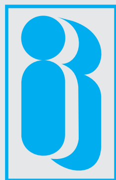


Committed to
professional excellence

बैंक क्वेस्ट

Bank Quest

Rs. 40/-

The Journal of Indian Institute of Banking & Finance
खंड. / Vol. 83 ● अंक. / No. 1 ● जनवरी - मार्च 2012 / January - March 2012

International Monetary System

Micro Research Papers

- Financial Literacy
- Inclusive Growth
- Customer Service..

निर्यातकों के लिए भारतीय निर्यात ऋण गारंटी निगम लिमिटेड की ओर से मंदी प्रूफ संरक्षण

निर्यातकों को अब भारतीय निर्यात ऋण गारंटी निगम लिमिटेड (ई सी जी सी) की ओर से मिलेगा मंदी प्रूफ संरक्षण. आर्थिक मंदी का दौर किसी निर्यातक के कारोबार को बुरी तरह प्रभावित कर सकता है. जैसे कि हाल ही में कुछ देशों में अचानक उत्पन्न हुई कर्ज़ की स्थिति. इससे कई बार अपने कारोबार को बंद करने की भी नौबत आई है. खैर, अब और नहीं ई सी जी सी का ऋण बीमा आपको उन अर्थव्यवस्थाओं के उतार चढ़ाव हेतु संरक्षित करेगा, जहाँ आप निर्यात करते हैं. अब अर्थव्यवस्था में मंदी से अपने धन के डूब जाने की चिंता को भूल जाइए. हमारा संरक्षण आपकी सिर्फ अनिश्चितता को ही नहीं मिटाता है, बल्कि चिंता से भी मुक्ति देता है. आप स्वयं इसे महसूस करेंगे.

ई सी जी सी

आप निर्यात पर ध्यान केंद्रित करें, हम जोखिमों से रक्षा प्रदान करेंगे.

ISO 9001: 2000 Certified

ICRA Rating: iAAA

Insurance is the subject matter of solicitation.

भारतीय निर्यात ऋण गारंटी निगम लिमिटेड (भारत सरकार का उद्यम)

एक्सप्रेस टावर्स, 10वीं मंज़िल, नरीमन पॉइन्ट, मुंबई 400021, भारत. फ़ोन: (022) 6659 0500-10 फैक्स: (022) 6659 0517

टोल फ्री नं.: 1800-22-4500 ईमेल: marketing@ecgc.in हमें यहां विज़िट करें: www.ecgc.in

CONTENTS

From the Editor

Special Features

Systemic Thoughts on the International Monetary System 05
-- Dr. Andrew Sheng

Financial Literacy : The Key to Inclusive Growth 15
-- Dr. Suresh Chandra Bihari

Rural Banking and Innovative Banking Technology & Models for Inclusive Growth 26
-- Raghavendra M.

Smiley Customer Service is one of the Mantras to Retain the Customer for Lifetime with Bank 35
-- Kalpesh K. Kulkarni

SARFAESI Act : Delaying Tactics Used by the Borrowers 43
-- Ajit Singh Cheema

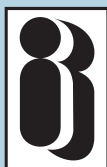
Book Reviews

Business Communication 52
-- V. Raghuraman

बाज़ार जोखिम प्रबन्धन 54
-- सुकुमार दत्ता

SUBSCRIPTION FORM FOR BANK QUEST / IIBF VISION 56

Bank Quest



Vol. : 83 ◆ No. : 1
January - March 2012
(ISSN 0019 4921)

HONORARY EDITORIAL ADVISORY BOARD

V. K. Khanna

Sharad Kumar

Rupa Rege Nitsure

Mohan N. Shenoi

HONORARY EDITOR

R. Bhaskaran

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

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

INDIAN INSTITUTE OF BANKING & FINANCE
Kohinoor City, Commercial-II, Tower-I, 2nd Floor, Kirol Road, Kurla (W), Mumbai - 400 070.
Tel.: 91-022-2503 9604 / 9746 / 9907 • Fax : 91-022-2503 7332
Telegram : INSTIEXAM • E-mail : iibgen@bom5.vsnl.net.in
Website : www.iibf.org.in

GOVERNING COUNCIL MEMBERS

PRESIDENT	-	M. D. Mallya
VICE PRESIDENTS	-	M. V. Nair
		Rana Kapoor

MEMBERS

Anantha Krishna	Y. H. Malegam	S. Karuppasamy
S. K. Banerji	A. K. Misra	R. Bhaskaran
Y. K. Bhushan	K. Ramakrishnan	Ramnath Pradip
Gunit Chadha	T. C. A. Ranganathan	Dilip Mavinkurve
K. R. Kamath	Arun Kaul	J. P. Dua
S. Raman	T. M. Bhasin	Arundhati Bhattacharya
Asish Saha	Pratip Chaudhari	

MANAGEMENT

R. Bhaskaran, Chief Executive Officer
P. Bala Chandran, Dy. Chief Executive Officer
A. R. Barve, Director of Examinations
D. R. Wazkar, Director of Administration

MISSION

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

ध्येय

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

Printed by Shri R. Bhaskaran, **published by** Shri R. Bhaskaran on behalf of Indian Institute of Banking & Finance, and **printed at** Quality Printers (I), 6-B, Mohatta Bhavan, 3rd Floor, Dr. E. Moses Road, Worli, Mumbai-400 018 and **published from** Indian Institute of Banking & Finance, 'Kohinoor City, Commercial-II, Tower-I, 2nd Floor, Kirol Road, Kurla (W), Mumbai - 400 070. **Editor** Shri R. Bhaskaran.

editorial

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

The last two issues of Bank Quest were focused on specific themes viz., 'Business Transformation and HR issues' in July-September, 2011 & 'Customer Service' in October-December, 2011. The current issue carries articles on a variety of subjects such as international monetary system, inclusive growth, customer service, recovery of NPA etc.

The first article in this issue is the text of the lecture delivered by Dr. Andrew Sheng, Chief Advisor, China Banking Regulatory Commission, China on 'Systemic Thoughts on the International Monetary System' at the 28th Sir Purshotamdas Thakurdas Memorial Lecture which was organized by the Institute on 16th November, 2011 in Mumbai. Global current account imbalances are one of the key macroeconomic imbalances that underlie the global financial crisis. According to the speaker, global imbalances stems from the famous 'Triffin Dilemma or paradox', which is basically a theory when a national currency also serves as an international reserve currency. Hence, it was felt that International Monetary System must be reformed to create a global reserve currency, where the Net Current Account Balance of the world would be zero. Having explained relevant concepts of possible global credit glut, asset bubbles, shadow banking system and regulatory arbitrage, quantitative easing and zero interest policies, Dr. Sheng has finally suggested that a globally uniform financial turnover tax (Tobin Tax) and modular currency arrangement will be the appropriate remedy for economic disorder than a single unipolar currency arrangement.

The Institute conducts the Annual 'Micro Research Competition' every year. The members who participate in the competition submit essays covering different facets of banking and related areas. These essays received from the participants were judged by the Institute's Research Advisory Committee comprising of eminent bankers, academicians and economists. In the year 2011, six articles were awarded prizes. In this issue, three prize winning articles of Micro Research Competition, 2011 are featured.

The 1st prize winning article is on 'Financial Literacy : The Key to Inclusive Growth' by Dr. Suresh Chandra Bihari. The article begins by explaining financial deepening, concept, scope and importance of financial literacy. The importance of financial literacy is explained with an example of information asymmetry between the financial intermediary & the customer and emphasizes the customer protection through financial literacy. The

paper also covers initiatives around the world in the area of financial literacy and its impact. Further, the author underlines 'why financial literacy is a must for India?' The article also covers relationship between financial literacy and financial inclusion, initiatives of RBI, credit counseling and initiatives by other banks.

The 2nd prize winning article is on 'Rural Banking and Innovative Banking Technology & Models for Inclusive Growth' by Mr. Tushar Pandey et al. The article explains the need for rural credit and banking in India and explores obstacles to supply of rural credit and finds solution in Innovative Technologies such as ICT (Information and Communication Technology) and UID (Unique Identification). The article mentions about the creation of rural community interface and financial inclusion through BC model. The authors stress the need to create innovative payment systems such as card based and / or mobile based. On the agricultural insurance front, the authors talk about the comprehensive approach including credit and risk insurance programmes and also share the initiative of YES BANK. The authors advocate for an institutional mechanism under the umbrella of e-Governance, regulations relating to ICT solutions and use of BC model for greater financial inclusion through technology.

The 3rd prize winning article is on 'Smiley Customer Service is one of the mantras to retain the customer for lifetime with Bank' by Mr. Kalpesh K. Kulkarni. Customer service is one of the important facets for achieving success especially in service organisations like banks. The author gives essential tips for great customer service skills and rules for excellent customer service. Further, he also mentions various initiatives taken by GOI and RBI to redress the grievances of the customer.

Recovery of NPA is on the priority list of any banker and its importance is increasing due to burgeoning NPA in Banks. An article on this subject 'SARFAESI Act : Delaying Tactics used by the Borrowers' by Mr. Ajit Singh Cheema is also included in this issue. The author in this article elaborates on the various delaying tactics adopted by defaulters. This information might be useful for bankers to understand these tactics of borrowers and develop their strategies to handle such borrowers effectively for recovery.

This issue carries two book reviews one on 'Financial Inclusion' written by Mr. Sameer Kochhar, Mr. R. Chandrasekar, Dr. K. C. Chakrabarty & Mr. Deepak B. Phatak and other on 'Bazaar Jokhim Prabandhan' by Mr. Dilip Mehra. We hope that the articles and book reviews would be of great use to the readers of Bank Quest.

We welcome your valuable suggestions and feedback for improvement.

(Dr. R. Bhaskaran)

Systemic Thoughts on the International Monetary System

Dr. Andrew Sheng [1]

I am very honoured to be invited by the Indian Institute of Banking and Finance to give the 28th Sir Purshotamdas Thakurdas Memorial Lecture in this dynamic city of Mumbai. Sir P. T. was a giant figure in Indian banking and finance, with wide ranging interests in domestic and international financial issues, particularly the role of the state. He was both a critic of the British colonial system, but also a constructive advocate for Indian banking and finance.

The IMS and its usual suspects

For what it is worth, I intend to use this occasion to undertake a critical but constructive analysis of the International Monetary System (IMS) from an emerging market perspective. So much has been spoken and written about the IMS and Global Imbalances that it is worthwhile asking whether I have anything new to add to the topic. Subjects like the IMS are dry, highly technical and guaranteed to send all to sleep, but I shall try to keep you entertained by spinning a small detective tale, something fictional like Inspector Ghote from the imagination of the British writer, Mr. Harry Keating, who wrote the stories before ever setting foot in India.

As we all know, the current global financial crisis has much to do with the IMS. There are many explanations of this crisis, but its complexity has puzzled the best of minds. Like Inspector Ghote, I shall ask some basic questions and leave it to you whether my answers are pure imagination, plausible or believable.

First, we shall begin with a definition of the IMS, then examine what has gone wrong and finally propose some tentative solutions.

The current IMS is a mixed legacy of the US dollar-based Bretton Woods system devised in 1944 as a result of the abandonment of the gold standard. It could be loosely described as the system of rules, regulations and institutional structure that serves three key functions. First, it must provide liquidity that facilitates trade, investment and transactions in the global economy. Second, its smooth function hopefully delivers global prosperity, equity and stability. Thirdly, it exercises discipline in the system, so that countries or financial sectors would have an orderly exit without disturbing global stability.

In other words, the IMS, being financial in nature, must serve the real sector. And as we know, as a result of the unfolding crisis, which began with the US subprime mortgage failure and evolved into a European debt and banking crisis, both the financial and real sectors remain in deep trouble.

As economic historian Charles Kindleberger remarked, international financial crisis is a hardy perennial[2]. Indeed, financial crises have become even more frequent and more damaging in size since 1971, when the US dollar link with gold was abandoned. Clearly, the IMS needs to be reformed, but we must have a proper diagnosis, before we make any prognosis.

The Global Savings Glut Suspect

Like all narratives, we shall begin with the usual suspects - the first being the Global Imbalance and the Savings Glut thesis.

Most speeches and papers on the IMS begins with the Global Imbalance, a little like Soduku, since advanced

1. President, Fung Global Institute, Hong Kong. The author is grateful to Ms. Amanda Palin and Mr. Tong Yee Siong for research assistance in the preparation of this paper. All opinions and errors are personal to the author.

2. Kindleberger (1975), p.1.

country current account deficits are arithmetically identical to the surpluses that emerging markets are running. There is also a subsidiary lament how global capital is today "flowing uphill", namely, from the poor emerging markets to the rich advanced economies, contrary to the expectations that the rich should lend to the poor.

At the heart of the Global Imbalance debate is the complaint that the excess savings of the surplus countries are flooding the world with liquidity, causing even the advanced central banks to lose monetary control. This began with Ben Bernanke's[3] famous Savings Glut speech in 2005. Mr. Bernanke's latest variant of this thesis[4] is to concede that in addition to the first cause "when the 'rules of the game' of the international monetary system …. are either poorly articulated or not observed by key countries", there is a "second, when the financial systems of nations receiving strong capital inflows have not been up to the task of investing those inflows productively."

Indeed, the problem with the Global Imbalance stems from the famous Triffin Dilemma, defined as the inconsistency between the domestic needs of the reserve currency country and the external needs of the world that uses the reserve currency. By definition, since the reserve currency issuer has to issue currency to provide liquidity to the rest of the world (which may be growing faster than the reserve currency country), then it has to run a current account deficit, which cumulatively becomes an unsustainable Global Imbalance.

In short, the reserve currency countries are in a double trap. They have to run loose monetary policy to keep interest rates low, so that their large fiscal debt will not run out of control. But their central banks also know that exceptionally low interest rates are distorting not only global financial markets, they also have very distortive impact on their domestic resource allocation.

There are four global reserve currencies, the US dollar, the Euro, Sterling and Yen, in which the dollar being the dominant currency. These four countries (G4) account for 11.7% of world population, but 54.6% of world GDP, 69.2% of total financial assets (excluding derivatives). Indeed, with the exception of Japan, the other reserve currency countries conform with the Triffin Dilemma, running not only current account deficits, but also a Net Foreign Liability position of $6.4 trillion or 20.8% of their GDP with the rest of the world.

Table - 1

% of Global Total (2010)	**G4 - USA, Eurozone, Japan, UK**	**Rest of the World**
Global GDP	54.6%	45.4%
Global Population	11.7%	88.3%
Current Acct deficit (2008)	2.2%	
Ex-Japan	3.1%	
Net Foreign Liability	$3.9 trn (11% of GDP)	
NFA (ex-Japan)	$6.4 trn (20.8% of GDP)	
Total Reserves Minus Gold	16.1%	83.9%
Stock Market Capitalisation	56.7%	43.3%
Public Debt Securities	79.6%	20.4%
Private Debt Securities	81.1%	18.9%
Total Debt Securities	80.4%	19.6%
Bank Assets	65.4%	34.6%
Total Financial Assets (TFA)	69.2%	30.8%
TFA / GDP (%)	**503.2**	**270.1**

In the run up to the current crisis, which erupted in 2007-2008, the primary argument for the Global Savings Glut was that the savings of the emerging markets were invested in the reserve currency countries (primarily the US), thus creating downward pressure on interest rates and causing them to lose monetary control.

Using the IMF data on the size of capital markets[5], I found out that the increase in foreign exchange reserves of the rest of the world (excluding gold) was $3.9 trillion for the period 2002-2007, roughly equivalent to the total current account deficits of the US, Eurozone and UK of $4 trillion.

Although the increase in foreign exchange reserves looks a large number, we must put the size in perspective. Central bankers would know that the money supply comes from a compilation of the balance sheet of the total banking system. Money supply can be created through an increase in the net foreign assets

3. Bernanke (2005).
4. Bernanke (2011).
5. IMF Global Financial Stability Reports, Statistical Appendix Table 1 (2003-2010), previously Table-2.

(net lending to foreigners), net credit to the government and net credit to the private sector. Net credit to the financial system is netted out to zero, even though gross credit is substantial.

Between 2002-2007, global GDP grew by $22.6 trillion. Global financial assets (bank assets, stock market capitalization and the bond market) grew by $134 trillion, nearly 6 times GDP growth. Bank assets growth was $55.7 trillion, stock market growth was $42.3 trillion, whereas bond market growth was $36.6 trillion. If bank assets and bond market growth can be a proxy for growth in credit (acknowledging that there is some double-counting due to bank holding of debt securities), growth in credit was roughly $92.3 trillion, larger than the increase in foreign exchange reserves by 23 times.

This raises a fundamental question - was the decline in long-term bond rates due mainly to emerging market purchases of G-4 treasuries, or due to the greater purchases by market participants arising from ready availability of credit created by the banking system?

This would suggest that the credit glut is substantially larger than the net savings glut. We must recognize that trade imbalances around the world are inter-temporal differences in national savings giving rise to current account surpluses and deficits. Since the rest of the world is younger and growing faster than the G-4, it is natural that there is demand for higher global liquidity, imposing through the Triffin Dilemma a structural current account deficit on the G-4 (with the exception of Japan). If the G-4 central banks admit that they have lost monetary control due to the Triffin Dilemma, then it is even more urgent that we reform the IMS to create a global reserve currency where the Net current account balance of the world would be zero.

Global Credit Glut

We now turn to the second suspect, the possibility of a global credit glut. In my view, there is not yet an all encompassing story at this stage, but the micro-analysis and macroeconomic work of Kindleberger, Minsky[6], Werner[7], Turner[8], Borio[9] and others have begun to piece together a picture that is superior in explaining the puzzle than the savings glut analysis.

In his masterly analysis of international financial crises, economic historian Kindelberger highlighted five stages of crises - displacement, monetary expansion, overtrading, revulsion and discredit[10].

In hindsight, in the 1980s and the 1990s, there was a massive expansion of global trade due to entry into the global market of new labour force from previously centrally planned economies. The Kindelberger 'displacement' was a labour shock from emerging markets that put pressure on wages around the world, and with wage growth being slower than real growth; it was not surprising that income disparity worsened during this period. The combination of growth in productivity from improved technology and capital investments, whilst tariffs and tax rates were reduced, resulted in little consumer price inflation. Global liquidity also pushed interest rates lower, especially after 2001.

Furthermore, when interest rates became lower than real growth rates, in advanced as well as emerging markets, asset bubbles began to form around the world. The financial repression plus the network effect of knowledge concentration in the highly skilled capitalist class had a wealth and income concentration effect. Those who had access to credit and superior knowledge had an edge over the poor, since those who could borrow were effectively being subsidized by the savings of the poor. The more leveraged credit that was being poured into asset markets, the greater the bubble. Financial transactions also speeded up when transaction taxes and capital gains taxes were removed in many jurisdictions, under the ideology of free markets.

