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MICRO RESEARCH PAPERS 2008-2009

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ध्येय

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

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editorial

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

The Institute encourages research in the areas of banking and finance through three initiatives viz., the CH Bhabha Diamond Jubilee Research Scholarship, Macro Research and Micro Research annually. Whereas under the Macro Research programme, the Institute invites proposals for doing in depth research in certain selected areas in banking and finance, under Micro Research programme members of the Institute are encouraged to write analytical essays on operational issues based on their experiences. The idea is to capture on the job learning of individual bankers and disseminate it among the banking community at large. The papers are disseminated to the members by devoting one issue of Bank Quest based on the prize winning papers of the Micro Research competition of each year. The current issue consists of the four papers which qualified for the award of prizes for Micro Research in the year 2008-09.

The last decade or so has seen drastic changes in the payment and settlement systems in the country. From an era of Demand Drafts, Mail Transfers and continuous pre-printed cheques we have quickly moved to electronic payments in the form of credit cards, electronic transfers, ECS, internet transfers and mobile payments. In the meantime the RTGS is revolutionising the clearing systems in the country. Thus technology has enabled the banking system not only to handle, effortlessly, large volume of transactions but also speed up the payment and settlement systems. Also the reduction in the time, travel and effort in putting though a transaction must have resulted in reduced transaction cost for the customer. As we move forward technology will be a key business driver for the banks. The 'first prize' winning paper on 'Banking Technology' by Dr. Narinder Bhasin focuses on the use of technology in payment systems worldwide and its current status in India. It highlights the importance of technology in the development of an efficient and secure payment system which is the backbone of the financial sector. The paper charts the path of evolution of the payment system in the world as well as in India from the brick and mortar to the current hi-tech systems. The author also provides a roadmap for the further evolution of the payment system. He envisages, for example, that debit cards will outgrow credit cards, reduction in costs and greater risk mitigation techniques being built into the payment system.

It is well known that customers, often, did not possess a clear understanding of the terms used in banking. Rapid strides in use of technology in banks and newer products have widened the gap between banks and the customers as to how each other understand these terms. The lengthy multi page printed agreements that one has to sign and the speedy scroll down to "I agree" in signing the electronic agreements clearly show that financial literacy and awareness is hardly adequate. The second prize winning essay on 'Financial Awareness' by Somdev Chattopadhyay presents the findings of his own survey on the financial awareness among rural farmers, town based vendors, rickshaw pullers, small businessmen in rural areas, advocates and students. He observes that farmers in rural areas mostly prefer regional rural banks and nationalised banks. His study has shown that there is certain lack of understanding about the options for savings and investment as around 50% of the people who had steady income were found not to save or be *aware of their monthly cash flow. The awareness is slightly better among those in the urban areas or advocates and students with about 70% of those surveyed using banking services. But the penetration of insurance is very low among all categories of people that the author has surveyed. Among students the awareness about insurance and insurance products is quite good regardless of their medium of study (viz., English or Bengali).*

An issue that gets focused on account of competition and resultant pressure on the executives is work life balance. The third prize winning paper 'Work Life Balance' by Rajesh Kumar touches upon this important aspect of the financial world today; the need to balance work and life. The paper highlights that the negative effects of work and stress on health and the increasing health care costs is the reason why 'work life balance' is a much talked-about concept today. In the paper he talks about two basic human needs: achievement and enjoyment and how individuals need both to have work life balance. He talks of ways in which enjoyment can be brought in work life and a sense of achievement attained in the personal life. He dispels the notion that work-life balance is critical only for women since in the modern day men and women equally share the burden of earning income as well as household chores and parenting.

A paper by Pankaj Kumar on 'Customer Relationship Management' and by S. S. Sangwan's on 'Determinants of Financial Literacy' were awarded consolation prizes. The paper on Customer Relationship Management talks about the importance of CRM in retail banking. The paper traces the history of retail banking and how it has changed with increase in the number of products, delivery channels and also savvier customers. To continuously match the product design and delivery in line with customer demands and also to gain the competitive edge CRM becomes an important tool. The paper discusses how CRM can be used to increase business as well as enhance customer satisfaction.

The paper on 'Determinants of Financial Literacy' clarifies terms associated with financial literacy, the various strategies followed for financial literacy throughout the world and the extent of financial inclusion / exclusion in India. The paper constructs a model to determine the factors affecting financial inclusion in India viz., per capital income, population per branch and literacy percentage and finds that availability of branch network is the most important variable followed by per capita income and then financial literacy.

In addition to the above prize winning papers this issue of Bank Quest carries an article on 'Hedge Funds : Too Important to Ignore' by Sohan Lal Yadav and Rakesh Kumar Mehta. The author tries to explain the aura behind hedge funds and dispel certain notions about them. The paper talks about the history of hedge funds, types of funds and the main players involved. There are a number of strategies that hedge funds follow. It is said that there are as many strategies as there are hedge funds. The authors high light the Macro Funds whose investments are made on the basis of an understanding of economic cycles across various countries and "Carry trade funds" which tries to take advantage of arbitrage that may exist in the currency and interest rate structures. The paper then explains other aspects such as yield curve misalignment, equity market investing, and equity convertible arbitrage which play an important role in hedge fund strategy. It is necessary that readers should know more about hedge funds and their role in the recent financial crisis. Bank Quest will try to bring out more articles on this aspect in future.

Besides the above papers we carry a paper in Hindi and a book review and our usual features. Hope you will enjoy reading the issue.

(R. Bhaskaran)

Banking and Finance in India : Developments, Issues and Prospects**

Dr. K. C. Chakrabarty *

Ladies and Gentlemen :

I am delighted to be here amidst all of you at the 62nd International Banking Summer School (IBSS) being organised by the Indian Institute of Banking and Finance (IIBF) jointly with the Indian Banks' Association (IBA). I am thankful to the organizers and sponsors for providing me an opportunity to share my views and interact with you at a forum which I personally rate very high. Central bankers talk among themselves in various fora, it is high time that the bankers talk with each other. The School, open to senior bankers and financial professionals, as we are aware is a 10 days' brisk academic exercise that provides a platform for the practitioners of banking and finance to learn and share the latest developments in the banking and finance field and best practices and products available in today's fiercely competitive global banking arena. In the present situation of global turmoil that we have been going through in the last two years, this forum will provide opportunities to the bankers and finance professionals for understanding each other better. The exchange of views and the ideas which are going to be generated here during the next ten days will certainly throw useful insights and better understanding on how to overcome such problems in future. I am sure, in time to come, many of you are going to occupy high positions in banks including becoming Chief Executive Officers (CEOs).

Considering the theme of IBSS this year and more focus on managing banks in the era of turbulence, I think it would be appropriate if I share my views on a topic of contextual relevance, that is, 'Banking and Finance in India: Developments, Issues and Prospects' in the backdrop of the global financial crisis.

A recent BIS report has stated that it is useful to think of the financial system as the economy's plumbing. And like the plumbing in a house, the modern economic system depends on a reliable flow of financing through intermediaries. Modern life requires the smooth operation of banks, insurance companies, securities firms, mutual funds, finance companies, pension funds and governments. These institutions channelise resources from those who save to those who invest, and they are supposed to transfer risk from those who can't afford it to those who are willing and able to bear it (BIS, 2009). In India too, we have a well-diversified financial system which is still dominated by bank intermediation, though the size of the capital market has expanded significantly with financial liberalization in the early 1990s. Important components of the financial sector in India broadly fall into several categories namely : commercial banks, urban co-operative banks (UCBs), rural financial institutions, non-banking financial companies (NBFCs), housing finance companies (HFCs), financial institutions (FIs), mutual funds and the insurance sector. Commercial banks together with co-operative banks account for nearly 70 per cent of the total assets of Indian financial institutions.

Global Banking Trends and the Crisis

Before I dwell on the developments in the Indian banking and financial arena let me first touch upon briefly the global banking trends in view of the present crisis. It is not my intention to repeat a discussion on the causes of the global financial crisis and repeat what has happened since September 2008 by way of the efforts on the part of the Central Banks and Government to stabilize the global financial system. The causes

* *Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India.*

** *Inaugural speech delivered at the 62nd International Banking Summer School at New Delhi.*

of the financial crisis have been extensively analyzed, and many proposals have been put forward to prevent another such crisis in the future. Over the past few years, the essential and complex system of finance has been critically damaged. The current global crisis, as is well known by now, has its genesis in the imprudent practices of banks and non-bank institutions worldwide, especially in the US. The fact that more than 70 banks have failed in the US alone is a pointer to how deep and widespread the malaise was. Looking at the past few years, it may be useful to divide the causes of the current crisis into two broad categories : macroeconomic and microeconomic. The macro-economic causes fall into two groups : problems associated with the build-up of imbalances in international claims and difficulties created by the long period of low real interest rates. The microeconomic causes fall into three areas : incentives, risk measurement and regulation (BIS, 2009).

The crisis is best regarded as the steep downside of an extraordinary global financial cycle that was amplified by structural weaknesses. The financial imbalances that had built up slowly but inexorably during the boom, on the back of aggressive risk-taking and leveraging, had finally started to unwind. As elaborated in the BIS Annual Report, financial cycles are exacerbated by inherent difficulties in measuring risk and by distortions in incentives. Episodic financial strains cannot be eradicated entirely; the market is not fully self-correcting. But they can be mitigated or magnified by policy.

The crisis events can be traced to evidence of serious trouble emerging from when banks became less willing to lend to each other, because they were no longer sure how to value the assets held and the promises made both their own and those of potential borrowers. For a time, central bank lending was able to fill the gap. But from August 2007 the stress in the financial system increased in waves. By March 2008, we are all aware, the crisis deepened and Bear Stearns had to be rescued from failure; six months later, on September 15, Lehman Brothers went bankrupt; and by the end of September, 2008 the global financial system itself was on the verge of collapse.

Global Crisis : US, Europe and Emerging Market Economies

In the United States, the crisis was shaped by particular characteristics of the US financial system such as a complex mortgage financing value chain with opaque securitization structures, a large 'shadow financial system' involving various poorly regulated intermediaries (investment banks, hedge funds, structured investment vehicles-SIVs) and instruments (credit default swaps), the important role played by government-sponsored enterprises (Fannie Mae and Freddie Mac), as well as a fragmented supervisory architecture.

The US financial system is in many aspects unique due to the high share of capital market intermediaries and instruments. Deposit money bank accounts for a relatively low share of financial system assets, the stocks of market instruments are significantly larger (including private bonds), and the ratio of claims on the private sector to deposits is much higher. Overall, these indicators reflect the much greater role played by large investment banks, institutional investors, and other financial institutions, as well the extensive use of securitization.

While financial institutions in the US are at the heart of the problem, European banks face similar problems which shows how deeply interconnected national financial systems have become. European banks have been hit nearly as strongly as their American peers by losses from subprime mortgage investments, leveraged loans, failed financial hedges and a surge in conventional credit losses. As per one study of June 2009, banks on both sides of the Atlantic had to cope with combined write-downs of more than USD 1 trillion in this crisis and they may have to take USD 1.3 trillion more. Governments around the globe have had to intervene to prevent a wholesale collapse of the financial system. They have injected more than USD 200 billion in fresh capital into the top 20 banks alone; besides there are much larger asset and debt guarantees.

Emerging countries have not developed the same complex financing structures as those in the US, but several countries have already suffered from severe external imbalances, caused by fiscal imbalances and / or over-extended banking systems. These countries have become particularly vulnerable, as the crisis is transmitted through financial and trade channels. However, the specific channels of transmission may differ significantly across countries. The basic structure of the financial system is, however, not expected to change significantly, as banks still play a dominant role and capital markets are generally less developed.

Global Crisis : Global Growth and Financial Outlook

Let me make a quick reference to the global growth and financial outlook. The IMF in its July 2009 Update of the World Economic Outlook (WEO) has projected that the global economy will shrink by 1.4 per cent in 2009, a shade more than the contraction of 1.3 per cent projected earlier in April 2009. The global economy is, however, projected to recover and expand by 2.5 per cent in 2010. The global economy is, thus, showing incipient signs of stabilisation, albeit not recovery, helped by unprecedented macroeconomic and financial policy support. However, the recovery is still expected to be slow, as financial systems remain impaired, support from public policies will gradually diminish, and households in countries that suffered asset price busts will rebuild savings. The main policy priority remains restoring financial sector health. Macroeconomic policies need to stay supportive, while preparing the ground for an orderly unwinding of extraordinary levels of public intervention. Notwithstanding some positive signs, the path and the time horizon for global recovery remain uncertain.

Hard-hit by the global financial crisis, the worldwide banking industry's future development has now been sharply drawn into focus. Bankers and government officials will have to grapple with important issues such as the best corporate governance model for the future of an industry in which a number of banks have benefitted from government bailouts. Equally important concerns such as the return of morality to the market, the definition of financial risk and the tradeoff among innovation, self-discipline and regulation require the banking industry to think outside the box. It has changed the face of Wall Street with lots of investment banks changing their business models. What will the future hold for these financial institutions is a subject being widely debated internationally to probe the future of the banking industry world over.

Global Crisis : Financial Sector Rescue Programmes

Now, I move to an assessment of financial sector rescue programmes undertaken since the crisis intensified in September 2008. Central banks across countries have continued with an easy monetary policy stance. Governments became crucial during the crisis, as traditional sources of funding for financial institutions dried up. Following the collapse of Lehman Brothers, governments in advanced economies have stepped in to provide support to banks and financial institutions, through both standalone actions directed at individual institutions and system-wide programmes. The measures introduced have consisted of : (i) capital injections to strengthen banks' capital base; (ii) explicit guarantees on liabilities to help banks retain access to wholesale funding; and (iii) purchases or guarantees of impaired legacy assets to help reduce banks' exposure to large losses. The objective of such intervention was to avoid widespread bankruptcies of financial intermediaries and to contribute to restoring a normal functioning of financial intermediation.

As per a BIS estimate [Panetta Fabio et al (2009)], the overall amount of resources committed to the various packages by eleven countries (namely, Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, the United Kingdom and the United States) totaled around €5 trillion or 18.8 per cent of GDP; the outlays have been €2 trillion or 7.6 per cent of GDP. The size of the interventions varies greatly across countries: it is higher in countries such as the United Kingdom and the Netherlands (where outlays have reached 44.1 per cent and 16.6 per cent of GDP, respectively) where the banking system is large relative to the real economy and is dominated by large institutions that have been severely hit by the crisis. It is lower in countries such as Japan (0.1 per cent of GDP) and Italy (0.6 per cent) where banks are more focused on traditional credit activities and so far have been less affected by the crisis. Actions for addressing capital shortages and funding difficulties have been widespread and have mostly taken the form of system-wide programmes. Measures for improving the quality of bank assets have been less common and have mainly targeted individual large institutions. However, some of the most recent initiatives include comprehensive schemes for dealing with illiquid or "bad" assets. Among banks that participate in both recapitalisation and debt guarantee programmes, the intermediaries that have received more capital (in relation to shareholder equity) have also issued more liabilities under guarantee (in relation to total liabilities). Moreover, most instances of asset purchase / guarantee occurred after earlier capital injections, suggesting that this option was used after a first phase of government support failed to fully restore confidence in troubled institutions. The average uptake rate by eligible institutions (i.e, the ratio of outlays under a given programme to total commitments) is higher for capital injections (around 50 per cent) than for debt guarantees (less than 20 per cent). The United Kingdom has the highest participation rate for both capital injections and debt guarantees, possibly reflecting the relatively small number of major banks and the tailoring of government programmes to their needs.

Overall, it may be mentioned that the rescue measures have contributed to an avoidance of "worst case scenarios", in particular by reducing the default risk of major banks. Although, the rescue measures have been effective in stabilising the financial system, it is recognized that this has come at a price, represented by distortions and inefficiencies.

Role of Banking / Financial system in India

In the analytical and empirical literature on the subject of finance and growth, there is a consensus among economists that development of the financial system contributes to economic growth (Rajan and Zingales, 2003). Financial development creates enabling conditions for growth through either a supply-leading (financial development spurs growth) or a demand-following (growth generates demand for financial products) channel. Empirical evidence consistently emphasises the nexus between finance and growth, though the issue of direction of causality is more difficult to determine. At the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalisation) are robustly and positively related to economic growth (King and Levine, 1993; Levine and Zervos, 1998).

Financial Deepening in India

In the Indian case, healthy growth of the assets of commercial banks in the recent period, driven primarily by credit growth and sharp rise in credit-GDP, deposit-GDP and M3-GDP ratios are reflective of significant financial deepening in India. For example, during the period since 1980s, while bank assets-GDP ratio has tripled moving up from 31.4 per cent in the 1980s to 93.3 per cent in 2008-09, credit-GDP ratio has increased from 19.3 per cent to 52.2 per cent, deposits-GDP ratio has increased from 29.8 per cent to 72.0 per cent and M3-GDP ratio has increased from 39.0 per cent to 89.5 per cent (Statistical Annex SA 1).

In a cross-country perspective, when measured by the ratio of bank assets to GDP, financial depth in India was among the lowest in the world (Barth, Caprio and Levine, 2001). Comparable cross-country data indicated that in 2001, this ratio, at 48 per cent for India, was lower than those prevalent in Asian economies such as Indonesia (101 per cent), Korea (98 per cent), Philippines (91 per cent), Malaysia (166 per cent) and much lower than developed economies, such as UK (311 per cent), France (147 per cent) and Germany (313 per cent). In India, while the ratio of bank assets to GDP has increased significantly to a shade over 93 per cent in 2008-09 a result of high credit growth in recent years - it is still lower than other emerging countries. Financial deepening, hence, has been taking place on an accelerated pace on a macro basis in recent years and banking productivity has improved significantly.

As per the data from India's national accounts, over the period since 1980s, banking and insurance sector has witnessed a growth which is in excess of the overall GDP consistently over the years. In the 1980s, the growth of banking and insurance sector was 10.6 per cent *vis-à-vis* the GDP growth of 5.6 per cent - this increased to 15.4 per cent in 2007-08 vis-à-vis the GDP growth of 9.0 per cent (Statistical Annex SA 2).

Another noteworthy feature discernible in Indian context is that the rise in indicators of financial deepening takes place along with a noticeable rise in the domestic savings rate. The rate of domestic savings has specially picked up in the recent period during 2003-04 to 2007-08 against the backdrop of financial sectors reforms, rise in total factor productivity and investment boom, which had led to acceleration in the growth performance, while in the developed countries like the US and Japan the rise in financial deepening has had a limited effect on the savings rates of the economies. The results may seem contrasting; however, the country specific reason such as the level of social security measures on welfare of people, wealth effect in the period of rising assets prices and most significantly the demographic profile which explain the Life Cycle Hypothesis (LCH) may have dampened the savings propensity in a country.

A cautionary remark, however, I would like to make here. In the context of the macro-economic trend of high services sector growth which includes the banking sector growth, I feel that the services growth needs to be well supported by growth from the real sectors of the economy. Financial leverage cannot bring perpetual prosperity. Banks need to keep this in mind, and I am telling this as a banker, not as a central banker.

Indian Banking Trends

As you are aware, there is significant transformation of the Indian banking sector. The financial sector reforms in the country were initiated in the beginning of the 1990s. The reforms have brought about a sea change in the profile of the banking sector. Our implementation of the reforms process has had several unique features. Our financial sector reforms were undertaken early in the reform cycle. Notably, the reforms process was not driven by any banking crisis, nor was it the outcome of any external support package. Besides, the design of the reforms was crafted through domestic expertise, taking on board the international experiences in this respect. The reforms were carefully sequenced with respect to the instruments to be used and the objectives to be achieved. Thus, prudential norms and supervisory strengthening were introduced early in the reform cycle, followed by interest-rate deregulation and a gradual lowering of statutory pre-emptions. The more complex aspects of legal and accounting measures were ushered in subsequently when the basic tenets of the reforms were already in place.

Though public sector banks (PSBs) account for around 70 per cent of commercial banking assets and 72.7 per cent of the aggregate advances of the Scheduled commercial banking system (as on March 31, 2008), competition in the banking sector has increased in recent years with the emergence of private players as also with greater private shareholding of PSBs. Listing of PSBs on stock exchanges and increased private shareholding have also added to competition. The new private banks which accounted for 2.6 per cent of the commercial banking sector in March 1997 have developed rapidly and accounted for nearly 17 per cent of the commercial banking assets by end March 2008.

Financial Health of the Banking System

The implementation of reforms has had an all-round salutary impact on the financial health of the banking system, as evidenced by the significant improvements in a number of prudential parameters. Let me briefly highlight the improvements in a few salient financial indicators of the banking system (Statistical annex SA 3 & 4). The average capital adequacy ratio for the scheduled commercial banks, which was around 10.4 per cent in 1997, had increased to 13.08 per cent as on March 31, 2008. In regard to the asset quality also, the gross NPAs of the scheduled commercial banks, which were as high as 15.7 per cent at end-March 1997, declined significantly to 2.3 per cent as at end-March 2008. The net NPAs of these banks during the same period declined from 8.1 per cent to 1.08 per cent. The reform measures have also resulted in an improvement in the profitability of banks. The Return on Assets (RoA) of scheduled commercial banks increased from 0.4 per cent in the year 1991-92 to 0.99 per cent in 2007-08. The Indian banks are well placed in this regard too *vis-à-vis* the broad range of RoA for the international banks. The banking sector reforms also emphasised the need to improve productivity of the banks through appropriate rationalisation measures so as to reduce the operating cost and improve the profitability. A variety of initiatives were taken by the banks, including adoption of modern technology, which has resulted in improved productivity.

One area that needs to be watched continuously due to recent crisis is the off-balance sheet (OBS) exposure of the banks. The spurt in OBS exposure is mainly on account of derivatives whose share averaged around 80 per cent. The derivatives portfolio has also undergone change with single currency IRS comprising 57 per cent of total portfolio at end- March 2008 from less than 15 per cent at end-March 2002.

With regard to the assessment of the banking system in India we are in a comfortable position, as confirmed by the Committee on Financial Sector Assessment (CFSA) :

- Commercial banks have shown a healthy growth rate and an improvement in performance as is evident from capital adequacy, asset quality, earnings and efficiency indicators. In spite of some reversals during the financial year 2008-09, the key financial indicators of the banking system do not throw up any major concern or vulnerability and the system remains resilient; and
- The single-factor stress tests carried for the commercial banking sector covering credit risk, market / interest rate risk and liquidity risk have revealed that the banking system can withstand significant shocks arising from large potential changes in credit quality, interest rate and liquidity conditions.

Vision from Abroad and India

Vision from Abroad

One key line of defence against financial instability is an improved framework of financial regulation, supervision and oversight. A holistic approach is necessary, covering stronger safeguards for instruments, markets and institutions. This means putting in place improved mechanisms to assess the suitability and risks of new financial instruments. It implies encouraging greater centralisation in clearing, settlement and, possibly, trading. It means making each institution sounder, through tighter consolidation of off-balance sheet exposures, better accounting and improved capital and liquidity standards. Above all, it calls for strengthening the macroprudential orientation of regulation and supervision. This means focusing firmly on system-wide risks and addressing the procyclicality of the financial system.

The need to reform, if not completely overhaul, the current financial regulatory system has resurfaced strongly against the backdrop of the ongoing global financial crisis. It has been widely recognized that not only the American system of overlapping regulators failed, the UK System, which clearly separates regulatory powers, also failed to evolve to cater to the challenges presented by innovations in the financial markets. As risks built up, internal risk management systems, rating agencies and regulators did not understand or address critical behaviours until they had already resulted in catastrophic losses (Federal Reserve, 2009). Thus the current crisis may appear to be a result of failure of the regulatory system to address and contain systemic risks. Various proposals have been put forward by policy makers and international organisations to improve the international financial system including financial regulation and supervision. Although there are certain areas where diverse views still exist, certain key areas - like redefining the scope and boundaries of financial regulation and supervision, managing the pro-cyclicality in the system, strengthening capital and provisioning requirements as well as refining valuation and accounting rules - have witnessed growing consensus.

