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IIBF VISION

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Top Stories

Unique Identity Number to help banks with KYC Rules

In the near future, banks may not need to engage in the "Know Your Customer" (KYC) process, a check on customer antecedents, to open a no-frills account, once a sizeable chunk of population gets a Unique Identification (UID) Number. Once the UID number of a person gets activated, banks could do away with KYC norms for small-value, or no-frills account, if discussions at a meeting organised by the Reserve Bank of India (RBI) on using UID for financial inclusion are any indication.

Banks liable to pay customer whose money has been wrongly paid

The Supreme Court has ruled that banks are liable to compensate a customer whose money was wrongly paid to another person without verifying the original signature of the account holder. The court held in the case, Vijaya Bank v/s Gurnam Singh, that the bank was guilty of deficiency in service. The court upheld the judgement of the National Consumer Commission on this point, dismissing the bank's appeal. The court explained that the bank was negligent in honouring the cheque presented by a fraudster and releasing an amount over and above the amount in the account even though the customer Gurnam Singh had no overdraft facility.

Report on HR practices in public sector banks by March

The Government has appointed a high-powered committee, to firm up plans for the up-gradation of human resource (HR) management practices in public sector banks (PSBs). The committee, headed by Dr. A. K. Khandelwal, former CMD, Bank of Baroda will submit its report by March 2010, in which it will highlight the huge shortage of skilled professionals in PSBs in complex treasury businesses, risk management, IT infrastructure management, Initial Public Offering-related transactions and marketing of financial products, among others.

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



ATM

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Catholic Syrian Bank new MD

Mr. V. P. Ishwardas has assumed charge as the Catholic Syrian Bank's MD & CEO. Mr. Ishwardas, who has succeeded Mr. R. Venkataraman, has been appointed for a three - year tenure.

PNB to cover 1 lakh villages by 2013

In its efforts to provide banking facilities in un-banked areas in the country, PSB Punjab National Bank (PNB) is targeting to cover 1 lakh villages by 2013 under 'Project Namaskar' which will extend banking services based on the branchless banking model. PNB envisages to have 1 lakh touch points across the country by 2013. Explaining this, Mr. Kamath, CMD of PNB said that, PNB will be putting up 25,000 kiosks in different villages. Each Kiosk will be run by a business correspondent, who will tie up with three other business correspondents from the nearby villages and use the Kiosk to carry out transactions.

Allahabad Bank CMD

Mr. J. P. Dua has taken over as the CMD of Allahabad Bank.

Mistry is new CEO of HDFC

HDFC Vice-Chairman and MD Mr. Keki Mistry has been appointed as the new CEO of the corporation with effect from 1st January, 2010. Mr. Mistry has been designated as the Vice-Chairman and CEO w.e.f January 1, 2010. Ms. Renu Sud Karnad, currently the Joint MD has been appointed as the MD of the corporation for a period of 5 years.

ICICI set to turn local bank in Singapore

ICICI Bank will soon become the second Indian financial institution to get a full-fledged banking licence in Singapore, which will allow it to establish branches, ATMs, take deposits and disburse loans like a local bank. Singapore has given an in-principle clearance to ICICI to operate as a qualified full bank (QFB) in the country - a status which will allow it to open as many as 15 branches and ATM centres. India's largest bank, the government-run SBI, has already been recognised as a QFB in Singapore.

RBI push for local area banks

RBI plans to allow more local area banks from the next financial year to provide an impetus to the government's financial inclusion drive. The Finance Ministry and the RBI have discussed giving licences to more such banks, as recommended by the Raghuram Rajan Committee, after putting in place an appropriate regulatory framework. These are hoped to help bring in local knowledge on products that are needed locally. Local area banks with operations in two or three contiguous districts were conceived in the 1996 Union budget to mobilize rural

savings and make them available for investments in local areas. They are expected to bridge the gap in credit availability and enhance the institutional credit framework in rural and semi-urban areas.

Banks face tighter capital standards under Basel

Big banks will have to set aside more profits or even raise capital as protection against hard times, under tighter regulators set to be phased in from 2012. The new rules proposed by the Basel Committee on Banking Supervision will introduce stricter limits on what counts as top-level assets and on risk exposure from trading in derivatives and securities. Basel Committee Chairman Mr. Nout Wellink has said that the proposals will result in more resilient banks and a sounder banking and financial system. Banks will be subject to a capital charge for mark-to-market losses associated with a deterioration in the creditworthiness of a counter-party.