Because discussions on the IMS tended to focus on the official architecture and the global imbalance

6. Minsky (1975) and Minsky (1986).
7. Werner (2005).
8. Turner (2011).
9. Borio and Disyatat (2010).
10. Kindleberger (1978, 1996), page 17.

issue, there was less attention on key features of the global financial industry.

First, finance is a network industry, with features of network concentration. There is high concentration of financial assets and transactions in a few (now identified as 29) Global Systemically Important Financial Institutions (G-SIFIs), which together with their important shadow banking clients, account for the growth and large volume of global foreign exchange, credit and derivative businesses. For example, according to US Office of the Comptroller of Currency data, five of the top US banks account for 96% of total over-the-counter (OTC) derivatives. The top 10 banks in the UK account for 450% of UK GDP in asset size.

Second, banking and financial assets are growing in size because of leverage. Financial assets were only 108% of GDP in 1980, with global average in 2010 of 400% and 554% in the case of Europe. The leverage ratio of banks have increased substantially from roughly 4-6 to 1, two centuries ago, to as high as 50 to 1, if below-the-line leverage is included.

Thirdly, the internationalization of finance accelerated, with net capital flows at all time highs to emerging markets, and gross inflows have reach 6% of GDP for the emerging markets, with more than half of inflows being short-term portfolio flows[11]. Gross flows rose from around 10 percent of world GDP in 1998 to over 30 percent in 2007. The bulk of this expansion reflected flows between advanced economies[12].

Fourthly, advanced country finance has moved towards wholesale funding, with more reliance on securitization of assets and repos, including drawing from central banks. The liquidity ratio of UK banks went down as low as 2% of their assets in 2009. Banks also moved more and more into proprietary trading.

Fifthly, regulatory arbitrage created “shadow banking”, as transactions moved off-balance sheet to special vehicles and counterparties that are lightly regulated and not monitored for monetary and financial stability purposes. As I shall try to explain later, it is the interaction between traditional banking and shadow banking that lies at the heart of our story.

In recent months, as data on international transactions and flows become more evident, the Global Credit Glut thesis has become more credible. The BIS Annual Report has argued that “gross financial flows are as important as those of current account balances”… “the magnitude of gross inflows and outflows may bear little relationship to the size of the current account[13].”

In mid-2010, dollar credit to non-US residents reached 17% of dollar credit to non-financial sector worldwide, from 12% in 2000. Between 2000 and 2007, US dollar domestic credit was growing at an average of 9% per annum to reach $23 trillion or 166% of GDP, but dollar credit to borrowers outside the US rose 30% year on year by mid-2007 to reach $5.8 trillion or 15% of the GDP of rest of the world[14].

BIS economists Claudio Borio and Piti Disyatat (2011) have argued convincingly that the savings-glut theory failed to explain the unsustainable credit creation in the run-up to the 2008 crisis. Since the Current account = Change in official reserves + other gross outflows – gross inflows, and gross outflows and inflows can be caused by credit generation domestically and abroad, it was the excessive credit flows that actually could be the cause of systemic instability.

Borio and Disyatat have shown that the major capital inflows were not from emerging markets, but from Europe, where there was no net balance-of-payments surplus. Europe accounted for around one-half of total inflows into the US in 2007, of which more than half came from the United Kingdom, which had a country current account deficit, and roughly one-third from the euro area, a region roughly in balance. This amount alone exceeded that from China and by an even larger margin that from Japan, two large surplus economies[15].

11. IMF (2011).

12. Borio and Disyatat (2011), page 13.

13. BIS Annual Report 2011, page 41.

14. BIS Annual Report 2011, page 46.

15. Borio and Disyatat (2011), page 15.

For example, a simple look at the growth of the banking assets globally would have revealed that the European problems stemmed largely from the fast growth in banking assets. Between 2002-2007, UK bank assets grew 313%, Eurozone banks 273% and US banks grew 190%, significantly faster than Japan (162%) and rest of the world (143%).

The global credit glut thesis gained more ground with the October 2011 issue of the Financial Stability Board's report on shadow banking[16]. Defining shadow banking as "credit intermediation involving entities and activities outside the regular banking system", the report found that between 2002 and 2007, the shadow banking system increased by US$33 trillion, from US$27trillion to US$60trillion. This is 8.5 times higher than the total US current-account deficit of US$3.9trillion during the same period.

The shadow banking system is estimated at roughly 25-30per cent of the global financial system (US$250 trillion, excluding derivatives) and at half of total global banking assets. This represents a huge regulatory "black hole" at the centre of the global financial system, hitherto not closely monitored for monetary and financial stability purposes.

The shadow banking system is complex, because it comprises a mix of institutions and vehicles. Investment funds other than money market funds account for 29 per cent of the total, and SIVs make up 9 per cent, but the shadow system also includes public financial institutions (such as the government-backed mortgage lender Fannie Mae in the United States). They are some of the largest counterparties with the regular banking system, and their combined credit creation and proprietary trading and hedging may account for much of the global liquidity flows that make financial stability so difficult to ensure.

To sum up, the global credit glut explains better the financial crisis than the savings glut, because it is significantly larger and had both domestic and external origins. From the Asian crisis experience[17], we would understand that if there was an export boom or inflow of foreign funds, the initial impetus (Kindleberger displacement) can cause domestic bankers to lend until they become reckless, creating overtrading and then when foreign funds pull out, revulsion, panic and then the classic Fisher debt deflation. During the current crisis, the advanced country central bankers faced identical problems on how to control the domestic credit glut through interest rate policy, since raising interest rates would cause more inflow of leveraged funds.

It is clear, however, that the modus operandi of the current crisis is different from the classic Kindleberger-Minsky model that was more applicable to the Asian financial crisis of 1997/99.

To unlock this puzzle, we should now turn to the third suspect, what I call the systemic glut.

The Third Suspect - Systemic Glut

So far, we have looked at the IMS wearing national, which are by definition partial rather than system-wide lenses. What we need is a system-wide, root and branch network analysis of how modern financial markets interconnect, interact and endogenously generate financial crises[18].

A systemic analysis needs to look at the macro and micro aspects of the current crisis, the architecture of the IMS, its internal processes, incentives, feedback mechanisms and an understanding of its history. The BIS in particular is beginning to explore and to map these complex interactions.

In my view, one of the greatest economists of his generation, Hyman Minsky, was not recognized adequately during his lifetime. It is a great pity that his methodology of incorporating finance and balance sheets into national macro-economic models was neither adopted widely, nor even acknowledged. Indeed, one of the greatest mistakes of financial prudential analysis was not to operationalize the risk shift in funding of institutions and sectors from the safe “hedge financing” to “speculative financing” and eventually fraudulent and risky “Ponzi financing”. Ponzi financing is of course when the borrower could neither pay interest nor principal and could only repay through increasing the total debt.

16. Available at www.financialstabilityboard.org.

17. Sheng (2009).

18. For systemic and network analysis, see Sheng (2010) and Haldane (2009).

It is my belief that if and when his methodology is widely used in macro-prudential monitoring, we would unveil that much of the financial engineering of the first decade was Ponzi in nature.

Professor Richard Werner[19] is another academic who has contributed to our understanding of modern financial crisis through his analysis of the role of disaggregated credit in the Japanese post-1990 experience. By disaggregating bank credit into those that finance tradables and create economic value (like good cholesterol) and those that finance speculation and may not create value added (bad cholesterol), he discovered that in the downswing, banks may be cutting lending to the real sector in order to conserve capital, but this worsened the recession.

The idea that banks can create credit and money and therefore expose the whole economy to financial fragility has been explored comprehensively by FSA Chairman Lord Adair Turner. He has questioned whether continuing growth of finance and credit creation is socially optimal[20]. He is amongst the first regulators in post to question whether "we have thought deeply enough about the drivers and implications of the massive increase in intra-financial systems claims which has occurred." For example, only 13.4% of total foreign exchange transactions are with the non-financial sector, with the balance being basically transactions with other financial institutions[21].

Minsky famously argued that money is good money if it is accepted. The fact that shadow banks are almost inextricably tied through high interconnectivity to regulated retail banks that have access to implicit or explicit deposit insurance means that shadow banking credit is also considered as good money by their counterparties. The fact that shadow banks were rescued in the 2008 crisis validated the belief that they were too big to fail. This implies that bad credit has no constraints, especially if interest rates are allowed to drift to zero with huge capital inadequacy and are ultimately bailed out by the state.

In their comprehensive survey of the IMS, ECB economists Dorucci and McKay (2011) consider that the IMS must deliver two basic global public goods - stable international currency or currencies and external enforcement of systemic stability.

Seen in this light, the gold standard was very good in enforcing financial discipline between debtors and creditors, but it failed the test of the first public good because its limited supply meant that the global economy as a whole would need to deflate extremely painfully into possible low level equilibrium. The original Bretton Woods system of fixed exchange rates (1944-1973) succeeded in reviving global growth, but was abandoned when the US dollar could not maintain its link with gold. The post-Bretton Wood system of flexible exchange rates (1973-today) lost the gold anchor and was successful (perhaps too successful) in providing liquidity, but failed in enforcing discipline on both debtor countries and creditor countries - "there are no longer any rule-based restrictions on the supply of international liquidity[22]."

So who is to be blamed on the excess international liquidity?

The immediate suspects are the banking system and the shadow banking system. Domestic banking systems are currently measured and monitored through national monetary statistics. Advanced country central banks are finally beginning to measure shadow banking credit.

However, like the Sherlock Holmes dog that did not bark in the night, there is a third suspect in credit creation that we have hitherto ignored.

I first noticed this in monitoring carry trade in the defense of the Hong Kong dollar during the 1997/98 Asian financial crisis. The 1999 BIS study of the yen carry trade[23] and later research found the carry trade

---

19. Werner (2005).

20. Turner (2011).

21. BIS April 2010 Triennial Central Bank Survey on global foreign exchange activity, Table-B.2, page 9, available at www.bis.org.

22. Dorucci and McKay (2011), page 11

23. "The yen carry trade and recent•foreign exchange market volatility" BIS Quarterly Review, March 1999.

notoriously difficult to measure[24]. This was because most of the carry trade was undertaken in the Over-the-Counter (OTC) market and booked as options, swaps, forward and futures, which are usually transacted in structured vehicles (off-balance sheet), below-the-line or off-shore. The result is that such credit creation by the prime brokers to their clients is not measured in the monetary data in neither the host country or the home country.

For example, a yen carry trade into baht would probably have at least four pairs of currency transactions in borrow yen-buy dollars, sell dollars-buy baht forward, and reversal when the forwards mature. These carry trades also finance speculation in the host country stock markets, bonds or even property deals. Typically, the foreign banks provide the foreign exchange credit inflow and the local banks provide the domestic credit creation that ultimately fuels the asset bubbles. Not all of such credit creation is monitored at the national level.

To put this simply, national monitoring of national balance sheets in itself is not adequate to capture the size of global credit creation. The complexity lies in the interactive flows between countries and between regulated banks and shadow banking, with such credit created off-balance sheet and off-shore. Such leveraged credit flows are the “hot liquidity”, which emerging economy central banks have difficulty in defending any target exchange rate or interest rate because their own reserves are not leveraged. For example, the total global foreign exchange reserves of non-G4 countries of $7.1 trillion look large, but these are only 0.7% of annual turnover of foreign exchange of $1,000 trillion. The total notional amount of foreign exchange OTC instruments at the end of June 2010 was $62.9 trillion, with an increase of 83% in notional amounts outstanding of currency instruments in the 2004-07 periods. Bankers always suggest that the gross market values are substantially lower, but you make money on the notional amount of activities, whereas you measure the risks on the smaller net amounts. Whether you like it or not, the notional amount is the credit extension that increasingly drives the liquidity within the system.

In other words, we used to measure flows, but more recently we noted under macro-prudential tools, we have to monitor balance sheets. What systemic glut analysis requires is that we should measure the dynamic interaction (in derivative transactions) between financial institutions, which are under-reported in net terms below the line and off-shore.

I suggest that these trades should be captured for macro-prudential risk management purposes because these dynamic trades add to systemic risk.

G4 reserve countries can easily defend their exchange rates because the bulk of their liabilities are in their own currencies. Emerging market economies learnt from the Asian crisis that their paltry reserves were grossly inadequate relative to the highly leveraged carry trade in the game, and ultimately that self insurance is better than calling for IMF help.

In other words, the current Westphalian or national system of looking at global financial system does not seem to add up. Much of the debate over the savings glut or liquidity glut focuses on a Westphalian or geographical cause that ends up with mutual blame (either the creditor or the debtor) without recognizing that the problem is systemic, requiring mutual solutions.

The problem that we have identified is a systemic problem, caused not simply by imbalances at the national level, but also by the functional creation of credit by financial institutions, particularly the interaction at the global level which may not be measured at the national level.

In other words, banking is truly global in life and national in death, but that global nature is surely substantially larger than has been measured and monitored at the national level. I argue not necessarily for immediate control or regulation of what we are not measuring, but as a cause for the loss of monetary control and volatility in interest rates and exchange rates which we have observed in the last two decades.

Some Tentative Suggestions

Systemic problems need systemic solutions. Partial or national based solutions will not work because the

24. Gabriele Galati, Alexandra Heath and Patrick McGuire, “Evidence of carry trade activity”, BIS Quarterly Review, September 2007.

problem has become larger than any single nation can solve. Notice that the IMF package for Thailand in 1997 was only $17 billion and Korea was $60 billion. This time round, the package for Greece, a much smaller country, was $150 billion, and the possible size for the European crisis, if Italy and Spain gets embroiled, could be northwards of $1-2 trillion. The scale of the problems requires a global solution. Asking the surplus countries alone to help out is insufficient, because the problem is systemic, structural and embedded in the incentive structure.

First, the structural problem lies in the Triffin Dilemma, because any reserve currency country would have to run a current account deficit in order to provide the world with greater liquidity. Hence, it is not surprising that the G4 got into trouble when their net foreign liabilities increased substantially over time.

Second, gross foreign liabilities are not just cumulative current account deficits. The banking system can create gross credit and borrow large amounts, claiming that they have little net exposure. However, when banks suffer contagion, it is not the net amount that kills, it is the gross liability that kills. The global banks are still grossly under-capitalized relative to the increasing volatility and fragility in the system.

Third, there are two inherent systemic problems - fallacy of composition and collective action traps. The former arises from the fact that we do not have global measures of money and credit that map out where the weakest links and systemic fragilities are. We do not have as yet any coherent and consistent global monetary surveys. Neither have we a proper methodology to measure the carry trade and their impact on loss of national monetary control.

The latter problem is the common lament that global or even regional cooperation to prevent or solve financial crises is so hard to achieve. Collection action traps occur because of different perceptions of the scale of problems, self-interest and the impossibility of allocating losses democratically. No one wants to share losses.

Fourth, the Triffin Dilemma has not gone away. If the G4 countries are going to grow only at 0-2% in the near future, whereas the rest of the world is growing at 4-6%, there is an inherent inconsistency. If the G4 provides quantitative easing and zero interest rate policies, the law of one price would ensure that emerging markets would have excess liquidity, asset bubbles, inflation and consequent financial crash. There is no equitable mechanism to resolve these conflicts of national goals.

Until the advanced countries recognize that resource allocation is and will be distorted with zero interest rates (even in their own countries), there is little emerging markets can do, since leveraged hot money flows will be difficult to manage, even with some capital controls.

The logic for a globally issued reserve currency as opposed to a nationally issued reserve currency is impeccable. Nationally issued reserve currencies are subject to the Triffin Dilemma, because countries, however strong, will sooner or later go into deficit. The world as a whole does not suffer from the Triffin Dilemma.

In other words, the whole global financial system is stable when the national reserve currency country is strong, but it will go into crisis, when the national reserve currency country goes into crisis. This is the current state of affairs.

Fifth, despite many financial crises, we still do not have a sound global sovereign debt resolution or exit mechanism in place.

What is the way out of the current policy trap?

In my view, blaming debtors and creditors is neither helpful nor contributing to problem resolution.

We would have to confront the problem of global credit glut, which means that we must first have common agreement on a common diagnosis. Such mutuality of interest can only be reached through common measures of global credit, so that everyone can see where the problem originates and where the weakest links are.

Fixing the IMS is therefore not just confined to solving imbalances that are inherent in the inter-temporal nature of differential growth rates and demographic endowment. It requires global monitoring

of money, credit and financial stability. There is simply no regular publication of global broad money supply statistics with all its cross-border ramifications.

The crux of the problem is the moral hazard of global credit that ultimately privatizes gains and socializes losses. The public sector has bailed out the financial system so much that there is little fiscal space left. Hence, the reform of the IMS must also begin with the reform of the fiscal space. The European crisis has shown that a single currency zone without a common fiscal mechanism has a structural flaw that cannot be solved in a crisis.

Systemic engineers will tell you that a system that has a flywheel that is spinning too fast within a complex interconnected body is inherently unstable and will break down. What is required are both a speed regulator (to control and slow the speed) and circuit breakers or building the system in distinct modules or compartments. The analogy is that when the Titanic is punctured, the separate compartments will still keep the ship afloat.

I am therefore personally convinced that a globally uniform Financial Turnover Tax (Tobin Tax) is the right way forward. It will not only serve as a tax to compensate for the costs of frequent financial crises, the tax collection mechanism will ensure that the hitherto OTC and opaque transactions are properly monitored and measured for their externalities. To reduce the fiscal overhang, we should have globally uniform rates of (minimum) FTT and capital gains tax.

My second observation is that the European crisis, however painful, is a useful experiment in building regional or modular currency arrangements. From a systemic point of view, competing modules or arrangements are healthier and likely to be more stable than a single unipolar currency arrangement.

My third conclusion is that reforming the IMS has turned out to be more complicated than ever. Unfortunately, there is unlikely to be any single dominant authority that can drive the change in architecture. Realistically, change will come when the larger blocs exercise pressure on the G4 that not only is the current architecture unsustainable, they may no longer have the resources to fix the problems on their own. Realistically, only a more severe crisis will force common agreement on change.

Despite my rambling and complicated tale, my concluding thesis is very simple. So far, we have used traditional global imbalances based on a framework largely a legacy of the gold standard to diagnose the ills of the current IMS. This Westphalian, national perspective is likely to be partial, fragmented and incomplete in understanding the dynamics of a systemic global crisis of fiat money. Such analyses end up blaming others (typically emerging markets and surplus nations) for problems and do not help in finding a common solution to a systemic problem.

Here ends the first part of my Inspector Ghote story. We have opened one door only to find more doors to be opened. The reform of the IMS is going to be an ongoing drama, a drama in which the dynamic Indian economy and banking system will play an increasingly important role.

The membership of the IIBF is growing fast and will become more international. I would not be surprised if Indian banks reach the top echelons of global banks within the next decade. A safer and sounder IMS is important to us all. Sir P. T. would be pleased that your members are contributing to this active debate on the IMS.

Thank you very much.