Micro-prudential regulation is not enough; it must be supplemented by macro-prudential regulation that catches the systemic consequences of all institutions acting in a similar manner. However, we must understand that better regulation will not be enough; complementary adjustments to macroeconomic policy frameworks are equally essential. These adjustments would call for a more symmetric response to the build-up and unwinding of financial imbalances. At the same time, there are clear limits to what policymakers can do: the private sector has a critical role to play as well. Business models in the financial sector will have to evolve if they are to recognise the need for larger, higher-quality capital and liquidity cushions. Similarly, internal and external governance mechanisms will have to be strengthened to ensure better risk management and less risk-taking.

The solution to the crisis is not more regulation, though more comprehensive regulation may be required in some areas. Innovations in the form of complexity and sophistication of products and services, coupled with profitability and competitive considerations, have changed the dimensions of risks faced by banks. The Committee on Financial Sector Assessment (CFSA) argued that the present global financial crisis has highlighted the limitations of the present Basel Core Principles in as much as the assessment does not specifically cover areas like SIVs / NBFCs or aspects like dynamic provisioning and countercyclical norms. Hence, the CFSA felt that the Basel Committee on Banking Supervision should revisit the Basel Core Principles to cover the new areas. Secondly, the CFSA also noted that though BCPs are not strictly applicable to financial institutions other than commercial banks, the efforts to extend the scope of BCP assessment to other sectors are commendable in the current context of the potential linkages of such institutions and their impact on the stability of the financial system. The Reserve Bank has already been extending such principles to non-bank entities, subject to certain thresholds and the nature of their operations.

Another aspect which also came under criticism is the CEO compensation and the moral hazard generated by the skewed incentive structure. The question being raised is not only about the appropriate level of CEO compensation and its linkage with performance but also the gap between the pay of the top-most executives and employees at the bottom of the hierarchy. How should a proper compensation structure be devised is a challenge that the HR executives in banks have to work on in the days to come.

Vision from India

The fact that India has not gone through any financial crisis as a result of financial deregulation is not only remarkable, but a testimony to the correctness of the judgment that reforms to global standards need to be adjusted to local conditions (Mohan, 2007). The need of the hour is to have financial sector reforms in a recalibrated manner to address the issues in light of the crisis. India has so far remained relatively insulated from the crisis that global banking system has experienced in the course of the 1990s. Our exposure to troubled sub-prime assets and related derivatives is negligible in comparison to many other economies. The fact that so far, financial sector reforms have been calibrated with a progressive integration into the world economy has paid us rich dividends. A key consideration in the choice of pace and sequencing has been the management of volatility in financial markets and implications for the conduct of monetary operations. The nuanced approach to financial sector reform has served us well with an accent on conscious gradualism in the implementation of coordinated and sequenced moves on several fronts. What have been ensured are appropriate safeguards to ensure stability, while taking account of the prevailing governance standards, risk management systems and incentive frameworks in financial institutions in the country. Overall, these progressive but cautious policies have contributed to efficiency of the financial system while sustaining the growth momentum in an environment of macroeconomic and financial stability. The policy challenge is to continue to ensure financial stability in India during this period of international financial turbulence, while achieving high growth with price stability.

Some of the reasons for India's insulation as highlighted by Dr. Y. V. Reddy, the former Governor of the Reserve Bank of India are : (1) The nascent stage of development of the credit derivatives market; (2) Regulatory guidelines on securitisation do not permit immediate profit recognition; (3) Perseverance of prudential policies which prevent institutions from excessive risk taking and financial markets from becoming extremely volatile and turbulent; and (4) Close co-ordination between supervision of banks and their regulation.

Three Critical Issues

I would like to bring to the fore three issues that I consider very important for the qualitative growth of the Indian banking as we move ahead. First is the issue related with

'Know Your Customer (KYC)' in banks; Second, from a central banker's perspective whether the banks are according 'fair treatment' to their customers; and Third, is the issue of 'Risk Management' and its proper understanding. Let us discuss these three important issues in detail now.

Know Your Customer (KYC)

First is the issue of KYC in banks and its importance in the overall enhancement in the functioning of the banks. Sound KYC policies and procedures not only contribute to a bank's overall safety and soundness, they also protect the integrity of the banking system by reducing the likelihood of banks becoming vehicles for money laundering, terrorist financing and other unlawful activities. There are three components here. 'Knowing their customers' is not enough for banks, they should also know the 'business' of their customers; and if the banks know the business of their customers, the banks can certainly assess the risks associated with each of their customers. The banks should realize that KYC is not only a risk management process but it also makes a good business sense.

Treating Customers Fairly

Second issue is with regard to banks' treating customers fairly (TCF). This requirement is key to the operation of an efficient retail market for financial services. TCF is also central to consumers having confidence in the financial services industry. This principle must be adopted and supported by the leadership of financial firms, and embedded throughout a firm's operations and within its culture. Another important aspect related to TCF is from the Regulator's perspective. One may ask why the regulator should at all be concerned about customers not being treated fairly by banks. In this connection, it is important to note that not all financial entities are accorded the status of the 'Banks'. The banks do business many times more than the deposit resources they raise and hence they have a special responsibility to customers for providing fair treatment. Banks need to respond to the challenge of restoring consumer confidence in the financial services industry and ensuring that they treat their customers fairly.

In addition, in a competitive marketplace, TCF should be an important element (alongside service levels, pricing and customer satisfaction) in determining the success of a bank in acquiring and maintaining market share. However, in many markets for retail financial products and services the incentive structure for firms to treat their customers fairly has not always been robust enough to deter all firms from inadvertently or deliberately taking advantage of the relative weakness of the financial services consumer.

There should be a blend of regulatory and market-based solutions to delivering fairness to customers. The key issue is the balance between these two. The issue of addressing the fair treatment of customers throughout the product life-cycle comprises :

- Product design and governance;
- Identifying target markets;
- Marketing and promoting the product;
- Sales and advice processes;
- After-sales information; and
- Complaint handling.

These issues will create challenges for banks. They may have to adapt the management, reward and operating systems they currently use and enhance the controls they have in place to monitor whether they are meeting the TCF requirement.

Financial Services Authority (FSA), UK sometime back had conducted a limited pilot study to look at how major retail financial services groups, drawn from different sectors, currently approach delivering on their obligation to treat their customers fairly. The results confirmed that these banks are concerned with addressing the requirement to treat their customers fairly, but still significant work is needed to improve practices in some of the areas.

To sum up, there is a need to develop a better, and common, understanding of what TCF means in practice. Banks need to examine what most effectively constitutes fair treatment of customers. Banks' senior management needs to assess their current performance against the requirement to treat customers fairly, identify possible areas for improvement and ensure that the principle of fairness is embedded in their work-culture.

Risk Management

The third issue is which has assumed critical significance now is 'Risk Management' and its proper understanding. We cannot view banks' risks at individual level in isolation all the time. It has also been argued that the emphasis on micro-prudential regulation may have contributed to the buildup of some macro risks. Collectively, the systemic risk is becoming more and more prominent with the increasing complexities and the associated risk factors in the banking activities. The banks have to have a proper understanding of all the risk factors and at the same time they have to ensure that their customers also understand and appreciate the associated risk. In the event of such banking activities leading to the emergence of systemic risks, the central bank may intervene which might result in stricter regulation and supervision.

Another critical issue is of capital and liquidity risk management in the banks in the wake of the crisis. We may have a situation where the liquidity may dry up and the banks and the financial institutions would face severe liquidity crunch due to adverse market conditions. In this scenario, the liquidity crunch might completely wipe out the capital of the bank as well leading to its failure. Another case might be a scenario where plenty of liquidity in the market may fuel inflation. Therefore, we have to be vigilant and monitor the market conditions more vigorously.

In recent times increase in the banks' dependence on bulk deposits to fund credit growth has assumed significance as this could have liquidity and profitability implications. An increase in growth in housing loans, real estate exposure as also infrastructure has resulted in elongation of the maturity profile of bank assets. There is growing dependence on purchased liquidity and also an increase in the illiquid component in banks' balance sheets with greater reliance on volatile liabilities, like bulk deposits to fund asset growth. Simultaneously, there has been a shortening of residual maturities, leading to a higher asset-liability mismatch. There is a need to strengthen liquidity management in this context as also to shore up the core deposit base and to keep an adequate cushion of liquid assets to meet unforeseen contingencies. What needs to be borne in mind is that while at an individual bank level, retail deposits may be volatile, but for the banking system as a collective lot, it provides solid foundation for the banks to fund their long term assets like infrastructure and similar business activities.

Inclusive Growth : Financial Inclusion Leveraging Technology

In the history of civilization it has always been the technology which has led to mass availability of products. Same is the case for banking services. We are in the midst of the most exciting period of human civilization when two billion of population is expected to move 'up' from below poverty line (BPL). Majority of this will be in this sub-continent and banks will have an opportunity to participate in this process, which will bring peace and prosperity to the nation.

For achieving the goal of Financial Inclusion, experts have recommended the Business Correspondent / Facilitator (BC / BF) model. However, some recent studies have pointed out that the BC model may not be commercially viable due to a high transaction cost for the banks and customers. Here, the appropriate use of technology can help in reducing the transaction cost. The need of the hour is to develop and implement scalable platform independent technology solutions which, if implemented on a larger scale, will bring down the high cost of operation. Technology, thus, really holds the key for financial inclusion to take place on an accelerated scale.

The need of the hour is leveraging technology in Indian banking for providing affordable and cost-effective banking services to the masses through multi-delivery channels. All of us know that apart from traditional business, banks now-a-days provide a wide range of services to satisfy the financial and non-financial needs of all types of customers from the smallest account holder to the largest company and in some cases of non customers. The range of services offered differs from bank to bank depending mainly on the type and size of the bank. The key enabling factor has been the adoption of technology. Banking industry is fast growing with the use of technology in the form of ATMs, on-line banking, Telephone banking, Mobile banking etc., plastic card is one of the banking products that cater to the needs of retail segment has seen its number grow in geometric progression in recent years. The internet banking is changing the banking industry and is having the major effects on banking relationship. Retail banking in India is maturing with time; several products, which further could be customized are in the retails segments of housing loan, personal loan, education loan, vehicle loan, etc.

Being convinced that technology is the key for improving in productivity, the Reserve Bank took several initiatives to popularize usage of technology by banks in India. Periodically, almost once in five years since the early 1980s, the Reserve Bank appointed Committees and Working Groups to deliberate on and recommend the appropriate use of technology by banks given the circumstances and the need.

Even as global financials face growth and asset-quality issues, Indian banks continue to offer a healthy growth trajectory with minimal balance-sheet risks. Despite the high growth rate of the past decade, penetration for most financial products / services in India remains low. Indian banks can sustain their structural growth trajectory, driven by an under-penetrated financial-services sector, a conducive economic environment and a supportive regulatory regime. Financial penetration holds the key to financial inclusion and inclusive growth. Favorable demographics would be a facilitating factor. Way forward, financial penetration is expected to rise as banks expand into new areas, focus on building their retail business and strengthen their risk-management system.

In the past five years, banking sector deposits have seen a healthy growth driven by a host of factors : acceleration in nominal GDP growth; rising savings rate; increasing proportion of bank deposits in total financial savings; and inflow of non-retail deposits. With most of these factors being close to their peak levels, deposit growth would be contingent on banks' ability to boost their deposit growth through their increased presence in semi-urban and rural areas.

Conclusion

To sum up, while global banking developments have offered innumerable perspectives, important perceptions are emerging from the Indian banking developments. Given the long term objective of achieving 9.0 per cent of GDP growth, we need to understand that there are significant challenges for Indian banking. Of these, the major challenge would be to achieve financial inclusion through improved financial penetration in hitherto uncovered areas, which in turn would enable inclusive and sustainable growth for the economy. We all have to put our minds together and continually strive towards achieving this in the days ahead.

The question currently on top of the minds of most bankers in this room would be : what will be the shape of banking in days to come? Will banks do business differently? What are the changes that are likely to take place? We have to deliberate and explore many options in this regard. The only thing that can be said at this juncture is that regulation may become tighter and supervision more controlled. Other than that, it is difficult to say whether there will be any fundamental change in the way banks work. I am sure participants will deliberate on all these issues in the next few days and bring out some useful insights.

I wish the IBSS deliberations a grand success.

Thank you.

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Statistical Annex

SA1 : India - Indicators of Financial Deepening

Item	1980-81 to 1989-90	1990-91 to 1999-00	2000-01 to 2008-09	2007-08	2008-09
1	2	3	4	5	6
M3					
Growth rate	14.7	14.8	15.3	17.9	24.4
M3 / GDP (per cent)	39.0	47.5	69.9	76.5	89.5
Credit					
Growth rate	14.3	13.9	18.5	18.2	15.0
Credit / GDP (per cent)	19.3	20.6	36.6	50.1	52.2
Deposits					
Growth rate	15.3	14.6	14.2	18.3	16.6
Deposits / GDP (per cent)	29.8	37.4	57.4	67.8	72.0
Bank Assets					
Growth rate	-	15.4	16.0	20.0	12.8
Bank Assets / GDP (per cent)	31.4	34.0	64.4	91.8	93.3
Flow of Funds					
FR	0.22	0.32	0.46#	-	-
FIR	2.41	2.34	2.57#	-	-
NIR	1.42	1.29	1.60#	-	-
IR	0.71	0.82	0.61#	-	-

Note :

i) Finance Ratio = Ratio of Total Issues to National Income (Net National Product at Factor Cost at Current Prices).

ii) Financial Inter-relations Ratio = Ratio of Total Issues to Net Domestic Capital Formation

iii) New Issue Ratio = Ratio of Primary Issues to Net Domestic Capital Formation

iv) Intermediation Ratio = Ratio of Secondary Issues (i.e. issues by banks and other financial institutions) to Primary Issues.

#: Pertains to the year 2000-01.

Source : 1. RBI, Handbook of Statistics on the Indian Economy 2007-08.

2. Report of the High Level Committee on Estimation of Saving and Investment.

3. IMF, Global Financial Stability Report, April, 2009.

SA 2 : Banking and Insurance Sector in India's GDP

Item	1980s	1990s	2000s	2006-07	2007-08
Growth					
Banking and Insurance	10.6	9.8	9.9	20.3	15.4
Services	6.3	7.1	9.0	11.3	10.8
GDP	5.6	5.7	7.3	9.7	9.0
Share					
Banking and Insurance	3.1	4.9	6.1	6.7	7.1
Services	46.3	51.5	59.6	62.0	63.0
GDP	100	100	100	100	100
Contribution to GDP					
Banking and Insurance	0.3	0.5	0.6	1.2	1.0
Services	2.9	3.6	5.3	6.9	6.7

Source : National Accounts Statistics, Central Statistical Organisation

SA 3 : Non-Performing Loans (NPL) of Scheduled Commercial Banks (Per cent)

End-March	Gross NPL / Gross Advances	Gross NPL / Assets	Net NPL / Net Advances	Net NPL / Assets
1	2	3	4	5
1996-97	15.7	7	8.1	3.3
1997-98	14.4	6.4	7.3	3
1998-99	14.7	6.2	7.6	2.9
1999-00	12.7	5.5	6.8	2.7
2000-01	11.4	4.9	6.2	2.5
2001-02	10.4	4.6	5.5	2.3
2002-03	8.8	4	4.4	1.9
2003-04	7.2	3.3	2.8	1.2
2004-05	5.2	2.5	2	0.9
2005-06	3.1	1.8	1.2	0.7
2006-07	2.4	1.5	1	0.6
2007-08	2.3	1.3	1	0.6

Source : Reserve Bank of India.

SA 4 : Cross-Country Select Banking Indicators - A comparison (Per cent)

Country	Regulatory Capital to Risk-Weighted Assets (CRAR)				Non-performing Loans to Total Loans				Provisions to Non-performing Loans				Return on Assets (ROA)			
	2002	2006	2007	2008	2002	2006	2007	2008	2002	2006	2007	2008	2002	2006	2007	2008
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Developing Economies																
Argentina	-	-	16.9	16.8	18.1	3.4	2.7	2.5	73.8	130.2	129.6	130.9	-8.9	2	1.5	1.6
Brazil	16.6	18.9	18.7	16.6	4.5	4.1	3	2.9	155.9	152.8	181.8	170.9	2.1	2.5	2.9	2
China	-	-	8.4	8.2	26	7.5	6.7	2.5	-	-	39.2	115.3	-	0.9	1	-
India	**12**	**12.4**	**12.3**	**13**	**10.4**	**3.5**	**2.5**	**2.3**	**-**	**58.9**	**56.1**	**52.6**	**0.8**	**0.9**	**0.9**	**1**
Indonesia	20.1	21.3	19.3	16.8	24	13.1	4.1	3.5	130	99.7	87.7	98.5	1.4	2.6	2.8	2.6
Korea	11.2	12.8	12.3	10.9	2.4	0.8	0.7	1.1	89.6	175.2	199.1	155.4	0.6	1.1	1.1	-
Malaysia	13.2	13.5	13.2	12.6	15.9	8.5	6.5	5.1	38.1	50.7	77.3	86.9	1.3	1.3	1.5	1.6
Mexico	15.7	16.3	15.9	15.3	3.7	2.1	2.7	2.5	138.1	207.4	169.2	184	0.7	3.1	2.7	1.8
Philippines	16.9	-	15.7	15.5	26.5	18.6	5.8	5.2	30.1	37.4	81.5	84.1	0.8	1.3	1.3	1.1
Russia	19.1	14.9	15.5	14.5	5.6	2.6	2.5	2.5	112.5	159.3	144	140	2.6	3.2	3	1.6
South Africa	12.6	12.3	12.8	12.5	2.8	1.2	1.4	2.6	46	-	-	-	0.4	1.4	1.4	1.8
Thailand	13	13.8	14.8	15.3	15.7	7.5	7.9	6.5	62.9	79.4	86.5	-	-	2.3	0.1	-
Turkey	24.4	21.1	19	17.7	12.7	3.2	3.5	3.3	64.2	90.8	88.4	81.6	1.2	2.4	2.8	2.2
Developed Economies																
Australia	9.6	10.4	10.2	10.9	0.4	0.2	0.2	0.5	106.2	204.5	183.7	87.2	1.4	-	1	0.9
Canada	12.4	12.5	12.1	12.7	1.6	0.4	0.7	1.1	41.1	55.3	42.1	34.7	0.4	1	0.9	1.3
France	11.5	-	10.1	-	4.2	3.2	2.7	-	58.4	58.7	61.4	-	0.5	-	0.4	-
Germany	12.7	-	12.9	-	5	4	2.7	-	-	-	77.3	-	0.1	0.5	0.2	-
Italy	11.2	10.7	10.4	-	6.5	5.3	4.6	-	-	46	49.5	-	0.5	0.8	0.8	-
Japan	9.4	13.1	12.9	12.3	7.4	2.5	1.5	1.5	-	30.3	26.4	24.9	-0.7	0.4	0.2	0.3
United Kingdom	13.1	12.9	12.6	-	2.6	0.9	0.9	-	75	-	-	-	0.4	0.5	0.4	-
United States	13	13	12.8	12.5	1.4	0.8	1.4	2.3	123.7	137.2	93.1	84.7	1.3	1.3	0.8	0.3

Source : 1. Global Financial Stability Report, 2007, IMF
2. Global Financial Stability Report, 2009, IMF

Banking Technology (1st Prize)

Dr. Narinder Kumar Bhasin *

Introduction :

Payment systems constitute the backbone of economic activity. Evolution of payment systems worldwide has been moving away from paper-based instruments in favour of electronic systems. In the 1970's, the processing of payments was typically paper-based, involving a number of manual interventions and long processing time. In many countries, separate systems were in use for processing different types of payment instruments, such as cheques or credit transfers. Most systems used some form of netting-settling obligations between parties on a net basis. Settlement of the final positions usually took place only the next day. Introduction of technology enabled gradual replacement paper with electronic media for transmission and processing, reducing thereby cost and time taken for settlement. Yet, net settlement continued to dominate for many years.

Credit risk in a net settlement system is extinguished only with the settlement of all net positions in the systems, which sometimes occurred only on the next day. As a result, the failure of one participant to meet its obligations at the time of settlement could lead to the unwinding of payments that other participants had already treated as final. In the 1990's, central banks of G10 countries drew up the Lamfalussy report, which set out the prudential rules for interbank netting scheme to reduce the risks in such systems. The report introduced additional costs in order to prevent the creation of systemic risks in case of failure of one or the several major participants. While some countries adapted their net settlement systems to new rules set by the Lamfalussy report, most countries moved to real time gross settlement systems. Systemic risk considerations have not only led to real time gross settlement of payments but also to settlement schemes such as delivery versus payments (DVP) and payment versus payment (PVP) in foreign exchange transactions. DVP and PVP mechanisms respectively ensure that the final transfer of assets or currency occurs only when the final transfer of another asset or currency takes place.

Payment Systems provides the arteries or highways for conducting trade, commerce and any other forms of activities in any country.

This paper examines how technology has played an important role in the development of an efficient and secure payment system and how it will continue till it creates chequeless, cashless society with wireless technology as the last mile. Payment system is the backbone of any financial economy and the spectacular growth in financial transaction has necessitated certain radical changes in the payment and settlement systems around the globe. Technological revolution in the field of electronics and telecommunications has helped to bring about sophisticated developments in the payments and settlement system in many countries. A well-defined payment and settlement systems is, therefore, a crucial component of financial infrastructure of any country. Payment systems are important for economic growth and they are evolving largely driven by innovation, convenience and economic benefits. Payment systems provides the arteries or highways for conducting trade, commerce and any other forms of activities in any country.

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With the objective of ensuring faster flow of funds among various constituents of the financial sector, Reserve Bank of India has taken up the work of reforms in the payment and settlement systems for the country. While the driving force has behind all the initiatives has been technology, it has been ensured that all the major covenants of a safe, efficient, sound and secure payment systems are fully met with.

Risk Free and Final Settlement System

The introduction of real time gross settlement (RTGS) system by many countries has not only resulted in compliance with the core principles for systemically important payment systems enumerated by the Bank for International Settlements (BIS), but has also paved the way for risk-free, credit push-based fund transfers settled on a real time basis and in central bank money. However, the liquidity requirements for the RTGS are relatively high. An RTGS system is a settlement system in which processing and settlement takes on an order-by-order basis (i.e. without netting) and in real time (i.e. continuously) hence, payments become irrevocable and final immediately after booking on the accounts. The idea of RTGS processing was not completely new since, in contrast to net settlement systems, it requires a low degree of concentration. Particularly, in federally structured countries, such as Germany and US, payment systems already combined features of net and gross settlement. In addition advanced technology made RTGS an affordable system for a wider range of payments. Parallely, while most systems in the 1970's and early 1980's did not distinguish payments according to size, it became increasingly common to do so. This is explained in part by the higher costs of processing time-critical large value payments more swiftly and with additional safety measures compared with processing less urgent payments. Financial institutions around the world are faced with a growing set of challenges. Competition is intense, managing risk is more important and responding quickly to change is a necessity.

Internet banking has become very popular in industrially and technologically advanced countries due to its numerous advantages to customers and banks. This has resulted in the improvement of productivity and efficiency of the industry on one hand and the improvement in the quality of customer service on the other hand. Internet's impact, especially on financial services such as stock broking and banking has been profound. Banking transactions conducted with no physical exchange of paper or plastic currency, has reduced transaction costs and role of intermediaries, and made the information more accurate.