RBI clarifies on refinance to housing companies

RBI has specified that bank loans issued as refinance to housing finance companies (HFCs) will not get priority sector status if they are not of the same duration as the loans given by the HFC. In July 2009, RBI had allowed banks to classify their loans to HFCs (only up to March 31, 2010), for on-lending to individuals for purchase or construction of houses, to be classified under priority sector lending, provided the housing loan granted was not more than Rs.20 lakh. However, according to RBI, certain banks are extending short-term loans ranging from 6 months to 1-year to HFCs and classifying them as priority sector advances.

Bank of Baroda to recruit 3,000 this year

Many IIM & IIT graduates are actively considering careers with PSBs. Resultantly, the Bank of Baroda (BoB) has recruited nearly 50 officers last year from these premier institutions according to Mr. M. D. Mallya, CMD, BoB. Last year, the bank recruited nearly 200 officers directly from B-school and engineering / agriculture college campuses. The experience has been good enough for BoB to employ 300 more through this route this year. Mr. Mallya has affirmed, "Contributions from the new recruits have been huge and their adaptability to the public sector environment, admirable."

Economy

37% Indians live below poverty line

According to the expert group headed by Dr. Suresh Tendulkar, former chairman of PM's Economic Advisory Council, every third Indian is living below poverty line. This puts the incidence of poverty in India at 37% of the

total population, 10 percent points more than estimated earlier. Among the states, Orissa and Bihar are at the bottom, while Nagaland, Delhi and J&K have the least number of poor. As much as 41.8% of the rural population survives on a monthly per-capita consumer expenditure of Rs.447/- while 27.5% people are living below the poverty line. In rural areas the poverty ratio has been estimated at 28.3% whereas in urban areas it is 25.7%.

Economy poised to hit high growth path, says mid-year review

The Indian economy is well on course to return to high growth trajectory; but this recovery might be accompanied by somewhat higher inflation, mainly due to food price rise, as per the Government's mid-year review 2009-10. The gross domestic product (GDP) is likely to be in the upper bound of the 6.25-7.75 % range, as predicted by the Economic Survey 2008-09 in July this year - or may even exceed it. With the return of capital flows, the mid-year review has raised the question of economy having to once again contend with the challenge of maintaining balance between price stability, exchange rate and capital mobility.

Capital Markets

Currency futures trading sees nine-fold jump in turnover

After a hesitant beginning in late 2008, exchange-traded currency derivatives are giving the over-the-counter (OTC) market for foreign exchange a run for their money. The average turnover of these instruments in the NSE and MCX Stock Exchange (MCX-SX) in December 2009 was nine times higher than a year earlier. These exchanges are clocking an average daily turnover (ADT) of over Rs.20,000 crore in currency products from just Rs.2,400 crore in January 2009. However, while the turnover in NSE and MCX-SX has witnessed a sharp increase; that on BSE has been negligible in the second half of 2009. The exchange has announced plans to shift its currency future platform to the new exchange, *viz.*, United Stock Exchange.

Commodities Markets

Commodity exchanges reap big gains

The bull rally in commodities across the spectrum - agri, bullion, metals and energy - has set the cash registers ringing in local bourses *viz.*, Mumbai-based MCX and NCDEX and Ahmedabad-based NMCE reflecting growing punter and hedger interest amid spiralling food prices and volatility in products such as bullion. Metals and

energy MCX saw its ADT jump by over 18% in a month, from Rs.20,700 crore in October to Rs.24,500 crore in November; while agri bourse NCDEX has witnessed a robust 48% rise in turnover to Rs.4,600 crore over the same period. NMCE Chief Executive Mr. Anil Mishra has confirmed his exchange to be posting a steady increase in its turnover. Elsewhere, Indiabulls-MMTC promoted ICEX has seen maximum ADT of Rs.2,307 crore across six commodities clocking 10,000 - 12,000 trades a day.

MCX unveils futures for physical deals

MCX has launched an exchange of futures for physical (EFP) transaction facility, to reduce price risk on physical sales and purchases. Under EFP, a trader buys a commodity, in the physical market and sells the futures contract of the commodity while a trader sells the commodity in the physical market and buys the futures contract of the commodity.

