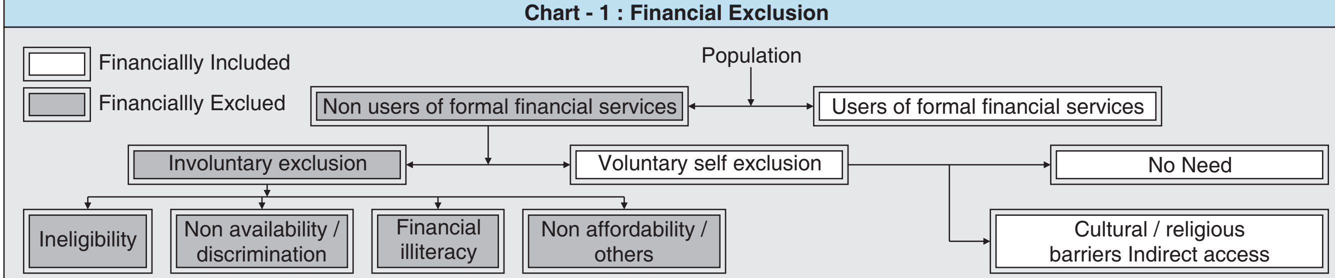
Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion (FI) denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

A broad working definition of financial inclusion could be as under :

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." -- Rangarajan Committee, 2008

A World Bank report states, "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." It recognizes the fact that financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fee. It makes the point that creditworthiness of the customer is critical in providing financial services. The report also stresses the distinction between 'access to' and 'use of' financial services as it has implications for policy makers. 'Access' essentially refers to the supply of services, whereas use is determined by demand as well as supply. Among the non-users of formal financial services a clear distinction needs to be made between voluntary and involuntary exclusion. The problem of financial inclusion addresses the 'involuntarily excluded' as they are the ones who, despite needing financial services, do not have access to them.

Chart - 1 : Financial Exclusion



Source : Finance for All? Policies and Pitfalls in Expanding Access, World Bank Report, 2008.

* ***Chief Manager, State Bank Institute of Rural Development.***

Financial exclusion in developing countries

There are a whole lot of reasons for the high degree of financial exclusion in developing economies, particularly large agrarian economies such as India and China. These include geographical factors, historical and cultural legacies, ignorance and lack of adequate focus on the part of institutions. Whatever be the reasons, the outcome of financial exclusion is that the excluded sections of people who do not have access to bank accounts and other financial services including low cost loans remain inextricably tied up to a vicious circle of low income, unmanageable debt, low productivity and eternal poverty, for want of an external stimulus. The attempt of all such economies, therefore, is to provide this external stimulus by promoting positive steps towards Financial Inclusion.

International Scene

The following initiatives brought focus on Financial Inclusion at international level :

- Setting up of the Consultative Group to Assist the Poor [CGAP] in 1996 at the instance of World Bank
- Move by the United Nations which declared the year 2005 as the International Year of Micro Credit and initiation of a consultative process involving global decision makers and financial sector leaders to explore why the majority of the world's lowest income people and micro and small enterprises are denied access to financial services.
- Publication of the Book "Building Inclusive Financial Sectors for Development" by UN (a comprehensive guide for policy makers seeking to build up inclusive financial sectors in their respective countries), popularly called the Blue Book [because of the colour of the UN Flag].

Case of India

NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm households not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion. (Rangarajan, 2008)

To put it in an other way, out of the 600,000 habitations in the country, only about 30,000, or just 5 percent, have a commercial bank branch. Just about 40 per cent of the population across the country have bank accounts, and this ratio is much lower in the north-east of the country. The proportion of people having any kind of life insurance cover is as low as 10 per cent, and the proportion having non-life insurance is an abysmally low 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards a marginal 2 per cent.

However, going by its broad objectives and implications, Financial Inclusion is being pursued in India for over half a century. The following steps taken by the Governments over the years are indicative of this picture.

- Establishment of State Bank of India in 1955 on the basis of the recommendations of the all India Rural Credit Survey Committee, for promoting rural penetration which was a statutory responsibility set out in the preamble of the State Bank of India Act.
- Nationalization of banks in 1969,
- Setting up of Regional Rural Banks,
- Launching of the Lead Bank Scheme,
- Second dose of nationalization in 1980,
- Promotion of NABARD, and
- Introduction of Kisan Credit Card (KCC)
- Linkage of Self Help Groups with Banks

Recent Steps

In its present connotation, the concept of Financial Inclusion was articulated and objective measures were introduced by Reserve Bank of India [RBI], starting with the mid-term review of the Annual Monetary and Credit

Policy for 2005-06. Since then, RBI allowed Banks to take up many steps, as under,

i. Opening of a basic banking account with 'nil' or 'low minimum' balances and minimum service charges, christened as No-frills Accounts.

ii. Simplified Know Your Customer [KYC] norms

iii. Introduction of General Credit Card (GCC) to ensure hassle-free credit to customers of small means in rural and semi-urban areas, without insisting on security, purpose or end-use of credit,

iv. One Time Settlement (OTS) for all defaulter borrowers where the principal amount is less than Rs.25,000/-

Barriers to this process

Barriers for poor people to access appropriate financial services include socio-economic factors e.g., lack of education-illiteracy, gender and age, low and irregular income, and geography, regulatory factors e.g. mandatory requirements of identity documentation and product design factors, other factors like apathy of Bankers towards these small value accounts and urban background of many Bankers who are serving rural areas as per the mandatory norms of Government. A major barrier cited to expand appropriate services to poor by financial service providers is the cost of providing these services including administering small loans. While transaction costs do not vary in direct proportion to a transaction's size and larger number of transactions bring down the costs, the fact remains that serving the poor with small value services is not viable using conventional retail banking or insurance approaches.

New Delivery Mechanism

In terms of the recommendations of the RBI Internal Group on Rural Credit and Micro Finance [Khan Committee], instructions were issued by RBI in January 2006 to examine and implement the Scheme of engaging Business Facilitators and Business Correspondents as a delivery channel for Financial Inclusion. Based on a successful Brazilian experiment, this scheme addresses the problems faced by banks in delivering financial services to the vulnerable areas insofar as costs, lack of committed manpower and infrastructure related issues are concerned. All Banks have taken suitable steps in this direction.

Review of Literature

At the outset, despite the growing recognition of the incidence of the financial exclusion of the sizeable population in developed and developing countries, the subject matter of financial inclusion has not attracted attention of the researchers to the extent it deserves, particularly in India. The Indian literature on financial inclusion is not different from the general scenario and large part of it has emanated from the Reserve Bank of India (RBI) followed by a few stray writings. The first category of literature provides a detailed account of the proactive measures for financial inclusion of the central bank (RBI) of the country, whereas the other category captures mainly the policies on rural finances and credit performance, including the nature of farmers' indebtedness in the social banking framework.

Here, it is worth mentioning the recent observations by the Dy. Governor of Reserve Bank of India.

“The number of 'No-frills Accounts' (NFA) opened present a very rosy picture. However, evaluation studies show that accounts once opened lie dormant as the poor do not have enough money to deposit. Hence, the need to transact is not there. If the banks want customer acquisition and that poor customers transact with them, they must permit overdrafts in the accounts. To begin with, very small amounts such as Rs.200, Rs.500 etc. could be sanctioned. The needs of the poor for consumption and for lifecycle events such as medical emergency, weddings, funerals, etc. are pressing and need immediate gratification. They need to be made aware that to meet their emergency credit needs, an overdraft facility exists and they can avail should they require. This would bring them to the banks to transact and enable the banks to sell other products apart from making the entire exercise viable. For those, who only wish to save, a pure savings product like a recurring or a variable recurring deposit product could be offered. A remittance product to facilitate Electronic Benefit Transfer (EBT) or other

remittances should also be offered. For entrepreneurial credit, products such as GCC, KCC, etc. could be offered. This is the minimum set of products that needs to be offered. Beyond this, banks are free to provide any other products such as insurance, mutual funds, etc. as per their assessment and capability."
- Shri K. C. Chakrabarty, Dy. Governor, RBI, 2010

Research Questions

So far, all the Banks are churning out the figures of 'no-frills' accounts opened and the number of villages / districts being brought under 100% Financial Inclusion. But, the surveys by RBI brought out the fact that most of these accounts are lying dormant, and the claims of 100% Financial Inclusion are far from true. Thus, there is a need to understand the perspective of Bankers, who are working in the rural hinterland, on Financial Inclusion. From the existing literature, it clearly emanates that the following questions are not answered so far :

i. What is the understanding on Financial Inclusion by the ground level operating functionaries of Banks?

ii. Whether we should go top-down structure (as hitherto followed - instructions from Government / RBI) to implement Financial Inclusion or bottom-up approach through educating and encouraging Bankers at the ground level to go for Financial Inclusion ?

Objectives

Number of measures initiated by Central Government & Reserve Bank of India, with regard to financial inclusion, are still to be implemented as per their expectations, by various Banks. This study considered these issues / research questions with the following objectives :

- To find out the understanding of the ground level operating functionaries about Financial Inclusion
- To suggest a suitable structure to implement Financial Inclusion

Conceptual Model

Based on above objectives, the following variables have been identified.

Independent Variables (IV) :

$\left.\begin{array}{l}\text{Knowledge}\\ \text{Understanding}\end{array}\right\}$ of the Bankers

Dependent Variable (DV) :

Implementation of Financial Inclusion

Knowledge Understanding (IV) ⟹ Banker ⟹ Implementation of Financial Inclusion (DV)

Hypothesis

The study attempts to test the following hypothesis :

H_1 : Better understanding of Financial Inclusion concept, by ground level operating functionaries of Banks, has significant impact on the implementation of Financial Inclusion.

Scope of The Study

The study is required to cover a huge gamut of population. As the same cannot be taken up on a large scale due to cost and time constraints, it is done with a limited sample of 26 officials from various Banks across the country.

Methods

i) Research Methodology :

The study followed the mixed research methodology, wherein the descriptive research with the available literature as well as Causal research with the feedback gathered from the field level was used. The available literature was secondary data available in the form of speeches, statistical information from Reserve Bank of India, various Banks, NABARD, Government Organizations, etc. For the purpose of field level data, a structured questionnaire was administered to the sample.

ii) Population and Sample

The population for the study was experienced Bankers from the branches of various Banks. Sample size was 26 officials from rural and semi-urban branches in 13 States. However, it was non-probability sampling.

iii) Tools and Techniques

The questionnaire covered simple questions, with options, to test the understanding of the concept of

Financial Inclusion and their opinion on the need / requirement for Financial Inclusion. From the data so collected, using the statistical tools like descriptive statistics, the necessary analysis was done.

Data Analysis and Interpretation

The collected data was tabulated and with due analysis, inferences were drawn to test the hypothesis.

Implications of the Study

The results obtained from the study provide direction to the Banking industry by way of suitable amendments to their existing plans of action. For Researchers in the field of social science / finance / banking, it will be a guiding point for new research. Overall, this study will be creating a basis for the continuation / change of gear in the process of Financial Inclusion.

Findings & Discussions

The feedback collected from the sample was analysed and is presented hereunder :

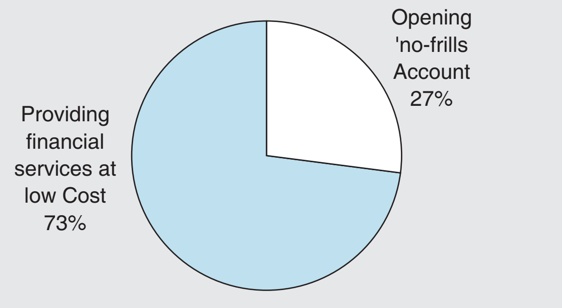
Question : In your opinion, what is Financial Inclusion?

The responses were (i) Opening 'no-frills' account - 7, (ii) Sanctioning DRI loans - 0, and (iii) Providing financial services at low cost - 19.

The data was presented in graphical terms, percentage-wise :

Chart - 2

Responses to the question : What is Financial Inclusion?



This clearly stated that while majority of the Bankers understand the formal definition of 'Financial Inclusion', but still 27% of the respondents were of the opinion that financial inclusion meant opening a 'no-frills' account only. This needs to be attended to by the Bank authorities through educating their staff.