Rapid technological progress and major advances in telecommunications, has created new investment and financing opportunities for businesses and people around the world. Easier access to global financial markets for individuals and corporations will lead to a more efficient allocation of capital, which, in turn, will promote economic growth and prosperity. World financial markets have also recently experienced an increase in the securitization. In part, this development has been spurred by the surge in mergers and acquisitions and leveraged buy-outs that have taken place in markets of late. In a payment systems context, the common element is that it results in a higher degree of concentration of payment flows. In this sense, consolidation relates not only to institutional aspects (mergers and acquisitions), but also to re-organization measures within individual financial institutions, specialization and outsourcing processes and market infrastructure.

Global developments in payment systems

Global e-payment market and services encompass technologies such as m-payments and the need for strong surrounding security. Enterprise business-to-business (B2B) portals and improved methods similarly will fuel the expected increase in online spending and sourcing. On-line card payments have been the dominant component of e-payment. The key growth opportunities will be in payments : e-wallet, e-cash and smart card will be the bridging technologies. Global e-payment market was estimated to be a of the order of $3.9 billion in 2005. As e-procurement mainstreams in global trading communities, research firm Financial Insights predicts online B2B exchanges will grow by ten percent annually through 2007 to a total of $8.1 billion.

Another recent report, published by the German subsidiary of the consultancy Booz Allen Hamilton, has thrown up very interesting data on the global e-payment scenario. The ever-growing popularity of shopping on the Internet has created a growing market for online payment services but it will be denominated by a handful of key players. The consultancy estimates the market for e-payment services to grow from $16.3 billion in 2008 to more than $50 billion by 2010.

Payment systems in UK

Value and volumes of payments passing through various UK payment systems has increased considerably in recent years. The value is now equivalent to around half of GDP on a daily basis. The most high value payment system is CHAPS, the second most active RTGS system in the world. In addition to handling sterling transactions, there is also a CHAPS euro system, which provides for EURO payments between member banks as well as the UK connection to Target (the system linking national RTGS euro system within EU). The two main retail payments clearing arrangements are BACS for non-paper items and the Cheque and Credit Clearing Company for paper items. On the foreign exchange side potential vulnerabilities in settlement arrangements are being addressed through the creation of CLS bank, which introduced real time payment versus payment for foreign exchange transactions in September 2002. Mounting pressure on the UK banking industry to offer customers real time payments resulted in the 2005 resolution to introduce Faster Payment Services (FPS). The initiative, agreed by 13 members of the banking community and the Office of Fair Trading, will come into force on 30th November 2007 and aims to address the growing need to serve Internet and telephone banking customers with more efficient money transfer processing. While the benefits of such service are widely recognized, member banks have yet to address one crucial issue how will they successfully authenticate the source of payment within the vastly reduced transaction processing time? If banks fail to address this challenge, they could find themselves exposed to an increased amount of risk, which the fraudsters will only be too happy to exploit.

Impact of technology on payment systems-Indian scenario

Indian payment system is a journey from the age-old barter system to existing e-payment systems. Payment systems have encountered many challenges and are constantly adapting to the rapidly changing payments. During the last decade many significant achievements in the area of payment systems in India have been achieved owing to technology related initiatives taken by the Reserve Bank of India (RBI) and the great strides India took in ICT space. Mechanized cheque processing systems using MICR technology enabled the introduction of automated clearing houses to more recently the proliferation of electronic payment mechanisms like ECS, EFT, RTGS and cheque truncation system (CTS). Introduction of RTGS in 2004 a systematically important payment system has spread across 26,000 branches settling INR 60,000 crores daily. While RTGS is meant for large value payment system, national electronic fund transfer (NEFT) is becoming popular for small payments. The technological infrastructure created by the IDRBT since the establishment of the INFINET was aimed at sharing expensive IT resources to achieve the economics of scale. One of the notable achievements of this has been the implementation of Public Key Infrastructure (PKI) based electronic data transfer with very high security levels.

If the February 2005 RBI road map is not sidelined, April 2009 may see the Indian banking landscape change dramatically. The divide between foreign banks the Indian banks will steadily get bridged, mergers and consolidations will be catalyzed, competition will become keener and customer-winning technologies will be put in place and public / private dichotomy will soften.

A study was carried out covering 22 major banks in India including eight public sector banks, five foreign banks, new generation private sector banks, two old private sector banks and co-operate banks to get a perspective from different kinds of banks with varying degrees of sophistication on the payment and settlement area. The study also compared secondary data on the payment systems of different countries and its use to analyze the performance of various payment systems in other countries and in India and to find common threads and trends.

The banking scenario in India in the post liberalization and deregulated environment has witnessed sweeping changes. In India, payment systems are characterized by the presence of a large number of paper based transactions, with cheques constituting more than 80% in terms of volume. Today, after the passage of more than twelve decades, the NI act, 1881 continues to be the basic law governing cheques and other negotiable instruments. Information technology came into picture as early as in the 1980's in banking industry through the Ranagarjan Committee recommendations.

Traditional Clearing Systems in India

Manual (Non MICR) Clearing : In Non MICR cheque clearing centres, all the cheques are manually sorted bank wise and audit trail carrying all details like cheque number and amount are prepared. These cheques were exchanged physically at clearing house and settlement done on the basis of net debit /credit of value of cheques lodged and received from other banks. Banks acting as a Clearing House pass necessary clearing adjustments entry in member banks account maintained with them. Return clearing also takes place in similar fashion and cheques returned with appropriate return memo are exchanged by the representatives of the bank. At present Non MICR Clearing System is available in 1020 centers and there is no restriction on amount

MICR Clearing : Computerization of clearing operations and automation was the first major step towards the modernization of payment systems. Clearing balancing settlement became easy and resulted in reduction of delay in credit to the customers. With increase in the banking habits among the people and the ability to handle large cheque based transactions, Reserve Bank of India took the first major step in history of payment system to introduce Magnetic Ink Character Recognition (MICR) computerized cheque clearing operations at the 4 metropolitan centers i.e. Mumbai in 1986, Calcutta in 1989, Chennai and New Delhi in 1986. The computerized settlement of clearing transactions using Magnetic Ink Character Recognition Technology is capable of processing cheques on high-speed sorter capable of capturing the MICR line data on cheques.

At present there are about 1051 cheque clearing houses, 16 centres are run by RBI, 659 by SBI, 324 by associates of SBI and 31 by other Nationalized Banks, out of which 52 are MICR CPC centres. Extension of MICR based clearing to cover more major commercial centres is proposed to facilitate thereby faster clearing facilitating there by faster clearing of cheques with in two days instead of manual clearing cycle of 4-6 days.

Inter City Clearing : The four metropolitan centres viz., Mumbai, New Delhi, Calcutta and Chennai are covered by two way inter-city clearing. The other offices of the RBI are connected with these four centres under one-way inter-city clearing. Under this system, inter-city cheques drawn on any of the metropolitan centres are processed at the MICR clearing and are sent to the drawee centre by postal courier where they are integrated with the local clearing of that centre. This National Clearing has sharply reduced the time taken for realization of these cheques. But the introduction of Payable at Par cheques in late 1990's is reducing the importance for intercity clearing as customers with Payable at Par cheques can get them cleared locally.

New Age Payment systems in India

Technological advancements the world over have had a positive impact on payment and settlement systems in India too. The Reserve Bank of India is constantly pursuing the banks to introduce computerization at branch level to improve the quality of customer service through technology. The absorption of technology in Indian banking has witnessed a gradual but steady transgression in the last two decades. Technology has also played a key role in bank's strategy for gaining a competitive edge. Indian banking sector has made a quantum leap forward in terms of switching over from paper based transactions which include use of currency notes, cheques or challans, to electronic means, which include RTGS, NEFT and other electronic payment modes like ECS, debit cards and credit cards.

The following table describes the various electronic payment options in India, their attributes, participants and coverage.

Electronic Payment systems In India and its attributes				
Type	**Attributes**	**Amount restrictions**	**Locations covered**	**Participants and features**
Real Time Gross Settlement (RTGS)	Electronic credits, Inter-bank or Customer transactions, Near real time value (maximum of 2-4 hours). But available only through specific time window during the day.	Has a min txn amount of of Rs.1 lakhs effective 01-Jan-2007.	Over 3000 banking centers, 28000+ bank branches covered.	Banks, financial institutions, corporate and retail customers can use RTGS for payments.
Electronic Clearing Services - Credit (ECS - Credit)	Electronic, Bulk transfers (1 to many transfers), Value in T+3. Dates to be fixed in advance for bulk payments. Only after the cycle is complete, the finality of settlement could be known.	INR 500,000 and below	64 centers - 15 managed by RBI. All banks and branches in these locations are mandatory participants.	Corporates that has a need to do bulk credits to customers - salary payments, dividend payout for example.
Electronic Clearing Services - Debit (ECS-Debit)	Electronic, Bulk transfers (many to 1 transfers), Value in T+3. Dates to be fixed in advance for bulk debits. Only after the cycle is complete, finality of the settlement could be known.	INR 500,000 and below	64 centers - 15 managed by RBI. All banks and branches in these locations.	Corporates / Service provides who have a need to collect regular payments - loan instalments, utility payments for example.
Electronic Funds Transfer (EFT)	Electronic, One to one transfers, Deferred Net Settlement system, Value in T+0 or T+1. 1 clearing cycle a day.	No restrictions. Banks may impose limits for per txns / per day transactions for security reasons.	15 RBI clearing centers. All banks and branches in these locations are mandatory participants	Banks, corporates and individual customers can initiate transfer.
National Electronic Funds Transfer (NEFT)	Electronic. One to one transfers. Deferred Net Settlement of each batch. Multiple batches in a day. Value in T+0 or T+1. Final once the txn is uploaded to RBI system. If not returned, then the settlement is final. There are 6 settlements in a day and 4 on Saturdays.	No restrictions. Banks may impose limits for per txns / per day transactions for security reasons.	23000+ branches across 3000+ India locations covered.	Banks, corporates and individual customers can use this.
Cheque Truncation system (CTS)	Electronic imaging of physical cheque and use of that images to clear	No amount restrictions	Implementation in Delhi in 2009 and then to other cities	The paper based clearing will move to this. All participants can use. NO special effort needed. The banks covert cheques to images and clear.

An analysis of growth of electronic payments in India reveals that these electronic payments in India have seen a huge growth in India and that augurs well for the companies and economy. Given below are the through put of these electronic channels in India for the years 2003-2004, 2004-2005, 2005-2006 and 2006-2007 both in terms of volume and value.

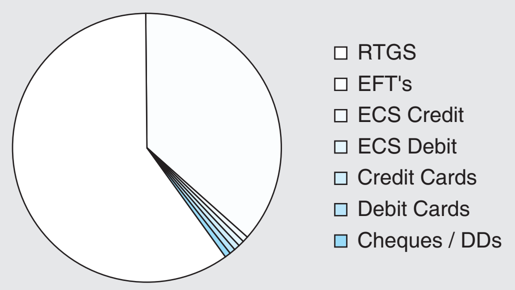
Contribution of Electronic and Paper based Payment Systems 2004-2007 - By amount in (INR Crores)

Year	RTGS*	EFTs	ECS Credit	ECS Debit	Credit Cards	Debit Cards	Cheques / DDs**
2003-2004	1965.49	17124.81	10288.00	2253.58	17662.72	0.00	11595960.00
2004-2005	249662.00	54601.38	20179.81	2921.24	25686.36	0.00	10120715.95
2005-2006	2570212.29	61288.22	32324.35	12986.50	33886.47	5897.14	11328670.00
2006-2007 (Till Feb -11 months)	6107473.38	68832.97	74896.11	21924.60	37343.46	7476.66	10779091.00
Growth% in 2006-2007 Vs 2005-2006	137.63	12.31	131.70	68.83	10.20	26.78	-4.85
% of value in total Payment volume in 2006-2007 first 11 months	35.722	0.403	0.44	0.13	0.22	0.04	63.047

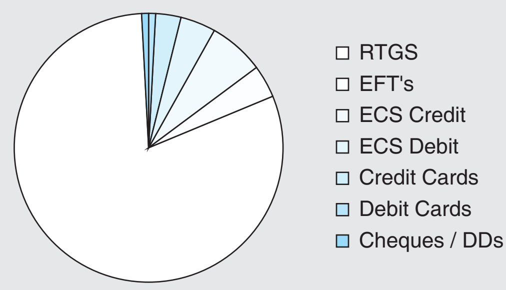
* for RTGS, only customer transactions are considered for 2004-2005, 2005-2007 and 2005-2006 for the purpose of this analysis as that split is made available.

** More than 80% of cheque clearing by value happened in MICR clearing locations

Contribution of Electronic and Paper based Payment Systems 2004-2007 - By amount in (INR Crores)



Contribution of Electrionic and Paper Payment Systems 2004-2007 - By count (In lakhs)



Contribution of Electronic and Paper Payment Systems 2004-2007 - By count (In lakhs)							
Year	**RTGS***	**EFTs**	**ECS Credit**	**ECS Debit**	**Credit Cards**	**Debit Cards**	**Cheques / DDs****
2003-2004	0.001	8.190	203.000	79.000	1001.790	0.000	10228.000
2004-2005	0.680	25.490	400.510	153.000	1294.720	0.000	12894.600
2005-2006	7.130	30.670	442.160	359.580	1560.860	456.860	12894.600
2006-2007 (Till Feb - 11 months)	22.510	41.230	615.340	658.920	1704.310	548.510	12390.000
Growth% in 2006-2007 Vs 2005-2006	215.71	34.43	39.17	83.25	9.19	20.06	-3.91
% of value in total Payment volume in 2006-2007 first 11 months	0.141	0.258	3.850	4.12	10.66	3.43	77.530

* for RTGS, only customer transactions are considered for 2004-2005, 2005-2007 and 2005-2006 for the purpose fo this analysis as that split is made available.

** More than 80% of the cheques by volume got cleared in MICR locations.

The number of branches providing core-banking solutions has increased significantly in recent years. The total number of branches providing CBS increased from 11.0 percent as on March 31, 2005 to 28.9 percent as on March 31, 2006. Total number of ATMs installed by the banks were 21147 at end March 2006. More than 95 percent per cent branches of public sector banks at end March 2006 were fully or partially computerised. Out of 27 public sector bank branches, branches of as many as ten public sector banks were 100 percent computerized, while branches of other 12 banks were more than 50 percent computerized. Branches of only five PSBs were less than 50 percent computerised. The volume and value of card and electronic based payments more than doubled in 2006 from the previous years. All these trend and progress in Indian banking reflects the increasing use of electronic based payment systems and shift from paper based payment systems.

RBI Vision 2005-2008 : accomplishments

The roadmap set out in the Vision Document 2005-08 has been by and large accomplished with technology playing an important invisible force as detailed below.

- The Payment and Settlement Systems Act, 2007 (the Act) has been enacted and the Regulations under the act viz., the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008 have come into effect from August 12th, 2008.
- National Payments Corporation of India Ltd. (NPCI), a company to operate retail payments has been set-up.
- Centralised Funds Management System (CFMS) which facilitates own account funds transfer across offices of the bank has been operationalised at all the RBI centres. Use of CFMS as a mode of funds transfer to achieve National Settlement System (NSS) was recommended by the Committee set-up to finalise the modalities for implementation of NSS.
- Availability of RTGS and National Electronic Funds Transfer (NEFT) Systems at more than 55,000 branches across the country has surpassed the target of 500 capital market intensive centres identified by the two stock exchanges (Bombay Stock Exchange and National Stock Exchange).
- NEFT settlement timings were rationalised - It is now available from 9.00 am to 5.00 pm on weekdays and from 9.00 am to 12 noon on Saturdays. High end new

servers for NEFT Production & Gateway services were installed at NCC-Nariman Point. A separate new Gateway for NEFT was also successfully operationalised at NCC-Nariman Point. Back-up arrangements at the RBI Data Centre were activated. Extending NEFT beyond India was also achieved with the implementation of Indo-Nepal Remittance Facility Scheme, a low-cost alternative to Nepali migrants in India for remitting periodic sums back to Nepal.

- National-ECS (NECS) was successfully launched during September 2008. NECS leverages on the core banking enabled network of bank branches with access from a centralised location (at Mumbai) thus providing pan-India coverage. Launch of NECS was yet another attempt to provide a national character to critical and popular payment systems.
- Local ECS availability was extended to 76 major locations in the country. The clearing cycle for Local ECS was successfully brought down from T+5 to T+1. T+1 clearing cycle is operational uniformly at all ECS centres in the country.
- The Cheque Truncation System (CTS) was successfully implemented in the National Capital Region of New Delhi. All member banks of New Delhi Bankers' Clearing House are participating in CTS. MICR clearing in New Delhi has since been discontinued.
- MICR Cheque Processing Centres (MICR - CPCs) were set-up at 31 more centres during the period, taking the total number of MICR - CPC locations to 66 and the number of MICR - CPCs to 71. At centres with lesser cheque volume but where there are five or more bank branches or at district headquarters where there are three or more bank branches, Clearing Houses (CHs) have been opened with settlement arrived at by using the Magnetic Media Based Clearing System (MMBCS). Computerisation of CHs at over 90% of the locations has been achieved.
- Improvements in outstation cheque collection - Operationalisation of Speed Clearing to provide a facility for realisation of outstation cheques at the local centre-of-deposit was conceptualised and implemented during 2008. This facility is now available at 64 of the 66 MICR-CPC locations.
- Minimum Standards of Operational Efficiency at MICR-CPCs and other CHs operating with the MMBCS package were framed and put in place. All CHs are required to submit quarterly / half yearly Self Assessment Reports to respective Regional Offices of the Bank.
- Benchmark indicators of efficiency for ECS (Credit and Debit) operations were formulated.
- Apart from the mechanism of Banking Ombudsman to handle payment system-related complaints, arrangements were put in place to look into queries and redress grievances of stakeholders by way of a NEFT Help Desk at NCC-Nariman Point, placing contact details of RTGS participants on the Bank's website, etc.
- List of centres offering ECS & Speed Clearing, consolidated links to Cheque Collection Policies (CCPs) of banks, comprehensive list of CHs, details of branches with IFSC and MICR codes, particulars of branches offering RTGS & NEFT products, FAQs on various payment system products, etc., were placed on the Bank's website for wider dissemination and stakeholder awareness.
- The Department also participated effectively in various international & national events relating to payments systems. The Bank was actively represented in the SAARC Payments Council deliberations and a meeting of the Council was also organised in the country.
- A world class Data centre with an on-city and off-city backup has been set up. Testing of the back-up site is done periodically. Back-up arrangements for RTGS, CFMS, NEFT and other critical payment systems have been put in place.

Main findings of the Research :

We have found from our analysis of trends on payment in different countries and in India that :

Customers are willing to accept changes and adopt the electronic payment mechanisms.

- Paper-based payment instruments are declining although they still constitute a large portion of payments by volume.
- Electronic payments are growing at a much faster rate than paper-based instruments. In fact, the share value of electronic payments in the overall market is catching up with paper-based value and if this trend continues, soon the value of payments through electronic payments will be more than the value through paper-based instruments.
- Countries are taking initiatives in implementing sound payment and settlement systems for the benefit of its customers and economy.

With reference to India, based on our study on individual customers, corporates, retail and expert senior bankers, we have also found that :

- Indian customers, retail and corporate are aware of the emerging payment options.
- They are willing to move away from cheque-based payment to electronic payments.
- In India also, the contribution of electronic payment by value is almost on par with paper-based instruments value although by volume, they still have some catching up to do.
- The RBI is aggressively promoting these payment options along with other banks to reduce the paper based transactions including cash transactions and are being fairly successful in accomplishing the goal.

Customers are willing to accept changes and adopt the electronic payment mechanisms. Technological progress and the developments in the structure of the global financial markets are likely to continue to act as key drivers for change in the way payment systems are designed, operated and used. The risk reduction priorities of central banks in their role of payment system operators and overseers and of regulators may also play a significant role. Technological progress has played an important role facilitating the introduction of ever more sophisticated and complex LVPS designs, such that practical constraints on the technical and financial viability of particular design features have been reduced. More generally the development of new solutions (technological innovations) and cost reducing enhancements to existing technologies (technological maturation) jointly serve to widen the range of feasible LVPS designs.

Payment and settlement systems in India have moved to electronic settlement system and very soon it's going to witness a sea change with bank account transactions being initiated through a mobile phone to be followed, in a few seconds, by the interbank settlement effected in central bank money. Future of Indian Payment System (IPS) is moving from e-commerce to m-commerce connecting customers, bank and utility companies. Internet banking, wireless technology for last mile connectivity, cheque truncation system will phase out paper-based processing. It is important for India to continue its thrust on improving payment systems for large value payments and for small value retail payments. The growing volume on RTGS clearly indicates that it is settling down as the preferred choice for large value payments. On the retail payment side, although there are multiple systems and options, viz., ECS debit, ECS credit, EDT & NEFT their contributions in overall payments and usage has not been quite high. It accounts for less than 0.5 percent of the overall clearing volume in India and seems to be concentrated on the MICR clearing locations, predominantly in urban centres. However, the overall trends indicate customers have begun to experiment with retail payment and it has a phenomenal potential to grow from this level. While it took almost 40 years for the MICR based clearing to get established in India after it was implemented in the US in 1959, the cheque truncation initiative is happening in India with four years of implementation in US and this is an indication that there is willingness at all levels to change and adopt modern payment options more rapidly.

Future Road Map

The subsequent stages of payment evolution can typically take the following route :

- Existing payment systems will expand and stabilise-meaning it will spread geographically, it will find new usages, and the volume and value will grow.
- New payment options will emerge augmenting the existing payment systems and its capabilities. These could be done by process re-engineering of existing payment options which use the existing frame work and infrastructure like the contactless card which rides on the card payment infrastructure or completely new methods mobile payments for example.
- Systems like cheque truncation will remove any float opportunity and force customers to move to electronic payment options-apart from CTS itself removing the paper-based instruments by truncating them to electronic images that can be used for clearing.
- RTGS or equivalent systems will be the backbone for large value and systemically important and settlements in most of the countries. All large-value and time-critical payments will be processed only through the electronic mode. All bank branches will be enabled with IFSC and MICR codes. The intention is to leave the user with the choice of product for retail and small-value transactions viz., use MICR for NECS and IFSC for NEFT.
- Debit cards will outgrow the credit cards; there is always this possibility of debit card becoming the payment choice for customers, for use in ATM and in POS terminals. It will surely eclipse the credit card growth and volumes in a few years time.
- There could be a clear distinction between small value payments and large value payments. More small value payment options will emerge to make it easy for customers to pay for their parking ticket, do small payments etc.
- Stored value cards and e-money could becomes more easily and popularly available across the world.
- The advances in technology and increased networking capabilities and the amount of investment happening in technology, communication bandwidth etc; would make it possible to reduce the overall cost of transaction. That would help taking it to a much larger cross-section of customers including customers in rural areas where traditional banking is yet to reach the level it has reached in urban areas.
- Risk mitigation measures to address operational risk would be by way of (a) using latest and relevant technology, (b) having straight-through-processing interfaces, (c) placing controls in the form of maker-checker practices and building proper audit trails, (d) encouraging vendor-neutral platforms and products, (e) addressing scalability issues by monitoring adequacy of infrastructure and performance, etc.