Commexes widen market access for farmers : Unctad

At a time when the government is uncertain about the impact of futures trade on the price of essential commodities and is working to revive farm sector growth, United National Conference on Trade and Development's (Unctad) recent study has concluded that commodity exchanges in India and China have supported farmers in broadening market access despite endemic constraints like low landholdings. The study says commodity exchanges support farmers in making better cropping and selling decision, upgrading storage, grading and technology infrastructure; and expanding access to cheaper source of finance. Services offered by the exchanges can be accessed and used by farmers to enhance their marketing and risk management capacity by reducing exposure to price and potential production risks.

Commodity index investors may gain double this year

Investors in commodity indices hope to have double digit gains this year (i.e. 2010), thanks to rallies in copper, sugar, gold and oil. However, oil, whose steep rally in recent years had driven commodity indices higher despite lacklustre performances in other markets, has not been the top performer this year even though its price is up more than 70%. Wheat and corn prices are down on the year, dragging the indices from posting better gains. By the end of 2009, a record \$60 billion flowed into funds following commodity indices and other long-only investment strategies betting on higher prices, according to a study by Barclays Capital. Money started flowing back into commodity funds after the market whipsawed last year, with prices for most commodities plunging during the financial crisis after a sustained rally to record highs.



Insurance

Kotak Life unveils tagline

Kotak Mahindra Old Mutual Life Insurance has unveiled its new brand tagline “Faidey Ka Insurance”. The new positioning statement conveys, 'Life Insurance with Investment Edge' in a direct and concrete manner; and is supplemented by a novel advertising campaign, which conveys this shift in an innovative and refreshing manner. The new positioning is a reflection of Kotak Group's extensive strength in the area of research and capital markets.

Nod to SBI for non-life venture

State Bank of India (SBI) has received final i.e. R3 approval for its general insurance venture from the sectoral regulator IRDA. SBI has formed a joint venture SBI General Insurance - with Australia-based insurance Australia Group (IAG). With this, the total number of general insurers registered with IRDA has gone up to 22.

Life insurance industry grows 18% in six months; premiums up 21%

The domestic life insurance industry grew 18% in the first six months of 2009, while in the first seven months the industry reported a 21% growth in total premium (new business and renewal). The premium stood at Rs.1,20,503 crore in the April-October 2009 period against Rs.99,310 crore in the corresponding period last year. As per data released by Life Insurance Council, renewal premiums increased around 24% to Rs.73,952 crore *vis-à-vis* the same period last year, while new business premiums increased around 18% year-on-year to Rs.46,551 crore. Total renewal premiums for regular unit linked insurance plans (ULIPs) grew 42% at Rs.29,738 crore year-on-year *vis-à-vis* Rs.20,878 crore in the same period last year; while non-linked premium stood at Rs.44,214 crore, up from Rs.38,897 crore last year, an increase of 14% year-on-year.

Micro Finance

SKS Microfinance ties up with SBI

SKS Microfinance has tied up with SBI and two of its group banks for integration of 600 of its branch accounts with them. “This is an innovation on the liability side we are offering to our customers. It will facilitate last mile cash-

dealing,” says Mr. Dilli Raj, CFO, SKS Microfinance. As a part of the agreement, the Hyderabad based MFI will integrate its accounts in 390 branches with SBI, 150 with State Bank of Hyderabad and 60 with State Bank of Mysore. SKS had earlier tied up with Axis Bank, HDFC Bank and ICICI Bank for a similar facility.

HDFC ties up with SKS Microfinance

Housing Finance major HDFC Ltd has tied up with SKS Microfinance to enter the rural segment by lending to middle income farmers and traders against properties that can be mortgaged. Under this arrangement SKS Microfinance will provide loans for extension and improvement of dwelling units that double up for income-generating activities such as eateries, grocers' shops, papad and agarbatti - making. HDFC will provide technology support and a first tranche of funding of Rs.10 crore. This loan will help SKS fund about 1,250 members, at an average ticket size of Rs.80,000. SKS member clients with at least three years of credit history will be eligible for these loans. The scheme is being launched as a pilot project through 10 branches of SKS in Andhra Pradesh. The rate of interest will be flat 21% and the duration of the loan would be about 3-5 years, said Mr. Suresh Gurumani, CEO, SKS Micro-finance.