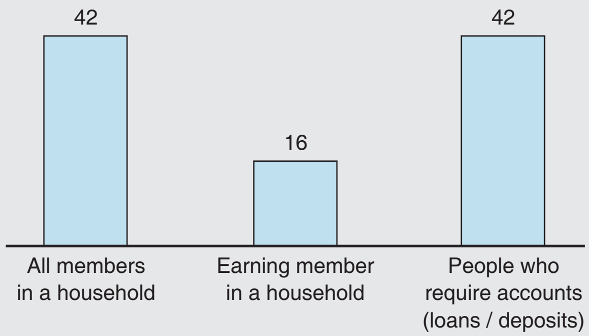
Question : Who are to be covered under Financial Inclusion ?

The responses were (i) All members in a household - 11, (ii) Earning member in a household - 4 , and (iii) People who require accounts (loans / deposits) - 11.

This data could be presented graphically, in percentage-terms, as under :

Chart - 3

Who are to be covered under Financial Inclusion?



There were wide range of discussions in the media / financial forums as to who are to be covered under Financial Inclusion. One argument was that all people who require accounts are to be covered under Financial Inclusion. Another argument was that covering all members in a household through individual accounts will not serve any purpose, as the income earned by all the members in the family will be entirely used for the benefit of the whole family, hence there was no need of more than one account.

The feedback from the sample clearly replicated the divergent views held by the various sections of people. 42% each of the respondents said that all members in a household are to be covered / People who require accounts are to be covered. Another 16% said that earning member in a household is to be covered under Financial Inclusion.

Question : Whether Financial Inclusion is profitable for Banks?

The responses were (i) Yes - 16, (ii) No - 8, and (iii) No Idea - 2.

The graphical presentation, in percentage-terms, would be as under :

Chart - 4

Whether Financial Inclusion is profitable for Banks?

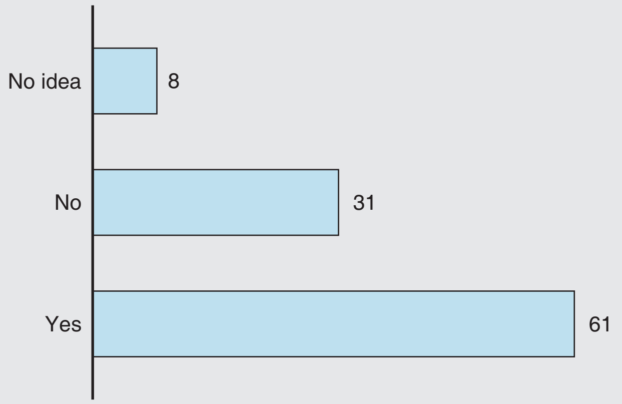
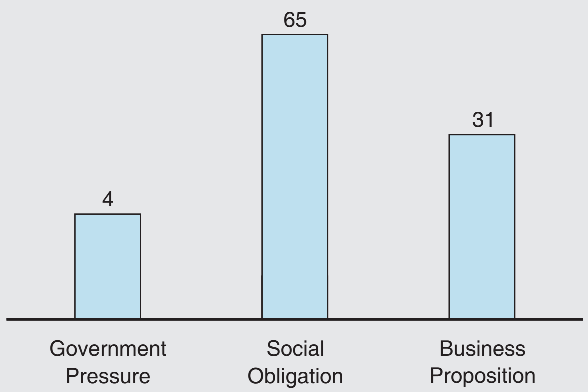


Chart - 5

Why Banks should take up Financial Inclusion?



While 61% of the respondents were of the opinion that Financial Inclusion is profitable for Banks, another 31% strongly believed that it is not a profitable proposition. There appears a situation where-in this 31% respondents, may not participate wholeheartedly in Financial Inclusion activities. However, the recent permissions given by RBI to the banks to charge the customers of Financial Inclusion may be a positive step in the direction of covering the cost of Financial Inclusion to a greater extent. It is hoped that by charging the customers, the 31% respondents may also change their opinion, as it will result in profitability (initially, it may cover the expenses only) in the coming days.

Question : Shall the banks resort to Financial Inclusion in a big way ?

The responses were (i) Yes - 23, (ii) No - 2, and (iii) No idea - 1

Majority of the respondents (88%) were supporting the Financial Inclusion initiative. However, it was interesting to note here that while only 61% respondents were of the opinion that Financial Inclusion is profitable for Banks, 88% respondents were supportive of Financial Inclusion.

Question : Why Banks should take up Financial Inclusion ?

The responses were (i) Government pressure - 1, (ii) Social obligation - 17, and (iii) Business proposition - 8

The responses in graphical presentation, in percentage-terms, were presented as under :

Majority of the Bankers (65%) were of the opinion that Banks should take up Financial Inclusion, as a social obligation. Only 31% respondents treat it as a business proposition. Very few feel that Financial Inclusion was to be taken up because of Government pressure.

Some other findings from the above data are :

- 61% of the respondents felt that Financial Inclusion is profitable and hence, Banks should go for it in a big way.
- 35% of the respondents expressed their opinion that Financial Inclusion is profitable, as such, Banks should go for it in a big way as a social obligation.
- 31% of the respondents opined that Financial Inclusion is profitable, as such Banks should go for it in a big way as a business proposition.

The above findings support the hypothesis - Better understanding of Financial Inclusion concept, by ground level operating functionaries of Banks, have significant impact on the implementation of Financial Inclusion.

Conclusion & Suggestions

The feedback received from the sample across the country, among different banks suggested that

i. Majority of the Bankers (73%) are clear in the concept of Financial Inclusion

ii. Majority of the Bankers (61%) opine that Financial Inclusion is profitable

iii. Majority of the Bankers (88%) suggest that Banks should go for Financial Inclusion in a big way

iv. Majority of the Bankers (65%) feel that Banks should take up Financial Inclusion as a social obligation.

The following points which emerged in the recent past needs to be kept in mind :

a. RBI permitted Banks to charge the customers under Financial Inclusion, of course, on a conservative basis

b. Various studies brought out the fact that there is fortune at the bottom of the pyramid, and the market size in Rural India for financial inclusion is huge. For example, the savings of Self Help Groups in the Banks reached thousands of crores.

c. Covering a household through various means, may be savings account, loan account, micro insurance, micro mutual fund, remittances, at an affordable cost, is to be treated as Financial Inclusion.

Till now, the dictum is coming from the top (Government / RBI) to go for Financial Inclusion. However, by creating awareness among staff, providing encouragement to the staff and recognizing the efforts of the operating functionaries at the ground level, Banks can get better results in implementation of Financial Inclusion. Then, the cases of dormant accounts from the day of opening, hiking up figures to show 100% Financial Inclusion will not recur. As such, it is suggested that :

- Banks / RBI should conduct awareness camps about Financial Inclusion to the Bank staff
- The negative thought of 'Financial Inclusion is not profitable' should be erased from the minds of operating functionaries through proper pricing of the Financial Inclusion products.
- Banking to the Poor is not Poor Banking. Financial Inclusion is not always only Social Banking. There is lot of potential to get business from the people at the bottom, as amply shown by the Self Help Group movement in the past 10 years or more. This should be imbibed in the minds of operating functionaries.

Once these concepts reach the operating functionaries in the right spirit, Banks can achieve real Financial Inclusion, which is a worthy business proposition. Thus, there is an urgent need for bottom-up approach in driving the Financial Inclusion movement in the coming days.

References

- M. Mahadeva (2008), Financial Inclusion in India, Micro Finance and Poverty Eradication - Indian and Global Experiences, Edited by Dr.Daniel Lazar & Prof. P. Palanichamy, Pondicherry University, Pondicherry & New Century Publications, New Delhi.
- Banerjee, Asim Kumar (2007), Financial Inclusion, Rural Banker
- Rangarajan (2008), Report of the Committee on Financial Inclusion
- K. C. Chakrabarty, Deputy Governor, Reserve Bank of India, speech at the 23rd Skoch Summit on 17 June, 2010 in Mumbai.
- Finance for All? Policies and Pitfalls in Expanding Access, World Bank Report, 2008. The report provides a survey of problems, measurement problems and issues in financial inclusion in a cross country framework.

Micro Research Prize Winning Article (2010) Financial Literacy - The Key to Financial Deepening

Dr. Suresh Chandra Bihari *

- 3rd Prize

Financial deepening is the new buzzword in the corridors of financial world today, especially in a country like India where over 50 per cent of the population has no access to banking. The regulators, policy-makers and planners strongly believe that financial deepening is the first step for inclusive growth in India where about 260 million adults are under-banked, 80 percent of them being in rural areas. More than 25 million no frills savings accounts have been opened by banks in the last four years since 2006 through various branchless banking channels (Business correspondents- BC), but according to a study done by Skoch Foundation only around 12% are active. The major reason for this is the lack of financial literacy among masses at bottom of the pyramid.

Financial deepening is a term used often by economists, experts of economic planning and development. It refers to the increased provision of financial services with a wider choice geared to all levels of society. It also refers to the macro effects of financial spreading on the larger economy. The focus of the Policy makers today is to bring the 50 per cent of the under serviced population under the fold of financial inclusion which would be about providing them access to various financial instruments like insurance and investment which will not only help the individuals and bring them closer to the benefits of convergence but also propel economic growth. The great need today is institutional deepening for improving the economic governance of a country.

Currently, not more than 10-15% of the people are covered by pension in India. The figure in OECD countries was as high as 70%. Affordability, reach and diversity in the product portfolio are the basic requirements in Pension Fund Management while the first and most important challenge in increasing the insurance penetration is awareness. The need of the hour is simple products designed for people with erratic incomes delivered through low cost operations.

Focus on Financial Literacy

Financial literacy refers to the ability to make informed judgement and to take effective decisions regarding the use and management of money. Financial literacy is regarded as an important requirement for functioning effectively in modern society and trends in retirement income policies, work patterns and demography suggest that its importance can only increase in the years ahead. Raising financial literacy supports social inclusion and enhances the wellbeing of the community.

Financial Literacy can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. Viewed from this standpoint, financial literacy primarily relates to personal financial literacy to enable individuals to take effective actions to improve overall well-being and avoid distress in matters that are financial.

The need for financial literacy is felt in the developed and the developing countries alike. In the developed countries, the increasing number and complexity of financial products, the continuing shift in responsibility for providing social security from governments and financial institutions to individuals, and the growing importance of individual retirement planning make it imperative that financial literacy be provided to all.

In the developing countries also, the increasing participation of a growing number of consumers in newly developing financial markets will necessitate

* ***Professor (Banking & Finance) IBS, Hyderabad.***

the provision of financial literacy if these markets are to expand and operate efficiently. In addition, the substantial growth of international transactions during the last decade, resulting from new technologies and the growing international mobility of individuals, makes improvement in financial literacy, increasingly, an international concern.

From a regulatory perspective, financial literacy empowers the common person and thus reduces the burden of protecting the common person from the elements of market failure, attributable to, de facto, information asymmetries. For example, the emphasis on market discipline, as one of the three pillars of banking regulation, especially under Basel-II, is best served by participation of financially literate bank customers in the financial marketplace.

Financial literacy can make a difference not only in the quality of life that individuals can afford, but also the integrity and quality of markets. It can provide individuals with basic tools for budgeting, help them to acquire the discipline to save and thus, ensure that they can enjoy a dignified life after retirement. Financially educated consumers, in turn, can benefit the economy by encouraging genuine competition, forcing the service providers to innovate and improve their levels of efficiency.

So, financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make informed choices to improve their financial position.

Importance of Financial Literacy

Financial literacy assumes importance in this changed financial environment arising out of the synthesis of the processes of liberalisation, globalisation and reforms leading to increased competition. In considering means to improve the financial status of families, financial literacy can play a critical role by equipping consumers with the knowledge required to choose from a myriad of financial products and providers. In addition, financial literacy can help provide individuals with the knowledge necessary to create household budgets, initiate savings plans, manage debt, and make strategic investment decisions for their retirement or for their children's education.

Being educated financially also enables individuals to better appreciate the possible contingencies and save for a rainy day, in an appropriate manner. It can empower consumers to become better shoppers, allowing them to procure goods and services at lower cost. This process, in turn, raises consumers' real purchasing power and multiplies the opportunities for them to consume, save, or invest. Having these basic financial planning skills can help families to meet their near-term obligations and maximise their longer-term financial well-being.

Financial literacy is also an integral component of customer protection. Despite concerted efforts, the current state of transparency coupled with the difficulty of consumers in identifying and understanding the fine print from the large volume of information, leads to an information asymmetry between the financial intermediary and the customer. In this context, financial literacy may help to prevent vulnerable consumers from falling prey to financially disquieting credit arrangements.