With the increasing electronic payment habits and awareness among the customer need of the hour is that :

- All large-value and time-critical payments will be processed only through the electronic mode.
- All bank branches will be enabled with IFSC and MICR codes. The intention is to leave the user with the choice of product for retail and small-value transactions viz., use MICR for NECS and IFSC for NEFT.
- Reach of electronic products like RTGS, NEFT and NECS will be extended to cover all the branches of banks, including regional rural banks.
- Operating hours of RTGS will be reviewed and considered based on market / user expectations and stakeholder feedback

Conclusion :

Effective use of technology has dramatically improved the efficiency of operations in banks leading to improved productivity and profitability. The advancement in computer systems, data communications, and alternate electronic delivery channels also helped banks to substantially reduce their capital and operating cost from the customer's perspective. Technology can provide them significant value proposition through the new convenient e-product and channels. Technology enables bank to have better centralised control systems. The normal approach of automating 20 percent branches covering 80 percent business is followed by large banks conveniently ignoring their rural branches as they are not economically viable for their expensive core banking solutions On the other hand there is a huge potential at this bottom of the pyramid for bringing in the large amount of cash used by villagers into the banking system.

Although the Payment Systems in India in their long journey from manual processing and settlement to computerized MICR and now to electronic and image based payment systems have evolved highly, there is a still lot of effort is required to increase the usage of electronic payments. In India it has been traditionally, RBI who has always taken initiative to move from paper based payment system to electronic payment systems. Business opportunities in electronic payment systems to provide different products to their customers through Cash Management Services done by foreign and new generation private sector banks were not visualized by other banks. Elimination of floats with introduction of Electronic Payment System is another example of narrow point of view and slow adoption of technology in payment systems. RBI Payment System Vision 2005 - 2008 Implementation Road Map as mentioned above and BPSS recommendations are required to be strictly followed. The retail payment system needs to be improved by developing appropriate applications and user-friendly websites with simple interface and local content. Knowledge of payment systems could be an element of intensive campaign for financial education as well as become an important tool for achieving financial inclusion and inclusive growth. There is a need to create world class efficient, reliable, affordable and global standard payment systems. Robust and dynamic Indian Electronic Payment & Settlement System will meet all these challenges for the benefit of their countrymen and achieve its mission statement "The Establishment of safe, secure, sound and efficient payment and settlement systems for the country."

The study and analysis clearly indicate that technology has played a significant role in the development of new age payment systems that are now the backbone many an economy. The technology has also contributed in various other aspects of payment systems viz., providing complex settlement algorithms, reducing the complexities involved in settling payments in different geographies, reducing the settlement risks with the introduction of real time gross settlements, etc. Above all, technology has also played an important role in making these multiple new age payment methods available to larger section of society with the help of Internet and other communication technologies to suit their needs.

There is a visible shift away from paper based instruments to electronic payment instruments the world over, including in India. More and more customers are aware of the new age payment methods and they are also willing to experiment and benefit from them. However, the paper-based instruments would continue to remain for some more time to come. A lot more effort is needed in promoting new age payment methods and central banks and banks in particular should take leadership role in implementing these payment options and popularizing them as it benefits all. They must address all the current issues and take steps to resolve them so that the adoption rate could become better. In the banking sector, technology will continue to have its positive its impact till the end of legacy based paper payment system era and entire payment system will move to risk free electronic - on line & real time gross settlement system where finality of the payment is ensured and confirmed to both sender and receiver. New challenge of the Indian economy is to achieve inclusive growth and service delivery through financial inclusion and technological innovation in electronic payment systems is possible by reaching the disconnected people who do not share the benefit of the e global world. RBI Payment System in India Vision 2009-2012 draft guidelines has again focus on customer centric technology initiatives that it intends to pursue on major new projects like implementing a new and feature rich RTGS system, India MoneyLine, a 24x7 system for one-to-one funds transfers, India Card A domestic card initiative, redesigning ECS to function as a true Automated Clearing House (ACH) for bulk transactions and mobile payments settlement network which will put Indian banking system as one of the most powerful technology backed banks with objectives of safety, security, soundness, efficiency and accessibility.

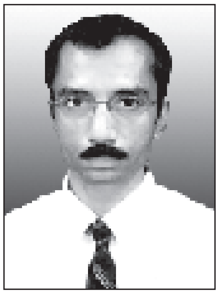
Inviting articles for Bank Quest

We invite articles from readers on the following topics for Bank Quest. The articles must be analytical and not more than 5000 words. The topics are :

1. Investment Banking
2. Monetary and Credit Policy
3. Governance in Banking
4. NPA Management and Stressed Assets
5. Overseas Experience of Indian Banks
6. Risk Management
7. China versus India : A Comparative Study
8. IT Security
9. Capital Markets
10. Wealth Management

Readers may send the articles either in soft copy to the Director of Administration (drwazkar@iibf.org.in) or by way of hard copy to :

Director of Administration
Indian Institute of Banking & Finance
2nd Floor, Tower 2, East Wing,
World Trade Centre, Cuffe Parade,
Mumbai - 400 005.



Financial Awareness (2nd Prize)

Somdev Chattopadhyay *

After making case studies on financial awareness / literacy of farmers who are attached to fisheries and of an age group of 28-50 and of income group of Rs.600 to Rs.6,000 and residing at villages namely Patna, Kasafalia, Namaldiha, Aunrai beliachatta, Kamarberiya, Ganganathchak and Karpura in Purba Medinipur district in West Bengal it was revealed that 73% of them prefer Regional Rural Banks / Nationalized Banks as they think it is safer and secure place to keep / invest money in those financial institutes. It means the Government undertaking Banks are more reliable to them in comparison to other entities in terms of guaranteed returns to their small but hard earned money. 27% prefer Co-operative Banks / Primary Agricultural Co-operative Societies (PACS) in the same respect. No body opted for Life Insurance Company, Private Bank and share for keeping / investing money. In those remote areas, total 4-5 RRB Branches, Nationalized Banks, CCBs / PACS are functioning. So, the farmers also have the only option to rely on them. They are almost ignorant about money market or life insurance policies which are when unit linked, may generate more profit in short terms. 93% of those farmers don't have the conception about which type of bank deposits (i.e. the time deposits) is more profitable in terms of interest / income generation. Moreover, 95% of those farmers have a single bank account holder in their families. The larger the number of family members in a family, the lesser the number of bank account holders. It is clear that the scope of income generation for the large families is less; otherwise family with more family members would have earned more and has more number of bank account holders in a family. However, it has been found that per capita income of these farmers has increased by Rs.750 to Rs.1000 in average per month in last 2 years. But only 50% of them are aware of their individual expenditures and savings per month, 90% of who say has no savings at all. Moreover, 50% of those farmers are completely unaware about their individual expenditures and savings per month.

This picture surely depicts their ignorance of micro-savings and future benefits from that. 40% of those farmers don't have the life insurance coverage for any of their family members. They don't know the product - group insurance policy applicable to them with very nominal amount of premium. Moreover, in case of any emergency financial requirements, they opt for collecting or borrowing money from the local market (with high rate of interest) despite the fact that 40% of them have been financially benefitted from the banks / PACSs. This is due to their ignorance and reluctance from the bankers level, absence of appropriate policies to sort out such problem by facilitating easy, simplified and quick financial assistance to them.

A brief study on financial awareness of vendors of local market, van-rickshaw pullers and small businessmen with average income of Rs.600 - Rs.6,000 per month and in age group of 22 - 40 has been done by me by collecting random datas. It reveals that 40% of them prefer Government undertaking / financial institutions for keeping money on the belief of safety and security. 40% of them prefer Cooperative Banks / PACS for keeping money as these are friendlier to them. Despite an increase in family income by Rs.600 - Rs.650 per month in average in last 2 years, only 20% of them know that Time Deposits are more profitable than any other type of bank deposits. 60% choose a financial

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institution nearer to his / her working place or residence for convenience to transact irrespective of other facilities or services of any other institution or any brand name. Like the farmers attached to fisheries, 40% of them also don't have any family member's life covered with insurance. They have the common belief that only those who are labourers / drivers or anybody like them with accidental risks should be covered with life insurance. Only 20% of them say they will opt for loan against Bank / Post Office deposits. 40% say to sale or mortgage land for loan while 40% opt for public loan in case of emergency financial requirements. In case of larger amount, nobody is going to help them financially. 60% of them have running savings bank accounts. 70% of them have bank near his / her residence and can name them. 0% of them are aware of their own monthly expenses and savings. 70% of them are aware of what was their family income per month before 2 years from now. 50% of them are never inspired / helped / suggested by anybody to open a bank account. After brief conversations with them, I found some of them who got financial support from any institute, whole heartedly got attached with that name. Nationalized / co-operative banks may tap this business area by appointing Financial Advisors / Relationship Managers in competitive town base.

I have made case studies on financial awareness of town based people - advocates, school teachers, other government service holders, businessmen etc., within the income group of Rs.4,000 - Rs.15,000 per month, and within the age group of 29-59, 75% of whom are either graduates or post-graduates. The study reveals that 44% of them prefer bank / insurance company which are household name / familiar to them for better services i.e. those people are aware of bank / insurance products. Rest of them opt for one financial institution nearer to their localities for convenience of transaction, irrespective of service quality or product variety.

62.50% of them prefer Life Insurance Company, 56% prefer nationalized banks to keep their money. While 12% prefer private bank. 37.50% of them prefer both Life Insurance & either of the banks. Only two female school teachers choose to keep money in LIC, Post Office and either of the banks i.e. preferring multiple options.

Surprisingly enough that 37.50% of them don't use ATM / Debit cards and 18.75% of them don't use ATM / Debit cards despite they have it with them. An evidence of reluctance in using advanced way of banking transactions and only 12.50% were found aware of the fact that anybody's life can be covered by Insurance. At the first approach, 87.50% of them answered that either husband & wife or the family members are eligible for life insurance coverage. 81% of them could recall their age of opening a bank account for the first time. While most of them opened another bank account in recent years to avail better products or facilities with advent of CBS and ATM facilities in very recent past. 43.75% of them opened their bank accounts themselves.

The study on financial awareness of students of 7 Bengali medium schools and 1 English medium all within Contai Sub-Division, Purba Medinipur District, West Bengal total 50 numbers of students within the age group of 14-17 and ranging from Class / Standard IX - XII. The findings are discussed below :

In response to the question asked to the students, “If you or your family member (s) require a lump-sum money in any emergency, what will you do”, the results of their opinion is shown in tabular form :

Options / Choices	Bengali Medium	English Medium	Overall result
Bank loan	46%	10%	32%
Loan	10%	5%	8%
Withdrawals from bank deposit / bank loan	13%	35%	22%
Don’t know	26%	50%	36%
Discuss with Banker	3%	0%	2%

The second column from left shows the opinion of Bengali medium school students. 46% i.e. most of them opted for bank loan whereas only 13% of them are aware of both kind of bank products deposits and loans. The third column from left shows opinion of English medium school students. 50% of them don't know what to do in such situation but at the same time 35% of them are aware of both kinds of Bank products. Overall result shown in the last column from left. 36% of the students are not at all aware of either bank loan or any alternate and immediate monetary source.

As far as the English medium students are concerned, in response to another question, it has been found that 80% have seen ATM / debit cards. But majority, the 80% of them are not aware of either the present annual income of their family or the income of their family before two years since now and 67% of are not so aware of the source(s) of their family income either. None of them have personal income and only 20% of them knew their own monthly expenditures per month. 27% of English medium school students knew that 'Time Deposit' is the type of bank deposit which generates more profit and only 15% of English medium school students knew that everyone's life (exceptional conditions are not considered here) can be covered by insurance.

40% of them were helped / insisted / inspired by their parents / principal / teacher to open a bank account / keep money deposited with a bank. The rest says 'Not applicable / Not known'. 50% of them know how many members life in their family is insured.

65% and 40% of them were found familiar with a urban co-operative bank and a Central co-operative bank respectively in the locality of their school / residence. There are 3 Central Co-operative Banks and 1 leading Urban Co-operative Bank of eastern India is functioning on the heart of the Contai town but how many of them prefer to keep money with these Cooperative Banks will be found next.

As far as the Bengali medium school students are concerned, only 27% of them are unaware of their present annual family income & its source. However, 57% of them are unaware of their family income before two years from now. 33% of them knew their own monthly expenses and savings. 30% of them were helped / assisted / inspired by their parents to open a bank account / keep money deposited with a bank. Interestingly, unlike the case of English medium school students, no role of a teacher / headmaster was found here. Out of 30 Bengali medium school students; nobody knew that 'Time Deposit' is the type of bank deposit which generates more income. At the same time 87% of them know how many family members life are covered by insurance. Only 3% of Bengali medium school students knew that everyone's life (exceptional conditions are not considered here) can be covered by insurance. However, 10% said their family member's life and 23% said the life of people with greater life risks can be covered by insurance.

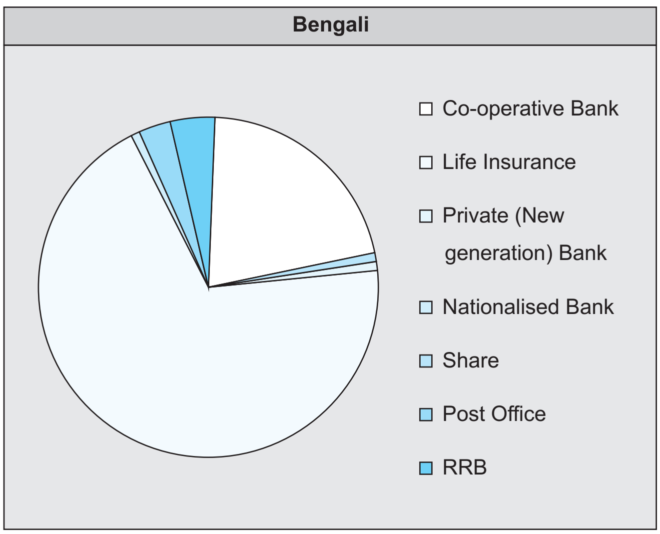
A brief study on choosing on where students like to keep their money :

	Bengali Medium	English Medium	Overall result
Cooperative Bank	23%	5%	16%
Life Insurance	70%	15%	48%
Private Bank	0%	5%	2%
Nationalized Bank	0%	20%	8%
Share	0%	0%	0%
Post Office	0%	0%	0%
RRB	3.33%	0%	2%
Don’t know	3.33%	55%	24%

33% found familiar with a urban cooperative Bank and 20% with other Nationalized Banks in the locality of their school / residence.

It is a delighting finding for the Life Insurance Companies that most of the Bengali medium students 70% prefer to keep money with them. For them, next preferable place is Cooperative Banks. But none of them preferred Nationalized / Private (New generation) Banks which has wide range of products with various options. They are not even aware of Shares (Money market) or Post Office products. This critical study proves the real picture of the financial sector in this area. The insurance sector in this area has seen ever growing business after years and is popular for investments. This Contai Sub-Division, Purba Medinipur District, West Bengal has also seen vast co-operative movements to the root level. Naturally, the next generation is also following the trend as far as the Bengali medium school students are concerned.

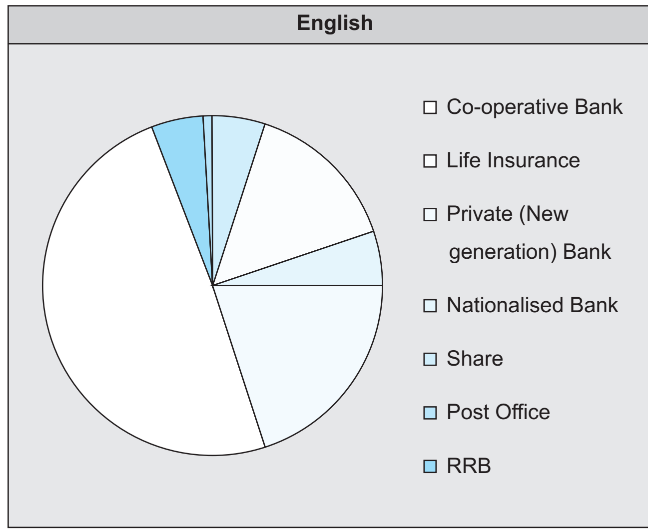
Showing Bengali medium school student's opinion wise share on keeping money



The same trend is seen not applicable to the of English medium school students. Most of them (20%) prefer Nationalized Banks to keep their money. Life Insurance is next popular to them (15%). However, Co-operative Banks are lagging behind and share the same popularity with Private Banks (which started functioning in the area very recently) both 5%. They are not aware of Shares / Post Office products either. Overall, the 48% of the students think it is wise to keep money with LICs. 3% of the Bengali medium students know the RRBs. It is because they belong to the outskirts of the towns. No English medium students prefer it as most of them are town based.

It is unfortunate that 55% of the English medium students don't know at all where to keep money. They belong to well to do and sophisticated families and are less conscious about the monetary gains. Bengali medium students, in contrast, confined to only two financial sectors due to huge influence of these sectors and are aware (96%) of these financial institutes.

Chart showing English medium school student's opinion wise share on keeping / investing their money



Work Life Balance (3rd Prize)

Rajesh Sharma *

Introduction

Indians care about work life balance more than money. The modern economy has resulted in better opportunities, jobs and salaries. The flip side of the coin is that this has also brought in extended working hours, leaving very little time for individuals to balance their work and life. It is not surprising that Indians consider work life balance as their main concern although job security remains central to all activities of life. Concerns such as health, children's education and caring old parents, etc; also figure in the work life cycle to cope with. The Indian concern of parents' welfare and happiness is a unique and typical mindset, rarely seen in any other society the world over. But concerns differ across regions and even individuals. Rising Indian rupee and a slowing down of United States' economy have forced companies, especially in the information technology and services sectors to optimize efficiency and increase capacities, resulting in employees working for longer durations to meet targets at the expense of their personal lives. Despite the westernization influencing us, India is still a close knit society and parents' welfare is one of the top priorities. Indians are confident that whatever problems they would face, money will not be a cause of concern for that. This unique feature has been demonstrated in Indian history as well, time and again.

The Indian concern of parents' welfare and happiness is a unique and typical mindset, rarely seen in any other society the world over.

What is the work life balance concept? Is it a result of social responsibility to employees or to provide a competitive edge to employers? Many people think of work life balance only in the framework of what a company does for the individual. However, work life balance is a two way approach. The other way relates to what individuals do for themselves. Work life balance could be a meaningful achievement and enjoyment in everyday life. The primary way companies can help facilitate work life balance for their employees is through work life programs and training. Achievement and enjoyment are critical part of anyone's work life balance programme. At the same time achievement and enjoyment are critical in one's family life, friends circle and self as well.

A brief history

During the 60s and 70s, employers considered work life mainly an issue for working mothers, who struggled with the demands of their jobs and raising children. Moreover, it was mainly a western concept till then. During the 80s, recognizing the values and needs of women contributors, a few organizations began to change their internal workplace policies, procedures and benefits, which included maternity leave, employee assistance programmes, flexitime, home based work, and child care referral. It was during the same time when men also started raising concern about their work life balance. By the end of the decade, work life balance was seen as more than just a women's issue, affecting men, families, organizations and cultures. Work life balance is a settled concept in modern times. The generations have followed choosing jobs based on their own

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work life issues and employers' cultures. Unfortunately, implementation of work life balance policies became an issue although companies were adopting family friendly policies. Some felt even more overworked and out of touch with their non work lives most of the time.

During the early years of the twenty first century, the disappointing results of the over stretched work schedules started showing signs of concern and the intended effects failed to be achieved. Amongst these were :-

- Stress, overwork and its negative impact on productivity
- Healthcare costs growing up in real terms.
- Competition for talent from all levels and ages.

Some of the solutions proposed were to :-

- Draw heterogeneous representation to identify key work life issues.
- Postulate future best practices.
- Identify new trends and develop strategic responses.
- Create a new communication tool for the work life field.
- Maximize the benefits of work life efforts.

Defining work place balance

Despite the worldwide quest for work life balance, very few acceptable definitions are available. Defining what work-life balance is not would be a sensible approach to understand the concept. Work life balance does not mean an equal balance. Trying to schedule an equal number of hours for each of our various work and personal activities is usually unrewarding and unrealistic. The very best individual work life balance will change over time, often on a daily basis. The right balance today probably will be different tomorrow. The right balances when we are single will be different than when we marry or when we have children. It will differ when we start a new career versus when we are nearing retirement. There is no one size fits all balance we should be striving for. Thereby, the approach towards best work life balance will differ from person to person because of different priorities, needs and different life styles. However, at the core of an effective work life balance are two key everyday concepts that are relevant to

We cannot get the full value from life without both achievement and enjoyment. Focusing on achievement and enjoyment in every day life helps avoid the "if I had ... trap".

each of us. They are daily achievement and enjoyment. These two terms are mostly misunderstood and they are very deceptive in their true sense and meaning. Life should be free flowing and dynamic. Defining a fuller meaning of achievement and enjoyment may lead to defining a positive work life balance. Why do we want a better income, luxury car, palatial house, successful kids to excel? We do have a good understanding of the meaning of achievement. But what about the concept of enjoyment? As an essential component of work life balance definition, enjoyment includes happiness and means a sense of well being and all the joys of living, satisfaction, pride, celebration, love, etc. Achievement and enjoyment are the two side of the same coin of value in life. Trying to live a one sided life is why so many famous people are not happy as they should have been. The stronger traits of life do dominate in one's attitude, aptitude and behaviour, but balancing acts is passport to success.

We cannot get the full value from life without both achievement and enjoyment. Focusing on achievement and enjoyment in every day life helps avoid the "if I had ... trap". An introspection as to when was the last time we achieved and enjoyed something at work may lead us nearer to understanding both achievement and enjoyment. Further, what about that has already been achieved and enjoyed by us with our family, friends and how recently have we achieved and enjoyed something just for ourselves? Why not take a 15 minutes brisk walk on the way home from work place and feel the goodness of muscles getting toned up? And when we do reach home, why not think about whether we want to focus on achieving or enjoying and act accordingly. At work we can create our own best work life balance by making sure we not only achieve, but also reflect the joy of the job and the joy of life, every day. If nobody pats us, let us pat ourselves. Let others follow to do the same.

Concepts are simple and once we focus on them as key components, they are easy to implement. So, let us make it happen for ourselves, our family and all individuals we care about.

Whether gender an issue?

The working pattern and workplace environment after the industrial revolution have brought about a change to the concept of work life balance. Nuclear families are a common phenomenon now changing the profile of home, where previously the earning member's spouse used to take care of. With increased employment opportunities, most homes are ones in which both parents are working. In the backdrop of the changing scenario and with a view to retain the work force, the companies have started creating conditions in which employees can balance work with their personal needs. A desired factor for companies is to retain the employees, both gender, in order to improve productivity, a compulsory factor. Having realized it, companies started introducing schemes to attract and retain employees and improve their productivity.

Today's women are challenged by the demands of full time work followed by more responsibilities and commitments to home. Majority of the women are working 40-45 hours per week and are equally struggling to achieve a work life balance. Women's lives include multiple responsibilities, meeting schedules and managing the daily responsibilities of work place and home. Work life balance will ultimately remain a challenge for them to create a satisfied workforce that contributes to productivity and success in the workplace as well as home. Employers can create specific work life balance programmes that can attract women employees and satisfy their needs.

Often, working women drop out from jobs when they are successful, simply because they wanted to stay at home with their children and take care of their ageing parents. There are also women, who decide to have children late because they prefer career first for reasons much diversified such as personal satisfaction, money, qualified hands and so and so forth. So, can a woman have it all? The answer may be to adopt priorities. If she has children, she may engage in teaching them to share responsibilities. What about the counterpart? Has man changed? Modern life style may indicate that a certain percentage of male employees may want a 50 / 50 partnership with their wives both at work and home. They no longer see themselves as macho men. They want to spend more time with their children. Has the Indian men kept pace with the times?