Mutual Funds

Urban MF investors go online

With 80% of mutual fund (MF) investors hailing from India's top 10 cities, online applications are catching on in a big way, especially after the ban on entry load was lifted. Mr. Vinit Arora, head of distribution at ICICI Direct affirms “Our volumes have surged 45-50% after the ban has been lifted. We've been registering a month-on-month increase. It is convenient, transparent and the cost structure is also minimal. Apart from trading, we also offer research and latest industry statistics. Fund houses are showing a lot of interest in promoting the online medium”. ICICI Direct recently announced a new cost structure for MF investors. It introduced a nominal fee of Rs.30 for systematic investment plans (SIPs) and Rs.100 for investments below Rs.8 lakh. If the cumulative MF holding with ICICI Direct is more than Rs.8 lakh the investor does not have to pay any commission.



Products & Alliances

Central Bank's reverse mortgage loan product offers life-time annuity

Central Bank of India has tied up with Star Union Dai-ichi Life Insurance to launch "CENT Swabhiman Plus" that assures life-time annuity for senior citizens opting for a reverse mortgage loan from the bank. The product is an improvement to the existing product (CENT Swabhiman), as confirmed by Mr. S. Sridhar, CMD, Central Bank of India. One of the improvements in this product is that a senior citizen can avail himself / herself of lifetime payment as against the maximum of 20 years in the existing reverse mortgage loans offered by various commercial banks. This is the first time in the country an annuity product assuming life-time payments is being made available to senior citizens under reverse mortgage loans.

IDBI Bank ties up with Toyota

IDBI Bank Ltd and Toyota Kirloskar Motor Private Ltd have entered into a MoU for providing auto finance. According to the MoU, TKM and its dealer network will collaborate with IDBI Bank to facilitate financing of vehicles-cars and multi-utility vehicles.

Corporation Bank, Religare in pact

Corporation Bank has signed a MoU with Religare Finvest Ltd, a subsidiary of Religare Enterprises, for identification of potential small and medium enterprises (SMEs) through their respective branch / marketing outlets and for extending financial assistance / accommodation to such enterprises.

Tata AIG Life announces Child ULIP

Tata AIG Life has launched Invest Assure Superstar, a ULIP aimed at providing for children's education. Under this scheme, in the event of the parent's (proposer's) demise, besides paying the sum assured to the nominee, the insurance company will take care of the future premiums through the in-built Waiver of Premium (WoP) benefit. At maturity, the fund value will be made available to the nominee.

Axis Bank & CPP tie-up

CPP Assistance Services (CPP) has entered into a strategic partnership with Axis Bank. Through this association, the bank's cardholders can avail of CPP's card protection plan product, some of whose benefits include loss reporting, fraud protection, emergency hotel and travel assistance,

key fobs and reminder stickers and valuable document registration.

IndusInd Bank launches Solar-Powered ATM

IndusInd Bank has launched Mumbai's first solar-powered automated teller machine (ATM) as part of its Green Office Project Campaign "Hum Aur Hariyali". It has also unveiled a "Green Office Manual - A Guide to Sustainable Practices," prepared in association with the Centre for Environmental Research and Education (CARE). IndusInd Bank has a comprehensive plan to reduce its carbon footprint. Some of the other initiatives being undertaken under this plan are thin computing, e-archiving, e-learning, e-waste management, paperless fax, energy conservation, CNG cars and supporting finance programs with incentives to go green.

Birla, SBI tie up for co-branded cards

The Aditya Birla Group has forged an alliance with SBI Cards to rollout co-branded cards. This tie-up will cover group companies and look at strengthening its financial services play through this partnership, said Mr. Ajay Srinivasan, Chief Executive, Financial Services, Aditya Birla Group. Co-branded cards are credit cards associated with a particular firm such as an airlines or retail outlet. They offer benefits like frequent travel points and special discounts.

HDFC Bank introduces credit card sub-limits

HDFC Bank has introduced a facility, where-by a cardholder can fix a sub-limit within the overall credit limit for an add-on-card, which is usually issued to the main cardholders' spouse. The sub-limit is aimed to facilitate budgeting of expenses. If the card-holder does not choose a sub-limit, then a default limit of 100% of the credit limit per statement cycle will apply.