Financial literacy primarily relates to personal finance, which enables individuals to take effective action to improve overall well-being and avoid distress in financial matters. Financial literacy goes beyond the provision of financial information and advice. It is the ability to know, monitor, and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

Global Practices

The US Treasury established its Office of Financial Education in 2002. The Office works to promote access to the financial literacy tools that can help all US citizens make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Financial Literacy and Education Commission (FLEC),established by the Congress in 2003 through the passage of the Financial Literacy and Education

Improvement Act, was created with the purpose of improving the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education. The Federal Reserve, along with numerous other federal government agencies, is a member of this commission, which is supported by the Office of Financial Education.

The Federal Reserve Systems has since redesigned its financial education website, FederalReserveEducation.org, which is dovetailed to increase the use of Federal Reserve educational materials and promote financial education in the classroom. The website has material intended for the general public, as well as materials specifically geared toward teachers and high school and college students. It provides easy access to free educational materials, a resource search engine for teachers, and games for various ages and knowledge levels. The other regional Feds also have various interactive on-line programmes on their website designed to generate awareness about better financial management and assessment of one's own financial position.

In the UK, the Financial Services Authority (FSA) has launched the biggest ever campaign to improve the financial skills of the population and imparting education to enable a better appreciation of the risks and rewards inherent in financial instruments.

In Australia, the Government established a National Consumer and Financial Literacy Taskforce in 2002, which recommended the institution of the Financial Literacy Foundation in 2005. Working closely with states and territories, the Foundation has produced a National Curriculum Framework for Financial Literacy to provide benchmarks for teaching the school children the importance of managing their money.

In Malaysia, the Financial Sector Master Plan, launched in 2001, includes a 10-year consumer education program. This agenda includes infrastructure and institutional capacity development in the areas of financial literacy, advisory services, distress management and rehabilitation. For this purpose, the Bank Negara Malaysia in partnership with the financial industry and other government agencies, has introduced the Financial Mediation Bureau, Deposit Insurance Scheme, Basic Banking Services Framework and also created a new class of licensed Financial Advisers. Savings and literacy programs are also being promoted in schools. A one-stop centre has recently been established within the central bank for the public to obtain information about financial services in Malaysia and to provide face-to-face customer service on general enquiries and complaints. These initiatives have been reinforced by high levels of transparency and disclosure.

In collaboration with the government agencies, Monetary Authority of Singapore launched a national financial education programme (Money SENSE) to enhance financial literacy and self-reliance of consumers. The programme covers three tiers of financial literacy : basic money management covers skills in budgeting and saving as also tips on responsible use of credit (Tier-I); equipping citizens with the skills and knowledge to plan for their long-term financial needs (Tier-II); and imparting knowledge about different investment products and skills for investing (Tier-III).

Above all, the Organization for Economic Co-operation and Development (OECD) has been taking a pro-active initiative in generating awareness about financial literacy. It has recently released a major international study on financial literacy titled 'Improving Financial Literacy' encompassing practical guidelines on good practices in financial literacy and awareness. These guidelines, in the form of a non-binding recommendation, are designed to help countries devise and implement effective financial literacy programmes, drawing from the best practices in this area in OECD countries. They promote the role of all the main stakeholders in financial literacy: governments, financial institutions, employers, trade unions and consumer groups. In addition, they also draw a clear distinction between public information provided by the government and regulatory authorities, and that supplied by the financial analysts.

It is also important to devise ways to ascertain whether financial literacy has achieved its objective, such as generating increased consumer awareness or a changed behaviour. The evidence, however, suggests that such programmes tend to be effective. For instance, in the United States, it has been observed that workers increase their participation in retirement savings plans funded by employee and employer contributions when the latter offers financial literacy programmes, whether in the form of brochures or seminars. Consumers who attend one-on-one counselling sessions on their personal finances have fewer delinquencies.

Why Financial Literacy is more important for India

India has an efficient financial market in terms of technology and systems. Significantly, India also has one of the highest savings rate in the world our gross household savings rate, which averaged 19% of GDP during 1996-97 to 1999-2000, increased to about 23% in 2003-04, and has been growing ever since.

While Indians, as a whole, are saving more, where they are investing these savings is a cause for concern. Investments by households have increasingly moved either to risk-free, government-backed, fixed-return, low-yielding instruments or in non-financial assets. As per an RBI report, only 1.4% of household savings was invested in equity, mutual funds and debentures in 2003-04. Though this went up to about 4% in 2005-06, it is still small and is nowhere near 23.3% in 1991-92.

It is also alarming that in a country with over one billion people, just 8 million less than 1% has invested in the capital market. According to a survey by Invest India Dataworks in 2007-the year in which the capital markets reached the peak in recent years, it was found that among those Indians who earn and save, an overwhelming proportion keep the money at home or in a bank : as a result, only 5.3 million of the 321-million paid workers invest in mutual funds and barely 4.3 million of these 321-million paid workers have invested in equities.

Unless the common person becomes a wiser investor and is protected from wrongdoings, wealth creation for the investor and the economy will remain a distant dream. A majority of our households are not using modern financial markets. Even among those who are, most are not doing it well. Low knowledge among households of financial markets, concepts and products has a direct impact on mass-scale utilization of financial markets. Financial literacy also plays a significant role in efficient allocation of household savings and the ability of individuals to meet their financial goals. Financial literacy also means the ability to seek sound financial advice.

Indian Financial Literacy Scenario - A Recent Survey

As per a comprehensive survey of over 63,000 Indian households to understand how India earns, spends and saves, it was observed that a rural household's total annual expenditure, including both routine and unusual expenditure, amounts to Rs.41,000, resulting in a surplus income of roughly about Rs.11,000. An urban household in contrast has a surplus income of Rs.25,000. The survey also highlighted disparities in saving habits. Levels of income, expenditure and saving related behaviour are linked to the age, education levels and type of engagement of the chief earner.

Salary and wage earners account for a low share of the total households (18.4%) but highest share of the total earnings (30.8%) with an annual income of Rs.109,000. After taking care of total expenses of Rs.76,000, these households had a surplus income of about 30% of their income.

By contrast, a third of households earn their income from labour, but this group's share in the total earnings was only 16% and had a surplus income of just about 7.7% of their income. Similarly, households where the chief earner was in late middle age (46-55 years) accounting for 21% of all households had the highest surplus income (Rs.19,000 per annum) among all other age groups which was about 24%of total income.

The findings of this Survey clearly brought about a need for financial literacy in Indian households. An astounding 96% of Indians across rural and urban India felt they would not survive for more than a year in case of loss of their major source of income. However, when asked how confident they were about their financial stability, an overwhelming 54% answered in the affirmative. This misplaced financial optimism in most cases stemmed from knowing they had the support of a joint family system. However, this is and will not hold true in a fast-changing social fabric amongst Indian households.

More than half of the Indian households prefer to save by keeping their surplus income in commercial banks. However, more than a third of Indians simply prefer to keep their surplus money at home. Households opting for post-office deposits account for just 5%. While top 20% of income earners save up to 44% of their income, the bottom 20% borrows up to 33%. Although financial institutions (a bank or cooperative) constitute the main source of borrowing, a significant proportion of Indian households rely on informal sources principally the money-lender in rural India to make ends meet. Almost 40% of rural Indian households and a fourth of urban Indian households borrow from the money-lender to meet expenditures such as health, medical treatment and routine household expenditure.

Financial Literacy - An Adjunct for Financial Inclusion

Financial literacy is considered an important adjunct for promoting financial inclusion and ultimately financial stability. Both developed and developing countries, therefore, are focusing on programmes for financial literacy / education. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, which still remains out of the formal financial set-up.

In the context of 'financial inclusion', the scope of financial literacy is relatively broader and it acquires greater significance since it could be an important factor in the very access of such excluded groups to finance. Further, the process of educating may invariably involve addressing deep entrenched behavioural and psychological factors that could be major barriers.

In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives.

The challenges of household cash management under difficult circumstances with few resources to fall back on could be accentuated by the lack of skills or knowledge to make well informed financial decisions. Financial literacy can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

There is a need for banks and other agencies striving to extend financial literacy to the masses to appreciate that financial inclusion is a continuous process. Efforts to extend literacy to make the common man enabled by being aware of the evolving functional, legal and technical issues cannot be a one-time effort.

The philosophy of FI has gained momentum in India, with the realization that the benefits of growth and development witnessed by India in the post-liberalized economic regime have not been apportioned equitably with the common man. In the last decade, the country grew at over 9% per annum. Eradication of poverty, however, has not been commensurate with this growth trend. Lifting half a billion people out of poverty is a challenge that India is now facing. It was in pursuance of this objective that the FM included a paragraph on FI in his Budget Speech 2010-11. that reads : “It has been decided to provide appropriate banking facilities to habitations having population in excess of 2,000 by March 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries. These services will be provided using the 'business correspondent' and other models with appropriate technology back-up. Using this arrangement, it is proposed to cover 60,000 habitations.”

By all means, this is a noble initiative in a country where, at present, only about 30,000 habitations have a commercial bank branch. It is also assessed that just about 40% of the population across the country have bank accounts and the proportion of people having any kind of life insurance is as low as 10% and proportion having non-life insurance is as low as 0.60%.

FI offers economic opportunities not only for the common man but also for financial institutions. In building savings, availing credit and making investments, the philosophy is a guiding mantra for the aam aadmi. Counselling and financial literacy efforts initiated and carried out by commercial banks is the most significant empowerment tool. This empowerment will help the underprivileged to relieve themselves from the clutches of middlemen and moneylenders and associate with the formal financial system.

The objective of financial literacy is to protect the customer at the bottom of the pyramid. It helps customers to better understand and manage financial risk and deal with complexities of the market place and take advantage of increased competition and choice in the financial sector. The RBI, on its part, intends to advance the cause of financial literacy in the country as part of an overall strategy. Currently, a process of credit counseling is being encouraged to help all borrowers, particularly those in distress, to overcome current financial problems and gain access to the structured financial system.

Initiatives taken by RBI

The Reserve Bank has undertaken a project titled 'Project Financial Literacy'. The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens. It is disseminated to the target audience with the help, among others, of banks, local government machinery, NGOs, schools, and colleges through presentations, pamphlets, brochures, films, as also through the Reserve Bank's website. The Reserve Bank has already created a link on its web site for the common person to give him / her the ease of access to financial information in English and Hindi, and 12 Indian regional languages.

A financial education site was launched on November 14, 2007 commemorating the Children's Day. Mainly aimed at teaching basics of banking, finance and central banking to children in different age groups, the site will also eventually have information useful to other target groups, such as, women, rural and urban poor, defence personnel and senior citizens. The comic books format has been used to explain complexities of banking, finance and central banking in a simple and interesting way for children. The site has films on security features of currency notes of different denominations and a games section. The games currently on display have been especially designed to familiarize school children with India's various currency notes.

In addition, with a view to promoting financial awareness, the Reserve Bank conducted essay competitions for school children on topics related to banking and financial inclusion. The Bank has also been participating in exhibitions to spread financial literacy. In 2007, it participated in the exhibition aboard the 'Azadi Express' a train to commemorate 150 years of India's freedom struggle which began in the year 1857 run through several places in the country for a year. The Reserve Bank also launched 'RBI Young Scholars Award' Scheme amongst students undergoing undergraduate studies to generate interest in and create awareness about the banking sector and the Reserve Bank. Under the scheme, up to 150 young scholars are selected through country-wide competitive examination and awarded scholarships to work on short duration projects at Reserve Bank.

Credit Counselling

Credit Counselling can be defined as 'counselling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting, and financial management'. It serves three purposes. First, it examines the ways to solve current financial problems. Second, by educating about the costs of misusing a credit, it improves financial management. Third, it encourages the distressed people to access the formal financial system.

Credit counselling (known in the United Kingdom as debt counselling) is a process of offering education to consumers about how to avoid incurring debts that cannot be repaid. Credit counselling often involves negotiating with creditors to establish a Debt Management Plan (DMP) for a consumer. A DMP may help the debtor repay his or her debt by working out a repayment plan with the creditor. DMPs, set up by credit counsellors, usually offer reduced payments, fees and interest rates to the client. Credit counsellors refer to the terms dictated by the creditors to determine payments or interest reductions offered to consumers in a debt management plan.

Thus, credit counsellors help their clients find realistic solutions to their problems and agree on repayments that are achievable. Credit counselling is kept confidential. Counselling services are generally offered free or for a very nominal charge, so that no undue additional burden is put on the already indebted customer.