For working women, the trap will continue to be an ongoing challenge. Careful planning and personal efforts appear to be a viable advice to have a balance in both career and home life. Planning, prioritizing and scheduling efficiently would be key factors under our control over the conditions in our workplace for achieving better results. The goal is achieved when one feels satisfied about his / her personal life and his / her occupation. It mutually benefits the individual, business and society at large. The work life balance strategy offers a variety of means to reduce stress levels and increase job satisfaction. We should work to live.

Common work life balance programmes

Work life balance programmes have become increasingly popular through the years. Some of the common work life benefits are flexitime, telecommuting, childcare, elder care, paternity, job sharing, employee assistance programs, in house store & services, gym subsidies, vacation, work hours, etc. In addition, due to the internet boom and the growth in the economy, more companies have offered other perks as well. Facilities like company cars and a set number of free flights per year are normal norms for many companies. Even a four day work per week with flexible hours and casual dress are common place in a few multi national companies. These perks have been primarily instituted, may be, to attract, motivate and retain a superior quality workforce. In light of the recent economic upsurge, there has been a dramatic change in how corporations view work life balance programs. Corporations are much more cost conscious about these programs, but still realize their importance.

Despite a critical view about work life programmes, benefits such as employee assistance programmes have been considered as a standard offering. With the advent of internet culture, work life balance programmes have added bonus to attract and retain quality employees. Today, the work life benefits have switched from company cars, significant bonuses, and other perks to employee fitness centers, yoga classes, meditation, training, etc. Now work life balance programmes are in place as recession perks. Corporations no longer offer monetary compensation as retention tools. But with layoffs commonplace, these companies are looking to use the recession perks as viable tools to build loyalty and encourage teamwork. Through these new defined benefits, along with time tested programmes such as insurance and retirement plans, managing the remaining workforce after layoffs is vital. When the recession turns around, the existing work force will be responsible for bringing their respective companies back to competition.

Indian companies and government organizations are typically mass employers with organizations like railways, banking, government offices having large pool of employees. Larger organizations have to balance complex sets of customer demands, corporate objectives and individual needs. Work life strategies have to be implemented through various levels of hierarchy and within structures. It is a time consuming process to implement and achieve a strategy organization-wide. In this regard, a standardized measuring tool evolved for the purpose would help in identifying how large organizations implement work life balance practices with approach towards common problems faced such as (i) a large workforce with wide geographical spread, (ii) heterogeneous work force, (iii) a large number of parents in the workforce, (iv) need to develop policies for non-parents, singles and (v) women force, banking being a case specific with high percentage, (vi) need to retain competitive business in an increasingly dynamic and ever changing market very much relevant to modern day banking, (vii) technology driven working environment an emerging banking scenario in India, (viii) no paper work culture, (ix) need to develop a consistent strategy across a large business, (x) need to improve working culture towards flexible practices and (xi) finding out what the workforce finally wants. Some of the more prevalent work life programs are discussed in Indian context, as under :-

Current legal limits for workers are to work for specific hours in a week without additional compensation. This legislation is a result of lobbying efforts put by labour unions.

a) Work Hours

Current legal limits for workers are to work for specific hours in a week without additional compensation. This legislation is a result of lobbying efforts put by labour unions. However, some companies expect extra hours to be put in without extra compensation while at the other end of the spectrum some firms compensate workers for overtime.

b) Paternity Leave

Paternity leave has received attention and the facility has been aimed at standardizing the rights of employees to have family leave. While originally intended to protect working mothers, the scope of the law was expanded to incorporate the changing needs of the family. As more of the population deals with elderly parental care, single parenting, etc., the mandated leave affords a broad spectrum of demographic coverage.

c) Childcare

Of conventional families having mother, father and their children, certain percentage of mother and father combination are dual-income households. As a result, companies are inclined to offer child care benefits as an enticement to workers with families. The methods used to support workers are varied and few concepts are universally accepted. In-house child care facilities, after school programs, subsidized child care, and referral services are all ways that employers use to help employees care for their children.

d) Vacation

Vacation time is company specific. Most government companies including public sector undertaking offer a standardized pattern on vocation. The flexibility to determine own vacation time frame is the essence. However, different nomenclature is used to define the term vocation. Therefore, disparities exist between vacation policies, which are a source of competitive advantage. Typically, those employees with more seniority receive more vacation time. Many companies offer the ability to accrue more vacation time in relation to the length of service. Whether Indian companies also offer additional vacation time as a reward for good work?

e) Telecommuting

Telecommuting is a relatively new concept brought about by the widespread availability of computers and the internet. This primarily allows workers in white collar jobs to work from home by linking employees to a company's network and completing work from home. One of the primary purposes of telecommuting is to allow employees to spend less time commuting, as well as allowing their schedule to be a bit more flexible. Curtailment of administrative and other overhead expenses are fringe benefits availed by companies as a result.

Some of the more elaborated and experimental work life programmes can be enlisted such as facilities for child care, financial planning services for employees who need them, flexi timings and work sharing, part time employment, leave plans for both paid and unpaid employees to suit their needs, subsidized food plans, insurance plans, medical facilities, counseling services for problems like managing work and the home, rest rooms, food preparation services, jobs with autonomy and flexibility, realistic work loads, review of work processes to see if the burden on employees can be lightened, maintaining dialogue with the employees and considering their suggestions on a continuous basis.

The framework wherein a successful work life balance programme runs require identification of the key needs and reasons for introducing work life balance policies, building up commitment to work life balance policies into the organization's vision statement, setting up of a work life balance task force to examine the existing practices in the organization, holding joint discussions with employees to evolve policies capable of identifying possible barriers, communication policies through leaflets, brochures, newsletters and other forms of communications, holding workshops to help managers implement and manage policies, etc. Monitoring effective implementation of enlisted programme and putting feedback systems into place will help to evolve more effective future program. In modern India, organizations have recognized the need for and value of work life balance policies. Profession and need based employment is an integral part of our lives and our careers are also guided by opportunities and responsibilities. Quality of life is something we all covet. Every profession affects life and every profession has a duty towards life.

Foremost strategies to strike a balance between work and life cycle would be scheduling time both in and out of the office in efficient manner. The calendar is a powerful tool to achieve availability of time for self and family.

Foremost strategies to strike a balance between work and life cycle would be scheduling time both in and out of the office in efficient manner. The calendar is a powerful tool to achieve availability of time for self and family. Leaving work place in time at periodic intervals should be part of our habit. There are times when working late cannot be avoided, but scheduling time is at individual's disposal. Staying focused at workplace helps to budget time effectively. Minimal interruptions and flex time options have to be worked out. Planning time management may be the essence. Similarly, scheduling family activities, a weekend trip, something for fun playing, etc., makes our time spending effective and nourishing away from work.

Effective time management

Time management is management of entire life more productively. Managing time better, implies a strategy to apportion time for physical, mental, emotional, spiritual, social and professional demands and responsibilities of life. To get the best value of time proper planning and prioritizing items is essential. With the increasing use of new and user friendly technologies, there appears more time at our disposal. Technology driven working environment saves time on routine and repetitive activities as in banking. This generates additional time for other creative and innovative activities. Newer opportunities for organizational growth motivate employees to enter into new ventures and resultantly, work expands beyond the time saved. In fact, that is a challenge of a dynamic and progressive organizational culture.

It is a normal tendency for people to pack in more activities than can be achieved in a given time frame. Ambition is always reflected in time management. To do lists are rarely executed. One should be cautious while planning a day, for too many unattended tasks create a sense of stress and un-fulfillment. Focusing on the given activity that would engage total attention until a fixed time period certainly echoes more sense than scattering energy and keeping oneself busy unnecessarily. Anyway, people are busy when focused on a task and sparing time for any other activity is at premium.

The differences between time perception in India and time perception in other countries are prominent. The Indian philosophy comes in the way of effective time management and it has psychological shades as well. There are certainly differences in time perception of the South Asian people as compared to those of other regions like Europe and the US in respect for punctuality, commitment and sensitivity of others' time. We rarely visualize the reverence of time as a character building value. The Indian philosophy of eternity does affect our orientation towards time management. The notion of eternity dilutes the reference point of time, resulting in the weakening of a sense of urgency in goal-achievement. But in the urban and educated India, this approach is being replaced with a more down to earth orientation towards efficiency, effectiveness and result orientation.

Good indicators of proper time management are rational work life balance, planning and prioritizing tasks and assigning deadlines to important but not urgent obligations, focusing on results and not activities, maintaining a diary for time recording and observations on the day spent, avoiding procrastination, controlling interruptions, punctuality, mitigating personal and official time wasters, having a quiet hour for reflection, sound introspection, evaluation and creative work, self-management and systems improvement, proper delegation and supervision and working with enthusiasm and avoiding stress.

Employers disabling the internet and e-mail on computers to ensure that employees do not spend time on things other than work may not be effective control measures. In professional organizations these are used mainly as stress-busters. Self regulation is more effective than controls imposed. An over use of recreational facilities will reflect upon the overall productivity and enforce closer supervision by employers. In a workstation setting, nothing remains hidden and secret. Hence, unless casualness becomes endemic, there is no serious cause of concern.

The crux of time management is our thoughts on work life balance and its importance. We should be able to lead a life by allocating sufficient time for physical fitness, meditation, prayer, family and social relationship etc. As far as possible, there should be an integrated approach for effective work-life balance without sacrificing any time of happiness. Time management can add to stress when one is obsessed with sticking to schedules. In a multi dimensional role, time schedules with singular line approach, will complicate life. It is not the time that needs to be managed; it is the activities that should be managed. Categorizing what is urgent and important or important but not urgent or urgent but not important, is conflicting at times. Hence, it should be revised whenever a need arises. We should be able to strike a work life balance. We should prepare ourselves for appointments and meetings with punctuality. Improving systems, following lines of self-management and avoiding procrastination are better tools of time management.

Tips for better work-life balance

Getting priorities clear is the first and most essential step toward achieving a well balanced life. The important point here is to figure out what we want our priorities to be and what we think they should be. A list of top priorities typical might include satisfying career, spouse, children, community service, religion, spirituality, health, sports, art, hobbies, adventure, travel, socializing, cooking, washing, etc. Splitting time and mind so that we are thinking about work when we are at work and we are paying attention to the baby when we are with him, is the essence.

By making a concrete list of what really matters to us, we may discover that we are devoting too much time to activities that are not a priority. Dropping unnecessary commitments and pursuits helps manage life better.

Carving out hours that contribute to us is the essence. Stop checking email and cell phones so often. If work consistently interferes with our personal time, adjustments are necessary. Our job performance should never be judged in terms of number of hours. Protecting our private time often leads to greater satisfaction in both work life and personal life, greater productivity, and more creativity.

Allowing ourselves to rely on our partners, family members or friends, anyone who can watch the kids while we focus on other priorities helps a great deal. To get more alone time with partner and family members or arranging a regular trade off, are all viable options. Teaming with others is a great way to create extra free time.

Fun and relaxation are so very essential part of living a well-balanced life. Carving time for a yoga class, a date with a spouse married for 20 years, etc; are great fun. In addition, having exercises on regular basis is great leveler. If we believe that the most important thing is to be happy in life, then we can always make time. Until we get into the habit of taking time for ourselves, set aside space in our planner for relaxation and fun, our entire endeavor for comforts and joyful life is unidirectional.

Most importantly, an effective work life programme helps forge a relationship between an employer and employee that leads to mutual benefits.

Return on investment

The argument for or against work life balance programme often centres around the company's ability to show significant financial gain as a result of these programme. Interestingly, for all the emphasis on such financial justification, very few hard numbers exist on the success or failure of work life programs. Since work life balance programme are a part of a company's compensation and culture, their benefits are most often seen on the human resources front. One of the first ways that firms have shown a benefit is in recruiting. Effective work life programmes are marketing resource for attracting employees. Once potential applicants are recruited work life balance programme are often a deal maker. They are potential indicators for an applicant's choice for job offers.

Most importantly, an effective work life programme helps forge a relationship between an employer and employee that leads to mutual benefits. Employees, who are better able to balance the demands on their time, are more satisfied and content. This in turns leads to real benefits for the employer in terms of productivity gains, lowered turnover rate, a stronger team spirit and loyalty factor to the employer. Operationally, a lower turnover rate leads to reduction in new employee training costs as well as the more elusive costs associated with informal training that existing employees provide to new team members. While these gains have been sporadically measured no definitive study has been able to associate performance gains directly with financial performance gains. The trend reflects improvement in certain areas of inter personal relationship and related to greater profitability derived from the improved efficiency of the workplace, as a result of better understanding. For work life balance, there have been studies, which indicate a direct correlation between work life balance programs and customer service ratings, especially in all direct customer service related specific interface. Banking is truly falling in this type of approach for better customer services and in its approach to retain customers.

What does the future hold

Employers' approach is based around what can be done for the employees. For true work life balance to occur, employees need to be responsible for maintaining a balance at workplace and the other parts of their lives. Companies with a long term strategy on work life balance will recognize and provide employees with training, addressing their personal shortfalls they have that keep them from achieving work life balance.

Even if companies implement programmes to address to the personal shortfalls of employees, changing habits and preferences of employees will pose a challenge and that may not necessarily imply a change in work life balance, particularly, if the culture of the work environment does not change. When both company plans and employee efforts are complementary, true work life balance can be achieved. However, the effects of the work life program demonstrate that competitive advantage and social responsibility are mutually coherent as companies gain a competitive advantage from recruiting, retention, productivity increases and better customer service while also helping the society in which they operate. Work life balance programmes are definitely competitive and advantageous but not to exclusion of social responsibility.

Times have changed, as both husband and wife earn. But somebody still cooks and washes and runs the house. So, how to balance work with life at home? Although, over the years, women in India have struggled to establish an identity for themselves and create a mark in the social as well as organizational platforms, with the advent of more educational institutions providing better need based training and courses, more and more women are

Despite westernization and influences of other cultures, India is still a close knit society.

entering into professional careers and fields of their choice. This has helped to drastically change the professional outlook now. Within the professional world, which reflects India's small but growing middle class as a whole, the phenomenon of Indian women breaking conventional boundaries is more prominent. Despite acts like the Equal Remuneration Act of 1976, which promulgates equal payment for equal work, regardless of gender and prohibits gender discrimination in hiring practices, the mindset is still prevalent within organizations not to recognize women equal to men.

Conclusion

Despite westernization and influences of other cultures, India is still a close knit society. In Indian context, getting a permanent job that provides security is the single most important agenda and simple philosophy even today amongst the millions of young work force waiting for getting a chance. Of late, options and opportunities have emerged in a number of fields and saturation will take time to set in. Time is changing fast. Subjects like sports, acting, dancing, singing, fine arts, health clubs, DJ's and cooking, have emerged as highly successful career options. In today's scenario, the concept of work life balance is relevant even with fewer choices and more demands. As opportunities increase, we will have more refined and need based programmes of work life balance to suit our lifestyle. Banking activity is no exception and work life balance programme is part and parcel of banking industry.

Customer Relationship Management in Retail Banking (Consolation Prize)

Pankaj Kumar

Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits.

Excess of liquidity, increased dependence of corporates on capital markets, the rising income of middle class with increase in purchasing power and ability to handle debts, the increasing amount of NPA's from corporate portfolio and the current growth as well as future growth potential of the credit card business has induced banks to shift from wholesale banking to retail banking.

Retail banking has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. Some of the key policy issues relevant to the retail-banking sector are : financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

The credit portfolio of banking business is fast changing in India. Retail lending is becoming an important segment of bank credit. Large credit exposures are linked to bank's capital. Limits have to be fixed for single exposure in relation to the capital funds. A paradigm shift from corporate lending and disintermediation are reasons responsible for resurgence. Banks are facing fierce competition not only amongst themselves but also from aggressive NBFC's. As a result, interest rates on retail lending too have come down.

Customer service is perhaps the most important dimension of retail banking followed by constant product innovation.

Risk management for banks as far as retail banking goes should focus on risk and return characteristics of consumer loans, revenues from consumer loans, losses from consumer loans, and the collection strategies, product structuring and lending policies.

Retention of consumers is going to be a major challenge. Second, rising indebtedness could turn out to be a cause for concern in the future. Third, information technology poses both opportunities and challenges. Even with ATMs and Internet banking, many of the customers still prefer the personal touch of their neighbourhood branch bank. Fourth, KYC Issues and money laundering risks in retail banking is yet another important issue.

Customer service is perhaps the most important dimension of retail banking followed by constant product innovation. The main aspects of customer service are quality and pace in delivery, introduction of new channels of delivery, cross selling of products, price bundling, and most important of all becoming technology savvy. To meet the increasing demands as far as customer service is concerned; banks are investing a lot in Customer Relationship Management (CRM). This paper deals with the various aspects of CRM and discusses why it is necessary and how it is affecting the customer as well as banks.

Retail banking : an introduction

Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise, and the financial institution deal in small numbers of high value transactions.

The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the latter is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well-integrated manner.

Today's retail banking sector is characterized by three basic characteristics :

- Multiple products (deposits, credit cards, insurance, investments and securities);
- Multiple channels of distribution (call centre, branch, internet) and
- Multiple customer groups (consumer, small business, and corporate).

What is the nature of retail banking? In a recent book, retail banking has been described as “hotter than vindaloo”. Considering the fact that vindaloo, the Indian-English innovative curry in umpteen numbers of restaurants of London, is very hot and spicy, it seems that retail banking is perceived to be the in-thing in today's world of banking. It is however broad in nature.

Why are banks changing to retail banking?

Banks are awash with liquidity. Prime corporate do not borrow from banks except at sub-PLR rates, and that too after a lot of bargaining and negotiation. Banks do not favour other corporate, as chances of accounts becoming NPA are very high. Suddenly there is a great change in the attitude of banks. The name of the game is no longer, 'Lending to big corporates, huge amounts to create loan assets'. Banks invest their resources in government paper to the maximum and then scout for hitherto neglected retail borrowers for lending. Retail credit is now welcomed even from RBI's perspective. There are no longer any regulatory hurdles. Consumer credit is no longer considered as unproductive, as it triggers demand for consumer products, which in turn help manufacturers in a period of economic slowdown. Retail to project credit stands to a ratio of 3:1. SME sector borrowers still appear to be suffering from inadequate and delayed credit delivery. This sector has immense potential for growth and banks have to devise innovative strategies to fund their ventures on the principle of entrepreneurship and bankability rather than mere collateral securities.

Micro finance, another area of retail credit, has unfortunately become a so-called priority sector credit. Perhaps it will be a great idea if it is delinked from the obnoxious priority tag and thereby allowing banks to display creativity in financing the sector, especially in rural and semi-urban areas where its potential for positive transformation of socio-economic conditions is immense. Banks are gradually appreciating the virtue of spreading the credit risk by financing large number of small (retail) borrowers.

Credit card business is growing and even government banks have started marketing cards. Surprisingly, they still do not leverage the network of branches and availability of surplus manpower into effective marketing. The personal banking segment customers have become the centre of attraction. It is their deposit and savings account that are actively sought after, and not mega deposits at a slightly higher rate of interest. Banks are truly spreading their deposit net rather widely.

It is perhaps apt to quote what Hugh McCulloch, secretary of the treasury UK, said long ago “Distribute your loans rather than concentrate them in a few hands. Large loans to a single borrower or a firm, although sometimes proper and necessary, are generally injudicious and frequently unsafe. Large borrowers are apt to control the bank, and when this is the relation between a bank and its customers, it is not difficult to decide which one in the end will suffer”.

Drivers of retail business in India

Some of the factors that contributed to the retail growth in India are mentioned below :

- Economic prosperity and the consequent increase in purchasing power

- Changing consumer demographics - highest proportion (70%) of the population below 35 years of age (young population).
- Technological innovations relating to increasing use of credit / debit cards, ATMs, direct debits and phone banking has contributed to the growth of retail banking in India.
- Treasury income of the banks has been on the decline. In such a scenario, retail business provides a good vehicle of profit maximization. Considering the fact that retail's share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.
- Decline in interest rates have also contributed to the growth of retail credit by generating the demand for such credit.

Customer relationship management in retail banking

Introduction

Retail banks are facing greater challenges than ever before in executing their customer management strategies. Intensifying competition, proliferating customer contact channels, escalating attacks on customer information, rising customer expectations and capitalizing on new market opportunities are at the top of every bank executive's agenda.

In looking for ways to drive growth, banks need to evaluate their customer management strategy. Do they currently have a CRM solution that is capable of delivering.

- Consistent and cost-effective customer service?
- Customer-aligned products and services?
- Enhanced customer loyalty and long-term value?

CRM in retail banking : current trends and Dynamics

Today, more than ever before, the ability to maximize customer loyalty through close and durable relationships is critical to retail banks' ability to grow their businesses. As banks strive to create and manage customer relationships, several emerging trends affect the approach and tools banks employ to achieve sustainable growth. These trends reflect a fundamental change in the way banks interact with the customers they have - and those they want to acquire.

Trend : focusing on organic growth

How can a retail bank drive growth? Traditionally, banks have grown through an aggressive strategy of acquiring direct competitors and taking over their branch networks. Today, that strategy is no longer sufficient, since it doesn't create organic growth for the financial institution. To build stronger customer loyalty, banks need improved customer knowledge to develop products and deliver services targeted at specific market segments; resulting in more directed marketing, sales and service tactics. This is not to say M&A will not continue to be an effective way to expand product offerings and service capabilities. However, retail banks will focus on acquiring businesses that have essential products or capabilities to complete the bank's portfolio of offerings. The goal is to gain greater wallet share of current customers and support their organic growth. A recent example of this is the ongoing talk between GE capital and LIC of India for joint venture in to credit card business, though GE is already in the card market by partnering with State bank of India.

Trend : seeking out and better serving emerging customer segments

One of the ways banks can achieve improved organic growth is by focusing on new markets. Emerging demographic segments represent untapped revenue streams that can fuel a bank's growth. In India, the youth working in private sector firms and MNCs, who are eager to spend and living life in a style, represents a major opportunity for the banks. This fast-growing and underserved customer segment offers new potential revenue for retail banks. The need for every bank is how to respond quickly and that again at the lowest possible cost. And this need is increasing all the time.

Trend : creating deep business insight into customer Preferences

Customer loyalty that drives organic growth can only be built through a consistent customer experience. This means understanding each individual customer's needs and preferences. One of the largest challenges banks face is how to better understand their customers and provide personalized customer service.

A "one-size-fits-all" customer strategy no longer works. Banks need to serve the rapidly diverging needs of all markets: aging baby-boomers, time-stressed mid-lifers and younger technophiles (i.e., Gen-X and Gen-Y). Banks must move out of their "comfort zone" and develop services and products that address the specific needs of different market segments.

It is clear that financial service providers can no longer sustain growth and profitability targets through mass direct mail campaigns that deliver less than 1 percent response rates. Those that do will lose out to competitors implementing personalized communications that target the right customer, at the right time, with the right product or service. To optimize customer relationships and loyalty, banks need to integrate processes and technologies that enable them to build and then act upon a detailed view of what each customer wants. This will require highly skilled customer service professionals, with the right combination of linguistic, culturally aligned and financial services skills, as well as the ability to deploy customer service strategies quickly, efficiently and cost-effectively.

Trend : Responding to intensifying competition through revitalized offerings

The need to revitalize a company's portfolio of offerings happens in every industry. Examples in high-tech manufacturing, consumer industries and transportation show how important new offerings are in order to stay competitive as products and services become more "commoditized." The same is true in the financial services industry. Today's retail banks face a relentless stream of new competitors, eager to take a share of the market's revenues. Three major competitors offering differentiated products, services or distribution models have emerged over the past decade : Brokerage and insurance firms, expanding their offering portfolios into banking products beyond their traditional product sets. Non-traditional players such as PayPal (expanding through technology-led channels of services) or telecommunications companies (expanding by bundling of payments for "like" services) are growing by becoming payment aggregators. Non-banking companies looking to (some companies already) enter the market by offering banking products and services. The entry of non-traditional players will not only affect bank growth rates as they compete for consumers, but will also place downward pressure on operating margins and profitability created through their non-banking business models.