References

- Robert Z. Aliber, Financial Turbulence and International Investment, BIS Papers No. 58, October 2011.
- Banque de France, Global Imbalances and Financial Stability, Financial Stability Review No. 15, February 2011, available at www.banque-france.fr. [GIFS]
- Ben S. Bernanke (2011), "Global Imbalances : Links to Economic and Financial Stability", Speech at the Banque de France Financial Stability Review launch, Paris, 18 February, [GIFS].
- ____________(2005), "The Global Savings Glut and the U.S. Current Account Deficit", Sandridge Lecture delivered to the Virginia Association of Economists, Richmond, 10th March 2005.
- Claudio Borio and Piti Disyatat, (2011) "Global imbalances and the financial crisis : Link or no link?," BIS Working Papers 346, Bank for International Settlements.
- Ettore Dorucci and Julie McKay, The International Monetary System after the Financial Crisis, Occasional Paper Series No. 123, European Central Bank, February 2011.

- Andrew Haldane (2009), "Re-thinking the Financial Network", speech to Financial Student Association, Amsterdam, Bank of England, April
- ____________(2010), "Global Imbalances in retrospect and prospect", Chatham House Conference on "The New Global Economic Order", Bank of England, November 3.
- Charles P. Kindleberger, "Manias, Panics and Crashes : A History of Financial Crises", Third Edition, MacMillan, 1978, 1996.
- Mervyn King (2010), "Banking : from Bagehot to Basel, and Back Again", The Second Bagehot Lecture, Buttonwood Gathering, New York City, Bank of England, 25 October.
- ____________(2011a), Do We Need an International Monetary System? Bank of England, 2011 Economic Summit, Stanford Institute for Economic Policy Research (SIEPR), 11 March 2011, available at www.bankofengland.co.uk/publications/speeches
- ____________(2011b). "Global Imbalances : the perspective of the Bank of England", in GIFS
- International Monetary Fund, "Recent Experiences in Managing Capital Inflows – Cross-cutting Themes and Possible Policy Framework", Policy Paper, 14 February.
- Anne O. Krueger, Sustainability and Reform of the International Monetary System, Triffin Centennial Conference, Brussels, 4th October 2011
- Alexandre Lamfalussy, Speaking Notes, Triffin Colloquium, Brussels, 4 October, 2011
- Hyman P. Minsky (1975), John Maynard Keynes, McGraw-Hill, 2008 edition.
- ____________(1986), Stabilizing an Unstable Economy, McGraw-Hill, 2008 edition.
- Andrew Sheng (2010), "Financial Crisis and Global Governance : A Network Analysis", chapter 4 in Michael Spence, Danny Leipziger, Globalization and growth implications for a post-crisis world, Commission on Growth and Development, World Bank, pp 69-94.
- Masaaki Shirakawa, "Global Imbalances and Current Account Imbalances" in GIFS.
- Dr. Duvvuri Subbarao, "Global Imbalances : the Perspective of the Reserve Bank of India", in GIFS.
- Adrian Turner (2011), "Credit Creation and Social Optimality", Speech to Southampton University, Financial Services Authority, 29th September. www.fsa.gov.uk/pages/Library/Communication/Speeches/2011/0929_at.shtml.
- Axel Weber, "Securing Stability and Growth in a Post-Crisis World" in GIFS.
- Zhou Xiaochuan, "On Savings Ratio", in GIFS.

Counter-Cyclical Capital Buffer : Concept and Working

The introduction of a counter-cyclical capital buffer in Basel-III framework is an important step towards improving the quality of regulatory capital as well as addressing its pro-cyclicality, thereby facilitating an improved macro-prudential surveillance of the banking system.

In December 2010, the BCBS issued the guidance for national authorities for operating the counter-cyclical capital buffer. As per this guidance, national jurisdictions would determine how the buffer should vary within the range of 0 - 2.5 per cent of risk-weighted assets and also be ready to remove this requirement in a timely manner if the systemic risk crystallises. The common reference guide for calibrating the buffer, as given in the BCBS principles, is private sector credit-to-GDP gap (deviations of credit-to-GDP ratio from its long-term trend). However, the BCBS notes that as this guide may not always work well in all jurisdictions at all times, judgment coupled with proper communications is an integral part of calibrating the buffer instead of relying mechanically on the guide. The BCBS has also suggested using other variables and qualitative information, such as asset prices, funding spreads, Credit Default Swap (CDS) spreads, credit condition surveys and real GDP growth, among others. These indicators can be useful in assessing the sustainability of credit growth and the level of system-wide risk.

As per the BCBS guidance, any increase in the buffer should be pre-announced by up to 12 months to give banks time to meet the additional capital requirements before they take effect. The reductions, however, would take effect immediately to reduce the risk of credit supply being constrained by regulatory capital requirements. Moreover, it is necessary for authorities to review the information at their disposal and accordingly, review the counter-cyclical capital buffer decisions on a quarterly or more frequent basis.

As the decision about setting the buffer needs to be taken by national jurisdictions, in India, a Working Group has been set up within the Reserve Bank. In the Indian context, one of the major issues for calibrating the buffer relates to the choice of the reference guide. The Indian economy has undergone structural changes and growth has not been even across all sectors. As a result, sectoral credit requirements tend to vary substantially making it difficult to assess the build-up of risk based on the credit / GDP guide alone. The Group is currently examining this and various issues involved in the operationalisation of the counter-cyclical capital buffer.

Reference :

Bank for International Settlements (2010), "Guidance to National Authorities for Operating the Counter - Cyclical Capital Buffer", December.

Source : Report on Trend and Progress of Banking in India 2010-11.

Financial Literacy : The Key to Inclusive Growth

- 1st Prize

Dr. Suresh Chandra Bihari *

INTRODUCTION

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

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

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

FOCUS ON FINANCIAL LITERACY

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

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

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

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

In the developing countries also, the increasing participation of a growing number of consumers in newly developing financial markets will necessitate the provision of financial literacy - if these markets are to expand and operate efficiently. In addition, the substantial growth of international transactions during the last decade, resulting from new technologies and the growing international mobility of individuals, makes the improvement in financial literacy, increasingly, an international concern.

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

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

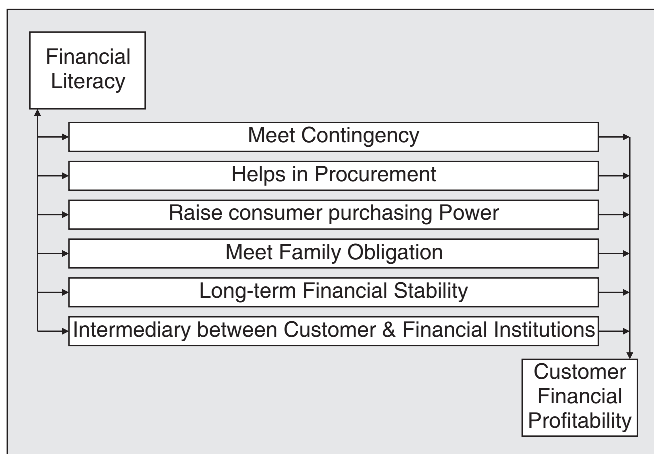
So, financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make informed choices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

IMPORTANCE OF FINANCIAL LITERACY

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

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

Financial literacy is also an integral component of customer protection. Despite concerted efforts, the current state of transparency coupled with the difficulty of consumers in identifying and understanding the fine print from the large volume of convoluted information, leads to an information asymmetry between the financial intermediary and the customer. For example, customers are often penalised for minor violations in repayments, although they have limited redressal mechanisms to rectify deficiencies in service by banks, rendering the banker-customer relationship one of unequals. In this relationship, it is the principal, that is, the depositor, who is actually far less powerful than the agent, that is, the bank. The representations received in regard to levying of unreasonably high service or user charges and enhancement of user charges without proper and prior intimation, and the growing number of customer complaints against the banks, also testify to this fact. In this context, financial literacy may help to prevent vulnerable consumers from falling prey to financially disquieting credit arrangements.



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

NEED OF THE STUDY :

The main purpose of doing this study was to study the role of financial literacy in the economic development of the country. Reserve Bank of India has taken the responsibility to increase the financial literacy in the country by urging other banks to spread the financial education in the country. Financial literacy is a pre-requisite for financial inclusion. So, spreading financial literacy is very essential for our country, because about 70% of our population is from rural areas.

OBJECTIVE OF THE STUDY :

- To study the importance of Financial Literacy in the economic development of the country.
- To bring out the steps taken by RBI and other banks to increase the financial literacy.
- To identify the extent to which the efforts of the banks towards financial literacy has been successful.

RESEARCH METHODOLOGY

Descriptive Research Methodology has been used to study the role of banks in increasing financial literacy. Data were collected both from primary and secondary sources. Primary data are collected through the use of structured questionnaire and observation (or) direct communication with respondents and the secondary data is collected from the internet, magazines, journals and newspapers. A structured questionnaire has been framed for conducting the survey (Questionnaire attached in annexure). It consists of 22 questions. Likert Scale has been used in the questionnaire (questions 8-22) to determine the degree of agreeability of respondents to the questions asked. A five point Likert has been used which has weights assigned from 5 to 1 as (Strongly agree-5 to Strongly disagree-1). All questions are positively framed hence the same weights are used throughout. The questionnaire was presented with exactly the same wordings and in the same order to the entire respondents. The technique adopted for the study is Convenience Sampling under Non-Probability Sampling. Sample size of the study is 150.

DATA ANALYSIS & INTERPRETATION

Totally 150 questionnaires have been collected filled by the respondents. Percentage analysis, weighted average and Analysis of Variance (ANOVA) have been used for further analysis.

Out of the 150 respondents surveyed so far 48% are below 25 years of age and 42% are in the age group of 26-35 years, 8% are in the age group of 36-45 years and 2% are above 45 years of age. Gender wise 75% of the respondents are male and the remaining 25% are female. Only 23% of them deposit their surplus funds in banks. 28% of them keep the funds idle at home. Only 2/5th of the respondents are aware of the purpose of different types of accounts.

The awareness of features, benefits and usage of cheques is known only to 47% of the respondents. The awareness of features, benefits and usage of demand drafts is known only to 44% of the respondents. Less than 35% are aware about the overdraft facility. Only half of the respondents are aware about the lists of documents necessary to avail a loan. More than half of the respondents (60%) do not have an idea about the interest rates charged for their respective category.

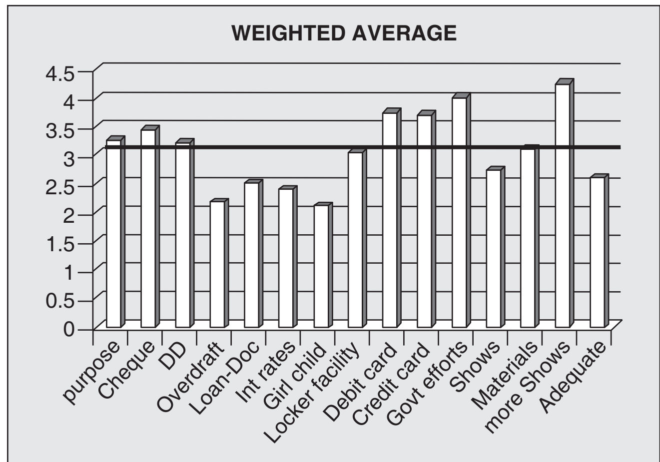
Only a third of the respondents are aware that there are few concessions given to a girl while availing an education loan. About a third of the respondents are aware that banks also provide locker facility. More than 60% are aware about the features and benefits of debit cards. Around 60% of the population is aware about the features and benefits of credit cards. More than 2/3rd is aware that the Government is taking efforts to increase financial literacy. Only 14% feel that the steps taken by Government are adequate, others feel that the Government needs to take more efforts to increase financial literacy.

Mean of the scale allocated to the responses (5, 4, 3, 2, and 1) is 3.

The average point that a respondent can allocate to a question is 3. This indicates respondents are neutral regarding the statement (neither agree nor disagree) or do not have any knowledge about it. Hence when the mean for the samples is greater than 3 it shows the respondents agree with the statements or are positively inclined and when the mean for the samples is less than 3 it shows that the respondents disagree or are negatively inclined towards the statement.

From the mean values the following are evident :	
Particulars	**Mean Value**
I am completely aware of the purpose of each of the accounts.	3.18
I know how to use a cheque book for deposit and withdrawal.	3.33
I am aware of the purpose and the use of demand draft	3.17
I am aware of the overdraft facility provided by the bank.	2.40
I am aware of the prevailing interest rates charged for availing the loans.	2.40
The banks can conduct more seminars in rural areas to enlighten them.	4.02
I am aware that, the Government is taking necessary efforts to increase financial literacy in the country.	2.56

The weighted average helps us in reinforcing the analysis done using the mean. It provides more prominence as the weights are also considered. The weighted average method of analysis also provides the same observation as mean.



MEDIAN :

15 statements are designed using Likert's scale. The median of the Likert scale (5, 4, 3, 2, 1) is 3, and the collective median of the twelve statements is (3*15) 45. Hence a value greater than 3 will show that a respondent has completely agreed for almost all statements. It was seen that the values of all the 150 respondents are not above 3. 52 of the respondent's median is less than 45. It implies these respondents do not agree on most of the questions. 13 respondents have a median of 45. So they are neutral to most of the questions.

ANOVA is used in the hope of showing that there is a difference between distribution means. The following assumptions have been made in order to perform ANOVA :

- Data is numerical
- Data is taken from a normal population
- Variance of the groups are similar
- Size of the groups is similar
- Groups are independent

A one way ANOVA has been performed for the pair Awareness and occupation at 5% significance level is taken for the test.

Hypothesis :

H0 : There is no significant difference in awareness in terms of occupation.

H1 : There is a difference in awareness in terms of occupation.

ANOVA					
Awareness	**Sum of Squares**	**Df.**	**Mean Squares**	**F**	**Sig.**
Between Groups	18.226	3	6.075	8.037	0.000
Within Groups	110.368	146	0.756	-	-
Total	128.594	149	-	-	-

Here the F-value has a significance level of 0.000 on 3 degrees of freedom which is less than 0.05. This is considerable evidence that there is difference in awareness level with respect to occupation. Hence we accept alternate hypothesis; awareness levels are greatly affected and influenced by the occupation, which is taken as an indicator of status or reach.

GLOBAL PRACTICES

The US Treasury established its Office of Financial Education in 2002. The Office works to promote access to the financial literacy tools that can help all US citizens make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Financial Literacy and Education Commission (FLEC), established by the Congress in 2003 through the passage of the Financial Literacy and Education Improvement Act, was created with the purpose of improving the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education. The Federal Reserve, along with numerous other federal government agencies, is a member of this commission, which is supported by the Office of Financial Education.

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

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

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

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

In collaboration with the government agencies, Monetary Authority of Singapore launched a national financial education programme (Money SENSE) to enhance financial literacy and self-reliance of consumers. The programme covers three tiers of financial literacy: basic money management covers

skills in budgeting and saving as also tips on responsible use of credit (Tier-I); equipping citizens with the skills and knowledge to plan for their long-term financial needs (Tier-II); and imparting knowledge about different investment products and skills for investing (Tier-III).

Sr. No.	Country Name	Institution	Functionality
1.	USA	FLEC	Helps in Personal financial Management, Saving credit Management, Home ownership, Retirement Planning
2.	UK	Financial Services Authority (FSA)	Education on risk & reward of financial instruments
3.	Australia	National Consumer & Financial Literacy Taskforce	Teaching school children on managing their money
4.	Malaysia	Financial Sector Master Plan	Consumer education, Distress Management, Rehabilation etc.
5.	Singapore	National Financial Education Programme	Money Management, Skills in budgeting & saving, Knowledge on different investment products.

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

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

WHY FINANCIAL LITERACY IS A MUST FOR INDIA?

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

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

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

Unless the common person becomes a wiser investor and is protected from wrongdoings, wealth creation

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

INDIAN FINANCIAL LITERACY SCENARIO AS PER A RECENT SURVEY

A comprehensive survey of over 63,000 Indian households was conducted to understand how India earns, spends and saves :

A rural household's total annual expenditure, including both routine and unusual expenditure, amounts to ₹41,000, resulting in a surplus income of roughly about ₹11,000. An urban household in contrast has a surplus income of ₹25,000. The survey also highlights disparities in saving habits. Levels of income, expenditure and saving related behaviour are linked to the age, education levels and type of engagement of chief earner.

Salary and wage earners account for a low share of the total households (18.4%) but highest share of the total earnings (30.8%) with an annual income of ₹1,09,000. After taking care of total expenses of ₹76,000, these households have surplus income of about 30% of their income.

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

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

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

FINANCIAL LITERACY - AN ADJUNCT FOR FINANCIAL INCLUSION

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

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

In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. The challenges of household cash management under difficult circumstances with few resources to fall back on could be accentuated by the lack of skills or knowledge to make well informed financial decisions. Financial literacy can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

There is a need for banks and other agencies striving to extend financial literacy to the masses to appreciate that financial inclusion is a continuous process. Efforts to extend literacy to make the common man enabled by being aware of the evolving functional, legal and technical issues cannot be an one-time effort. A common effort of the educational programmes typically focuses other 'supply' side that stresses on attracting customers in the financial fold. However, what is needed is to have an 'auto pilot' concept, where the prospective customer is empowered to make / demand the desired services. This could create a qualitative 'demand' situation of the financial services.

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

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

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

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

INITIATIVES TAKEN BY RBI

Reserve Bank of India has undertaken a project titled 'Project Financial Literacy'. The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens. It is disseminated

to the target audience with the help, among others, of banks, local government machinery, NGOs, schools, and colleges through presentations, pamphlets, brochures, films, as also through Reserve Bank's website. Reserve Bank of India has already created a link on its web site for the common person to give him / her the ease of access to financial information in English and Hindi, and 12 Indian regional languages.

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

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

CREDIT COUNSELLING

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

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

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

INITIATIVES TAKEN BY SOME BANKS

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

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

and help them to take up with the banks concerned for rescheduling / restructuring of loans.

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

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

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

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

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

- A major constraint faced by the counselling centres in their effort to bring about a solution for the distressed borrowers is the lack of credence attached to the references made by these centres to banks, on the grounds that they have no 'locus standi' in the matter. Therefore, there is a need for credit counselling centres to be empowered for liaising and negotiating with banks on behalf of their customers.
- As quality of service is an important aspect, it is desirable to have appropriately bench-marked quality standards for credit counsellors and counselling agencies. Like-wise, it would also be desirable to have a system of accreditation of counsellors. Once setting up of counselling centres gather momentum, they could consider forming an association of credit counsellors.
- Enlisting committed and well-trained personnel is crucial for success of counselling centres - this needs to be addressed / ensured.
- Inadequate credit information / credit history of the borrowers or total lack of such information is another area of concern, which needs to be addressed.
- As lack of awareness is major stumbling block in such initiatives, it is necessary to give wide publicity to the concept of credit counselling and the free availability of such services.