Initiatives taken by some Banks

A few banks have already taken initiatives in opening credit counselling centres in the country. An Internal Group constituted by the Reserve Bank to study credit counselling initiatives, visited some of the counselling centres in the state of Maharashtra viz., 'ABHAY' counselling centre (an initiative of Bank of India); Disha Trust (an initiative of ICICI Bank Ltd.) and Grameen Paramarsh Kendras (an initiative of Bank of Baroda).

The counsellors at these centres assist people on a face to face basis and also those who approach them over telephone, email, or by means of letters. Customers facing credit problems arising out of multiple credit cards, personal loans, housing loans and loans from societies approach the counselling centres for advice and guidance. The counsellors guide their customers and help them to take up with the banks concerned for rescheduling / restructuring of loans.

Some of the common features of these centres are as under :

- The counselling centres are mainly funded by Trusts set up by banks or funded by the banks themselves.
- The counsellors manning the centres are retired or serving bank employees.
- Counselling is provided free of cost.
- The counselling presently provided by most of the centres is mainly curative in nature, being given after a crisis event had occurred.

The unique features observed in some of these counselling centres are :

- Arrangement for experts to guide farmers on modern farming methods, cooperative farming, marketing strategy, etc.
- Focus on credit related problems of urban clientele on account of credit card, personal loans, housing loans, and defaults on account of business failures.
- Manned by Agricultural Officers of the bank to provide awareness on various products and services of the bank.
- Training and awareness camps are organised by some of these counselling centres to educate people about the need to save and to familiarize them with the concept of credit cards, impact of minimum charges, etc. As these counselling centres are housed mainly in the banks' premises, expenses incurred are mainly on account of payment of honorarium to counsellors; such honorarium ranged from Rs.12,000 to Rs.30,000 per month.
- Although efforts are being made to hold training camps and create awareness among the masses on the need for saving, planning expenditure and also about various banking facilities, etc., a lot more is yet to be done to popularize and scale-up the effort.

Some issues relating to setting up of counselling centres in India that need to be addressed are as follows :

- A major constraint faced by the counselling centres in their effort to bring about a solution for the distressed borrowers is the lack of credence attached to the references made by these centres to banks, on the grounds that they have no 'locus standi' in the matter. Therefore, there is a need for credit counselling centres to be empowered for liaising and negotiating with banks on behalf of their customers.
- As quality of service is an important aspect, it is desirable to have appropriately bench-marked quality standards for credit counsellors and counselling agencies. Like-wise, it would also be desirable to have a system of accreditation of counsellors. Once setting up of counselling centres gather momentum, they could consider forming an association of credit counsellors.
- Enlisting committed and well-trained personnel is crucial for success of counselling centres. This need is to be addressed / ensured.

- Inadequate credit information / credit history of the borrowers or total lack of such information is another area of concern, which needs to be addressed.
- As lack of awareness is a major stumbling block in such initiatives, it is necessary to give wide publicity to the concept of credit counselling and the free availability of such services.

Conclusion

Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices.

Financial literacy goes beyond the provision of financial information and advice. The focus of any discussion on financial literacy is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on a day to day basis.

Organization for Economic Co-operation and Development (OECD) has rightly defined financial education as 'the process by which financial consumers / investors improve their understanding of financial products, concepts and risks, and through information, instruction and / or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being'.

Prosperity can only come by properly balancing the four key personal finance components i.e. earning, spending, saving and investing. To achieve this, financial literacy is very important and should be made mandatory.

References

1. 'The Role of Financial Education: The Indian Case' - Inaugural Address by Dr. Y. V. Reddy, Governor, Reserve Bank of India at the International Conference on Financial Education organised by OECD and co-hosted by Pension Fund Regulatory and Development Authority at New Delhi on September 21, 2006.
2. Policy Brief July 2006; the importance of Financial Education, Organisation for Economic Cooperation and Development (OECD).
3. Credit counselling - legal definition : http:// www.nolo.com/definition.cfm/Term; Report of the Expert Group on Agricultural Indebtedness, July 2007, Chairman : R. Radhakrishna
4. Credit Counselling : An Indian Perspective: Address delivered by Dr. Y. V. Reddy, Governor, Reserve Bank of India at the Foundation Day Function of Bank of India, Mumbai on September 7, 2006.
5. ECONOMIC TIMES-e-papers dated 4-1-2010, 11-9-2008, 4-4-2008, 31-7-2007
6. DNA MONEY dated 30-6-2008
7. Special address by Ms. Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at BANCON 2006, Hyderabad, 4November 2006.

Innovations in Recovery Management of NPAs : A Practioner's Perspective

L. P. Padhy *

Introduction

The Banking sector is based on strong foundation of intermediation process - mobilizing resources and optimum use / deployment of the same thereby earning a spread which we call profit. Banks should always continue to be sound and stable and enjoy the trust of the public for the efficient discharge of this intermediation functions. With the introduction of norms of Income Recognition and Asset Classification (IRAC) in the Banking Sector in India, Management of Non Performing Assets (NPAs) has emerged as one of the major challenges facing banks.

Once an asset ceases to generate any income for a bank, whether in the form of interest or principal repayment, it is termed as non-performing asset. As per prudential norms suggested by the RBI, a bank cannot book interest on an NPA on accrual basis. In other words, such interest can be booked only when it has been actually received. Therefore, this has become what is called as "critical performance area" of the banking sector as the level of NPA affects the profitability of a bank.

Status of NPAs in Banks

Gross NPAs of Scheduled Commercial Banks (SCBs) increased to Rs 68973 crore as on March end, 2009 from Rs 56309 crore as on March end, 2008. Net NPAs as on March end, 2009 amounted to Rs.31424 crore as compared with Rs.24730 crore as on March end, 2008.While the percentage Gross NPAs to Gross advances of SCBs remained at 2.3% for both the fiscals 2008 & 2009, the percentage of Net NPAs of SCBs marginally increased from 1% as on March end, 2008 to 1.1% as on March end, 2009.The overall Gross NPA of all SCBs stood at Rs81813 crore (2.5 percent of Gross Advances) as on March31, 2010.

The Report on Trend and Progress of Banking in India, 2008-09 shares information about the Composition of Loan Assets of SCBs. It is worthwhile to note that the share of NPAs in "Doubtful" and "Loss" category remained more or less static; the share of sub-standard assets witnessed some variations. Now, the main concern about the banking system is deteriorating asset quality and the volume of restructured loans. Also, the future performance of restructured loans will determine the evolution of the NPA trend in India.

During the first quarter of fiscal 2011, asset quality continued to deteriorate, with all PSBs witnessing higher level slippages leading to pressure on their gross and net NPA ratios. The absolute level of gross NPAs of select banks as on June 30, 2010 rose by 28.7% y-o-y to Rs.80879 crore. CARE, the Rating Agency, has pegged the sector's gross NPAs at 3.5% of gross advances by March, 2011, compared to 2.5% of gross advances during the fiscal 2010.

Net NPAs of Banking Industry - At a Glance

Bank Groups	Net NPAs - 31.03.2009 (%)	Net NPAs - 31.03.2010 (%)
SBI &Associates	1.47	1.50
Nationalized Banks	0.68	0.91
Old Private Sector Banks	0.90	0.83
New private Sector Banks	1.40	1.09
Foreign Banks	1.81	1.82
All SCBs	1.05	1.12

Sources : Reserve Bank of India - A profile of Banks 2009-10

Barring the State Bank group, Nationalized Banks and foreign Banks, the other Bank groups could show reduction in their Net NPAs during the period 2009-10.The benefits rescheduling of assets might have come to the rescue of banks to improve their NPAs position.

* Chief Manager (Training), Bank of Baroda, Staff College.

Importance of Management of NPAs

An NPA account not only reduces profitability of banks due to provisioning in the profit and loss account, but their carrying cost is also increased which results in excess and avoidable management attention. Apart from this, a high level of NPAs also puts a strain on a banks' net worth because, banks are under pressure to maintain a desired level of capital adequacy and in the absence of comfortable profit level, they eventually look towards their internal financial strength thereby slowly eroding the net worth. High NPAs will also raise corporate governance issue where every stake holder is keen to know the reasons of high level of NPAs.

In this paper, an attempt is made to analyse developments in the area of recovery and prevention of NPA and also suggest reforms / innovation in management of NPAs with special thrust on recoveries of amount blocked in this segment of "Contaminated Assets".

The problem of NPAs is related to several internal and external factors confronting the borrowers. The internal factors are diversion of funds for expansion / diversification / modernization, taking up new projects, helping / promoting associate concerns, time / cost over-runs during the project implementation stage, business (product, marketing etc.) failure, inefficient management, strained labour relations, inappropriate technology / technical problems, product obsolescence, etc., while external factors are recession, non-payment in other countries, inputs / power shortage, price escalation, accidents and natural calamities etc. The alarming growth of NPAs causes a serious stress on profitability. Banks cannot afford to make more provisions nor can they stop lending. The maxim should be "Lend and Recover". The banks have to lend judiciously and approach to recovery should be professional and innovative. The strategy of "One size fits all" can't be considered viable. In this context, it is worthwhile at this stage to discuss the various recovery measures adopted by banks and financial institutions (FIs) for reducing the level of NPAs. Broadly speaking, recovery measures can be classified into Non-Legal and Legal measures. The measures are discussed in detail along with suggestion for recovery management.

Non-Legal Measures :

1. Reminder System :

This is the cheapest mode of recovery by sending reminders to the borrowers before the loan instalment falls due. With the migration of branches of Banks to the Core Banking Solution (CBS) and internet facility being available, reminders can be sent through e-mail.

2. Visit to Borrower's business premises / residence :

This is a more dependable measure of recovery. Visits need to be properly planned. Involvement of staff at all levels is to be ensured. Costs involved in the recovery need to be kept to the minimum. Branches should maintain a record of such visits made and account of recovery collected. Regional / Zonal Heads should look into how the visits are organized at the branch during their periodical inspection which will provide much needed momentum to the recovery process.

3. Recovery Camp :

To take maximum advantage, recovery camps should be organized in planned way i.e. in respect of agricultural advances during harvest season. It is also essential to take the help of outsiders, particularly, revenue officers in the state government, local Panchayat officials and to motivate the staff to get involved in recovery drive. During the camp, those who are very regular in loan repayment should be honoured. This would send out a positive message across the people.

4. Rehabilitation of Sick Companies :

By rehabilitating a sick unit successfully, recovery of bank dues takes place. But the success rate is very low i.e. less than 10%. However, banks should continue to rehabilitate because, the cost of rehabilitation is lower than restarting a new unit on closure of the same. Causes of sickness should be genuine and viability study should justify the bench mark ratios and rehabilitation package should be prepared realistically in terms of RBI guidelines. The implementation should be closely monitored.

5. Debt Restructuring :

With the global slow down and recession, more importance is attached to debt restructuring to enable the borrowers to fulfill debt obligation and without much difficulty. But its success depends upon both banks and borrowers. The borrowers should know that the debt restructuring is a rare opportunity provided to them. Banks need to create a conducive environment for loan recovery through collective efforts. Credit counseling to borrower by banker is a must to make debt restructuring more result oriented. It is noteworthy that RBI has issued guidelines regarding restructuring of loans, as one-time measure and for a limited period of time in view of the extraordinary external factors, for preserving the economic and productive value of assets which were otherwise viable.

6. Loan Compromise :

Compromise settlement should be considered as a last resort for recovery. It should be voluntary and calls for professional approach in preparing the compromise proposals for which each bank is given autonomy by Reserve Bank of India (RBI). Many banks have set up a Settlement Advisory Committee (SAC). Efforts should also be made not to encourage good borrowers to seek compromise. It should be case specific based on the ground realities. IBA plans to codify the do's and dont's on compromise settlement. Successful outcome of a negotiation for a compromised settlement depends much upon the abilities of the negotiator in exploiting the following key elements :

(i) Identify what the borrower wants to have out of negotiation and motivate towards the same by focusing his attention towards benefits / rewards and punishment he is likely to get from its success or otherwise.

(ii) Knowledge about one's position and position of other party, statistics related to both, the common interest of both the parties and the conflict prone areas between banker and the borrower etc.

(iii) Timing of Negotiation

(iv) Approach : Positive vocabulary / phraseology that sounds positive, authoritative and confident is likely to yield results.

7. Rephasement / Reschedulement :

Banks need to be empathetic in case of small advances and more particularly in respect of sincere and hardworking borrowers. If such borrowers fail to pay loan instalments due to natural calamities or for some other convincing reasons, unpaid loan instalments may be rephased or rescheduled.

8. Write - Off :

If it is going to be unremunerative either to file suit and / or continuing the account in the banks' books, it is advisable to go for waiver of legal action and/or write off dues. The write- off exercise is internal and the branch staff should continue the recovery process even after write off is carried out.