Renewing and reinvigorating product offerings and customer service strategies are essential ways to stay competitive in a changing marketplace. Proactive banks will respond to market opportunities and competitive threats by launching new products, entering new markets and acquiring new customer segments. A proactive CRM solution is the foundation that can help support this without disrupting current services that would put existing clients at risk.

Trend : Improving distribution and channel Management

How are retail banks responding to intensified market competition? To take themselves to the next level of improved sales and service, banks are focusing on developing, implementing and integrating their channels more rapidly and efficiently. Their goal is to meet three objectives :

- Improved and more consistent service based on a full customer view
- Increased revenue through adoption of new products
- Improved profitability through lower product development and service costs

Forward-looking banks will simultaneously improve customer service quality and profitability by deploying an integrated CRM strategy. Deepening relationships with their customers means that banks must offer their products and services through appropriate delivery channels that appeal to their customers. Deploying multiple channels and integrating them at the enterprise level give banks a consistent and full view of the customer. To be successful, this must include all service channels both physical and virtual including, call centre, Web, branch, kiosk, ATM, phone and mobile devices. To achieve this, banks need to develop technology, operational processes and customer strategies to make their channels more effective in reaching and serving their customers. By tailoring products or services to specific customers or market segments, banks will be able to increase their product adoption rate, revenues and return on investment (ROI) for new product development.

Trend : safeguarding customer information

Adding to this complexity, customer privacy and information security are under attack as never before. The threats come from many quarters including increasingly sophisticated identity thieves, constant phishing expeditions by criminals seeking to trap unwary customers, and even "inside jobs" where staff sells customer data to criminals. Expanding legislative and industry requirements for customer security are also increasing costs for financial services companies. Compliance with customer information regulations is becoming increasingly complex as regulations are growing at all operating levels, global as well as national level. It is vital that banks ensure that their customer data is secure from both internal and external threats. The following are three key reasons why this is so important :

- If a bank loses a customer's information, it invariably loses the customer as well.
- A security breach has an immense negative impact on the value of the bank's brand and reputation, hindering the bank's ability to acquire new customers.
- Under Basel-II, banks without required client data security as a part of their risk management program must maintain higher levels of capital reserves reducing the amount of funds available to invest in the marketplace and generate revenue.

By preventing security breaches and avoiding losses, banks can actually realize a better ROI from investing in data security. This makes protecting customer data a prerequisite for competing effectively in the retail financial services market. Banks must balance the cost of data security against the need to share information and service the customer, while at the same time finding ways to secure vital customer and financial data for the purposes of risk management planning.

Industry trends and required actions			
Industry Trend	**Challenges**	**Required Actions**	**Benefits**
Achieving greater organic growth	Finding new revenue streams. Obtaining higher level of products per customer. Saving "at risk" customers through business intelligence. Can no longer rely on M&A to grow by adding more branches.	Improving sales and service consistency. Building greater customer loyalty. Having actionable customer information across the enterprise.	Increase product-to-customer ratio. Improve up-sell and cross-sell close rates. Build greater customer loyalty. Improve profitability by reducing cost of sales.
Serving emerging customer segments	Providing consistent and culturally aligned service to diverse population. Developing highly skilled customer service professionals capable of serving a specific customer segment.	Develop work force skills aligned with customer needs. Implement work force management. Develop IT and process frameworks to secure customer information.	Gain rapid access to emerging market to grow revenue. Reduce the cost of new customer acquisition. Maximize customer loyalty through culturally aligned service.
Revitalizing product offerings	Losing market share to new more agile competitors. Differentiating products and services in a commoditized marketplace.	Faster time to market with new products tailored to your customers. Greater flexibility and responsiveness to market changes. Differentiating your brand through superior and consistent service.	Reduce time to market for new products. Improve product targeting to the right segments. Improve brand consistency and loyalty. Respond faster to market changes with greater flexibility.

Continued...

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Industry trends and required actions			
Industry Trend	**Challenges**	**Required Actions**	**Benefits**
Improving channel management	Inconsistent customer treatments across the channels. Lack of enterprise integration on the customer service platform. Difficult to access a full view of the customer and assess value to the bank.	Deploy a consistent customer-tailored treatment strategy. Deploy an IT platform that operates across all channels.	Improve customer loyalty through consistent service across the enterprise. Cut costs by using standardized process across all channels. Enable the enterprise to use lower cost channels.
Securing customer information	Increasingly sophisticated identity thieves. Avoiding security breaches by banking staff. Balancing the need for security against the cost.	Adhere to all compliance & regulations (Basel-II). Secure customer information but allow access by the right agent to the right customers.	Avoid lost revenue due to customer attrition. Maintain brand reputation. Reduce capital reserve requirements. Achieve ROI on your security investments.

Reaping the benefits of a CRM solution

Faced with these numerous and varied trends, retail banks are reshaping the way they must interact with their customers. A fully integrated, enterprise wide CRM platform ensures banks have the core capabilities to take full advantage of their customer relationships and capitalize on these market dynamics, rather than losing out because of them.

Gaining Sales Momentum

In today's increasingly competitive environment, where maximizing organic growth is a bank's priority, sales momentum is essential. To build this momentum, banks need to focus simultaneously on:

- Increasing acquisition rates of new and emerging customer segments.
- Improving retention of existing customers and saving “at risk” customers.
- Increasing profitability of customer relationships, either at the top-line through increased sales, or at the bottom-line through more cost-effective services.
- Improving integrated channel distribution strategies to get the right product, to the right client, at the moment the customer needs the same.
- Maximizing the value and return from CRM investments that have already been made

Increasing Acquisition of New Customers

A CRM solution should help a bank target customers based on the “value” they bring to the bank, now and throughout the life of the customer (and beyond through “next generation” marketing). Banks need to ensure that their value propositions have traction with the right market segments. This will enable the bank to identify, target and capture new customers. Clearly, customer insight and strategy are the core differentiators for the bank. CRM solutions (people, applications, systems and processes) must support these strategies to get the right products and services to the right customers.

Improving Retention of Existing Customers

Customer retention can be achieved by enhancing customer satisfaction and loyalty, improving problem resolution, and creating the ability to identify and save “at-risk” customers. In fact, an “at-risk” customer actually represents a major opportunity for additional revenue if handled correctly. However, the greatest danger for banks is either not identifying “at risk” customers or not having the capabilities to do anything to recover them. For example, a customer makes a large withdrawal from his or her account. This may signal that the customer is switching funds to another bank. Or the customer may be buying a house, a boat, or paying college tuition, in which case there are clear opportunities to sell additional

> **To win profitable customers and build long-term relationships with them, banks need to have the right insight, products and services for the right customer at the lowest possible cost.**

products or investments. The identification and treatment of this customer should reflect his or her lifetime value. CRM-driven techniques will help retain customers and can migrate from mere "account holders" into loyal, long-term, profitable customers.

Increasing Profitability by Customer Relationships

Boosting revenues requires improving the product pipeline and close rates, while reducing sales and service costs. On the revenue side, the bank's CRM solution should use customer intelligence to target specific offers and manage marketing campaigns for a high likelihood of acceptance. Customer treatment strategies should be fully integrated with a CRM platform and the processes to support them. On the cost side, better channel management, CRM automation and integration will help increase the efficiency and effectiveness of sales and service.

Improving Distribution and Channel Management

To win profitable customers and build long-term relationships with them, banks need to have the right insight, products and services for the right customer at the lowest possible cost. From call centres to Web sites, each of the bank's multiple channels must be scalable, flexible, low-cost and fully integrated with all the other channels. This is the only way to consolidate customer information and provide consistent treatment across the enterprise. Each of the bank's channels must also be able to accommodate change and adapt to future trends in the marketplace.

Maximizing the Value of Past Investments in CRM

As new technologies and channels emerge, the need to control costs and maximize the ROI from existing CRM investments raises many questions:

- How can a bank lower its operational cost structure while leveraging the newest technologies such as interactive voice recognition-based routing to improve service quality and customer experience?
- How can it manage its customer service / call centre workforce more efficiently and effectively in an era when a major call centre has to handle tens of millions of calls a year from a vastly diverse spectrum of customers?
- How can the bank's investment in customer care be refocused to create a permanently lower and more flexible cost base perhaps through use of a common platform, technologies and processes?

With intensifying competition putting pressure on increasing required customer service levels and improving top-line revenues, investment in new capabilities to make the customer relationship stronger and more profitable is critical for future growth. However, it is important for banks to maintain a tight rein on their costs while deploying these solutions.

Business Intelligence & CRM

A milestone in the evolution of CRM is the inclusion of analytics within the technology. The concept of analytics comes from the world of business intelligence; it is a real-time tool for converting raw data into something that can be used to support business decisions. The short- and long-term benefits of CRM can be felt to a large extent with a combination of customer-facing technologies and analytic techniques such as collaborative filtering, predictive modelling, business rules and state-based decision making. Analytical CRM blends historical data with predictive science to produce forward-looking views of customer behaviour.

An example of a successful deployment of this form of CRM can be seen at Standard Chartered Bank. The analytical CRM solution allows the bank to effectively manage and optimise the profitability of all products that constitute its retail portfolio. The bank finds it easier to run targeted campaigns and elicit substantially higher returns since the solution can perform profit modelling for each account. The solution also enables micro-segmentation. Using analytics and a test-and-learn culture, we know the probability of customers adopting a new product.

We now know which card member is more likely to take an auto loan. This has resulted in more focussed marketing campaigns and reduced costs, with improved customer satisfaction.

In summary, the market dynamics facing financial services companies have never been more fluid and complex. In the midst of these trends is your customer. Any CRM solution invested in must be implemented with the clear goals of improving the following :

- Customer satisfaction and loyalty
- Customer insight
- Speed-to-market for products and services
- Customer security

All this must be done in a manner that generates measurable increases in revenue for the bank and reduces overall costs of services.

Conclusion

Although CRM was supposed to transform business, its impact in India has been mixed. It has been called a strategic tool that combines business processes, technology, employees and information across an enterprise to attract and retain profitable customers. Despite this, the jury is still out on whether CRM has fulfilled its promises. Has CRM in India been reduced to an empty buzzword that's tossed around so that a company appears to be keeping up with the industry? Not entirely, because banks like Standard Chartered Bank, ICICI etc., have successfully used these tools and benefited. The difference lies in the way CRM has been deployed at these banks. It is a combination of technology and process change that has worked. For banks that use CRM and those that plan to, it is important to understand that CRM technology has developed evolved and matured over the years. It is now a reliable process that combines business and technology to power a customer-focussed organisation.

To create successful customer-centric organisations, CIOs and even CEOs are asked to repeat this mantra: "CRM is a business initiative and is not about technology." For better implementation of CRM banks need to adopt a CRM strategy. Driving a business initiative without strategy behind it is like trying to drive a car without a steering wheel. The car may be fitted with the most advanced engine and a plush interior, but does not serve the purpose of taking you from point A to point B because it cannot be directed to move along the chosen path. An enterprise-wide CRM strategy is a comprehensive and detailed definition of the scope of the CRM programme towards organisational goals. A CRM strategy is especially useful for large banks like SBI spread across different locations. Therefore, one of the best ways of launching a CRM initiative is to start with what the bank is doing now and working out what should be done to improve its interface with its customers. Then and only then, it should be linked to an IT solution. While this may sound quite straightforward, for large banks it can be a mammoth task unless a gradual step-by-step process is adopted. It does not happen simply by buying the software and installing it. For CRM to be truly effective, it requires a well-thought-out initiative involving strategy, people, technology, and processes. Above all, it requires the realisation that the CRM philosophy of doing business should be adopted incrementally with an iterative approach to learn at every stage of development.

Only time will tell how Indian banks embrace the CRM philosophy and take on the competition from foreign entities.

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Determinants of Financial Literacy (Consolation Prize)

Dr. S. Sangwan *

"What is Financial literacy?

Financial literacy is the ability of individuals to make appropriate decisions in managing their personal finances. Of course people have always been responsible for managing their own finances on a day to day basis - spend on a holiday or save for new furniture; how much to put aside for a child's education or to set them up in life - but recent developments have made financial education and awareness increasingly important for financial well-being. In the present context, personal finance is not only confined to one's own savings kept with himself or invested in physical assets like land and buildings. The world as a whole in the last 15 years, has witnessed unprecedented growth in financial services, unfolded by liberalization and globalization of financial services due to adoption of information technology and unlocking of the regulatory framework in most of the countries. There are numerous saving and investment products from banks, financial institutions, post offices, equity markets and mutual funds which give much wider scope for managing personal finance. In India too, the banking sector responded quickly to the new technology; diversified in multiple services which resulted in increasing the share of finance and related services in the gross domestic product to about 14 per cent in 2006-07 from 11 per cent in 1991-92 (RBI, Annual Report 2006-07). But alongside these positive developments there is still evidence that the formal financial sector still excludes a large section of population. As on March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16 in all India (RBI, BSR 2006). The access to banks through saving or credit accounts is the first step in financial literacy as graduation in financial education includes the skill to understand the simple terms and procedures related with the various financial products and services. The demat accounts which provide access to equity and mutual fund markets just cover about one per cent of population (Business World, April, 2008). Reserve Bank of India (RBI) and Government of India (GOI) are very much concerned about the financial education / inclusion as expressed in various issues of monthly bulletins of RBI during 2006 & 2007 and Central Budget of 2007-08(5,1).

There are numerous saving and investment products from banks, financial institutions, post offices, equity markets and mutual funds which give much wider scope for managing the personal finance.

Objectives of the Paper

The broad objective of the paper is to analyse the issues and policies for improving financial literacy in India. The specific coverage of the paper is as under :

- To clarify the various concepts of financial literacy, the buzzword in recent years.
- To study the extent of financial inclusions and literacy in different states of the country
- To determine the barriers to financial literacy / inclusion through empirical analysis.
- To discuss the role of SHGs and other community based organization in financial literacy and
- To evolve a strategy for improving the Financial literacy in India.

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Financial literacy and related terms

As per the broad meaning stated in the beginning, financial literacy helps in linking with banks, motivating for savings, knowing the most appropriate products for saving and credit, prudent use of credit, timely repayment and understanding day-to-day terms like compounding of interest, bank charges, remittance facilities, etc. Financial literacy may be regarded in broad academic terms where a person knows the concept of budgeting i.e., matching between income and expenditure. In this endeavour, the linking with banks through saving or credit account is the first step and it may be aptly termed as financial inclusion (FI). FI broadly means the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. FI ensures safety of saving and helps in leverage one's resources with bank credit. The big corporates are controlling the huge companies with just majority share in the capital issued of the company which is much less than the actual worth of the company. The similar term financial education has somewhat more specific meaning where one learns to manage one's money by keeping a balance between safety, liquidity and profitability on the basis information and knowledge of banking. Therefore, these terms of financial literacy, FI and financial education will be used as per their meaning and alternatively too in the paper.

Why Financial Literacy?

Financial literacy is a concern of governments at the world over which may be due to the following revelations.

- The cross-country data and evidence from specific policy experiments suggest that more developed financial systems are associated with lower inequality and lower financial exclusion (Rakesh Mohan, November 2006, World Bank 2007). The impact through the mechanism of financial markets may be more sustainable than the grants and subsidies. Hence, if financial market frictions are not addressed, redistribution approach for equality may have to be endlessly repeated, which could result in damaging incentives to work and save (World Bank, op cit). The financial development and improved access to banking & related services not only accelerate economic growth but the financially excluded individuals and enterprises with promising opportunities are limited to their own savings and earning (HM Treasury, March 2007).
- Today's complex financial services market offers consumers a vast array of products and providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. This is especially true for populations that have traditionally been under served by our financial system.
- Financial education helps in recognizing and avoiding abusive lending practices and can protect individuals from the risk of obtaining inappropriate loan products. The increasing use of credit cards even in OECD countries has led to an increase in personal bankruptcies - in 2003, almost one in 10 US households filed for bankruptcy and the number of private bankruptcies in Austria rose by 11%. And similar problems are arising in countries where credit is becoming more widespread viz., Korea, Germany and lately India too.
- Basic financial services and asset building programmes provide a working knowledge of financial products, financial planning, and an overview of the banking system.
- Credit management and repair programmes enable individuals to correct and learn from previous financial mistakes.

Initiatives for Financial Literacy

At Global Level

Raising levels of financial literacy is now a focus of governments in countries including Australia, Japan, the United States and the UK. In the UK, the alternative term, financial capability is normally used : and the Financial

Services Authority (FSA) in the UK started a national strategy on financial capability in 2003 which focus on the new parents, schools & colleges, workplace, etc. Besides, there are numerous charities in the United Kingdom working to improve financial literacy such as Credit Action. The US Government also established its Financial Literacy and Education Commission in 2003. The Commission published its National Strategy on Financial Literacy in 2006. The Australian Government established a Financial Literacy Foundation in 2005 to take up related matters. MoneySense is a website set up by Monetary Authority of Singapore to boost Financial Literacy in Singapore. All these developments are a follow-up of the findings of an intergovernmental project for improving Credit Counseling is also part of financial education and an issue of concern world over. In the United States, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 made credit counseling a requirement for consumer debtors filing for bankruptcy. The Consumer Credit Counseling Service (CCCS) in the UK, established in 1993, helps consumers with budgeting and better money management as also their debt repayment plans.

Canada established a nonprofit counseling organization in 2000. Termed Credit Counseling Canada (CCC), the organization seeks to enhance the quality and availability of not-for-profit credit counseling for all its citizens. The Bank Negara Malaysia has established a Credit Counseling and Debt Management Agency (CCDMA) to provide credit counseling and loan restructuring advice to individuals. With rising personal bankruptcies, the credit counseling is taking place in one or other form by governments / banks.

Extent of FI in India

India is at the threshold of financial literacy as access to in terms of percentage of adults, having bank saving accounts is just 63 per cent as compared to 90 to 97 percent in OECD countries. Taking saving account is the basic account especially in commercial banks to avail all types of banking services including credit and remittance facilities, the status of FI in different states of India is presented in Table-1 shows that as on 31 March 2006, percentage of adult population having saving bank accounts is 63 for all India assuming that one person has only one account. Among the regions, the FI is the lowest 42 percent in the North Eastern Region and the maximum 86 percent in the Northern Region. The coefficient of variations is 55 per cent across states.

The States / Union Territories with FI less than the all India average in ascending order are Manipur, Nagaland, Chattisgarh, Mizoram, Bihar, Orissa, Madhya Pradesh, Assam, Tripura, Meghalaya, Arunachal Pradesh, Jharkhand, Rajasthan, West Bengal, Sikkim and Uttar Pradesh; whereas Chandigarh, Goa, Delhi, Punjab, Pondichery, Uttranchal, Daman & Diu, Kerala, Haryana and Himachal Pradesh are having FI more than 20 percent of all India average. The other states mainly from Southern and Western Region have moderate FI equal to the national average or upto 20 percent higher. The inclusion in terms of credit accounts of adults is 16 percent for all India, varying from 8 percent in the North Eastern Region to 29 percent in the Southern Region. The coefficient of variation is 240 percent across states. There is no visible positive association between inclusion in terms of saving and credit accounts viz., the ranks in saving and credit accounts of Chandigarh (1:28), Bihar (37:15), M. P. (35:14), Goa (2:30), etc. The states with relatively lower per capita income have more inclusion in terms of credit accounts, which may be due to more financing under Central and state governments' subsidy schemes.

Table-1 : State-wise Deposits and Credit Accounts of Commercial Banks-March 2006

(No of A/C and Population in 000)

Region / State / Union territory	No. of Branches	Population Per Branch	No of Saving accounts	No. of Credit accounts	Total population	Adult Population (>19 years)	Account / OO Adult Saving Deposit	Credit
Northern Region	**1,821**	**11224**	**58,584**	**9,247**	**132,676**	**67,822**	**86**	**14**
Haryana	1,764	11952	9,157	1,434	21,083	11,308	81	13
Himachal Pradesh	820	7411	2,671	439	6,077	3,567	75	12

Continue ...

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Region / State / Union territory	No. of Branches	Population Per Branch	No of Saving accounts	No. of Credit accounts	Total population	Adult Population (>19 years)	Account / OO Adult Saving Deposit	Credit
Jammu & Kashmir	873	11535	3,672	473	10,070	5,380	68	9
Punjab	2,824	8601	14,780	1,805	24,289	14,185	104	13
Rajasthan	3,512	16080	14,119	2,904	56,473	28,474	50	10
Chandigarh	244	3692	1.191	164	901	546	218	30
Delhi	1,784	7726	12,994	2,027	13,783	7.930	164	26
North-Eastern	**1,949**	**19751**	**8,180**	**1,639**	**38,495**	**19,709**	**42**	**8**
Arunachal Pradesh	69	15813	254	41	1,091	545	47	8
Assam	1,273	20926	5,993	1,031	26,638	14,074	43	7
Manipur	78	30624	250	66	2,389	1,222	20	5
Meghalaya	189	12201	503	122	2,306	1,088	46	11
Mizoram	80	11138	166	42	891	476	35	9
Nagaland	73	27242	239	55	1,989	996	24	6
Tripura	187	17065	775	282	3,191	1,784	43	16
Eastern Region	**12,308**	**18493**	**54,716**	**10,967**	**227,613**	**122,136**	**45**	**9**
Bihar	3,647	22725	14,543	2,866	82,879	40,934	36	7
Jharkhand	1,525	17646	6,818	1.283	26,909	13,737	50	9
Orissa	2,333	15734	8,246	2,864	36,707	21,065	39	14
Sikkim	56	9652	173	35	540	289	60	12
West Bengal	4,713	17021	24,788	3,899	80,221	45,897	54	8
Andaman	34	10478	149	20	356	214	70	9
Central Region	14,104	18131	71,717	12,270	255,713	129,317	55	9
Chhattisgarh	1,061	19600	3,846	802	20,796	11,209	34	7
Madhya Pradesh	3,563	16948	13,249	3,029	60,385	31,405	42	10
Uttar Pradesh	8,562	19394	50,882	7,811	166,053	82,230	62	9
Uttaranchal	918	9237	3,741	628	8,480	4,473	84	14
Western Region	**10,996**	**13557**	**57,211**	**12,323**	**149,072**	**86,182**	**66**	**14**
Goa	357	3765	1,693	178	1,344	891	190	20
Gujarat	3,840	13176	18,958	2,697	50,597	28,863	66	9
Maharashtra	6,771	14289	36,369	9,436	96,752	56,208	65	17
Dadra & Nagar Haveli	12	18371	101	7	220	123	82	6
Daman & Diu	16	9879	89	5	158	97	91	5
Southern Region	**19,598**	**11401**	**93,010**	**38,989**	**223,445**	**135,574**	**69**	**29**
Andhra Pradesh	5,578	13576	28,282	10,104	75,728	44,232	64	23
Karnataka	5,176	10188	22,101	7,669	52,734	30,623	72	25
Kerala	3,668	8680	16,495	6,227	31,839	20,560	80	30
Tamil Nadu	5,074	12241	25,491	14,840	62,111	39,511	65	38
Lakshadweep	10	6060	27	3	61	34	80	9
Pondichery	92	10585	615	146	974	614	100	24
ALL-INDIA	70,776	14511	343,418	85,435	1,027,015	541,032	63	16

Source : BSR 2006, Table No. 1.20 and Leeladhar (RBI Bulletin January 2006) for adult population

Determinants of FI

Why do about 37 per cent adults in India do not use financial services? The states / regions with low level of FI indicates that first major constraint may be less geographical or physical access when clients are required to visit a branch or use an Automated Teller Machine (ATM). While an ideal measure would be the average distance from household and cost involved in term of fare and time to reach a branch / ATM. The next best or a crude indicator can be the number of branches per sq. km area or per capita. The bank branches have already increased from 8262 in 1969 to 69471 in 2006 bringing down the population per branch from 64 to 16 thousands. In terms of branches per 10000 sq. km, India has 215 as compared to 790 in developed Spain and one each in underdeveloped Ethiopia and Botswana. However, in India, there is wide variation in terms of population per branch of CBs across states with 3692/3748 in Chandigarh / GAO to 30624/22725 in Manipur / Bihar. Significance of this variable in FI is empirically estimated in Table-2. Besides, banks have minimum account-balance requirements or fees that may be out of the reach of many potential users. RBI has removed some of these constraints by giving directive to banks during 2005-06 for opening no-frills accounts. However, low level of income with more than 27 per cent of families below poverty line may still remain a barrier as revealed in the regression equations ahead. The relationship between per capita income and level of FI is also estimated in Table-2. Lack of awareness about banking education due to bankers' market and illiteracy in large section of population is another factor to be tackled. The bankers' market restricts the banking awareness even in educated people.