Regulators Speak...

RBI tightens norms for capital inflows

India has made a move to re-impose controls on foreign capital inflows. RBI has reintroduced an interest rate ceiling for companies borrowing from abroad and has closed the window for the buyback of foreign currency convertible bonds (FCCBs). However, to ensure that there is no disruption of the upcoming 3G spectrum auction, RBI has broad-based the special window opened last year for telecom sector companies that want to raise ECBs. Some Indian telecom sector companies are constrained by the lack of adequate finance to bid for spectrum. The government expects to garner at least Rs.35,000 crore from the 3G auctions scheduled in January.

Bank on short-term loans in line with deposit trend : RBI

RBI has advised banks to focus on lending for the short and medium term rather than lock themselves in long-term loans. This follows concerns about banks running huge asset-liability mismatches by extending very long-term project loans even as their funding comes from short-term deposits. In a recent meeting, RBI has told banks that since the average liability on the books of banks was in the range of 1 to 2 years, they are better equipped to lend projects for short to medium term (3 years). This, in turn, will help banks in improving their asset-liability mismatches. Banks can lend long-term projects only if they have long-term liabilities on their books. The other problem that banks face is that present regulations allow depositors to break their term deposits and rebook them afresh at higher rates when interest rates rise.

SEBI sets new client-broker guidelines

In a move to bring greater transparency and discipline among market participants, the Securities and Exchange Board of India (SEBI) has announced some mandatory requirements related to dealings between investors and stock brokers (including trading members). The move gives brokers the right to take action against clients. The deadline for implementing the norms is March 31, 2010. Stock brokers need to register clients by entering into an agreement with them that must contain documentary evidence of financial details of the investors *viz.*, a member-client agreement or a tripartite agreement (in case a sub-broker is associated), a KYC form and a risk disclosure document.

Villages with 2,000 to have banking access by March, 2010 : RBI

Commercial banks are chalking out a plan for financial inclusion by the end of this financial year, as recently announced by RBI Governor Dr. D. Subbarao. Accordingly, all villages with a population of over 2,000 will have access to financial services by the end of 2009-10. "Commercial banks usually take financial inclusion as a compulsion, but there is a tremendous opportunity at the bottom of the pyramid. We need to penetrate deep into the rural market, which is a challenge as well as an opportunity," Dr. Subbarao said.

Mandatory ceding to national reinsurer to stay at 10% - IRDA

The Insurance Regulatory and Development Authority (IRDA) has stipulated that the mandatory ceding by every general insurer in the country to the national reinsurer - General Insurance Corporation (GIC), will stay put at 10%. IRDA Chairman, Mr. J. Hari Narayan,

has confirmed that there is no proposal to reduce this floor. Under current regulations, the domestic general insurers both public and private sector - are expected to compulsorily cede 10% of their risks to GIC. Since 2007, mandatory cession was progressively reduced from 20 % to 10%. The IRDA fiat comes in the wake of concerns amongst domestic general insurers that even the floor of 10% will be removed, especially when treaty negotiations are under way with global reinsurers.

RBI gives banks relief on bad debt provision

In a relief to a large number of banks RBI has allowed lenders to include technical write-offs while increasing the provision coverage ratio (PCR) to 70%. In the Q2 review of the monetary policy, RBI had asked banks to increase the coverage ratio, hitherto left to an individual bank's discretion, to provide a better buffer for tough times. In the guidelines issued, the regulator has allowed banks to include floating provisions that were not included in Tier-II capital, in addition to provisions for non-performing assets (NPAs), while calculating the PCR.

RBI does not rule out active capital management

Pointing out that the central bank has used quantity and price-based controls on capital inflows RBI Governor Dr. D. Subbarao has not ruled out 'active capital management' (as was done in 1996) if there is a surge in capital inflows even as he has indicated that 'Tobin Tax' is not off the agenda. "Capital flows come on the back of the country's growth potential and also due to some tax arbitrage. In the medium to long-term, we need to absorb the inflows. In the meanwhile, we need to calibrate it. Monetary policy is an ineffective instrument to rein-in supply side inflation" the Governor has said. But if supply side inflation persists then it will affect inflation expectations and the monetary policy will have to quell the inflation.