9. Recovery Agents :

Recovery agents shall be appointed to recover the amounts lying in various NPA accounts. While appointing the recovery agents, their professional expertise, experience and qualification should be factored in. Banks must ensure that recovery agents adhere to codes under BCSBI, so that banks can promote good and fair banking practices based on ethical principles of integrity and transparency.

Legal Measures :

1. Debt Recovery Tribunals (DRTs)

DRT is applicable in respect of debts of banks and FIs with outstanding of Rs.10/- lacs or more. The tribunals follow the summary procedure and are only guided by the principal of Natural Justice. The tribunals need to be equipped with proper infrastructure, manpower, required flexibility for removing all the impediments coming in the way of smooth functioning so as to make it play the role expected of it. However, it is heartening to note that the amount recovered as percentage of amount involved was the highest under the DRTs, followed by SARFAESI Act during the last two years. In the year 2007-08, as many as 3728 cases amounting to Rs.5819 crore were referred, out of which Rs.3020 crore was recovered

(51.9%). In the year 2008-09, as many as 2004 cases amounting to Rs.4130 crore were referred, out of which Rs.3348 crore was recovered (81.1 percent).

2. Lok Adalats :

Bank suits involving claims up to Rs.20 Lacs may be brought before the Lok Adalats. It is observed that banks do not get full advantage of the Lok Adalat because it is difficult to collect the concerned borrowers willing to go in for compromise on the day when the same meets. Banks need to continue to put in their efforts to convene Lok Adalats periodically to quickly settle the cases and recover the amount. Supreme Court has suggested that personal loan cases upto Rs.10 Lacs should be preferably settled through Lok Adalat. During the year 2007-08, the recovery through Lok Adalat was Rs.176 crore out of 186535 cases involving Rs.2142 crore. (8.2%). The year 2008-09 witnessed recovery of Rs.96 crore through Lok Adalat out of Rs.4023 crore involved in respect of 548308 cases referred. Lok Adalats have not proved to be a good means of effecting recoveries from the bad loans as they have accounted for only 5 to 8% of delinquent loan recovered in the last couple of years.

3. Asset Reconstruction Companies (ARCs) :

The primary objective of ARC is rapid disposal of bad assets owned by banks to clean up their balance sheets. However, to make ARCs effective, structural / ownership issues, acquisition and valuation issues, transaction costs, NPA funding and resolution issues are to be addressed on priority basis. Gross NPAs of the banking industry amounted to Rs.81813 crores as of March, 2010 an indicator of the potential for ARCs in the country. It is further observed that there is 'less flow' from the corporate sector as RBI allowed banks to restructure slippages either by extending the repayment time or giving interest rate relaxation.

4. Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act) :

This act gives powers to secured lenders to realize their dues through enforcement of interest security without intervention of court. SARFAESI Act deals with 3 aspects.

- Promoting Securitization
- Formation of Asset Reconstruction Company
- Enforcement of Security Interest without intervention of courts.

The Act not only helps in recovering NPAs of the banks / FIs, but also curbs the instincts towards willful defaults in future. However, this Act may be required to be fine tuned to bring in 'natural justice'. Though SARFAESI Act will provide impetus to securitization in India but at the same time certain grey areas such as stamp duty, tax aspects etc., need to be clarified.

During the year 2007-08, 83942 notices were issued under SARFAESI Act. The total amount involved was Rs.7263 crore and the amount recovered was Rs.4429 crore registering 61 percent recovery. As many as 61760 notices involving an amount of Rs.12067 crore were issued during the year 2008- 09. And the recovery effected was Rs.3982 crore constituting 33% recovery.

Innovations / Reforms in Management of NPAs

The Strategies for Management of NPAs in Banking must revolve around the various aspects like strengthening and monitoring of assets for containing slippages, upgradation of Non-performing Assets and intensifying recovery efforts for optimizing recovery.

Innovation in recovery management of NPAs must cover all the elements involved in the recovery of NPAs. It must take into account the various aspects from the bank's angle i.e its strengths and weaknesses, staff, systems, apart from the environment and lastly the borrowers and guarantors (their strengths and weaknesses, culture, habits, values and goals). Banks need to consider formulating strategies for each group or even for individual accounts depending upon local factors as well as peculiarities of each case. Corporate defaulters can be dealt with differently from rural defaulters. Area-wise, Activity-wise, Sector-wise, a Segment-wise and different policy of strategic management of NPAs is required.

Management of NPAs------ Preventive Aspects :

Prevention is better than cure, so goes the age-old maxim. Preventive steps can be taken at two different stages-Pre-sanction / disbursement and Post-disbursement.

A. Pre-sanction Stage :

A little care and prudence at the time of pre-sanction can help us in filtering out possible problems later. The practising bankers need to spend greater part of their time and energy at the stage. Pre-sanction appraisal must focus on the cash generation ability of the prospective client and asset. While risk taking is the essence of banking, it must also be realized that we deal with other peoples' money i.e. depositors' money and we have actually no right to take unknown risks. Risk and Return are often stated to be directly proportional. 'Know Your Customer' (KYC) is the heart and essence of a healthy asset portfolio. Knowing your customer can even insulate us against non-controllable risks.

B. Post-sanction Stage :

Once an asset is created with the disbursement of loan / credit, the responsibility for maintenance of the health of portfolio falls squarely on the shoulders of Bankers.

Banks have put in place in "Early Alert System". Most of the danger signals manifests in the account. Scanning of account on day-to-day basis is the best source of valuable information for prevention as well as corrective action. Practising bankers need to closely monitor the activities like issuance of cheques to suppliers, payment through the account, prompt servicing of interest, regular repayment of instalments, regular submission of stock statements and inspection of securities, analysis of financial data on regular basis, sporadic or seasonal request for adhoc / excess, and inspection of book debt. Maintaining close rapport with borrowers, ensuring end use verification, eliciting information, site visit are important follow-up measures that has major impact on reduction of NPA.

Further, a regular touch with national and international developments is a pre-requisite in today's world of unpredictable changes. Newspapers, TV, Internet are the prime sources of data. But data has to be scanned and converted into relevant information.

Innovations in Recovery Management :

Almost all banks use some package or software for generating information on accounts due for review, accounts where Letter of Acknowledgement(LADs) or Revival Letters are due, List of Potential NPAs. Banks need to concentrate and act prudently in respect of critical information. Some suggested steps / innovations in Recovery Management are discussed as under :

- *Proactive Approach :* If proactive action is taken in the initial stage of an account turning NPA, losses can be minimized and Bank's money recovered with speed. Opportunity cost of lost time should be analysed and opportunities are substantial in today's world.
- *Regular follow-up :* Regular follow-up in respect of suit filed and decreed accounts can yield unexpected results. Concerted efforts to be made for recovery in written off accounts which will be rich source of windfall as it increases profits directly.
- *Sharing Success :* Practising bankers should share success stories in the field of NPA recoveries, the methods and modus operandi used. It can have only result - success and more success.
- *Strengthening of Asset Recovery Management Branches :* ARMBs were intended to be the focal point of Recovery Strategy. The Zonal / Regional Authorities must give all necessary infrastructures in these branches and evolve NPA Recovery Strategy.
- *Team Work :* All staff member should be involved in the recovery of NPAs. It is not enough for Branch Head to be a great team player, but it is equally important that he inspires others in the team with his brilliance and Togetherness Quotient.
- *Human Aspect of NPA Management :* Skills and Competencies of employees need to be developed. They should be imparted training in Legal matters and Recovery measures. The Public Relation Skill (PR Skill), communication skills of practicing bankers need to be developed to have a decisive impact on borrowers. It is an attitude towards critical aspect of NPA Management that will determine whether one can prosper or perish.
- *Accountability Syndrome :* The fear of Accountability is hindering staff from taking a genuine financial decision in time. Some bankers are very cautious in accepting even some of the commercially viable proposals due

to fear of accountability at a later date. Banks need to have a positive and flexible approach in respect of genuine credit decision even if they turn out to be NPA at a later date. This will boost the morale of line functionaries.

- *Departmental Approach :* NPA Management should be accepted and pursued as an organizational goal. Proactive culture should be developed in Legal Department of banks. Incentive schemes should be introduced for the staff members working in branches. There should be close coordination between credit processing unit and credit monitoring unit. Branches should guard against take over of weak accounts of other banks.
- *Banker - Borrower Relationship :* A healthy Banker Borrower Relationship should be ensured. Debt recovery will be much easier in a congenial environment. Assisting the borrowers in developing his entrepreneurial skills will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.
- *Special Investigative Audit :* It is also wise for the banks to carry out special investigative audit of all financial and business transactions and books of accounts of the borrower company when there is possibility of diversion of the funds and mismanagement.
- *Monitoring of the restructured accounts :* There should be close monitoring of restructured accounts because there is every possibility of loans slipping into NPA category again.
- *Reactivating / Strengthening Credit Monitoring Department / Cell :* It is essential to strengthen the same by providing additional staff besides developing expertise on Credit Monitoring.
- *Risk Management :* Revisiting approval system from time to time in accordance with the changing profile of the lender and the borrower is a must. Needless to mention that Risk Management system also needs to be strengthened. Risk Mitigation Techniques should be adopted, so that slippages can be avoided in the first place.
- *Strengthening of SARFAESI Act, 2002*
  - The SARFAESI Act needs to be amended to recognize the priority of claims of secured creditors even over claims of revenue.
  - When Banks arrive at settlements with borrowers for repayment of bank's dues, consent orders are to be obtained from DRTs in pending recovery proceedings in terms of settlement. Some DRTs have taken the stand that they can only approve such settlement terms and banks have no powers to finalize the settlement terms. It is necessary to amend the law to bring it in conformity with the provisions of the Civil Procedure Code that requires the court to pass orders in terms of settlement whenever the suit is settled out of court.
  - Frivolous litigations can be restricted by inserting appropriate provisions in the Act for payment of actual costs.
  - The notice period for delinquent borrower can be shortened to 15 or 30 days since the account has become a NPA and the borrower is aware of this.
  - The -7- days provided for banks to respond to the borrower's reply is too short and should be suitably enhanced.
  - When the possession of the secured asset is to be taken in areas other than the cities - where there are Chief Metropolitan Magistrates - the secured creditor has to approach the District Magistrate - who is also the Collector of the District. However, the District Collector is invariably unavailable to attend to these matters due to his pre-occupation with other duties, leading to inordinate delays. It would be appropriate to substitute the District Magistrate with Chief Judicial Magistrate to hasten the proceedings.
- *Better Balance sheet :* Recoveries are an essential / integral part of operation of bank without which these get into liquidity problems as recycling of funds is adversely affected. It is only through constant recoveries of interest / instalment that the portion performing asset in the total portfolio could be kept high. This alone can ensure better balance sheets.

- *Staging Dharna :* The wives of Bank employees can stage Dharna before the residence of wilful defaulter. This would create social pressure on defaulters.

Future Challenges :

- Effects of Globalization
- Burgeoning Loan Book
- Economic downturn US and Greek crisis
- Use of Technology to monitor repayment habit
- Strengthening Credit Information system
- Electronic registry of land records
- Raising further capital to create cushions
- Blending national priority with commercial banking

Conclusion :

Major challenges faced by banks today are how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPAs. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. Another major concern before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend and recover ought to be the slogan for salvation." The reduction of NPAs has become synonymous with the functional efficiency of Banks. Effective NPA Management must encompass the objectives of sound risk management, credit administration and staff motivation. Therefore, effective NPA Management as an organizational goal pursued in a missionary zeal is a must to survive global competition. Any innovations / reforms in this area brook no delay for a sound / healthy growth of Financial System in general and Banking Sector in particular in the country.