Estimated Equations

The empirical evidence of impact of branch density, level of income and literacy on FI in terms of saving and credit accounts was estimated with the following regression equation.

$$Y = a+bX_1+cX_2+dX_3$$

Where Y = the percentage of adults with saving or credit accounts

X_1= the per capita income, X_2= the population per branch, X_3= literacy percentage

The cross section data of Regions / States / UTs for the year 2006 with 42 observations in all, in terms the percentage of adults' saving or credit accounts were taken as a dependent variables. The population and literacy data of 2001 Census as given in Table-I was used to work out branch density and awareness. The ranks of percentage adults' bank account, per capita income and literacy were computed in ascending order, i.e. 1 to 9 while the ranks of population per branch were computed in descending order, i.e. 9 to 1 to use in estimating the relationships. The estimated equations are given in Table - 2.

Table-2 : Regression Equation for Explaining the Financial Exclusion

Sr. No.	Dependent Variable	Constant	Per Capita income	Branch Density	Percentage Literacy	Degree of Freedom	R^2
1.	Saving accounts Of Adults	2.891 (0.466)	0.533 (4.376)	0.657 (5.660)	-0.337 (-2.751)	38	0.76
2.	Credit accounts Of Adults	8.360 (0.854)	0.377 (1.980)	0.397 (2.197)	-0.226 (-1.183)	38	0.35
3.	Saving accounts Of Adults*	1.521 (0.288)	0.336 (2.523)	0.695 (6.560)	-0.117 (-0.918)	33	0.83
4.	Credit accounts of Adults*	2.414 (0.313)	-0.046 (-0.238)	0.611 (3.963)	0.210 (1.134)	33	0.58

** Alter taking out smaller states / UTs with high literacy but low branch density and per capita income viz., Mizoram, Andaman and Nicobar, Daman & Diu and Nagar Haveli. Figures in brackets are t values*

The equation (1) in Table-2 shows that higher per capita income and geographical access have positive and significant regression coefficients with accounts, though literacy has a significant negative coefficient. To ascertain the reasons for negative impact of literacy, the equation (3) was again estimated by excluding 5 smaller states / UTs viz., Mizoram, Lakshadweep, Andaman & Nicobar, Daman Diu & Nagar Haveli with high literacy and low percentage of saving accounts. This equation again substantiates positive significant impact of per capita income and branch density and negative but insignificant relationship with literacy. Moreover, the coefficient of determination level of explanation of the regression increased from 76 per cent in equation (1) to 83 per cent in equation (3), indicating that these three variables explain opening of saving account to the extent 83 per cent and the rest may be due other factors.

The FI in terms of credit accounts is explained by these variables to the extent of 35 per cent only when data of all the states / UT are taken in equation (2). In this equation, the branch density and per capita income have positive impact, though former is more significant. The literacy turned out to be negative in credit inclusion too, though relation is insignificant. On excluding data of five smaller states as above, the variations were explained to the extent of 58 per cent with the branch density having the highest positive impact, followed by literacy and per capita income has a insignificant negative relationship. It suggests that increase in banking network is the most important variable followed by per capita income for enhancing saving as well as credit inclusion. The negative relation of literacy indicates that mere literal education without blending with financial education is not significant. The value of constant in equations of credit inclusion indicates that the other variables like extent of eligibility under government sponsored schemes, infrastructure, law & order etc., may also be important in increasing credit account's.

Who are excluded?

The above discussions brought out the persons having low income and not in vicinity of banks are likely to excluded from FI. Such persons may be mostly the families of land-less agricultural laborers, marginal farmers, oral lessees, migrant laborers and the educationally and economically deprived groups like tribal and women.

Measures for FI and literacy in India

Indirectly FI of low income people in terms of credit accounts has taken place through various government sponsored credit schemes like Small / marginal Farmers Development Agencies in early 70's, Integrated Rural Development programme (IRDP) since 1978 to 1999 and Swaranjayanti Gram Savarojgar Yojna (SGSY) since 1999. The Kisan Credit Card (KCC) is another big success in linking farmers with banks. Artisan Card and General Purpose Credit Card (GCC) are the latest schemes to link low-income people with banks. One common weakness of these credit schemes has been the absence of saving / current account, thus making a loan from banks as a one time life event for majority of such borrowers. Whether it can be termed as FI as defined above and lead to an economic inclusion on sustainable basis? As regards, saving accounts, the policy initiative from Government and RBI were lacking till the highlights of the task force on FI in UK (op cit). Since 2005, the important initiatives for FI by RBI and Central Govt. are as under.

- RBI in its 2005-06 Credit Policy issued guidelines to bank for opening basic banking 'no frills' account with nil or very minimum balances and charges in case of low income families. Further, to minimize difficulty in opening the bank accounts the Know Your Customer (KYC) procedure has been simplified for low-income persons.
- Recently, RBI advised all CBs and RRBs to provide a GCC upto Rs.25, 000 in the nature of revolving credit facility at the rural / semi urban branches.
- An Internal Group set up by RBI on micro finance (Khan Committee), recommended that permit banks to use micro finance institutions as business facilitators and correspondents to enable banks to increase their outreach and ensure greater FI.
- In the budget Speech in February 2007, the FM of Central Government announced setting up of two funds of Rs.5000 million each viz., FI Fund with NABARD and FI Technology Fund. Their utilization has yet to start.

As regards financial literacy, RBI in May 2007, advised the State Level Bankers Committee (SLBC) to set up financial Literacy and credit counseling centres at block level. Some of banks have already taken initiatives in this regard. RBI has also brought out a concept paper in April 2008 which provides vision and the suggestion given ahead can considered to make them scheme viable and sustainable.

Suggestions to improve financial literacy

As brought in the empirical analysis, the branch network, income level and literacy are the important variable especially for credit inclusion, and further, women are the least included in terms of even saving accounts. Therefore any bank-linked approach like self-help groups, micro finance institutions, credit counseling associations which add to the existing, banking network can play a pivotal role in FI.

FI and financial literacy have to go together in countries like India depending on income level, location, literacy, profession, age group etc. Financial education programmes should focus particularly on important life-planning aspects, such as basic savings, debt, insurance or pensions. In the light of findings of our study and international experience, the following steps can be taken to expedite FI and financial literacy :

- Salary account should be made joint account with spouse
- A certificate course be started for retired defence personnel, bankers and other personnel to accredit them to be eligible as business correspondence and business facilitators. Bankers with CAIIB can be exempted to start with. The Indian Institute of Banking and Finance in collaboration with participating banks can immediately start this type of certificate examination. Such accredited counsellors should be provided some refresher training on quarterly basis for updating by the lead bank.
- Government of India and all concerned stakeholders should support and promote unbiased, fair and co-ordinated financial education. Government and banks can also initiate financial literacy programme to be conducted by NGOs and other community based organization with the help accredited credit counselors.
- Resident Welfare Organizations, Self Help Groups, Farmers Clubs, social and religious groups can also be involved and supported if they take up financial literacy and education with accredited credit counselors.
- A gateway account opening assistance can be given to the families below poverty line so as to avoid blockage of their funds and support minimum balance requirements. No frill account with any banks by an adult member of BPL can be credited a minimum sum to encourage account opening.
- Financial education should start at school, for people to be educated as early as possible. Banks may conduct knowledge test, arithmetic ability test related to banks for school and college going children.
- Social groups in low income colonies / streets / villages may be specially targeted and support of bank staff and business facilitator may be provided by the banks in the locality. Even business facilitators bringing saving accounts to banks of low income groups may be given some incentives.
- Consumers who attend one-to-one counseling sessions on their personal finances have lower debt and fewer delinquencies. Such accredited counselors can also be encouraged by banks.
- Banks can provide logistic facilities of office, telephone, computer for financial literacy and credit counseling centres as advised by RBI. These centres can also be managed by accredited credit counselors with support from the banks. This type of arrangement will be more viable and unbiased. FLCCs should not, however, act as investment advice Centres. Such centres may adopt group counseling or individual with a nominal fee.

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Hedge Funds - too important to ignore

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There are considerable worries in India about the entry of hedge funds in the Indian capital market, whether directly as foreign institutional investment, or through participatory. Would their entry be destablising and add to market volatility? The very name "hedge funds" often creates images of George Soros' Quantum Fund forcing the withdrawal of the British Pound from the exchange rate mechanism of the European monetary system was back in 1992, making a billion dollars in the process, of Mahathir Mohamed's allegations that hedge fund speculation led to the sharp drop in the exchange rate of the south east Asian currencies, leading to a series of balance of payments crises in 1997-98. There have also been some spectacular busts, notably Long Term Capital Management (LTCM) in 1998 and Amaranth last year. The fear is often compounded by the secretive management practices of the hedge fund industry.

Globally, the hedge fund industry has grown rapidly over the last decade, and today aggregates investment funds of the order of $1.5 trillion, spread over thousand of funds. While gearing (leverage) has come down significantly since the collapse of LTCM in 1998 which posed a systemic risk, even at a relatively modest gearing of three or four, the hedge fund industry represents something like $ 7 - 8 trillion of risky bets in financial and commodity markets.

Globally, the hedge fund industry has grown rapidly over the last decade, and today aggregates investment funds of the order of $1.5 trillion, spread over thousand of funds.

While most of the investors in hedge funds are wealthy individuals, recently even conservative, institutional investors like pension funds and university endowments are investing a small portion of their investable funds into "alternate investment classes "like hedge funds and private equity. Since such institutional investors prefer diversification, a growing number of "fund of hedge funds" have also been floated.

While hedge funds, or even fund of hedge funds cannot be listed in US markets, European exchange are actively competing to get their business.

(1) Structure

While in today's world the term "hedge fund" is something of a misnomer for some of the investment strategies, it is rooted in history. The start of hedge funds was in the form of adopting long / short strategies in specific markets or market segments. To elaborate, the fund manager would go long in certain elements of an asset class which he / she considered undervalued, and short on other elements in the same assets class. Therefore, the returns would be, at least in theory, independent of market direction. For example, a hedge fund specializing in precious metals may take a long position in, say, (undervalued) gold and short, say in (overvalued) silver : the undervaluation and overvaluation would be a matter of judgment for the fund manager, as also of course the historical relationship in the prices of the two assets. The advantage of the long / short strategy is that the returns are independent

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of whether prices of precious metal as a whole go up or down, and depend only on the expected correction in the relative under and over valuation. While many funds even today use long / short strategies, their activities are not longer confined to this narrow area.

While a few hedge funds are listed, most are contributed by wealthy investors through private placements. Given the high risk, high reward and low disclosure nature of the hedge fund industry, minimum subscriptions are often of the order of $5,00,000 or more : this automatically discourages the small investor who, to be sure, can buy listed funds in the market.

There are three important players in the functioning of a hedge fund. The most important is, of course, the fund manager. Typically, this is a group of individuals, sometimes working as limited liability partnership.

The fund manager charges 1 to 2 percent of the assets under management as fee, on par with equity mutual funds, and would additionally be entitled to a bonus of 20 percent+ from the earnings. If a loss is incurred in any year, there would obviously be no bonus but the management fee would be payable in any case.

One result of the fee structure is that the hedge fund industry earns almost 30 percent of the aggregate fees of the assets management industry as a whole, although its size is much smaller - assets under management with the mutual fund industry are estimated at around $20 trillion.

The second important pillar of a hedge fund is the so-called "prime broker", typically a large investment bank. Prime broking services include settlements, security and money lending, acting as counter party to derivative transactions, etc. The prime broker is paid a fee for the services rendered. Given the growth in the size of the hedge fund industry, fee from prime broking have become an increasingly important source of revenue for the major investments banks. Such fees are estimated to have aggregated as much as $10 billion last year.

The third pillar is the fund administrator who does the accounting valuations and other back office functions. Fund administrators are also paid a fee.

Another feature of the hedge fund industry worth noting is that a majority, die in the first year itself - this is not a surprise given the high risk, high reward nature of the business.

(2) Investment Strategies

Broadly speaking, the investment strategies followed by hedge funds fall in two categories.

Macro Funds :

One International Monetary Fund report of hedge funds quoted a macro hedge fund manager describing the investment approach as being "based on an understanding of economic cycles across a large number of countries (with particulars focus on the group of seven nations); an assessment of where we are in these cycles; and how financial markets are likely to behave at various points in those cycles. "For macro funds, the liquidity of the instruments used for taking the bets is very important and constrains the activities. Sometimes macro funds also use derivatives, generally of the "plain vanilla" variety. The risks is macro funds are exemplified by the collapse of the Amaranth fund recently. Amaranth had taken a huge bet on the direction of oil prices. When its expectations proved wrong and prices moved the other way, it incurred a loss of as much as $6 billion, or two-thirds of its capital, within a few weeks.

One strategy currently very popular is the so-called "carry" trade. This involves borrowing in a low interest currency - Yen is the most popular currency at present - buying a higher yield currency like the dollar or pound, and investing in debt securities in that currency. The bet is that yen would not appreciate against the dollar or pound, to the extent of the interest differentials. (Which has necessarily to be unhedged, as the hedging cost would neutralize the interest differential advantage.) While precise numbers are not available, such carry trade is believed to be responsible for the current weakness of the Japanese currency vis-á-vis the dollar, pound and euro.

Relative Value Strategies :

In effect, these are arbitraging strategies between two types of assets. However ,the arbitrage is not completely risk-free, which is the traditional definition of arbitrage. Firstly, the arbitrage is between two assets, going long in one and short in the other, which reduces some of the risk but not the entire risk. Indeed, attractive returns would not be possible unless risk are taken. Some important relative value strategies are discussed below.

Yield curve misalignment :

An example would be that a particular maturity security (say three years) is overpriced in relation to the rest of the yield curve. One strategy would be to short that security and go long in a portfolio of shorter and longer maturity security with duration similar to the three - year security. The duration matching would immunize the overall interest rate exposure. The fund would make a profit when the three - year security reverts to its normal place on the yield curve.

Equity market investing :

An example is to buy under priced securities and short the index in the derivatives market. While this immunizes the portfolio to some extent from the general direction of equity price movements, clearly a major "basis risk" is being taken: the possibility of a change in the correlation between the index and bought equities.

Equity convertible arbitrage :

A convertible bond can be considered a portfolio of a straight bond and an option to buy equity. Where the fund manager believes that the option embedded in the convertible bond is either over or under priced, he / she would try to make a profit by taking one position in the convertible bond, and the opposite in the equity or options market.

Risk arbitrage :

This strategy is used at the time of mergers or takeover bids, Typically, in such a situation, the price offered for the target company's shares would be above the ruling market price - and often gets revised upwards, particularly if it is a contested bid. The market price reacts to the bid price but is rarely identical - it is also likely to fall if the bid fails. Hedge fund often take long or short positions in the shares depending of their expectations about whether the bid will succeed or not and, if so, at what price.

While the successful hedge fund managers earn hundreds of millions of dollars in fees and bonuses, do the returns to the investor justify the fat fees?

(3) Returns :

While the successful hedge fund managers earn hundreds of millions of dollars in fees and bonuses, do the returns to the investor justify the fat fees? There is no definitive answer only because the industry is so lightly regulated and there are few disclosure requirements. Also, since large number of funds die early, there is a great deal of positive "survivor bias" : in whatever data return or returns are available. In general, however, these do not seem to suggest that the average fund gave very attractive returns to investors, after paying fees of the fund manager. For instance; a Princeton University study finds that during 1996-2003, the average hedge fund return was less than that on the Standard and Poor's 500 Index. More recent data also do not show that the situation has changed much. On the other hand, some funds do give spectacular returns.

Overall, the hedge funds industry has become too large and too important to financial markets for any participant to ignore.

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विपणन व्यूह रचना : नया दृष्टिकोण

विजय प्रकाश श्रीवास्तव *

आज़ादी मिलने के बाद से भारत में बहुत सारे बदलाव हुए है। जिन क्षेत्रों में बदलावों का सबसे अधिक असर हुआ है उनमें बैंकिंग का क्षेत्र मुख्य रूप से शामिल है। आज देश में बैंकों और बैंकिंग का जो स्वरूप देखने को मिल रहा है वह दो-तीन दशक पहले के स्वरूप से काफ़ी भिन्न है। वर्तमान समय में भारतीय बैंकिंग में जो गतिशीलता एवं नवोन्मेषिता देखने को मिल रही है उसके विषम में शायद ही किसी ने पहले सोचा हो।

देश में बैंकिंग का संगठित कारोबार दशकों से चल रहा है पर बैंकों में विपणन अर्थात मार्केटिंग की जितनी चर्चा आज सुनने को मिलती है उतनी पहले नहीं सुनने को मिलती थी। अगर यह कहा जाये कि 10-15 वर्षों पूर्व खास कर सार्वजनिक क्षेत्र के बैंकों में मार्केटिंग का कोई जिक्र तक नहीं था तो संभवतः गलत न होगा। पर अब इन बैंकों ने मार्केटिंग के लिए कमर कस ली है। बैंकों में मार्केटिंग विभाग स्थापित किए गए हैं, विशेषज्ञ मार्केटिंग अधिकारियों की भर्ती की जा रही है और मार्केटिंग आधारित पाठ्यक्रम प्रशिक्षण कार्यक्रमों का महत्वपूर्ण अंग बन गए हैं।

"वाक इन" बिजनेस के दृष्टिकोण को स्वीकार कर बैंकों ने मान लिया था कि उन्हें किसी ग्राहक के पास जाने अथवा अपनी तरफ से कोई व्यापारिक पहल करने की जरूरत नहीं है। जिसे भी बैंकिंग सेवाओं की जरूरत होगी वह खुद ब खुद बैंकों में आकर इन सेवाओं की मांग करेगा। "वाक इन" बिजनेस पर निर्भरता की संस्कृति को पीछे छोड़ कर बैंकों द्वारा मार्केटिंग की संस्कृति को अपनाना भारतीय बैंकिंग के इतिहास में कोई मामूली घटना नहीं है।

नरसिंहम समिति की सिफारिशों के लागू होने के साथ भारतीय बैंकिंग में उदारीकरण का दौर शुरू हुआ, कई नए बैंकों की स्थापना हुई। इन बैंकों का दृष्टिकोण पूर्णतः व्यवसायिक था और इन्होंने "वाक इन" बिजनेस की बजाय आक्रमक मार्केटिंग का रास्ता अख्तियार किया। इन बैंकों को हम नए जमाने के बैंक कह सकते है। परंपरागत तरीके से बैंकिंग करने वाले बैंकों के कारोबार को अपनी तरफ खींचने की कोशिश भी इन नए बैंकों द्वारा की गई और एक प्रकार से नयी स्पर्धा का सूत्रपात हुआ। विशेषकर सार्वजनिक क्षेत्र के बैंकों ने महसूस किया कि इस बदले हुए वातावरण में अब उनके लिए भी अपने दृष्टिकोण को बदलना एवं मार्केटिंग पर जोर देना जरूरी है अन्यथा उनके लिए स्पर्धा में टिके रहना मुश्किल हो जाएगा।

बैंकों द्वारा मार्केटिंग को अपनाने का एक उद्देश्य प्रतियोगिता में बने रहना है। कारोबार विकास की बात छोड़ भी दें तो कारोबार का वर्तमान स्तर बनाए रखने के लिए भी बैंकों को मार्केटिंग का सहारा लेना ही होगा लेकिन मौजूदा ग्राहक बैंक का साथ न छोड़ें इसके लिए भी मार्केटिंग के साधन का उपयोग करना अब अनिवार्य हो गया है।

मार्केटिंग एक बहु प्रचलित शब्द है जो हमें अक्सर सुनने को मिलता है। इसके पहले कि मार्केटिंग प्रक्रिया शुरू की जाए यह समझना जरूरी है कि मार्केटिंग का मतलब क्या है और मार्केटिंग में क्या करना अपेक्षित है। प्रबंधन के विषयों में मार्केटिंग काफ़ी समय से शामिल है और जो आम परिभाषा दी गई है उसके अनुसार मार्केटिंग ग्राहक की जरुरतों को समझना और इन जरूरतों के अनुसार वस्तुएं एवं सेवाएं तैयार कर इन्हे ग्राहकों तक पहुंचाना है। मार्केटिंग की नयी परिभाषाओं में ग्राहक को और अधिक महत्व दिया गया है। मार्केटिंग के प्रख्यात विद्वान फिलिप कोटलर के अनुसार आधुनिक मार्केटिंग में ग्राहक को लक्ष्य की बजाय रिश्ते के रूप में देखा जाना चाहिए। मार्केटिंग का उद्देश्य नए ग्राहक बनाना तो है ही पर पहले से बने ग्राहकों में मौजूद संभावनाओं का पूरा लाभ उठाना भी है। आज मार्केटिंग का उद्देश्य मांग का पता लगा कर इसे पूरा करने से ज्यादा मांग उत्पन्न करना अर्थात क्रिएशन ऑफ डिमान्ड हो गया है। समकालीन मार्केटिंग विशेषज्ञों में से अनेक यह मानते हैं कि आज की बाज़ार आधारित अर्थव्यवस्था में उन व्यवसायिक संगठनों को सफलता मिलेगी जो अपने सेवाओं एवं वस्तुओं की मांग पैदा कर सकें। जो संगठन स्वतः सामने आने वाली मांग पर निर्भर रहेंगे उन्हें ज्यादा व्यवसाय नहीं मिलने वाला है।

अगर हम बाज़ार पर नज़र डालें तो वाहन, उपभोक्ता वस्तु एवं इलेक्ट्रानिक सामान आदि बनाने वाली कंपनियों द्वारा इन सभी की मांग उत्पन्न करने में सफलता के अनेक उदाहरण मिलेंगे। पर एक बैंकर के लिए ज्यादा महत्वपूर्ण इस प्रश्न पर विचार करना है कि बैंकिंग उत्पादों एवं सेवाओं की मांग उत्पन्न की जा सकती है या नहीं। क्या आवर्ती जमा खाता खोलने, आवास ऋण लेकर मकान

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खरीदने की मांग पैदा करना मुमकिन है ? यह प्रश्न जब बैंकरों के एक समूह के सामने रखा गया तो सभी ने इसका उत्तर 'हाँ' में दिया। यह एक अच्छा संकेत है क्योंकि अगर बैंकरों के मन में विश्वास है कि वे अपने उत्पादों व सेवाओं की मांग उत्पन्न कर सकते है तभी वे इस हेतु आगे कदम उठाने को प्रेरित होंगे।