FINDINGS :

The most important and glaring finding is that a considerable number of people do not even have an account to deposit their surplus funds. The surplus amount is kept idle at home where it is also very unsafe, the main reason being lack of knowledge of the various processes that is involved in opening an account. A major portion of the respondents are not aware of the various types of accounts and their benefits and uses. This is not the case with the uneducated or rural population but also with the educated lot. A considerable number (mostly the uneducated people or those with a

rural background) do not know how to fill a cheque or use it. Moreover they are under the impression that Cheque and DD are one and the same. The knowledge about loans provided for different purposes is lacking with a major chunk of the population. Knowledge about the basic requirements for availing a loan is known only to half the number. Most of the people are not aware of various concessions given to a girl child while availing education loan. Majority of the people feel that the RBI and banks must improve their efforts towards financial literacy as a chunk of the rural population is unreached yet.

SUGGESTIONS AND CONCLUSION :

The process of financial literacy should start from the schools with the help of education department of respective State Governments. The Government should allocate more funds to improve financial literacy. Financial literacy programs require trained instructors. To be more effective, these instructors or counselors must be available to the clients at the time of making important decisions.

Financial education has always been important for consumers in helping them budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud. As financial markets become increasingly sophisticated and as households assume more of the responsibility and risk for financial decisions, financial education is increasingly necessary for individuals, not only to ensure their own financial well-being but also to ensure the smooth functioning of financial markets and the economy.

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

Financial literacy goes beyond the provision of financial information and advice. The focus of any discussion on financial literacy is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on a day-to-day basis. Language, educational, and cultural barriers sometimes discourage some populations from establishing a banking relationship to acquire financial services.

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

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

References

1. 'The Role of Financial Education : The Indian Case' - Inaugural address by Dr. Y. V. Reddy, Governor, Reserve Bank of India at the International Conference on Financial Education organised by OECD and co-hosted by Pension Fund Regulatory and Development Authority at New Delhi on September 21, 2006.
2. Policy Brief July 2006; the importance of Financial Education, Organisation for Economic Co-operation and Development (OECD).
3. Credit counselling - legal definition : http://www.nolo.com/definition.cfm/Term; Report of the Expert Group on Agricultural Indebtedness, July 2007, Chairman : R. Radhakrishna.
4. Credit Counselling : An Indian Perspective : address delivered by Dr. Y. V. Reddy, Governor, Reserve Bank of India at the Foundation Day Function of Bank of India, Mumbai on September 7, 2006.
5. ECONOMIC TIMES-e-papers dated 04-01-2010, 11-09-2008, 04-04-2008, 31-07-2007.
6. DNA MONEY dated 30-6-2008.
7. Special address by Ms. Shyamala Gopinath, Deputy Governor of Reserve Bank of India, at BANCON 2006, Hyderabad, 4th November 2006.

Rural Banking and Innovative Banking Technology & Models for Inclusive Growth

- 2nd Prize

Raghavendra M. *

Need for Rural Credit and Banking

It is well known that the burden of indebtedness in rural India is very great, and that despite major structural changes in credit institutions and forms of rural credit in the post-Independence period, the exploitation of the rural masses in the credit market is one of the most pervasive and persistent features of rural life in India. Rural households need credit for a variety of reasons. They need credit to meet short-term requirements of working capital and for long-term investment in agriculture and other income-bearing activities. Agricultural and non-agricultural activities in rural areas are typically seasonal, and households need credit to smoothen out seasonal fluctuations in earnings and expenditure. Rural households, particularly those vulnerable to what appear to others to be minor shocks with respect to income and expenditure, need credit as an insurance against risk. In a society that has no arrangements for free and universal preventive and curative health care, a weak system for the public distribution of food and very few general social security programmes, rural households need credit for different types of consumption. These include expenditure on food, housing, health and education. In the Indian context, another important purpose of borrowing is to meet expenses on a variety of social obligations and rituals.

With 135 million financially excluded households, India faces a severe financial inclusion crisis. Only 34 percent of the Indian population is currently engaged with the formal financial sector. If usage intensity of a savings account is considered as a true indicator of financial inclusion rather than mere ownership, then the financial inclusion percentage will certainly be much lower. The financially excluded population in India includes landless labourers, oral lessees, marginal farmers, unorganized sector work-force, urban slum residents and socially excluded groups. With 82 percent of India's poor households located in rural locations, vast majority of rural India can be considered as financially excluded.

Rural India is in dire need of a range of credit services, including long-term and short-term credit and large-scale and small-scale loans to rural households. The objectives of rural banking services are :

(i) to provide banking services in previously unbanked or under-banked rural areas and

(ii) to provide substantial credit to specific activities including agriculture, cottage and small scale industries and other means of self employment.

Barriers to Supply of Rural Credit

Rural India is still dominated by agriculture and it continues to be the primary source of income for a large majority. Hence when discussions about availability of credit to rural India start, they tend to centre on the agricultural sector. Inherent to agriculture are certain constraints that make it a risky sector to lend to and hence have acted as a barrier to credit.

Environmental challenges such as lack of adequate collateral, lack of registered credit history, lack of market information, weak policy, legal and regulatory framework, and income variability among farmers have slowed down the development of microfinance and agricultural financial markets in India. We could also say that these have been a deterrent for the financial institutions to expand / explore these markets. This apart, a number of risks such as weather risk, commodity risk, seasonality, geographical dispersion and poor physical infrastructure

* Manager, YES Bank.

further impede the supply of finance and the ability of farmers to access the financial services they need.

Table - 1 : Different Risks Faced by Farmers	
Risk	**Description**
Weather	Drought, excessive rainfall, earthquake or other disasters
Commodity	Future value of produce is affected by cost and price volatility in local, regional, and global markets
Seasonality	Rural farms and households are vulnerable to the cyclical or seasonal nature of the agricultural sector. Harvest season is a period of positive revenue, planting season is a period of heavy spending and very little, if any, revenue generation and during the harvesting season liquidity is scarce and families in many regions need access to loans or other, non-agricultural sources of income.
Distance to urban center / financial	Because clients live far from urban centers where financial institutions are often located, it increases the transaction cost for the borrower. These transaction costs include transportation costs and the opportunity cost of lost labor days.
Poor physical infrastructure	Poorly developed roads or other public infrastructure can limit a borrower's access to financial institutions in urban centers or increase the time it takes to get there, thereby increasing transaction costs.

As per RBI data, as on 31st March 2009 there were a total of 171 scheduled commercial banks in India across all the states with a branch network of 79,735 branches of which 31,684 were in rural areas, 18,892 in semi-urban, 15,428 in urban and 13,731 in metropolitans. The average population per bank branch is 15000. It is evident that given the population of India and its huge geographical spread, the bank branch coverage is not enough. The regular brick and mortar model has not achieved the desired coverage-there are still pockets where no bank branches are present, or the desired effect-there are still a number of branches in rural India which do not cater to a very large population. There is thus a burgeoning need for a new approach to banking and a new model for ensuring financial inclusion.

In a nutshell, the following are the major problems with respect to the supply of credit to the Indian countryside. First, the supply of formal sector credit to the countryside as a whole has been inadequate. Secondly, rural credit markets in India themselves have been very imperfect and fragmented. Thirdly, as the foregoing suggests, the distribution of formal sector credit has been unequal, particularly with respect to region and class, caste and gender in the countryside. Formal sector credit specially needs to reach backward areas, income-poor households, people of the oppressed castes and tribes, and women. Fourthly, the major source of credit to rural households, particularly income-poor working households, has been the informal sector. Informal sector loans typically are advanced at very high rates of interest. Fifthly, even though great attempts were made to make loans available through a formal sector, namely Micro Finance Institutions (MFIs), the problem of rural credit has not been solved. Although Self Help Groups (SHGs) have started a mini-revolution in their areas of operation through social, economic and financial empowerment, they need support from financial institutions and non-banking financial companies for them to have a greater reach and impact. And MFIs have their own set of inherent characteristics and *modus operandi* that have restricted their success rate with respect to complete financial inclusion.

Innovative Technology - A Solution

Poverty alleviation organizations, social entrepreneurs, government institutions, corporate enterprises and even uneducated village entrepreneurs are continuously developing technological solutions to serve the often overlooked customers at the bottom of the pyramid. These solutions are bringing the benefits of the digital age, increased access to markets, education, environmental information and government services to society. In doing so, they are helping to build the business, economic and social cases for investing in systems and infrastructure needed to serve all strata of the society. Together they are helping to empower thousands of the country's underprivileged to become agents of their own development.

Information and Communications Technology (ICT) is a major enabler in this process of providing sustainable solutions to the needs of a larger section of society, with special emphasis on the under-privileged communities. The ICT sector is the creator of jobs for knowledge professionals and skilled

persons, producer of goods and services by small, medium and large enterprises, payer of taxes and recipient of subsidies, earner of foreign exchange through exports, attractor of foreign investment and business, and earner of quick and high returns on investment in higher technical education. Consequently, the growth of the ICT sector contributes to overall economic growth.

ICT has hugely contributed to the development and growth of banks and banking activity. Banking has evolved due to ICT and this needs to be further developed to improve service delivery, especially towards the rural markets. As a result, ICT and banking have an interlinked relationship and this relationship needs to be harnessed to its full potential in order for it to have a significant impact on the nation's efforts of financial inclusion. There is an urgent need to ramp up technology-based delivery channels, particularly in the rural areas. The challenge would be to identify a delivery channel that is not only cost effective but user- friendly given the literacy levels of potential users in the rural areas and migrant labour.

Another innovative technology that will go a long way in financial inclusion is the Unique Identification project (UID) which gives each citizen a unique 12-digit ID number that is stored in a centralized database and linked to the basic demographics and biometric information - photograph, ten fingerprints and iris - of each individual. UID project was initially conceived by the Planning Commission as an initiative that would provide identification for each resident across the country and would be used primarily as the basis for efficient delivery of welfare services. It would also act as a tool for effective monitoring of various programs and schemes of the Government. Through the UID project, the first risk faced by banks in hitherto unbanked regions of customer identification is taken care of and thus sets the financial system on the path of financial inclusion.

Innovative Banking Technology and Models necessary for Financial Inclusion

Despite the priority sector lending requirements, the banking interface in the rural areas was hitherto quite limited. As a result, even the industry penetration was restricted by the limited financial transaction possibilities. With the introduction of various technological innovations in the banking sector and with industry reaching out to the villages through Internet kiosks, banks have been able to create a rural community interface that never existed before. Through this interface, industry, services and the banking sector has gained huge momentum in rural India.

e-Chaupal Model

The biggest example of this type of innovation is the e-Choupal model. Through e-Choupals, ITC began the silent evolution of rural India with soya growers in the villages of Madhya Pradesh. Farmers now log on to the site through Internet kiosks in their villages to order high quality agri inputs, get information on best farming practices, prevailing market prices for their crops at home and abroad and the weather forecast - all in the local language. e-Choupal delivers real time information and customised knowledge to improve the farmer's decision making ability, thereby better aligning farm output to market demands; securing better quality, productivity and improved price discovery.

Banking Correspondent Model

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector to the hitherto unbanked and under banked, it has been decided in public interest to enable banks to use the services of Non-Governmental Organizations / Self Help Groups (NGOs / SHGs), Post Offices, Co-operative Societies, Micro Finance Institutions (MFIs) and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services through the use of Business Correspondent (BC) model which allows for branchless banking.

Under the BC model, banks may use intermediaries, such as, NGOs / Farmers' Clubs, co-operatives, community based organizations, IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics / Agri Business Centers, Krishi Vigyan Kendras and KVIC / KVIB units, depending on the comfort level of the

CENT SAHYOG Loan for Micro & Small Enterprise

- Lowest interest rates
- Hassle free processing
- Quick sanction of term loan/over draft facility
- CGTMSE guarantee cover
- No collateral security
- Special incentive for loans upto ₹10 lacs

Enabling small business grow big

Central Bank of India supports all types of unorganized service and manufacturing sector with its hassle free loan scheme- CENT Sahyog.

For Small Shop owners and service providers including TV / Mobile / car repairers, bakery/ farsan/ sweetmeat, juice / snacks shop owners etc.

Awarded ISO 27001:2005 Certificate (Information Security) by STQC

www.centralbankofindia.co.in

*Terms & Conditions Apply

For further details please contact our nearest branch. Customer Care (Toll Free): 1800 200 1911

bank, for providing facilitation services. Such services may include (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information / data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/ Joint Liability Groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help Groups / Joint Liability Groups / Credit Groups / others; and (viii) follow-up for recovery.

The agency risk is reduced through local organizations and IT solutions for tracking transactions. Through the BC model door step banking is available at lower cost and to a wider group. The viability and scalability of this model is dependent on lower interest rate and service charges.

Innovative Payment Systems for Financial Inclusion

Payment systems are the backbone of the financial infrastructure of the nation, enhance globalization and act as tools of economic empowerment by financial inclusion. There is a need to create payment systems that are efficient, reliable, affordable and of global standards. Implementation of such systems increases transparency, lowers transaction costs, improves operational efficiency of trade and commerce and provides support to globalization of economy. Payment systems improve financial transparency, by bringing cash into the banking system, which would otherwise have been kept out of the system. Banks can then effectively deploy additional cash flow, thus stimulating business growth and consumption.

Various payment solutions can be considered and their modalities designed in order to create fool-proof payment systems that cater to various users and situations. Some of these would include smart cards, magnetic stripe cards, mobile accounts, mobile wallets, mobile purse and paper vouchers. For the purpose of payment systems across the agricultural value chain, there are two main solutions that can be considered - card-based and mobile based payment systems.

Card-based Payment Systems

The objective of card-based payment systems is to introduce multipurpose stored value card of various denominations which can be used to purchase various goods and services from affiliated merchants based on anywhere, anytime concept, which would result in increased sales for all affiliated merchants and better safety and convenience for the consumer. Types of pre-paid instruments include :

1. *Closed System Payment Instruments :* These are not reloadable with cash and do not permit cash withdrawal (for example : phone calling, prepaid voucher and gift vouchers).
2. *Semi-Closed System Payment Instruments :* These are used at merchant locations, and can be reloaded, but do not allow cash withdrawal (for example : cash cards and smart cards).
3. *Semi-Open System Payment Instruments :* These can be reloadable or non-reloadable, and can be used at any point-of-sale terminal, but they do not allow cash withdrawal (for example : gift cards issued by banks).
4. *Open System Payment Instruments :* These can be re-loadable or non-reloadable, but most importantly, they permit cash withdrawal at ATMs (Example : Payroll cards and travel cards) (Carr, 2010).

Mobile-based Payment Systems

If the technology revolution is to fully impact the rural areas, concentration on providing soft infrastructure is a must. The potential of mobile phone usage should be maximized. It is estimated that today while there are 15 crore savings account holders in India, there are approximately 43 crore subscribers with 1 crore subscribers being added every month. This highlights itself in the form of a great opportunity of almost 25 crore customers. Mobile phone usage transcends social and economic barriers. This is thus an application of technology that could be examined to expand the scope and reach of our payment and settlement systems. A mobile payment service in order to become acceptable in the market as a mode of payment, the following conditions have to be met :

a) *Simplicity and Usability :* The m-payment application must be user-friendly with little or no learning curve to the customer. The customer must also be able to personalize the application to suit his or her convenience.

b) *Universality :* M-payments service must provide for transactions between one customer to another customer (C2C), or from a business to a customer (B2C) or between businesses (B2B). The coverage should include domestic, regional and global environments. Payments must be possible in terms of both low value micro-payments and high value macro-payments.

c) *Interoperability* : Development should be based on standards and open technologies that allow one implemented system to interact with other systems.

d) *Security, Privacy and Trust :* A customer must be able to trust a mobile payment application provider that his or her credit or debit card information may not be misused. Secondly, when these transactions are recorded, customer privacy should not be lost in the sense that the credit histories and spending patterns of the customer should not be openly available for public scrutiny. Mobile payments have to be as anonymous as cash transactions. Third, the system should be foolproof, resistant to attacks from hackers and terrorists. This may be provided using public key infrastructure security, biometrics and passwords integrated into the mobile payment solution architectures.

e) *Cost :* The m-payments should not be costlier than the existing payment mechanisms to the extent possible. An m-payment solution should compete with other modes of payment in terms of cost and convenience.

f) *Speed :* The speed at which m-payments are executed must be acceptable to customers and merchants.

Thus, the key defining characteristics of a successful mobile payment service are simplicity, usability, universality, interoperability, security, privacy, trust, cost and speed.

Important and Regular Financial Transactions

There is ample opportunity in the agricultural sector across the value chain for these new payment solutions to be used. Financial transactions like government scheme disbursements, sending money, receiving money, bill payments, cash deposits, cash withdrawals, NEFT can be carried out in a cashless, efficient and hassle-free manner. The in-text diagram below shows how mobile money services offer an opportunity to create a vibrant ecosystem. No longer will distance to the nearest financial institution be a cause of concern for the farmers; neither will it be a cause of tedious cash transactions. Both, paying vendors and receiving money from buyers will be literally as easy as 'a click of a button'. With everyone owning a mobile phone now, it will require only a demonstration for everyone to understand the usage of these user-friendly and easy payment solutions.

With the onset of the Unique Identification Authority of India (UIDAI), each resident across the country will be provided a unique identification. This would act as a tool for effective monitoring of various programs and schemes of the Government as well as a foolproof basis for mobile money transactions. This however would require a strong synergy between three major players - the mobile service provider/s, the technology developer and the license holder (the bank). Innovative tools

like finger print identification and smart cards or rural credit cards will also go a long way in ensuring greater transparency and effective financial inclusion.

Agricultural Insurance

On the insurance front, there is unequivocal need for extended scope and coverage of agricultural risk insurance in the interest of agriculture and well-being of the farmers. It is now well understood that no single insurance product can meet the requirement across the crops or region or farm households. Another learning is that for an effective and maximum coverage of risk insurance in agriculture there is need for multiple players such as (i) life insurance companies (ii) general insurance companies (iii) health insurance companies, etc, besides rural credit agencies such as cooperative societies, micro finance companies and rural cooperative companies. It is in this context that innovative technology and an effective and comprehensive approach would help combine agricultural credit and risk insurance programmes into an integral whole.

Financial Institutions need to work towards evolving new business models. YES BANK has been working relentlessly in a pilot effort to evolve a business model built on a mobile based platform for delivery of crop insurance to farmers by creating an enabling transaction environment for a farmer to access such facilities through mobile phones. As a pilot YES BANK as part of its efforts under the National Agriculture Innovation Project has been working closely with its partners in a pilot effort to evolve a business model for grape insurance delivery. By customizing YES MOBILE MONEY, a mobile banking product built together with its technology partners, YES BANK has attempted to offer the farmers the ease of making premium payments through their mobile, by offering a convenient, affordable and easy- to-use mobile transaction environment. This facility that can be enabled through the most simplistic handset will revolutionize the transaction environment for this section of population and quicken the activation of crop insurance to farmers that gets triggered on receipt of the premium. This project also envisages creation of a dynamic interactive interface called 'Wine Grape Insurance Structuring Automation Tool' (WIGISAT) that empowers farmer to select an insurance solution best suited to the risk-cover they desire, by providing information of premium payable / variation across variables such as pruning date and period of cover. This combination of a web-based decision making tool together with a mobile based cashless payment ecosystem truly demonstrates how technology can and is increasingly being leveraged for farmer benefits.