References

1. RBI "Report on Trends and Progress - 2007-08", Reserve Bank of India.
2. RBI "Report on Trends and Progress - 2008-09", Reserve Bank of India.
3. Monetary and Credit policy of RBI, April, 2009 and 2010.
4. Budget 2010-11.
5. Master Circular Prudential Norms on Income Recognition and asset Classification and provisioning pertaining to Advances Portfolio, Reserve Bank of India, July, 2009 and 2010
6. "IBA to come up with norms on Compromise Settlement", Business Line, April 2009
7. Management of NPAs-Country Experiences, edited by Tamal Datta Chaudhuri
8. Management of Non-Performing Advances, T. V. Gopalakrishna
9. Reserve Bank of India - A profile of Banks 2009-10

बैंकों में ज्ञान प्रबंधन - एक विहंगावलोकन

सदा बिहारी साहु *

सूचना एवं संचार प्रौद्योगिकी, साइबरनेटिक्स तथा इंटरनेट ने ज्ञान की क्रांति को जन्म दिया है, जिसे नियंत्रण में रखकर सही दिशा देने की ज़रूरत है ताकि सभ्यता के व्यापक उद्देश्यों की पूर्ति की जा सके। चारों ओर व्याप्त असीम जानकारी का दक्षतापूर्वक प्रबंधन करके ही कोई संस्था अपने प्रतिद्वंदियों की तुलना में अपनी श्रेष्ठता कायम रख सकती है। अनवरत चलायमान ज्ञान क्रांति ने बैंकिंग और वित्तीय क्षेत्र की परिधि को बढ़ाया है और उसके विकास तथा प्रतिस्पर्धात्मकता में भी अप्रत्याशित वृद्धि की है। साथ ही, बैसल समिति के कारण बैंकिंग परिचालन के सार्वभौमीकरण से बैंकिंग जगत की सीमाओं का भी विलय हुआ है। आज बैंकों के सामने यह चुनौती है कि संस्थागत ज्ञान को अनवरत रूप से कैसे विकसित किया जाए और कैसे उसे आपस में बांटा जाए, ताकि व्यवसाय का विकास हो सके। यहाँ, किसी भी संगठन अथवा व्यक्ति की सफलता के लिए ज्ञान सबसे महत्त्वपूर्ण घटक के रूप में उभरकर सामने आया है और चाहे संस्था हो अथवा व्यक्ति, सभी के अस्तित्व व तरक्की के लिए लगातार सीखते रहने की प्रवृत्ति एक अनिवार्य अपेक्षा बन गई है।

ज्ञान प्रबंधन से क्या अभिप्रेत है?

ज्ञान प्रबंधन से आशय है ज्ञान अथवा जानकारी का प्रबंधन। विभिन्न संगठनों ने ज्ञान प्रबंधन को अलग-अलग तरीके से परिभाषित किया है, जैसे- "ज्ञान प्रबंधन से आशय है संस्था की ज्ञान-पूँजी में समाहित होने और प्रतिभागिता के माध्यम से संस्थागत बुद्धिमत्ता में वृद्धि की ऐसी प्रक्रिया, जिससे व्यवसाय के मूल्यों का निर्माण होता है और प्रतिस्पर्धात्मक लाभ की स्थिति निर्मित होती है।"

जेनिफर रॉले के अनुसार "ज्ञान प्रबंध का संबंध किसी संगठन के उद्देश्यों की पूर्ति के लिए उक्त संगठन की ज्ञान-आस्तियों का दोहन और विकास करने से होता है।"

इसी प्रकार ज्ञान प्रबंधन को किसी संगठन में उपलब्ध महत्वपूर्ण ज्ञान और उससे संबद्ध सृजन, संगठन, संश्लेषण, उपयोग तथा इस्तेमाल के व्यवस्थित रूप में परिभाषित किया जा सकता है।

समग्रतः ज्ञान प्रबंधन संगठन के उत्पाद व सेवाओं से संबंधित व्यावसायिक मुद्दों के समाधान के साथ-साथ, ग्राहक से संबंधों और कार्य संबंधी प्रक्रियाओं को सुधारने का माध्यम है।

ज्ञान प्रबंधन के उद्देश्य :

ज्ञान प्रबंधन का उद्देश्य हर संगठन के लिए अलग-अलग हो सकता है। किन्तु उसके उद्देश्यों में निम्नलिखित को परिगणित किया जा सकता है -

- इस बात का निर्धारण करना कि कोई संगठन अपने लिए और अपने हित धारकों के लिए अपने ज्ञान का प्रबंधन बेहतर तरीके से कैसे करेगा। इसमें संगठन के उद्देश्य एवं लक्ष्य, मार्गदर्शी सिद्धान्तों, प्रस्तावित कार्य-योजना तथा निगरानी प्रणाली का समावेश होना चाहिए।
- इसमें संगठन द्वारा जोखिमधारकों और अन्य उपयोगकर्ताओं के लिए प्रासंगिक एवं उच्च गुणवत्तायुक्त ज्ञान समाहित होना चाहिए।
- इससे सीखने की प्रक्रिया में वृद्धि होनी चाहिए : संगठन के अंतर्गत ज्ञान का अभिग्रहण और उसका परस्पर विनिमय
- विविधीकरण तथा विकास हेतु नई प्रौद्योगिकी अपनाने में सक्षम बनाने के लिए
- सेवा के मामले में सर्वोत्कृष्टता हासिल करने के लिए

* प्रबंधक, सिडबी (लघु उद्योग विकास बैंक), लखनऊ.

ज्ञान प्रबंधन के प्रकार्य

प्रत्येक संगठन के उद्देश्य और आवश्यकताएँ अलग-अलग होती हैं, तथापि ज्ञान प्रबंधन के मूलभूत प्रकार्यों में शामिल हैं - abstracting, ऐकांतिक ज्ञान / सूचना को अर्थवत्ता प्रदान करना और सूचना को नोड्स तथा संबंधों में विश्लेषित करना, ताकि ज्ञान आदि को समस्त व्यावसायिक वातावरण के संदर्भ में सामान्यीकृत किया जा सके। इन प्रकार्यों को निम्नवत वर्गीकृत किया जा सकता है :

- सूचना को प्राप्त करना, मैपिंग करना, एकत्र करना और चयन करना
- नए ज्ञान का सृजन एवं विकास
- वैयक्तिक ज्ञान को आपस में बाँटे गए ज्ञान संसाधन के रूप में परिवर्तित करना
- ज्ञान की मूल्यवत्ता को समझना, सीखना, हासिल करना अथवा कहीं से निकालना
- सूचना की मूल्य-वृद्धि करना, ताकि ज्ञान सृजित हो सके
- कार्यनिष्पादन तथा प्रबंधन को बढ़ावा देना
- ज्ञान बाँटने की प्रणाली में निरन्तर सुधार करना और उसका प्रसंस्करण करना
- ज्ञान प्रदायगी (अंतरण)
- सुस्थिर और सुसंबद्ध तकनीकी संरचना का विकास करना, जो संगठन की प्रक्रियागत आवश्यकताओं के अनुरूप हो
- ज्ञान प्रवृत्ति

बैंकों में ज्ञान प्रबंधन की आवश्यकता क्यों है?

टाटा कंसल्टेंसी सर्विसेज के प्रायोजकत्व में इकॉनमिस्ट इंटेलिजेंस यूनिट (ईआईयू.कॉम.2003) द्वारा किए गए यूरोपीय कार्यपालकों के एक सर्वेक्षण तथा एक नई रिपोर्ट के अनुसार अब ज्ञान प्रबंधन समाधान बड़ी कंपनियों के लिए सबसे महत्त्वपूर्ण रणनीतिक प्रौद्योगिकी हैं। इस सर्वेक्षण में 67% कंपनियों ने अगले तीन वर्ष में अपने महत्त्वपूर्ण लक्ष्यों की प्राप्ति के लिए ज्ञान प्रबंधन / व्यवसाय आसूचना समाधानों को महत्त्वपूर्ण बताया। ग्राहकों की बेहतर सेवा करना और व्यवसाय में बने रहने के लिए कंपनियों को अनिवार्य रूप से - अपने प्रक्रमण-चक्र के समय में कमी लाना चाहिए, न्यूनतम स्थिर आस्तियों तथा ओवरहेड (जनशक्ति, माल तथा सुविधाओं) को लेकर परिचालन करना चाहिए, उत्पाद विकास के समय को कम करना चाहिए, ग्राहक सेवा में सुधार करना चाहिए, कर्मचारियों को सशक्त करना चाहिए, नवोन्मेष करना चाहिए तथा उच्च गुणवत्तायुक्त उत्पाद देने चाहिए, लचीलेपन और अपनाने की प्रवृत्ति में वृद्धि करनी चाहिए, सूचना प्राप्त करनी चाहिए, ज्ञान सृजन, परस्पर विनिमय और सीखना चाहिए। कार्यस्थल पर और बाजार में सभी कर्मचारियों और टीमों द्वारा ज्ञान के सृजन, उसे अद्यतन बनाने, उसकी उपलब्धता, गुणवत्ता तथा उपयोग सुनिश्चित किये बिना इनमें से कुछ भी संभव नहीं है।

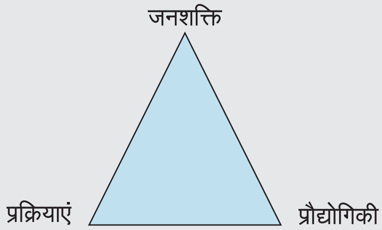
इसी प्रकार, सार्वभोमीकरण, उदारीकरण तथा विनियमन के कारण बाजार का स्वरूप तेजी से बदल रहा है। बैंकिंग भी उसका अपवाद नहीं है। ऐसे दोलायमान वातावरण में, बैंकों के समक्ष एक अनोखा अवसर है कि वे दूसरों से बेहतर तरीके से काम करके सफलता अर्जित करें। बैंकों में ज्ञान-प्रबंधन की आवश्यकता निम्नलिखित कारणों से है -

- ग्राहक के विषय में बेहतर जानकारी हेतु
- उत्पादों व सेवाओं के बारे में बेहतर जानकारी हेतु
- प्रक्रियाओं के बारे में बेहतर जानकारी हेतु
- कौशल विकास हेतु
- लोगों के विषय में बेहतर जानकारी हेतु
- बाजार के विषय में बेहतर आसूचना हेतु
- सर्वोत्तम पद्धतियों के परस्पर आदान-प्रदान हेतु
- बेहतर ग्राहक-सेवा हेतु
- ज्ञान के बहिर्गमन को रोकने के उद्देश्य से
- वर्ष 2011-12 में काफी बैंक अधिकारी सेवामुक्त हो रहे हैं उनके गर्भित ज्ञान को दस्तावेज के रूप में सुरक्षित रखा जाए

ज्ञान प्रबंधन के घटक

वैश्विक स्तर पर ज्ञान प्रबंधन के मामलों के अध्ययन तथा वास्तविक अनुभवों के आधार पर ज्ञान प्रबंधन को स्थूलतः तीन श्रेणियों में वर्गीकृत किया जा सकता है - जनशक्ति, प्रक्रियाएं तथा प्रौद्योगिकी। (देखें चित्र)

चित्र सं-1 : ज्ञान प्रबंधन के घटक



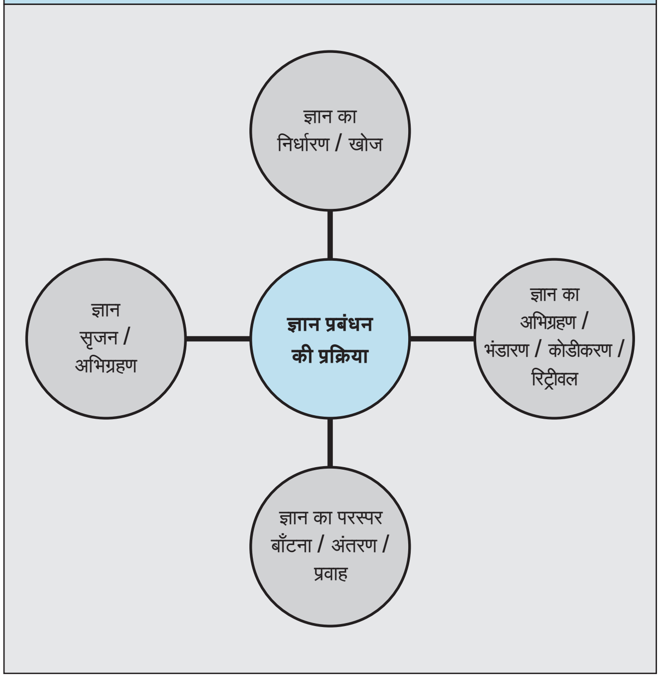
तीनों घटक ज्ञान प्रबंधन से सीखने की प्रवृत्ति वाले संगठन के निर्माण तथा व्यावसायिक परिणाम हासिल करने के लिए महत्त्वपूर्ण हैं, किन्तु दुनिया भर में ज्ञान प्रबंधन का क्रियान्वयन करनेवाले अधिकतर संगठनों ने प्रौद्योगिकी और प्रक्रियाओं के अपनाए जाने को अपेक्षाकृत सरल पाया है, जबकि "जनशक्ति" घटक ने बड़ी चुनौतियाँ पेश की हैं। ज्ञान प्रबंधन की सबसे बड़ी चुनौती है ज्ञान के आदान-प्रदान, सहयोग एवं व्यवसाय-परिणामों की प्राप्ति हेतु पुनःउपयोग में लोगों अथवा कर्मचारियों की प्रतिभागिता सुनिश्चित करना। बहुत से संगठनों में इसके लिए परंपरागत सोच और संगठनात्मक संस्कृति को "ज्ञान की जमाखोरी" (छुपाकर अथवा निजी रखना) से बदलकर "ज्ञान का आदान-प्रदान" (टीम के सदस्यों के साथ बाँटना) करने और विश्वास का माहौल बनाने की ज़रूरत होती है। इसे प्रोत्साहन / पहचान और पुरस्कार, कार्यनिष्पादन मूल्यांकन प्रणाली तथा अन्य मूल्यांकन पद्धतियों की पुनःरचना के ज़रिए हासिल किया जाता है। ज्ञान-प्रबंधन में सफलता की कुंजी है - व्यवसाय की सफलता के लिए लोगों की विशेषज्ञता का उपयोग करते हुए उनको अपने-अपने क्षेत्र में दृश्यता, पहचान और श्रेय (जैसेकि विशेषज्ञ का दर्ज़ा) देना।