मार्केटिंग का एक अहम पहलू बाज़ार अनुसंधान अर्थात मार्केट रिसर्च है। यदि पेशेवर एवं कारगर ढंग से मार्केटिंग करनी है तो हमें बाज़ार अनुसंधान को गंभीरता से लेना होगा।

बाज़ार अनुसंधान का एक उद्देश्य बाज़ार में हो रहे बदलावों एवं इसके प्रभावों को समझना है। बाज़ार में स्थिरता नहीं गतिशीलता होती है। समय एवं स्थान के अनुसार बाज़ार का स्वरूप बदल जाता है। महानगरों एवं कस्बों का बाज़ार एक जैसा नहीं है। किसी वस्तु या सेवा की मांग साल भर एक समान नहीं रहती। भारत में मई, जून व जुलाई के महीने शैक्षणिक ऋणों की मार्केटिंग के लिए संभावनाओं से भरपूर हो सकते हैं जबकि हॉलिडे लोन के सबसे अधिक अवसर अप्रैल से जून एवं अक्तूबर से जनवरी के महीनों में होंगे। लोगों की पसंद, प्राथमिकताओं एवं उपभोग से जुड़े खर्चों में भी परिवर्तन होता रहता है। इन परिवर्तनों पर नज़र रखते हुए मार्केटिंग नीतियों को अनुकूल दिशा दी जा सकती है। पर बाज़ार अनुसंधान का सबसे महत्वपूर्ण उद्देश्य बाज़ार में अपने लिए अवसरों को पहचानना एवं उनका लाभ उठाना है। अवसर पहचानने के बाद इनसे लाभ उठाने के लिए अगर पहल न की गई तो भी अवसर हाथ से निकल जाता है।

बाज़ार विभाजन अर्थात मार्केट सेगमेंटेशन की अवधारणा को समझ कर इसे मार्केटिंग नीतियों में शामिल करना बेहतर परिणाम दे सकता है। बाज़ार का आकार काफ़ी बड़ा है। कोई भी कारोबारी संगठन पूरे बाज़ार में अपनी पैठ एक ही बार में नहीं बना सकता। इसलिए बाज़ार को हिस्सों में बांटना और फिर बारी-बारी से इन हिस्सों में अपनी पहुंच बनाना अधिक व्यवहारिक है। इसके साथ बाज़ार में विषमताएं एवं असमानताएं भी हैं। बाज़ार विभाजन का एक और उद्देश्य असमानताओं में समानताओं की तलाश करना है। समानताओं के आधार पर वर्ग निर्दिष्ट कर प्रत्येक वर्ग को ध्यान में रखते हुए मार्केटिंग नीतियां निर्धारित की जाती हैं और इन नीतियों को वर्ग केन्द्रित बनाया जाता है।

बाज़ार विभाजन के कई आधार हो सकते है। इनमें से कुछ हैं - आयु, लिंग, प्रोफ़ेशन, जीवन शैली आदि। आयु में फिर विभाजन हो सकते है - अवयस्क, युवा, प्रौढ एवं वरिष्ठ नागरिक। इस विभाजन की उपयोगिता कुछ उदाहरणों से स्पष्ट होगी। जिन परिवारों में छोटे बच्चे हैं वहां माता-पिता को अवयस्क बच्चे का खाता खोलने को यह कह कर प्रेरित किया जा सकता है कि संतान के लिए यदि वे अभी से बचत करते हैं तो उसकी पढ़ाई, शादी के लिए धीरे-धीरे एक अच्छी खासी रकम जमा हो जाएगी। 10 वर्ष से ऊपर के बच्चों को अपना खाता कुछ शर्तों के साथ खुद संचालित करने की अनुमति है। इस प्रकार से बच्चे में बचत की आदत विकसित होगी, बैंकों की कार्यप्रणाली से बच्चा जल्दी वाकिफ हो जाएगा, बैंक को अतिरिक्त व्यवसाय मिलेगा और उनका ग्राहक आधार मज़बूत भी बनेगा। इसी प्रकार युवाओं, वरिष्ठ नागरिकों आदि के साथ मार्केटिंग की जो संभावनाएं मौजूद हैं उनका भी दोहन किया जाना चाहिए।

लिंग आधारित बाज़ार विभाजन से बाज़ार में दो वर्ग बनते हैं - पुरुष वर्ग एवं महिला वर्ग। भारत की आबादी में महिलाओं का हिस्सा 50 प्रतिशत से थोड़ा नीचे है लेकिन सर्वेक्षणों से जाहिर होता है कि बैंकों द्वारा जब लोगों से मार्केटिंग के लिए संपर्क किया जाता है तो उसमें महिलाओं का प्रतिशत प्रायः 8-10 से अधिक नहीं होता। बैंकिंग व्यवसाय का जो स्वरूप है, लोगों के लिए इसकी जो उपयोगिता एवं लाभ है उनके मद्दे नज़र बचत योजनाओं का लाभ उठाने, बैंक ऋणों के जरिए आवश्यकताओं को पूरा करने एवं जीवन स्तर को उन्नत बनाने के लिए बैंक महिलाओं को आसानी से आश्वस्त कर सकते हैं। उच्च शिक्षा, नौकरियों एवं व्यवसायिक कार्यकलापों में महिलाओं की भागीदारी बढ़ रही है। अतः बैंकों द्वारा मार्केटिंग में इन पहलुओं का ध्यान रखते हुए मार्केटिंग को संतुलित बनाने पर जोर देना चाहिए।

विभिन्न देशों से जुड़े लोगों के अलग-अलग समूहों के लिए कार्यक्रम तैयार कर मार्केटिंग प्रयासों में इन सभी को शामिल किया जा सकता है। ये समूह डाक्टरों, सरकारी कर्मचारियों, इंजीनियरों, शिक्षकों, खुदरा व्यापारियों आदि के हो सकते हैं।

नियंत्रक कार्यालयों द्वारा शाखाओं को जो लक्ष्य दिए जाते हैं उसे पूरा करने हेतु शाखा स्तर पर मार्केटिंग प्लान तैयार कर इस पर गंभीरता से अमल किया जाना चाहिए। शाखा विशेष की स्थिति एवं कारोबार की मौजूद संभावनाओं के मद्दे नज़र प्रत्येक शाखा को अपने तरीके से मार्केट प्लान विकसित करना होगा और मुख्य रूप से इसमें निम्नलिखित बातों का समावेश होगा।

जनशक्ति का चयन - मार्केटिंग के लिए लोगों का चयन रुझान के आधार पर किया जाना चाहिए। बहिर्मुखी, व्यवहार कुशल व्यक्ति मार्केटिंग के कार्य के लिए अधिक उपयुक्त हो सकते हैं। शाखा प्रबंधक या वरिष्ठ अधिकारी द्वारा इस स्टाफ़ की कोचिंग एवं मेंटरिंग जरूरी है ताकी उनकी भूमिका स्पष्ट की जा सके और यदि उनके मन में कोई शंका है तो इसका निवारण किया जा सके। लोगों को चुनने के पश्चात सीधे उन्हें मार्केटिंग में लगा देने से हो सकता है बहुत अच्छे परिणाम न मिलें।

योजनाओं का चनय - बैंकों के पास बहुत सी योजनाएं हैं लेकिन सभी योजनाओं की सभी समय मार्केटिंग नहीं की जा सकती। कार्पोरेट लक्ष्यों के अनुसार शाखा स्तर पर भी तय करना होगा कि किन योजनाओं की मार्केटिंग पर अधिक ज़ोर देना है। यहाँ आशय प्राथमिकताओं के निर्धारण से है।

क्षेत्र का चयन - आज शहरों एवं कस्बों में नए बाज़ार एवं रिहायशी इलाके विकसित हो रहे हैं। शापिंग काम्पलेक्स और मॉल्स का विस्तार हो रहा है। अतः सिमित इलाके में ही बैंकों को काफ़ी कारोबार मिल सकता है। शाखा स्तर पर तय किया जाना चाहिए कि मार्केटिंग के लिए अपने स्टाफ़ को कब कहां भेजना हैं। स्टाफ़ से उनकी राय भी ली जा सकती हैं।

लक्ष्य आबंटन - शाखा स्तर पर लक्ष्यों को दो प्रकार से बांटने की आवश्यकता होगी। एक तो बड़े लक्ष्यों को छोटे लक्ष्यों में विभाजित करना और दूसरा स्टाफ़ के बीच में लक्ष्य बांटना। वार्षिक लक्ष्यों को तिमाही और फिर मासिक लक्ष्यों में बांटा जाय और मार्केटिंग के कार्य में संलग्न प्रत्येक स्टाफ़ को पता हो कि उससे कितना कारोबार लाने की आशा की गई हैं। अगर लक्ष्य स्पष्ट एवं सामने हो तो इसे हासिल करने के लिए केन्द्रित, फोकस्ड प्रयास किए जा सकते हैं।

समीक्षा - शाखा की मार्केटिंग योजना अपेक्षित गति से आगे बढ़ रही है या नहीं इस पर नज़र रखने के लिए बीच-बीच में समीक्षा करते रहना जरूरी है। जहां भी पता लगे कि मार्केटिंग से वांछित परिणाम प्राप्त करने में सफलता नहीं मिल रही हैं वहां गहराई से छानबीन की जानी चाहिए कि ऐसा क्यों हैं ? क्या प्रयासों में कमी हैं, संभावित ग्राहकों को पहचानने में चूक हो रही है या लक्ष्य अव्यवहारिक है ? इस समीक्षा से प्राप्त निष्कर्षों के आधार पर सुधारात्मक कदम उठाए जाने चाहिए।

प्रत्येक वित्तीय वर्ष के लिए मार्केट प्लान शुरू में ही तैयार कर इस पर तत्परता से कार्य प्रारंभ कर दिया जाय तो परिणाम जल्दी आने लगेंगे और आखिरी महीनों में शाखा को कारोबार के लिए ज्यादा परेशान नहीं होना पड़ेगा।

मार्केटिंग के लिए अलग से स्टाक निर्दिष्ट किए जाने का मतलब कदापि यह नहीं लगाना चाहिए कि बैंक में और लोगों की इसमें कोई भूमिका नहीं हैं। वास्तव में बैंक में सभी स्तरों पर कार्यरत लोगों को मार्केटिंग के लिए सक्रिय रहना चाहिए। मार्केटिंग के लिए लोगों को बैंक से बाहर फील्ड में भेजना ठीक है लेकिन शाखा के भीतर भी मार्केटिंग की जा सकती हैं जिसे आंतरिक मार्केटिंग कहते हैं। मांग उत्पन्न करने को आसानी से मार्केटिंग से जोड़ा जा सकता हैं। उदाहरण के लिए अगर किसी शाखा के कुछ ग्राहकों, जो वर्षों से केवल बचत खाते के खातेदार हैं, को आवर्ती जमा खाता खोलने के लिए प्रेरित किया जा सके तो कहा जाएगा कि शाखा ने ग्राहकों में आवर्ती जमा खाता रखने की मांग उत्पन्न कर दी क्योंकि ऐसा खाता खोलने का विचार खुद ग्राहकों के मन में नहीं आया। हाँ, ग्राहक को यकीन दिलाना होगा कि हर महीने थोड़ी रकम अलग करने से उसे कोई ज्यादा मुश्किल नहीं होगी और कुछ वर्षों बाद उसे एक मुश्त बड़ी रकम मिल जाएगी जिसे वह भविष्य की जरूरतों के लिए सुरक्षित रख सकता है, पुनर्निवेश कर सकता है या कोई बड़ी वस्तु खरीदने में लगा सकता हैं। ठीक इसी प्रकार से ऐसे ग्राहकों जो किराये के मकान में रह रहे हैं, को बैंक की आवासीय ऋण सुविधा से अपना मकान लेने का सुझाव दिया जा सकता हैं। यहां ग्राहक को यह बताया जाना चाहिए कि खुद के मकान के लिए उसे बचत कर पूरी राशि इकट्ठा हो जाने तक इंतज़ार नहीं करना हैं। बैंक के नियमों का पालन करते हुए थोड़ा ब्याज चुकाकर वह अपने घर का सपना अभी पूरा कर सकता हैं। आवास ऋण की किस्तों व ब्याज के भुगतान से आय कर में भी खासी बचत होगी। आवास ऋणों की मांग इस तरीके से उत्पन्न की जा सकती हैं। वाहन, उपभोक्ता वस्तुओं की खरीद, पर्यटन आदि के लिए भी मांग उत्पन्न करना संभव हैं। शुरू में बैंकिंग केवल जमाराशियां एकत्र करने एवं इससे ऋण देने तक सीमित थी। पर आज के बैंक वित्तीय सुपरबाज़ार का रूप धारण करते जा रहे हैं। बैंकों के पास उपलब्ध संसाधनों एवं मूलभूत सुविधाओं अर्थात इन्फास्ट्रक्चर का अधिकतम उपयोग करने की दृष्टि से यह व्यवहारिक भी हैं। आय में वृद्धि के उद्देश्य से बैंकों ने बीमा पालिसियों, म्युचुअल फंड की बिक्री का काम हाथ में लिया हैं। कुछ बैंकों के पास खुद के ऐसे उत्पाद हैं जबकि कुछ बैंक अन्य संगठनों की योजनाओं को बेच रहे हैं। क्रेडिट कार्ड का कारोबार भी बैंकों के लिए लाभप्रद व्यवसाय है और उनका ग्राहक आधार बढ़ाने में मदद कर सकता हैं। बैंकों द्वारा अपनी जमा एवं ऋण योजनाओं की मार्केटिंग को प्राथमिकता देना उपयुक्त है पर यदि उन्होंने बीमा, म्युचुअल फंड एवं क्रेडिट कार्ड के कारोबार में कदम रखा है तो उन्हें इनके लिए भी उपयुक्त मार्केटिंग नीति तैयार करनी चाहिए ताकि उपलब्ध अवसरों का पूरा लाभ उठाया जा सके।

सेफ डिपॉजिट लॉकर एवं धनप्रेषण आदि की सुविधाएं अधिकांश बैंकों में पहले से हैं पर देखा गया है कि बैंक इनके प्रचार पर कम ध्यान देते हैं। नए ग्राहक जोड़ने में इन योजनाओं की महत्वपूर्ण भूमिका हो सकती हैं। सुरक्षा एवं सुविधा के पहलुओं का उल्लेख करते हुए समय-समय पर इनकी भी मार्केटिंग की जानी चाहिए।

सूचना प्रौद्योगिकी, नेटवर्किंग एवं कोर बैंकिंग सोलूशंस को अपनाने के बाद बैंक शाखाओं में परिचालनात्मक कार्यों का बोझ कम हुआ हैं। इससे समय की भी बचत हुई है, उसका उपयोग मार्केटिंग के लिए कर के नया कारोबार जुटाया जा सकता है जिससे शाखा की लाभप्रदता भी बढ़ेगी। लेकिन सबसे जरूरी यह है कि शाखा के सभी स्टाफ़ बैंक में मार्केटिंग की आवश्यकता के प्रति संवेदनशील हों।

भारतीय बैंकिंग उद्योग के समक्ष रिटेल बैंकिंग संभावनाओं से भरे एक स्वर्णिम अवसर के रूप में सामने आयी है इस अवसर का लाभ उठाने के लिए सघन मार्केटिंग की जरूरत हैं। निश्चित रूप से बैंकों के समक्ष मार्केटिंग के रास्ते में तमाम चुनौतियां हैं। बैंकों को इन चुनौतियों के बीच से अपना रास्ता निकालने के लिए आगे आना होगा। मार्केटिंग के लिए आदर्श स्थिति कभी नहीं आएगी। इस वास्तविकता को स्वीकार कर बैंक अगर अपने यहां मार्केटिंग की संस्कृति को मज़बूत करते हैं तो इसका लाभ उन्हें वर्तमान एवं भविष्य दोनों में मिलेगा।

Box-III 12 : Revision of the Banking Ombudsman Scheme 2006 (BOS)

Based on the experience gained since January 1, 2006 in implementing the BOS, the Customer Service Department of the Reserve Bank has revised the BOS during the year. The salient features of the amendments carried out to the Scheme 2006 are as follows :

The scope of BOS was widened to include deficiencies arising out of internet banking. Under the amended Scheme, a customer would also be able to lodge a complaint against the bank for its non-adherence to the provisions of the fair practices code for lenders or the Code of Banks Commitment to Customers issued by the Banking Codes and Standards Board of India (BCSBI). Further, non-observance of the Reserve Bank's guidelines on engagement of recovery agents by banks has also been brought specifically under the purview of the Scheme. The amended Scheme, however, does not include certain banking transactions, such as failure to honour bank guarantee or letter of credit. Complaints on these areas of banking services are insignificant in number.

Any customer who has a grievance against a bank can complain to the Banking Ombudsman in whose jurisdiction the branch of the bank complained against is located. Some banks have centralised certain transactions, like housing loans and credit cards. If there are complaints regarding such transactions, complaints would have to be made to the Banking Ombudsman in the State in which the bank customer receives the bill / statement of dues. As per the amended Scheme, the Banking Ombudsman can award compensation not exceeding Rs. one lakh to the complainant in the case of complaints arising out of credit card operations, taking into account the loss of the complainant's time, expenses incurred by him / her as also, harassment and mental anguish suffered.

In addition, the Reserve Bank has also simplified the format for lodging complaint with the Banking Ombudsman. Though the complainant need not lodge the complaint in a specific format, the Scheme now provides for an easy-to-fill format for lodging complaints, in case complainants prefer to use the same. The Jurisdictions of the Banking Ombudsman at Kanpur, New Delhi, Chandigarh, Chennai and Thlruvananthapuram have been rationalised to include / exclude certain areas taking into account the geographical proximity of those areas to the respective Office of the Banking Ombudsman. For wider dissemination, the Reserve Bank has asked all banks to place a copy of the Banking Ombudsman Scheme on their website.

Wherever any of the complaints are not redressed within one month, the concerned branch/controlling office should forward a copy of the same to the concerned nodal officer under the Banking Ombudsman Scheme (BOS) and keep him updated regarding the status of the complaint. To ensure that the customer is made aware of his rights to approach the concerned Banking Ombudsman in case he is not satisfied with the bank's response, banks were advised to indicate in the final letter sent to the customer regarding redressal of the complaint, that the complainant can also approach the concerned Banking Ombudsman if he / she is not satisfied with the bank's reply or redressal action.

BOOK REVIEW

Title : Fundamentals of International Banking

Author : Rupnaranyan Bose

Publisher : Macmillan India Ltd., 2/10 Ansari Road, Daryaganj New Delhi - 110 002.

Pages : 460

Price : Rs.345/-

Reviewed by : Dr. Suresh Mehta, Former General Manager, Bank of Baroda

Many Books are available on the subject of Foreign Exchange and International Banking. However, the industry has been expecting a book on the subject, which is written with practical orientation. A comprehensive book explaining the concepts and practices followed at ground level of banking operations and at the apex level is required. Though the reforms in Foreign Exchange business in the form of replacement of Foreign Exchange Regulation Act (FERA) by Foreign Exchange Management Act (FEMA) has substantially simplified the subject by reducing several formalities and relaxing the norms governing the business; it required the treatment of subjects in the new light and with practical considerations.

To this end, the book authored by Rupnarayan Bose is a welcome addition, which will go a long way to provide easy understanding and comfort to banking personnel at corporate as well as operating level and the students of International Banking.

The book has been structured in 25 chapters, developing the subject as it evolves, together with a realistic historical perspective. Certain chapters present complete practical orientation by describing methods of payment concepts, techniques and practices prevalent in international remittances and correspondent banking. The basics of exchange rate mechanism, merchant rates & exchange rate arithmetic fulfills the basic requirements of the subject while the forward contracts, futures, and options risk management in forex business provide the advance knowledge of the subject. Financing international trade coupled with details of UCP 500, etc. is the highlight of the book.

What is commendable is the structure of each chapter, which gradually develops the topics giving appropriate illustrations and graphics lucidly explaining the flow of activities and processes.

Last chapter titled as 'The Knowledge Bank' comes to the reader as a bonus. The reader will find the appendices very useful, repository of various circulars, directives issue by Reserve Bank of India and other authorities. The book has been written in very simple and understandable English with proper layout and printing. I recommend this book as an important addition in libraries and worth reading material for the students and practitioners of foreign exchange business and international banking.

Books Added to the IIBF Corporate Library			
No.	**Title**	**Author**	**Publisher & Year of Publication**
1.	10 Minutes 10 Months 10 Years : A Life of Transforming Idea	Suzy Welch	Simon & Schuster, 2009
2.	Analyzing Banking Risk : a Framework for Assessing Corporate Governance & Risk Management, 3rd Edn.	Hennie Van Greuning & Sonja Brajovic Bratanovic	IBRD / The World Bank, 2009
3.	Art of Happiness : a Handbook for Living	Dalai Lama & Howard C. Cutler	Hodder & Stoughton, 1998
4.	Bank Frauds Prevention & Detection Including Computer & Credit Card Crimes, 3rd Edn.	B. R. Sharma	Universal Law, 2009
5.	Banking Law & Practice in India, 21st Edn.	M. L. Tannan	Lexisnexis Butterworths Wadhwa, 2009
6.	Better India a Better World	N. R. Narayana Murthy	Penguin Books (India), 2009
7.	Boreout : Overcoming Workplace Demotivation	Philippe Rothlin & Peter Werder	Kogan Page, 2009
8.	Changing Lives Changing Business : Seven Life Stages in the 21st Century	Michael Moynagh & Richard Worsley	A & C Black Publishers, 2009
9.	Corporate Banking : Everything You need to Know to Work in a Bank	Raghu Palat	Executive Excellence Books, 2009
10.	Credit Cards : a Legal Guide with Special Reference to Credit Card Frauds, 2nd Edn.	Rupa Mehta & Rohinton Mehta	Universal Law, 2009
11.	Financial Inclusion	Sameer Kochhar & others	Academic Foundation, 2009
12.	Fundamentals of Financial Management, 10th Edn.	Eugene F. Brigham & Joel F. Houston	Thomson, 2004
13.	Global Economic Prospects : Commodities at the Crossroads	IBRD / The World Bank	IBRD / The World Bank, 2009
14.	Global Monitoring Report 2009 : a Development Emergency	IBRD / The World Bank	IBRD / The World Bank, 2009
15.	Handbook for Bank Managers	L. N. Kumar	Skylark Publishers, 2006
16.	Introduction to Foreign Exchange & Financial Risk Management with CD	Ramesh Lakshman	Shroff Publishers, 2009
17.	Introduction to Psychology	H. L. Kaila	A. I. T. B. S Publishers, 2008
18.	Law Relating to Limited Liability Partnership : a Comprehensive Section - Wise Consultancy on LLP Act 2008, 2nd Edn.	D. S. R. Krishnamurti	Taxmann, 2009
19.	Peaks & Valleys : Making Good & Bad Times Work for You - at Work & in Life	Spencer Johnson	Atria Books, 2009
20.	Pocket World in Figures	The Economist	Profile Books, 2009
21.	Value Investing & Behavioral Finance : Insights into Indian Stock Market Realities	Parag Parikh	Tata McGraw Hill, 2009
22.	Wealth Management	Dun & Bradstreet	Tata McGraw Hill, 2009
23.	World Development Indicators 2009	IBRD / The World Bank	IBRD / The World Bank, 2009
24.	World Economic Outlook, April 2009 : Crisis & Recovery	International Monetary Fund	International Monetary Fund
25.	Your Erroneous Zones	Wayne W. Dyer	Avon Books, 2001


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