Financial Inclusion - An Opportunity and not an Obligation

Financial inclusion implies a developed financial system which in turn means broadened access to funds; conversely, in an underdeveloped financial system, access to funds is limited and people are constrained by the availability of their own funds and have to resort to high cost informal sources such as money lenders. Lower the availability of funds and higher their cost, fewer would be the economic activities that can be financed and hence lower the resulting economic growth. Financial inclusion is thus advantageous for the economy as a whole and should thus be looked at as an opportunity and not an obligation.

By facilitating interaction between banks and rural customers, financial inclusion proves equally advantageous to the customers as well as to the bank. Financial inclusion, by its inherent nature, would ensure decreased marginal cost of offering financial products for financial institution as well as decreased marginal cost of availing financial products for recipients.

With increasing liberalization and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. To meet the growing credit demand, the banks need to mobilize resources from a wider deposit base and extend credit to activities hitherto not financed by banks. The trend of increasing commercialization of agriculture and rural activities should generate greener pastures, and banks should examine the benefits of

increasing penetration therein. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Thus, financial inclusion will lead to financial development in our country which will help to accelerate economic growth.

Policy Implications

An immediate outcome of this drive towards greater financial inclusion through technology is the policy implications and thus the emerging need for institutional mechanisms to be introduced that will allow for this level of financial transactions and inclusion. The banking sector led by RBI along with all the public and private sector banks and the whole of industry, agriculture and services sector need to come together under the umbrella of e-Governance in order to maximize the benefits from ICT.

The regulations relating to ICT solutions for banking services in general and financial inclusion in particular relate to ensuring integrity of banking system and ensuring customer protection. These cover customer identification / authentication, customer confidentiality / privacy, KYC / AML issues, outsourcing, bank's responsibility for their agents, ensuring inter-operability and open standards, imaging standards and adherence to payments system regulations.

With the introduction of BC model and the process of engaging such intermediaries, banks should ensure that they are well established, enjoy a good reputation and have the confidence of the local people. Banks would need to give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented. RBI would have to issue stringent guidelines to safeguard the interests of the banks, financial institutions and the customers.

The large number of institutions engaged in providing financial inclusion services makes it imperative to protect the rights of the poor and ensure that their hard earned assets do not fall prey to the unscrupulous. The poor have no recourse to the various consumer protection forums which are taken for granted by the more affluent sections of society. A specific nodal consumer protection agency with a cross-sector mandate and a pan-India rural coverage should be appointed to speedily address the grievances of the poor regarding their experiences with the financial institutions. Accountability norms and code of conduct should be published for all service providers in the financial inclusion ecosystem and widely circulated.

Conclusion

With rural India being an important component and contributor to GDP growth and employment in India, banks play an important role in the way it emerges. On one hand while banks have to meet priority sector lending commitments to ensure credit delivery to this sector, there is a significant need to complement this with efforts for an enhanced and comprehensive integration and participation in the formal banking and financial system. The efforts for financial inclusion need to be designed with a vision beyond just the percentage of the country population with access to a bank account or a no frills account; to focus more on how this can enhance the capability and convenience for the unbanked and under-banked, specifically the small and marginal farmers in this case, to enable greater transparency, accountability, efficiency and convenient access to necessary facilities. Financial inclusion should extend beyond just opening bank accounts to the actual usage of the bank account by the individual for various kinds of transactions like savings, insurance, payments and remittances which reflects the value derived by the individual from participating in the mainstream financial system. Financial inclusion should also importantly include affordable credit and financial counselling.

It is from this perspective that it is important for financial institutions to integrate across the entire rural economy. The challenge in this is the last mile delivery. It is clearly evident that there is a burgeoning need for new payment solutions to be created and that ICT is going to be the backbone of this revolution. These new payment mechanisms aim not only at introducing cashless payments but also at greater financial inclusion by being more affordable and easily available to everyone. While the potential for a brick-

and-mortar model of branch expansion continues, technology has enabled quicker and wider access, at a relatively lower cost; the ultimate beneficiary being the end-user who can now participate in the formal system from the most distant and rural pockets.

The mobile telecom revolution in India has changed the way we need to look at this. Mobile phones today have the highest penetration levels and can serve as a medium of access for a much larger section of India's population. This is particularly relevant in efforts across the agricultural value chain; and in linking small and marginal farmers. Not only can mobiles be a medium for transacting in a cashless environment, the potential of mobiles to comprehensively deliver farmers a one-stop solution to several other needs of information and knowledge such as commodity prices, weather updates among others is behind its enhanced potential and acceptability.

On the way forward, the challenges are going to be banks using multiple channels for delivery of variety of financial services, developing synergies with MFIs and SHGs by introducing seamless ICT based models linked to such intermediaries, availability of skilled manpower to facilitate the adoption of IT on such large scale, use of IT for credit information and efficient credit delivery and risk management in a much bigger way, moving away from the use of cash and emergence of enough leaders in the banking system especially in the public sector banks / RRBs and cooperative banks to recognise the opportunities and take advantage of their specific strengths including location.

Financial inclusion is a tool to ensure that the entire population of the economy becomes integrated within a formal banking system thereby ensuring that everyone benefits from the system. While efforts are underway to introduce technologies, models and policies to ensure this inclusion, an important pre-requisite for complete and comprehensive financial inclusion would be initiatives to actually enhance the income generation among the poor so that they have money to enter the banking system with. The co-operative Tourism model that YES BANK is currently piloting in a few states across India with Queen Margaret University and Dunira Strategy, Scotland is aiming at exactly this. The genesis of this model is to encompass innovative technology and employment / income enhancement opportunities post which new banking technologies are then introduced that result in greater and more sustainable financial inclusion. Such innovative approaches need to be further explored so as to make this drive towards financial inclusion complete and sustainable.

In the age of collaboration and partnerships the triad of mobile operators, technology developers and banks have begun to work closely in what is emerging as a revolution. The government will play an important role in reverse integrating successful attempts which would have a defined impact into scalable development models as a part of its policy to enable wider participation of businesses; enhanced competition and maximize benefits to the end-user - in this case with a focus on the rural India.

References

1. Carr, M., Mobile Payment Systems and Services : An Introduction (Homepage of Mobile Payment Forum of India), (Online). Available : http://www.mpf.org.in/pdf/Mobile%20Payment%20Systems%20and%20Services.pdf [Accessed : 10/10/10]
2. Mohan, Dr. Rakesh, Economic Growth, Financial Deepening and Financial Inclusion (Online). Available: http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=310 Ramanchandaran V. K. and Swaminathan, Madhura, Financial Liberalization and Rural Banking in India presented at International Conference on 'The Agrarian Constraint and Poverty Reduction : Macroeconomic Lessons for Africa'
3. Thorat Usha, Financial Inclusion & Information Technology (Online). Available : http://www.bis.org/review/r080917d.pdf

Smiley Customer Service is one of the Mantras to Retain the Customer for Lifetime with Bank

'Service with Smile Authenticity of Positive display'

- 3rd Prize

Kalpesh K. Kulkarni *

Introduction :

The success of any organization, particularly of a services-oriented one like a banking industry depends on the quality of service offered to customers. Service with a smile is authenticity of positive displays during service encounters. Smile on face is one of the tools and strategy for customer satisfaction & to retain customer.

Employee expressions influenced the impression of friendliness. Smiley face of staff is the impression of service provider on customers. Most of the business in the service industry plays different roles in the customer's perspectives. Moreover, the business leaders are well-endowed in contributing the best of the service they can give their customers.

On the other side of coin, customer is always right. Customers are the same persons who will measure the impact of the service they receive from bank. Service will affect their decision to continue relation with same bank or switch to other.

Background of the study :

In today's competitive world of business, service is one of the concerns which affect the decision of customer to rethink.

Customer service is one of the important areas of business especially for service industries like bank to retain their customers & attract new one. Poor customer service could cause a banking business loss of thousands of dollars and also "it's credibility." Good customer service is what attracts people to a business. Customer service is more than just having a good attitude towards the customers. It is about the quality of the service that is being provided. When customers are pleased they become long-term assets to the bank. Building strong customer relations can tie a customer and a business together. When customers are satisfied they feel well treated and are willing to treat the business well. Perfect and smiley customer service definitely improves customer satisfaction.

Each one in the banking industry should remember that the big money isn't as much in winning customers as in keeping customers. Each individual customer's perception of your bank will determine how well you do this and that perception will depend on the level of customer service you provide.

Research objectives :

A customer does not select the bank for the catchy slogans and colorful brochures, but for the efficient and prompt service offered to them.

1. Smiley customer service is one of the mantras to retain the customers.
2. Importance of customer service & suggestions for customer service in banking industry.

Research questions :

The study prepared several questions regarding the customer service :

1. What is customer service?
2. Are your customers greeted when they walk through the door?
3. What are the tips for customer service?
4. What are the rules for good customer service?

Literature Review :

"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose

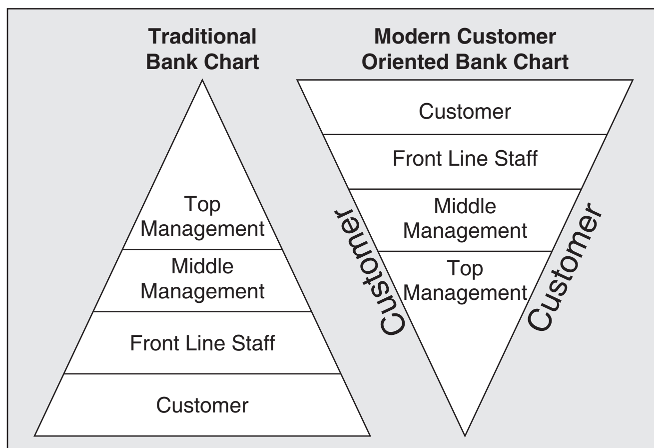
* Relationship Manager, State Bank of India, Nagpur.

of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so. "

- Mahatma Gandhi

Customer service is about treating others as you would like to be treated yourself.

Organization which believes the customer is the organization's only true "profit center" consider the following traditional organization chart :



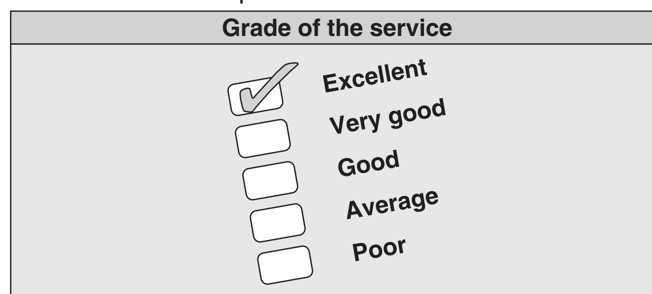
In today's economy, providing the excellent kind of service for their customers is one of the vital strategies in every aspect of various businesses, especially in banking.

Through the huge challenges on the globalization and rapid growth of economic changes, the banking industry should remain strong and survive to compete effectively. Banks must therefore, recognize the participation of the customers in planning their success. The customer perceptions of the service quality play an important role in the success of the business, and the banking sector is not an exception. The service quality has been widely used to evaluate the overall performance of the banks in terms of their services. Banks should understand the loyalty of the customers and its impact in the competition. To be more effective in the market, banks should focus more on their service and pay attention on the core competitive strategy.

Good customer service is the lifeblood of any business. You can offer promotions and slash prices to bring in as many new customers as you want, but unless you can get some of those customers to come back, your business won't be profitable for long.

Good customer service is all about bringing customers back. And about sending them away happy enough to pass positive feedback about our banking to others, who may then try the product or service you offer for themselves and in turn become repeat customers.

If you're a good salesperson, you can sell anything to anyone once. But it will be your approach to customer service that determines whether or not you'll ever be able to sell that person anything else. The essence of good customer service is forming a relationship with customers, a relationship that individual customer feels that he would like to pursue.



For any service industry, where you need to interact with clients, you will require great customer service skills. Dealing with customers is not an easy task. Nor is it too tough for people who are ready to learn this art. You need to keep several important things in mind while dealing with customers.

Given below are some essential tips for great customer service skills

Focusing on the first impression

You must have heard about 'first impression is the last impression' and how important they can be. While interacting with customers, you need to make a strong first impression to make it a lasting impression on their minds. To achieve success, you need to do everything within your power to make a great impression. Remember, the rest of interaction you do with a customer will depend on how you interact with them in your first chance of meeting them.

Right from the beginning of interaction, you need to understand the potential of a first meeting. And there's no

doubt that respect begets respect. Appropriate treatment with customers can really make a big difference in your business dealings.

"Customer service is about treating others as you would like to be treated yourself."

Always realize that you will treat your customer the way you would like to be treated yourself. Greet the customers when they walk in through the door or they call you or at least within 30-40 seconds upon entering. Is it possible they could come in, look around, and go out without ever having their presence acknowledged? It is ironic that it took a discount merchant known for price, not service, to teach the retail world the importance of greeting customers at the door. Could it be that because Sam Walton knew this simple but important gesture is a matter of respect, of saying "we appreciate your coming in," having nothing to do with the price of merchandise?

Determining the Customers' Requirements

It should be your continuous effort to understand the requirements of the customer. Knowing what they want and fulfilling those requirements will make all the difference.

Many times, you will need to deal with angry customers. If the angry customer wants to vent to someone, allow them the space to do so. If you think you are capable of handling the situation yourself, settle the situation yourself. At the same time try to understand what the customer actually wants. Try to help the customers and fulfill their requirements to keep things going.

Customer Service is the commitment to provide value added services to external and internal customers, including attitude, knowledge, technical support and quality of service in a timely manner.

Customer service is a proactive attitude that can be summed up as :

I care and I can do.

Defusing Angry Customers

While interacting with customers, you also need to learn the art of handling angry customers. In case, you are faced with an angry customer, it is of utmost importance to find out the reason. Listen patiently to the customer's complaint and figure out how to solve the problem. Also be ready to take charge of the entire situation rather than giving excuses. Offer help to the angry customer and tell him you will resolve the problem. Be down-to-earth in your interaction with angry customers and avoid asking too many questions in these situations.

Some other essential factors which also affect the customer decision to remain with bank :

Include a thank-you note in a customer's package; send a birthday card; clip the article when you see their name or photo in print; write a congratulatory note when they get a promotion. There are all sorts of ways for you to keep in touch with your customers and bring them closer to you.

Know who your customers are

That is, Know Your Customer. If a regular customer comes into your bank, would you recognize them? Can you call them by name? All of us like to feel important; calling someone by name is a simple way to do it and let them know you value them as customers. That's establishing a form of trust between you and the customer and they are always going to return. For the customer having that added attention makes all the difference in the world and it makes them feel special. That's what it's all about.

Always have an ear open for your customers wants. If a certain customer always needs the same thing make sure you have it at all times. You don't want customers waiting and maybe venturing somewhere else. It happens all the time. Ask for their input as well. Maybe there is something you can do to make their

experience more enjoyable for them. A happy customer is a returning customer. Stay close to your customers at all times. Call them by their first name or surname with full respect.

If a customer makes a request for something special, do everything you can to say yes

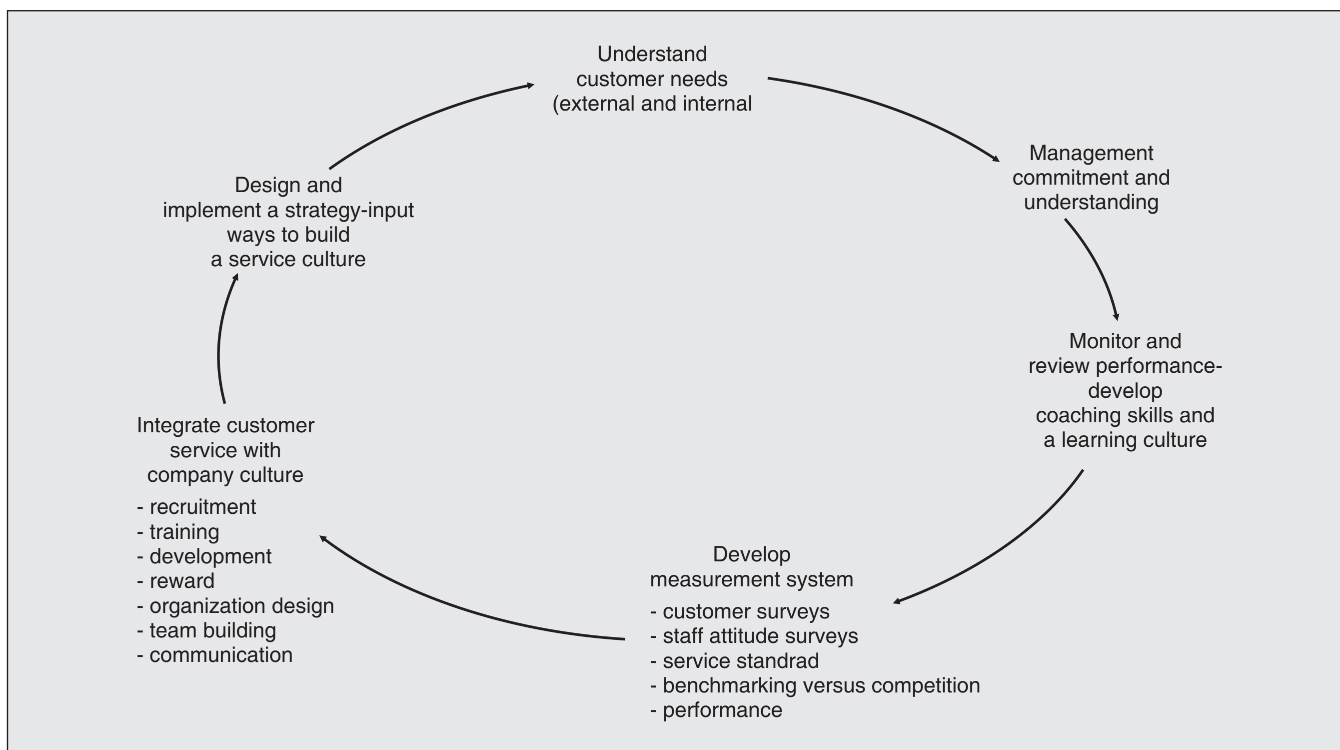
Helping customers with unusual requests during customer interaction, you will come across a situation where you will be asked to help customers with unusual requests, outside the business. Under these situations, it is not wise to say a complete 'No'. Instead you need to use the situation to your benefit. Consider helping the customer rather than denying their requests only because it is outside the norms. If you can help the customer with an unusual request, you will really strengthen your bond with them for future.

The fact that a customer cared enough to ask is all you need to know in trying to accommodate her. It may be an exception from your customer service policy, but (if it isn't illegal) try to do it. Remember you are just making one exception for one customer, not making new policy. Understand what your customers want and make that your number one responsibility and follow through.