प्रक्रिया घटक में ज्ञान के योगदान हेतु मानक प्रक्रियाएँ, विषयवस्तु का प्रबंधन (विषय-सामग्री प्राप्त करना, गुणवत्ता बनाए रखना, विषय सामग्री को अद्यतन रखना, पुरानी पड़ चुकी सामग्री को हटाना या संचित करना), रिट्रीवल, पद्धति-अनुसार सदस्यता, ज्ञान के पुनः उपयोग पर आधारित कार्यान्वयन-परियोजनाएँ, सर्वोत्तम पद्धतियों तथा मामला-अध्ययनों के प्रलेखन की पद्धति तथा मानक प्ररूप आदि समाहित हैं। प्रक्रियाओं का यथासंभव सुस्पष्ट और सरल होना तथा समूचे संगठन के कर्मचारियों की समझ में आना परम आवश्यक है। ज्ञान प्रबंधन प्रौद्योगिकी समाधानों के माध्यम से बैंक और उससे भी परे ज्ञान का आदान-प्रदान, सहयोग, कार्य-प्रवाह तथा प्रलेख-प्रबंधन में सहूलियत होती है। ये साधन एक सुरक्षित केंद्रीय स्थिति उपलब्ध कराते हैं, जहाँ कर्मचारी, ग्राहक, हिस्सेदार तथा आपूर्तिकर्ता सूचना का आदान-प्रदान कर सकते हैं, जानकारी बाँट सकते हैं और खुद को तथा संगठन का बेहतर निर्णय के लिए दिशा-निर्देश दे सकते हैं। ज्ञान प्रबंधन प्रौद्योगिकी सुविधा का सबसे लोकप्रिय रूप है- कॉर्पोरेट / बैंक इंट्रानेट (और एक्स्ट्रानेट, जिसमें ग्राहक, हिस्सेदार एवं / अथवा आपूर्तिकर्ता शामिल होते हैं)। ज्ञान पोर्टलों के लिए सामान्यतः प्रौद्योगिकियों में मानक माइक्रोसॉफ्ट प्रौद्योगिकियाँ अथवा लोटस नोट्स डाटाबेस का उपयोग होता है। बैकों को ऐसा प्रौद्योगिका विकल्प चुनना चाहिए, जो उनके ज्ञान प्रबंधन तथा निवेश आयोजना संबंधी उद्देश्यों की पूर्ति करता हो। ज्ञान प्रबंधन के लिए प्रौद्योगिकी एक महत्त्वपूर्ण नियामक है, किन्तु यह सुनिश्चित करना भी महत्त्वपूर्ण है कि प्रौद्योगिकी समाधान से व्यवसाय-संबंधी मुद्दों की ओर से ध्यान न भटक जाए और वह उपयोगकर्ता के अनुकूल हो तथा इस्तेमाल करने में आसान हो।

बैंकों में ज्ञान प्रबंधन की प्रक्रिया :

ज्ञान प्रबंधन की प्रक्रिया	अपेक्षित कार्य / गतिविधियाँ
ज्ञान का निर्धारण / खोज	निश्चित करता है कि संगठन को अपनी व्यावसायिक सफलता के लिए कौन-सा ज्ञान चाहिए और निर्धारित करता है कि उसमें क्या है और क्या नहीं है (साथ ही, यह भी कि उसमें क्या है जिसकी उसे आवश्यकता नहीं है)।
ज्ञान सृजन / अभिग्रहण	निर्धारित करता है कि संगठन के भीतर कहाँ मूल्यवान जानकारी सृजित हो रही है और निश्चित करता है कि संगठन को बाह्य स्रोतों से क्या ग्रहण करना चाहिए।
ज्ञान का अभिग्रहण / भंडारण / कोडीकरण / रिट्रीवल	यह मूल्यवान ज्ञान के अभिग्रहण, भंडारण तथा कोडीकरण में सहायता करता है, ताकि प्रभावी रिट्रीवल हो सके।
ज्ञान का परस्पर बाँटना / अंतरण / प्रवाह	आपस में आदान-प्रदान की संस्कृति विकसित करता है, ताकि जहाँ आवश्यकता हो वहाँ ज्ञान को प्रभावशाली तरीके से अंतरित किया जा सके।

चित्र सं-2 : ज्ञान प्रबंधन की प्रक्रिया



बैंकों में ज्ञान प्रबंधन प्रक्रियाओं के कार्यान्वयन संबंधी समस्याएँ :

बैंकों ने ज्ञान प्रबंधन के महत्त्व को पहचाना है, किन्तु इस संकल्पना के कार्यान्वयन में उनको समस्याओं का सामना करना पड़ रहा है। इस संबंध में पेश आ रही कुछ बाधाएँ इस प्रकार हैं-

1) विरासत : एक विशिष्ट प्रकार की बंद मानसिकता, जिसे लंबे समय तक सिर्फ नियंत्रित वातावरण में काम करने की आदत हो गई है।

2) यूनियनबाजी : बैंक कर्मचारियों की अधिकार-रक्षा के लिए उनकी मजबूत यूनियनें हैं। लेकिन इस प्रक्रिया में वे अनजाने ही अकुशलता को शह देती हैं।

3) "नियंत्रण" के प्रति दृष्टिकोण : बैंकों में कमांड और नियंत्रण के दृष्टिकोण का विकास, नवोन्मेष की भावना को हतोत्साहित करना, काम की आजादी, संप्रेषण में खुलापन, विचारों का प्रकटन, ज्ञान के आदान-प्रदान का दृष्टिकोण आदि।

4) परिवर्तन का विरोध : आत्म-संतुष्ट व्यक्तियों द्वारा परिवर्तन का विरोध किया जाना बैंकों में ज्ञान प्रबंधन की प्रक्रिया में प्रमुख बाधा है।

उपर्युक्त के अलावा, कुछ अन्य प्रमुख बाधाएँ निम्नवत हैं :

- ज्ञान प्रदाता और ज्ञान-प्रापक के मध्य संतुलन का अभाव
- उनके मध्य विश्वास का अभाव
- एक जैसी शब्दावली तथा परस्पर आदान-प्रदान की गई मुख्य अवधारणाओं के बारे में समझ का अभाव
- वैविध्यपूर्ण संस्कृतियाँ, भाषाएँ तथा आदतें
- ज्ञान के अभाव को सौम्यतापूर्वक स्वीकार न किया जाना
- आम तौर पर मान्यता और पुरस्कार की संगठित प्रणाली पर्याप्त रूप से ज्ञान के अवदान को मान्यता नहीं देती
- गलतियों के प्रति असहिष्णुता तथा जरूरत के वक्त मदद का अभाव
- अव्यवस्थित सूचना
- सूचना के संव्यवहार में व्यवस्थित दृष्टिकोण का अभाव
- ज्ञान के सफल कार्यान्वयन और प्रबंधन के लिए नेटवर्क इंफ्रास्ट्रक्चर का अभाव
- नवोन्मेष, सीखने और ज्ञान के आदान-प्रदान को सुगम बनानेवाली संस्कृति का अभाव
- अंदरूनी और बाह्य विशेषज्ञों की ऐसी नेटवर्किंग का अभाव, जिससे सही समय पर, सही स्थान पर सही ज्ञान मिल सके या वह शीघ्रातिशीघ्र प्राप्त हो सके
- ऐसे तकनीकी ढाँचे का अभाव जो प्रवेश स्तर के व्यक्तियों की ज्ञान के सरल साधनों के माध्यम से ज्ञान-आधारित काम में मदद करता है और अंततः अधिक परिष्कृत सामूहिक साधनों तथा निर्णयकारी साधनों का रूप ले लेता है।

बैंकिंग में ज्ञान प्रबंधन का अनुप्रयोग

बैंकों में ज्ञान प्रबंधन का सही मायनों में अनुप्रयोग करके, कोर बैंकिंग समाधान के माध्यम से एटीएम, इंटरनेट, फोन, मोबाईल, कुश्क, कॉल सेंटर, मुद्रा शोधन-रोधी तथा अपने ग्राहक को जानें विषयक दिशा-निर्देशों आदि के ज़रिए ग्राहक को 24X7 आधार पर सुविधापूर्वक बैंकिंग-सेवा प्रदान की जा सकती है। साथ ही, इसके इस्तेमाल से शाखा कंप्यूटरीकरण, वाइड एरिया नेटवर्किंग-

सीबीएस के अंतर्गत शाखाओं की नेटवर्किंग, जोखिम प्रबंधन, चेक ट्रंकेशन, वैश्विक मुद्रा-तिजोरी, प्रतिभूतीकरण, वास्तविक समय सकल निपटान (आरटीजीएस), ऑन लाइन ट्रेडिंग, म्युचुअल फंड, ऑन-लाइन कर लेखांकन प्रणाली आदि के लिए भी इसका इस्तेमाल किया जाता है। इसके अतिरिक्त ज्ञान प्रबंधन को अन्य उद्देश्यों हेतु प्रयोग में लाया जा सकता है, जिनका स्थूल वर्गीकरण निम्नवत है :

1) ग्राहक की वित्तीय स्थिति तथा व्यवहार संबंधी प्रवृत्ति जानने के लिए

2) आंकड़ा-भंडार का सृजन तथा आँकड़ा संग्रहण

3) व्यावसायिक नवोन्मेष हेतु

4) ऋण संबंधी जोखिमों के मूल्यांकन हेतु

5) ग्राहक केंद्रिकता

6) प्रतिस्पर्धात्मकता हेतु

7) ऑन-लाइन विचार-विनिमय मंचों का सृजन

8) ऑन-लाइन कॉंफ्रेंसिंग तथा सहयोग का सृजन

9) प्रचलित कार्य पद्धतियां

10) वेब आसूचना

निष्कर्ष :

ज्ञान प्रबंधन (चाहे वह प्रकट हो अथवा अंतर्निहित) का प्रभाव नवोन्मेष, लागत में कमी तथा सुधरी हुई प्रतियोगिता-क्षमता पर पड़ता है। दिन प्रतिदिन बैंकों में मूल्यवत्ता के सृजन हेतु ज्ञान के सृजन, संग्रहण, परस्पर आदान-प्रदान तथा इस्तेमाल की प्रक्रिया के ज़रिए ज्ञान प्रबंधन के कार्यान्वयन की प्रवृत्ति बढ़ रही है और परिपक्व हो रही है। साथ ही, ज्ञान के उपयोग और पुनः उपयोग से बैंकों में व्यक्तियों व समूहों की उत्पादकता में तथा ग्राहक संबंध प्रबंधन जैसे महत्त्वपूर्ण कार्यों की पूर्ति में उल्लेखनीय वृद्धि हो रही है। आम तौर पर बैंकों में ज्ञान प्रबंधन संबंधी प्रयासों को दो मुख्य वर्गों में रखा जा सकता है। प्रथम वर्ग में- ज्ञान प्रबंधन को समस्त कॉर्पोरेट नीति के अंतर्निहित हिस्से के रूप में देखा जाता है और इसका उद्देश्य शेयरधारक के मूल्य में वृद्धि के मद्देनज़र बैंक के ज्ञान में वृद्धि, उसका निष्कर्षण तथा दोहन करना है। दूसरे वर्ग में-ऐसे ज्ञान में सुधार करने पर ध्यान केंद्रित किया जाता है जो विशिष्ट व्यावसायिक प्रक्रियाओं की पूर्ति तथा उनके माध्यम से कौशल में सुधार के लिए आवश्यक हो।

अंततः कहा जा सकता है कि अन्यान्य क्षेत्रों की भांति बैंकिंग क्षेत्र ने भी ज्ञान प्रबंधन के महत्त्व को समझा है। साथ ही, यह क्षेत्र ऐसे अपेक्षित कार्य-परिवेश के निर्माण में कई कठिनाइयों का भी सामना कर रहा है, जिसके अंतर्गत यह प्रकार्य विधिवत विकसित होगा। जब बैंकों के सामने “करो या मरो” की स्थिति आ खड़ी हुई है, ज्ञान शृंखला के निर्माण, ज्ञान-संपदा के सृजन हेतु उनको विवेकपूर्ण कदम उठाने पड़ेंगे और इसके लिए तुरन्त ज्ञान प्रबंधन का कार्यान्वयन करना होगा।

☯

BOOK REVIEW

Name of the Book : Savings of the Poor : How they do it….