RBI unveils norms for cash-handling machines

RBI has unveiled draft guidelines on "note authentication and fitness sorting parameters" so that these machines will have provision for regular updates and accommodate new features designs / substrata / denominations, etc. These parameters would provide the minimum standards for cash-handling machines used by the banks. The currency notes can only be recycled or reissued if they are evaluated as genuine and fit according to these RBI parameters. Also, as and when RBI decides to phase out a specific series or issue of a specific series or issue of a specific denomination of notes, the machines shall sort all the phased out notes as unfit.



Spotlight

A year on, mobile banking yet to buzz

Last year, RBI lent approval to transferring money or undertaking any other basic banking activity like balance enquiry by using a mobile handset. A year on, the apex bank has itself admitted to the activity having not picked up as envisaged. Availing banking services by using the mobile comes at a minimal cost, as low as Rs.50 a year or Rs.2 or Rs.4 a transaction depending on the bank one chooses. Technology, too, is not expensive, as even the cheapest of mobile handsets are Java-enabled, as required to support banking transaction. So, fee and technology notwithstanding, lack of awareness about using the handset for mobile banking as well as transaction limits have been cited as reasons for mobile banking not catching up yet.

Married women employees of SIB get 4 years sabbatical

In a trend-setting move, the Thrissur-based South Indian Bank (SIB) has come up with an interesting offer of 4-year sabbatical for its married women employees. This welfare measure has been heartily welcomed by the 4900 women employees who form 1/3rd of SIB's workforce. Dr. V. A. Joseph, MD & CEO, SIB, says, "It is an optional offer. So far, about 30 women have opted for the sabbatical since its introduction six months ago."

All-weather roads double rural income: World Bank

According to the World Bank, all weather roads in Indian villages have doubled the income of rural house-holds, raised literacy rate by 10% and appreciated land prices by up to 80%. "In the year 2000, about 40% of India's 825,000 villages lacked all-weather roads. Now, with access to roads, household incomes have soared by 50 to 100%; literacy has increased by 10%; land prices by some 60 to 80% on an average," avers the bank in its 2004-conceived Rural Roads Project report. The multi-lateral lending agency has been supporting India's rural connectivity programme Pradhan Mantri Gram Sadak Yojana (PMGSY). It aids projects in Himachal Pradesh, Rajasthan, Jharkhand and Uttar Pradesh.

UK to bid goodbye to cheques

The UK Payments Council has said that to make payments more efficient no cheques will be issued or honoured in

Britain from October 2018. The council, which represents financial institutions, voted to end the 350-year-old system of paying by cheque, which it said was in "long-term, terminal decline". Currently, most payments are done using credit or debit cards and direct debit; the number of people using cheques is on rapid decline. The Council's Chief Executive, Mr. Paul Smee, said, "There are many more efficient ways of making payments than by paper in the 21st century, and the time is ripe for the economy to reap the benefits of its replacement."

Counselling cell steps up initiatives to prevent credit card defaults

About 40% of the retail borrowers who have approached the Banking Codes and Standards Board of India's (BCSBI) credit counselling wing to sort out debt woes, have outstanding ranging from a few thousand to a few lakh rupees on multiple credit cards. According to BCSBI, individuals who fell for the marketing spiel of direct marketing agents (employed by banks to push credit cards) were keen to get out of their debt trap. By opting for credit counselling, they can amicably settle the dues they owe the banks through debt restructuring.

Bulk Deposit rates rise again

Heralding an increase in interest rates, bulk deposit rates have started rising. At least three banks - Union Bank of India, UCO Bank and Oriental Bank of Commerce (OBC) - have increased the rate of one-year bulk deposits. According to market participants, as against 5-5.50% in November 2009, in December these banks have begun to offer 6.25-6.35% on these deposits. Deposits of over Rs.5 crore are usually classified as bulk deposits. When the financial crisis intensified after the Lehman Brothers' collapse, the Indian Banks' Association (IBA) advised banks not to quote bulk deposit rates beyond 6%. Recently, with low credit off-take and high liquidity, bulk deposit rates have dropped below those on retail deposits, which are also seen to be stickier.

Financial Basics

Z score : The mathematical result from applying zeta analysis. Zeta analysis is a model for identifying the bankruptcy risk of corporations.