Example : A cash officer of bank, whose regular business timing is from 10.30 am to 4.30 pm, who has done his normal closing process and has returned cash to the accountant, but at 5 O'clock one customer comes to the branch and looked tensed. He asks him to give him withdrawal of ₹1 lacs from his saving bank account which he is maintaining with the same branch same bank from last 10 years. But the cash officer gives him the usual answer that bank has been closed and he asks him to come next day.

Customer pleads as his son is being operated on that evening, but he still give him the bank rules and call him next day.

But for this situation if the banker acted little bit out of the way and the banker would have given the cash to the customer by following the procedure. The satisfaction for the customer would have been like the customer has seen the god in front of him. This is the symbol of customer satisfaction & measurement of customer service.



Some rules for good-better-best-excellent Customer Service :

1) Answer your phone

Get call forwarding or an answering service. But make sure that someone is picking up the phone when someone calls your business. (Notice I say "someone". People who call want to talk to alive person, not a fake"recorded robot".)

Phone Answering Tips to Win Business :

Phone answering skills are critical for businesses. The telephone is still the most business's primary point of contact with customers. And the way you answer your company's phone will form your customer's first impression of your business. These phone answering tips will ensure that callers know they're dealing with a winning business :

- Answer all incoming phone calls before the third ring.
- When you answer the phone, be warm and enthusiastic. Your voice at the end of the telephone line is sometimes the only impression of your company a caller will get.
- When answering the phone, welcome callers courteously and identify yourself and your organization. Say, for instance, "Good morning. Cypress Technologies. Susan speaking. How may I help you?" No one should ever have to ask if they've reached such and such a business.

- Enunciate clearly, keep your voice volume moderate, and speak slowly and clearly when answering the phone, so your caller can understand you easily.
- Control your language when answering the phone. Don't use slang or jargon. Instead of saying, "OK", or "No problem", for instance, say "Certainly", "Very well", or "All right". If you're a person who uses fillers when you speak, such as "uh huh", "urn", or phrases such as "like" or "you know", train yourself carefully not to use these when you speak on the phone.
- Train your voice and vocabulary to be positive when answering the phone, even on a "down" day. For example, rather than saying, "I don't know", say, "Let me find out about that for you."
- Take telephone messages completely and accurately. If there's something you don't understand or can't spell, such as a person's surname, ask the caller to repeat it or spell it for you. Then make sure the message gets to the intended recipient.
- Answer all your calls within one business day. I can't emphasize this one enough. Remember the early bird? The early caller can get the contract, the sale, the problem solved... and reinforce the favorable impression of your business that you want to circulate.
- Always ask the caller if it's all right to put her on hold when answering the phone, and don't leave people on hold. Provide callers on hold with progress reports every 30 to 45 seconds. Offer them choices if possible, such as "That line is still busy. Will you continue to hold or should I call you back?"
- Don't use a speaker phone unless absolutely necessary. Speaker phones give the caller the impression that you're not fully concentrating on his call, and make him think that his call isn't private. The only time to use a speaker phone is when you need more than one person to be in the conversation at your end.
- If you use an answering machine to answer calls when you can't, make sure that you have a professional message recorded, that does the same thing as tip # 3, and gives callers any other pertinent information before it records their messages. Update your answering machine message as needed. For instance, if your business

is going to be closed for a holiday, update your recorded answering machine message to say so and to say when your business will reopen.

- Train everyone else who answers the phone to answer the same way, including other family members if you're running a home-based business. Check on how your business's phone is being answered by calling in and seeing if the phone is being answered in a professional manner. If they don't pass the test, go over this telephone answering tips list with them.

2) Don't make promises unless you will keep them

Reliability is one of the keys to any good relationship, and good customer service is no exception. If you say, "Your new bedroom furniture will be delivered on Tuesday", make sure it is delivered on Tuesday. Otherwise, don't say it. The same rule applies to client appointments, deadlines, etc. Think before you give any promise - because nothing annoys customers more than a broken promise.

3) Listen to your customers

Is there anything more exasperating than telling someone what you want or what your problem is and then discovering that person hasn't been paying attention and needs to have it explained again? From a customer's point of view, I doubt it. Let your customer talk and show him that you are listening by making the appropriate responses, such as suggesting how to solve the problem.

4) Satisfaction of needs of the customer

If as a banker you want that your services to really satisfy your customers, and then you must be clear about the customer needs and their expectations from you as a banker & bank.

As the customers are in large numbers and it is difficult to dovetail the products to individual needs, deposit plans and leading schemes are designed to meet the needs of different customer groups. Therefore, every customer has to be guided and helped to choose the scheme, from among those available most suitable to his / her needs.

Satisfaction of needs :

Well- designed customer service must be accompanied by good delivery. The five elements that constitute good delivery are speed, timeliness, accuracy, courtesy and concern

Speed :

Time is money for everyone including the customers. Leisurely and lethargic handling of the customer's transactions will be a major block in the delivery of customer service.

Timeliness :

Commencement of banking business and opening of counter-service in time and rendering uninterrupted service during business hours is an important aspect of ensuring good customer service.

Accuracy :

The information rendered by the bank to the customer should be accurate and unambiguous. Acronyms, if used should be explained to the customer. It may be added here that customer's complaints in the area of non-receipt of correct and full particulars in the statement of accounts / passbooks, debit / credit advice received by them etc., from the bank have remained unabated over the years. Banks have indicated that the updating of the passbook will be done in stipulated period. A little extra care is all that is required in tackling this irritant and offering good customer service.

Courtesy :

Indifferent, casual and at times belligerent approach on the part of bank staff alienates the customer. Developing the right type of attitude and behavior in dealing with the customers positively results in developing customer loyalty and good bank-customer relationship.

Concern :

Anticipating the customer's problems and guiding them shows that the bank cares for them and is equally concerned with their problems. Depositors as well as borrowers often experience lack of concern on the part of bank staff towards their problems.

Advance intimation of maturity of term deposits, explaining the benefits of nomination facilities, etc. are all indicative of the concern the bank staff should show towards the customer.

5) Be helpful - even if there's no immediate profit in it

The other day I went into a local watch shop because I had lost the small piece that clips the pieces of my watch band together. When I explained the problem, the proprietor said that he thought he might have one lying around. He found it, attached it to my watch band and charged me nothing! Where do you think I'll go when I need a new watch band or even a new watch? And how many people do you think I've told this story to?

6) Train your staff (if you have any) to be always helpful, courteous, and knowledgeable

Educate your staff to be equally as concerned about your customers as you are. Do it yourself or hire someone to train them. Talk to them about good customer service and what it is (and isn't) regularly. Most importantly, give every member of your staff enough information and power to make those small customer-pleasing decisions, so he never has to say, "I don't know, but so-and-so will be back at..."

A final bit of advice about customer service; "If you aren't taking care of your customers, your competition will." Print that advice out in large, bold letters with underline in blue, red, orange, etc., colour in mind always.

Always remember "Customer Service" is the commitment to provide value added services to external and internal customers, including attitude knowledge, technical support and quality of service in a timely manner.

7) Throw-in something extra

Whether it's a coupon for a future discount, additional information on how to use the product, or a genuine smile, people love to get more than they thought they were getting. And don't think that a gesture has to be large to be effective. The local art framer that we use, attaches a package of picture hangers to every picture he frames. A small thing, but so appreciated.

8) No amount of advertising can repair the damage : properly address the customer complaint, deal with the customer complaint

No one likes hearing complaints, and many of us have developed a reflex shrug, saying, "You can't please all the people all the time". "The Customer Is always Right." If a customer comes to you about a complaint, be very serious about how you can handle it. Is the customer upset and angry? First, calm him with words and action and show that you are serious about doing something to correct the problem. Even if it is obvious that he's wrong, sometimes it's better for repeat business to take the loss and compensate the customer.

Then, when your customer is satisfied that his complaint has been properly addressed, thank him for bringing the problem to your attention. Remember, no amount of advertising can repair the damage done by failing to properly address a customer's concern. Even more damaging to a small business is the "silent complainer." That's the customer who simply walks out of your shop without saying a word, and you never see him again. These silent complainers have friends. And their friends have friends.

If you apply these eight simple rules consistently, your bank will become known for its good customer service. The irony of good customer service is that over time it will bring in more new customers than promotions and price slashing ever did!

Steps taken by Government of India and Reserve Bank of India to redress the grievances of the customers :

1. Setting up of Customer Service Committees in all branches and offices of the public sector banks.
2. Observing 'Customer Meet Day' which provides customer direct access to higher officials.
3. Setting up 33 Customer Service Centers in state capitals / major cities, where a Public Sector Bank is given the lead responsibility to coordinate grievance redressal machinery.
4. Observance of 15th day of every month as 'Customer Day'.

5. Setting up of a Directorate of Public Grievances under the Cabinet Secretariat which entertains grievances from the public.
6. Display of time norms in all branches.
7. Use of courier service and other faster means of remittance.
8. Constitution of Talwar Committee
9. Constitution of Goiporia Committee

Analysis :

Customer Service is the commitment to providing value added services to external and internal customers, including attitude knowledge, technical support and quality of service in a timely manner. Because of the intensified competition in banking industry, the excellent deliverance of the customers' service is viewed to play a vital role in a banks success and failure, the huge challenges on the globalization and rapid growth of economic changes, the banking industry should remain strong and survive to compete effectively. Banks must therefore, recognize the participation of the customers in planning their success. The customer perceptions of the service quality play an important role in the success of the business and the banking sector is not an exception. The service quality has been widely used to evaluate the overall performance of the banks in terms of their services. Banks should understand the loyalty of the customers and its impact in the competition. To be more effective in the market, banks should focus more on their service and pay attention on the core competitive strategy. Therefore, 'Smiley customer service is one of the mantras to retain the customer for lifetime with Bank' & 'service with smile is authenticity of positive display'.

Monitoring Interest Rate Sensitivity based on Duration Gap Analysis

Interest rate risk is the risk where changes in market interest rates affect a bank's financial position. Changes in interest rates impact a bank's earnings through changes in its Net Interest Income (NII). Changes in interest rates also impact a bank's Market Value of Equity (MVE) or Net Worth through changes in the economic value of its rate-sensitive assets, liabilities and off-balance sheet positions. The interest rate risk can thus be viewed from two perspectives, viz., 'earnings perspective' and 'economic value perspective'. Generally, the former is measured using the Traditional Gap Analysis (TGA) and the latter is measured using more sophisticated Duration Gap Analysis (DGA).

Presently, the Reserve Bank monitors the interest rate risk of banks through a monthly return on interest rate sensitivity using the TGA. The focus of the TGA is to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements over usually a one-year time horizon. It involves bucketing of all Rate-Sensitive Assets (RSA) and Rate-Sensitive Liabilities (RSL) and off-balance sheet items as per residual maturity / re-pricing date in various time bands and computing Earnings at Risk (EaR) or the loss of income under different interest rate scenarios over one year.

In addition to the existing return on Interest Rate Sensitivity under Traditional Gap Analysis, a new return is being introduced to monitor the interest rate risk using DGA, called Interest Rate Sensitivity under Duration Gap Analysis (IRSD). The DGA involves bucketing of all RSA and RSL as per residual maturity / re-pricing dates in various time bands and computing the Modified Duration Gap (MDG). The RSA and RSL include the rate-sensitive off-balance sheet assets and liabilities as well. MDG can be used to evaluate the impact on the MVE of the bank under different interest rate scenarios. The past few years have seen banks' foray into financing long term assets, such as home loans and infrastructure projects. Banks have been allowed to raise funds through long-term bonds with a minimum maturity of five years to the extent of their exposure of residual maturity of more than five years to the infrastructural sector. Hence, the time buckets viz, 'over 5 years and up to 7 years', 'above 7 years and up to 10 years' and 'over 10 years and up to 15 years' and 'over 15 years', have been incorporated in the new return.

The step-by-step approach for computing modified duration gap has been detailed in the Reserve Bank circular (DBOD.No.BP.BC.59/21.04.098/ 2010-11) dated November 4, 2010. Banks will be required to compute their interest rate risk position, in each currency (including Rupees) by applying DGA to RSA and RSL items in that currency, where either the assets / liabilities are 5 per cent or more of the bank's total global assets / liabilities. The interest rate risk position in all other residual currencies has to be computed separately on an aggregate basis. The framework prescribed is aimed at determining the impact on the MVE arising from changes in the value of interest rate sensitive positions across the whole bank i.e., both in the banking and trading books. Banks shall submit the report on interest rate sensitivity as per DGA in the stipulated format with effect from June 30, 2011 on a quarterly basis till March 31, 2012, and on a monthly basis with effect from April 30, 2012.

Source : Report on Trend and Progress of Banking in India 2010-11.

SARFAESI Act : Delaying Tactics Used by the Borrowers

Ajit Singh Cheema *

The gross NPA level of banking system has gone up from ₹59,927 crores as on March 31,2010 to ₹74,617 crores as on March 31, 2011. The Finance Minister, while describing the sharp jump in NPAs as an "area of concern" advised Public Sector Banks to apply due diligence in sanctioning of new loans. While sanctioning of new loans has its own importance for survival, the recovery of NPAs should be taken as a challenge.

To cut short the long procedural delays in enforcing the mortgagee rights of the banks and financial institutions, a very fine and effective legislation has been enacted by the Parliament of India under the name SARFAESI Act. The Act has proved to be a boon for the banks and financial institutions and dreaded Act for the unscrupulous defaulting borrowers. Of course the Act is of great help to the economic growth of the country. Effectiveness of the Act can be gauged from the fact that in almost fifty percent of the cases where the notice is served under section 13 (2) of the Act, the recovery comes around and out of the remaining balance, in fifty percent cases, the recovery comes when symbolic possession is taken u/s 13 (4) of the Act. It is only the balance 25% cases where the borrower moves the court or the bank / FI moves further for the sale or getting physical possession .

However the alarming situation of NPAs in the banking industries proves that the picture is not that rosy and effectiveness of the Act is under cloud. This is for the reason that borrower under attack from the SARFAESI Act uses every effort to avoid / defend it. The lawyers representing the borrowers and defaulters use every possible mechanism and dilatory tacts to impede the expeditious adjudicaton of such cases. The borrowers institute frivolous cases against banks and succeed in persuading the civil court to pass order of injunction against the steps taken by banks and FIs to recover their dues.

Forums or remedies available to the Borrowers to ventilate grievance

Representation / objection to the notice u/s 13 (2) before the banks

The most important section of SARFAESI Act is section 13 (2) of the Act, which provides that if a borrower who is under a liability to a secured creditor, makes any default in repayment of secured debit and his account in respect of such debit is classified as non performing asset , then secured creditor may require the borrower by notice in writing to discharge his liability within sixty days from the date of notice with an indication that if he fails to do so, the secured creditor shall be entitled to exercise all or any of its rights in terms of section 13 (4) of the Act.

The first opportunity of being heard is provided to the borrower u/s 13 (3-A) which lays down that the borrower may make a representation in response to the notice issued under section 13 (2) and challenge the classification of his account as non-performing asset as also the quantum of amount specified in the notice. If the banks or FIs come to the conclusion that the representation / objection of the borrower is not acceptable, then reasons for non acceptance are required to be communicated within one week.

It is worth noting that a proviso is added to section 13 (3-A) which states that reason so communicated shall not confer any right upon the borrower to file an application to the DRT u/s 17 of Act.

* Fromer Chief Manager, P & S Bank & Advocate Punjab & Haryana High Court.

The scheme of sub sections of section13 shows that the notice u/s 13 (2) is not merely a show cause notice, it is a notice of demand. Section 13 (2) is a condition precedent to the invocation of section 13(4) of the Act .

Notice u/s 13 (2) of the Act, act as attachment / injunction

Section 13 (13) states that, no borrower shall, after receipt of notice u/s 13 (2), transfer by way of sale, lease or otherwise any of his secured asset referred to in the notice, without prior written consent of the secured creditor. Thus, section 13 (13) further fortifies the view that notice u/s 13 (2) is not merely a show cause notice. Infact section 13 (13) shows that the notice u/s 13 (2) in effect operates as an attachment / injunction restraining the borrower from disposing of the secured asset.

Contributory delays by the Banks

In the case of M. R. Gawai Enterprises v/s Vidharbha Urban Co-operative Bank Ltd, (2005) 57 SCL 290 (Bom) (DB), the petitioners objection to the notice was neither considered by the respondent nor there was any reasoned order passed by the respondent for rejecting the said objection. The petitioner was also not communicated the decision on objection by the respondent. Since the petitioner approached the High Court for filing the instant writ petition under article 226 and the High Court prevented the respondent from taking actual possession of the property pursuant to the notice, no action u/s 13 (4) could be taken against the petitioner. Hence, the respondent was directed to reconsider the objection submitted by the petitioner to show cause notice, afresh.

Such type of action delaying the action should be avoided by the bankers .

Writ petition Challenging notice under section 13 (2)

The borrower leaves no stone unturned in defending his case and it is in this direction that he number of times challenges the notice u/s 13 (2) of Act in the Civil Court as well as in the High Courts by way of writ jurisdiction.

In the case of D. Ravichandran v/s Indian Overseas Bank, 2006 (2) MLJ 134 it was held that the notice u/s 13 (2) of Act is really a show cause notice and ordinarily this court does not interfere with show cause notice. The notice u/s 13 (2) of the Act by itself does not effect any right or liability of the borrower. Hence, challenge to the notice u/s 13(2) of the Act is premature, since it is possible that the secured creditor may be satisfied with the reply of the borrower to the aforesaid notice and may drop proceedings. Hence all the writ petitions challenging the notice u/s 13 (2) of the Act are dismissed on the ground that writ petitions are premature and the petitioners have an alternative remedy of raising all the points which they are raising in these writ petitions in their reply to notice u/s 13 (2) of the Act. It is clear that borrower cannot approach the court or any other forum at the interlocutory stage of the proceedings, that is from the issue of notice u/s 13 (2) till the final action taken u/s 13 (4) of the Act.

Borrowers right of Appeal

If the borrower or any other person who had any tangible grievance against the notice issued u/s 13 (4) or action taken u/s 14, then he could have availed remedy by filing an application u/s 17 (1) within 45 days from the date on which such measures were taken. The expression "any person" used in section 17 (1) is of wide import. It takes within its fold, not only the borrower but also the guarantor or any other person who may be affected by the action taken u/s 13 (4) or u/s 14. Both, the Tribunal and the Appelate Tribunal are empowered to pass interim orders u/s 17 and 18 and are required to decide matters within fixed time schedule. It is thus evident that the remedies available to an aggrieved person under the SARFAESI Act are both expeditious and effective.

Cause of action to appeal to DRT

On receipt of possession notice u/s 13 (4) the borrower can prefer appeal before DRT u/s 17, seeking stay of proceedings and to set aside the action initiated.

Does the borrower lose right to file appeal if the limitation period of 45 days from the date of the receipt of the notice u/s 13 (4) expires? No, the following cause of actions can be pleaded.