Editors : Sankar Datta, S. L. Narayana, S. Srinivas

Publisher : Books for Change, 139, Richmond Road, Bangalore - 560025, Karnataka.

No. of pages : 243

Price : Rs.650/-

Reviewed by : S. Muralidaran

The fact that the poor do save and how they do it is the central theme of the book. The book is a collection of six chapters written by people having experience in the field and six case studies. The different chapters have been well chosen and have a thematic connection. The first chapter, “Designing Savings Services - The International Experience”, is authored by Graham A. N. Wright. This article says that the poor require little compulsion to save and savings help to even out income streams that are subject to seasonal variations. In the absence of social security systems for the poor, savings can also serve as insurance substitutes in case of bad health, disability, sudden income losses and retirement. Many poor people save by lending. Lending to a neighbour sets up a reciprocal arrangement under which, the neighbour will then lend back in times of need. The author goes on to add that there are basically six key factors sought after by the rural poor when they are considering where to entrust their savings. These are : safety, ease of withdrawal, proximity to home or workplace, prizes or bonuses for good savings, high interest rates and quality of services.

The following chapter by Neela Mukherjee is on “Alternate Models to Micro Savings for the 'Bottom-of-the-Pyramid' in Rural Areas”. The paper focuses on the bottommost segment of the rural poor and examines the limitations of the dominant models of micro finance and the lessons that can be learnt from countries like Bangladesh, Nepal and India. The poor save both in financial and non financial forms; the latter being in the form of grains, forest produce, etc. The subsequent article is on “Financial Inclusion in Tribal Areas : Some Innovations”. The authors, K. G. Karmakar and N. P. Mohapatra dwell on the development initiatives designed for the upliftment of the tribals. They opine that such programmes cannot have a 'one size fit all solution'. Rather, a sensitized approach to tribal development which ensures financial and social inclusion is the need for the tribal people.

There are basically three approaches to savings : namely, Savings Up, Savings Down, Savings Through. Besides elaborating the above concepts, Ms. Lalitha Iyer and Ms. Sarayu Kalyani, in their article “Financial Diaries : Learning from the Field”, speak about the Financial Diaries project which was taken up in Karnataka and Andhra Pradesh, to study and understand the savings behaviour of the poor and to design suitable financial products and services. The data analysed indicated that while the urban and semi urban households believed in the “savings down” approach, the rural households believed in “saving up” approach.

BOOK REVIEW

Since the opportunity cost of savings for the poor is high, it is imperative that savings products need to be appropriately designed. Hence, such products should work towards reducing the opportunity costs to the client, link with the credit plans of the client and have a well being outcome that takes the household forward in moving out of poverty. This is the focus of the article "Informal Mechanisms of Savings of the Poor : Opportunities And Opportunity Costs", by Joy Deshmukh Ranadive and Komal Parmar Rana.

Micro finance institutions provide all or some of the following financial services in varying combinations : (i) savings, (ii) credit and (iii) insurance. However, these institutions have remained outside the regulatory ambit. The authors K. G. Karmakar and N. P. Mohapatra in their article "Financial Products of MFIs and Regulatory Requirements" have therefore opined that a time has come to review the regulatory issues in the MFI sector and feel that the Micro Finance Bill needs to be passed.

In addition to the above articles, the editors have also included six cases, each case focusing on separate institutions which have designed products catering to the poor, thus enabling them to save.

The book is a compilation of articles and case studies which have been well researched and thus will be found informative by professionals in the field of rural banking, researchers and their like.

Books Added to the IIBF Corporate Library			
No.	**Title**	**Author**	**Publisher & Year of Publication**
1.	Armstrong's Handbook of Management & Leadership : a Guide to Managing for Results, 2nd edition	Michael Armstrong	Kogan Page, 2010
2.	Bonds : the Unbeaten Path to Secure Investment Growth	Hildy Richelson & Stan Richelson	Viva Books, 2009
3.	Business Standard India 2010	Business Standard	B.S. Books, 2010
4.	Cash & Derivatives Markets in Foreign Exchange	A. V. Rajwade	Tata McGraw Hill, 2010
5.	Creative Capitalism : a Conversation with Bill Gates, Warren Buffet & other Economic Leaders	Michael Kinsley (Editor)	Simon & Schuster, 2008
6.	Credit Risk Analysis : a Tryst with Strategic Prudence	Ciby Joseph	Tata McGraw Hill, 2006
7.	Currency Exposures & Derivatives : Risk, Hedging, Speculation & Accounting - a Corporate Treasurer's Handbook	A. V. Rajwade	Tata McGraw Hill, 2010
8.	Delivering Customer Service : How to Win a Competitive Edge through Managing Customer Relationships Successfully	Sheila Payne	Jaico Publication House, 2005
9.	Deposit Insurance in India	M. R. Das	Himalaya Publishing, 2010
10.	Documentary Letters of Credit with Text of UCP 600 - e UCP 600 Practice & Procedures	R. R. Beedu	Snow White Publications, 2009
11.	Dynamics of Bank Lending	R. P. Lakshman	Author, 2010
12.	Economics without Illusions : Debunking the Myths of Modern Capitalism	Joseph Heath	Broadway Books, 2010
13.	Flying on One Engine : Fourteen Views on the World Economy	Thomas R. Keene (Editor)	Viva Books, 2007
14.	Fundamentals of Modern Banking	N. C. Majumdar	New Central Book Agency, 2010
15.	Getting started as a Financial Planner	Jeffery H. Rattiner	Viva Books, 2006
16.	Improving Financial Literacy : Analysis of Issues & Policies	Organization for Economic Co-operation Development (OECD)	OECD, 2005
17.	Managing Thought	Mary J. Lore	Tata McGraw Hill, 2010
18.	Microfinance India : State of the Sector Report 2009	N. Srinivasan	Sage Publications, 2009
19.	Mutual Funds : an Investor's Guide	Raghu Palat	Executive Excellence Books, 2010
20.	Rural Development, Principles, Policies & Management, 3rd edition	Katar Singh	Sage Publications, 2009

Invitation For Articles - Guidelines For Contributors

Contributing articles to the Bank Quest : (English / Hindi)

Articles submitted to the Bank Quest should be original contributions by the author/s. Articles will only be considered for publication if they have not been published, or accepted for publication elsewhere.

Articles should be sent to :

The Editor : Bank Quest

Indian Institute of Banking & Finance

"The Arcade", World Trade Centre, 2^{nd} Floor, East Wing, Cuffe Parade, Mumbai-400 005, INDIA.

Objectives :

The primary objective of Bank Quest is to present the theory, practice, analysis, views and research findings on issues / developments, which have relevance for current and future of banking and finance industry. The aim is to provide a platform for Continuous Professional Development (CPD) of the members.

Vetting of manuscripts :

Every article submitted to the Bank Quest is first reviewed by the Editor for general suitability. The article may then be vetted by a subject matter expert. Based on the expert's recommendation, the Editor decides whether the article should be accepted as it is, modified or rejected. The modifications suggested, if any, by the expert will be conveyed to the author for incorporation in case the article is considered for selection. The author should modify the article and resubmit the same for the final decision of the Editor. **The Editor has the discretion to vary this procedure.**

Features and formats required of authors :

Authors should carefully note the following before submitting any articles;

1) Word length :

Articles should generally be around 5000 words in length.

2) Title :

A title of, preferably, ten words or less should be provided.

3) Autobiographical note and photograph :

A brief autobiographical note should be supplied including full name, designation, name of organization, telephone and fax numbers, and e-mail address (if any) or last position held, in case of retired persons. Passport size photograph should also be sent along with the submission.

4) Format :

The article, should be submitted in MS Word, Times New Roman, Font size 12 with 1½ line spacing. A soft copy of the article should be sent either in a floppy or by e-mail to drwazkar@iibf.org.in

5) Figures, charts and diagrams :

Essential figures, charts and diagrams should be referred to as 'Figures' and they should be numbered consecutively using Arabic numerals. Each figure should have brief title. Diagrams should be kept as simple as possible. In the text, the position of the figure should be shown by indicating on a separate line with the words : 'Insert figure 1'.

6) Tables :

Use of tables, wherever essential, should be printed or typed on a separate sheet of paper and numbered consecutively using Arabic numerals (e.g. Table-1) and contain a brief title. In the body of the article, the position of the table should be indicated on a separate line with the words 'Insert Table 1'.

7) Picture / photos / illustrations :

The reproduction of any photos, illustration or drawings will be at the Editor's discretion. Sources should be explicitly acknowledged by way of footnote. All computer-generated printouts should be clear and sharp, and should not be folded.

8) Emphasis :

Words to be emphasised should be limited in number and ***italicised.*** Capital letters should be used only at the start of the sentences or for proper names.

Copyright :

It is important that authors submitting articles should declare that the work is original and does not infringe on any existing copyright. He / she should undertake to indemnify the Institute against any breach of such warranty and consequential financial and other damages. Copyright of published article will vest with the publisher (Institute).

SUBSCRIPTION FORM FOR BANK QUEST / IIBF VISION

I would like to subscribe / renew my subscription to BANK QUEST / IIBF VISION.
Placed below are my particulars :

(IN CAPITAL LETTERS)

Shri / Smt / Kum : ____________________

Membership No. (If a member of the Institute) : ____________________

Existing Subscription No. (If already a subscriber) : ____________________

- for Bank Quest - BQ ____________________
- for IIBF Vision - VN ____________________

Mailing Address : ____________________

____

____

____

Pin : ____________________

Tel. Ph : ____________ Fax : ____________ E-mail : ____________

I would like to subscribe for one copy of the Bank Quest as follows (Put tick in box) :

☐	1 Year (4 issues)	Rs. 140.00
☐	2 years (8 issues)	Rs. 240.00

I would like to subscribe for one copy of the IIBF Vision as follows (Put tick in box) :

☐	1 Year (12 issues)	Rs. 40.00
☐	2 Years (24 issues)	Rs. 80.00

No. of copies required (if subscribing to multiple copies) : ____________________

I enclose demand draft no. ____________ dated ____________ for Rs. ____________

Date : ____________________ Signature : ____________________

PLEASE NOTE

- 'IIBF Vision' is provided every month to all Life Members of the Institute at the address recorded with the Institute.
- Subscriptions will be accepted for a maximum period of 2 years only.
- Subscriptions will be accepted by demand drafts only; drawn in favour of 'Indian Institute of Banking & Finance,' payable at Mumbai.
- Superscribe name & address on reverse of demand draft.
- Mail subscription form and demand draft to :

  The Director of Administration, Indian Institute of Banking & Finance
  "The Arcade", World Trade Centre, Second Floor, East Wing
  Cuffe Parade, Mumbai 400 005.


Get more value
from your savings
pnb
Bachat
Khata
Free Internet
Banking
Credit Card
e payment
SMS alert
ASBA facility
pnb
Smart
Invest
Free accidental/death insurance with active pnb debit card
Free ATM/
Debit Cards
3 in 1
3-in-1 account (Saving Fund, Demat & Trading account)
pnb Prudent- an automatic transfer of balance from saving accounts to fixed deposit and vice versa
Conditions apply
Our Saving Accounts
pnb
Total Freedom
for salaried persons
pnb
Shikshak
for teachers
pnb
Vidyarthi
for students
For further details contact your nearest PNB Branch or Dial 0120-2490000 / All India Toll Free 1800 180 2222
www.pnbindia.in
पंजाब नैशनल बैंक
...भरोसे का प्रतीक !
punjab national bank
...the name you can BANK upon !

Registered with the Registrar of Newspapers for India under No. R. N. 6073 / 57