Glossary

Tobin Tax

In 1978, James Tobin, a Nobel Prize-winning economist, first proposed the idea of a tax on foreign exchange

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transactions that would be applied uniformly by all major countries. A tiny amount (less than 0.5%) would be levied on all foreign currency exchange transactions to deter speculation on currency fluctuations. While the rate would be low enough not to have a significant effect on longer term investment where yield is higher, it would cut into the yields of speculators moving massive amounts of currency around the globe as they seek to profit from minute differentials in currency fluctuations.

Commodity index

A commodity index is a weighted spot price index of agricultural commodities from various groups. For example, in India NCDEX has launched the commodity price index called the NCDEX commodity index which is an equal-weighted spot price index of 20 agricultural commodities covering different groups such as oils and oilseeds, fibres, etc. It is the first such index to be launched in India. Based on the components of the spot price index, NCDEX also displays the national index futures - essentially, the no-arbitrage price if one were to buy futures on the spot index. This price is derived by tracking the futures prices of the index components at the same weightage as the spot index. Currently, index futures are not allowed in India under the FCRA (Forward Contracts Regulation Act, 1952), which requires compulsory physical settlement of futures contracts.

News From the Institute

The 26th Sir Purshotamdas Thakurdas Memorial Lecture will be held on 29th January 2010 at 5.30 pm. at State Bank of India Auditorium, Corporate Centre, State Bank of India, Madam Cama Road, N. Point, Mumbai - 400021. The Lecture will be delivered by Dr. Vijay Kelkar on the topic 'On Strategies for Disinvestment & Privatization'.

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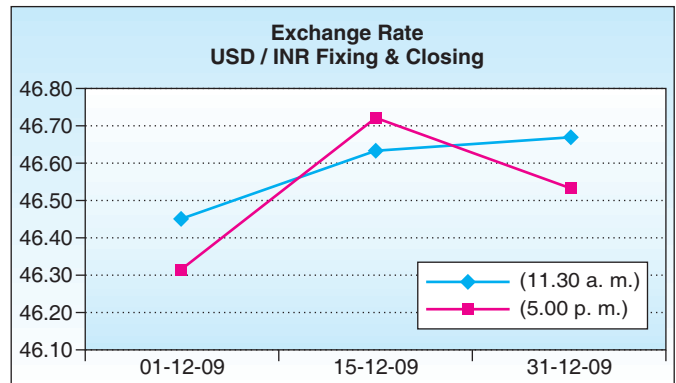
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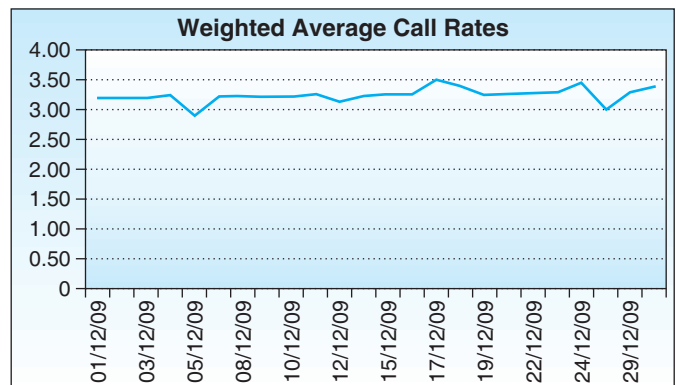
Markets Roundup

Market Snapshot (Amount in Rs. Mn.)				
Indicators	Dec. 04, 2009	Dec. 11, 2009	Dec. 18, 2009	Dec. 25, 2009
Inflation (%)	1.34% (Nov. 2009)	1.34% (Nov. 2009)	4.78% (Nov. 2009)	4.78% (Nov. 2009)
Avg. LAF Rev. Repo Vol.	1,086,850	974,310	607,060	329,500
Avg. LAF Repo Vol.	0	0	0	0
Avg. Repo Rates (%)	2.72	2.46	2.74	3.03
10-year G-Sec Yield (%)	7.5663	7.6320	7.6596	7.6689
1-10 year spread (bps)	288	302	259	257
6 Month Forward Premia (%)	2.75	2.68	2.93	2.91
6 month USD LIBOR (%)	0.49	0.46	0.46	0.43

Source : CCIL Newsletters, December 2009, various issues



Source : Fedai



Source : CCIL Newsletters, December 2009