- The borrower can question all steps initiated by the bank pursuant to section 13 (4).

- Borrower can question sale proceeding.
- Can challenge order passed by the Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM) u/s 14 of the Act.
- The legal preposition is well settled that court protects the rights of the borrower at every stage against the bank.

The power of DRT u/s 17 of the Act

The DRT has elaborate powers and it can even restore the possession back to the borrower in the event, it finds the actions by the bank is illegal or incorrect. The Supreme Court has clearly held in the case of Mardia Chemical Ltd. that the proceeding u/s 17, is in the nature of original proceeding and that even the amount which is claimed to be due to a bank as stated in the notice u/s 13 (2) can be challenged by the borrower.

In an important decision on appellate power of DRT the High Court of Madras has held in the case of M/s Lakshmi Mills Private Ltd. v/s Indian Bank, AIR 2008 Mad. 181 (FB) as under :

- The right of the bank is not automatically suspended upon filing an application by the borrower u/s 17 of the Act and secured creditor can proceed to auction secured asset, where no stay is granted by the Tribunal.
- The Tribunal has power to impose the condition relating to deposit for grant of stay of auction.
- The Tribunal has no power to pass any interim mandatory order relating to restoration of possession before finalization of the proceeding u/s 17 of the Act.
- All the grounds, which rendered the action of the bank as illegal, can be raised in the proceeding u/s 17 of the Act before the DRT. It is for the DRT to decide in each case whether the action of the bank was in accordance with the provisions of the said Act and legally sustainable.

Appeal to Debit Recovery appellate Tribunal

If a person is aggrieved by the order of the DRT, it can file an appeal to the Appellate Tribunal within 30 days from the date of the receipt of DRT order. If the DRT or Appellate Tribunal holds that possession of asset by the secured creditor was wrongful and directs the secured creditors to return the assets to the borrower, the borrower shall be entitled to the compensation and costs as may be determined by the DRT or Appellate Tribunal. The Tribunal can also direct the return of the assets even if the secured creditor had already sold or transferred the asset to a third party.

Expediting Physical Possession through Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM)

Wherever the acquisition of the secured asset is resisted by the borrower / guarantor, the authorized officer has to file an application u/s 14 of the Act before Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM), seeking his help for acquisition of the assets. A lot of delay is being caused by issuing notice by Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM) to the borrowers and then fixing date for adjudication in the matter. It may be noted that the aspect of adjudication in the matter is outside the purview of Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM). He has simply to verify that :

- Notice u/s 13(2) of the Act has duly been given.
- The account has become non performing.
- The bank holds the documents about charge on the securities / assets, whose possession is to be taken over.
- The secured assets fall within the jurisdiction of Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM).
- The secured assets do not fall within exempted category u/s 31 of Act.

It may be highlighted that Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM) is not required to give any notice either to the borrower or to any third party. The provisions of the Act are not applicable to agricultural land, however, if land in question is actually put to industrial / residential / commercial use instead of agriculture, the bank can proceed with actions under SARFAESI Act.

The application before Cheif Metropolitan Magistrate (CMM) / District Magistrate (DM) may not be filed in the following cases :

- Suit filed cases where the court / DRT has appointed a receiver for the assets.
- Where interim order like injunction / attachment is in operation.
- Where certificate has been issued by DRT and steps have been taken to realize the asset as per the certificate.

Interim stay order as delaying tactics

Faced with the imminent threat of losing mortgaged property the borrowers move all type of courts for getting stay orders. The jurisdictions of Civil Court have been clearly barred under section 34 of the Act, stating that no injunction shall be granted by any court or other authority in respect of any action taken or to be taken under SARFAESI Act or the DRT Act.

The decision of the Supreme Court in the case of United Bank of India v/s Satyawati Tandon, (2010)8SCC 110 is a land mark judgment on the issue of stay orders. It was held that normally the Supreme Court does not interfere with the discretion exercised by the High Court to pass an interim order in a pending matter but, having carefully examined the matter, an exception has been made, because the order under challenge has the effect of defeating the very object of legislation enacted by the Parliament for insuring that there are no unwarranted impediments in the recovery of debts due to banks. The following observations are worth noting.

- The High Court will ordinarily not entertain a petition under article 226 of Constitution, if an effective alternate remedy is available to the aggrieved person and that this rule applies with greater vigor in matter involving recovery of taxes, cess, fees, other type of public money and dues of the banks and financial institutions.
- The High Court must insist that before availing remedy under Article 226 of the Constitution a person must exhaust the remedies available under the relevant statutes .
- It is true, rule of exhaustion of alternate remedy is rule of discretion and not one of compulsion, but it is difficult to fathom any reason why High Courts should entertain a petition under Article 226 and pass interim order ignoring the fact that petitioner can avail effective alternative remedy by filing application, appeal, revision etc., and the particular legislations contain a detailed mechanism of redressal of his grievance.
- It is matter of serious concern that despite repeated pronouncement of the Supreme Court, the High Courts continues to ignore the availability of statutory remedies under DRT and SARFEASI Act and exercise jurisdiction under Article 226 for passing orders which have serious adverse impact on the right of banks and other FIs to recover their dues.

In case any stay is granted by a High Court against SARFAESI Action, the bank should immediately move application for vacation of the stay, in the light of judgement of the apex Court.

Writ Petition as delaying tacts

Writ jurisdiction is an extraordinary jurisdiction of the High Court under Article 226 and 227 of the Constitution of India. There is consistency in the decisions that the High Court normally hesitate to entertain writ petition in the matter of SARFAESI action by banks. This is in view of clear cut alternative remedy provided u/s 17 and 18 of the SARFAESI Act. The remedy of appeal to DRT and DRAT is available u/s 17 and 18 of the Act, against notice for possession and enforcement of security interest.

It is settled legal preposition that a writ petition under Article 226 of the constitution is not maintainable, where there is an efficacious alternative remedy. It is generally pleaded that though alternative remedy is available, it is not efficacious.

The writ petition is however preferred by the borrower for the following reasons :

- Writ petition is not a costly affair, as no court fee is payable, where as court fee has to be paid in case of appeal to DRT depending upon amount involved.
- Writ petition once admitted takes lot of time in consideration for decision and the petitioner gets the desired breather. In comparison the matter is time bound exercise under DRT.
- Borrowers feel that the Sarfaesi Action will be automatically restrained if writ is admitted.

Classification of NPA can be questioned through Writ

Where the bank is not correct in classifying the account as NPA, which is preliminary to initiate proceeding under the provisions of SARFAESI Act, the High Court does interfere with the action initiated by the bank as held in Sravan Dal Mill Pvt. Ltd v/s Central Bank of India, 2010 (1) ALT 321. Further interim relief may be granted to the borrower to regularize the account by continuing making payments.

Powers of Civil Court under SARFAESI Act

Section 34 of the Act bars jurisdictions of Civil Court to entertain any suit in respect of any matter, which a DRT or Appellate Tribunal is empowered to determine. It also provides that no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under the Act or under recovery of debts due to banks and FIs of Act 1993.

Laying due emphasis on section 34 of the Act, the courts have discouraged Civil Courts to entertain or interfere in matters where the banks have initiated action under the provisions of the SARFAESI Act. However, the borrowers challenge the action taken under the Act in Civil Courts knowing fully well that there is a bar u/s 34 of the Act. The jurisdiction of Civil Courts are not completely overruled in respect of SARFAESI action. Limited jurisdiction of the Civil Court is even upheld in the land mark judgement by Supreme Court in Mardia Chemical case, where it was held that Civil Court continues having jurisdiction in respect of matter under the SARFAESI Act, where there is fraud etc.

Further the jurisdiction of Civil Court to entertain, try and decide the suit for partition and separate possession of the property in respect of which security interest is created in favour of secured creditor, is not barred u/s 34 of the Act.

The suit for determination of rights of the party in the property mortgaged is also not barred.

Another view is that the Civil Courts continues having power to entertain suit in respect of matters falling directly or indirectly under the provision of the Sarfaesi Act and where a remedy before DRT is not available u/s 17 of the Act.

Despite ruling in favour of limited jurisdiction of Civil Courts, it is definitely very difficult to maintain a Civil suit in respect of SARFAESI action. The borrower feels that the bank is automatically restrained if the suit is filed in Civil Court, which is not a true position.

It is a tragedy of sorts that the borrowers keep on approaching Civil Courts and in the meanwhile during the pendency of the Court proceedings, the banks complete their procedural part and take over the possession.

No interim injunction by Civil Court

In large number of cases decided by various high courts it has been held that the civil courts cannot grant injunction restraining the bank from taking measures under SARFAESI Act as the same is barred u/s 34 of the Act, Allahabad Bank v/s Bipin Bihari Lal Srivastva, 2010(1) DRTC 340 (Allahabad).

Bonafide purchaser may agitate before Civil Courts

The appellant claiming himself to be a bonafide purchaser for valuable consideration, without notice, challenged the action of the bank and disputed the mortgage created in favour of the bank. The high court held that appellant cannot raise such disputes before DRT. The appellant may redress their grievance by filing civil suits. Dr. Pranjivan Purshottam Zaveri v/s Dena Bank, 2010(2) DRTC 591 (DRAT Mumbai).

Caveat application an important tool for banks and Borrowers both for cutting delays

Caveat application is an important tool for cutting short the litigation delays. Caveat is a two lines application addressed to the Registrar, filed in any of the High Courts or Supreme Court of India. The Caveat is the requirement of prior notice or information given to a party. A sanction of the Caveat petition requires the issue to be heard in the Court before any authority takes a decision.

To prevent ex-parte stay orders that the borrower / mortgager or 3rd party, which is likely to obtain, bank may file "Caveat" application. Now Caveats are accepted by DRTs.

It may be well informed that there is no provision of the Caveat application in the DRT under RDBFI Act, therefore it will be difficult if not easy for banks to explain

under what provision of law they have filed Caveat. Honourable Apex Court has held that Act of 1993, being RDBFI Act is complete Act and the Civil procedure code is not applicable to it.

Now Caveats are being accepted by the DRTs, particularly after the land mark judgment of the Andhra Pradesh High Court in the case of State Bank of India v/s Debt Recovery Tribunal being writ petition No.3715 of 2009 decided on 26.02.2009.

In this case, the petitioner, State Bank of India filed writ petition before High Court of Andhra Pardesh contending that they have filed Caveat petition u/s 148-A of the code of Civil Procedure, before Debt Recovery Tribunal, Hyderabad, but it was not entertained by the Tribunal. It was further contended that several borrowers and guarantors, jointly and severally, or through third parties approached the Tribunal by filing appeal u/s 17 of the SARFAESI Act and obtained ex-parte stay orders and as a result, they could not proceed further for recovery of the amount till the stay order is actually vacated. While dealing with the question whether Debt Recovery Tribunal (DRT) should entertain the Caveat applications filed by the banks and FIs having regard to the section 22(1) of DRT Act 1993, which inter alia, provides that the Tribunal shall not be bound by the procedure laid down by Civil Procedure Code, but shall be guided by the principle of natural justice, it was held by onourable High Court that “we, therefore, do not think as if that the Tribunal has no power to accept the Caveat petition and in fact, the same would be in furtherance of ensuring principles of natural justice and no prejudice would be caused to the other side if the Caveat petition is accepted.” It was further held that SARFAESI Act 2002 as well as DRT 1993 are enacted for the purpose of ensuring speedy recovery of the amounts by the banks and FIs and if such banks and institutions come forward in advance by accepting notice of any such proceedings being filed by the borrowers or guarantors or third parties there is no reason why the respondents tribunal should not entertain the Caveat petition filed on their behalf.

Borrowers right to be heard before taking action u/s 13 (4)

Yes, a Caveat can be filed with District Magistrate / Chief Judicial Magistrate (DM / CJM) against impending action from the Bank u/s 13(4). Because the person whose fundamental rights are being affected must have a chance to plead his case. Although SARFAESI Act provides no opportunity for hearing under section 13(4) one must file a Caveat based on infringement of fundamental rights, natural justice and various Supereme Court rulings. The law is very clear that the order of the District Magistrate / Chief Judicial Magistrate (DM / CJM) is not appealable and is final.

Tenants cannot be, thrown away, evicted forcibly

Generally under the power of the SARFAESI Act, without bothering for who is in possession of the property mortgaged, anyone / everyone is thrown away from the property under attack. Under the imminent threat of dispossession, both the owner as well as the tenant runs up to the DRT and the High Court for protecting their prized possessions. Under the present head the discussion shall revolve around tenants.

The tenants in respect of the building / property sought to be sold under SARFAESI Act, cannot be forcibly evicted or thrown away, merely on account of action under this Act. Even if the sale is successfully conducted, tenancy has to be adorned in favour of the highest bidder on conclusion of sale. For all practical purposes, the purchaser steps into the shoes of the original owner. The rights of a tenant or any other person in possession of the property, would in no way be defeated on account of action under SARFAESI Act. It is ultimately for the purchaser of the property to choose whether or not to continue the tenant. In case he decides to evict the tenant, he has to take recourse to law.

To avoid multiplicity of litigations, the Authorized Officer should personally visit the premises sought to be taken under possession to see for himself who is in possession and under what capacity. The ground realities must be checked / verified before taking proper action under the Act. If the property appears to be or is actually under the possession of the tenants, the lease deeds may be

checked particularly for the date of creation of lease deed. The position of the tenants and their rights shall be effected if the tenancy is created after the date of mortgage of the property, without the consent of the mortgagee. It is well settled that third party interests are created overnight and in many cases those third parties take up the defence of being a bonafide tenant / purchaser for value without notice. Another angle worth consideration is that if the tenant is summarily dispossessed under the Act, he may sue the borrowers / lessor for no fault on the parts of borrowers / lessor.

Mortgagor / borrower right to create Tenancies

There is no legal impediment that the mortgagor cannot lease the property mortgaged in favour of the bank. Lessee law fully inducted into the premises can be dispossessed only as per legal provisions of Transfer of Property Act. It may be noted that section 13 (1) of the SARFAESI Act contains a non obstante clause only in so far as Sections 69 and 69 A of the Transfer of Property Act are concerned. Therefore, section 13 (1) of the SARFAESI Act does not take away the mortgagors power to lease, guaranteed by section 65-A of the Transfer of Property Act. Therefore the lessee as a third party, unconnected with the transactions between the bank and the borrower, is not amenable to the provisions of SARFAESI Act.

To understand the intricacies, it is worth going through the provisions of section 65-A of the Transfer of Property Act.

65-A Mortgagor's power of lease :

1. Subject to the provisions of Sub section (2), a mortgagor, while lawfully in possession of the mortgaged property, shall have power to make leases there of which shall be binding on the mortgagee.
2. a) Every such lease shall be such as would be made in the ordinary course of management of the property concerned and in accordance with any local law, custom or usage.
   b) Every such lease shall reserve the best rent that can reasonably be obtained and no premium shall be paid or promised and no rent shall be payable in advance.
   c) No such lease shall contain a covenant for renewal.
   d) Every such lease shall take effect from a date not later than six months from the date on which it is made.
   e) In the case of a lease of building, whether leased with or without the land on which they stand, the duration of the lease shall in no case exceed three years and the lease shall contain a covenant for payment of the rent and a condition of re-entry on the rent not being paid within a time therein specified.
3. The provisions of sub section (1) apply only if and as far as a contrary intention is not expressed in the mortgage deed, and the provisions of Sub Section (2) may be varied or extended by mortgage deed and, as so varied and extended, shall as far as may be, operate in like manner and with all like incidents, effects and consequences, as if such variation or extensions were contained in that Sub Section.

The reading of the section clearly lays that there are no fetters on the rights of the mortgagors for making leases except the conditions provided therein. However the power may be contracted out by making provision in the mortgage deed, withdrawing the power to lease.

Lessons for Bankers

- Leased property should not be accepted as a general principle for good security.
- The mortgage deed / memorandum must contain the condition that the mortgagor shall not lease the property during the currency of the bank loan.

No protection to tenants entering after creation of mortgage

An important decision given by a Division Bench of Punjab and Haryana of M/s. Delhi Punjab Goods Carrier Pvt. Ltd. v/s Bank of Baroda, 2008 AIR (Punjab & Haryana) 107 is worth mentioning here.

In this case reliance has been placed on the decisions of Supreme Court in the cases Mahbir Gope v/s Harbans Narain Singh, AIR 1952 SC 205 ; Mathuralal v/s Kehsar Bai, AIR 1971 SC 310 and Nirmal Chandra v/s Vimal Chand, 2000(5) SCC 51.

The petitioner has claimed that he is a tenant in the property in dispute since 2006 and the notices have been issued to the borrowers after recalling the huge

outstanding amount of loan with interest. It is evident from the perusal of the notices that charge on the property was created much earlier to the commencement of tenancy. The court while relying upon decisions of Apex Court and dismissing the petition held as under :

It is evident that tenancy has to be proved by a document or otherwise prior to the date of creation of charge of equitable mortgage. It is well settled that a mortgagee or mortgagor cannot induct a tenant without mutual agreement and confer upon a tenant any right to the prejudice of either of the parties. In the instant case the relationship of the petitioner as a tenant with the borrower as a land lord admitted came into existence after the creation of charge by the borrower on the property which is under the tenancy of the petitioner and therefore no protection in law would be available to such a tenant and above principles laid down by the Supreme Court would fully apply to the facts of the instant case and it has to be held that the petitioner in his capacity as tenant does not enjoy any right qua the charge holder respondent bank. The writ petition is wholly misconceived and is thus liable to be dismissed.

Avoid delays / litigations by following rules of the games

Do not charge exorbitant recovery agent fees

In the case Badugu Vijay Laxmi v/s State Bank of India 2010-LAP-O-169, it was held that grant of exorbitant amount of commission to the recovery and enforcement agent at a minimum rate of ten percent is excessive and disproportionate to the nature of the work to be performed by them.

Classify NPA as per RBI guidelines

In the case of Signal Apparels Pvt. Ltd. v/s Canara Bank, 2010 (2) DRTC 543 Madras DB, while dismissing the writ petition it was held that guidelines issued by the RBI in relation to classifying NPAs should be followed by the bank, before issuing notice under 13(2) of the SARFAESI Act.

Rules for issuance / publication of demand / possession notice be strictly followed

In the case of Swastic Agency v/s State Bank of India, 2010 (1) DRTC 102 (Orissa) DB, the possession notice in vernacular language was published in English news paper. It was held that the same is not in accordance with the rule, would not serve the purpose.

Do not send demand notice to the dead persons

In the case of Narinder Singh v/s Punjab & Sind Bank, DRAT Delhi, 2010 (1) DRTC 145, the demand notice was issued in the name of a dead person. The bank did not take any action, though it was informed about the death. Auction conducted was set aside with liberty to start proceedings afresh. Bank was directed to deliver the property back.

Technical errors not to vitiate action under SARFAESI Act

In the case Manik Industries v/s Union Bank of India, 2010 (2) DRTC 419 DRAT Allahabad, the correct amount due from the appellant was not mentioned in the notice u/s 13(2). However the account was correctly classified as NPA. Appellant did not deny the availment of loan. It was held that a mere typographical mistake, which is just a technical violation, cannot vitiate the action.

Photographs of borrowers / guarantors with notice can be published

Upon committing default in payment of monthly installment towards the loan amount, a notice u/s 13 (2) of the act was issued by the bank for enforcing security and bringing it to sale by publishing the details of property as well as the photographs of the borrowers and surety in the newspaper. On a writ petition, while dismissing the writ petition, the court held that there was no violation of any right or legal provision by the bank in publishing the photographs of borrower and surety for default in repaying loan amount (Wanson Shoes v/s Chair person DRAT, (2009) 4BC 344(ALL)).

Do not use criminal force in taking over physical possession

In the case of Bhartia Traders v/s UCO Bank, AIR 2007 (Calcutta) 105, it was held that the bank is not entitled to indulge in criminal activities while taking over possession of secured assets by taking steps u/s 13(4) of the Act. But if any secured creditor indulges in any criminal activities, the person aggrieved should approach the appropriate criminal court and not the writ court.

Bank held liable for damages ₹1 lakh for forcible dispossession

In a latest case of Debasree Das v/s State of West Bengal, AIR 2011 Calcutta 57, it was held that if a writ petitioner, an owner of the property alleges that not with standing the fact that he or his predecessor never mortgaged the property in question but in spite of such a fact, the bank has sought to exercise or has already exercised its power u/s 13 of Act , it is the duty of the writ court to ascertain the defence of such bank in this regard and if it appears that on the face of the defence taken by it, there was no valid encumbrance created over the property in question at the instant of the writ petitioner or his predecessor, the then lawful owner, in favour of the bank, to grant relief to the writ petitioner and to reject defence of the bank that the writ petitioner has alternative remedy u/s 17 of the Act. While accepting the writ appeal, the court ordered the bank to pay damages of ₹1 lakh to the writ petitioner for illegal dispossession from her lawfully acquired property.

Merger and Amalgamation of Urban Co-operative Banks

The consolidation of the UCBs through the process of merger of weak entities with stronger ones has been set in motion through transparent and objective guidelines issued in February 2005. Though mergers / amalgamations of UCBs come within the purview of concerned State Government, prior approval from the Reserve Bank is required for obtaining No Objection Certificate (NOC). The Reserve Bank, while considering proposals for merger / amalgamation, confines its approval to the financial aspects of the merger taking into consideration the interests of depositors and post-merger financial stability of the acquirer bank.

The financial parameters of the acquirer bank post merger must conform to the prescribed minimum prudential and regulatory requirements invariably for the merger cases. In addition to the guidelines issued in February 2005, the Reserve Bank issued another set of guidelines in January 2009 for merger / acquisition of UCBs having negative net worth as on end-March 2007. According to the new guidelines, the Reserve Bank would also consider scheme of amalgamation that provides for (i) payment to the depositors under section 16(2) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961; (ii) financial contribution by the transferee bank; and (iii) sacrifice by large depositors.

The process of merger / amalgamation requires the acquirer bank to submit the proposal alongwith some specified information to RCS / CRCS and the Reserve Bank. The Reserve Bank examines the pros and cons of the merger scheme and places the same before an expert group for further screening and recommendations. If the proposal is found to be suitable Reserve Bank issues no objection certificate (NOC) to the concerned cooperative / RCS / CRCS. Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 158 proposals for merger of which the Reserve Bank has issued NOC to 120 proposals as on end-June 2011 (Table-1.1) The RCS notified 95 mergers comprising 8 grade-I, 4 grade-II, 17 grade-III and 66 grade-IV UCBs. The year wise progress of merger / acquisition is presented in Table-1.1.

Table - 1.1 : Year-wise Progress in Mergers / acquisition

Financial year	Proposals received in RBI	NOCs issued by RBI	Merger effected (Notified by RCS)
1	**2**	**3**	**1**
2005-06	24	13	7
2006-07	32	17	15
2007-08	42	28	27
2008-09	16	26	22
2009-10	26	17	13
2010-11	17	13	11
2011-12*	1	6	3
Total	**158**	**120**	**95**

**: Upto June 30, 2011.*

Out of the 95 mergers reported so far, 59 comprised of UCBs having negative net worth. The maximum number of mergers took place in the State of Maharashtra (58), followed by Gujarat (16) and Andhra Pradesh (10). Details about State wise progress in mergers / acquisitions are furnished in Table-1.2.

Table - 1.2 : Stat-wise Progress in Mergers / acquisition

States	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Maharashtra	2	12	14	16	6	6	2	58
Gujarat	2	1	7	2	2	1	1	16
Andhra Pradesh	-	1	3	1	3	2	-	10
Karnataka	-	-	2	1	-	-	-	3
Punjab	-	1	-	-	-	-	-	1
Madhya Pradesh	-	-	-	-	-	1	-	1
Uttarakhand	-	-	1	1	-	-	-	2
Chatisgarh	-	-	-	1	-	1	-	2
Rajasthan	-	-	-	-	2	-	-	2
Total	**4**	**15**	**27**	**22**	**13**	**11**	**3**	**95**

Source : Report on Trend and Progress of Banking in India 2010-11.

BOOK REVIEW

Name of Book : Financial Inclusion

Authors : Mr. Sameer Kochhar, Mr. R. Chandrasekhar, Dr. K. C. Chakrabarty and Mr. Deepak B. Phatak.

Publisher : Academic Foundation, 4772-73/29, 23, Ansari Road, Daryaganj, New Delhi-02.

Price : ₹ 695/-

Pages : 208

Reviewed by : V. Raghuraman

Perhaps, next to inflation, Financial Inclusion is the most debated economic topic in the country. It is discussed at various forums by policy makers, bureaucrats, politicians, bankers and social welfare organizations. The underlying theme in all these discussions has been : how to bring the rural masses, particularly in the backward and interior parts of the country's numerous villages, into the banking-fold. In other words, the idea is to ensure that economic growth percolates down to those sections of the society who need them the most.

With this in focus, many publications have, such as the one under review, hit the market outlining the views of eminent bankers and policy makers on the subject. Edited by four leading thinkers in the field drawn from various fields such as management, administration, banking and academics, the book is a collection of interesting articles on the different facets of financial inclusion. Befittingly, the book has been brought out by Skoch Consultancy Services, a leading organization involved in promoting empowerment and improvement in delivery channels in the rural areas, in association with the publishers.

All the inspiring articles have underlined the fact that financial inclusion cannot and should not be just a one-time or one-off affair. It should not be that banks aim only at dispensing credit to the rural villagers but ensure that they are all brought into the banking-fold and made aware of the multi-farious banking products / services. Such an inclusion alone, according to the authors, would ensure that economic growth goes down to the different sections of the society in an equitable fashion. The authors have done well to highlight all the issues through different articles. While all of them are absorbing and thought-provoking, mention is made here of only a couple of them owing to space considerations. Former CMD of Punjab National Bank and currently Deputy Governor of RBI, Dr. K. C. Chakrabarty in his article, "The Tinneri Experience", has, for instance, cited how the Bank opened "a window of opportunity" for the people in that village in Bihar by providing "unique branchless banking service". Each family in the village has been provided a "no frills saving account" and given a biometric smart card. Such truly branchless experience has,no doubt been, successfully tried out by other nationalised banks as well. But what makes PNB's experience stand out is that it has become a "total financial inclusion model" for others to emulate.

Equally noteworthy article is that of T. S. Vijayan, till recently Chairman of LIC. In the write-up titled 'Micro Insurance - The Way Ahead', he has described how LIC has taken up the challenge of developing unique insurance products specifically directed towards rural India. Jeevan Madhur policy, for instance, has the facility of weekly premium payments and

also the feature of the policy remaining valid even if no payments come for some time. Thus, the policy is actually tailor-made to suit the requirements of the rural folk and expected to go a long way towards financial inclusion in regard to insurance. The policy, on the one hand, is affordable to the masses and at the same time, sustainable for the organization.

The authors have rightly pointed out that for financial inclusion to succeed, it has to have a holistic approach and all the financial institutions and other agencies involved in the work should adopt it. Banks, on their part, have to create awareness about financial products by way of education on money management, savings and affordable risks. Specific cost-effective strategies have to be worked out so that banks could expand the outreach of their services and promote inclusion. Forging linkages with microfinance institutions and local communities / gram panchayats along with increased use of technology, particularly in the delivery channels, are some of the sure ways of ensuring success in this regard.

Before concluding, it would only be appropriate if mention is made of the efforts made by some leading private sector banks in this direction. HDFC Bank has tied up with several Business Correspondents (BCs), who accept deposits as well as withdrawals of small value in rural areas. The technology enabler is the Point of Sale (POS) / Electronic Data Capture (EDC) machine installed at the BC counters which make transactions possible in an easy and hassle-free manner. To quote Shri Aditya Puri, Managing Director, HDFC Bank, "there is a phenomenal opportunity available in being able to create sustainable livelihood because when you have sustainable livelihood, you have loans that can be repaid. So we have looked at our financial strategies on a holistic basis".

Despite the book having come out a few years ago, it has not lost any of its relevance. The ideas presented are extremely imaginative, workable and enforceable even today. This is particularly so as RBI has fixed an ambitious target of bringing in another 1.2 lac villages into the banking fold in the next 15 months from now. They have also directed private sector banks to fall in line by linking branch licensing to the opening of branches in rural, unbanked areas.

In sum, the book is an inspiring read for bankers and for all those interested in bringing about financial inclusion in a meaningful way.

BOOK REVIEW

पुस्तक का नाम : बाज़ार जोखिम प्रबन्धन

लेखक : दिलीप मेहरा

पृष्ठ संख्या : २२१

समीक्षक : सुकुमार दत्ता, संयुक्त निदेशक (संकाय सदस्य), आई.आई.बी.एफ.

श्री दिलीप मेहरा द्वारा प्रस्तुत पुस्तक 'बाज़ार जोखिम प्रबंधन' बैंकिंग विषयों पर लिखी पुस्तकों पर एक महत्वपूर्ण संयोजन है।
'जोखिम प्रबंधन' बैंकिंग के क्षेत्र में एक समसामयिक प्रसंग है, जिस पर वर्तमान समय में काफी शोधकार्य हो रहे हैं। बैंकिंग
प्रणाली में सुदृढ़ता लाने का श्रेय जोखिम प्रबंधन को जाता है एवम् इस मामले में श्री मेहरा का अथक प्रयास सराहनीय रहा।
'जोखिम प्रबंधन' पर भारतीय रिजर्व बैंक निरंतर विस्तृत दिशा-निर्देश जारी करता रहता है। श्री मेहरा ने इन विविध पहलुओं
को बड़ी ही सुगमता के साथ सहज तरीके को अपनाते हुए प्रस्तुत पुस्तक में एक साथ पेश किया हैं, जिसको जिज्ञासु बैंकर,
जिन्हें जोखिम प्रबंधन का गहन ज्ञान न भी हो, बड़ी ही आसानी से समझ सकते हैं और बस यहीं पर श्री मेहरा की सफलता
सिद्ध हो जाती है।

भारतीय बैंकिंग के इतिहास में 1990 के नरसिंहम समिटी की अनुशंसा वित्तीय प्रणाली में सुधार लाने का एक निर्णायक
मोड़ है। एन.पी.ए या अनर्जक आस्तियाँ, आस्ति वर्गीकरण, प्रावधान, पूंजी पर्याप्तता आदि नयी अवधारणाओं को लागू किए
जाने पर बैंकों की लाभप्रदता में काफी सुधार आए। साथ ही साथ, अन्तर्राष्ट्रीय स्तर पर बैंक ऑफ इन्टरनैशनल सैटलमेंट
(बी आई एस) के दिए गए दिशा निर्देश को अनुसरण करते हुए भारतीय रिज़र्व बैंक, बैंकिंग प्रणाली को काफी हद तक मजबूत
बनाने में कामयाब रहे। खास कर व्यावसायिक परिणामों में अनिश्चितता एवं अपेक्षित परिणामों में अस्थिरता की स्थिति को
निबटने के लिए, जोखिम प्रबंधन जैसे आवश्यक विषय को समझना हर बैंकर के लिए अनिवार्य बन जाता है। इस महत्वपूर्ण
बिंदु को ध्यान में रखते हुए श्री मेहरा ने सरल हिन्दी में इस पुस्तक की प्रस्तावना की है।

बासेल पूंजी समझौते, अन्तर्राष्ट्रीय बैंकिंग के क्षेत्र में एक ऐतिहासिक महत्वपूर्ण कदम माने जाते हैं। लेखक ने अध्याय 2, 3
और 4 में बड़ी ही तार्किक पद्धति का अनुसरण करते हुए बासेल-I और बासेल-II मानदंडों की बारीकियों को सरल ढंग से
प्रस्तुत किया है। पुन: अध्याय 19 में बासेल-III प्रस्ताव के संशोधन बिंदु को प्राणालीबद्ध तरीके से प्रस्तुतत किया है।

हर अध्याय के अंत में 'शब्दावली' दिए जाना लेखक की एक अद्‌भूत शैली का परिचायक है।

यद्यपि लेखक ने चलनिधि जोखिम, परिचालन जोखिम, ब्याज दर जोखिम, आस्ति देयता प्रबंधन तथा ऋण जोखिम, विदेशी
विनिमय जोखिम की चर्चा अलग-अलग अध्याय के तहत की है, तथापि बाज़ार जोखिम प्रबंधन को उनके द्वारा अधिकतम
महत्व दिए जाना या पुस्तक का शीर्षक 'बाज़ार जोखिम प्रबंधन' दिया जाना समीक्षक के लिए एक यथोचित निर्णय प्रतीत
होता है। कुल मिलाकर प्रस्तुत पुस्तक बैंक ऑफ महाराष्ट्र के उप-प्रबंधक, श्री दिलीप मेहरा का एक सफल प्रयास माना जा
सकता है।

Books Added to the IIBF Corporate Library			
No.	**Title**	**Author**	**Publisher & Year of Publication**
1.	This will Change Everything : Ideas that will Shape the Future	John Brockman	Harper Collins, 2010
2.	Art of Living : The Classical Manual on Virtue, Happiness & Effectiveness	Sharon Lebell	Harper Collins, 2011
3.	Great by Choice : Uncertainty, Chaos, & Luck - Why some Thrive Despite them All	Jim Collins & Morten T. Hansen	Harper Collins, 2011
4.	Turnaround Leadership : Making Decisions, Re-building Trust & Delivering Results after a Crisis	Shaun O'Callaghan	Kogan Page, 2010
5.	101 Learning & Development Tools : Essential Techniques for Creating, Delivering & Managing Effective Training	Kenneth Fee	Kogan Page, 2011
6.	28 Business Thinkers Who Changed the World : The Management Gurus & Mavericks Who Changed the Way we Think About Business	Rhymer Rigby	Kogan Page, 2011
7.	Best Practice Performance Coaching : A Handbook for Leaders, Coaches, HR Professionals & Organizations	Carol Wilson	Kogan Page, 2011
8.	Emotional Intelligence Coaching : Improving Performance for Leaders, Coaches & The Individuals	Stephen Neale	Kogan Page, 2011
9.	John Adair Lexicon of Leadership : The Definitive Guide to Leadership Skills & Knowledge	John Eric Adair	Kogan Page, 2011
10.	Steve Jobs	Walter Issacson	Little Brown, 2011
11.	Yuganta : The End of An Epoch	Irawati Karve	Orient Blackswan, 2008
12.	TCS Story…… and Beyond	S. Ramadorai	Portfolio, 2011
13.	Negotiable Instruments Act, 1881 with Special Emphasis on Dishonour of Cheques, 3rd Edition	H. K. Saharay & Madhusudan Saharay	Premier Publishing, 2011
14.	Decision Book : Fifty Models for Strategic Thinking	Mikael Krogerus & Roman Tschappeler	Profile Books, 2011
15.	Brick by Red Brick : Ravi Matthai & The Making of IIM Ahmedabad	T. T. Ram Mohan	Rupa Publications, 2011
16.	3rd Alternative : Solving Life's Most Difficult Problems	Stephen R. Covey	Simon & Schuster, 2011
17.	Enduring Success : What We Can Learn from Outstanding Corporations	Christian Stadler	Standard Business, 2011
18.	Corporate Valuation & Value Creation	Prasanna Chandra	Tata McGraw Hill, 2011
19.	50 One - Minute Tips to Better Communications : Speak, Write & Present More Effectively, 3rd Edition	Phillip E Bozek	Viva Books, 2011
20.	Business Etiquette & Professionalism : Conduct Yourself with Confidence, 3rd Edition	M Kay du Pont	Viva Books, 2011
21.	Communication Skills for Leaders : Deliver A Clear & Consistent Message, 4th Edition	Bert Decker	Viva Books, 2011
22.	Goals & Goal Setting : Achieve Measurable Results, 4th Edition	Larrie a Rouillard	Viva Books, 2011
23.	High Performance Hiring : Select the Best Every Time, 3rd Edition	Robert W. Wendover	Viva Books, 2011
24.	Marketing Principles	Pippa Riley	Viva Books, 2011
25.	Life Happens : Waking Up to Yourself & Your Life in A Mindful Way (with 2 CDs)	Cheryl A. Rezek	Zorba Publishers, 2011

SUBSCRIPTION FORM FOR BANK QUEST / IIBF VISION

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

(IN CAPITAL LETTERS)

Shri / Smt / Kum : ____________________

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

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

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

Mailing Address : ____________________

____

____

____

Pin : ____________________

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

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

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

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

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

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

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

Date : ____________________ Signature : ____________________

PLEASE NOTE

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

  The Director of Administration, Indian Institute of Banking & Finance
  Kohinoor City, Commercial-II, Tower-I, 2nd Floor,
  Kirol Road, Kurla (W), Mumbai - 400 070.

Make the right move

with
pnb Current Account
options

pnb Silver	pnb Gold	pnb Diamond	pnb Platinum

- Sweep-in/Sweep-out facility
- Instant Credit for Outstation Cheques
- Free Demand Drafts
- Free Cheque Leaves
- Free Collection of Outstation Cheques

Plus Free

RTGS/NEFT, INTERSOL, PNB Fee Portal, PNB Pay Fee, Fund Management, Credit Card etc.

Concessions for PoS Machines,
Door Step Banking and other services.

Keep discovering new delights of banking with pnb

For further details contact your nearest PNB branch or Call Centre at 0120-2490000 or dial All India Toll Free No: 1800 180 2222 through landline.

www.pnbindia.in

Conditions apply

पंजाब नैशनल बैंक
...भरोसे का प्रतीक!

punjab national bank
...the name you can BANK upon!

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

Get more out of every visit at Union Bank ATMs

All Union Bank ATMs are now enabled to do much more than just dispensing cash. Making them one-stop destinations equipped to answer most of your banking needs. So be it day or night, visit your nearest Union Bank ATM and experience dream conveniences like never-before.

Toll Free: 1800 222244 | www.unionbankofindia.co.in